

centerra**GOLD**



## NEWS RELEASE

### **Centerra Gold Reports Second Quarter Results, Net Earnings of \$30 million or 13 cents per share and Declares Inaugural Annual Dividend**

*(This news release contains forward-looking information that is subject to the risk factors and assumptions set out on page 14 and in our Cautionary Note Regarding Forward-looking Information on page 16. All figures are in United States dollars.)*

**Toronto, Canada, July 30, 2010:** Centerra Gold Inc. (TSX: CG) today reported net earnings of \$29.8 million or \$0.13 per common share on revenues of \$152.2 million compared to a net loss of \$79.6 million or \$0.36 per common share based on revenues of \$104.3 million in the same quarter last year. In the second quarter of 2009 the Company's loss before unusual items totaling \$49.3 million, was \$30.3 million or \$0.14 per common share.

In addition, Centerra announced that its Board of Directors declared a dividend of Cdn\$0.06 per common share payable on September 8, 2010 to shareholders of record on August 18, 2010. The ex-dividend date for the dividend will be August 16, 2010.

Consolidated gold production for the second quarter of 2010 totaled 121,728 ounces at a total cash cost of \$616 per ounce produced compared to 110,457 ounces at a total cash cost of \$667 per ounce produced in the corresponding quarter of 2009. The 10% increase in gold production in the second quarter of 2010 is a result of higher production at both of the Company's operations. Cash provided by operations, net of working capital changes, was \$76.5 million compared to cash used by operations of \$17.3 million in the second quarter of 2009. (Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures" in the Management's Discussion and Analysis issued in conjunction with this news release.)

The civil and political unrest in the Kyrgyz Republic during the quarter did not cause any interruption in operations at the Kumtor mine. A national referendum was successfully held in the Kyrgyz Republic on June 27, 2010, which approved a new constitution and the appointment of Mrs. Roza Otunbayeva as President of the Kyrgyz Republic for a transition period until December 31, 2011. Parliamentary elections are expected to take place in October 2010.

#### **Second Quarter Highlights**

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- Consolidated gold production of 121,728 ounces
- Cash provided by operations of \$76.5 million or \$0.33 per share

- Maintain consolidated gold production guidance for 2010
- Strong cash balances and no debt

### **Commentary**

“It appears that stability has returned to the Kyrgyz Republic after the referendum held in June, and we continue to monitor the political situation in the country. We are pleased with the performance of both operations during the quarter as we produced more gold than expected. However due to the expectation that we will be processing lower grades at Kumtor, the third quarter will be our weakest quarter from a production standpoint. In view of the continuing unresolved regulatory issues in Mongolia, we are removing from our 2010 gold production guidance any 2010 production from the Boroo heap leach operation and the Gatsuurt project. Even with this change, because of the strong operational performance at Kumtor and Boroo, our consolidated production guidance remains unchanged,” said Steve Lang, President and CEO of Centerra Gold.

“I am also pleased to announce that the Board of Directors has declared an inaugural annual dividend, which is part of the Company’s long-term strategy to increase shareholder value. The Company intends to provide a dividend yield which is consistent with the yield of comparable companies’ dividend rates. The dividend will be evaluated annually by the Board in relation to the Company’s cash balances, operating cash flows and capital investment requirements,” he concluded.

### **Financial and Operating Summary**

Revenues for the second quarter of 2010 were \$152.2 million compared to \$104.3 million during the same period one year ago. Second quarter 2010 revenue reflects a 10% increase in ounces sold (126,797 ounces versus 115,308 ounces) and a 33% increase in realized gold price (\$1,200 per ounce in the second quarter of 2010 versus \$905 per ounce in the second quarter of 2009) in the period.

Gold production for the second quarter of 2010 was 121,728 ounces compared to 110,457 ounces reported in the second quarter of 2009. This increase reflects higher gold production at both of the Company’s mines for the period. At Kumtor, higher production was the result of processing higher grade material and higher associated recoveries. Production at Boroo was higher in the second quarter 2010 due to increased recoveries in the mill partially offset by lower average mill head grades. The 2009 comparative period at Boroo reflects the operational shutdowns from the labor strike and the suspension of the main operating licenses for six weeks in 2009. The heap leach operation at Boroo remained idle during the quarter.

Centerra’s total cash cost per ounce of gold produced was \$616 in the second quarter compared to \$667 in the second quarter of 2009. The year-over-year decrease in unit cash costs was primarily due to higher gold production (see “Operations Update”). (Total cash cost is a non-GAAP measure and is discussed under “Non-GAAP Measures” in the Management’s Discussion and Analysis for the three months ended June 30, 2010, issued in conjunction with this news release.)

Cash provided by operations was \$76.5 million for the second quarter of 2010 compared to a use of cash by operations of \$17.3 million for the prior year second quarter. The increase reflects increased

earnings as a result of higher gold sales volumes as well as the positive impact of reduced working capital levels.

Capital expenditures spent and accrued in the second quarter of 2010 amounted to \$54.7 million of which \$12.9 million was spent on sustaining capital projects. Growth capital totaled \$41.8 million which related mainly the purchase of haul trucks at Kumtor (\$17.8 million), the SB Zone underground development at Kumtor (\$8.6 million) and spending on site development and road construction for the Gatsuurt project (\$11.9 million). Capital expenditures in the comparative quarter of 2009 totalled \$17.7 million, consisting of \$11.1 million of sustaining capital and \$6.6 million of growth capital.

Exploration expenditures for the second quarter were \$6.9 million dollars compared to \$4.1 million in the second quarter of 2009 reflecting increased activity at Kumtor, Gatsuurt and on the Company's exploration joint ventures.

Centerra's cash and cash equivalents and short-term investments at the end of June 2010 increased to \$399.8 million, compared to cash and short-term investments of \$322.9 million at December 31, 2009.

## **Other Corporate Developments**

### **Inaugural Annual Dividend**

As part of the Company's long-term strategy to maximize shareholder value, the Company's Board of Directors has authorized a dividend of Cdn\$0.06 per common share, payable on September 8, 2010 to shareholders of record at the close of business on August 18, 2010. The ex-dividend date for the dividend will be August 16, 2010. It is the intention of the Board of Directors to review the amount of the dividend on an annual basis depending upon the Company's cash balances, operating cash flows, anticipated capital requirements for future growth and the yields of comparable companies' dividend rates.

### **Kyrgyz Republic**

In early April 2010, civil unrest in the Kyrgyz Republic resulted in the ousting of President Kurmanbek Bakiyev and the formation of an interim government by opposition groups. In June further serious unrest occurred in southern Kyrgyzstan. Operations at the Kumtor mine were not affected by these events. A national referendum sponsored by the interim Government was held on June 27, 2010 to approve a new constitution and the appointment of Mrs. Roza Otunbayeva as President of the Kyrgyz Republic for a transition period until December 31, 2011. The referendum proposals received wide support in the Kyrgyz Republic. Following the referendum Mrs. Otunbayeva was inaugurated as President and a new cabinet council or transitional Government was formed. It is expected that this transitional Government will operate until Parliamentary elections are held and a new Government formed. The Government has indicated that these Parliamentary elections will take place in October 2010. While the political and civil conditions appear to have stabilized, the political situation in the Kyrgyz Republic continues to evolve and there can be no assurances that future political developments will not have an adverse impact on the Company's assets or operations.

Pursuant to a restated shareholders agreement dated as of June 6, 2009 between Kyrgyzaltyn and Centerra, so long as Kyrgyzaltyn and its affiliates continue to hold 10% or more of Centerra's outstanding shares, Centerra has agreed to include in Centerra's proposed slate of directors to be nominated for election at each annual or special meeting at which directors are to be elected, two board nominees designated by Kyrgyzaltyn, at least one of whom must be independent of the Kyrgyz Government, within the meaning of applicable securities laws in Canada. Should Kyrgyzaltyn and its affiliates own less than 10% but more than 5% of Centerra's outstanding shares, Centerra has agreed to include in the slate of directors one nominee of Kyrgyzaltyn who shall not be required to be independent. Kyrgyzaltyn currently owns approximately 33% of Centerra's outstanding shares and accordingly is entitled to two board nominees. As a result of the recent events in the Kyrgyz Republic, there was a delay in Kyrgyzaltyn communicating to Centerra's board the identity of its nominees. Kyrgyzaltyn has recently informed Centerra of its two proposed nominees and therefore the board of directors of Centerra expects to add those nominees to the board shortly.

## **Mongolia**

### ***Mongolian Regulatory Matters***

The regulatory conditions in Mongolia have not changed substantially since Centerra's first quarter report. The following discussion summarizes the current status of Mongolian regulatory matters affecting Centerra.

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 Mongolian General Department of Specialized Inspection ("SSIA"). While the suspension was lifted on July 27, 2009, several issues arising from the inspection continue to be discussed by Centerra and the Mongolian regulatory authorities. On October 23, 2009, Centerra received a very significant claim for compensation from the SSIA in respect of certain mineral reserves, including state alluvial reserves covered by the Boroo mine licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Centerra disputes the claim. While Centerra cannot give assurances, it believes settlement will be concluded through negotiation and will not result in a material impact. In addition, the SSIA inspections raised a concern about the production and sale of gold from the Boroo heap leach facility. The heap leach facility was operated under a temporary permit from June 2008 until the expiry of the temporary permit in April 2009 and Boroo Gold Company Ltd. ("BGC") paid all relevant royalties and taxes with respect to gold produced from the heap leach facility during that period. BGC believes that it had all necessary permits to carry out its heap leach activities and that any regulatory concerns are unfounded. BGC is continuing its effort to obtain a final permit for the operation of its heap leach facility at the Boroo mine.

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 has held discussions with the Ministry of Finance regarding such concerns

and has received no further notice from the Ministry of Finance with respect to the possible termination of the Boroo Stability Agreement. While the Company believes that the issues raised by the Ministry of Finance and the SSIA will be resolved through negotiations without a material impact on the Company, there can be no assurance that this will be the case.

### ***Mongolian Legislation***

The legislative conditions in Mongolia have not changed substantially since Centerra's first quarter report. The following discussion summarizes the current status of certain Mongolian legislation that may affect Centerra, including its Gatsuurt project and other Mongolian mineral licenses.

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 (the "Water and Forest Law"). The Company understands that, prior to the revocation of any licenses, 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 exempt. In March 2010, the Company received a letter from MRAM stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the Water and Forest Law. The letter requested that the Company submit an estimate of expenses incurred in relation to each license and the compensation that it would expect to receive if such licenses were to be revoked. The Company has provided a detailed estimate to MRAM for all potentially affected licenses. The Company has submitted a draft Investment Agreement for the Gatsuurt Project to the Ministry of Mineral Resources and Energy ("MMRE"). In April 2010, the Company received a letter from the MMRE indicating that the Gatsuurt licenses are within the area designated on a preliminary basis where minerals mining is prohibited under the Water and Forest Law. The letter also stated that the MMRE will communicate with the Company regarding the investment agreement when the MMRE has more clarity on the impact of the law. 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. While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, there is a risk that further approvals or commissioning of the project could be delayed as a result of the Water and Forest Law.

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 US\$850 an ounce, with the repeal to take effect on January 1, 2011.

### **Other**

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

("Homestake"), a subsidiary of Barrick Gold Corporation, waiving its pre-emptive right to acquire Centerra U.S.'s interest. On April 8, 2010, Homestake elected to exercise its pre-emptive right to acquire Centerra Gold U.S. Inc.'s 64% interest in the REN joint venture for \$35.2 million. As a result of Homestake's election to purchase the Centerra U.S. interest, Rye Patch's agreement terminated. On July 2, 2010, the Company closed the sale of its REN interest to Homestake for cash proceeds of \$35.2 million. In connection with the termination of the Rye Patch agreement, Centerra U.S. paid Rye Patch a break fee of \$0.25 million.

As at June 30, 2010, the net book value of the REN property was nil (December 31, 2009- Nil) because all exploration activities on the property were expensed as incurred.

## **Operations Update**

### **Kumtor**

At the Kumtor mine, gold production was 90,050 ounces in the second quarter of 2010 representing an 11% increase from the same quarter in 2009. The increase in production is the result of higher grades and higher recoveries in the second quarter of 2010. The mill head grade averaged 2.74 g/t with a recovery of 77.5% in the second quarter of 2010, compared to 2.60 g/t with a recovery of 66.0% in the same quarter of 2009. During the quarter, ore tonnage mined increased 19% year-over-year as mining continued in the higher grade SB Zone in the Central Pit. Mill throughput of 1.4 million tonnes was essentially flat compared to the same period last year.

During the quarter, the planned removal of ice and waste from the southeast section of the high wall in the SB Zone continued. The rate of movement of waste and ice from this area slowed during the first quarter of 2010 as a result of the offloading, as well as cold weather causing the material to freeze. During the latter portion of the second quarter of 2010, as expected, the high movement area did begin to accelerate, however the offloading plan and the de-watering program carried out during the year has slowed the ice movement up to 40 % when compared to the same period last year.

Total cash cost per ounce, a non-GAAP measure of production efficiency, decreased to \$639 in the second quarter of 2010 from \$723 in the second quarter of 2009. The year-over-year decrease in unit cash costs was due to the higher gold production and lower operating costs in 2010. Mining costs decreased 6% to \$30.6 million in the second quarter of 2010 due to lower expenditures on maintenance materials and supplies offset by higher diesel costs (\$1.8 million or \$0.55 per litre). Milling costs in 2010 increased 10% to \$14.7 million due to increased maintenance materials and supplies; the scheduled mill maintenance shutdown and increased costs for electricity. This was partially offset by the lower cost and lower consumption of grinding media. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures" in the Management's Discussion and Analysis issued in conjunction with this news release.

Exploration expenditures totaled \$2.7 million for the second quarter of 2010, a \$0.4 million increase from the \$2.3 million reported in the second quarter 2009. This is primarily a result of the increase in the amount of drilling completed in the second quarter.

Capital expenditures in the second quarter of 2010 totalled \$39.5 million compared to \$17.4 million for the same period in the prior year. This consisted of \$11.2 million of sustaining capital, predominantly spent on the heavy duty equipment overhaul program (\$4.7 million), replacement of four dozers (\$2.1 million) and shear key, buttress and tailing dam construction (\$2.0 million). Growth capital investment totalled \$28.3 million spent mainly on the purchase of CAT 789 haul trucks (\$17.8 million) and underground development of the declines for SB and Stockwork Zones (\$8.5 million).

The SB Zone underground decline (Decline #1) has now advanced a total of 724 metres. During the quarter the decline advancement continued and drill and remuck bays were established and it is now expected that exploration drilling will commence in the later part of the third quarter while delineation drilling of the SB Zone is planned to commence in the fourth quarter of 2010.

The Stockwork Zone underground decline (Decline #2) has advanced a total of 312 metres. Decline #2 will facilitate the access to the Stockwork Zone and the SB Zone for further exploration and delineation drilling. The second heading in Decline #2 for the exploration and delineation drilling program for the Stockwork Zone has been established and is advancing toward the north. Drill bays will be established along the 400 meter access drift. Exploration and delineation drilling of the Stockwork Zone resource is expected to commence late in the third quarter of 2010 and continue into 2011.

### **Boroo/Gatsuurt**

At the Boroo mine, gold production was 31,678 ounces in the second quarter of 2010 compared to 28,990 ounces in the second quarter of 2009. The higher gold production is the result of increased recoveries partially offset by lower average mill head grades, 2.05 g/t in second quarter 2010 versus 2.48 g/t in the second quarter 2009. Recoveries improved in the second quarter of 2010 to 74.9% compared to 68.7% for the same period last year due to less refractory ore. In the comparative 2009 quarter, gold production was impacted by the operational shutdown as a result of a strike commencing May 26<sup>th</sup> and a six week license suspension commencing June 12<sup>th</sup>, 2009.

Heap leach operations at Boroo remain under care and maintenance pending issuance of the final heap leach operating permit.

Total cash cost per ounce produced, a non-GAAP measure of production efficiency, was \$549 in the second quarter of 2010 compared to \$511 in the second quarter of 2009. The year-over-year increase in unit cash costs was due to the higher operating costs in 2010, partially offset by higher gold production. The increase in the unit cash cost of \$38 per ounce results from increased costs (\$81/ounce) partially offset by an increase in ounces produced (\$43/ounce). Mining costs increased 44% to \$5.5 million in the second quarter of 2010 due to higher diesel costs which increased costs \$0.3 million (\$0.86 per litre vs. \$0.69 per litre in 2009); milling costs were 32% higher at \$5.4 million primarily due to higher costs for electricity, reagents and grinding media; royalties increased by \$0.9 million due to higher sales revenue achieved from both a higher gold price and higher volumes produced. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures" in the Management's Discussion and Analysis issued in conjunction with this news release.

During the second quarter of 2010, exploration expenditures in Mongolia increased to \$1.5 million from \$0.5 million in the same period of 2009. Capital expenditures spent and accrued at Boroo in the second quarter of 2010 were \$3.2 million compared to \$0.1 million the same quarter of 2009. This consisted of \$1.6 million of sustaining capital, predominantly spent on heavy equipment component change outs. Growth capital investment totalled \$1.6 million spent on raising the tailings dam.

At the Gatsuurt project, \$11.9 million of growth capital was spent and accrued in the quarter primarily related to completing the road construction (\$6.6 million) to access the Gatsuurt project and connect it with the Boroo mill facilities and for the purchase of ore haul trucks (\$2.3 million). A further \$3.0 million was spent on the engineering and construction of the Boroo bio-oxidation facility for processing Gatsuurt and other sulphide ores. During the quarter the road construction to the Gatsuurt project was completed.

## **Exploration Update**

**To view the graphics, maps/drill sections and complete drill results discussed in this news release, please visit the following link: <http://media3.marketwire.com/docs/CG730figures.pdf> or visit the Company's web site at: [www.centerragold.com](http://www.centerragold.com).**

## **Kyrgyz Republic**

During the second quarter of 2010, exploration drilling programs continued in the Kumtor Central Pit and regional exploration drilling continued on the Kumtor concession area at the Northeast, Muzdusuu, Petrov areas and the Southwest Deposit.

A second exploration license covering the Koendy Project area was obtained on June 14, 2010, covering a 15 kilometre north-eastern extension of the same structure covered by the Karasay exploration license.

## **Kumtor Pit**

In the second quarter of 2010, eight drill holes were completed and two holes were in progress at quarter-end. Four holes were completed to test the down dip extension of the Stockwork Zone. All holes intersected significant widths of low grade mineralization. Hole D1412 drilled on section 142 returned the best intercepts of 4.4 g/t Au over 5.3 metres, 3.4 g/t Au over 12.9 metres, 4.3 g/t Au over 14.8 metres including 7.5 g/t Au over 5.8 metres and 1.4 g/t Au over 5.0 metres. This drilling has defined the lower limits of the Stockwork Zone. No further drilling of the Stockwork Zone is planned from surface. Infill drilling from underground of the higher grade portion of the Stockwork Zone is planned for the fourth quarter of 2010.

Four holes were completed to test the Southwest Extension of the SB Zone with three of the holes returning significant results. Holes D1409 and D1416 returned significant intercepts that lie within the KS 10 pit design that will have a positive impact on the resource model. Hole D1409, drilled on section -18, intersected significant widths of mineralization including 6.2 g/t Au over 61.4 metres, which includes higher grade intercepts of 23.9 g/t Au over 5.0 metres and 15.5 g/t Au over 8.4

metres. Hole D1416, drilled 50 metres up-dip of D1409 on the same section -18, intersected 3.0 g/t Au over 5.2 metres, 2.0 g/t Au over 6.8 metres, 1.13 g/t Au over 10.2 metres, 3.4 g/t Au over 30.1 metres and 2.3 g/t Au over 3.3 metres.

Hole D1421 drilled on section -30 intersected high grade mineralization with an uncut intercept of 44.4 g/t Au over 21.7 metres including 124.1 g/t Au over 6.5 metres, 19.5 g/t Au over 5.8 metres and 8.3 g/t Au over 3.3 metres. With the higher grade gold values cut to 60g/t Au the high-grade intercept averages 23.6 g/t Au over 21.7 metres including 55.6 g/t Au over 6.5 metres, 18.3 g/t Au over 5.8 metres and 8.3 g/t Au over 3.3 metres.

This high grade intercept is located approximately 40 metres along strike and 90 metres up dip from the high-grade intercept reported in the third quarter of 2009 in hole D 1352 which returned an uncut intercept of 84.0 g/t Au over 26.4 metres, including 327.4 g/t Au over 6.2 metres, or with the higher gold values cut to 60 g/t Au, an intercept of 19.4g/t Au over 26.4 metres, including 52.2 g/t Au over 6.2 metres.

Additional drilling of the Southwest Extension of the SB Zone and the SB Zone will be completed in the third quarter should suitable access be available with mining activities in this area of the pit.

True widths for the mineralized zones are typically from 70% to 95% of the stated intercept.

## **Regional Exploration**

Regional exploration drilling continued in the second quarter of 2010 at Northeast prospect, the Muzdusuu area and the Southwest Deposit.

### **Northeast Area**

During the second quarter of 2010 four holes were completed at the Northeast prospect and a further two holes are in progress. All holes were designed to follow up on the mineralization intersected by prior drilling, which identified a near-surface zone of mineralization. Drilling was conducted at approximately 80 metre spacing in order to test the strike extent of near surface mineralization and continues to return encouraging results. The best results were in hole DN1422A, drilled on section 402 to test for mineralization down dip of DN1419 which intersected 9.2 g/t Au over 9.0 metres including 25.9 g/t Au over 2.8 metres.

Hole DN1396, drilled on section 382, designed to test the down dip extensions of previously reported mineralization, returned intercepts of 1.7 g/t Au over 4.0 metres, 2.7g/t Au over 4.1 metres, 3.7 g/t Au over 5.2 metres and 1.7 g/t Au over 3.7metres. Hole DN1420, drilled on section 430 to test for a near surface northeast extension of known high grade mineralization on section 426, intersected 3.1 g/t Au over 4.0 metres. Hole DN1419, drilled on section 402, was designed to test for near surface mineralization in between areas of known mineralization and the hole intersected a wide zone of alteration but no significant mineralization.

Drilling in the third quarter will focus on 40 metres spaced infill drilling to define the potential for a near surface open pit resource and as well as 80-160 metres spaced drilling to test for high-grade mineralization at depth.

## **Southwest Deposit**

Five drill holes were completed during the second quarter and two holes were stopped due to technical difficulties and one hole is in progress.

The wide-spaced drilling in the second quarter was testing for zones of high-grade mineralization below the open pit. All holes intersected broad zones of alteration with relatively narrow zones of low to moderate grade mineralization.

## **Muzdusuu Area**

Four holes were completed in the second quarter and one drill hole is in progress.

All holes were drilled to test strong geochemical and geophysical anomalies identified in 2009 which were interpreted to be associated with potentially mineralized structures and carbonate stratigraphy in the footwall of the main Kumtor structures. Of the four holes completed, only one hole intersected any significant mineralization, 3.9 g/t Au over 4.0 metres within the footwall limestone stratigraphy. The other holes intersected non-mineralized Neogene-Paleogene fragmental sediments in the structural footwall of the limestone.

Further drilling is planned in the third quarter to test the strongest geochemical anomaly and other geophysical targets.

A complete listing of the drill results and supporting maps for the Kumtor pit and Northeast area have been filed on the System for Electronic Document Analysis and Retrieval ('SEDAR') at [www.sedar.com](http://www.sedar.com) and are available at the Company's web site at: [www.centerragold.com](http://www.centerragold.com).

## **Mongolia**

Exploration work in the second quarter was conducted at the Gatsuurt, Ulaan Bulag, and Sumber properties in the Yeroogol trend and at the Altan Tsagaan Ovoo, Munhkahan and Tuvshinshire properties in Eastern Mongolia.

### **Gatsuurt Project**

Following the success of the first quarter drilling program at the Central Zone deposit a second drill program was designed to test for the occurrence of gently dipping structures along strike to the southwest on the eastern side of the Central Zone deposit. The program was also designed to test for the continuity of the mineralization beyond the eastern wall of the proposed Central Zone pit.

A 30 x 30 metre drill program was completed in May and June. The program confirmed the presence of gently dipping structures and mineralized zones within the granitic package in the eastern wall of the Central Zone deposit over a strike length of 180 metres.

Additional drilling is planned in the third quarter to fill in the remaining gaps in the 30 x 30 metre grid and also test for further extensions of the newly identified mineralized zones.

## **Ulaan Bulag**

A preliminary evaluation of the first quarter 2010 drill results was completed in April indicating that the Nuga Zone at the Ulaan Bulag prospect has a potential oxide open pit resource.

An additional nine holes were complete in June to define the southern and western extensions of the Nuga Zone. A preliminary economic analysis of the Nuga Zone will be completed to determine if a mineable resource can be developed for trucking to the Boroo processing facilities located 15 kilometres to the northwest.

*To view the graphics, maps/drill sections and complete drill results discussed in this news release, please visit the following link: <http://media3.marketwire.com/docs/CG730figures.pdf> or visit the Company's web site at: [www.centerragold.com](http://www.centerragold.com).*

## **Outlook for 2010**

### **2010 Production**

Centerra's 2010 consolidated gold production is forecast to be in the 640,000 to 700,000 ounce range, which is unchanged from the prior guidance disclosed in the Company's news release of April 28, 2010.

Gold production for the full year 2010 at the Kumtor mine in the Kyrgyz Republic is forecast to be between 530,000 to 570,000 ounces, which is unchanged from prior guidance. While it is expected that the higher than anticipated production realized at Kumtor in the first and second quarters may be partially offset by lower production in the third quarter of 2010, the Company continues to expect that during the fourth quarter Kumtor will produce approximately 40% of its 2010 production.

At Boroo/Gatsuurt, gold production is forecast to be 110,000 to 130,000 ounces, which is unchanged from prior guidance.

While the Company believes it has met all the regulatory pre-conditions for the issuance of the final heap leach operating permit, its issuance continues to be delayed. Due to these continued delays in obtaining the final permit, the Company has removed any heap leach production from this year's production guidance. If the final operating permit is received, resumption of heap leach operations at Boroo would add approximately 3,000 to 4,000 ounces per month to production.

Additionally, the current production guidance does not include any gold production from Gatsuurt. While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, there is a risk that further approvals or commissioning of the project could be delayed as a result of the Water and Forest Law, see "Other Corporate Developments, Mongolian Legislation".

Due to the potential for delays in receiving the required approvals for the Gatsuurt project, Boroo has initiated an alternative plan that is expected to allow the Boroo operation to achieve the production within the forecasted range of ounces produced. The processing of remaining mine ores

by the Boroo mill, in conjunction with, the processing of stockpiled lower grade ores will allow the operation to meet its production guidance. The mining of refractory ores from Pit 3 and Pit 6 will provide mill feed in the fourth quarter of 2010 and into first quarter of 2011. Mill recoveries of this material, though low, allow the ores to be mined and processed and remain profitable.

These production estimates are based on certain assumptions. See “Material Assumptions” below.

### **2010 Total Cash Cost per Ounce**

Total cash cost in 2010 is expected to be between \$460 and \$505 per ounce produced, which is unchanged from the prior guidance of April 28, 2010. Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures" in the Management’s Discussion and Analysis issued in conjunction with this news release.

Total cash cost for 2010 for Kumtor is expected to be in the range of \$430 to \$460 per ounce produced, which is unchanged from the prior guidance.

Boroo total cash cost for 2010 reflects no production from both the heap leach operation and Gatsurt and is expected to be \$590 to \$690 per ounce produced, which is unchanged from the prior guidance.

Centerra’s production and unit costs are forecast as follows:

|              | <b>2010 Production Forecast</b><br>(ounces of gold) | <b>2010 Total Cash Cost<sup>(1)</sup></b><br>(\$ per ounce produced) |
|--------------|---|--|
| Kumtor       | 530,000 – 570,000                                   | 430 – 460  |
| Boroo        | 110,000 – 130,000                                   | 590 – 690  |
| Consolidated | 640,000 – 700,000                                   | 460 – 505  |

(1) Total cash cost is a non-GAAP measure. See “Non-GAAP Measures” in the Management’s Discussion and Analysis issued in conjunction with this news release.

These cost estimates are based on certain assumptions. See “Material Assumptions” below.

### **2010 Exploration Expenditures**

Exploration expenditures of \$30 million are planned for 2010, and the exploration plan is unchanged from the prior guidance. Generative programs will continue in Central Asia, Russia, China, Turkey and the U.S. to increase the pipeline of projects that are being developed to meet the longer term growth targets of Centerra.

### **2010 Capital Expenditures**

The capital expenditures for 2010 are estimated to be \$241.1 million, including \$48.9 million of sustaining capital and \$192.2 million of growth capital. This represents a decrease of \$4.1 million from prior guidance primarily due to the timing of expenditures in growth capital at Gatsurt.

Capital expenditures include:

| <b>Projects</b>           | <b>2010 Growth Capital</b><br>(millions of dollars) | <b>2010 Sustaining Capital</b><br>(millions of dollars) |
|---------------------------|---|---|
| Kumtor mine               | \$153.1   | \$43.6  |
| Boroo mine                | \$0.5   | \$4.9   |
| Gatsuurt project          | \$38.6  | 0   |
| Other                     | 0   | \$0.4   |
| <b>Consolidated Total</b> | <b>\$192.2</b>                                      | <b>\$48.9</b>   |

### **Kumtor Capital**

At Kumtor, the largest growth capital expenditure will be for the North Wall Expansion project, estimated at \$92.7 million primarily for purchases of mining and auxiliary support equipment to renew and expand the mining fleet. The equipment has been ordered and is expected to be delivered in the fourth quarter of 2010 and the first quarter of 2011. To increase haulage capacity to manage the ice/waste movement in the high movement area, Kumtor is acquiring seven new CAT 789 haul trucks for a total cost of \$19.8 million. As of the end of June 2010, Kumtor had received five and commissioned four out of the seven trucks. It is expected that the remaining two trucks will be delivered in the third and fourth quarters of 2010. The underground growth capital for developing the SB Zone and Stockwork Zone, as well as for delineation drilling and capital purchases, is estimated to be \$38.4 million in 2010.

### **Boroo & Gatsuurt Capital**

At Boroo, 2010 sustaining capital expenditures are expected to be \$4.9 million, primarily for the purchase of new ball and SAG mill gears (\$2.1 million) and mobile equipment component change-outs (\$1.9 million). These expenditures are based on operational needs and also assume the receipt of the required approvals for Gatsuurt.

At Gatsuurt, expected 2010 growth capital spending is forecasted at \$38.6 million down from \$42.0 million in the prior guidance. Pre-stripping of the sulphide ores initially planned to be carried out in 2010 for \$9.2 million have now been partially deferred with only \$2.9 million of the total being spent in 2010 as a result of the decision to delay the construction of the Boroo bio-oxidation facility for processing Gatsuurt and other sulphide ores. The previous estimate of the engineering costs of the Boroo bio-oxidation facility of \$5.0 million has been increased to \$8.0 million.

The Company has implemented a phased approach to the development of the Gatsuurt orebody consisting of an oxide project component followed by a sulphide project component. The Company expects that the capital for the development of the deeper sulphide ores at Gatsuurt will be invested following successful commissioning of the Gatsuurt oxide project and after the Company signs an acceptable investment agreement for Gatsuurt with the Government of Mongolia. Drilling results at Gatsuurt have identified additional oxide mineralization which is likely to extend the oxide operating life for the mine, further delaying the requirement for capital investment in the bio-oxidation plant.

Other growth capital spending at Gatsuurt includes completion of the Gatsuurt site infrastructure including the haul road between Gatsuurt and Boroo (\$9.6 million), purchase of haul trucks to be used for hauling of ore from the Gatsuurt site to the Boroo mill (\$5.3 million), and the expansion of the existing Boroo tailings facility to contain Gatsuurt oxide and sulphide tailings (\$4.8 million).

## Administration

Annual estimated corporate and administration expenses remains at \$41 million.

*Production, cost and capital forecasts for 2010 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed under the heading "Material Assumptions" and "Cautionary Note Regarding Forward-looking Information".*

## Sensitivities

Centerra's revenues, earnings and cash flows for the remaining six months of 2010 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

|                            | Change    | Impact on<br>(\$ millions) |          |           |                               |
|----------------------------|-----------|----------------------------|----------|-----------|-------------------------------|
|                            |           | Costs                      | Revenues | Cash flow | Earnings before<br>income tax |
| Gold Price                 | \$50/oz   | 2.9                        | 17.4     | 14.5      | 15.2                          |
| Diesel Fuel <sup>(1)</sup> | 10%       | 3.6                        | -        | 3.6       | 3.6                           |
| Kyrgyz som                 | 1 som     | 1.0                        | -        | 1.0       | 1.0                           |
| Mongolian tugrik           | 25 tugrik | 0.2                        | -        | 0.2       | 0.2                           |
| Canadian dollar            | 10 cents  | 1.6                        | -        | 1.6       | 1.6                           |

(1) 10% change in diesel fuel price equals \$10/oz.

## Material Assumptions

Material assumptions or factors used to forecast production and costs include the following:

- a gold price of \$1,100 per ounce,
- exchange rates:
  - \$1USD:\$1.02 CAD
  - \$1USD:45.50 Kyrgyz Som
  - \$1USD:1,380 Mongolian Tugrik
  - \$1USD:0.78 Euro
- diesel fuel price assumption:
  - \$0.74/litre at Kumtor\*
  - \$0.84/litre at Boroo

\*The assumed diesel price of \$0.74/litre at Kumtor includes a customs export duty imposed by the Russian authorities on the diesel fuel exported to the Kyrgyz Republic. Russia imposed a customs

duty of \$193.50 per tonne on gasoline and diesel fuel exports to the Kyrgyz Republic that went into effect on April 1, 2010. The Company estimates that the introduction of this new export duty will increase operating costs at Kumtor by approximately \$7 million.

Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately \$76 per barrel.

Other important assumptions on which the Company's production, cost and capital guidance is based include the following:

- Political and civil unrest in the Kyrgyz Republic does not impact operations, including movement of supplies, gold shipments and people to the Kumtor mine,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the dewatering and depressurization programs at Kumtor continue to produce the expected results and the water management system works as planned,
- the remedial plan to deal with the Kumtor waste and ice movement is successful, see "Kumtor Mine - Remedial Plan to Manage the High Movement Area" in the Company's December 7, 2009 news release,
- the equipment to execute the Company's remedial plan to manage the high movement area at Kumtor is delivered on time,
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning state alluvial reserves, the production and sale of gold from the Boroo heap leach facility and other matters will be resolved through negotiation without material adverse impact on the Company, see "Mongolian Regulatory Matters",
- Boroo ore does not become more refractory in nature than anticipated, affecting mill recoveries,
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

Production and cost forecasts and capital estimates are forward-looking information and are based on key assumptions and subject to material risk factors. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected. Additional risks and uncertainties not currently known to the Company, or that

are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, and results of operations or cash flows. See the sections entitled "Recent Developments" and "Risk Factors" in the Company's most recently filed annual information form, available on SEDAR at [www.sedar.com](http://www.sedar.com) and see also the discussion below under the heading "Cautionary Note Regarding Forward-looking Information".

### **Qualified Person**

The new drilling results in this news release and on Centerra's website and the other scientific and technical information in this news release were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") and were reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Ian Atkinson, Certified Professional Geologist, Centerra's Vice-President, Exploration, who is the qualified person for the purpose of NI 43-101.

The Kumtor deposit is described in Centerra's most recently filed Annual Information Form (the "AIF") and a technical report dated December 16, 2009 prepared in accordance with NI 43-101. The AIF and technical report have been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site are described in the technical report.

The Gatsuurt deposit is described in the Company's most recently filed AIF and in a technical report dated May 9, 2006 prepared in accordance with NI 43-101. The AIF and technical report have been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt project are the same as, or similar to, those described in the technical report.

### **Cautionary Note Regarding Forward-looking Information**

This news release and the documents referred to herein contain statements which are not statements of current or historical facts and are "forward-looking information" within the meaning of applicable Canadian securities laws. Such forward-looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Wherever possible, words such as "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "forecast", "projections", "estimate", "may", "will", "schedule", "potential", "strategy" and other similar expressions have been used to identify forward-looking information. These forward-looking statements relate to, among other things, Centerra's expectations regarding future growth, results of operations (including, without limitation, future production and sales, and operating and capital expenditures), performance (both operational and financial), business and political environment and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities.

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

Factors that could cause actual results or events to differ materially from current expectations include, among other things: risks relating to the recent political and civil unrest in the Kyrgyz Republic, risks related to the creep of ice and waste movement into the Kumtor open-pit, the resolution of issues at the Boroo mine raised by the Mongolian SSIA concerning alluvial reserves and matters relating to the suspension of the Boroo licenses in June 2009, the potential impact of Mongolian legislation prohibiting mineral activity in water basins and forest areas on the Gatsurt project, the threatened termination of the stability agreement with the Mongolian Government in relation to the Boroo mine, the receipt of a final permit to operate the heap leach operation at the Boroo mine, fluctuations in gold prices, replacement of mineral reserves, reduction in reserves related to geotechnical risks, ground movements, political risk, nationalization risk, changes in laws and regulations, political civil unrest, labour unrest, legal compliance costs, reserve and resource estimates, production estimates, exploration and development activities, competition, operational risks, environmental, health and safety risks, costs associated with reclamation and decommissioning, defects in title, seismic activity, cost and availability of labour, material and supplies, increases in production and capital costs, permitting and construction to raise the tailings dam height and increase the capacity of the existing Kumtor tailing dam, the ability to renew and obtain licenses, permits and other rights, illegal mining, enforcement of legal rights, decommissioning and reclamation cost estimates, future financing and personnel and the receipt of all permitting and commissioning requirements for the Gatsurt mine. In addition, material assumptions used to forecast production and costs include those described above under the heading "Material Assumptions". There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See "Risk Factors" in the Company's most recently filed AIF and Annual Management's Discussion and Analysis available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

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

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this news release. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward-looking information. Forward-looking information is as of July 29, 2010. Centerra assumes no obligation to update or revise forward-looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

### **About Centerra**

Centerra is a gold mining company focused on operating, developing, exploring and acquiring gold properties primarily in Asia, the former Soviet Union and other emerging markets worldwide. Centerra is a leading North American-based gold producer and is the largest Western-based gold producer in Central Asia. Centerra's shares trade on the Toronto Stock Exchange (TSX) under the symbol CG. The Company is headquartered in Toronto, Canada.

### **Conference Call**

Centerra invites you to join its 2010 second quarter conference call on Friday, July 30, 2010 at 11:00 am Eastern Time. The call is open to all investors and the media. To join the call, please dial toll-free in North America (800) 756-3565 or International participants dial +1 (212) 231-2901. Alternatively, an audio feed web cast will be available on [www.centerragold.com](http://www.centerragold.com). A recording of the call will be available on [www.centerragold.com](http://www.centerragold.com) shortly after the call and via telephone until midnight on Friday August 6, 2010 by calling (416) 626-4100 or (800) 558-5253 and using passcode 21474193.

**For more information:**

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**Additional information on Centerra is available on the Company's web site at [www.centerragold.com](http://www.centerragold.com) and at SEDAR at [www.sedar.com](http://www.sedar.com).**

**MDA and Financial Statements and Notes follow**

**Centerra Gold Inc.**  
**Management’s Discussion and Analysis (“MD&A”)**  
**For the period ended June 30, 2010**

The following discussion has been prepared as of July 29, 2010, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. (“Centerra” or the “Company”) for the three and six month periods ended June 30, 2010 in comparison with those as at June 30, 2009. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and the notes of the Company for the three and six month periods ended June 30, 2010. This MD&A should also be read in conjunction with the Company’s audited annual consolidated financial statements for the three years ended December 31, 2009, the related MD&A included in the 2009 Annual Report, and the 2009 Annual Information Form. The financial statements of Centerra are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and, unless otherwise specified, all dollar amounts are in United States dollars. The Company’s 2009 Annual Report and Annual Information Form are available at [www.centerragold.com](http://www.centerragold.com) and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

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## Consolidated Financial Results

Centerra's consolidated financial results for the three and six month periods ended June 30, 2010 reflect 100% interests in the Kumtor and Boroo mines, and the Gatsurt project.

### Highlights

| Financial and Operating Summary                                   | Three Months Ended June 30 |         |          | Six Months Ended June 30 |         |          |
|---|----------------------------|---------|----------|--------------------------|---------|----------|
|   | 2010                       | 2009    | % Change | 2010                     | 2009    | % Change |
| Revenue - \$ millions   | 152.2                      | 104.3   | 46%      | 407.7                    | 202.8   | 101%     |
| Cost of sales - \$ millions <sup>(1)</sup>                        | 63.0                       | 82.0    | (23%)    | 120.3                    | 151.2   | (20%)    |
| Earnings (loss) before unusual items - \$ millions <sup>(2)</sup> | 29.8                       | (30.3)  | (198%)   | 151.9                    | (50.5)  | (401%)   |
| Unusual items - \$ millions                                       | -                          | (49.3)  | (100%)   | -                        | (49.3)  | (100%)   |
| Net earnings (loss) - \$ millions                                 | 29.8                       | (79.6)  | (137%)   | 151.9                    | (99.9)  | (252%)   |
| Earnings (loss) per common share - \$ basic and diluted           | 0.13                       | (0.36)  | (136%)   | 0.65                     | (0.46)  | (241%)   |
| Cash provided by operations - \$ millions                         | 76.5                       | (17.3)  | (542%)   | 158.8                    | (6.4)   | (2581%)  |
| Capital expenditures - \$ millions                                | 54.7                       | 17.7    | 209%     | 83.8                     | 40.0    | 110%     |
| Weighted average common shares outstanding - basic (thousands)    | 234,992                    | 220,472 | 7%       | 234,926                  | 217,354 | 8%       |
| Weighted average common shares outstanding - diluted (thousands)  | 235,567                    | 220,472 | 7%       | 235,512                  | 217,354 | 8%       |
| Average gold spot price - \$/oz                                   | 1,197                      | 922     | 30%      | 1,152                    | 915     | 26%      |
| Average realized gold price - \$/oz                               | 1,200                      | 905     | 33%      | 1,143                    | 906     | 26%      |
| Gold sold – ounces  | 126,797                    | 115,308 | 10%      | 356,636                  | 223,900 | 59%      |
| Cost of sales - \$/oz sold  | 497                        | 710     | (30%)    | 337                      | 675     | (50%)    |
| Gold produced – ounces  | 121,728                    | 110,457 | 10%      | 332,767                  | 213,661 | 56%      |
| Total cash cost - \$/oz produced <sup>(3) (4) (5)</sup>           | 616                        | 667     | (8%)     | 441                      | 740     | (40%)    |
| Total production cost - \$/oz produced <sup>(3) (5)</sup>         | 758                        | 856     | (11%)    | 558                      | 950     | (41%)    |

- (1) Cost of sales for 2010 and its comparative year excludes regional office administration.
- (2) Earnings (loss) before unusual items is a non-GAAP measure and is discussed under "Non-GAAP Measures".
- (3) Total cash cost and total production cost are non-GAAP measures and are discussed under "Non-GAAP Measures".
- (4) 2009 includes the costs incurred during the strike and shutdown at Boroo of \$3.3 million. Excluding these costs, the 2009 second quarter and six months cash cost per ounce produced would be \$637 and \$725, respectively.
- (5) As a result of Kumtor's Restated Investment Agreement, total cash cost and total production cost per ounce measures for both years exclude production and revenue-based taxes.

## **Three-Month Period Ended June 30, 2010 Compared with the Three-Month Period Ended June 30, 2009**

### **Gold Production and Revenue**

Revenue in the second quarter of 2010 increased to \$152.2 million from \$104.3 million in the same quarter last year reflecting higher realized gold prices and more ounces sold. Gold production for the quarter was 121,728 ounces compared to 110,457 ounces reported in the second quarter of 2009. The overall increase in gold production reflects higher production at both operations. Kumtor's increase mainly reflects higher ore grades and higher associated recoveries, while Boroo's comparative results reflect the operational shutdowns from the strike and the suspension by the Mongolian government of the main operating licenses in the second quarter 2009. Heap leach operations at Boroo remained idle during the second quarter 2010 pending issuance of a final operating permit by the government authorities. See "Mine Operations – Kumtor" and "Mine Operations – Boroo".

Centerra realized an average gold price of \$1,200 per ounce for the second quarter of 2010, an increase from the \$905 per ounce realized in the same quarter of 2009. Since Centerra's gold production is not hedged and gold is sold at the prevailing spot price, the average realized gold price in the quarter reflects the continued strength of the spot gold price, which averaged \$1,197 per ounce for the second quarter of 2010 (\$922 per ounce for the same period in 2009).

### **Cost of Sales**

Cost of sales in the second quarter of 2010 was \$63.0 million, compared to \$82.0 million in the same quarter of 2009 resulting from reduced quarter over quarter cost of sales at Kumtor. The primary reason for this reduction in the current quarter at Kumtor relates to the sale of lower cost ounces that were in process at the end of March 2010. High grades and recoveries at Kumtor in the first quarter of 2010 resulted in a high production of gold, some of which remained in inventory at the end of the first quarter. Since the Company's operating cost to produce these ounces is the same in periods of high grade as it is in periods of lower grade, the unit cost of gold produced in high grade periods is lower (more ounces, same cost). These lower cost ounces coming from the inventory at the end of March 2010 were sold in the second quarter of 2010 thereby helping to lower the cost of sales for the period. In addition, lower cash operating costs in the second quarter 2010 at Kumtor, the elimination of production based taxes resulting from the restated investment agreement with the Kyrgyz Republic and a second quarter 2009 charge to cost of sales for inventory revaluation at Kumtor all contributed to the quarter over quarter improvement in cost of sales. This was partially offset by higher cost of sales at Boroo due mainly to higher operating costs.

Cost of sales per ounce sold decreased to \$497 from \$710 for the same period in 2009. This reflects the lower cost ounces in inventory from the first quarter, the removal of production taxes and reduced operating costs at Kumtor, partially offset by higher costs at Boroo. Cost of sales per ounce sold is a non-GAAP measure and is discussed under "Non-GAAP Measures".

The Company's total cash cost per ounce produced was \$616, down from \$667 in the second quarter of 2009. This decrease is primarily due to higher production at Kumtor and Boroo. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures". See "Mine Operations – Kumtor" and "Mine Operations – Boroo".

## **Mine Standby Costs**

During the second quarter of 2009, Boroo's operations were temporarily shutdown due a labour dispute, followed by the suspension of its main operating licenses by the Mongolian authorities. The operating licenses for the mine and mill were reinstated on July 27, 2009. Boroo incurred fixed costs of approximately \$3.3 million during the strike and operational shutdown.

## **Depreciation, Depletion and Amortization**

Consolidated depreciation, depletion and amortization for the second quarter of 2010 decreased to \$17.0 million from \$25.7 million in the same quarter of 2009, mainly due to an increase in mine ore reserves and an extension of the mine life in late 2009 at Kumtor leading to slower amortization of assets depreciated on the unit of production method. On a per unit basis, depreciation, depletion and amortization for the second quarter of 2010 was \$134 per ounce sold compared to \$223 per ounce sold in the same quarter of 2009.

## **Accretion and Reclamation Expense**

Accretion and reclamation expense of \$0.6 million in the second quarter of 2010 compares to \$0.7 million in the same quarter of 2009.

## **Exploration**

Exploration costs in the second quarter of 2010 increased to \$6.9 million from \$4.1 million in the same quarter of 2009 mainly reflecting increased drilling activity at Kumtor, Gatsuurt, Ulaan Bulag and the Company's joint venture projects.

## **Capital Expenditures**

Capital expenditures spent and accrued of \$54.7 million in the second quarter of 2010 included \$12.9 million of sustaining capital and \$41.8 million invested in growth capital related mainly to the SB Zone underground development at Kumtor (\$8.5 million), the expansion of the mobile fleet at Kumtor (\$17.8 million) and spending at the Gatsuurt project on mine development and road construction (\$11.9 million). Capital expenditures in the comparative quarter of 2009 totalled \$17.7 million, consisting of \$11.1 million of sustaining capital and \$6.6 million of growth capital.

## **Corporate Administration**

Corporate administration costs for the second quarter of 2010 were \$6.6 million compared to \$7.7 million in the same quarter of 2009. The decrease is primarily due to the impact on share-based compensation of a 12% decrease in the share price in the second quarter 2010 (the share price increased by 18% in the same period of 2009).

## **Revenue-based Tax - Kumtor**

Revenue-based taxes are payable to the Kyrgyz Government under the Restated Investment Agreement at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue to the Issyk-Kul Oblast Development Fund. Revenue-based tax totalled \$15.4 million in the second quarter of 2010. The new revenue-based tax took effect from April 30, 2009 and for the months of May and June 2009 totalled \$5.3 million: the increase in the 2010 quarter reflects one additional month of charges and higher sales.

## **Income Tax Expense**

The Company recorded an income tax expense of \$6.1 million during the three month period ended June 30, 2010 compared to \$0.1 million for the same period of 2009.

### ***Boroo***

The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (about \$2.2 million as at the balance sheet date), and 10% for income up to that amount.

During the three month period ended June 30, 2010, Boroo recorded an income tax expense of \$6.1 million (\$0.1 million for the three month ended June 30, 2009). The lower income tax provision in the comparative quarter of 2009 reflects the lower earnings primarily due to the impact of the strike and shutdown, as well as the tax impact of USD/Mongolian tugrik currency movements. While the impact of currency movements on tax expense in 2010 has been limited, the 2009 comparative period witnessed a significant weakening of the Mongolian Tugrik in the first quarter, followed by the strengthening in the second quarter which required the recording of a tax recovery of \$2.4 million in the second quarter of 2009.

### ***Kumtor***

Effective April 30, 2009 Kumtor became subject to a new tax regime pursuant to which income taxes and other taxes were replaced by taxes computed by reference to Kumtor's revenue. As a result of the Restated Investment Agreement no income tax expense was recorded by Kumtor in the second quarter 2010, or the comparable quarter in 2009.

## **Unusual Items**

The total amount of unusual items expensed in the second quarter 2009 was \$49.3 million, resulting from the Agreement on New Terms (the "Agreement") reached with the Kyrgyz Republic (the "Government").

The unusual items amount reflects the settlement by the Company, as prescribed by the Agreement, which included the issuance of common shares to the Government, the settlement of legal claims, a tax settlement going back to January 1, 2008 and various legal and related costs incurred by the Company.

## **Net Earnings**

Net earnings for the second quarter of 2010 was \$29.8 million, or \$0.13 per share, compared to a loss after unusual items of \$79.6 million or \$0.36 per share for the same period in 2009, reflecting higher realized prices, higher sales volumes, lower operating costs and the impact of unusual items in 2009.

## **Cash Flow**

Cash provided by operations was \$76.5 million for the second quarter of 2010 compared to a use of cash in the same quarter of 2009 of \$17.3 million, primarily reflecting increased earnings as a result of higher gold prices and higher volumes as well as the positive impact of reduced working capital levels.

Cash used in investing activities in the second quarter of 2010 was \$39.7 million reflecting an advance on the purchase of capital equipment of \$5.2 million and capital additions of \$57.1 million, reduced by \$22.6 million from short term investments which matured in the quarter. Capital

additions include \$12.9 million spent on sustaining capital projects and \$44.2 million invested on growth projects. Expenditures on growth projects were mainly for Kumtor's SB Zone underground development (\$8.5 million), the expansion of the truck fleet to address the ice and waste haulage at Kumtor (\$17.8 million) and mine development work at the Gatsuurt project (\$11.9 million) while sustaining capital was \$11.2 million at Kumtor and \$1.7 million at Boroo.

## **Six-Month Period Ended June 30, 2010 Compared with the Six-Month Period Ended June 30, 2009**

### **Gold Production and Revenue**

Revenue for the first six months of 2010 increased by \$205 million, or 101%, to \$407.7 million compared to \$202.8 million in revenue in the same period of 2009 due primarily to higher production levels and an increase in the average spot price of gold. Gold production of 332,767 ounces in the six months of 2010 was higher than the 213,663 ounces reported in the same period of 2009 mainly as a result of the increased production at Kumtor due to higher grades and increased recoveries. Boroo recorded lower production in 2010 due to the idling of the heap leach process resulting from lower grades and the expiry of the temporary heap leach operating permit which was effective from May 1, 2009. The average realized gold price for the first six months of 2010 was \$1,143 per ounce compared to \$906 per ounce in the same period of 2009 reflecting higher spot prices for gold. See "Mine Operations – Kumtor" and "Mine Operations – Boroo".

### **Cost of Sales**

Cost of sales in the first half of 2010 was \$120.3 million, compared to \$151.2 million in the same period of 2009. The reduction year over year is primarily due to the impact at Kumtor of lower operating costs in the first half 2010 which lowered unit costs produced and also from the selling of lower cost ounces which were in process at the end of December 2009. High grades and recoveries in the fourth quarter of 2009 resulted in a high production of gold, some of which remained in inventory at the end of the year (see the "Consolidated Financial Statements" June 30, 2010 Note 3 - Inventory). Since the Company's operating cost to produce these ounces is the same in periods of high grade as it is in periods of lower grade, the unit cost of gold produced in high grade periods is lower (more ounces, same cost). These lower cost ounces coming from the inventory at the end of 2009 were sold in the first half of 2010 thereby helping to lower the cost of sales for the period. The impact of the agreement signed with the Kyrgyz government which removed production-based taxes from cost of sales beginning April 30, 2009 also had a positive effect in the year over year comparison (\$8.7 million of production taxes were charged against cost of sales in the first half of 2009).

The Company's total cash cost per ounce produced for the six months ended June 30, 2010 was \$441, down from \$740 in the same period in 2009. This decrease is primarily due to the increased production levels in 2010. Excluding the costs incurred during the shutdown at Boroo in 2009, total cash cost per ounce produced for the first six months of 2009 would be \$725.

### **Revenue-based Tax - Kumtor**

Revenue-based tax totaled \$46.6 million in the first half of 2010. The new revenue-based tax took effect from April 30, 2009 and for the months of May and June 2009 totalled \$5.3 million.

## **Income Tax Expense**

The Company recorded an income tax expense of \$6.9 million during the six month period ended June 30, 2010 compared to \$11.3 million for the same period of 2009.

As a result of the agreement signed with the Kyrgyz government in 2009, Kumtor ceased being liable for income tax: in the first six months of 2009, Kumtor recorded an income tax recovery of \$2.9 million (nil in the same period of 2010). Boroo recorded a tax expense of \$6.9 million in the first six months of 2010 compared to \$14.1 million in the same period of 2009. While the impact of currency movements on tax expense in 2010 has been limited, the significant weakening of the Mongolian Tugrik in the first quarter of 2009, followed by the strengthening in the second quarter of 2009 is the material contributing factor to the variance in Boroo's tax expense when compared to 2009.

## **Net Earnings and Unusual Items**

Net earnings in the first six months of 2010 was \$151.9 million, or \$0.65 per share, compared to a net loss of \$99.9 million, or \$0.46 per share, for the same period in 2009. The increase primarily reflects higher sales and production, a reduction to cost of sales and the impact of unusual items in 2009.

The total amount of unusual items expensed in regards to the signing and settlement of the Restated Investment Agreement with the Kyrgyz government was \$49.3 million which was recorded in the second quarter 2009 (see disclosures in the second quarter 2009 MD&A).

## **Capital Expenditures**

Capital expenditures spent and accrued of \$83.8 million in the first half of 2010 included \$17.8 million of sustaining capital and \$64.0 million invested in growth capital related mainly to the SB Zone underground development at Kumtor (\$17.4 million), the expansion of the mobile fleet at Kumtor (\$25.5 million) and spending at the Gatsuurt project on mine development and road construction (\$17.3 million). Capital expenditures in the comparative period of 2009 totalled \$40.0 million, consisting of \$28.1 million of sustaining capital and \$11.9 million of growth capital.

## **Cash Flow**

Cash flow provided by operations for the first six months of 2010 was \$158.8 million compared to a use of cash of \$6.4 million in the same period of 2009 reflecting higher net earnings in 2010 and \$22.4 million of tax settlement and pre-tax payments made by Kumtor in June 2009 under the Restated Investment Agreement. Cash used in investing activities totaled \$98.0 million in the six months of 2010 compared to \$24.6 million used in investing activities in the prior year. Spending in 2010 includes \$78.2 million on capital projects (\$42.4 million in 2009) and an increase in short-term investments of \$14.7 million (2009 was partially offset by a reduction in short-term investments of \$17.8 million). The spending on capital projects relates mainly to the underground project at Kumtor and development work at Gatsuurt.

## **Asset Retirement Obligations**

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

The Company has estimated the net present value of the total asset retirement obligations to be \$30.3 million as at June 30, 2010 (December 31, 2009 - \$29.7 million). These payments are expected to be made over the 2010 to 2017 period. The Company used weighted average credit risk-adjusted rates of 6.99% at Kumtor and 8% at Boroo to calculate the present value of the asset retirement obligations.

## **Share capital and share options**

As of July 29, 2010, Centerra had 235,145,969 shares issued and outstanding. In addition, at the same date, the Company had 1,527,414 share options outstanding under its share option plan with exercise prices between Cdn\$4.68 and Cdn\$14.29 per share, and with expiry dates between 2013 and 2017.

The shares outstanding include the issuance on June 11, 2009 of 18,232,615 common shares of Centerra as contemplated by the restated investment agreement for the Kumtor project. These shares were issued from treasury on June 11, 2009, at the closing share price of \$6.62 (Cdn. \$7.30) to Kyrgyzaltyn. As a result, the Company recorded an addition to share capital of \$120.7 million in June 2009.

## **Gold hedges**

The Company had no gold hedges in place in the second quarter of 2010 and no deferred charges were recognized.

## Credit and Liquidity

As at June 30, 2010, the Company has no outstanding loans.

The Company has entered into contracts to purchase capital equipment and operational supplies totalling \$115.3 million as at June 30, 2010 (Kumtor \$112.1 million, Boroo \$0.7 million and Centerra Gold Mongolia LLC, a subsidiary of Centerra, \$2.4 million). The Kumtor commitment is primarily for the purchase of mobile equipment for future expansion, including 22 CAT 789 haul trucks, totalling approximately \$75 million. These contracts are expected to be settled over the next twelve months.

Cash and cash equivalents and short-term investments were \$399.8 million at the end of the second quarter of 2010, compared to cash and cash equivalents and short-term investments of \$322.9 million at December 31, 2009. The Company believes it has sufficient cash to carry out its operational business plan for 2010.

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price based on the London PM fix was approximately \$1,244 per ounce on June 30, 2010. For the second quarter of 2010, the gold price averaged \$1,197 per ounce compared to \$922 per ounce for the same period in 2009. The average gold price for the first six months of 2010 was \$1,152 per ounce compared to \$915 per ounce for the same period in 2009. The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia. Countries in which the Company explores include Turkey, Russia, China, the United States, the Kyrgyz Republic and Mongolia. Centerra's corporate head office is in Toronto, Canada. During the six-month period ending June 30, 2010, approximately \$147 million of operating and capital costs were incurred by Centerra in currencies other than the U.S. dollar out of a total of \$353 million in costs incurred. For the six-month period, the percentage of Centerra's non-U.S. dollar costs, by currency was, on average, as follows: 37% in Mongolian tugriks, 30% in Kyrgyz soms, 15% in Canadian dollars, 15% in euro, and 3% in other currencies. On average, from the December 31, 2009 currency rate, the Mongolian tugrik appreciated by 2.4% over the U.S. dollar, whilst the Kyrgyz som depreciated against the U.S. dollar by approximately 2.4%. The Canadian dollar appreciated by 1.7% whereas the euro depreciated by 8.1% against the U.S. dollar. The estimated impact of these movements over the six-month period to June 30, 2010 has been to reduce costs by approximately \$1.3 million, after accounting for the som, tugrik and Canadian dollars held at the beginning of the year.

For information on forward-looking information see "Caution Regarding Forward-Looking Information".

## Mine Operations

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

|   | Three Months Ended June 30 |        |          | Six Months Ended June 30 |         |          |
|---|----------------------------|--------|----------|--------------------------|---------|----------|
|   | 2010                       | 2009   | % Change | 2010                     | 2009    | % Change |
| <b>Kumtor Operating Results</b>                 |                            |        |          |                          |         |          |
| Revenue - \$ millions                           | 109.8                      | 74.3   | 48%      | 333.1                    | 131.6   | 153%     |
| Gold sold – ounces                              | 91,204                     | 82,294 | 11%      | 291,971                  | 144,490 | 102%     |
| Average realized gold price – \$/oz             | 1,204                      | 903    | 33%      | 1,141                    | 911     | 25%      |
| Cost of sales - \$ millions                     | 48.7                       | 70.7   | (31%)    | 95.7                     | 119.3   | (20%)    |
| Cost of sales - \$/oz sold                      | 533                        | 859    | (38%)    | 328                      | 826     | (60%)    |
| Tonnes mined - 000s                             | 28,654                     | 29,968 | (4%)     | 56,191                   | 58,608  | (4%)     |
| Tonnes ore mined – 000s                         | 791                        | 664    | 19%      | 2,179                    | 1,190   | 83%      |
| Tonnes milled - 000s                            | 1,434                      | 1,454  | (1%)     | 2,900                    | 2,820   | 3%       |
| Average mill head grade - g/t <sup>(1)</sup>    | 2.74                       | 2.60   | 5%       | 3.83                     | 2.27    | 69%      |
| Recovery - %                                    | 77.5                       | 66.0   | 17%      | 77.0                     | 68.0    | 13%      |
| Gold produced – ounces                          | 90,050                     | 81,467 | 11%      | 270,612                  | 144,488 | 87%      |
| Total cash cost - \$/oz <sup>(2)(3)</sup>       | 639                        | 723    | (12%)    | 416                      | 859     | (52%)    |
| Total production cost - \$/oz <sup>(2)(3)</sup> | 764                        | 890    | (14%)    | 515                      | 1,059   | (51%)    |
| Capital expenditures - \$ millions              | 39.5                       | 17.4   | 127%     | 62.9                     | 39.1    | 61%      |
| <b>Boroo Operating Results</b>                  |                            |        |          |                          |         |          |
| Revenue - \$ millions                           | 42.4                       | 30.0   | 41%      | 74.6                     | 71.2    | 5%       |
| Gold sold – ounces                              | 35,593                     | 33,014 | 8%       | 64,665                   | 79,410  | (19%)    |
| Average realized gold price - \$/oz             | 1,191                      | 910    | 31%      | 1,153                    | 897     | 29%      |
| Cost of sales - \$ millions                     | 14.3                       | 11.3   | 27%      | 24.6                     | 31.9    | (23%)    |
| Cost of sales - \$/oz sold                      | 404.0                      | 339.0  | 19%      | 379.0                    | 401.0   | (5%)     |
| Total Tonnes mined - 000s                       | 2,969                      | 2,243  | 32%      | 6,062                    | 6,017   | 1%       |
| Tonnes mined heap leach – 000s                  | 577                        | 511    | 13%      | 1,355                    | 1,722   | (21%)    |
| Tonnes ore mined direct mill feed -000's        | 736                        | 445    | 65%      | 1,873                    | 1,066   | 76%      |
| Tonnes ore milled - 000s                        | 615                        | 397    | 55%      | 1,238                    | 1,018   | 22%      |
| Average mill head grade - g/t <sup>(1)</sup>    | 2.05                       | 2.48   | (17%)    | 1.98                     | 2.40    | (18%)    |
| Recovery - %                                    | 74.9                       | 68.7   | 9%       | 73.9                     | 66.9    | 10%      |
| Gold produced – ounces                          | 31,678                     | 28,990 | 9%       | 62,155                   | 69,173  | (10%)    |
| Total cash cost - \$/oz <sup>(2)(4)</sup>       | 549                        | 511    | 7%       | 550                      | 492     | 12%      |
| Total production cost - \$/oz <sup>(2)</sup>    | 744                        | 762    | (2%)     | 744                      | 723     | 3%       |
| Capital expenditures - \$ millions (Boroo)      | 3.2                        | 0.1    | 3100%    | 3.4                      | 0.4     | 750%     |
| Capital expenditures - \$ millions (Gatsuurt)   | 11.9                       | 0.2    | 5850%    | 17.3                     | 0.4     | 4225%    |

(1) g/t means grams of gold per tonne.

(2) Total cash cost and total production cost are non-GAAP Measures and are discussed under “Non-GAAP Measures”.

(3) As a result of Kumtor’s Restated Investment Agreement, total cash cost and total production cost per ounce measures for both years are shown excluding operating and revenue-based taxes.

(4) 2009 includes \$3.3 million of costs incurred during the strike and shutdown. Excluding these costs the second quarter and six months cash cost per ounce produced at Boroo would be \$396 and \$444, respectively.

## **Kumtor**

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced about 7.5 million ounces of gold. During the second quarter 2010, Kumtor experienced one lost-time accident and two class I environmental incidents.

During the quarter, the planned removal of ice and waste from the southeast section of the high wall in the SB Zone continued. The rate of movement of waste and ice from this area slowed during the first quarter of 2010 as a result of the offloading, as well as cold weather causing the material to freeze. The high movement area did begin to accelerate during the latter portion of the second quarter as expected. The offloading plan and the de-watering program during the year have significantly slowed the ice movement up to 40 % when comparing to the same time period last year. The mine operations department increased its focus on mining ice and the removal of waste in the central pit using dedicated unload zones and wider benches at the top of the Central Pit.

The SB Zone underground decline (Decline #1) has now advanced a total of 724 metres. During the quarter the decline advancement continued and drill and remuck bays were established and it is now expected that exploration drilling will commence in the latter part of the third quarter while delineation drilling of the SB Zone is planned to commence in the fourth quarter of 2010.

The Stockwork Zone underground decline (Decline #2) has advanced a total of 312 metres. Decline #2 will facilitate the access to the Stockwork Zone and the SB Zone for further exploration and delineation drilling. The second heading in decline #2 for the exploration and delineation drilling program for the Stockwork Zone has been established and is advancing toward the north. Drill bays will be established along the 400 metre access drift. Exploration and delineation drilling of the Stockwork Zone resource is expected to commence late in the third quarter of 2010 and continue into 2011.

## **Three-Month Period Ended June 30, 2010 Compared with the Three-Month Period Ended June 30, 2009**

### **Revenue and Gold Production**

Revenue in the second quarter of 2010 increased to \$109.8 million from \$74.3 million in the second quarter of 2009 primarily as a result of the higher sales volumes (91,204 ounces in the second quarter of 2010 compared to 82,293 ounces in the same period of 2009) and an increased average realized gold price. The average realized price in the second quarter 2010 was \$1,204 per ounce compared to \$903 per ounce in the same period of 2009.

Kumtor produced 90,050 ounces of gold in the second quarter of 2010 compared to 81,467 ounces of gold in the second quarter of 2009. The increase in production resulted from higher ore grades and recoveries. Actual mill head grade for the second quarter of 2010 was 2.74 g/t and a recovery of 77.5%, versus 2.60 g/t and a recovery of 66.0% for the same period in 2009. Tonnes processed remained consistent with the same period of 2009.

Total volume mined in the second quarter of 2010 was 28.7 million tonnes. This represents a shortfall of 1.3 million tonnes (4%) compared to the same period in 2009 primarily as a result of longer hauls. Cycle times have increased with the longer hauls and in order to improve shovel utilization and lower mining costs, some shovels have been idled. Near the end of the second

quarter, four of the seven new CAT 789 trucks were commissioned and contributed to increased daily mine production.

### **Cost of Sales**

Cost of sales at Kumtor in the second quarter 2010 were \$48.7 million compared to \$70.7 million in the same quarter of 2009. This is a reduction of \$22.0 million (31%) compared to the same quarter in 2009.

The primary reason for this reduction in the current quarter relates to the sale of lower cost ounces that were in process at the end of March 2010. The first quarter of 2010 saw significantly higher grades and recoveries than the comparable periods last year, contributing to lower operating cash costs per ounce in the first and second quarters of 2010 (73% and 12% better than the respective periods in 2009). In addition, lower cash operating costs in the second quarter 2010 (\$1.1 million), the elimination of production based taxes resulting from the restated investment agreement (\$3.2 million in 2009) and a second quarter 2009 charge to cost of sales for inventory revaluation (\$3.3 million) all contributed to the quarter over quarter improvement in cost of sales.

Operating cash costs at Kumtor decreased by \$1.1 million for the second quarter 2010 compared to the same quarter of 2009. This variance can be explained as follows:

Mining costs for the second quarter of 2010 were \$30.6 million. This is a reduction of \$1.9 million (6%) compared to the same quarter in 2009. This was due to lower maintenance materials and supplies costs (\$1.4 million) predominantly with the CAT 777 trucks and the CAT shovels, lower tire and undercarriage costs (\$0.9 million) and lower maintenance lubrication costs due to lower lube costs and usage per unit (\$0.7 million). This was partially offset by higher diesel costs (\$1.8 million) due to unfavorable price variances compared to the second quarter 2009 and higher camp catering costs (\$0.7 million).

Milling costs for the second quarter of 2010 were \$14.7 million. This is an additional \$1.4 million (10%) of expenditure when compared to the second quarter of 2009. This was primarily due to higher maintenance materials and supplies costs (\$1.7 million) predominantly a result of the scheduled mill maintenance shutdown as well as higher electricity costs (\$0.4 million). This was partially offset by lower grinding media costs due to both favorable pricing and reduced consumptions (\$0.6 million) and lower reagents cost (\$0.3 million).

Site administration costs for the second quarter of 2010 were \$8.8 million. This is an increase of \$0.2 million (2%) compared to the same quarter of 2009, mainly due to higher insurance costs.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented. On a unit cost basis, cost of sale per ounce sold for the second quarter 2010 decreased to \$533 per ounce compared to \$859 per ounce for the same period in 2009. This is mainly due to the increased sales volume in the quarter.

Total cash cost per ounce produced in the second quarter 2010 was \$639 per ounce compared to \$723 per ounce for the same period in 2009, mainly as a result of the higher production. Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

### **Kumtor Regional Administration**

Bishkek administration costs for the second quarter 2010 were \$3.3 million. This is an increase of \$0.2 million (6%) compared to the same quarter 2009.

### **Depreciation and Amortization**

Depreciation, depletion and amortization decreased by \$7.4 million over the same period in 2009. This was mainly due to an increase in mine ore reserves and an extension of the mine life in late 2009 leading to slower amortization of assets depreciated on the unit of production method. In addition, there was a decrease in depreciable capital additions in the second quarter of 2010 in comparison with the same period of 2009.

### **Revenue-Based Tax**

Revenue-based tax totaled \$15.4 million in the second quarter of 2010. The new revenue-based tax took effect from April 30, 2009 and for the months of May and June 2009 totalled \$5.3 million: the increase in the 2010 quarter reflects one additional month of charges and higher sales.

### **Exploration**

Exploration costs at Kumtor for the second quarter 2010 were \$2.7 million. This is an increase of \$0.4 million (19%) compared to the second quarter of 2009 mainly due to increased drilling activities.

### **Capital Expenditures**

Capital expenditures in the second quarter of 2010 were \$39.5 million compared to \$17.4 million in the same quarter of 2009. In 2010, this consisted of \$11.2 million of sustaining capital, predominantly spent on the heavy duty equipment overhaul program (\$4.7 million), replacement of 4 dozers (\$2.1 million), shear key buttress and tailings dam construction (\$2.0 million), the 2010 waste dump expansion (\$0.6 million) and other projects totaling (\$1.8 million). Growth capital investment totaled \$28.3 million spent mainly on CAT 789 haul truck purchases (\$17.8 million), underground development of the declines for the SB and Stockwork zones (\$8.5 million), camp expansion (\$0.8 million), purchase of a grader (\$0.7 million) and other smaller projects (\$0.5 million).

## **Six-Month Period Ended June 30, 2010 Compared with the Six-Month Period Ended June 30, 2009**

### **Revenue and Gold Production**

Revenue for the first six months of 2010 increased to \$333.1 million from \$131.6 million in same period of 2009 primarily as a result of higher sales volumes (291,971 ounces for the six months of 2010 compared to 144,490 ounces in the same period of 2009). Kumtor produced 270,612 ounces of gold for the six months of 2010 compared to 144,488 ounces of gold in the same period of 2009. The increase results primarily from higher ore grades, higher recovery and higher throughput. The ore grade averaged 3.83 g/t with a recovery of 77% for the six month period of 2010, compared to 2.27 g/t with a recovery of 68% in the same period of 2009.

The average realized gold price for the first six months of 2010 was \$1,141 per ounce compared to \$911 per ounce in the same period in 2009.

The higher average realized gold price per ounce for both the three and six month periods in 2010 was due to higher gold spot prices.

### **Cost of Sales**

Cost of sales at Kumtor for the first six months of 2010 was \$95.7 million compared to \$119.3 million in the same period of 2009. This is a reduction of \$23.6 million (20%) compared to the first six months of 2009 mainly as a result of lower unit costs.

The reduction for the first six months year over year is primarily due to the impact of the lower operating costs in the first half of 2010 and from the selling of lower cost ounces which were in process at the end of December 2009 resulting from a high production, low cost fourth quarter in 2009 which saw significantly higher grades and recoveries. The first six months of 2010 also benefited from the new agreement with the Kyrgyz which eliminated production taxes from cost of sales (\$8.7 million was charged in the first six months of 2009). The first half 2009 cost of sales was also charged with an additional \$6.7 million of production costs as a result of an inventory revaluation.

Operating cash costs at Kumtor decreased by \$11.1 million for the first six months of 2010 compared to the same period in 2009. This variance can be explained as follows:

Mining costs for the first six months of 2010 were \$60.7 million. This is a reduction in costs of \$11.5 million (16%) compared to the same period in 2009. This arose primarily due to lower maintenance materials and supplies costs (\$4.5 million), lower expenditures on CAT 777 and CAT 785 haul trucks (\$1.8 million), CAT 5130 shovels (\$1.4 million), track dozers (\$0.95 million). This is partially due to a more comprehensive overhaul program which has reduced break downs and unscheduled maintenance.

Other favorable variances are lower dewatering supplies costs (\$3.3 million), lower lubricants costs due to 25% lower usage as a result of a successful oil sampling program (\$1.3 million), lower tire costs (\$1.0 million) mainly due to significantly lower tire consumption for the period (192 tires compared to 296 tires), lower national premiums (\$0.97 million), equipment services (\$0.9 million), engineering and consulting costs (\$0.9 million) and lower blasting and explosives costs (\$0.7 million) which resulted mainly from a favorable price variance.

This was partially offset by unfavorable variances on camp cost allocations (\$1.3 million), maintenance (\$1.0 million) and diesel costs (\$0.8 million).

Milling costs for the first six months of 2010 were \$28.2 million. This is an additional \$2.4 million (9%) when compared to the same period in 2009. This was primarily due to higher maintenance materials and supplies costs (\$1.6 million) which included additional liner costs of \$0.5 million and higher electricity costs (\$1.0 million). Other unfavorable variances include higher reagents cost (\$0.8 million) predominantly a result of higher consumption rates and prices for sodium cyanide. This was partially offset by a favorable price variance for grinding media (\$1.1 million)

Site administration costs for the first six months of 2010 were \$16.6 million. This is a reduction of \$2.7 million (14%) when compared to the same period 2009 primarily as a result of allocating camp catering costs to other departments (\$2.8 million).

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented. On a unit cost basis, cost of sales per ounce sold for the first six months of 2010 decreased to \$328 per ounce compared to \$826 per ounce for the same period in 2009. This was mainly due to higher sales volumes and the decrease in cash operating costs.

Total cash cost per ounce produced in the first six months of 2010 was \$416 compared to \$859 per ounce for the same period in 2009, predominantly due to higher production which contributed to the significant reduction and to lower production costs. Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

### **Kumtor Regional Administration**

Bishkek Administration costs for the first six months of 2010 were \$6.6 million, \$0.4 million or 6% lower than the same period 2009.

### **Depreciation and Amortization**

Depreciation, depletion and amortization decreased by \$4.3 million over the same period of 2009 mainly due to an extension to the life of mine in late 2009 leading to slower amortization of assets depreciated on the units of production method. In addition, there was a decrease in depreciable capital additions in the first half of 2010 in comparison with the same period of 2009. This was partially offset by higher mine and mill production in the first half of 2010 leading to an increase in depreciation for mining and milling assets depreciated on a unit of production basis.

### **Revenue-based Tax - Kumtor**

Revenue-based tax totaled \$46.6 million in the first half of 2010. The new revenue-based tax took effect from April 30, 2009 and for the first half of 2009 totalled \$5.3 million.

### **Exploration**

Exploration costs for the first six months of 2010 were \$4.6 million, \$1.0 million or 18% lower than the same period 2009. The variance reflects reduced drilling activity in the first six months of 2010 which resulted in lower costs mainly for contractor labour services (\$0.5 million) and materials and supplies (\$0.4 million).

## **Capital Expenditures**

Capital expenditures for the first six months of 2010 were \$62.9 million compared to \$39.1 million in the same period of 2009. This consisted of \$17.8 million of sustaining capital, predominately spent on the heavy duty equipment overhaul program (\$8.8 million). Other sustaining capital expenditures included the replacement of 4 dozers (\$2.8 million), shear key buttress and tailings dam construction (\$2.2 million), the 2010 waste dump expansion (\$1.4 million) and other projects totaling (\$2.6 million). Growth capital investment totaled \$45.1 million spent mainly on the purchase of CAT 789 haul trucks (\$25.5 million), expenditures on the underground development (\$14.9 million), the purchase of capital equipment for the underground (\$2.5 million), camp expansion (\$0.8 million), purchase of a grader (\$0.7 million) and other smaller projects (\$0.6 million).

## **Boroo and Gatsuurt**

The Boroo open pit mine, located in Mongolia, was the first hard rock gold mine in Mongolia. To date it has produced approximately 1.4 million ounces of gold since beginning of operation in 2004. During the first quarter of 2010, there were four level I environmental incidents (non-reportable).

During the quarter the road to the Gatsuurt deposit was completed.

## **Three-Month Period Ended June 30, 2010 Compared with the Three-Month Period Ended June 30, 2009**

### **Revenue and Gold Production**

Revenue in the second quarter of 2010 increased to \$42.4 million from \$30.0 million in the second quarter of 2009 primarily as a result of 8% higher ounces sold (35,593 in the second quarter of 2010, compared to 33,014 ounces sold in the same period of 2009) and an increase in the realized gold price. Boroo produced 31,678 ounces of gold in the second quarter of 2010 compared to 28,990 ounces of gold in the second quarter of 2009. The milling operation experienced increased recovery which was partially offset by lower ore grades. The heap leach operation remained idle during the second quarter 2010 awaiting issuance of the final operating permit from the Mongolian government. In the comparative 2009 quarter, heap leach production was 9,370 ounces. The milling ore grade averaged 2.05 g/t with a recovery of 74.9% in the second quarter of 2010, compared to 2.48 g/t with a recovery of 68.7% in the same quarter of 2009. Recovery was improved by the feed ratio that contained a less refractory ore in the second quarter 2010 compared to the same quarter in 2009.

The average realized gold price per ounce in the second quarter of 2010 was \$1,191 compared to \$910 in the same period of 2009.

Heap leach operations at Boroo remain under care and maintenance. The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit. See "Other Corporate Developments- Mongolia".

### **Cost of Sales**

Cost of sales increased in the second quarter of 2010 to \$14.3 million compared to \$11.3 million in same period of 2009. The increase results primarily from higher operating costs and higher royalties incurred of roughly \$3.4 million.

Operating cash costs at Boroo increased by \$3.2 million compared to the same period in 2009. This increase reflects the reduced production and costs in 2009 as a result of the strike and shutdown which occurred from the end of May and throughout June 2009. Although the strike was settled at the beginning of June, the suspension was only resolved July 27, 2009.

The year over year operating cost variance can be explained as follows:

Mining costs for the second quarter 2010 were \$5.5 million, \$1.7 million or 44% higher than the same quarter in 2009. This primarily results from higher diesel and blasting costs. Diesel unit cost increased to \$0.86 per liter in the second quarter of 2010 compared to \$0.69 per liter in the same period of 2009 which increased costs by \$0.3 million. Diesel and blasting materials variance

amounted to \$0.5 million and \$0.3 million respectively, which is primarily a result of the suspension of mining operation in the second quarter of 2009. Additionally, higher maintenance costs of \$0.5 million were incurred in the second quarter 2010 compared to the same period in 2009, primarily as a result of the ageing fleet.

Milling costs for the second quarter 2010 were \$5.4 million, \$1.3 million or 32% higher than the same quarter in 2009. This primarily results from higher costs for electricity, reagents and grinding media. Electricity unit costs increased to \$0.056 per kilowatt hour in the second quarter of 2010 compared to \$0.047 per kilowatt hour in the same period of 2009, which resulted in a cost increase of \$0.2 million. Consumption levels in the second quarter 2010 were higher primarily as a result of the suspension of operations in the comparative quarter of 2009. The increase in consumption of electricity, reagents and grinding media amounted to approximately \$0.7 million of additional costs. Additionally, higher maintenance related costs of \$0.4 million were incurred in the second quarter 2010 compared to the same period in 2009, largely because of more maintenance work being performed at the grinding mill and crusher.

Costs associated with heap leaching activities were \$0.6 million or 59% lower than the same period in 2009 as a result of the expiry of the temporary operating permit for the heap leach operation in April 2009. No further cyanide has been added to the heap leach pad since that date.

Site administration costs for the second quarter 2010 were \$2.0 million, \$0.1 million or 8% higher than the same quarter in 2009.

Royalties increased by \$0.9 million, primarily due to higher sales revenue achieved for the second quarter of 2010 compared to the same period in 2009.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented. On a unit cost basis, cost of sales per ounce sold for the second quarter of 2010 increased to \$404 compared to \$339 for the same period in 2009 mainly as a result of higher operating costs.

Total cash cost per ounce produced in the second quarter 2010 was \$549 compared to \$511 per ounce for the same period in 2009. The increase in the unit cash cost of \$38 per ounce results from increased costs noted above (\$81/ounce) partially offset by an increase in ounces produced (\$43/ounce). Total cash cost per ounce produced is a non-GAAP measure and is discussed under "Non-GAAP Measures".

### **Mine Standby Costs**

Fixed costs totalling \$3.3 million were classified as standby costs during the second quarter of 2009 due to the suspension of the Company's main operating licenses by the Mongolian authorities.

## **Boroo Regional Administration**

Regional administration costs for the second quarter 2010 were \$1.7 million, \$0.6 million or 26% lower than the same quarter in 2009. This is mainly due to \$0.5 million less social development funding and donations in the second quarter 2010.

## **Depreciation and Amortization**

Depreciation, depletion and amortization in the second quarter 2010 totaled \$5.5 million, a decrease of \$1.2 million or 18% as compared to the same period in 2009. This was mainly due to an increase in mine ore reserves and an extension of the mine life in late 2009 leading to slower amortization of assets depreciated on the unit of production method in the second quarter of 2010. In addition the second quarter 2010 included lower amortization of pit 3 pre-stripping costs than the comparative quarter of 2009.

## **Exploration**

Exploration expenditures in Mongolia increased to \$1.5 million in the second quarter of 2010 from \$0.5 million in the same period of 2009. This is primarily due to additional drilling activities performed at Gatsuurt and other projects in the country.

## **Capital Expenditures**

Capital expenditures spent and accrued at Boroo in the second quarter of 2010 increased to \$3.2 million (\$0.1 million in the same period of 2009) which included \$1.6 million of sustaining capital mainly for heavy equipment component change-outs required for the ageing fleet. Growth capital totalled \$1.6 million which was incurred to lift the main tailings dam wall to accommodate future production including Gatsuurt oxide ores. At Gatsuurt, \$11.9 million was spent and accrued in the second quarter 2010 for building the road and mine development, of which \$2.3 million was spent for future delivery of haul trucks, as compared to the same quarter in 2009 where \$0.2 million was spent and accrued.

## **Six-Month Period Ended June 30, 2010 Compared with the Six-Month Period Ended June 30, 2009**

### **Revenue and Gold Production**

Revenue in the first six months of 2010 increased to \$74.6 million from \$71.2 million in the same period of 2009 primarily as a result of higher average realized gold price per ounce of \$1,153 in the first half of 2010 compared to \$897 in the same period of 2009.

The impact of the higher average realized gold price per ounce on revenue was partially offset by fewer ounces sold (64,665 in the first six months 2010, compared to 79,410 ounces sold in the same period of 2009). Boroo produced 62,155 ounces of gold in the first six months of 2010 compared to 69,173 ounces of gold in the same period of 2009. During the first half of 2010, the milling operation achieved increased recovery which was partially offset by lower ore grades. The ore grade averaged 1.98 g/t with a recovery of 73.9% in the first six months of 2010, compared to 2.40 g/t with a recovery of 66.9% in the same period of 2009. Recovery was improved by the feed ratio that contained a less refractory ore in the first six months of 2010 compared to the same period in 2009. The heap leach operation remained idle in the first six months of 2010, pending issuance of the final permitting by the Mongolian government authorities. In the first six months of 2009, heap leach production totalled 18,663 ounces.

The Company continues to work with the Mongolian authorities to obtain the final heap leach operating permit. See “Other Corporate Developments- Mongolia”.

### **Cost of Sales**

Cost of sales decreased in the first six months of 2010 to \$24.6 million compared to \$31.9 million in same period of 2009. The decrease results primarily from the lower ounces sold in the first six months of 2010 (\$ million) partially offset by higher operating costs and royalties.

Operating cash costs at Boroo increased by \$0.7 million over the first six months of 2009. This increase can be explained as follows:

Mining costs for the first six months of 2010 were \$11.2 million, \$1.7 million or 18% higher than the same period in 2009. This primarily results from increased diesel costs at an average of \$0.84 per liter in the first half of 2010 compared to \$0.69 per liter in the same period of 2009 (\$0.5 million) and higher consumption (\$0.6 million) resulting from the increased distances as mining progresses deeper in pit 3. Additionally, higher maintenance costs of \$0.8 million was incurred in the first half of 2010 compared to the same period in 2009, primarily as a result of the ageing fleet.

Milling costs for the first six months of 2010 were \$10.5 million, \$1.0 million or 11% higher than the same quarter in 2009. This is primarily a result of the higher electricity costs incurred. Electricity unit cost increased to \$0.055 per kilowatt hour per liter in the first six months of 2010 compared to \$0.047 per kilowatt hour in the same period of 2009 resulting in an increase in cost of \$0.3 million. In addition, consumption of electricity in the mill in the 2010 period was higher mainly due to the production shutdown in the comparative year (\$0.3 million). Maintenance costs increased by \$0.4 million compared to the same period in 2009 due to increased maintenance performed at the mill crusher, grinding and decant line.

Costs for heap leaching activities were \$2.5 million lower than the same period in 2009 due to the expiry of the temporary operating permit for the heap leach operation effective May 1, 2009.

Site administration costs for the first six months of 2010 were \$4.0 million, \$0.1 million or 4% higher than the same quarter in 2009.

Royalties increased by \$0.2 million, primarily due to higher sales revenue achieved for the first six months of 2010 compared to the same period in 2009.

The ultimate impact of these cost changes on the reported results for cost of sales is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented. On a unit cost basis, cost of sales per ounce sold decreased to \$379 in the first six months of 2010 compared to \$401 in the same period of 2009, mainly reflecting higher inventory balance movement in the first six months of 2010 compared to the same period in 2009.

Total cash cost per ounce produced in the first six months of 2010 was \$550 compared to \$492 per ounce for the same period in 2009. The increase in the unit cash cost of \$58 per ounce results from the lower ounce production, mainly from the lower grades (\$56/ounce) and increased operating costs noted above (\$2/ounce). Total cash cost per ounce produced is a non-GAAP measure and is discussed under “Non-GAAP Measures”.

### **Mine Standby Costs**

Standby costs at the Boroo mine during the first half of 2009 totalled \$3.3 million as a result of the operation's suspension due to a labour dispute and a temporary suspension of the main mining license by the Mongolian authorities. Although the main operating license was re-instated on July 27, 2009, the heap leach operation continues to be on care and maintenance pending issuance of final permits.

### **Boroo Regional Administration**

Regional administration costs in the first six months of 2010 were \$3.3 million, \$0.5 million or 14% lower than the same period in 2009. This is mainly due to lower spending in the 2010 period on social development projects and donations.

### **Depreciation, Depletion and Amortization**

Depreciation, depletion and amortization in the first six months of 2010 totaled \$9.9 million, a decrease of \$4.6 million or 32% as compared to the same period in 2009. This was mainly due to an increase in mine ore reserves and an extension of the mine life in late 2009 leading to slower amortization of assets depreciated on the unit of production method in the first half of 2010. In addition the first half of 2010 included lower amortization of pit 3 pre-stripping costs than the first half of 2009.

### **Exploration**

Exploration expenditures in Mongolia increased to \$2.7 million in the first six months of 2010 from \$0.8 million in the same period of 2009. This is primarily due to additional drilling activities performed at Gatsuurt, Ulaan Bulag and Tsagaan Ovoo projects.

### **Capital Expenditures**

Capital expenditures spent and accrued at Boroo in the first six months of 2010 increased to \$3.4 million (\$0.4 million in the same period of 2009) which included \$1.8 million of sustaining capital mainly for heavy equipment component change-outs required for the ageing fleet. Growth capital at Boroo totalled \$1.6 million which was incurred in the second quarter to lift the main tailings dam wall to accommodate future production including Gatsuurt oxide ores. At Gatsuurt, \$17.3 million was spent and accrued in the first half of 2010 on road building and mine development.

## Other Financial Information – Related Party Transactions Kyrgyzaltyn and the Government of the Kyrgyz Republic

Effective June 11, 2009, revenues from the Kumtor mine are subject to a management fee of \$1.00 per ounce (inclusive of taxes) based on sales volumes (previously \$1.50 per ounce), payable to Kyrgyzaltyn JSC (“Kyrgyzaltyn”), which holds approximately 33% of the outstanding common shares of Centerra.

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

| (\$ thousands)                                      | Three months ended<br>June 30 |        | Six months ended<br>June 30 |         |
|---|-------------------------------|--------|-----------------------------|---------|
|   | 2010                          | 2009   | 2010                        | 2009    |
| Management fees paid by KGC to Kyrgyzaltyn          | 91                            | 116    | 292                         | 209     |
| Concession payments paid by KGC to Kyrgyz Republic  | -                             | (365)  | -                           | (116)   |
| Total   | 91                            | (249)  | 292                         | 93      |
| Gross gold and silver sales from KGC to Kyrgyzaltyn | 110,193                       | 74,689 | 334,405                     | 132,297 |
| Deduct: refinery and financing charges              | (417)                         | (391)  | (1,298)                     | (729)   |
| Net sales revenue received by KGC from Kyrgyzaltyn  | 109,776                       | 74,298 | 333,107                     | 131,568 |

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to a Gold and Silver Sales Agreement that was amended and restated effective June 6, 2009. Under this amended and restated agreement Kyrgyzaltyn is required to pay for gold within 12 calendar days of shipment from the Kumtor mill at a price that is fixed based on the London PM fixed price of gold on the London Bullion Market. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn, the value of which fluctuates with the market price.

As at June 30, 2010, the Company had a receivable of \$16.3 million from Kyrgyzaltyn (December 31, 2009 - \$37.9 million).

### Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra’s results reflect the positive impact of rising gold prices, increased gold production at Kumtor, partially offset by rising cash costs. In 2009, production at Kumtor was impacted by the unplanned mining of ice and the removal of waste in the vicinity of the central pit. Unusual items of \$49.3 million were recorded in the second quarter of 2009 as a result of the ratification of the revised taxation arrangements with the Kyrgyz Republic.

| \$ millions, except per share data                                 | 2010 |      | 2009 |      |        |        | 2008 |      |
|--|------|------|------|------|--------|--------|------|------|
|  | Q2   | Q1   | Q4   | Q3   | Q2     | Q1     | Q4   | Q3   |
| Revenue  | 152  | 255  | 324  | 159  | 104    | 98     | 241  | 139  |
| Earnings (loss) before unusual items                               | 30   | 122  | 140  | 20   | (30)   | (20)   | 43   | 17   |
| Net earnings (loss)  | 30   | 122  | 140  | 20   | (80)   | (20)   | 43   | 17   |
| Earnings (loss) per share before unusual items (basic and diluted) | 0.13 | 0.52 | 0.60 | 0.09 | (0.14) | (0.09) | 0.20 | 0.08 |
| Earnings (loss) per share (basic and diluted)                      | 0.13 | 0.52 | 0.60 | 0.09 | (0.36) | (0.09) | 0.20 | 0.08 |

## **Other Corporate Developments**

### **Kyrgyz Republic**

In early April 2010, civil unrest in the Kyrgyz Republic resulted in the ousting of President Kurmanbek Bakiyev and the formation of an interim government by opposition groups. In June further serious unrest occurred in southern Kyrgyzstan. Operations at the Kumtor mine were not affected by these events. A national referendum sponsored by the interim Government was held on June 27, 2010 to approve a new constitution and the appointment of Mrs. Roza Otunbayeva as President of the Kyrgyz Republic for a transition period until December 31, 2011. The referendum proposals received wide support in the Kyrgyz Republic. Following the referendum Mrs. Otunbayeva was inaugurated as President and a new cabinet council or transitional Government was formed. It is expected that this transitional Government will operate until Parliamentary elections are held and a new Government formed. The Government has indicated that these Parliamentary elections will take place in October 2010. While the political and civil conditions appear to have stabilized, the political situation in the Kyrgyz Republic continues to evolve and there can be no assurances that future political developments will not have an adverse impact on the Company's assets or operations.

Pursuant to a restated shareholders agreement dated as of June 6, 2009 between Kyrgyzaltyn and Centerra, so long as Kyrgyzaltyn and its affiliates continue to hold 10% or more of Centerra's outstanding shares, Centerra has agreed to include in Centerra's proposed slate of directors to be nominated for election at each annual or special meeting at which directors are to be elected, two board nominees designated by Kyrgyzaltyn, at least one of whom must be independent of the Kyrgyz Government, within the meaning of applicable securities laws in Canada. Should Kyrgyzaltyn and its affiliates own less than 10% but more than 5% of Centerra's outstanding shares, Centerra has agreed to include in the slate of directors one nominee of Kyrgyzaltyn who shall not be required to be independent. Kyrgyzaltyn currently owns approximately 33% of Centerra's outstanding shares and accordingly is entitled to two board nominees. As a result of the recent events in the Kyrgyz Republic, there was a delay in Kyrgyzaltyn communicating to Centerra's board the identity of its nominees. Kyrgyzaltyn has recently informed Centerra of its two proposed nominees and therefore the board of directors of Centerra expects to add those nominees to the board shortly.

## **Mongolia**

### ***Mongolian Regulatory Matters***

The regulatory conditions in Mongolia have not changed substantially since Centerra's first quarter report. The following discussion summarizes the current status of Mongolian regulatory matters affecting Centerra.

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 Mongolian General Department of Specialized Inspection ("SSIA"). While the suspension was lifted on July 27, 2009, several issues arising from the inspection continue to be discussed by Centerra and the Mongolian regulatory authorities. On October 23, 2009, Centerra received a very significant claim for compensation from the SSIA in respect of certain mineral reserves, including state alluvial reserves covered by the Boroo mine licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Centerra disputes the claim. While Centerra cannot give assurances, it believes settlement will be concluded through negotiation and will not result in a material impact. In addition, the SSIA inspections raised a concern about the production and sale of gold from the Boroo heap leach facility. The heap leach facility was operated under a temporary permit from June 2008 until the expiry of the temporary permit in April 2009 and Boroo Gold Company Ltd. ("BGC") paid all relevant royalties and taxes with respect to gold produced from the heap leach facility during that period. BGC believes that it had all necessary permits to carry out its heap leach activities and that any regulatory concerns are unfounded. BGC is continuing its effort to obtain a final permit for the operation of its heap leach facility at the Boroo mine.

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 has held discussions with the Ministry of Finance regarding such concerns and has received no further notice from the Ministry of Finance with respect to the possible termination of the Boroo Stability Agreement. While the Company believes that the issues raised by the Ministry of Finance and the SSIA will be resolved through negotiations without a material impact on the Company, there can be no assurance that this will be the case.

### ***Mongolian Legislation***

The legislative conditions in Mongolia have not changed substantially since Centerra's first quarter report. The following discussion summarizes the current status of certain Mongolian legislation that may affect Centerra, including its Gatsuurt project and other Mongolian mineral licenses.

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 (the "Water and Forest Law"). The Company understands that, prior to the revocation of any licenses, 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 exempt. In March 2010, the Company received a letter from MRAM stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the Water and Forest Law. The letter requested that the Company submit an estimate of expenses incurred in relation to each license and the compensation that it would expect to receive if such licenses were to be revoked. The Company has provided a detailed estimate to MRAM for all potentially affected licenses. The Company has submitted a draft Investment Agreement for the Gatsuurt Project to the Ministry of Mineral Resources and Energy ("MMRE"). In April 2010, the Company received a letter from the MMRE indicating that the Gatsuurt licenses are within the area designated on a preliminary basis where minerals mining is prohibited under the Water and Forest Law. The letter also stated that the MMRE will communicate with the Company regarding the investment agreement when the MMRE has more clarity on the impact of the law. 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. While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, there is a risk that further approvals or commissioning of the project could be delayed as a result of the Water and Forest Law.

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 US\$850 an ounce, with the repeal to take effect on January 1, 2011.

## **Other**

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 ("Homestake"), a subsidiary of Barrick Gold Corporation, waiving its pre-emptive right to acquire Centerra U.S.'s interest. On April 8, 2010, Homestake elected to exercise its pre-emptive right to acquire Centerra Gold U.S. Inc.'s 64% interest in the REN joint venture for \$35.2 million. As a result of Homestake's election to purchase the Centerra U.S. interest, Rye Patch's agreement terminated. On July 2, 2010, the Company closed the sale of its REN interest to Homestake for cash proceeds of \$35.2 million. In connection with the termination of the Rye Patch agreement, Centerra U.S. paid Rye Patch a break fee of \$0.25 million.

In the third quarter 2010, the Company will record a gain on sale for the value of the proceeds received, less any related expenses, including the break fee to Rye Patch.

As at June 30, 2010, the net book value of the REN property was nil (December 31, 2009- Nil) because all exploration activities on the property were expensed as incurred.

For information on forward-looking information see "Caution Regarding Forward-looking Information".

## Critical Accounting Estimates

Centerra prepares its consolidated financial statements in accordance with Canadian GAAP. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies as described in note 3 to the December 31, 2009 Consolidated Financial Statements management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

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

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

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

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

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

The Company uses the asset and liability method of accounting for future income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the

tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under our stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model, while for the cash-settled stock-based compensation, fair value is determined based on the market value of the Company's common shares at the reporting date. In addition, option valuation models require the input of certain assumptions including expected share price volatility.

### **Changes in Accounting Policies**

There were no new accounting policies adopted during the three months and six months ended June 30, 2010.

### ***New Pronouncements***

The Canadian Institute of Chartered Accountants issued three accounting standards in January 2009 which take effect January 1, 2011: 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 the International Financial Reporting Standards ("IFRS") 3 - *Business Combinations*. The section applies prospectively to business combinations 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. Section 1601 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 anticipate that the adoption of these standards will impact its financial results.

## **Status of Centerra's Transition to International Financial Reporting Standards ("IFRS")**

As previously disclosed, the IFRS project is now in its final phase, the implementation phase. During the first quarter 2010, the Company initiated work to quantify its opening balance sheet as of January 1, 2010 under IFRS, applying the IFRS1 elections/exemptions and accounting policies it selected during the development work performed in 2009. During the second quarter 2010, the IFRS opening balance sheet was presented to the Company's Audit Committee of the Board. The Company plans to release the quantified impact from the opening balance sheet in the Company's third quarter MD&A after the completion of the review by the Company's Audit Committee.

During the second quarter 2010, the Company commenced work on the conversion of its first quarter 2010 financial statements to IFRS standards. The converted financial statements have been discussed with the Company's Audit Committee. The Company is working with its auditors during the conversion process.

Full auditor attestation of the 2010 converted IFRS statements will be provided at the conclusion of the annual audit of the 2010 financial statements which is scheduled to be completed during the first quarter of 2011.

The release of the quantified impact in the third quarter will be dependent on and subject to any further standards development and additional guidance as issued by the International Accounting Standards Board ("IASB") and the Canadian Accounting Standards Boards ("ASB") as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the extent, timing, nature or disclosure of the Company's adoption of IFRS.

Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes in elections or accounting policies and could also result in the transition plan being different from those communicated.

In the second quarter 2010, the Company completed the modification of its consolidation and financial reporting systems. With the completion, the Company is now capable of dual processing and reporting of its financial information under current Canadian and IFRS standards.

The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.

A review of complete, annual IFRS-compliant financial statement notes disclosures is scheduled with the Company's Audit Committee of the Board during the fourth quarter of 2010.

The Company continues to monitor the project's progress and the potential impact on internal controls. At this point in the project, the Company does not anticipate any significant impact on internal controls.

Centerra is monitoring the impact of the IFRS conversion on various functional activities of the Company. Training of the IFRS requirements with all management levels concerned including Directors and other related parties are continuing. IFRS training program requirements for other stakeholders of the Company are being assessed.

## **Outlook for 2010**

### **2010 Production**

Centerra's 2010 consolidated gold production is forecast to be in the 640,000 to 700,000 ounce range, which is unchanged from the prior guidance disclosed in the Company's news release of April 28, 2010.

Gold production for the full year 2010 at the Kumtor mine in the Kyrgyz Republic is forecast to be between 530,000 to 570,000 ounces, which is unchanged from prior guidance. While it is expected that the higher than anticipated production realized at Kumtor in the first and second quarters may be partially offset by lower production in the third quarter of 2010. The Company continues to expect that during the fourth quarter Kumtor will produce approximately 40% of its 2010 production.

At Boroo/Gatsuurt, gold production is forecast to be 110,000 to 130,000 ounces, which is unchanged from prior guidance.

While the Company believes it has met all the regulatory pre-conditions for the issuance of the final heap leach operating permit, its issuance continues to be delayed. Due to these continued delays in obtaining the final permit, the Company has removed any heap leach production from this year's production guidance. If the final operating permit is received, resumption of heap leach operations at Boroo would add approximately 3,000 to 4,000 ounces per month to production.

Additionally, the current production guidance does not include any gold production from Gatsuurt. While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, there is a risk that further approvals or commissioning of the project could be delayed as a result of the Water and Forest Law, see "Other Corporate Developments, Mongolian Legislation".

Due to the potential for delays in receiving the required approvals for the Gatsuurt project, Boroo has initiated an alternative plan that is expected to allow the Boroo operation to achieve the production within the forecasted range of ounces produced. The processing of remaining mine ores by the Boroo mill, in conjunction with, the processing of stockpiled lower grade ores will allow the operation to meet its production guidance. The mining of refractory ores from Pit 3 and Pit 6 will provide mill feed in the fourth quarter of 2010 and into first quarter of 2011. Mill recoveries of this material, though low, allow the ores to be mined and processed and remain profitable.

These production estimates are based on certain assumptions. See "Material Assumptions" below.

### **2010 Total Cash Cost per Ounce**

Total cash cost in 2010 is expected to be between \$460 and \$505 per ounce produced, which is unchanged from the prior guidance of April 28, 2010. Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measures" in the Management's Discussion and Analysis issued in conjunction with this news release.

Total cash cost for 2010 for Kumtor is expected to be in the range of \$430 to \$460 per ounce produced, which is unchanged from the prior guidance.

Boroo total cash cost for 2010 reflects no production from both the heap leach operation and Gatsuurt and is expected to be \$590 to \$690 per ounce produced, which is unchanged from the prior guidance.

Centerra's production and unit costs are forecast as follows:

|              | <b>2010 Production Forecast</b><br>(ounces of gold) | <b>2010 Total Cash Cost<sup>(1)</sup></b><br>(\$ per ounce produced) |
|--------------|---|--|
| Kumtor       | 530,000 – 570,000                                   | 430 – 460  |
| Boroo        | 110,000 – 130,000                                   | 590 – 690  |
| Consolidated | 640,000 – 700,000                                   | 460 – 505  |

(2) Total cash cost is a non-GAAP measure. See “Non-GAAP Measures” in the Management's Discussion and Analysis issued in conjunction with this news release.

These cost estimates are based on certain assumptions. See “Material Assumptions” below.

### **2010 Exploration Expenditures**

Exploration expenditures of \$30 million are planned for 2010, and the exploration plan is unchanged from the prior guidance. Generative programs will continue in Central Asia, Russia, China, Turkey and the U.S. to increase the pipeline of projects that are being developed to meet the longer term growth targets of Centerra.

### **2010 Capital Expenditures**

The capital expenditures for 2010 are estimated to be \$241.1 million, including \$48.9 million of sustaining capital and \$192.2 million of growth capital. This represents a decrease of \$4.1 million from prior guidance primarily due to the timing of expenditures in growth capital at Gatsuurt.

Capital expenditures include:

| <b>Projects</b>           | <b>2010 Growth Capital</b><br>(millions of dollars) | <b>2010 Sustaining Capital</b><br>(millions of dollars) |
|---------------------------|---|---|
| Kumtor mine               | \$153.1   | \$43.6  |
| Boroo mine                | \$0.5   | \$4.9   |
| Gatsuurt project          | \$38.6  | 0   |
| Other                     | 0   | \$0.4   |
| <b>Consolidated Total</b> | <b>\$192.2</b>                                      | <b>\$48.9</b>   |

### **Kumtor Capital**

At Kumtor, the largest growth capital expenditure will be for the North Wall Expansion project, estimated at \$92.7 million primarily for purchases of mining and auxiliary support equipment to renew and expand the mining fleet. The equipment has been ordered and is expected to be delivered in the fourth quarter of 2010 and the first quarter of 2011. To increase haulage capacity to manage the ice/waste movement in the high movement area, Kumtor is acquiring seven new CAT 789 haul trucks for a total cost of \$19.8 million. As of the June 30, 2010, Kumtor had received five and commissioned four out of the seven trucks. It is expected that the remaining two trucks will be delivered in the third and fourth quarters of 2010. The underground growth capital for developing the SB Zone and Stockwork Zone, as well as for delineation drilling and capital purchases, is estimated to be \$38.4 million in 2010.

### **Boroo & Gatsuurt Capital**

At Boroo, 2010 sustaining capital expenditures are expected to be \$4.9 million, primarily for the purchase of new ball and SAG mill gears (\$2.1 million) and mobile equipment component change-outs (\$1.9 million). These expenditures are based on operational needs and also assume the receipt of the required approvals for Gatsuurt.

At Gatsuurt, expected 2010 growth capital spending is forecasted at \$38.6 million down from \$42.0 million in the prior guidance. Pre-stripping of the sulphide ores initially planned to be carried out in 2010 for \$9.2 million have now been partially deferred with only \$2.9 million of the total being spent in 2010 as a result of the decision to delay the construction of the Boroo bio-oxidation facility for processing Gatsuurt and other sulphide ores. The previous estimate of the engineering costs of the Boroo bio-oxidation facility of \$5.0 million has been increased to \$8.0 million.

The Company has implemented a phased approach to the development of the Gatsuurt orebody consisting of an oxide project component followed by a sulphide project component. The Company expects that the capital for the development of the deeper sulphide ores at Gatsuurt will be invested following successful commissioning of the Gatsuurt oxide project and after the Company signs an acceptable investment agreement for Gatsuurt with the Government of Mongolia. Drilling results at Gatsuurt have identified additional oxide mineralization which is likely to extend the oxide operating life for the mine, further delaying the requirement for capital investment in the bio-oxidation plant. Other growth capital spending at Gatsuurt includes completion of the Gatsuurt site infrastructure including the haul road between Gatsuurt and Boroo (\$9.6 million), purchase of haul trucks to be used for hauling of ore from the Gatsuurt site to the Boroo mill (\$5.3 million), and the expansion of the existing Boroo tailings facility to contain Gatsuurt oxide and sulphide tailings (\$4.8 million).

## Administration

Annual estimated corporate and administration expenses remains at \$41 million.

*Production, cost and capital forecasts for 2010 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed under the heading "Material Assumptions" and "Cautionary Note Regarding Forward-looking Information".*

## Sensitivities

Centerra's revenues, earnings and cash flows for the remaining six months of 2010 are sensitive to changes in certain variables and the Company has estimated their impact on revenues, net earnings and cash from operations.

|                            | Change    | Impact on<br>(\$ millions) |          |           |                               |
|----------------------------|-----------|----------------------------|----------|-----------|-------------------------------|
|                            |           | Costs                      | Revenues | Cash flow | Earnings before<br>income tax |
| Gold Price                 | \$50/oz   | 2.9                        | 17.4     | 14.5      | 15.2                          |
| Diesel Fuel <sup>(1)</sup> | 10%       | 3.6                        | -        | 3.6       | 3.6                           |
| Kyrgyz som                 | 1 som     | 1.0                        | -        | 1.0       | 1.0                           |
| Mongolian tugrik           | 25 tugrik | 0.2                        | -        | 0.2       | 0.2                           |
| Canadian dollar            | 10 cents  | 1.6                        | -        | 1.6       | 1.6                           |

(1) 10% change in diesel fuel price equals \$10/oz.

## Material Assumptions

Material assumptions or factors used to forecast production and costs include the following:

- a gold price of \$1,100 per ounce,
- exchange rates:
  - \$1USD:\$1.02 CAD
  - \$1USD:45.50 Kyrgyz Som
  - \$1USD:1,380 Mongolian Tugrik
  - \$1USD:0.78 Euro
- diesel fuel price assumption:
  - \$0.74/litre at Kumtor\*
  - \$0.84/litre at Boroo

\*The assumed diesel price of \$0.74/litre at Kumtor includes a customs export duty imposed by the Russian authorities on the diesel fuel exported to the Kyrgyz Republic. Russia imposed a customs duty of \$193.50 per tonne on gasoline and diesel fuel exports to the Kyrgyz Republic that went into effect on April 1, 2010. The Company estimates that the introduction of this new export duty will increase operating costs at Kumtor by approximately \$7 million.

Diesel fuel is sourced from separate Russian suppliers for both sites and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately \$76 per barrel.

Other important assumptions on which the Company's production, cost and capital guidance is based include the following:

- Political and civil unrest in the Kyrgyz Republic does not impact operations, including movement of supplies, gold shipments and people to the Kumtor mine,
- grades and recoveries at Kumtor will remain consistent with the life-of-mine plan to achieve the forecast gold production,
- the dewatering and depressurization programs at Kumtor continue to produce the expected results and the water management system works as planned,
- the remedial plan to deal with the Kumtor waste and ice movement is successful, see "Kumtor Mine - Remedial Plan to Manage the High Movement Area" in the Company's December 7, 2009 news release,
- the equipment to execute the Company's remedial plan to manage the high movement area at Kumtor is delivered on time,
- no unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, labour, regulatory or political disputes, equipment breakdown or other developmental and operational risks,
- certain issues at Boroo raised by the General Department of Specialized Inspection ("SSIA") concerning state alluvial reserves, the production and sale of gold from the Boroo heap leach facility and other matters will be resolved through negotiation without material adverse impact on the Company, see "Mongolian Regulatory Matters",
- Boroo ore does not become more refractory in nature than anticipated, affecting mill recoveries,
- no further suspension of Boroo's operating licenses, and
- all necessary permits, licences and approvals are received in a timely manner.

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

## **Non-GAAP Measures**

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

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

Net earnings before unusual items is a non-GAAP measure. It has been included because certain investors use this information to assess how the Company would perform when items not considered to be usual in nature are excluded. This may enable investors to better understand year-over-year changes in income.

**Centerra Gold Inc.**
**TOTAL CASH COST & TOTAL PRODUCTION COST**
**RECONCILIATION (unaudited)**

(\$ millions, unless otherwise specified)

Centerra:

|   | Three months ended<br>June 30, |         | Six months ended<br>June 30, |          |
|---|--------------------------------|---------|------------------------------|----------|
|   | 2010                           | 2009    | 2010                         | 2009     |
| Cost of sales, as reported                          | \$ 63.0                        | \$ 82.0 | \$ 120.3                     | \$ 151.2 |
| Adjust for:   |                                |         |                              |          |
| Refining fees & by-product credits                  | 0.1                            | 0.1     | 0.1                          | 0.3      |
| Regional Office administration                      | 5.0                            | 5.8     | 9.9                          | 10.9     |
| Mining Standby Costs                                | -                              | 3.3     | -                            | 3.3      |
| Operating taxes excluded <sup>(1)</sup>             | -                              | (3.2)   | -                            | (8.7)    |
| Non-operating costs                                 | (0.1)                          | (3.9)   | 0.1                          | (5.9)    |
| Inventory movement                                  | 7.0                            | (10.4)  | 16.5                         | 7.0      |
| Total cash cost - 100%                              | \$ 75.0                        | \$ 73.7 | \$ 146.9                     | \$ 158.1 |
| Depreciation, Depletion, Amortization and Accretion | 17.4                           | 25.9    | 39.2                         | 47.8     |
| Inventory movement - non-cash                       | -                              | (5.0)   | (0.4)                        | (2.9)    |
| Total production cost - 100%                        | \$ 92.4                        | \$ 94.6 | \$ 185.7                     | \$ 203.0 |
| Ounces poured - 100% (000)                          | 121.8                          | 110.5   | 332.8                        | 213.7    |
| Total cash cost per ounce                           | \$ 616                         | \$ 667  | \$ 441                       | \$ 740   |
| Total production cost per ounce                     | \$ 758                         | \$ 856  | \$ 558                       | \$ 950   |

Kumtor:

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Cost of sales, as reported                          | \$ 48.7  | \$ 70.7  | \$ 95.7  | \$ 119.3 |
| Adjust for:   |          |          |          |          |
| Refining fees & by-product credits                  | -        | 0.1      | -        | 0.2      |
| Regional Office administration                      | 3.3      | 3.5      | 6.6      | 7.1      |
| Mining Standby Costs                                | -        | -        | -        | -        |
| Operating taxes excluded <sup>(1)</sup>             | -        | (3.2)    | -        | (8.7)    |
| Non-operating costs                                 | -        | (3.7)    | 0.3      | (5.7)    |
| Inventory movement                                  | 5.6      | (8.5)    | 10.0     | 11.9     |
| Total cash cost - 100%                              | \$ 57.6  | \$ 58.9  | \$ 112.6 | \$ 124.1 |
| Depreciation, Depletion, Amortization and Accretion | \$ 11.6  | \$ 18.7  | \$ 28.7  | \$ 32.6  |
| Inventory movement - non-cash                       | \$ (0.4) | \$ (5.1) | \$ (1.9) | \$ (3.7) |
| Total production cost - 100%                        | \$ 68.8  | \$ 72.5  | \$ 139.4 | \$ 153.0 |
| Ounces poured - 100% (000)                          | 90.1     | 81.5     | 270.6    | 144.5    |
| Total cash cost per ounce                           | \$ 639   | \$ 723   | \$ 416   | \$ 859   |
| Total production cost per ounce                     | \$ 764   | \$ 890   | \$ 515   | \$ 1,059 |

Boroo:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Cost of sales, as reported                          | \$ 14.3 | \$ 11.3 | \$ 24.6 | \$ 31.9 |
| Adjust for:   |         |         |         |         |
| Refining fees & by-product credits                  | 0.1     | -       | 0.1     | 0.1     |
| Regional Office administration                      | 1.7     | 2.3     | 3.3     | 3.8     |
| Mining Standby Costs                                | -       | 3.3     | -       | 3.3     |
| Operating taxes excluded <sup>(1)</sup>             | -       | -       | -       | -       |
| Non-operating costs                                 | (0.1)   | (0.2)   | (0.2)   | (0.2)   |
| Inventory movement                                  | 1.4     | (1.9)   | 6.5     | (4.9)   |
| Total cash cost - 100%                              | \$ 17.4 | \$ 14.8 | \$ 34.3 | \$ 34.0 |
| Depreciation, Depletion, Amortization and Accretion | 5.8     | 7.2     | 10.5    | 15.2    |
| Inventory movement - non-cash                       | 0.4     | 0.1     | 1.5     | 0.8     |
| Total production cost - 100%                        | \$ 23.6 | \$ 22.1 | \$ 46.3 | \$ 50.0 |
| Ounces poured - 100% (000)                          | 31.7    | 29.0    | 62.2    | 69.2    |
| Total cash cost per ounce                           | \$ 549  | \$ 511  | \$ 550  | \$ 492  |
| Total production cost per ounce                     | \$ 744  | \$ 762  | \$ 744  | \$ 723  |

(1) Kumtor's production taxes under the previous regime are removed in the comparative year since these were replaced with a revenue-based tax in April 2009 combining income and operating taxes from the previous regime.

## **Qualified Person**

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

## **Caution Regarding Forward-Looking Information**

This Management’s Discussion and Analysis and the documents referred to herein contain statements which are not statements of current or historical facts and are “forward-looking information” within the meaning of applicable Canadian securities laws. Such forward-looking information involves risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward looking information. Wherever possible, words such as “believe”, “expect”, “anticipate”, “contemplate”, “target”, “plan”, “intends”, “continue”, “budget”, “forecast”, “projections”, “estimate”, “may”, “will”, “schedule”, “potential”, “strategy” and other similar expressions have been used to identify forward looking information. These forward-looking statements relate to, among other things, Centerra’s expectations regarding future growth, results of operations (including, without limitation, future production and sales, and operating and capital expenditures), performance (both operational and financial), business and political environment and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities.

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

Factors that could cause actual results or events to differ materially from current expectations include, among other things: risks relating to the recent political and civil unrest in the Kyrgyz Republic, risks related to the creep of ice and waste movement into the Kumtor open-pit, the resolution of issues at the Boroo mine raised by the Mongolian SSIA concerning alluvial reserves and matters relating to the suspension of the Boroo licenses in June 2009, the potential impact of Mongolian legislation prohibiting mineral activity in water basins and forest areas on the Gatsuurt project, the threatened termination of the stability agreement with the Mongolian Government in relation to the Boroo mine, the receipt of a final permit to operate the heap leach operation at the Boroo mine, fluctuations in gold prices, replacement of mineral reserves, reduction in reserves related to geotechnical risks, ground movements, political risk, nationalization risk, changes in laws and regulations, political civil unrest, labour unrest, legal compliance costs, reserve and resource estimates, production estimates, exploration and development activities, competition, operational risks, environmental, health and safety risks, costs associated with reclamation and decommissioning, defects in title, seismic activity, cost and availability of labour, material and

supplies, increases in production and capital costs, permitting and construction to raise the tailings dam height and increase the capacity of the existing Kumtor tailing dam, the ability to renew and obtain licenses, permits and other rights, illegal mining, enforcement of legal rights, decommissioning and reclamation cost estimates, future financing and personnel and the receipt of all permitting and commissioning requirements for the Gatsurt mine. In addition, material assumptions used to forecast production and costs include those described above under the heading “Material Assumptions”. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended. See “Risk Factors” in the Company’s most recently filed Annual Information Form and Annual Management’s Discussion and Analysis available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

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

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this Management’s Discussion and Analysis. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward-looking information. Forward-looking information is as of July 29, 2010. Centerra assumes no obligation to update or revise forward-looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

**Centerra Gold Inc.**  
**Consolidated Financial Statements**  
**For the Second Quarter Ended June 30, 2010**  
**(Unaudited)**  
**(Expressed in United States Dollars)**

Centerra Gold Inc.  
Consolidated Balance Sheets  
(Expressed In Thousands of United States Dollars)

|   | June 30,<br>2010    | December 31,<br>2009 |
|---|---------------------|----------------------|
|   | (Unaudited)         |                      |
| <b>Assets</b>   |                     |                      |
| Current assets  |                     |                      |
| Cash and cash equivalents                             | \$ 239,180          | \$ 176,904           |
| Short-term investments                                | 160,667             | 145,971              |
| Amounts receivable                                    | 24,971              | 44,281               |
| Current portion of future income tax asset            | 1,016               | 1,555                |
| Inventories (note 3)                                  | 165,918             | 151,822              |
| Prepaid expenses                                      | 9,554               | 11,718               |
|   | <u>601,306</u>      | <u>532,251</u>       |
| Property, plant and equipment                         | 425,913             | 380,979              |
| Other assets  | 5,152               | -                    |
| Goodwill  | 129,705             | 129,705              |
| Long-term receivables and other                       | 7,546               | 6,554                |
| Long-term inventories (note 3)                        | 25,567              | 23,120               |
| Future income tax asset                               | -                   | 1,418                |
|   | <u>593,883</u>      | <u>541,776</u>       |
| <b>Total assets</b>                                   | <b>\$ 1,195,189</b> | <b>\$ 1,074,027</b>  |
| <b>Liabilities and Shareholders' Equity</b>           |                     |                      |
| Current liabilities                                   |                     |                      |
| Accounts payable and accrued liabilities              | \$ 44,146           | \$ 49,178            |
| Taxes payable   | 9,680               | 35,066               |
| Current portion of provision for reclamation (note 4) | 8,274               | 8,169                |
| Current portion of future income tax liability        | 4,415               | 7,662                |
|   | <u>66,515</u>       | <u>100,075</u>       |
| Provision for reclamation (note 4)                    | 22,043              | 21,533               |
| <b>Shareholders' equity (note 5)</b>                  |                     |                      |
| Share capital   | 648,137             | 646,081              |
| Contributed surplus                                   | 34,602              | 34,298               |
| Retained earnings                                     | 423,892             | 272,040              |
|   | <u>1,106,631</u>    | <u>952,419</u>       |
| <b>Total liabilities and shareholders' equity</b>     | <b>\$ 1,195,189</b> | <b>\$ 1,074,027</b>  |
| Commitments and contingencies (note 8)                |                     |                      |

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

Centerra Gold Inc.  
Consolidated Statements of Earnings and Comprehensive Income  
(Unaudited)  
(Expressed In Thousands of United States Dollars)

|   | Three Months Ended |                    | Six Months Ended  |                    |
|---|--------------------|--------------------|-------------------|--------------------|
|   | June 30,<br>2010   | June 30,<br>2009   | June 30,<br>2010  | June 30,<br>2009   |
| <b>Revenue from Gold Sales</b>  | <b>\$ 152,172</b>  | <b>\$ 104,345</b>  | <b>\$ 407,658</b> | <b>\$ 202,774</b>  |
| <b>Expenses</b>   |                    |                    |                   |                    |
| Cost of sales <sup>(1)</sup>  | 63,014             | 81,915             | 120,266           | 151,173            |
| Mine standby costs  | -                  | 3,343              | -                 | 3,343              |
| Regional office administration  | 4,973              | 5,787              | 9,917             | 10,862             |
| Depreciation, depletion and amortization                                  | 17,037             | 25,707             | 38,368            | 47,494             |
| Accretion and reclamation expense (note 4)                                | 551                | 713                | 1,105             | 1,288              |
| Revenue based taxes (note 6(a))   | 15,369             | 5,280              | 46,635            | 5,280              |
| Exploration and business development                                      | 7,135              | 4,333              | 12,656            | 10,026             |
| Other (income) and expenses   | 1,689              | (276)              | 2,403             | (112)              |
| Corporate administration  | 6,559              | 7,698              | 17,576            | 12,700             |
|   | <b>116,327</b>     | <b>134,500</b>     | <b>248,926</b>    | <b>242,054</b>     |
| <b>Earnings (loss) before unusual items and income taxes</b>              | <b>35,845</b>      | <b>(30,155)</b>    | <b>158,732</b>    | <b>(39,280)</b>    |
| Unusual items-Kyrgyz settlement   | -                  | (49,333)           | -                 | (49,333)           |
| <b>Earnings (loss) before income taxes</b>                                | <b>35,845</b>      | <b>(79,488)</b>    | <b>158,732</b>    | <b>(88,613)</b>    |
| Income tax expense (note 6 (b))   | 6,080              | 98                 | 6,880             | 11,259             |
| <b>Net earnings (loss) and comprehensive income (loss)</b>                | <b>\$ 29,765</b>   | <b>\$ (79,586)</b> | <b>\$ 151,852</b> | <b>\$ (99,872)</b> |
| <b>Basic and diluted net earnings (loss) per common share (note 5)</b>    | <b>\$ 0.13</b>     | <b>\$ (0.36)</b>   | <b>\$ 0.65</b>    | <b>\$ (0.46)</b>   |
| <sup>(1)</sup> Excludes depreciation, depletion and amortization expenses | 16,916             | 25,468             | 38,121            | 46,974             |

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

Centerra Gold Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)  
(Expressed In Thousands of United States Dollars)

|  | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | June 30,<br>2010   | June 30,<br>2009  | June 30,<br>2010  | June 30,<br>2009  |
| <b>Operating activities</b>                                    |                    |                   |                   |                   |
| Net earnings (loss)  | \$ 29,765          | \$ (79,586)       | \$ 151,852        | \$ (99,872)       |
| Items not involving cash:                                      |                    |                   |                   |                   |
| Depreciation, depletion and amortization                       | 17,037             | 25,707            | 38,368            | 47,494            |
| Accretion and reclamation expense                              | 551                | 713               | 1,105             | 1,288             |
| Loss on disposal of property plant and equipment               | 847                | 217               | 990               | 537               |
| Stock based compensation expense                               | 427                | 456               | 883               | 815               |
| Unusual items-Kyrgyz settlement                                | -                  | 31,616            | -                 | 31,616            |
| Future income tax (recovery) expense                           | 1,054              | (2,448)           | (1,291)           | 3,373             |
| Long-term inventory  | (898)              | (1,086)           | (2,447)           | (3,469)           |
| Other operating items  | (838)              | 504               | (1,521)           | (1,157)           |
|  | <u>47,945</u>      | <u>(23,907)</u>   | <u>187,939</u>    | <u>(19,375)</u>   |
| Decrease (increase) in working capital                         | 28,509             | 6,633             | (29,130)          | 12,940            |
| <b>Cash provided by operations</b>                             | <u>76,454</u>      | <u>(17,274)</u>   | <u>158,809</u>    | <u>(6,435)</u>    |
| <b>Investing activities</b>                                    |                    |                   |                   |                   |
| Additions to property, plant and equipment                     | (57,171)           | (18,706)          | (78,207)          | (42,426)          |
| Short-term investments (purchased) matured                     | 22,627             | -                 | (14,696)          | 17,781            |
| Proceeds from disposition of property, plant and equipment     | 2                  | -                 | 44                | 2                 |
| Advance for long-term assets                                   | (5,152)            | -                 | (5,152)           | -                 |
| <b>Cash used in investing</b>                                  | <u>(39,694)</u>    | <u>(18,706)</u>   | <u>(98,011)</u>   | <u>(24,643)</u>   |
| <b>Financing activities</b>                                    |                    |                   |                   |                   |
| Issuance of common shares for cash                             | 1,478              | 1,944             | 1,478             | 1,944             |
| <b>Cash provided by (used in) financing</b>                    | <u>1,478</u>       | <u>1,944</u>      | <u>1,478</u>      | <u>1,944</u>      |
| Increase in cash and cash equivalents during the period        | 38,238             | (34,036)          | 62,276            | (29,134)          |
| Cash and cash equivalents at beginning of the period           | 200,942            | 154,485           | 176,904           | 149,583           |
| <b>Cash and cash equivalents at end of the period</b>          | <u>\$ 239,180</u>  | <u>\$ 120,449</u> | <u>\$ 239,180</u> | <u>\$ 120,449</u> |
| <b>Supplemental disclosure with respect to cash flows</b>      |                    |                   |                   |                   |
| <b>Cash and cash equivalents consist of :</b>                  |                    |                   |                   |                   |
| Cash   | \$ 95,314          | \$ 41,194         | \$ 95,314         | \$ 41,194         |
| Cash equivalents   | 143,866            | 79,255            | 143,866           | 79,255            |
|  | <u>\$ 239,180</u>  | <u>\$ 120,449</u> | <u>\$ 239,180</u> | <u>\$ 120,449</u> |
| <b>Additions to property, plant and equipment</b>              |                    |                   |                   |                   |
| Capital expenditures during the period                         | \$ 54,670          | \$ 17,737         | \$ 83,824         | \$ 40,043         |
| Reduction (increase) to accruals included in additions to PP&E | 2,501              | 969               | (5,617)           | 2,383             |
| Additions to property, plant and equipment                     | <u>\$ 57,171</u>   | <u>\$ 18,706</u>  | <u>\$ 78,207</u>  | <u>\$ 42,426</u>  |

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

Centerra Gold Inc.  
Consolidated Statements of Shareholders' Equity  
(Unaudited)  
(Expressed In Thousands of United States Dollars)

|   | Number of<br>Common<br>Shares | Amount            | Contributed<br>Surplus | Retained<br>Earnings | Total            |
|---|-------------------------------|-------------------|------------------------|----------------------|------------------|
| <b>Balance at December 31, 2008</b>               | <b>216,318,188</b>            | <b>\$ 523,107</b> | <b>\$ 32,904</b>       | <b>\$ 211,727</b>    | <b>767,738</b>   |
| Common shares issued for Agreement on New Terms   | 18,232,615                    | 120,700           | -                      | -                    | 120,700          |
| Common shares issued on exercise of stock options | 306,425                       | 2,274             | (330)                  | -                    | 1,944            |
| Stock-based compensation expense                  | -                             | -                 | 814                    | -                    | 814              |
| Net loss for the period                           | -                             | -                 | -                      | (99,872)             | (99,872)         |
| <b>Balance at June 30, 2009</b>                   | <b>234,857,228</b>            | <b>\$ 646,081</b> | <b>\$ 33,388</b>       | <b>\$ 111,855</b>    | <b>791,325</b>   |
| <b>Balance at December 31, 2009</b>               | <b>234,857,228</b>            | <b>\$ 646,081</b> | <b>\$ 34,298</b>       | <b>\$ 272,040</b>    | <b>952,419</b>   |
| Common shares issued on exercise of stock options | 288,741                       | 2,056             | (579)                  | -                    | 1,477            |
| Stock-based compensation expense                  | -                             | -                 | 883                    | -                    | 883              |
| Net earnings for the period                       | -                             | -                 | -                      | 151,852              | 151,852          |
| <b>Balance at June 30, 2010</b>                   | <b>235,145,969</b>            | <b>\$ 648,137</b> | <b>\$ 34,602</b>       | <b>\$ 423,892</b>    | <b>1,106,631</b> |

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

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

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**1. Basis of Presentation**

These unaudited interim consolidated financial statements of Centerra Gold Inc. (“Centerra” or the “Company”) have been prepared by management in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP have been condensed or excluded. As a result, these unaudited interim consolidated financial statements do not contain all disclosures required to be included in the annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and notes thereto for the year ended December 31, 2009.

These financial statements have been prepared on the basis of 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 flow 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, interest rates, 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, 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.

As at June 30, 2010 and December 31, 2009, Centerra held a 100% interest in the Kumtor mine, the Boroo mine, and the Gatsuurt property.

**2. Significant Accounting Policies:**

These unaudited interim consolidated financial statements are prepared following accounting policies consistent with the Company's audited annual consolidated financial statements and notes thereto for the year ended December 31, 2009. There were no new accounting policies adopted during the three months and six months ended June 30, 2010.

**New Pronouncements**

The CICA issued three new accounting standards in January 2009 which take effect January 1, 2011: Section 1582, Business Combinations, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling interests*.

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

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**2. Significant Accounting Policies (continued):**

**New Pronouncements (continued)**

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 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. Section 1601 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 anticipate that the adoption of these standards will significantly impact its financial results.

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

**3. Inventories**

| (Thousands of US\$)                    | June 30,<br>2010  | December 31,<br>2009 |
|--|-------------------|----------------------|
| Stockpiles                             | \$ 59,200         | \$ 50,234            |
| Gold in-circuit                        | 19,553            | 5,045                |
| Heap leach in circuit                  | 3,152             | 4,908                |
| Gold doré                              | 3,633             | 8,818                |
|  | <b>85,538</b>     | 69,005               |
| Supplies                               | 105,947           | 105,937              |
|  | <b>191,485</b>    | 174,942              |
| Less: Long-term inventory (heap leach) | <b>(25,567)</b>   | (23,120)             |
|  | <b>\$ 165,918</b> | \$ 151,822           |

**4. Asset Retirement Obligations**

The following table reconciles the Company's discounted liability for asset retirement obligations. The discount rates used to discount the obligations to their present value are unchanged from the rates disclosed at the end of 2009.

| (Thousands of US\$)          | Three Months Ended |            | Six Months Ended |            |
|------------------------------|--------------------|------------|------------------|------------|
|                              | June 30/10         | June 30/09 | June 30/10       | June 30/09 |
| Balance, beginning of period | \$ 30,222          | \$ 31,243  | \$ 29,702        | \$ 32,780  |
| Liabilities settled          | (456)              | (457)      | (490)            | (595)      |
| Revisions in cost            | -                  | -          | -                | (1,974)    |
| Accretion expense            | 551                | 713        | 1,105            | 1,288      |
| Balance, end of period       | <b>30,317</b>      | 31,499     | <b>30,317</b>    | 31,499     |
| Less: current portion        | <b>(8,274)</b>     | (3,888)    | <b>(8,274)</b>   | (3,888)    |
|                              | <b>\$ 22,043</b>   | \$ 27,611  | <b>\$ 22,043</b> | \$ 27,611  |

During the first quarter ended March 31, 2009, the Company revised its previous closure costs based on an update performed in December 2008 at the Boroo mine site. As a result a decrease to the present value of the closure cost estimate of \$2.0 million at Boroo was recorded during the first quarter of 2009.

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

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**5. Shareholders' Equity**

**a. Earnings (Loss) Per Share**

The 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.

The 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. The number of additional shares for inclusion in diluted earnings per share is determined using the treasury stock method, whereby stock options, whose exercise price is less than the average market price of the Company's common shares, are assumed to be exercised and the proceeds plus the amount of fair value of the stock options not yet recognized in income as expense are used to purchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and warrants is included in the calculation of diluted earnings per share.

Potential common shares from the exercise of stock options 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.

| (Thousands of shares)  | <b>Three Months Ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>June 30/10</b>         | <b>June 30/09</b> |
| Basic weighted average number of common shares outstanding   | <b>234,992</b>            | 220,472           |
| Effect of stock options                                      | <b>575</b>                | -                 |
| Diluted weighted average number of common shares outstanding | <b>235,567</b>            | 220,472           |

| (Thousands of shares)  | <b>Six Months Ended</b> |                   |
|--|-------------------------|-------------------|
|  | <b>June 30/10</b>       | <b>June 30/09</b> |
| Basic weighted average number of common shares outstanding   | <b>234,926</b>          | 217,354           |
| Effect of stock options                                      | <b>586</b>              | -                 |
| Diluted weighted average number of common shares outstanding | <b>235,512</b>          | 217,354           |

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

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

**a. Earnings (Loss) Per Share (continued)**

| (Thousands of shares)   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30/10         | June 30/09 | June 30/10       | June 30/09 |
| <b>Anti-dilutive number of common share equivalents excluded <sup>(a)</sup></b> | <b>45</b>          | 1,852      | <b>50</b>        | 1,701      |

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

**b. Stock-Based Compensation**

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

| (Millions of US\$<br>except as indicated) | Number<br>outstanding<br>June 30/10 | Expense/(Income)   |            |                  |            | Liability  |           |
|---|-------------------------------------|--------------------|------------|------------------|------------|------------|-----------|
|   |                                     | Three months ended |            | Six months ended |            | June 30/10 | Dec 31/09 |
|   |                                     | June 30/10         | June 30/09 | June 30/10       | June 30/09 |            |           |
| (i) Centerra stock options                | 1,527,414                           | \$ 0.4             | \$ 0.5     | \$ 0.9           | \$ 0.8     | \$ -       | \$ -      |
| (ii) Centerra -PSU <sup>(1)</sup>         | 1,519,132                           | 0.7                | 0.8        | 4.6              | 1.0        | 9.7        | 6.2       |
| (iii) Centerra annual-PSU                 | 163,386                             | 0.5                | 1.4        | 1.5              | 1.9        | 1.1        | 6.3       |
| (iv) Deferred share units                 | 397,075                             | (0.6)              | 0.4        | 0.7              | 0.4        | 4.4        | 3.8       |
| (v) Cameco stock options                  | -                                   | -                  | 0.4        | -                | 0.4        | -          | 1.3       |
|   |                                     | \$ 1.0             | \$ 3.5     | \$ 7.7           | \$ 4.5     | \$ 15.2    | \$ 17.6   |

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

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

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

**b. Stock-Based Compensation (continued)**

Movements in the number of options and units year-to-date are summarized as follows:

|                            | Number<br>outstanding<br>Dec 31/09 | Issued  | Exercised | Expired/<br>Forfeited<br>(1) | Number<br>outstanding<br>June 30/10 | Number<br>Vested<br>June 30/10 |
|----------------------------|------------------------------------|---------|-----------|------------------------------|-------------------------------------|--------------------------------|
| (i) Centerra stock options | 1,816,155                          | -       | (288,741) | -                            | 1,527,414                           | 901,670                        |
| (ii) Centerra -PSU         | 1,201,677                          | 529,328 | (99,434)  | (112,439)                    | 1,519,132                           | -                              |
| (iii) Centerra annual- PSU | 420,870                            | 174,559 | (421,739) | (10,304)                     | 163,386                             | 81,693                         |
| (iv) Deferred share units  | 375,216                            | 33,772  | (11,913)  | -                            | 397,075                             | 397,075                        |

<sup>(1)</sup> 112,439 units from the Centerra PSU 2007 series expired.

The terms of Centerra's performance share unit plan for the regularly issued series in 2010 (282,171 units issued) were modified from the standard terms described in the December 31, 2009 audited annual consolidated financial statements and notes thereto as follows:

Vesting - 50% of the units granted in any particular year vest on December 31 of the second year, and the remaining 50% vest on December 31 of the third year.

Multiplier - maximum adjustment factor by which granted units are multiplied increased from 1.5 to 2.0

The units issued during the first quarter of 2010 under Centerra's PSU plan also include 246,021 "special" performance share units. Distinguishing these "special" units from the regularly issued PSU series is the fact that the "special" units vest one third at the end of each year of their three year term and carry a multiplier factor of 1.0.

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

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**6. Taxes**

**a. Revenue Based Taxes**

Revenue based taxes are payable to the Kyrgyz government under the Restated Investment Agreement between the Company and the Kyrgyz government which received the approval of the Kyrgyz Parliament on April 30, 2009. Under the tax provisions of this agreement, which has retroactive effect to January 1, 2008, taxes are payable monthly at a rate of 13% of gross revenue. In addition, effective from January 1, 2009, a contribution is made monthly to the Issyk-Kul Oblast Development Fund in the amount of 1% of gross revenue. In determining the revenue based tax for 2008 and 2009, full credit was received for taxes paid with respect to those years under the prior tax regime. Separate presentation of the revenue-based taxes has been made in the financial statements starting in the second quarter of 2009.

During the three months and six months ended June 30, 2010, the revenue based tax expensed by Kumtor was \$15.4 million and \$46.6 million respectively (\$5.3 million for both the three months and six months ended June 30, 2009, recognizing the credits granted for taxes paid under the prior regime).

**b. Corporate Income Taxes**

The Company recorded income tax expense of \$6.1 million and \$6.9 million for the three months and six months ended June 30, 2010 (\$0.1 million and \$11.3 million for the three and six months ended June 30, 2009).

**Boroo**

The income tax rate for Boroo is 25% of taxable income in excess of 3 billion Tugriks (approximately \$2.2 million as at the balance sheet date), and 10% for income up to that amount.

During the three months and six months ended June 30, 2010, Boroo recorded income tax expense of \$6.1 million and \$6.9 million respectively (\$0.1 million and \$14.1 million for the three months and six months ended June 30, 2009).

**Kumtor**

On April 30, 2009 Kumtor became subject to a tax regime pursuant to which income taxes, and other taxes, were replaced by taxes computed by reference to Kumtor's revenue (as discussed in 6(a) above). As a result, the income tax provision for Kumtor for the three months and six months ended June 30, 2010 is Nil. During the three months and six months ended June 30, 2009, Kumtor was subjected to 10% income tax rate computed on earnings and 2% of net income as a contribution to Issyk-Kul Social Fund. As a result of the subjection to income tax and contribution to Issyk-Kul Social Fund, Kumtor recorded Nil and recovery of tax of Nil and \$2.9 million for the three months and six months ended June 30, 2009.

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

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**7. 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 (“Homestake”), a subsidiary of Barrick Gold Corporation, waiving its pre-emptive right to acquire Centerra U.S.’s interest. On April 8, 2010 Homestake elected to exercise its pre-emptive right to acquire Centerra U.S.’s 64% interest in the REN joint venture for \$35.2 million. As a result of Homestake’s election to purchase the Centerra U.S. interest, the agreement between Rye Patch and Centerra U.S. was terminated.

Subsequent to the reporting period ended June 30, 2010, the sale of Centerra U.S.’s interest in the REN project to Homestake for cash proceeds of \$35.2 million was completed on July 2, 2010. In the third quarter 2010, the Company will record a gain on sale for the value of the proceeds received, less any related expenses, including a break fee paid by Centerra U.S. to Rye Patch of \$0.25 million.

As at June 30, 2010 the net book value of REN’s property is nil (December 31, 2009- Nil) since all exploration activities on the property were expensed as incurred.

**8. Commitments and Contingencies**

**Commitments**

As at June 30, 2010, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$115.3 million (Kumtor \$112.1 million, Boroo \$0.7 million and Centerra Gold Mongolia LLC, a subsidiary of Centerra, \$2.4 million). These are expected to be settled over the next twelve months.

**Contingencies - Mongolia**

***Mongolian Regulatory Matters***

The regulatory conditions in Mongolia have not changed substantially since Centerra’s first quarter report. The following discussion summarizes the current status of Mongolian regulatory matters affecting Centerra.

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 Mongolian General Department of Specialized Inspection (“SSIA”).

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

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

**Contingencies – Mongolia (continued)**

While the suspension was lifted on July 27, 2009, several issues arising from the inspection continue to be discussed by Centerra and the Mongolian regulatory authorities.

On October 23, 2009, Centerra received a very significant claim for compensation from the SSIA in respect of certain mineral reserves, including state alluvial reserves covered by the Boroo mine licenses, that are recorded in the Mongolian state reserves registry, but for which there are no or incomplete records or reports of mining activity. Centerra disputes the claim. While Centerra cannot give assurances, it believes settlement will be concluded through negotiation and will not result in a material impact. In addition, the SSIA inspections raised a concern about the production and sale of gold from the Boroo heap leach facility. The heap leach facility was operated under a temporary permit from June 2008 until the expiry of the temporary permit in April 2009 and Boroo Gold Company Ltd. (“BGC”) paid all relevant royalties and taxes with respect to gold produced from the heap leach facility during that period. BGC believes that it had all necessary permits to carry out its heap leach activities and that any regulatory concerns are unfounded. BGC is continuing its effort to obtain a final permit for the operation of its heap leach facility at the Boroo mine.

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 has held discussions with the Ministry of Finance regarding such concerns and has received no further notice from the Ministry of Finance with respect to the possible termination of the Boroo Stability Agreement. While the Company believes that the issues raised by the Ministry of Finance and the SSIA will be resolved through negotiations without a material impact on the Company, there can be no assurance that this will be the case.

***Mongolian Legislation***

The legislative conditions in Mongolia have not changed substantially since Centerra’s first quarter report. The following discussion summarizes the current status of certain Mongolian legislation that may affect Centerra, including its Gatsuurt project and other Mongolian mineral licenses.

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 (the “Water and Forest Law”).

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

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

**Contingencies – Mongolia (continued)**

The Company understands that, prior to the revocation of any licenses, 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 exempt. In March 2010, the Company received a letter from MRAM stating that certain of its mining and exploration licenses, including the Gatsuurt mining licenses, could be revoked under the Water and Forest Law. The letter requested that the Company submit an estimate of expenses incurred in relation to each license and the compensation that it would expect to receive if such licenses were to be revoked. The Company has provided a detailed estimate to MRAM for all potentially affected licenses. The Company has submitted a draft Investment Agreement for the Gatsuurt Project to the Ministry of Mineral Resources and Energy (“MMRE”). In April 2010, the Company received a letter from the MMRE indicating that the Gatsuurt licenses are within the area designated on a preliminary basis where minerals mining is prohibited under the Water and Forest Law. The letter also stated that the MMRE will communicate with the Company regarding the investment agreement when the MMRE has more clarity on the impact of the law. 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. While the Company has continued to receive permits and approvals in connection with the road construction to Gatsuurt and for construction of surface facilities at the project, there is a risk that further approvals or commissioning of the project could be delayed as a result of the Water and Forest Law.

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 US\$850 an ounce, with the repeal to take effect on January 1, 2011.

**Centerra Gold Inc.**  
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**9. Related Party Transactions**

**Kyrgyzaltyn and the Government of the Kyrgyz Republic**

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

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

| (Thousands of US\$)                         | Three Months Ended |            |
|---|--------------------|------------|
|   | June 30/10         | June 30/09 |
| Management fees to Kyrgyzaltyn              | \$ 91              | \$ 116     |
| Concession payments to the Kyrgyz Republic  | -                  | (365)      |
|   | \$ 91              | \$ (249)   |
| Gross gold and silver sales to Kyrgyzaltyn  | \$ 110,193         | \$ 74,689  |
| Deduct: refinery and financing charges      | (417)              | (391)      |
| Net sales revenue received from Kyrgyzaltyn | \$ 109,776         | \$ 74,298  |

| (Thousands of US\$)                         | Six Months Ended |            |
|---|------------------|------------|
|   | June 30/10       | June 30/09 |
| Management fees to Kyrgyzaltyn              | \$ 292           | \$ 209     |
| Concession payments to the Kyrgyz Republic  | -                | (116)      |
|   | \$ 292           | \$ 93      |
| Gross gold and silver sales to Kyrgyzaltyn  | \$ 334,405       | \$ 132,297 |
| Deduct: refinery and financing charges      | (1,298)          | (729)      |
| Net sales revenue received from Kyrgyzaltyn | \$ 333,107       | \$ 131,568 |

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to Gold and Silver Sale Agreement that was amended and restated, effective June 6, 2009, 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.

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**9. Related Party Transactions (continued)**

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

Pursuant to the amended and restated Gold and Silver Sales Agreement, 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 June 30, 2010, \$16.3 million was outstanding under these arrangements (December 31, 2009 - \$37.9 million).

**10. Financial Risk Exposure and Risk management**

**a. Currency Risk**

As required, the Company either makes purchases at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian Dollars, or other currencies. During the three months and six months ended June 30, 2010, Cdn \$1.7 million and Cdn \$6.7 million of such forward contracts were executed (Cdn \$2.3 million and Cdn \$5.7 million for three months and six months ended June 30, 2009). These forward contracts all expire in 2010 and the fair value is determined based on mark-to-market valuation approach. The closing exchange rate is a quoted rate obtained from observable market data for the particular foreign currency, and therefore is classified within Level 2 of the fair value hierarchy. Level 2 of the fair value hierarchy is defined as inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly.

There were twelve forward contracts, to purchase a total of Cdn \$3.5 million, outstanding at June 30, 2010 (December 31, 2009 -Nil).

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**10. 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 June 30, 2010 are as follows:

| (Thousands of US\$)                      | Kyrgyz<br>Som | Mongolian<br>Tugrik | Canadian<br>Dollar | British<br>Pound | Russian<br>Ruble | European<br>Euro |
|--|---------------|---------------------|--------------------|------------------|------------------|------------------|
| <b><u>Financial Assets</u></b>           |               |                     |                    |                  |                  |                  |
| Cash and cash equivalents                | \$ 136        | \$ 427              | \$ 7,224           | \$ -             | \$ 1             | \$ 13,253        |
| Amounts receivables                      | 92            | 3,763               | 333                |                  | 10               | 164              |
|  | \$ 228        | \$ 4,190            | \$ 7,557           | \$ -             | \$ 11            | \$ 13,417        |
| <b><u>Financial Liabilities</u></b>      |               |                     |                    |                  |                  |                  |
| Accounts payable and accrued liabilities | \$ 4,616      | \$ 4,592            | \$ 15,123          | \$ 5             | \$ -             | \$ 1,181         |

A strengthening of the U.S. Dollar by 5% against the Canadian Dollar, the Kyrgyz Som, European Euro and the Mongolian Tugrik at June 30, 2010, with all other variables held constant would have lead to additional before tax net income of \$0.02 million as a result of a change in value of the financial assets and liabilities denominated in those currencies.

**b. Concentration of Credit Risk**

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 9). Based on movements of Centerra's share price, and the value of individual or unsettled gold shipments, over the course of the three months and six months ended June 30, 2010, the maximum exposure during the period, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$2.4 million and \$36.3 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.

At the balance sheet date, approximately 15 % of the Company's liquid assets were held with HSBC, 13% with Bank of Nova Scotia, 4% were held with Bank of New York, 4% were held with the Royal Bank of Canada, and 3% 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.

## **11. Segmented Information**

Centerra has three reportable segments. The Kyrgyz Republic segment involves the operations of the Kumtor Gold Project and local exploration and development activities, and the Mongolian segment involves the operations of the Boroo Gold Project, development of the Gatsuurt Project and local exploration activities. The North American segment involves the head office located in Toronto, loans to each of the mine operations, as well as exploration activities on North American projects.

### **Geographic Segmentation of Revenue**

All production from the Kumtor Gold Project was sold to the Kyrgyzaltyn refinery in the Kyrgyz Republic while production from the Boroo Gold Project was sold to a refinery that is located in Ontario, Canada.

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11. Segmented Information (continued)

| <b>Three months ended June 30, 2010</b>                      |                 |                 |                |                 |
|--|-----------------|-----------------|----------------|-----------------|
| <b>(\$ millions)</b>   | <b>Kyrgyz</b>   |                 | <b>North</b>   |                 |
|  | <b>Republic</b> | <b>Mongolia</b> | <b>America</b> | <b>Total</b>    |
| <b>Revenue</b>   | \$ 109.8        | \$ 42.4         | \$ -           | \$ 152.2        |
| <b>Expenses</b>  |                 |                 |                |                 |
| Cost of sales  | 48.7            | 14.3            | -              | 63.0            |
| Regional office administration                               | 3.3             | 1.7             | -              | 5.0             |
| Depreciation, depletion and amortization                     | 11.4            | 5.5             | 0.1            | 17.0            |
| Accretion and reclamation expense                            | 0.2             | 0.3             | -              | 0.5             |
| Revenue based taxes  | 15.4            | -               | -              | 15.4            |
| Exploration and business development                         | 2.7             | 1.5             | 2.9            | 7.1             |
| Interest and other   | 1.8             | (0.2)           | 0.1            | 1.7             |
| Administration   | 0.5             | 0.1             | 6.0            | 6.6             |
| <b>Earnings (loss) before income taxes</b>                   | <b>25.8</b>     | <b>19.2</b>     | <b>(9.1)</b>   | <b>35.9</b>     |
| Income tax expense   |                 |                 |                | 6.1             |
| <b>Net earnings</b>  |                 |                 |                | <b>29.8</b>     |
| <b>Capital expenditure for the period</b>                    | \$ 39.6         | \$ 15.0         | \$ 0.1         | \$ 54.7         |
| <b>Three months ended June 30, 2009</b>                      |                 |                 |                |                 |
| <b>(\$ millions)</b>   | <b>Kyrgyz</b>   |                 | <b>North</b>   |                 |
|  | <b>Republic</b> | <b>Mongolia</b> | <b>America</b> | <b>Total</b>    |
| <b>Revenue</b>   | \$ 74.3         | \$ 30.0         | \$ -           | \$ 104.3        |
| <b>Expenses</b>  |                 |                 |                |                 |
| Cost of sales  | 70.7            | 11.3            | -              | 82.0            |
| Mine standby costs   | -               | 3.3             | -              | 3.3             |
| Regional office administration                               | 3.5             | 2.3             | -              | 5.8             |
| Depreciation, depletion and amortization                     | 18.8            | 6.6             | 0.3            | 25.7            |
| Accretion and reclamation expense                            | 0.3             | 0.4             | -              | 0.7             |
| Revenue based taxes  | 5.3             | -               | -              | 5.3             |
| Exploration and business development                         | 2.3             | 0.5             | 1.5            | 4.3             |
| Interest and other (income)                                  | 0.3             | (1.1)           | 0.5            | (0.3)           |
| Administration   | 0.6             | 0.5             | 6.6            | 7.7             |
| <b>Earnings (loss) before unusual items and income taxes</b> | <b>(27.5)</b>   | <b>6.2</b>      | <b>(8.9)</b>   | <b>(30.2)</b>   |
| Unusual items-Kyrgyz settlement                              |                 |                 |                | (49.3)          |
| <b>Loss before income taxes</b>                              |                 |                 |                | <b>(79.5)</b>   |
| Income tax expense   |                 |                 |                | 0.1             |
| <b>Net loss</b>  |                 |                 |                | <b>\$(79.6)</b> |
| <b>Capital expenditure for the period</b>                    | \$ 17.4         | \$ 0.3          | \$ -           | \$ 17.7         |

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11. Segmented Information (continued)

| <b>Six months ended June 30, 2010</b>                        |                        |                 |                      |             |                   |
|--|------------------------|-----------------|----------------------|-------------|-------------------|
| <b>(\$ millions)</b>   | <b>Kyrgyz Republic</b> |                 | <b>North America</b> |             | <b>Total</b>      |
| <b>Revenue</b>   | \$ 333.1               | \$ 74.6         | \$ -                 | \$ -        | \$ 407.7          |
| <b>Expenses</b>  |                        |                 |                      |             |                   |
| Cost of sales  | 95.7                   | 24.6            | -                    | -           | 120.3             |
| Regional office administration                               | 6.6                    | 3.3             | -                    | -           | 9.9               |
| Depreciation, depletion and amortization                     | 28.2                   | 9.9             | 0.3                  | -           | 38.4              |
| Accretion and reclamation expense                            | 0.5                    | 0.6             | -                    | -           | 1.1               |
| Revenue based taxes  | 46.6                   | -               | -                    | -           | 46.6              |
| Exploration and business development                         | 4.6                    | 2.7             | 5.4                  | -           | 12.7              |
| Interest and other   | 2.5                    | (0.1)           | -                    | -           | 2.4               |
| Administration   | 1.0                    | 0.1             | 16.4                 | -           | 17.5              |
| <b>Earnings (loss) before income taxes</b>                   | <b>147.4</b>           | <b>33.5</b>     | <b>(22.1)</b>        | <b>-</b>    | <b>158.8</b>      |
| Income tax expense   |                        |                 |                      |             | 6.9               |
| <b>Net earnings</b>  |                        |                 |                      |             | <b>151.9</b>      |
| <b>Capital expenditure for the period</b>                    | <b>\$ 62.9</b>         | <b>\$ 20.7</b>  | <b>\$ 0.2</b>        | <b>\$ -</b> | <b>\$ 83.8</b>    |
| <b>Assets(excluding Goodwill)</b>                            | <b>\$ 607.5</b>        | <b>\$ 427.3</b> | <b>\$ 30.7</b>       | <b>\$ -</b> | <b>\$ 1,065.5</b> |
| <b>Six months ended June 30, 2009</b>                        |                        |                 |                      |             |                   |
| <b>(\$ millions)</b>   | <b>Kyrgyz Republic</b> |                 | <b>North America</b> |             | <b>Total</b>      |
| <b>Revenue</b>   | \$ 131.6               | \$ 71.2         | \$ -                 | \$ -        | \$ 202.8          |
| <b>Expenses</b>  |                        |                 |                      |             |                   |
| Cost of sales  | 119.3                  | 31.9            | -                    | -           | 151.2             |
| Mine standby costs   | -                      | 3.3             | -                    | -           | 3.3               |
| Regional office administration                               | 7.1                    | 3.8             | -                    | -           | 10.9              |
| Depreciation, depletion and amortization                     | 32.5                   | 14.5            | 0.5                  | -           | 47.5              |
| Accretion and reclamation expense                            | 0.6                    | 0.7             | -                    | -           | 1.3               |
| Revenue based taxes  | 5.3                    | -               | -                    | -           | 5.3               |
| Exploration and business development                         | 5.8                    | 0.8             | 3.4                  | -           | 10.0              |
| Interest and other (income)                                  | (0.1)                  | (1.0)           | 1.0                  | -           | (0.1)             |
| Administration   | 1.2                    | 0.9             | 10.6                 | -           | 12.7              |
| <b>Earnings (loss) before unusual items and income taxes</b> | <b>(40.1)</b>          | <b>16.3</b>     | <b>(15.5)</b>        | <b>-</b>    | <b>(39.3)</b>     |
| Unusual items-Kyrgyz settlement                              |                        |                 |                      |             | (49.3)            |
| <b>Loss before income taxes</b>                              |                        |                 |                      |             | <b>(88.6)</b>     |
| Income tax expense   |                        |                 |                      |             | 11.3              |
| <b>Net loss</b>  |                        |                 |                      |             | <b>\$(99.9)</b>   |
| <b>Capital expenditure for the period</b>                    | <b>\$ 39.1</b>         | <b>\$ 0.8</b>   | <b>\$ 0.1</b>        | <b>\$ -</b> | <b>\$ 40.0</b>    |
| <b>Assets(excluding Goodwill)</b>                            | <b>\$ 430.3</b>        | <b>\$ 273.2</b> | <b>\$ 23.5</b>       | <b>\$ -</b> | <b>\$ 727.0</b>   |