

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Years Ended December 31, 2007, 2006 and 2005**

**(Expressed in United States Dollars)**

## **Report of Management's Accountability**

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the Company's business transactions and financial position.

Management is also responsible for the information disclosed in the management's discussion and analysis including responsibility for the existence of appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

The integrity and reliability of Centerra's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Centerra's code of ethics, which is communicated to all management levels in the organization, requires employees to maintain high standards in their conduct of the Company's affairs. The CEO and CFO certify that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Our shareholders' independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The board of directors annually appoints an audit committee comprised of independent directors. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the board of directors for formal approval.

Original signed by:

Leonard A. Homeniuk  
President and  
Chief Executive Officer

David M. Petroff  
Executive Vice-President and  
Chief Financial Officer

February 15, 2008

## **AUDITORS' REPORT**

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

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income, retained earnings, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Original signed by:

KPMG LLP

Chartered Accountants

Toronto, Canada

February 15, 2008

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

As at December 31, (Expressed in Thousands of United States Dollars)	Notes	2007	2006
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 105,482	\$ 186,159
Amounts receivable		18,021	24,006
Inventories	5	124,155	83,714
Prepaid expenses		21,230	24,737
		<u>268,888</u>	<u>318,616</u>
Property, plant and equipment	6	373,841	305,366
Goodwill	7	148,540	154,586
Long-term receivables and other	8	6,632	6,778
Future income tax asset	15	16,467	8,901
		<u>545,480</u>	<u>475,631</u>
<b>Total assets</b>		<u>\$ 814,368</u>	<u>\$ 794,247</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 42,482	\$ 59,379
Taxes payable		-	2,968
Short-term debt	9	10,000	-
		<u>52,482</u>	<u>62,347</u>
Provision for reclamation	10	20,868	16,532
Non-controlling interest	13	-	9,829
<b>Shareholders' equity</b>			
Share capital	17	523,107	522,383
Contingent common shares issuable	14	126,794	-
Contributed surplus		30,767	30,257
Retained earnings		60,350	152,899
		<u>741,018</u>	<u>705,539</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 814,368</u>	<u>\$ 794,247</u>

Commitments and contingencies (notes 14(a) and 18)

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

Approved by the Board of Directors

Original signed by:

Patrick M. James, Director

John S. Auston, Director

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

For the years ended December 31,	<b>2007</b>	<b>2006</b>	<b>2005</b>	
<b>(Expressed in Thousands of United States Dollars, except per share amounts)</b>				
	<b>Notes</b>			
<b>Revenue from Gold Sales</b>		<b>\$ 373,462</b>	<b>\$ 364,520</b>	<b>\$ 338,583</b>
<b>Expenses</b>				
Cost of sales		<b>226,714</b>	236,915	186,177
Depreciation, depletion and amortization		<b>44,161</b>	39,662	60,790
Accretion and reclamation expense	<b>10</b>	<b>1,334</b>	(1,454)	(894)
Exploration and business development	<b>11</b>	<b>20,440</b>	25,702	29,931
Other (income) and expenses	<b>12</b>	<b>(5,795)</b>	(23,362)	(4,773)
Administration		<b>24,980</b>	27,221	17,934
		<b>311,834</b>	304,684	289,165
<b>Earnings before unusual items, income taxes and non-controlling interest</b>		<b>61,628</b>	59,836	49,418
Unusual items	<b>14</b>	<b>131,637</b>	-	-
<b>Earnings (loss) before income taxes and non-controlling interest</b>		<b>(70,009)</b>	59,836	49,418
Income tax expense (recovery)	<b>15</b>	<b>19,322</b>	(5,771)	4,572
Non-controlling interest	<b>13</b>	<b>3,218</b>	5,007	2,412
<b>Net earnings (loss) and comprehensive income</b>		<b>(92,549)</b>	60,600	42,434
Retained earnings, beginning of year		<b>152,899</b>	92,299	49,865
<b>Retained earnings, end of year</b>		<b>\$ 60,350</b>	<b>\$ 152,899</b>	<b>\$ 92,299</b>
<b>Basic and diluted earnings (loss) per common share</b>	<b>17</b>	<b>\$ (0.43)</b>	<b>\$ 0.28</b>	<b>\$ 0.20</b>

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

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

For the years ended December 31,

**2007**

**2006**

**2005**

(Expressed in Thousands of United States Dollars)

**Operating activities**

Net earnings (loss)	\$ (92,549)	\$ 60,600	\$ 42,434
Items not requiring (providing) cash:	-		
Depreciation, depletion and amortization	44,161	39,662	60,790
Accretion and reclamation expense	1,334	(1,454)	(894)
Deferred charges recognized	557	2,266	5,397
Contingent common shares issuable	126,794	-	-
Forgiven loan	1,843	-	-
Future income tax expense (recovery)	(7,566)	(8,930)	2,540
Non-controlling interest	3,218	5,007	2,412
Other operating items	361	(2,141)	2,817
	<b>78,153</b>	<b>95,010</b>	<b>115,496</b>
Change in operating working capital	<b>(36,853)</b>	<b>(14,676)</b>	<b>(32,096)</b>
<b>Cash provided by (used in) operations</b>	<b>41,300</b>	<b>80,334</b>	<b>83,400</b>

**Investing activities**

Acquisition of minority interest	(7,000)	-	-
Additions to property, plant and equipment	(125,409)	(96,645)	(33,574)
Proceeds from disposition of fixed assets	-	53	-
<b>Cash provided by (used in) investing</b>	<b>(132,409)</b>	<b>(96,592)</b>	<b>(33,574)</b>

**Financing activities**

Proceeds from short term debt	10,000	-	-
Proceeds of common shares issued for cash	432	-	-
<b>Cash provided by (used in) financing</b>	<b>10,432</b>	<b>-</b>	<b>-</b>

Increase (decrease) in cash during the year	<b>(80,677)</b>	<b>(16,258)</b>	<b>49,826</b>
Cash and cash equivalents at beginning of the year	<b>186,159</b>	<b>202,417</b>	<b>152,591</b>
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 105,482</b>	<b>\$ 186,159</b>	<b>\$ 202,417</b>

**Supplemental cash flow disclosure**

**Change in operating working capital:**

Amounts receivable	\$ 5,985	\$ (15,055)	\$ (6,355)
Inventory - ore and metal	(23,912)	8,567	(7,078)
Inventory - supplies	(11,970)	(15,580)	(14,561)
Prepays	3,507	(8,586)	(4,208)
Taxes payable	(2,968)	-	-
Accounts payable and accrued liabilities	(7,495)	15,978	106
	<b>(36,853)</b>	<b>(14,676)</b>	<b>(32,096)</b>

**Other cash payments:**

Interest paid	\$ 500	\$ 274	\$ 55
Income taxes paid	<b>21,660</b>	<b>3,159</b>	<b>1,525</b>

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

Centerra Gold Inc.  
Consolidated Statements of Shareholders' Equity

Years ended December 31

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

	Number of Common Shares	Amount	Contingent Common Shares Issuable	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive income (note 4)	Total
<b>Balance at December 31, 2004</b>	216,238,815	\$ 522,383	\$ -	\$ 29,503	\$ 49,865	\$ -	\$ 601,751
Options issued to employees	-	-	-	236	-	-	236
Net earnings for the year	-	-	-	-	42,434	-	42,434
<b>Balance at December 31, 2005</b>	216,238,815	522,383	-	29,739	92,299	-	644,421
Options issued to employees	-	-	-	518	-	-	518
Net earnings for the year	-	-	-	-	60,600	-	60,600
<b>Balance at December 31, 2006</b>	216,238,815	522,383	-	30,257	152,899	-	705,539
Shares issued:							
Options exercised by employees	79,373	724	-	(90)	-	-	634
Contingent common shares issuable	-	-	126,794	-	-	-	126,794
Options issued to employees	-	-	-	600	-	-	600
Change in accounting policy (note 4)	-	-	-	-	-	557	557
Recognition in net income (note 4)	-	-	-	-	-	(557)	(557)
Net loss for the year	-	-	-	-	(92,549)	-	(92,549)
<b>Balance at December 31, 2007</b>	216,318,188	\$ 523,107	\$ 126,794	\$ 30,767	\$ 60,350	\$ -	\$ 741,018

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 1. Nature of operations

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

### 2. Basis of presentation

The consolidated financial statements of Centerra Gold Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Kumtor Gold Company (“KGC”), its 100% owned subsidiary Boroo Gold Company (“BGC”) and its wholly owned interest in the Gatsuurt property. Interest in the 63% owned REN property in Nevada is accounted for by the proportionate consolidation method.

### 3. Significant accounting policies

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

#### a. Consolidation principles

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

#### b. Foreign currency

The majority of the Company’s business is transacted in United States Dollars and, accordingly, the consolidated financial statements have been measured and expressed in that currency.

Monetary assets and liabilities denominated in currencies other than the United States Dollar are translated into United States Dollars at year-end rates of exchange. Revenue and expense items denominated in foreign currencies are translated at rates in effect at the time of the transaction. Any gains and losses are reflected in earnings.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### c. Cash and cash equivalents

Cash and cash equivalents consists of balances with financial institutions and investments in money market instruments which have a term to maturity of three months or less at time of purchase.

#### d. Inventories

Inventories of broken ore, in-circuit gold and gold doré are valued at the lower of average cost and net realizable value. The cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, operational overhead expenses and depreciation, depletion and amortization.

Consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost, which includes expenditures incurred to acquire the inventories and bring them to their existing location and condition.

#### e. Exploration and development properties

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

#### f. Property, plant and equipment

Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings. Maintenance and repair expenditures are charged to cost of production. The carrying values of property, plant and equipment are periodically assessed by management and if management determines that the carrying values cannot be recovered, the asset is written-down to fair value and charged against current earnings.

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### **g. Goodwill**

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

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the Company compares the fair value of reporting units, to which goodwill was allocated, to their carrying amounts. If the carrying amount of a reporting unit were to exceed its fair value, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess of the carrying amount over the fair value would be charged to earnings. Assumptions, such as gold price, discount rate, and expenditures, underlying the fair value estimates are subject to risks and uncertainties.

#### **h. Property and equipment impairment**

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

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

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

#### **j. Depreciation and depletion**

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### k. Future income taxes

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

#### l. Environmental protection and reclamation costs

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

#### m. Revenue recognition

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

#### n. Stock-based compensation

Centerra's stock option plans are described in note 17. Options granted with share appreciation rights are accounted for using the liability method. Under this method, the options granted are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery.

Other Centerra Options granted without share appreciation rights are accounted for using the fair value method, with compensation expense recognized over the vesting period.

Performance share units granted by Centerra for eligible employees, and deferred share units granted by Centerra to eligible members of the Board of Directors are accounted for under the liability method, are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense, or, if negative, a recovery. The consideration paid to employees on exercise of these performance share units is offset against the accrued obligation.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

For options granted under the Cameco stock option plan prior to January 1, 2003, no compensation expense was recognized when the stock options were granted. Options granted under this plan, subsequent to January 1, 2003, are accounted for under the liability method, are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense, or, if negative, a recovery.

The consideration paid to employees on exercise of Cameco stock options is offset against the accrued obligation.

#### **o. Earnings per share**

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

### 4. Changes in accounting policies:

#### **a Accounting changes:**

In July 2006, the Accounting Standards Board (“AcSB”) issued a replacement of The Canadian Institute of Chartered Accountants’ Handbook (“CICA Handbook”) Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The adoption of this Handbook Section had no impact on the Company’s results of operations and financial condition.

#### **b Financial instruments:**

Effective on January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income (“Section 1530”), Section 3855, Financial Instruments - Recognition and Measurement (“Section 3855”) and Section 3861 financial instruments - disclosure and presentation (“Section 3861”). These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### b Financial instruments: (continued)

Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening retained earnings.

Under Section 3855, financial instruments must be classified into one of five categories: held-for trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for trading, which are measured at fair value. Any marketable securities that are not cash equivalents will be classified as available-for-sale securities measured at fair value and the resulting gain or loss will be recognized in other comprehensive income until the financial asset is derecognized at which point all related cumulative gains or losses will be recognized in the consolidated statement of operations and deficit.

Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and debenture, are classified as other financial liabilities. The Company has neither available for sale, nor held to maturity instruments.

Section 3861 enhances financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

As at December 31, 2007 the fair values of the Company's assets and liabilities approximate their carrying values due to the relatively short maturity of these instruments.

The adoption of these new standards translated into an increase in accumulated other comprehensive income of \$0.6 million relating to deferred hedging losses at January 1, 2007. These amounts have been fully recognized in earnings during the three months ended March 31, 2007.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### c Non-monetary transactions:

Effective January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3831, Non-monetary Transactions prospectively. This standard requires all non-monetary transactions be measured at fair value unless they meet one of four criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. The adoption of this standard had no impact on the Company's financial statements

#### d Equity

Effective January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3251, "Equity". This standard establishes requirements for the presentation of equity and changes in equity during the reporting period.

#### e Stripping costs

Effective January 1, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 160 (EIC-160), "Stripping Costs Incurred in the Production Phase of a Mining Operation". EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a unit-of-production basis over the economically recoverable proven and probable reserve ounces of gold to which they relate.

Application of this new accounting policy did not have a material impact on the financial statements presented.

#### f New pronouncements

In June 2007, the CICA issued new Handbook Section 3031, "Inventories". This standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value. It also provides guidance on the costs formulas that are used to assign costs to inventories and allows for reversals of write downs. The effective date of this new standard applies to fiscal years beginning January 1, 2008.

On adoption of this new standard as at January 1, 2008, \$10.3 million of previously unvalued Heap Leach inventory will be recorded with a corresponding recognition in Retained Earnings.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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

#### f New pronouncements (continued)

On December 1, 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. These new standards are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 on financial instrument disclosures, provides guidance on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed and is consistent with Section 3861. The new Section removes duplicate disclosures and simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company adopted these standards on January 1, 2008.

On February 1, 2008 the CICA issued section 3064, Goodwill and Intangible assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. The effective date of this new standard applies to fiscal year beginning January 1, 2009. The impact of this new standard is being assessed and cannot be determined at this time.

### 5. Inventories

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(Thousands of US\$)	2007	2006
Stockpiles (including heap leach)	\$ 26,769	8,892
Gold in-circuit	6,962	6,287
Gold doré	11,118	5,758
	44,849	20,937
Supplies	79,306	62,777
Total	\$ 124,155	83,714

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# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 6. Property, plant and equipment

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2007 Net
Mine buildings	\$ 34,814	\$ 21,191	\$ 13,623
Plant and equipment	268,990	158,506	110,484
Mineral properties	149,076	88,485	60,591
Capitalized stripping costs	43,498	4,325	39,173
Mobile equipment	149,390	48,079	101,311
Construction in process	48,659	-	48,659
<b>Total</b>	<b>\$ 694,427</b>	<b>\$ 320,586</b>	<b>\$ 373,841</b>

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2006 Net
Mine buildings	\$ 32,789	\$ 19,643	\$ 13,146
Plant and equipment	241,792	144,143	97,649
Mineral properties	141,416	75,164	66,252
Capitalized stripping costs	7,187	975	6,212
Mobile equipment	88,214	26,930	61,284
Construction in process	60,823	-	60,823
<b>Total</b>	<b>\$572,221</b>	<b>\$266,855</b>	<b>\$305,366</b>

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

(Thousands of US\$)	2007			2006		
	Kumtor	Boroo	Total	Kumtor	Boroo	Total
Opening balance	\$ 6,212	\$ -	\$ 6,212	\$ -	\$ -	\$ -
Additions	28,278	8,033	36,311	7,187	-	7,187
Amortized	(1,919)	(1,431)	(3,350)	(975)	-	(975)
<b>Ending balance</b>	<b>\$ 32,571</b>	<b>\$ 6,602</b>	<b>\$ 39,173</b>	<b>\$ 6,212</b>	<b>\$ -</b>	<b>\$ 6,212</b>

Deferred stripping costs are amortized on a unit-of-production basis over the reserves that will benefit directly from the stripping activity.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 7. Goodwill

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

(Thousands of US\$)	2007			2006		
	Kyrgyz	Mongolia	Total	Kyrgyz	Mongolia	Total
Opening balance	\$129,705	\$ 24,881	\$154,586	\$129,705	\$ 24,881	\$154,586
Reduction (i)	-	(6,046)	(6,046)	-	-	-
Ending balance	\$129,705	\$ 18,835	\$148,540	\$129,705	\$ 24,881	\$154,586

(i)-Reduction in goodwill as a result of the acquisition of the non-controlling interest in Boroo Mongolia Mining Corporation Limited.

### 8. Long-term receivables and other

(Thousands of US\$)	2007	2006
Reclamation trust fund [note 10]	\$ 4,853	\$ 4,676
Deferred charges	-	557
Other long term receivables	1,779	1,545
Total	\$ 6,632	\$ 6,778

All gold forward sales agreements were closed in 2004. Deferred charges relating to the closing of the hedges of \$0.6 million were recognized in 2007.

### 9. Short-term debt

On June 1, 2007 Centerra Gold Mongolia LLC (CGMC), one of the Company's subsidiaries, signed a demand credit facility agreement for \$10 million with HSBC Bank USA for purposes of developing the Gatsuurt gold deposit. The credit facility may be drawn down, converted or rolled over under the credit facility between a Base Rate Loan and LIBOR Loan. Interest is payable quarterly at base rate plus 2% per annum for a Base Rate Loan and at LIBOR rate plus 2.5% for a LIBOR Loan. The facility is secured by the Gatsuurt mining licenses and guaranteed by Centerra Gold Inc..

As at December 31, 2007, CGMC has drawn \$10 million under the LIBOR loan facility. Interest on this loan of \$0.5 million (2006-nil) has been charged to earnings during the year ended December 31, 2007.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 10. Asset Retirement Obligations

(Thousands of US\$)	2007	2006
Kumtor gold mine	\$ 14,906	\$ 13,992
Boroo gold mine	5,962	2,540
<b>Total</b>	<b>\$ 20,868</b>	<b>\$ 16,532</b>

Centerra's estimates of future asset retirement obligations are based on reclamation standards that meet regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives.

The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$27 million. Following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- (i) Expected timing of payment of the cash flows is based on the life of mine plans. The majority of expenditures are expected to occur after 2008.
- (ii) Discount rates of 8.0% for both Kumtor and Boroo gold mines.

Following is a reconciliation of the total liability for asset retirement obligations:

(Thousands of US\$)	2007	2006	2005
Balance, beginning of year	\$ 16,532	\$ 17,897	\$ 18,868
Liabilities incurred / (settled)	(235)	89	(77)
Revisions in estimated timing and amount of cash flows	3,237	(2,589)	(2,209)
Accretion expense	1,334	1,135	1,315
<b>Balance, end of year</b>	<b>\$ 20,868</b>	<b>\$ 16,532</b>	<b>\$ 17,897</b>

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of estimated salvage values of \$14.9 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2007 was \$4.9 million (2006 - \$4.7 million). (note 8)

The 2007 balance reflects an increase to the present value of the closure cost estimate at the Boroo mine site following the completion of a regularly scheduled closure cost update study.

The 2006 and 2005 balances reflect significant new reserves announced at Kumtor early in both years, resulting in an extension in the estimated mine life and a deferral in reclamation spending at the site. As a result, the present value of the obligation was decreased by \$2.6 million in 2006 and \$2.2 million in 2005, which was recorded in earnings in both years.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 11. Exploration and business development costs

(Thousands of US\$)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Exploration	\$ <b>19,087</b>	\$ 22,947	\$ 25,457
Business development	<b>1,353</b>	2,755	4,474
<b>Total</b>	<b>\$ 20,440</b>	\$ 25,702	\$ 29,931

### 12. Other (income) and expenses

(Thousands of US\$)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Interest income	\$ <b>(6,663)</b>	\$ (9,764)	\$ (5,269)
Proceeds on insurance claim, net of fees	-	(13,436)	-
Loss on sales of assets	<b>321</b>	525	-
Interest expense on long-term debt	<b>519</b>	-	55
Financing charges and other interest	<b>96</b>	1,244	-
Foreign exchange loss (gain)	<b>(68)</b>	(1,931)	441
<b>Net</b>	<b>\$ (5,795)</b>	\$ (23,362)	\$ (4,773)

### 13. Acquisition of Non-Controlling interest

On October 17, 2007, the Company completed the acquisition of the 5% non-controlling interest in Boroo Mongolia Mining Corporation Limited, the parent company of Boroo Gold Limited the owner and operator of the Boroo mine, along with certain other assets in Mongolia for total consideration of \$8.3 million. As a result, Centerra owns 100% of the Boroo mine.

The allocation of the purchase price is as follows:

(Thousands of US\$)	<b>2007</b>
Prepaid Royalties	\$ <b>1,300</b>
Non-controlling interest	<b>7,000</b>
<b>Total</b>	<b>\$ 8,300</b>

As a result of this transaction, the residual book value of the non-controlling interest of \$6.0 million, in excess of the consideration paid, was applied against goodwill (note 7).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 14. Unusual Items

(Thousands of US\$)	2007	2006	2005
a) Contingent common shares issuable	\$ 126,794	\$ -	\$ -
b) Claim settlement	3,000	-	-
c) Forgiven loan	1,843	-	-
Total	\$ 131,637	\$ -	\$ -

#### a Contingent common shares issuable

On August 30, 2007, the Company entered into an agreement (the “Agreement on New Terms”) with the Government of the Kyrgyz Republic, pursuant to which the parties have agreed on revised terms with respect to the Kumtor Project. The Agreement on New Terms is subject to satisfaction of certain conditions, including approvals by the Kyrgyz Parliament and Centerra’s board of directors and the completion and signing of definitive agreements, all on or before April 30, 2008. The Agreement on New Terms provides that effective January 1, 2008 Kumtor will be subject to tax on proceeds from sold products (gross revenue) rather than on income, at the rate of 11% in 2008, 12% in 2009 and 13% thereafter. After completion and signing of definitive agreements, Cameco Corporation (“Cameco”) will transfer 32.3 million shares of the Company to the Kyrgyz Government, 17.3 million of which will be held in escrow to be released within 4 years subject to certain conditions. The Company has entered into an agreement with Cameco pursuant to which the Company will issue 10 million treasury shares (the “Treasury Shares”) to Cameco on completion and signing of the definitive agreements.

The issuance of Treasury Shares will result in a 4.6% dilution to Centerra's shareholders. The Company will record a pre-tax loss equal to the market value of the treasury shares.

The value associated with issuing of the Treasury Shares by the Company was accounted as an expense with the corresponding obligation to issue 10 million Treasury Shares reflected as contingent issuable common shares within Shareholder’s Equity. The associated expense and contingent issuable common shares are valued at the market closing price of the Company’s shares at December 31, 2007.

On closing of the agreement the Treasury Shares issued will be valued at the closing market price of the Company’s shares at the date they are issued and the balance in the contingent common shares issuable is reduced with a corresponding increase in share capital. Any increase or decrease in the value over the value at December 31, 2007 will result in a corresponding increase or decrease in the expense recorded at December 31, 2007 with the offsetting entry recorded to share capital.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 14. Unusual Items (continued)

#### b Claim Settlement

During the year Centerra Gold Mongolia Limited ("CGM") a subsidiary wholly owned by the Company, and Gatsuurt LLC (an unrelated third party), reached an agreement in principle to suspend and, upon signing a definitive agreement, to terminate the arbitration proceedings between CGM and Gatsuurt LLC. The arbitration proceedings have been suspended pending the out-come of on going settlement discussions under which it is proposed CGM will make a \$3 million payment to Gatsuurt LLC.

#### c Forgiven loan

Pursuant to an agreement dated December 7, 2006 between the Government of the Kyrgyz Republic, KGC, Centerra and Kyrgyzaltyn, KGC has paid and accrued a total of \$4.4 million (\$3.7 million advanced and \$0.7 million accrued) as at December 31, 2007. One half of the total (\$2.2 million) is in the form of a loan repayable no later than 2010 and is secured by shares of Centerra owned by Kyrgyzaltyn. The balance (\$2.2 million) is forgivable in 2012 if there is no event of default under existing agreements between KGC, Centerra and the Government of the Kyrgyz Republic.

In connection with the August 30, 2007 agreement described in note 14(a), the Company has agreed to reconsider the terms of the agreement with a view to forgiving the entire amount of the \$4.4 million advance. The Company recorded the discounted balance of this loan forgiveness of \$1.8 million as an expense in the income statement.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 15. Income Taxes

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

(Thousands of US\$)	2007	2006
<b>Future income tax assets</b>		
Property, plant and equipment	\$ 16,311	\$ 31,560
Foreign exploration and development	7,442	2,722
Inventory	1,242	2,209
Tax losses carried forward	25,367	17,546
Other	4,146	1,205
Future income tax assets before valuation allowance	54,508	55,242
Valuation allowance	(38,041)	(46,341)
<b>Future income tax assets, net of valuation allowance</b>	<b>\$ 16,467</b>	<b>\$ 8,901</b>

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

(Thousands of US\$)	2007	2006	2005
Earnings (loss) before income taxes and non-controlling interest	\$ (70,009)	\$ 59,836	\$ 49,418
Combined federal and provincial tax rate	36.1%	36.1%	36.1%
Computed income tax expense (recovery)	(25,273)	21,601	17,840
Increase (decrease) in taxes resulting from:			
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(6,484)	(41,284)	(19,922)
Changes in tax legislation	7,450	(1,765)	-
Valuation allowance	(8,300)	18,262	4,728
Non-deductible contingent shares issuable	45,798	-	-
Other non-deductible expenses	6,131	4,057	1,379
Resolution of tax uncertainties	-	(7,129)	-
Large corporation and other taxes	-	487	547
<b>Income tax expense (recovery)</b>	<b>\$ 19,322</b>	<b>\$ (5,771)</b>	<b>\$ 4,572</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 15. Income Taxes (continued)

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2007	2006	2005
Current income tax (recovery)	\$ 26,888	\$ 3,159	\$ 2,032
Future income tax (recovery)	(7,566)	(8,930)	2,540
Net income tax expense (recovery)	\$ 19,322	\$ (5,771)	\$ 4,572

#### Tax Losses

At December 31, 2007 the Company and its subsidiaries have losses carried forward in the amount of \$119.7 million (2006 - \$89.4 million) available to reduce taxes in 2008 and subsequent years. Tax losses in the amount of \$31.2 million expired in 2007 (2006 – nil), and the losses available for carry forward would begin to expire in 2011. Tax benefits have not been recorded for \$50.6 million of the losses carried forward as at December 31, 2007.

#### Tax Legislation

##### Mongolia

On August 3, 2007, Boroo entered into an amended Stability Agreement, which resulted in Boroo's income tax rate being changed to 25%, effective January 1, 2007, for the balance of the term of the amended Stability Agreement.

##### Kyrgyzstan

On August 30, 2007 the Company entered into an agreement with the Kyrgyz Government whereby upon implementation of the provisions of the agreement, expected to be effective January 1, 2008, Kumtor will be subject to tax computed by reference to proceeds from products sold, rather than by reference to income. The effect of the implementation of the terms of the agreement would be that if none of the future tax asset recorded as at December 31, 2007 would be realizable, the charge to earnings arising from the change in the tax regime would be \$5.6 million.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 16. Joint Ventures

Centerra's joint venture interests are comprised of a 63% participation interest in the REN property which is currently in the exploration stage and has zero book value.

The Company's share of revenue and expenses, and cash flows relating to its joint ventures was as follows:

(Thousands of US\$)	2007	2006	2005
Revenues	\$ -	\$ -	\$ -
Expenses	(725)	(1,996)	(3,740)
<b>Net loss</b>	<b>\$ (725)</b>	<b>\$ (1,996)</b>	<b>\$ (3,740)</b>
<b>Cash used in</b>			
Operating activities	\$ (725)	\$ (1,996)	\$ (3,740)
Investing activities	-	-	-
Financing activities	-	-	-
<b>Decrease in cash during the year</b>	<b>\$ (725)</b>	<b>\$ (1,996)</b>	<b>\$ (3,740)</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 17. Shareholders' Equity

#### (a) Share Capital

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

#### (b) Earnings per Share

Basic and diluted earnings per share is determined by dividing net earnings by the basic and diluted weighted-average number of common shares outstanding respectively during the year.

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	2007	2006	2005
Basic weighted average number of common shares outstanding (thousands)	216,269	216,239	216,237
Effect of stock options (thousands) <sup>1</sup>	-	308	102
Diluted weighted average number of common shares outstanding (thousands)	216,269	216,547	216,339
<b>Basic and diluted earnings (loss) per common share</b>	<b>\$ (0.43)</b>	<b>\$ 0.28</b>	<b>\$ 0.20</b>

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1. The effects of stock options and contingent common shares issuable are excluded from the computation of diluted earnings (loss) per share because the effect of this dilution would reduce the reported loss per share.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation

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

(Millions of US\$ except as indicated)	Number outstanding Dec 31/07	Expense			Liability	
		Dec 31/07	Dec 31/06	Dec 31/05	Dec 31/07	Dec 30/06
(i) Centerra stock options	<b>962,028</b>	\$ <b>0.3</b>	\$ 1.6	\$ 0.7	\$ <b>1.2</b>	\$ 1.7
(ii) Centerra performance share units	<b>595,080</b>	<b>1.7</b>	3.9	1.3	<b>4.0</b>	5.4
(ii) Centerra annual performance share units	<b>122,911</b>	<b>1.7</b>	3.3	2.8	<b>1.2</b>	0.8
(iv) Deferred share units	<b>197,351</b>	<b>0.9</b>	1.0	0.4	<b>2.5</b>	1.6
(v) Cameco stock options	<b>73,200</b>	<b>0.1</b>	2.4	4.2	<b>2.3</b>	4.1
		\$ <b>4.7</b>	\$ 12.2	\$ 9.4	\$ <b>11.2</b>	\$ 13.6

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

	Number outstanding Dec 31/06	Granted	Exercised	Forfeited	Number outstanding Dec 31/07
(i) Centerra stock options	879,321	388,268	(79,373)	(226,188)	962,028
(ii) Centerra performance share units	726,733	283,222	(304,794)	(110,081)	595,080
(iii) Centerra annual performance share units	173,098	201,955	(223,583)	(28,559)	122,911
(iv) Deferred share units	142,093	55,258	-	-	197,351
(v) Cameco stock options	129,600	-	(55,800)	(600)	73,200

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation (continued)

##### Centerra Plan

##### (i) Stock Option.

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

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

Centerra stock option transactions during the year were as follows:

	2007	2006	2005
Average award price for options granted in the year (Cdn\$/share)	\$11.22	\$12.78	\$6.71
Weighted average price on outstanding options (Cdn\$/share)	\$9.17	\$8.07	\$5.88

On May 8, 2007, Centerra granted 261,317 stock options at a strike price of Cdn \$11.17 per share. The compensation expense associated with this stock option series was calculated using the Black-Scholes valuation model, assuming a 6-year term, 39% volatility and a risk-free rate of return of 4.8%, and is being charged against net income over its vesting period.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation (continued)

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

On December 19, 2007, 61,154 stock options were granted at a strike price of Cdn \$11.43 per share. The compensation expense associated with these stock options was calculated using the Black-Scholes valuation model, assuming a 6-year term, 32% volatility and a risk-free rate of return of 3.92%, and is being charged against net income over its vesting (for 2006 awards, 6-year term, 32% volatility, 4.5% interest, zero dividend and 6-year term, for 2005 awards, 34% volatility, 3.5% interest, zero dividend). The 2004 series which contains a share appreciation rights feature, was issued at an award price of Cdn\$5.17, and is accounted for under the liability method.

The resulting fair value of the options granted in 2007 was \$1.4 million (2006 - \$1.2 million, 2005 - \$0.6 million).

The terms of the options outstanding as at December 31, 2007 are as follows:

Award Date	Award Price (Cdn\$)	Expiry Date	Number options outstanding	Number options vested
2004	\$5.17	2012	230,736	138,442
2005	\$6.71	2013	199,460	84,753
2006	\$12.78	2014	209,361	79,133
2007	\$11.17	2015	261,317	-
2007	\$11.43	2015	61,154	-
			962,028	302,328

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation (continued)

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

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant. At December 31, 2007, the number of units outstanding was 595,080 (726,733 at December 31, 2006).

On January 15, 2008, the Company settled 212,056 units outstanding under the performance share units plan for a gross amount paid of \$2.1 million.

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

Centerra has established an annual performance share unit plan for eligible employees at its mine site operations. At the start of a contract period, an eligible employee receives a number of performance share units based on the Centerra share price on that start date. This award vests in one year and on the annual anniversary date of their contract, the eligible employee is entitled to receive an amount based on the assigned number of performance share units times the five day average Centerra share price preceding the annual anniversary date. The performance share units cannot be converted to shares and the eligible employee must complete the annual contract period in order to receive payment. At December 31, 2007 the number of units outstanding was 122,911 with a related liability of \$1.2 million (December 31, 2006 – 173,098 units, \$0.8 million liability). In 2007, \$1.7 million of compensation expense was recorded on this plan (\$3.3 million in 2006 and \$2.8 million in 2005).

##### (iv) Deferred share unit plan

Centerra has established a deferred share unit plan for directors of the Company to receive all or a portion of their Director's compensation as deferred share units. Deferred share units are paid in full to a director no later than December 31 in the calendar year that immediately follows the calendar year of termination of the Director's Board service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each director will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held by the director. At December 31, 2007, the number of units outstanding was 197,351 (142,093 at December 31, 2006). In 2007, approximately \$0.9 million of compensation expense was recorded on this plan (\$1.0 million in 2006 and \$0.4 million in 2005).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation (continued)

##### (v) Cameco Plan

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

The liability for this option plan was assumed by Centerra on Centerra's IPO. No further grants to Centerra employees will be made under the Cameco plan. Options under this plan were last granted in 2004.

The market price of Cameco common shares as at December 31, 2007 was Cdn\$39.57 (December 31, 2006 was Cdn\$47.20 per share, stock split adjusted).

Transactions under the Cameco plan for the respective years were as follows (adjusted for the Cameco share stock splits effective February 17, 2006):

	2007	2006	2005
(Number of options, except as indicated)			
Beginning of year	129,600	232,200	344,400
Options exercised	(55,800)	(91,200)	(102,600)
Options cancelled	(600)	(11,400)	(9,600)
End of year	73,200	129,600	232,200
Award price for options exercised – Cdn\$	\$5.88-\$10.52	\$4.81-\$10.52	\$4.81-\$10.52

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 17. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation (continued)

##### (vi) Cameco Plan

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

Award Date	Award Price (Cdn\$)	Expiry Date	2007 (Number of options)	2006 (Number of options)
2001	\$ 4.81	2009	<b>1,200</b>	1,200
2002	\$ 7.31	2010	<b>8,400</b>	9,600
2003	\$ 5.88	2007	-	5,400
2003	\$ 5.88	2008	-	600
2003	\$ 5.88	2011	<b>19,200</b>	33,000
2004	\$10.52	2007	-	1,800
2004	\$10.52	2008	-	1,200
2004	\$10.52	2012	<b>44,400</b>	76,800
			<b>73,200</b>	129,600
			<b>\$8.84</b>	\$8.83

### 18. Commitments and Contingencies

#### Kyrgyz Republic operations

As at December 31, 2007, Kumtor had entered into contracts to purchase capital equipment and operational supplies totalling \$21.1 million which are expected to be settled over the next twelve months.

#### Mongolia operations

The Mongolian parliament continues to debate recent changes to mining legislation and the applicability of the windfall profit tax as well as state participation in various mining projects. The windfall tax applies at the rate of 68% on sales of gold above \$500 per ounce. Under the new minerals law, a deposit may be deemed to be a mineral deposit of strategic importance. If a deposit is deemed strategic, the state may take up to a 34% interest in those strategic deposits in respect of which exploration was funded privately, or a 50% interest in those strategic deposits in respect of which exploration was funded by Mongolia.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 18. Commitments and Contingencies (continued)

#### Mongolia operations (continued)

On February 6, 2007, Parliament designated the Boroo deposit as strategic but resolved that Mongolia would take no interest, as the deposit would continue to be subject to the terms of the existing Stability Agreement. While the Mongolian government has acknowledged that neither the windfall profit tax nor the strategic deposit provisions will apply to the Boroo mine, it has not yet agreed to provide similar protection to the Company's Gatsuurt project and may yet determine Gatsuurt to be of strategic importance.

On December 27, 2007, the Company received written approvals for Gatsuurt in-situ reserves and resources from the Government of Mongolia. This paves the way to commencement of negotiations of a definitive investment agreement with the Government. However, the political situation in the country continues to be unsettled, which may affect the negotiation process. The country is preparing for Parliamentary elections in June 2008.

Pursuant to an agreement between Centerra Gold Mongolia Limited ("CGM") and Gatsuurt LLC, an arm's length Mongolian limited liability company, under which CGM acquired the Gatsuurt licenses, CGM agreed to transfer the license that covers the Central Zone of the Gatsuurt property to Gatsuurt LLC if CGM did not complete a feasibility study by December 31, 2005. CGM completed a feasibility study in December 2005. In early 2006 Gatsuurt LLC informed Centerra that it did not believe that CGM complied with its obligation. In December 2006, Gatsuurt LLC began proceedings in the Mongolian National Arbitration Court ("MNAC") alleging non-compliance by CGM and seeking the return of the license.

CGM believes that the Gatsuurt LLC claim is without merit and on July 10, 2007 filed a petition with Mongolia's District Court contesting the jurisdiction of the MNAC. In its first hearing on procedural matters, held on July 20, 2007, the MNAC decided to suspend its proceedings, pending a decision by the Mongolian District Court as to MNAC's jurisdiction. On July 25, 2007, the Mongolian District Court returned CGM's petition, without a decision on the jurisdictional issue, to permit CGM to supplement its submissions. All proceedings were suspended in August 2007 pending the outcome of settlement discussions (note 14(b)). The Company and Gatsuurt LLC have agreed in principle the terms for settlement of the dispute, although definitive legally binding agreements are not yet in place.

# Centerra Gold Inc.

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### 18. Commitments and Contingencies (continued)

#### Corporate

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The lease including operating costs for 2007 was approximately Cdn\$806,000 (2006-Cdn\$822,000) and is expected to increase to approximately Cdn\$850,000 by November 2011, the end of the lease term.

### 19. Financial Instruments

#### Fair values of financial instruments

The carrying values of cash and cash equivalents (which include investments with remaining maturities of less than 90 days on purchase), accounts receivable and other, accounts payable and accrued liabilities and in the consolidated balance sheets approximate fair values due to the short-term maturities of these instruments.

#### Foreign Exchange Risk

By virtue of our international operations, the Company incurs costs and expenses in a number of foreign currencies other than U.S. dollar. The Company's revenue is substantially all in U.S. dollars while some costs and expenses are incurred in Canadian dollars and other foreign currencies. The primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the U.S. dollar.

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### 20. Related Party Transactions

#### Cameco Corporation

Cameco owned 100% of the Company before the Company's IPO. As at December 31, 2007, Cameco owned 52.7% of the Company's common stock. The table below summarizes 100% of the fees and services transacted between Cameco and Centerra in the respective years.

<b>Yearly Activity</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
(Thousands of US\$)			
Charged by Cameco:			
Administration fee	\$ -	\$ 127	\$ 779
Charged by Centerra:			
SOX related work activity	(278)	(4,777)	-
Total activity	\$ (278)	\$ (4,650)	\$ 779

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to the Company in return for reimbursement of all its direct and indirect costs relating to those services. In 2007, no service were provided by Cameco under the services agreement (in 2006, \$0.1 million was incurred).

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) were shared with Cameco for 2007 to a prescribed amount. In 2007, approximately \$0.3 million (December 31, 2006- \$4.8 million) was paid by Cameco.

Centerra and its subsidiaries maintain inter-company advances to and from Cameco and several of its subsidiaries to fund operations. These advances, which are non-interest bearing and payable on demand, will be repaid in the ordinary course of business.

A net balance related to these inter-company transactions of \$0.9 million was payable to Cameco at December 31, 2007 (\$3.3 million receivable from Cameco at December 31, 2006).

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

Revenues from the Kumtor gold mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company. During 2007, management fee commitments to Kyrgyzaltyn are offset against the advance of \$ 1 million which was made for this purpose in November 2005.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 20. Related Party Transactions (continued)

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

The table below summarizes 100% of the management fees and concession payments paid by KGC to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid by Kyrgyzaltyn to KGC according to the terms of a gold and silver sales agreement.

<b>Related parties in the Kyrgyz Republic</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
(Thousands of US\$)			
Management fees to Kyrgyzaltyn	\$ 451	\$ 494	\$ 747
Concession payments to the Kyrgyz Republic	1,202	1,318	1,992
	<b>\$ 1,653</b>	<b>\$ 1,812</b>	<b>\$ 2,739</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 210,367	\$ 198,906	\$ 220,242
Deduct: refinery and financing charges	(1,217)	(1,480)	(2,603)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 209,150</b>	<b>\$ 197,426</b>	<b>\$ 217,639</b>

Kyrgyzaltyn and Kumtor have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended (the "GPA") and most recently extended effective from November 15, 2007, that until the earlier of (i) May 15, 2008 and (ii) the date on which at least \$12 million of proceeds from the sale of shares of Centerra currently owned by Kyrgyzaltyn have been deposited into a special purpose gold payment account of Kyrgyzaltyn, Kyrgyzaltyn will have 12 days to pay for gold shipped from the Kumtor mine. Kyrgyzaltyn shall pay interest on unpaid amounts equal to one-half LIBOR plus 0.125%. Prior to the effective date of the GPA, Kumtor shipped gold to Kyrgyzaltyn on a pre-paid basis. Commencing November 15, 2007, Kyrgyzaltyn shall sell as soon as practicable the number of Shares required to yield gross proceeds from sales of those Shares of not less than \$12,000,000. Sales of Shares shall in any event be completed by May 15, 2008 or such other date as may be agreed by the parties.

These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect the obligations of Kyrgyzaltyn to Kumtor are secured by a pledge of Centerra shares owned by Kyrgyzaltyn.

As at December 31, 2007, \$14.1 million was outstanding under this agreement (December 31, 2006 – \$8.3 million).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

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### 20. Related Party Transactions (continued)

#### Other

The Company has entered into a consulting agreement with Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Pursuant to this agreement, Ms. Stephens provides certain designated legal and business advisory services related to the international operations. In return for these services, Ms. Stephens receives a sum of Cdn\$200,000 per year. The agreement also provides that Ms. Stephens will receive US\$275 per hour for any additional services she provides to the Company, as authorized by the Chairman of the Board. In 2007, Ms. Stephens received Cdn\$551,000 in aggregate (2006 - Cdn\$589,455 and 2005 - Cdn\$429,055).

At December 31, 2007 a relocation loan in the amount of Cdn\$250,000 was outstanding with Centerra's President and Chief Executive Officer, Mr. Homeniuk. The loan which is payable in June 2010, is interest-free giving rise to a taxable benefit to Mr. Homeniuk.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 21. Segmented Information

Centerra has three reportable segments. The Kyrgyz Republic segment involves the operations of the Kumtor Gold Project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold Project, activities related to the Gatsuurt Project and local exploration activities. The 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.

#### Year ended December 31, 2007

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 209.1	\$ 164.3	\$ -	\$ 373.4
Expenses				
Cost of sales	176.4	50.3	-	226.7
Depreciation, depletion and amortization	27.6	15.7	0.9	44.2
Accretion and reclamation expense	0.9	0.4	-	1.3
Exploration and business development	12.1	2.6	5.7	20.4
Other income and expenses	2.0	(6.4)	(1.4)	(5.8)
Administration	2.7	1.6	20.7	25.0
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(12.6)</b>	<b>100.1</b>	<b>(25.9)</b>	<b>61.6</b>
Unusual items				131.6
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>(70.0)</b>
Income tax expense (recovery)				19.3
Non Controlling interest				3.2
<b>Net earnings (loss)</b>				<b>\$ (92.5)</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 415.2</b>	<b>\$ 238.8</b>	<b>\$ 11.8</b>	<b>\$ 665.8</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ 18.8</b>	<b>\$ -</b>	<b>\$ 148.5</b>
<b>Capital expenditures for the year</b>	<b>\$ 87.7</b>	<b>\$ 32.7</b>	<b>\$ 0.3</b>	<b>\$ 120.7</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 21. Segmented Information (continued)

#### Year ended December 31, 2006

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 195.9	\$ 168.6	\$ -	\$ 364.5
Expenses				
Cost of sales	177.2	59.7	-	236.9
Depreciation, depletion and amortization	19.5	19.7	0.5	39.7
Accretion and reclamation expense	(1.6)	0.2	-	(1.4)
Exploration and business development	14.3	5.2	6.2	25.7
Other income and expenses	(11.5)	(2.6)	(9.3)	(23.4)
Administration	2.7	1.4	23.1	27.2
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(4.7)</b>	<b>85.0</b>	<b>(20.5)</b>	<b>59.8</b>
Unusual items				-
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>59.8</b>
Income tax expense (recovery)				(5.8)
Non Controlling interest				5.0
<b>Net earnings (loss)</b>				<b>\$ 60.6</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 332.3</b>	<b>\$ 233.7</b>	<b>\$ 73.6</b>	<b>\$ 639.6</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ 24.9</b>	<b>\$ -</b>	<b>\$ 154.6</b>
<b>Capital expenditures for the year</b>	<b>\$ 95.0</b>	<b>\$ 15.1</b>	<b>\$ 1.1</b>	<b>\$ 111.2</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

(Expressed in United States Dollars)

### 21. Segmented Information (continued)

#### Year ended December 31, 2005

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 213.8	\$ 124.8	\$ -	\$ 338.6
Expenses				
Cost of sales	134.6	51.6	-	186.2
Depreciation, depletion and amortization	34.1	24.1	0.4	58.6
Accretion and reclamation expense	1.1	0.2	-	1.3
Exploration and business development	14.6	8.6	6.7	29.9
Other income and expenses	3.9	0.6	(9.3)	(4.8)
Administration	2.8	0.8	14.4	18.0
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>22.7</b>	<b>38.9</b>	<b>(12.2)</b>	<b>49.4</b>
Unusual items				-
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>49.4</b>
Income tax expense (recovery)				4.6
Non Controlling interest				2.4
<b>Net earnings (loss)</b>				<b>\$ 42.4</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 243.0</b>	<b>\$ 136.6</b>	<b>\$ 172.1</b>	<b>\$ 551.7</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ 24.9</b>	<b>\$ -</b>	<b>\$ 154.6</b>
<b>Capital expenditures for the year</b>	<b>\$ 21.5</b>	<b>\$ 11.4</b>	<b>\$ 0.7</b>	<b>\$ 33.6</b>

#### Geographic Segmentation of Revenue

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