



## NEWS RELEASE

(All figures are in United States dollars)

### **Centerra Gold Reports Third Quarter Earnings Before Unusual Items of \$0.02 per Share**

**Toronto, Canada, October 30, 2007:** Centerra Gold Inc. (TSX: CG) today reported third quarter earnings before unusual items of \$4.8 million or \$0.02 per common share on revenues of \$98.0 million, compared to net earnings of \$11.5 million or \$0.05 per common share on revenues of \$76.3 million in the same quarter of last year.

During the third quarter of 2007, the Company recorded unusual items totaling \$95.2 million resulting in a net loss of \$90.4 million or \$0.42 per share. The unusual items include a \$90.3 million non-cash expense, which represents the value (as of September 30, 2007) associated with issuing 10 million treasury shares pursuant to a preliminary agreement with the Kyrgyz Government previously announced on August 30, 2007.

Consolidated gold production, on a 100% basis, for the third quarter of 2007 totaled 136,461 ounces in line with expectations at a total cash cost of \$440 per ounce compared to 126,030 ounces at a total cash cost of \$429 per ounce in the corresponding quarter of 2006. Cash provided by operations, net of working capital changes and other operating items was \$29.3 million compared to \$12.0 million in the third quarter of 2006.

#### **Third Quarter Highlights**

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- Revised Kumtor's 2007 forecast gold production to 300,000 ounces.
- Completed an amended Boroo Stability Agreement which reaffirms the Company's rights to exploit the Boroo gold deposit.
- Reached a preliminary agreement with the Government of the Kyrgyz Republic for its full commitment to and support for the long-term operation of the Kumtor gold deposit.
- Received confirmation from the Mongolian Minister of Finance of the Government's willingness to conclude an Investment Agreement regarding the Gatsuurt Project.
- On track to access the SB Zone in second quarter 2008.

Subsequent to quarter-end:

- Centerra, Cameco and the Government of Kyrgyz Republic have agreed to extend to February 15, 2008 the deadline for completion of previously announced preliminary agreements.
- Completed the purchase of the remaining 5% minority interest in the Boroo Mine.

For the first nine months of 2007, net earnings before unusual items were \$29.3 million or \$0.13 per common share on revenues of \$284.1 million and cash provided by operations amounted to \$44.5 million. Consolidated gold production on a 100% basis totalled 422,880 ounces at a total cash cost of \$397 per ounce. In the comparable period of 2006, Centerra reported net earnings of \$58.7 million or \$0.27 per common share on revenues of \$276.1 million and cash provided by operations of \$68.0 million. Consolidated gold production was 444,093 ounces at a total cash cost of \$359 per ounce. After reflecting the unusual items recorded in the third quarter of 2007, the Company reported a net loss of \$65.8 million or \$0.30 per share for the nine month period.

Lower net earnings for the first nine months resulted primarily from the unusual items and lower gold production and sales volumes, which were partially offset by a higher realized gold price. During the first nine months gold production was lower reflecting lower grades and recoveries at both Kumtor and Boroo.

In a news release, dated July 19, 2007, the Company reported that at the Kumtor mine independent geotechnical experts had completed their preliminary analysis of the previously reported high wall waste dump movement and the preliminary findings of the glacial till characterization. They subsequently recommended stabilizing the area by using a less steep pit wall angle (original waste dump slopes were designed at a 33 degree angle) through the underlying till layer and overlying waste dump. An independent peer review panel concluded that the experts' work had been undertaken diligently and that based on available data the overall design was reasonable. The panel suggested certain additional work to further assess the slope stability. As the lower slope angles require the removal of more waste than previously planned, access to the SB Zone ore has been delayed until the second quarter 2008. Access to the high-grade ore in the SB Zone will occur in the second half of 2008. Consequently, as stated in our July 19, 2007 news release, gold production at the Kumtor mine is forecast for 2007 to be approximately 300,000 ounces and total cash cost is expected to be \$580 per ounce.

Further technical assessment, including additional geotechnical drilling, till analysis, dewatering tests and geophysical surveys, since the first quarter, now indicates that till layers are approximately 40% thinner than originally thought and that the till appears to be amenable to dewatering and therefore the designed pit wall angle may be able to be steepened to near the original design. If the pit wall angle can be steepened to near its original design it will require the removal of much less waste than originally expected in July, which is likely to lower costs in future years. The Company expects to announce with its year-end results a revised outlook

for life-of-mine production for Kumtor including an assessment on the impact if any on the reserves and resources.

The Company announced on August 3, 2007 that it and the Mongolian Government entered into an amended Boroo Stability Agreement. The Company and the Government of Mongolia agreed that effective January 1, 2007, the Boroo Project will be subject to the generally applicable 25% corporate income tax rate, which will apply until the termination of the Boroo Stability Agreement in July 2013. In addition, effective August 3, 2007, the mineral royalty payable will be 5% rather than the 2.5% previously applicable. This agreement with the Mongolian government reaffirms the applicability of the Boroo Stability Agreement and reaffirms the Company's rights to exploit the Boroo gold deposit under a stable tax and operational regime in Mongolia.

In August, Centerra, Cameco and the Government of the Kyrgyz Republic entered into preliminary agreements on certain outstanding issues regarding the Kumtor project. The parties have agreed to extend the deadline for closing the transactions contemplated by the agreements from October 31, 2007 to February 15, 2008.

The preliminary agreements are subject to the satisfaction of certain conditions, including approval of the Parliament of the Kyrgyz Republic, Centerra's board of directors and Cameco's board of directors, the completion and signing of final agreements among Centerra, Cameco and the Government and any required regulatory or other approvals. The terms of Centerra's preliminary agreement with the Government ("Agreement on New Terms") were disclosed in the Company's news release of August 30, 2007. The Agreements on New Terms between Centerra and the Government provides for the Government's full commitment to and support for Centerra's continuing long-term operation and development of the Kumtor project, provides that Kumtor's current tax regime will be replaced with a simplified new tax rate for the Kumtor project applied to proceeds from products sold at the rate of 11% in 2008, 12% in 2009 and 13% thereafter and enlarges the Company's existing concession area by over 25,000 hectares to include all territory covered by the current exploration license. The revised tax regime is expected to provide more cash flow certainty to the Kyrgyz Republic (because taxes will be based on revenue and not income), to be beneficial to the Kumtor project at current gold prices and to reduce the administrative burden to both parties by significantly reducing the complexity of calculating and administering taxes.

Upon the satisfaction of the conditions to completion, Cameco will transfer 32.3 million shares of Centerra to the Kyrgyz Government; 17.3 million of such shares will be held in escrow to be released within four years subject to earlier release in certain circumstances. The Company has entered into an agreement with Cameco to issue 10 million treasury shares of Centerra to Cameco after the transfer of shares by Cameco to the Government. After completion of the transactions, the Kyrgyz Government will own 29.3% of Centerra, Cameco will own 40.5% and the balance, 30.2%, will be held by public shareholders.

The Government submitted the preliminary agreements for Parliamentary approval in early September 2007. The Parliament began to deliberate the issue during the first half of October. On October 8, 2007 the Parliament asked the Parliamentary Committee on Industry and Trade

to review the preliminary agreements and give its conclusion. On October 10, 2007 the Chair of the Parliamentary Committee on Industry and Trade requested additional time for consideration and the Parliament scheduled its final voting on the issue for October 22, 2007.

On October 21, 2007, the citizens of the Kyrgyz Republic voted in a referendum on drafts of a new constitution and new electoral law proposed by the President of the Kyrgyz Republic. The President signed both into law on October 23, 2007. Under the terms of the new constitution, the number of parliamentarians will increase to 90 from 75. The new electoral law contemplates party slate nomination of parliamentary candidates, rather than individual mandates. The political party holding the majority of parliamentary seats will form the new government. On October 22, 2007, the President dismissed the Parliament effective that day. New parliamentary elections have been scheduled for December 16, 2007. On October 24, 2007, the President accepted the resignation of the Prime Minister and cabinet; however the President directed them to continue to perform their duties until a new cabinet is formed following the parliamentary elections.

The agreements being considered by Parliament have been approved by the Kyrgyz Government, but Parliament was dismissed prior to voting. While approval by Parliament cannot be assured, the Kyrgyz Government has indicated that it intends resume its efforts to obtain Parliamentary approval once the new Parliament is in place and to satisfy the other conditions to completion.

## **Commentary**

“We are very pleased to have come to agreements in the quarter with the governments of our respective host countries,” said Len Homeniuk, President and CEO. “These agreements provide for stable and economically attractive operational environments, which in turn solidifies our presence in these countries. The new Boroo Stability Agreement paves the way for us to advance and finalize a Gatsurt Investment Agreement, while in the Kyrgyz Republic, the Government’s increased shareholding in the Company would further align our interests. As we complete more technical assessment and geotechnical drilling at Kumtor we are getting encouraging results regarding the till layer, which may allow us to improve on conservative designs to stabilize the waste dump slopes. We continue to be on track to access the high-grade Kumtor SB Zone in the second half of 2008”.

## **Financial Summary – Third Quarter 2007**

Revenue in the third quarter of 2007 increased to \$98.0 million from \$76.3 million in the same quarter last year reflecting higher gold sales, higher production volume and higher realized gold price. Centerra realized an average gold price of \$680 per ounce for the third quarter of 2007, an increase of \$63 over the \$617 per ounce realized in the same quarter of 2006.

Total consolidated production on a 100% basis for the three months ended September 30, 2007 at Kumtor and Boroo mines was 136,461 ounces of gold compared to 126,030 ounces of gold in the third quarter of 2006 due primarily to higher production at Kumtor as a result of higher

grades and recoveries since 2006 results were affected by the pit wall movement in July 2006. The third quarter production was down from the 153,000 ounces produced in the second quarter of 2007 due to lower production at Kumtor as a result of the lower grades and lower production at Boroo as a result of lower grades and recoveries.

Using the Gold Institute standard, Centerra's total cash cost per ounce of gold was \$440 for the third quarter, compared to \$429 recorded in the same period of 2006. The increase mainly reflects lower production at the Boroo mine as a result of lower head grades and lower recovery due to the mining of more transition ore. (Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measure – Total Cash Cost" in the Management's Discussion and Analysis for the three months ended September 30, 2007, issued in conjunction with this press release.)

For the third quarter of 2007, earnings before unusual items were \$4.8 million or \$0.02 per common share, compared to net earnings of \$11.5 million or \$0.05 per common share in the same quarter of last year, reflecting higher income taxes due to the Boroo mine becoming taxable. After recording unusual items totaling \$95.2 million in the third quarter of 2007, the Company reported a net loss after unusual items of \$90.4 million or \$0.42 per share.

For the three months ended September 30, 2007, cash provided by operations was \$29.3 million compared to \$12.0 million for the prior year third quarter reflecting lower net earnings and increased working capital levels due to the timing of gold shipments which increased inventory, and increased payables in 2007.

Capital expenditures in the third quarter of 2007 amounted to \$37.3 million of which \$8.3 million was spent on sustaining capital projects and the balance on growth projects. Centerra's cash position at the end of September, 2007 was \$133.9 million, compared to \$186.2 million at December 31, 2006. The Company has no gold hedge positions and has sufficient cash to carry out its operational business plan in 2007.

### **Operations Update – Third Quarter**

At the Kumtor mine, gold production was 78,000 ounces in the third quarter of 2007, compared to 53,000 ounces in the third quarter of 2006. During the quarter, a total of 1.4 million tonnes was milled with a mill head grade of 2.11 g/t and an average recovery rate of 77.9%, compared to 1.4 million tonnes with a mill head grade of 1.64 g/t and an average recovery rate of 64.4% in the third quarter of 2006. The higher gold production in 2007 is due to higher ore grades and recoveries reflecting the fact that 2006 production was impacted following the pit wall movement in July 2006.

Total cash costs per ounce, a non-GAAP measure of production efficiency, at Kumtor improved to \$562 in the third quarter of 2007 from \$719 per ounce in the same period in 2006. The total cash cost is down from the comparable period as a result of the higher gold production due to higher grades and improved recoveries.

The SB Underground Project has commenced with the initial berm cuts to prepare the area and allow establishment of the underground access portal. The lay down area has been established and all major and most of the minor equipment has been ordered. The mobile equipment which has been stored at the manufacturers' yards is now being transported to site. Existing Kumtor equipment will be available in November to begin the larger and more significant portal development cuts.

During the third quarter of 2007 capital expenditures at Kumtor were \$26.1 million, of which \$5.6 million was for sustaining capital and the balance on growth projects.

At the Boroo mine, gold production was 59,000 ounces in the third quarter of 2007, compared to 73,000 ounces in the third quarter of 2006. During the quarter, a total of 631,000 tonnes was milled with a mill head grade of 3.61 g/t and a recovery rate of 81.9%, compared to 640,000 tonnes with a mill head grade of 4.15 g/t and a recovery rate of 84.7% in the third quarter of 2006. Lower gold production is due the lower grade and recovery. The recovery of gold at Boroo has been negatively affected by the changing metallurgical nature of the ores in Pit #3 as they were more refractory than the oxide ores mined in previous quarters.

Total cash costs per ounce, a non-GAAP measure of production efficiency, at Boroo increased to \$280 for the third quarter of 2007 from \$220 per ounce in the same period in 2006. The increase is primarily the result of lower production and the completion of Pit 6 pre-stripping. Capitalization of pre-stripping for Pit 6 amounted to \$2.0 million in the quarter and \$7.7 million in the first nine months of 2007.

The Boroo Heap Leach Project was initiated in the spring of 2007. The heap leach construction is well underway, the emergency and pregnant ponds are 100% lined, concrete bases and footings for the recovery plant have been completed and structural steel erection for the building is underway.

The heap leach pad has been divided into four cells for operations and construction purposes. The pads' LLDPE lining system is 100% complete at cell 4 and 3 and cell 2 is 35% complete. Crushed drainage material is currently being placed on cell 4. The remaining portions of Cell 2 and Cell 1 are prepared for lining but due to the colder weather, it is planned to complete the placement of the synthetic lining system in the summer of 2008.

During the third quarter of 2007 capital expenditures at Boroo were \$10.7 million, of which \$2.6 million was for sustaining capital.

## **Exploration Update**

### **Kyrgyz Republic**

During the third quarter, exploration drilling programs continued in the Kumtor Central Pit area and at the Sarytor deposit. Drill testing of targets in the Northeast area and in proximity to the Southwest deposit was also started in the third quarter. In addition, up to four drills were also engaged in geotechnical drilling programs that are also ongoing in the Central Pit and Sarytor areas.

## **Kumtor Pit**

Three drills were active for most of the third quarter in the area of Central Pit focusing on wide-spaced drill testing for strike and down dip extensions to the main mineralized horizons in a relatively un-drilled area to the northeast of the pit high-wall. The main targets were tested over a strike length of 200 metres between 3900 metre and 3550 metre elevation levels (between 300 metres and 850 metres below surface).

Three diamond drill holes were completed to their target depths ranging from 642 metres to 921 metres. Two drill holes did not reach their planned target depths and were terminated early due to technical drilling problems. The three drill holes that were completed returned results ranging from 1.9 to 12.9 g/t Au over widths from 2.0 to 24.3 metres.

One drill hole, D1165, 500 metres northeast of the NE end of the Central Pit encountered 8.61 g/t Au over 13.9 metres at an elevation of 3,700 metres. This is at the same elevation as D1133A, approximately 700 metres to the northeast, which was completed in the first quarter of 2007 and returned an intercept of 2.1 g/t Au over 17.4 metres. Further drilling is required to determine continuity of the mineralization. True widths of the mineralized zones are typically from 70% to 95% of the stated intercepts.

Drilling is continuing in the fourth quarter of 2007 to further test the northerly strike extension of the Kumtor mineralized structure with widely spaced drill holes at different elevations.

## **Sarytor**

One drill was active on exploration targets in the Sarytor area with seven holes completed to test the steeply dipping mineralized structure identified on the northwest corner of the Sarytor deposit outside of the planned open pit. This zone was first intersected in hole SR 06-151, completed in the fourth quarter of 2006, which returned an intercept of 3.36 g/t Au over 79.8 metres. Two of the three follow up holes completed in the first quarter of 2007 intersected the steeply dipping mineralized structure that returned assays of 4.34 g/t Au over 68.8 metres and 1.99 g/t Au over 14.2 metres. Of the seven holes completed in the third quarter of 2007, five intersected significant mineralization that has confirmed the previously identified mineralized zone and extended the mineralized zone 100 metres to the northeast with results ranging from 1.3 to 8.4 g/t Au over widths from 1.0 to 25.2 metres. True widths of the mineralized zones are typically from 70% to 95% of the stated intercepts.

Further drilling will be conducted in the fourth quarter to test the down dip and strike extensions of the NE-SW striking mineralized zones.

A complete listing of the drill results and supporting maps for the Kumtor pit and Sarytor are available at the company's web site at: [www.centerragold.com](http://www.centerragold.com)

## **Political Environment**

### **Kyrgyz Republic**

There is a discussion of Kyrgyz Republic political matters earlier in this release.

### **Mongolia**

On August 3, 2007 the Company's subsidiary Boroo Gold Company entered into an amended Boroo Stability Agreement with the Government of Mongolia reaffirming Centerra's rights to exploit the Boroo gold deposit under a stable tax and operational regime.

Centerra and the Government of Mongolia agreed that, effective January 1, 2007, the Boroo project will be subject to the generally applicable 25% corporate income tax rate, which will apply until the termination of the Boroo Stability Agreement in July 2013. Under the previous agreement, Centerra was subject to income tax at the rate of 20% for the three-year period commencing March 1, 2007 and 40% thereafter. In addition, effective August 3, 2007, the mineral royalty payable will be 5% rather than the 2.5% previously applicable. This agreement with the Mongolian government reaffirms the applicability of the Boroo Stability Agreement.

Centerra also received a letter from the Minister of Finance confirming the government's willingness to conclude an Investment Agreement on the Gatsuurt project and to advance the approval and registration of reserves with the applicable Mongolian authorities, and anticipates such registration may be completed this fall. An agreement on Gatsuurt will solidify Centerra's current position in Mongolia, provide for a stable operational environment, and allow Centerra to review its exploration and growth strategy.

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, Parliament may designate deposits as strategic and the State may take up to a 34% interest in those strategic deposits in respect of which exploration was funded privately or 50% interest in those strategic deposits in respect of which exploration was funded by the State. On February 6, 2007, Parliament designated the Boroo deposit as strategic but resolved that the State would take no interest as the deposit would continue to be subject to the terms of the existing amended Stability Agreement. While the Government has acknowledged that neither the windfall profit tax nor the strategic deposit provisions will apply to the Boroo project, 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. The government seems to be preoccupied with establishing investment agreements for all the designated strategic deposits and accordingly is placing little emphasis on advancing Gatsuurt.

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 does 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 on-going settlement discussions between CGM and Gatsuurt LLC.

On March 13, 2007, the Company suspended its development operations at Gatsuurt, other than those necessary to maintain the property in good standing and comply with permits, pending finalization of the terms of an investment agreement with the Government and the claim by Gatsuurt LLC being resolved. As at September 30, 2007, the Company has made an aggregate of \$19 million in expenditures on the exploration and development of Gatsuurt and the property has a recorded book value of \$2.4 million. Upon a satisfactory investment agreement being reached and the claim by Gatsuurt LLC being resolved, the Company expects to begin the first stage of development of Gatsuurt, budgeted at \$20 million, to construct a 54 kilometre access road and mine facilities at Gatsuurt, procure required mobile mining equipment and expand the camp at Boroo to allow for processing of Gatsuurt ore.

### **Board Changes**

Mr. Jerry Grandey, President and Chief Executive Officer of Cameco Corporation has retired from the Board of Directors of Centerra. Mr. Kim Goheen Senior Vice President and Chief Financial Officer of Cameco, has been appointed to the Board to fill this vacancy.

### **Outlook for 2007**

Gold production for the full year 2007 at the Kumtor mine is forecast to be approximately 300,000 ounces as a result of the implementation of the stabilization plan for the SB Zone pitwall as previously disclosed on July 19, 2007. Total cash cost for 2007 is expected to be \$580 per ounce.

At Boroo, the Company expects, on a 100% basis, production of 250,000 to 260,000 ounces of gold in 2007. Total cash cost is expected to be \$250 to \$260 per ounce in 2007.

Overall, Centerra expects consolidated gold production in 2007 of 550,000 to 560,000 ounces. Total cash costs are expected to be \$430 to \$440 per ounce in 2007.

In terms of sensitivity of results for the last six months of 2007, a \$25 per ounce change in the gold spot price is anticipated to affect revenues, net earnings and cash from operations by approximately \$3.3 million, \$2.7 million or \$0.01 per share and \$2.7 million, respectively.

The outlook noted above for the Company is based on the following key assumptions:

- no significant changes in our estimates of future production or costs,
- no delays in or interruption of production from our mines or in our development activities, and
- all necessary permits, licences and approvals are received in a timely manner.

### **Qualified Person**

The new drilling results for Kumtor in this news release and on Centerra's website and the 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 Annual Information Form (the "AIF") for the year ended December 31, 2006 and in a technical report dated March 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 Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site are the same as, or similar to, those described in the technical report.

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

Certain information contained or incorporated by reference herein which are not historical facts are "forward-looking statements" within the meaning of certain securities laws, including the Securities Act (Ontario). Such forward-looking statements involve 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 statements. All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us, are inherently subject to significant 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 statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things: volatility and sensitivity to market prices for gold; replacement of reserves; procurement of required capital equipment and operating parts and supplies; equipment failure; unexpected geological or hydrological conditions; inability to enforce legal rights; defects in title; litigation or arbitration proceedings in which third parties claim title to properties or assets of the Company; imprecision in reserve estimates; success of future exploration and development initiatives; competition; operating

performance of the facilities; environmental and safety risks including increased regulatory burdens; seismic activity, weather and other natural phenomena; the speculative nature of exploration and development, including the risks of obtaining necessary permits and approvals from government authorities; changes in national and local government legislation, taxation, controls, regulations, policies and political or economic developments in Canada, the United States, Mongolia, Kyrgyzstan, or other countries in which we do or may carry on business in the future; employee relations; and other development and operating risks. For further discussion of the factors that could cause actual results to differ materially, please refer to Centerra's Annual Information Form and Annual Management's Discussion and Analysis for the year ended December 31, 2006, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **About Centerra**

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

## **Conference Call**

Centerra invites you to join its third quarter conference call on Wednesday, October 31, 2007 at 11:00 am. Eastern Time. The call is open to all investors and the media. To join the call, North American participants should dial the toll-free number (800) 926-5085. International participants may access the call at (212) 231-2911. The call will also be web cast live on the internet at [www.centerragold.com](http://www.centerragold.com). An audio recording of the call will be available on [www.centerragold.com](http://www.centerragold.com) approximately two hours after the call and via telephone until midnight on Wednesday, November 7, 2007 and can be accessed by calling (800) 558-5253 or (416) 626-4100 and using the passcode 21352736.

## **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).

## Management’s Discussion and Analysis (“MD&A”)

The following discussion of the financial condition and results of operations of Centerra Gold Inc. (“Centerra” or the “Company”) for the three and nine month periods ended September 30, 2007 has been prepared as of October 29, 2007 (unless otherwise noted) and should be read in conjunction with the unaudited interim consolidated financial statements and the notes of the Company for the three and nine month periods ended September 30, 2007. 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, 2006, the related MD&A included in the 2006 Annual Report, and the 2006 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 2006 Annual Report and Annual Information Form are available at [www.centerragold.com](http://www.centerragold.com) and on 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 nine month periods ended September 30, 2007 reflect fully consolidated interests in the Kumtor and Boroo mines, a 62% interest in the REN joint venture and a 100% interest in the Gatsuurt project.

## Highlights

Financial Summary	Three Months Ended September 30				Nine Months Ended September 30			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Revenue - \$ millions	98.0	76.3	21.7	28%	284.1	276.1	8.0	3%
Gross profit - \$ millions <sup>(1)</sup>	22.5	8.8	13.7	156%	79.7	79.6	(0.1)	0.1%
Net earning (loss) before unusual items - \$ millions	4.8	11.5	(6.7)	(58%)	29.4	58.7	(29.3)	(50%)
Unusual items - \$ millions	95.2	0.0	95.2	100%	95.2	0.0	95.2	100%
Net earnings (loss) after unusual items - \$ millions	(90.4)	11.5	(101.9)	(886%)	(65.8)	58.7	(124.5)	(212%)
Earnings (loss) per common share after unusual items - \$ - basic & diluted	(0.42)	0.05	(0.47)	(940%)	(0.30)	0.27	(0.57)	(211%)
Cash provided by operations - \$ millions	29.3	12.0	17.3	144%	44.5	68.0	(23.5)	(35%)
Weighted average shares outstanding - basic & diluted (thousands) <sup>(3)</sup>	216,300	216,239	61.0	0.0%	216,271	216,239	32.0	0.0%
<b>Operating Summary</b>								
Gold sold - ounces	144,205	123,608	20,597	17%	427,381	464,187	(36,806)	(8%)
Gold poured - ounces	136,461	126,030	10,431	8%	422,880	444,093	(21,213)	(5%)
Average realized gold price - \$/oz	680	617	63	10%	665	595	70	12%
Average gold spot market price - \$/oz	680	622	58	9%	666	601	65	11%
Total cash cost <sup>(2)</sup> - \$/oz	440	429	11	2%	397	359	38	11%

(1) Gross profit equals total revenues less cost of sales and depreciation, depletion and reclamation and accretion.

(2) Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measure – Total Cash Cost".

(3) As of October 29, 2007, the Company had 216,318,188 common shares issued and outstanding.

## **Three Month Period Ended September 30, 2007 compared with the Three Month Period Ended September 30, 2006**

### **Gold Production and Revenue**

Revenue increased in the third quarter of 2007 to \$98.0 million from \$76.3 million in the same quarter of 2006 due to higher gold production and sales, and higher realized gold prices. The Company produced 136,461 ounces of gold in the third quarter of 2007, which was more than the 126,030 ounces of gold reported in the third quarter of 2006. The increased gold production was

mainly due to higher production at Kumtor. The higher production at Kumtor was attributable to milling ore grades averaging 2.11 g/t in the third quarter of 2007 compared to the 1.64 g/t mined in same quarter of 2006, which was lower immediately following the pitwall movement reported in July 2006. The Company's higher overall gold production was partially offset by decreased gold production at Boroo resulting from lower ore grade and recovery. The recovery of gold at Boroo has been negatively affected by the changing metallurgical nature of the ores in Pit #3 as they were more refractory than the oxide ores mined in previous quarters.

Centerra realized an average gold price of \$680 per ounce for the third quarter of 2007, an increase of 10% from the \$617 per ounce realized in the same quarter of 2006. Since Centerra's gold production is unhedged and gold is sold at the prevailing spot price, the increase in average realized gold price was due to higher spot gold prices which averaged \$680 per ounce for the period.

### **Cost of sales**

Cost of sales was \$63.7 million in the third quarter of 2007 compared to \$58.5 million in the same quarter of 2006.

Quarter over quarter, costs at Kumtor increased due to higher mine fleet maintenance costs (\$5.7 million), major mine and mill consumables and reagents (\$4.5 million) and labour costs (\$2.9 million). A portion of these increases was allocated to increased capital spending, including pre-stripping the SB Zone (\$8 million). The mine fleet maintenance cost increased due to the ageing condition of the CAT 777 truck fleet, which requires additional maintenance efforts to keep operational, and the additional costs of maintaining the new equipment, which includes thirty 785 CAT haul trucks and four Liebherr shovels. Major mine and mill reagents and consumables costs increased due primarily to higher prices (generally pervasive in the industry) and consumption resulting from increased material movement. Expenditures on labour have increased predominantly as a result of the collective bargaining agreement that was entered into in the first quarter of 2007, including the high altitude coefficient adjustment from 1.75 to 2.40, which increases premiums paid to employees working at the mine site.

Boroo's cost of sales is essentially unchanged from 2006. Increased cost of mine and mill consumables and reagents (\$0.7 million), royalties (\$0.6 million) and maintenance (\$0.7 million) are offset by increased capital spending including pre-stripping costs of pit 6 (\$1.6 million). Royalties paid in respect of the Boroo operation increased as a result of amendments in the third quarter of 2007 to the stability agreement with the Mongolian Government, which increased the royalty rate from 2.5% to 5% effective August 3, 2007. Maintenance costs have increased because of the wear and tear component replacement and the implementation of an asset management program.

The impact of these cost changes on cost of sales and other reported results varies with the changing levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

On a unit basis, the Company's total cash cost per ounce was \$440, up from \$429 in the third quarter of 2006 primarily due to increased operating costs (\$50 per ounce) described above partially offset by increased gold production which reduced unit cash cost by \$39 per ounce.

## **Depreciation, Depletion and Amortization**

Depreciation, depletion and amortization for the third quarter of 2007 increased to \$11.4 million from \$8.8 million in the same quarter of 2006, mainly due to higher depreciation of Kumtor's truck fleet. On a per unit basis, depreciation, depletion and amortization for the third quarter of 2007 was \$78 per ounce sold compared to \$70 per ounce sold in the same quarter of 2006, reflecting the addition of capital equipment at Kumtor, and partially offset by increased production.

## **Accretion and Reclamation Expense**

Accretion and reclamation expense in the third quarter of 2007 increased to \$0.6 million, compared to \$0.3 million in the same quarter of 2006, as a result of higher estimated closure costs at Boroo resulting from heap leach being included for the first time in the reclamation plan.

## **Exploration**

Exploration costs in the third quarter of 2007 decreased to \$3.9 million from \$6.0 million in the same quarter of 2006 reflecting lower exploration spending at Kumtor by \$1.3 million due to a focus in the quarter on geotechnical drilling which required the relocation of drilling equipment from exploration activities, and lower exploration spending at REN in Nevada.

## **Interest and Other**

Interest and other in the amount of \$1.0 million in the third quarter of 2007, reflects interest earned on the Company's cash and short-term investments of \$1.5 million partially offset by other miscellaneous expenses. In the same quarter of 2006 interest and other was \$15.8 million, of which \$13.6 million related to an insurance settlement at Kumtor and \$2.5 million represented interest income. Reduction of interest income to \$1.5 million in the third quarter of 2007 from \$2.5 million in the same quarter of 2006 reflects lower cash balances which averaged approximately \$136 million during the third quarter of 2007 compared to \$218 million for the same quarter of 2006. As of the date of this MD&A, the Company has \$10 million of interest-bearing debt outstanding.

## **Administration**

Administration costs for the third quarter 2007 were \$4.2 million compared to \$5.2 million in the same quarter of 2006. The decrease is primarily due to lower stock-based compensation expense reflecting a 15% decrease in the share price in the 2007 period.

## **Income Tax Expense**

Income tax in the amount of \$9.6 million was expensed during the third quarter of 2007, compared to \$0.4 million expensed in the same quarter of 2006. The \$9.2 million increase in income tax in the third quarter of 2007 is primarily the result of Boroo becoming subject to tax.

On August 3, 2007, Boroo Gold Company Limited, a subsidiary of the Company and the owner and operator of the Boroo mine, entered into an agreement with the Mongolian Government to amend

the Stability Agreement governing the Boroo mine. The amendments provide that, effective January 1, 2007, the Boroo project became subject to the generally applicable 25% corporate income tax rate, which will apply until the termination of the Stability Agreement in July 2013. Under the previous agreement the Boroo project was subject to income tax at the rate of 20% for the three-year period commencing March 1, 2007 and 40% thereafter. As a result of the change an additional tax expense in the amount of \$3.9 million was recorded in the third quarter of 2007 to reflect the additional income tax payable for the first two quarters of 2007. The balance of the quarter over quarter increase relates to Boroo being taxable in the third quarter of 2007 but was not in 2006.

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 the satisfaction of certain conditions, including approvals by parliament and Centerra’s board of directors and the completion and signing of definitive agreements. The parties have agreed to extend the deadline for closing the transactions contemplated by the agreements from October 31, 2007 to February 15, 2008. The Agreement on New Terms provides that, effective January 1, 2008, Kumtor will be subject to tax on proceeds from products sold, rather than income, at the rate of 11% in 2008, 12% in 2009 and 13% thereafter. Subject to the terms of the definitive agreement to be completed, the future tax asset recorded as at September 30, 2007 may not be realizable resulting in a potential future charge to earnings arising of \$4.3 million.

Losses incurred in the North American segment, including the expense incurred in respect of the issuance of 10 million treasury shares on implementation of the Agreement on New Terms, have not been tax affected.

### **Net Earnings (loss) Before Unusual Items**

Net earnings before unusual items for the quarter were \$4.7 million after tax and minority interest or \$0.02 per share, compared to \$11.5 million or \$0.05 per share for the same period in 2006, reflecting increased overall costs and higher income taxes due to the Boroo mine becoming taxable in 2007, partially offset by increased revenues due to higher gold production and prices.

### **Unusual Items**

In connection with the Agreement on New Terms, the Company entered into an agency agreement with Cameco Corporation (“Cameco”), the majority shareholder of the Company, on August 30, 2007 (the “Agency Agreement”) which provides for the issuance of 10 million treasury shares (the “Treasury Shares”) to Cameco. Based on the closing price of the Company’s shares on September 30, 2007, the Treasury Shares will result in an estimated expense of \$90.3 million. The issuance of the Treasury Shares is subject to completion of the transactions and agreements contemplated by the Agreement on New Terms. The final cost of the Treasury Shares, once the transactions and agreements have been completed, will be equal to the closing price of the Company’s shares on the date of issuance. In addition, an accrual of \$1.8 million concerning a loan to state-owned Kyrgyzaltyn JSC (“Kyrgyzaltyn”) to be forgiven pursuant to the Agreement on New Terms was recognized in the third quarter of 2007. See “Other Corporate Developments – Kyrgyz Republic”.

In Mongolia, the Company is engaged in on-going settlement discussions in relation to a dispute concerning the Gatsurt project. In anticipation of a possible settlement, Centerra Gold Mongolia Limited has made a \$3 million provision against third quarter earnings. See “Other Corporate Developments – Mongolia”.

### **Net earnings (loss) After Unusual Items**

Net loss after unusual items for the third quarter of 2007 was \$90.4 million, or \$0.42 per share, compared to net earnings of \$11.5 million, or \$0.05 per share, for the same quarter of 2006, reflecting the unusual items discussed above.

### **Liquidity and capital resources**

Cash provided from operations was \$29.2 million for the third quarter of 2007 compared to \$12.0 million for the same quarter of 2006, reflecting reduced working capital levels during the third quarter of 2007 due to an increase in payables, and the timing of gold shipments which decreased inventories and receivables. This was partially offset by an increase in supplies inventory at Kumtor and reduced earnings due to lower gold production at Boroo.

Cash used in investing activities in the third quarter of 2007 was \$33.9 million for capital spending, compared to \$19.4 million in the same quarter of 2006. In the third quarter of 2007, Centerra spent \$8.3 million on sustaining capital projects and \$25.6 million on growth projects. Expenditures on growth projects at Kumtor included \$10.3 million in SB Zone pre-stripping, \$4.4 million for underground development and \$1.4 million for haul trucks, shovels and other fleet equipment. At Boroo, sustaining capital projects were \$2.6 million and growth capital included \$1.6 million in Pit 6 pre-stripping and \$6.0 million for the heap leach project.

Cash on hand was \$133.9 million at the end of the third quarter of 2007, compared to \$186.2 million at December 31, 2006.

The Company has sufficient cash to carry out its operational business plan for 2007. For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

### **Nine Month Period Ended September 30, 2007 Compared with the Nine Month Period Ended September 30, 2006**

Revenue for the first nine months of 2007 increased by \$8.0 million, or 2.9%, to \$284.1 million compared to \$276.1 million in the same period of 2006 due primarily to higher gold prices which was partially offset by lower gold production and sales. Gold production of 422,880 ounces in the first nine months of 2007 was lower than the 444,093 ounces reported in the same period of 2006 mainly as a result of lower production at Kumtor due to lower recoveries resulting primarily from problems blending oxide ore from the South West Pit. In addition, the mill experienced higher than normal down time from repairs to the crusher and the Petrov Lake pump station. In addition, Boroo had lower grades and recoveries due to an increase in mining of transition ore. The average realized

gold price for the first nine months of 2007 was \$665 per ounce compared to \$595 per ounce in the same period of 2006 reflecting higher spot prices for gold.

Net earnings before unusual items in the first nine months of 2007 were \$29.3 million after tax of \$22.3 million and minority interest of \$3.0 million compared to \$58.7 million after tax of \$2.3 million and minority interest of \$3.4 million for the same period in 2006. This reflects Boroo's taxable status for 2007 (not taxable in 2006) and lower production at Kumtor, partially offset by higher gold prices.

Net loss after unusual items in the first nine months of 2007 was \$65.8 million, or \$0.30 per share, compared to net earnings of \$58.7 million, or \$0.27 per share, in the same period of 2006. The decrease reflects unusual items in the third quarter of 2007.

Cash flow provided by operations for the first nine months of 2007 was \$44.4 million compared to \$68.0 million in the same period of 2006 reflecting lower net earnings and increased equipment supplies due to the enlarged fleet at Kumtor. Cash used in investing activities totaled \$107 million in the nine months of 2007 compared to \$54 million in the prior year, reflecting increased spending on growth projects at Kumtor. Net cash decreased to \$133.9 million from \$216.3 million because of the Company's capital spending program.

During the second quarter of 2007 Centerra Gold Mongolia LLC, a subsidiary of the Company, entered into a \$10 million demand loan facility with HSBC. Funds drawn may be used for the proposed development of the Gatsuurt gold project in Mongolia. The loan is secured by the Gatsuurt mining licenses and related assets, and is guaranteed by Centerra Gold Inc. At September 30, 2007, the full amount available under the facility was drawn. Interest accrues at LIBOR plus 250 basis points.

## **Share capital**

As of October 29, 2007, Centerra had 216,318,188 shares outstanding and 941,335 share options outstanding under its stock option plans with exercise prices ranging between Cdn\$5.17 and Cdn\$12.78 per share, and with expiry dates ranging between 2012 and 2015.

Under the terms of the framework agreements between Cameco, Centerra and the Government of the Kyrgyz Republic, as disclosed in the Company's news release of August 30, 2007, the Company has agreed to issue 10 million treasury shares to Cameco in connection with the transfer of Centerra shares by Cameco to the Government of the Kyrgyz Republic. See "Other Corporate Developments – Kyrgyz Republic".

## **Gold hedges**

The Company had no gold hedges in place in the third quarter of 2007 and as a result no deferred charges were recognized. Deferred charges at December 31, 2006, net of deferred revenue, related to the closing of the Company's gold hedges in 2004 were recorded in the first quarter of 2007. During the third quarter of 2006, Centerra recorded \$0.6 million of deferred charges in the income statement.

## Market Update

A significant factor in determining profitability and cash flow from the Company's operations is the price of gold. The spot market gold price was approximately \$743 per ounce at the end of the Company's third quarter of 2007, which was also the high for the period. For the three months ended September 30, 2007, the gold price averaged \$680 per ounce compared to \$622 per ounce for the same period in 2006.

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic and Mongolia, and its corporate head office is in Toronto, Canada. During the first nine months of 2007, approximately 31%, 16% and 11% of Centerra's operating costs and capital expenditures were denominated in the currencies of the Kyrgyz Republic, Mongolia and Canada, respectively. Between December 31, 2006 and September 30, 2007, the U.S. dollar fell against the currencies of the Kyrgyz Republic and Canada by about 3.3% and 14.8%, respectively and appreciated against the Mongolian currency by 1.7%. The impact of these movements over the nine months to September 30, 2007 has been to increase costs by an estimated \$0.8 million after allowing for the natural hedge provided by the Canadian dollars held by the Company since the end of the prior year. The Company also purchased for the nine months to September 30, 2007 approximately 7.2% and 17.1% of its operating supplies from China and Russia, respectively. Although these purchases are denominated in U.S. dollars, changes in the value of the U.S. dollar have an impact on the price of those goods. This impact cannot be quantified due to other market forces affecting the prices.

## Mine Operations

Operating and financial results of the Kumtor and Boroo mines are shown on a 100% basis. Centerra owns 100% of Kumtor and 95% of Boroo. Subsequent to September 30, 2007 Centerra purchased the remaining 5% of Boroo. See Other Corporate Developments – Mongolia.

### **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 6.1 million ounces. During the third quarter of 2007, Kumtor experienced one lost-time accident. There were no material environmental incidents during the quarter.

Kumtor Operating Results	Three Months Ended September 30				Nine months ended September 30			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Sales volume - ounces	82,397	53,953	28,444	53%	229,103	263,480	(34,377)	(13%)
Revenue - \$ millions	55.8	33.7	22.1	66%	152.6	156.6	(4)	(3%)
Average realized price - \$/oz	677	626	51	8%	666	595	71	12%
Tonnes mined - 000s	30,902	21,574	9,328	43%	83,274	62,403	20,871	33%
Tonnes ore mined - 000s	941	283	658	233%	3,397	2,839	558	20%
Tonnes milled - 000s	1,441	1,426	15	1%	4,151	4,355	(204)	(5%)
Average mill head grade - g/t <sup>(1)</sup>	2.11	1.64	0.47	29%	2.29	2.29	0.00	0%
Recovery - %	77.9	64.4	13.5	21%	72.9	73.9	(1.0)	(1%)
Ounces poured	77,504	52,665	24,839	47%	226,940	241,105	(14,165)	(6%)
Total cash costs - \$/oz <sup>(2)</sup>	562	719	(157)	(22%)	558	480	78	16%
Capital expenditures - \$ millions	26.1	15.8	10.3	65%	72.1	42.7	29.4	69%

(1) g/t means grams per tonne.

(2) Total cash cost is a non-GAAP measure and is discussed under “Non-GAAP Measure – Total Cash Cost”.

### **Revenue and Gold Production**

In the third quarter of 2007, revenue from Kumtor was \$55.8 million compared to \$33.8 million in the same period of 2006. The increase is mainly due to the higher sales volumes and higher realized gold prices. Production was 77,504 ounces, compared to 52,665 ounces poured in the same quarter of 2006. The higher production was attributable primarily to ore grades averaging 2.11 g/t in the third quarter of 2007 compared to 1.64 g/t in the same quarter of 2006, which was lower immediately following the pitwall movement reported in July 2006.

Revenue for the first nine months of 2007 was \$152.6 million compared to \$156.6 million in the same period of 2006. The decreased sales volumes reflect the year to date reduced production due to lower tonnage milled and lower recoveries resulting in 14,000 fewer ounces poured. This was partially offset by the higher realized price per ounce. The lower throughput arose as a result of settling problems experienced throughout the first half of 2007 with the mill flotation thickener and blending problems resulting from the processing of oxide ore from the South West Pit. Further, in 2007 year to date, repairs to the crusher, a ball mill pinion and clutch failure, Petrov Lake pump station repairs and flange bolts replacement on the ball mill contributed to increased downtime and therefore lower throughput.

The higher average realized gold price per ounce for both the three and nine month periods of 2007 was due to higher gold spot prices.

## **Costs**

Costs at Kumtor increased \$14.5 million for the third quarter 2007 compared to the same quarter of 2006 and \$29.9 million for the first nine months of 2007 compared to the same period of 2006. Costs increased primarily due to higher mine fleet maintenance costs (\$12.1 million vs. \$6.4 million for the quarter and \$27.1 million vs. \$17.1 million for the year-to-date ), higher costs of major mine and mill reagents and consumables (\$16.4 million vs. \$11.9 million for the quarter and \$43.4 million vs. \$33.7 million year-to-date) and higher expenditures on labor (\$12.9 million vs. \$10.0 million for the quarter and \$37.0 vs. \$29.9 million year-to-date). Mine fleet maintenance costs increased due to ageing of the equipment requiring extra maintenance efforts to help ensure availability of the fleet, as well as the costs of maintaining additional new equipment including thirty 785 haul trucks and four Leibherr shovels. Major mine and mill reagents and consumables costs increased primarily due to higher prices and higher consumption resulting from higher material movement. Expenditures on labour increased predominantly as a result of the resolution of the collective bargaining agreement in the first quarter of 2007, including the high altitude coefficient adjustment from 1.75 to 2.40 increasing wages paid to employees working at the mine site. The ultimate impact of these cost changes on the reported results is dependant on the relative levels of capital and operating activities and the buildup or drawdown of inventories during the periods presented.

Total cash costs per ounce were \$562 and \$558 in the third quarter and first nine months of 2007, respectively, compared to \$719 and \$480 in the same periods in 2006. The third quarter decrease in total cash costs per ounce was due to higher production resulting from a higher average ore grade being processed and higher recoveries. The increase in the year-to-date cash cost per ounce was largely due to lower production resulting from lower mill throughput and lower recoveries.

## **Exploration**

Exploration expenditures totaled \$2.3 million for the third quarter of 2007 and \$8.9 million year-to-date, compared to \$3.6 million and \$10.4 million in the same periods in 2006. The expenditures relate primarily to ongoing drilling at the northeastern end of the Central pit and the Sarytor deposit, along with reconnaissance drilling at the Northeast and Southwest prospects.

## Boroo - 100% basis

Located in Mongolia, this open pit mine was the first hard rock gold mine in Mongolia and to date has produced 1 million ounces. During the third quarter of 2007, the mine had no reportable lost-time injuries and no environmental exceedances.

Boroo Operating Results	Three Months Ended September 30				Nine months ended September 30			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Gold sold - ounces	61,808	69,655	(7,847)	(11%)	198,278	200,707	(2,429)	(1%)
Revenue - \$ millions	42.3	42.6	(0.3)	(1%)	131.5	119.5	12.0	10%
Average realized gold price - \$/oz	684	611	73	12%	663	595	68	11%
Tonnes mined - 000s <sup>(1)</sup>	5,242	5,167	75	2%	15,497	13,300	2,197	17%
Tonnes ore mined - 000s <sup>(2)</sup>	552	871	(319)	(37%)	1,638	2,279	(641)	(28%)
Tonnes milled - 000s	631	640	(9)	(1%)	1,899	1,781	118	7%
Average mill head grade - g/t <sup>(3)</sup>	3.61	4.15	(0.54)	(13%)	3.76	4.05	(0.29)	(7%)
Recovery - %	81.9	84.7	(2.8)	(3%)	85.3	87.8	(2.5)	(3%)
Gold produced - ounces	58,957	73,365	(14,408)	(20%)	195,940	202,988	(7,048)	(4%)
Total cash costs - \$/oz <sup>(4)</sup>	280	220	60	27%	211	215	(4)	(2%)
Capital expenditures - \$ millions	10.7	3.0	7.7	256%	27.9	10.1	17.8	176%

(1) Includes heap leach material of 951,359 tonnes with an average grade of 1.11 g/t in the third quarter of 2007 and 2,818,877 tonnes with an average grade of 0.93 g/t in the nine months ended 2007.

(2) Excludes heap leach ore.

(3) g/t means grams per tonne.

(4) Total cash cost is a non-GAAP Measure and is discussed under "Non-GAAP Measure – Total Cash Cost".

## Revenue and Gold Production

In the third quarter of 2007, revenue decreased to \$42.3 million from \$42.6 million in the same period in 2006, reflecting the higher year-over-year realized gold price offset by a lower sales volume. Gold production in the third quarter of 2007 was 58,957 poured ounces, compared to 73,365 poured ounces in the same quarter of 2006, reflecting lower average mill head grades and lower recoveries. The recovery of gold at Boroo has been negatively affected by the changing metallurgical nature of the ores in Pit #3 as they were more refractory than the oxide ores mined in previous quarters.

Revenue for the first nine months of 2007 was \$131.5 million compared to \$119.5 million in the same period of 2006, due to higher realized gold prices partially offset by reduced sales volumes. The third quarter and nine month, year-over-year, higher average realized gold price was due to higher gold spot prices.

## **Costs**

Costs at Boroo were generally stable, increasing \$1.9 million for the third quarter of 2007 compared to the same quarter of 2006 and \$4.1 million for the first nine months of 2007 compared to the same period in 2006. For the third quarter of 2007 increased cost of consumables (\$0.7 million), royalties (\$0.6 million) and maintenance (\$0.7 million) are offset by increased capital spending including pre-stripping of pit 6 (\$1.6 million). Royalties paid in respect of the Boroo operation increased as a result of amendments in the third quarter of 2007 to the stability agreement with the Mongolian Government which increased the royalty rate from 2.5% to 5% effective August 3, 2007. Maintenance costs increased because of wear and tear component replacement and the initial effects of initiating an asset management system. The ultimate impact of these cost changes on reported results is dependant on the relative levels of capital and operating activities and buildup or drawdown of inventories during the periods presented.

Total cash costs per ounce increased to \$280 in the third quarter of 2007, compared to \$220 in the third quarter of 2006, and were generally unchanged for the first nine months of 2007 (\$211), compared to \$215 for the first nine months of 2006. The increase in the third quarter of 2007 resulted from 14,000 fewer ounces poured due to the lower head grades and lower recoveries.

## **Exploration**

Exploration expenditures in the third quarter of 2007 in Mongolia totaled \$0.5 million, unchanged from the third quarter of 2006.

## **Other Financial Information – Related Party Transactions**

### **Cameco Corporation**

Centerra is a subsidiary of Cameco Corporation (“Cameco”). Centerra and its subsidiaries maintain inter-company advances to and from Cameco and several of its subsidiaries. Centerra will repay these advances, which are non-interest bearing and payable on demand, in the ordinary course of business.

Costs associated with the enhancement of internal controls at Centerra were shared with Cameco up to February 28, 2007, resulting in a charge of Cdn\$0.3 million to the end of the third quarter of 2007 (Cdn\$4.0 million was charged during the first nine months of 2006).

The balance receivable from Cameco at September 30, 2007 was Cdn\$0.9 million (Cdn\$3.8 million was receivable at December 31, 2006).

## Kyrgyzaltyn and the Government of the Kyrgyz Republic

Revenues from the Kumtor mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to State-owned Kyrgyzaltyn JSC (“Kyrgyzaltyn”), a significant shareholder of the Company.

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

	Three months ended September 30 (\$ thousands)		Nine months ended September 30 (\$ thousands)	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Management fees paid by KGC to Kyrgyzaltyn	124	81	344	395
Concession payments paid by KGC to Kyrgyz Republic	330	216	916	1,054
Total	454	297	1,260	1,449
Gross gold and silver sales from KGC to Kyrgyzaltyn	56,109	34,439	153,613	158,838
Deduct: refinery and financing charges	(334)	(259)	(929)	(1,214)
Net sales revenue received by KGC from Kyrgyzaltyn	55,775	34,180	152,684	157,624

During the first nine months of 2007, the Company paid to the Government and expensed \$1.4 million pursuant to an agreement dated December 7, 2006 between the Government, KGC, Centerra and Kyrgyzaltyn regarding payments in connection with the 1998 Barskoon cyanide spill. The money has been distributed to members of the local communities by a Government committee created for such purpose. The total amount advanced to September 30, 2007 was \$4.4 million. Pursuant to the Agreement on New Terms with the Kyrgyz Government signed on August 30, 2007, the Company has agreed to consider forgiving the loan portion of such amount (\$2.2 million). See “Other Corporate Developments – Kyrgyz Republic”. For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

Kyrgyzaltyn and KGC have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended (the “GPA”) and extended most recently effective September 6, 2007, that until the earlier of (i) November 15, 2007 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 is required to pay interest on unpaid amounts equal to LIBOR plus 0.25%. Prior to the effective date of the GPA, Kumtor shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA Kyrgyzaltyn had agreed to sell before November 15, 2007, a sufficient number of Centerra shares to yield \$12 million of proceeds. 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 September 30, 2007, \$7.4 million was outstanding under this agreement. The Company expects to further extend the GPA from November 15, 2007 to February 15, 2008.

## **Other**

The Company paid Cdn\$133,100 in the third quarter of 2007 and Cdn\$413,155 in the nine months ended September 30, 2007 (compared to Cdn\$115,000 and Cdn\$493,000 for the corresponding periods in 2006) to Ms. Marina Stephens, a lawyer and the spouse of the President and Chief Executive Officer of the Company, Mr. Leonard Homeniuk. Ms. Stephens provides independent legal and business advisory services related to the Company's international operations under the terms of a consulting contract.

As at September 30, 2007, a relocation loan in the amount of Cdn\$250,000 was outstanding with Mr. Homeniuk. The principal amount of the loan is payable in September 2010, while interest is treated as a taxable benefit to Mr. Homeniuk.

## **Quarterly Results – Last Eight Quarters**

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, offset by the rising cash costs and reduced production at Kumtor due to the pitwall movement in July 2006 and subsequent change in the mine plan. The results for the third quarter of 2007 reflect the impact of \$95.2 million of unusual charges taken in the quarter.

<i>\$ millions, except per share data</i>								
	2007			2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	98	104	82	88	76	107	93	75
Net earnings (loss)	(90)	19	6	2	12	29	18	6
Earnings (loss) per share (basic and diluted)	(0.42)	0.09	0.03	0.01	0.05	0.13	0.08	0.03

## **Other Corporate Developments**

### **Kyrgyz Republic**

The political situation continues to evolve and there continues to be a risk of future political instability.

During the first quarter of 2007, the Kyrgyz Parliament began to consider draft legislation that, among other things, challenges the legal validity of Kumtor agreements with the Kyrgyz Republic, proposes recovery of additional taxes on amounts relating to past activities, and provides for the transfer of gold deposits (including Kumtor) to a state-owned entity. If enacted, there would be a substantial risk of harm to the Company's rights.

Centerra, Cameco and the Kyrgyz government held discussions in Bishkek from July 16 to 20, 2007. The government's Working Group, chaired by the Minister of Finance, and including members of the government, representatives from the Kyrgyz Parliament and of civil societies, presented their

views of the Kumtor project and their positions regarding material economic terms for settlement of all disputes.

In August, Centerra, Cameco and the Government of the Kyrgyz Republic entered into preliminary agreements on certain outstanding issues regarding the Kumtor project. The parties have agreed to extend the deadline for closing the transactions contemplated by the agreements from October 31, 2007 to February 15, 2008.

The preliminary agreements are subject to the satisfaction of certain conditions, including approval of the Parliament of the Kyrgyz Republic, Centerra's board of directors and Cameco's board of directors, the completion and signing of final agreements among Centerra, Cameco and the Government and any required regulatory or other approvals. The terms of Centerra's preliminary agreement with the Government ("Agreement on New Term") were disclosed in the Company's news release of August 30, 2007. The Agreement on New Terms between Centerra and the Government provides for the Government's full commitment to and support for Centerra's continuing long-term operation and development of the Kumtor project, provides that Kumtor's current tax regime will be replaced with a simplified new tax rate for the Kumtor project applied to proceeds from products sold at the rate of 11% in 2008, 12% in 2009 and 13% thereafter and enlarges the Company's existing concession area by over 25,000 hectares to include all territory covered by the current exploration license. The revised tax regime is expected to provide more cash flow certainty to the Kyrgyz Republic (because taxes will be based on revenue and not income), to be beneficial to the Kumtor project at current gold prices and to reduce the administrative burden to both parties by significantly reducing the complexity of calculating and administering taxes.

Upon the satisfaction of the conditions to completion, Cameco will transfer 32.3 million shares of Centerra to the Kyrgyz Government; 17.3 million of such shares will be held in escrow to be released within four years subject to earlier release in certain circumstances. The Company has entered into an agreement with Cameco to issue 10 million treasury shares of Centerra to Cameco after the transfer of shares by Cameco to the Government. After completion of the transactions, the Kyrgyz Government will own 29.3% of Centerra, Cameco will own 40.5% and the balance, 30.2%, will be held by public shareholders.

The Government submitted the preliminary agreements for Parliamentary approval in early September 2007. The Parliament began to deliberate the issue during the first half of October. On October 8, 2007 the Parliament asked the Parliamentary Committee on Industry and Trade to review the preliminary agreements and give its conclusion. On October 10, 2007 the Chair of the Parliamentary Committee on Industry and Trade requested additional time for consideration and the Parliament scheduled its final voting on the issue for October 22, 2007.

On October 21, 2007, the citizens of the Kyrgyz Republic voted in a referendum on drafts of a new constitution and new electoral law proposed by the President of the Kyrgyz Republic. The President signed both into law on October 23, 2007. Under the terms of the new constitution, the number of parliamentarians will increase to 90 from 75. The new election law contemplates party slate nomination of parliamentary candidates, rather than individual mandates. The political party holding the majority of parliamentary seats will form the new government. On October 22, 2007, the President dismissed the Parliament effective that day. New parliamentary elections have been

scheduled for December 16, 2007. On October 24, 2007, the President accepted the resignation of the Prime Minister and cabinet; however the President directed them to continue to perform their duties until a new cabinet is formed following the parliamentary elections.

The agreements being considered by Parliament have been approved by the Kyrgyz Government, but Parliament was dismissed prior to voting. While approval by Parliament cannot be assured, the Kyrgyz Government has indicated that it intends resume its efforts to obtain Parliamentary approval once the new Parliament is in place and to satisfy the other conditions to completion.

Pursuant to an agreement dated December 7, 2006 between the Kyrgyz Government, KGC, Centerra and Kyrgyzaltyn relating to payments in connection with the 1998 Barskoon cyanide spill, KGC has advanced to the government a total of \$4.4 million with the final installment of \$0.7 million made in the third quarter of 2007. This money has been distributed to members of the local communities by a government committee created for such purpose. As part of the new Kumtor Agreement, Centerra has agreed to reconsider the terms of the agreement with a view to forgiving the Government's debt. For information on forward-looking statements see "Caution Regarding Forward-Looking Statements".

## **Mongolia**

On August 3, 2007 the Company's subsidiary Boroo Gold Company entered into an amended Boroo Stability Agreement with the Government of Mongolia. The Company and the Government of Mongolia agreed that, effective January 1, 2007, the Boroo project will be subject to the generally applicable 25% corporate income tax rate, which will apply until the termination of the Boroo Stability Agreement in July 2013. Under the previous agreement, the Company was subject to income tax at the rate of 20% for the three-year period commencing March 1, 2007 and 40% thereafter. In addition, effective August 3, 2007, the mineral royalty payable will be 5% rather than the 2.5% previously applicable. This agreement with the Mongolian Government reaffirms the applicability of the Boroo Stability Agreement.

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. 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 Boroo 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.

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 does 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 on-going settlement discussions.

The Company was in discussions with the Mongolian Government in 2006 and during the first half of 2007 regarding an investment agreement in respect of the Gatsuurt project. The parties temporarily deferred those discussions pending a resolution on the Company’s Boroo Stability Agreement with the government, which was amended as of August 3, 2007. The Company also received a letter from the Minister of Finance confirming the government’s willingness to conclude an Investment Agreement in respect of the Gatsuurt project and to advance the approval and registration of reserves with the applicable Mongolian authorities, and anticipates such registration may be completed this fall. An agreement on Gatsuurt is expected to solidify the Company’s current position in Mongolia, provide for a stable operational environment, and allow the Company to review its exploration and growth strategy. The Company is preparing to advance discussions with the Mongolian Government regarding an investment agreement for Gatsuurt now that a resolution of outstanding issues concerning the Boroo Stability Agreement has been reached. For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

On March 13, 2007, Centerra suspended its development operations at Gatsuurt, other than those necessary to maintain the property in good standing and comply with permits, pending finalization of the terms of an investment agreement with the Mongolian Government and resolution of the Gatsuurt LLC claim. As at September 30, 2007, the Company has expended an aggregate of \$19 million on the exploration and development of Gatsuurt project, and the property has a recorded book value of \$2.3 million. Upon a satisfactory investment agreement being reached and the final settlement of the Gatsuurt LLC claim, the Company expects to begin the first stage of development of Gatsuurt. The first stage, budgeted at \$20 million, entails constructing a 54 kilometre access road and mine facilities at Gatsuurt, procuring required mobile mining equipment and expanding the camp at Boroo to allow for processing of Gatsuurt ore. The Company’s reported mineral reserves and resources for the Gatsuurt property are not materially affected by any of the legal, title, taxation or socio-political issues discussed above.

On October 17, 2007, Centerra completed the acquisition of the remaining indirect 5% minority interest in Boroo Gold Company and a net profits interest in the Ikh Dishir deposit for \$8.3 million. In addition, CGI also has a one-year exclusive option to indirectly acquire eleven exploration licenses for \$1.2 million.

For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

## **Waste Dump Movement at Kumtor**

As disclosed in the first quarter of 2007, minor slope movement was detected in the waste dump above the Central Pit and SB Zone highwall. At that time, the waste dump slopes were designed at a 33 degree angle. An initial geotechnical drilling and analysis program was undertaken in the second quarter to determine whether a lower design slope angle would be required to stabilize the waste dump and, if so, to determine the effect on future production.

In a press release issued on July 19, 2007 Centerra reported that independent geotechnical experts had completed their preliminary analysis of the previously reported high wall waste dump movement and the preliminary findings of the glacial till characterization. They subsequently recommended stabilizing the area by using lower slope angles through the underlying till layer and overlying waste dump. The lower slope angles require the removal of more waste than previously planned and thereby will delay access to the SB Zone until the second quarter of 2008. Access to the higher grade ore will occur in the second half of 2008. Consequently, gold production at the Kumtor mine is forecast for 2007 to be approximately 300,000 ounces compared to Centerra's previous projection of 450,000 to 460,000 ounces. Total cash cost is expected to be \$580 per ounce, compared to previous guidance of \$440 to \$450 per ounce.

Further technical assessment, including additional geotechnical drilling, till analysis, de-watering tests and geophysical surveys, since the first quarter, now indicates that till layers are approximately 40% thinner than originally thought and that the till appears to be amenable to dewatering and therefore the designed pit wall angle may be able to be steepened to near the original design. If the pit wall angle can be steepened to near its original design it will require the removal of much less waste than originally expected in July, which is likely to lower costs in future years. The Company expects to announce with its year-end results a revised outlook for life-of-mine production for Kumtor including an assessment on the impact if any on the reserves and resources. For information on forward-looking statements see "Caution Regarding Forward-Looking Statements".

## **Board and Management Changes**

Mr. Jerry Grandey, President and Chief Executive Officer of Cameco Corporation has retired from the Board of Directors of Centerra. Mr. Kim Goheen Senior Vice President and Chief Financial Officer of Cameco, has been appointed to the Board to fill this vacancy.

During the third quarter of 2007, Mr. Paul Korpi resigned as Vice President and Chief Operating Officer of Centerra Gold Inc.

Mr. Gord Reid, formerly Vice President, Business Development of the Company, has been promoted to President of Kumtor Operating Company, succeeding Mr. Andrew Lewis who resigned to pursue other interests.

## **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. Management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

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 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.

### **Changes in Accounting Policies**<sup>(1)</sup>

Centerra's unaudited interim consolidated financial statements for the nine months and quarter ended September 30, 2007 were prepared following accounting policies consistent with Centerra's audited annual consolidated financial statements and notes thereto for the year ended December 31, 2006, except for the following changes in accounting policies.

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants' Handbook, Section 1506, Accounting Changes. The impact that the adoption of Section 1506 will have on Centerra's results of operations and financial condition will depend on the nature of future accounting changes.

Effective on January 1, 2007, the Company adopted the recommendation of The Canadian Institute of Chartered Accountants' Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments - Recognition and Measurement.

Effective January 1, 2007, the Company adopted the new recommendation of The Canadian Institute of Chartered Accountants' Handbook 3831, Non-monetary Transactions prospectively. The adoption of this standard had no impact on the Company's financial statements.

Effective January 1, 2007, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' Handbook section 3251, "Equity" prospectively.

<sup>(1)</sup> See note 2 to Centerra's quarterly financial statements for the nine months and quarter ended September 30, 2007 for a more detailed discussion of the changes in accounting policies.

## **Change in Internal Control over Financial Reporting**

Effective June 1, 2007, Boroo Gold Company began using a new software system to maintain its accounting balances. The new system is highly automated whereas Boroo's prior system required significant management overview. Boroo intends to assess its internal controls over financial reporting in light of the new system.

## **Outlook**

Gold production for the full year 2007 at the Kumtor mine is forecast to be approximately 300,000 ounces. Total cash cost for 2007 is expected to be approximately \$580 per ounce.

At Boroo, the Company expects, on a 100% basis, production of 250,000 to 260,000 ounces of gold in 2007. Total cash cost is expected to be \$250 to \$260 per ounce in 2007.

Overall, Centerra expects consolidated gold production in 2007 of 550,000 to 560,000 ounces. Total cash costs are expected to be \$430 to \$440 per ounce in 2007.

Regarding sensitivity of results for the last three months of 2007, a \$25 per ounce change in the gold spot price is anticipated to affect revenues, net earnings and cash from operations by approximately \$3.3 million, \$2.7 million (or \$0.01 per share) and \$2.7 million, respectively.

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

<b>Production</b> <i>Ounces of gold</i>	<b>First Nine Months of 2007 Actual</b>	<b>2007 Forecast</b>	<b>2006 Actual</b>
Kumtor production (100%)	226,940	300,000	303,582
Boroo production (100%)	195,940	250,000 – 260,000	282,802
Total production (100%)	422,880	550,000 – 560,000	586,384

<b>Total Cash Cost</b> <sup>(1)</sup> <i>\$ per ounce</i>	<b>First Nine Months of 2007 Actual</b>	<b>2007 Forecast</b>	<b>2006 Actual</b>
Kumtor	558	580	544
Boroo	211	250 - 260	217
Consolidated	397	430 - 440	386

<sup>(1)</sup> Total cash cost is a non-GAAP measure. See “Non-GAAP Measure - Total Cash Cost below.

The outlook noted above for the Company is based on the following key assumptions:

- no significant changes in our estimates of future production or costs;
- no delays in or interruption of production from our mines or in development activities; and
- all necessary permits, licences and approvals are received in a timely manner.

For further discussion of the factors that could cause actual results to differ materially, please refer to Centerra’s Annual Information Form including the section titled “Risk Factors” and annual MD&A for the year ended December 31, 2006 available on SEDAR at [www.sedar.com](http://www.sedar.com). For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

## **Exploration and Business Development**

One of Centerra’s priorities is to continue to add to its reserves and resources base through its exploration program. Activities at Kumtor, Boroo, Gatsuurt and REN are planned as follows:

The 2007 exploration program will continue the aggressive exploration at the Kumtor mine, target generation programs at the Boroo mine and around the Gatsuurt project and on our extensive land holdings in Mongolia. Target generation programs will continue in Central Asia, Russia and China. The Company forecasts \$20 million of spending on its program for the year. The forecast includes \$13 million for exploration at Kumtor.

Activities at Kumtor, Boroo, Gatsuurt and REN are planned as follows:

### **Kumtor**

- Additional drilling programs in the vicinity of the main Kumtor pit to test the northeasterly strike extension of the deposit.
- Exploration work will continue on other target areas such as Bordoo and Akbel.

### **Boroo**

- Programs will focus on generating and testing targets for additional mineralization around the operating facilities.

### **Mongolia**

- Exploration programs will continue to evaluate Centerra’s significant land position.

## **REN**

- Barrick Gold holds a 32% joint-venture interest in the REN property. Barrick Gold has elected not to participate in further exploration on the REN property in 2007. The Company is considering its options for the property which include selling or joint venturing its interest in the REN project.

For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

The business development program is forecast at \$4.2 million for 2007 to support merger and acquisition initiatives of the Company for the year.

## **Administration**

Annual corporate and administration expenses without unusual items are expected to amount to approximately \$26 million in 2007. The forecast includes increased personnel at the corporate office, costs for securing a credit facility and the continued implementation and maintenance costs of regulatory standards.

## **Corporate Income Taxes**

The corporate income tax rate for Kumtor is 10% for 2007, however, pursuant to a agreement with the Government of the Kyrgyz Republic entered into on August 30, 2007, subject to completion of definitive agreements and Parliamentary and board approval, effective 2008 taxes for Kumtor will be computed by reference to proceeds from products sold, at the rate of 11% of revenues in 2008, 12% in 2009 and 13% thereafter. The corporate income tax rate for Boroo is 25% for 2007 and subsequent years, pursuant an amended Stability Agreement entered into on August 3, 2007. Boroo’s 100% corporate income tax exemption ended December 31, 2006.

## **Capital Expenditures**

The capital requirement in 2007 is estimated to be \$128 million, including \$29 million of maintenance capital. Growth capital is forecast at \$99 million, which includes \$73 million for Kumtor (\$13 million for the development of the SB Zone underground decline, \$31 million to pre-strip the SB Zone in the Central Pit and \$20 million for equipment originally scheduled for delivery in 2006 received in the first quarter of 2007), \$26 million for Boroo (\$11 million for the Heap Leach project and \$9 million for the pre-strip of Pit 6) and \$3 million at the Gatsuurt Project, primarily for permitting. Amounts at Kumtor for the development of the SB Zone underground decline and pre-stripping of the SB zone in the Central Pit, and in Mongolia for the heap leach, pre-strip of Pit 6 at Boroo and the Gatsuurt project will be capitalized and amortized on a units of production basis consistent with the Company’s accounting policies. For information on forward-looking statements see “Caution Regarding Forward-Looking Statements”.

## **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.

## **Non-GAAP Measure - Total Cash Cost**

This Management’s Discussion and Analysis presents information about total cash cost of production of an ounce of gold for the operating properties of Centerra. Except as otherwise noted, total cash cost per ounce is calculated by dividing total cash costs, as determined using the industry standard published by the Gold Institute, by gold ounces produced for the relevant period.

Total cash costs, as defined in the Gold Institute Standard, include mine operating costs such as mining, processing, administration, royalties and production taxes, but exclude amortization, reclamation costs, financing costs and capital, development and exploration. Certain amounts of stock-based compensation have been excluded as well.

Total cash cost per ounce has 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 enables investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

## **Caution Regarding Forward-Looking Statements**

Certain information contained or incorporated by reference herein which are not historical facts are "forward-looking statements" within the meaning of certain securities laws, including the Securities Act (Ontario). Such forward-looking statements involve 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 statements. All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us, are inherently subject to significant 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 statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things: volatility and sensitivity to market prices for gold; replacement of reserves; procurement of required capital equipment and operating parts and supplies; equipment failure; unexpected geological or hydrological conditions; inability to enforce legal rights; defects in title; litigation or arbitration proceedings in which third parties claim title to properties or assets of the Company; imprecision in reserve estimates; success of future exploration and development initiatives; competition; operating performance of the facilities; environmental and safety risks including increased regulatory burdens; seismic activity,

weather and other natural phenomena; the speculative nature of exploration and development, including the risks of obtaining necessary permits and approvals from government authorities; changes in national and local government legislation, taxation, controls, regulations, policies and political or economic developments in Canada, the United States, Mongolia, Kyrgyzstan, or other countries in which we do or may carry on business in the future; employee relations; and other development and operating risks.

Reserve and resource figures included 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 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 the reserve and resource estimates included are well established and the best estimates of Centerra's management, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable.

Mineral resources are not mineral reserves, and do not have demonstrated economic viability, but do have reasonable prospects for economic extraction. Measured and indicated resources are sufficiently well defined to allow geological and grade continuity to be reasonably assumed and permit the application of technical and economic parameters in assessing the economic viability of the resource. Inferred resources are estimated on limited information not sufficient to verify geological and grade continuity or to allow technical and economic parameters to be applied. Inferred resources are too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. There is no certainty that mineral resources of any category can be upgraded to mineral reserves through continued exploration.

A mineral reserve is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

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 resources figures included herein in consideration of these risks and, therefore, Centerra can give no assurances that any resource estimate will ultimately be reclassified as proven or probable reserves.

If Centerra's reserve or resource estimates for its gold properties are inaccurate or are reduced in the future, this could have an adverse impact on Centerra's future cash flows, earnings, results of 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.

Although Centerra believes that the assumptions inherent in the forward-looking statements are reasonable, the reader should not place undue reliance on these statements, which apply only as of the date of this report. Centerra disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws.

## Total Cash Cost per Ounce can be reconciled as follows:

Centerra Gold Inc. TOTAL CASH COST RECONCILIATION (unaudited) (\$ millions, unless otherwise specified)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b><u>Centerra:</u></b>				
Cost of sales, as reported	\$ 63.7	\$ 58.5	\$ 170.4	\$ 170.0
Adjust for:				
Refining fees & by-product credits	0.1	-	0.3	0.2
Non-operating costs	(0.6)	-	0.7	(1.8)
Inventory movement	(3.1)	(4.4)	(3.3)	(9.1)
Total cash cost - 100%	\$ 60.1	\$ 54.1	\$ 168.1	\$ 159.3
Ounces poured - 100% (000)	136.4	126.1	422.8	444.0
 Total cash cost per ounce	 \$ 440	 \$ 429	 \$ 397	 \$ 359
<b><u>Kumtor:</u></b>				
Cost of sales, as reported	\$ 48.4	\$ 43.3	\$ 132.9	\$ 127.1
Adjust for:				
Refining fees & by-product credits	-	-	0.1	(0.1)
Non-operating costs	(0.7)	0.2	0.2	(1.5)
Inventory movement	(4.1)	(5.6)	(6.5)	(9.7)
Total cash cost - 100%	\$ 43.6	\$ 37.9	\$ 126.7	\$ 115.8
Ounces poured - 100% (000)	77.5	52.7	226.9	241.1
 Total cash cost per ounce	 \$ 562	 \$ 719	 \$ 558	 \$ 480
<b><u>Boroo:</u></b>				
Cost of sales, as reported	\$ 15.3	\$ 15.2	\$ 37.5	\$ 42.9
Adjust for:				
Refining fees & by-product credits	0.1	0.0	0.2	0.3
Non-operating costs	0.1	(0.2)	0.5	(0.3)
Inventory movement	1.0	1.2	3.2	0.6
Total cash cost - 100%	\$ 16.5	\$ 16.2	\$ 41.4	\$ 43.5
Ounces poured - 100% (000)	58.9	73.4	195.9	202.9
 Total cash cost per ounce	 \$ 280	 \$ 220	 \$ 211	 \$ 215

**Centerra Gold Inc.**  
**Consolidated Financial Statements**  
**For the Nine Months and Quarter Ended September 30, 2007**  
**(Unaudited)**  
**(Expressed in United States Dollars)**

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

	September 30, 2007	December 31, 2006
	(Unaudited)	
<b>Assets</b>		
Current assets		
Cash	\$ 133,899	\$ 186,159
Amounts receivable	22,716	24,006
Inventories	103,612	83,714
Prepaid expenses	17,659	24,737
	<u>277,886</u>	<u>318,616</u>
Property, plant and equipment	369,973	305,366
Goodwill	154,586	154,586
Long-term receivables and other	5,256	6,778
Future income tax asset	8,630	8,901
	<u>538,445</u>	<u>475,631</u>
<b>Total assets</b>	<b>\$ 816,331</b>	<b>\$ 794,247</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 34,588	\$ 59,379
Taxes payable	7,137	2,968
Short-term debt (note 3)	10,000	-
	<u>51,725</u>	<u>62,347</u>
Provision for reclamation (note 4)	20,623	16,532
Non-controlling interest (note 12)	12,885	9,829
<b>Shareholders' equity</b>		
Share capital (note 5)	523,107	522,383
Contingent common shares issuable (note 7)	90,334	-
Contributed surplus	30,593	30,257
Retained earnings	87,064	152,899
	<u>731,098</u>	<u>705,539</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 816,331</b>	<b>\$ 794,247</b>

Commitments and Contingencies (notes 7 and 10)

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

**Centerra Gold Inc.**  
**Consolidated Statements of Earnings and Retained Earnings**  
(Unaudited)  
(Expressed In thousands of United States Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<b>Revenue from Gold Sales</b>	<b>\$ 98,049</b>	<b>\$ 76,326</b>	<b>\$ 284,090</b>	<b>\$ 276,116</b>
<b>Expenses</b>				
Cost of sales	63,719	58,507	170,407	170,050
Depreciation, depletion and amortization	11,445	8,816	32,880	28,586
Accretion and reclamation expense (note 4)	567	275	1,782	(1,728)
Exploration and business development (note 6)	3,965	6,169	14,854	18,618
Interest and other (income)	(995)	(15,840)	(5,135)	(21,629)
Administration	4,245	5,189	14,582	17,764
	<u>82,946</u>	<u>63,116</u>	<u>229,370</u>	<u>211,661</u>
<b>Earnings before unusual items , income taxes and non controlling interest</b>	<b>15,103</b>	<b>13,210</b>	<b>54,720</b>	<b>64,455</b>
Unusual items (note 7)	95,177	-	95,177	-
<b>Earnings (loss) before income taxes and non-controlling interest</b>	<b>(80,074)</b>	<b>13,210</b>	<b>(40,457)</b>	<b>64,455</b>
Income tax expense (note 8)	9,587	435	22,320	2,347
Non-controlling interest	732	1,274	3,058	3,377
<b>Net earnings (loss)</b>	<b>(90,393)</b>	<b>11,501</b>	<b>(65,835)</b>	<b>58,731</b>
Retained earnings, beginning of period	177,457	139,529	152,899	92,299
<b>Retained earnings, end of period</b>	<b>87,064</b>	<b>151,030</b>	<b>87,064</b>	<b>151,030</b>
<b>Basic and diluted earnings per common share (note 9)</b>	<b>\$ (0.42)</b>	<b>\$ 0.05</b>	<b>\$ (0.30)</b>	<b>\$ 0.27</b>

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<b>Operating activities</b>				
Net earnings (loss)	\$ (90,393)	11,501	\$ (65,835)	\$ 58,731
Items not involving cash:				
Depreciation, depletion and amortization	11,445	8,816	32,880	28,586
Accretion and reclamation expense	567	275	1,782	(1,728)
Deferred charges recognized	-	391	557	1,702
Contingent common shares issuable (note 7)	90,334	-	90,334	-
Forgiven loan (note 7)	1,843	-	1,843	-
Future income tax expense	1,398	331	271	1,266
Non-controlling interest	732	1,274	3,058	3,377
Other operating items	44	(400)	357	(2,180)
	15,970	22,188	65,247	89,754
(Increase) decrease in working capital	13,292	(10,191)	(20,753)	(21,759)
<b>Cash provided by operations</b>	<b>29,262</b>	<b>11,997</b>	<b>44,494</b>	<b>67,995</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(33,986)	(19,418)	(107,186)	(54,162)
Proceeds from disposition of fixed assets	-	49	-	49
<b>Cash used in investing</b>	<b>(33,986)</b>	<b>(19,369)</b>	<b>(107,186)</b>	<b>(54,113)</b>
<b>Financing activities</b>				
Proceeds from short term debt	-	-	10,000	-
Issuance of common shares for cash	379	-	432	-
<b>Cash provided by financing</b>	<b>379</b>	<b>-</b>	<b>10,432</b>	<b>-</b>
(Decrease) Increase in cash during the period	(4,345)	(7,372)	(52,260)	13,882
Cash at beginning of the period	138,244	223,671	186,159	202,417
<b>Cash at end of the period</b>	<b>\$ 133,899</b>	<b>\$ 216,299</b>	<b>\$ 133,899</b>	<b>\$ 216,299</b>

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

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**1. Basis of Presentation**

These unaudited interim consolidated financial statements of Centerra Gold Inc. ("Centerra") have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") for interim financial statements. 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, 2006.

Centerra's ownership interests consist of a 100% interest in the Kumtor mine, a 95% interest in the Boroo mine, a 100% interest in the Gatsuert property and a 62% interest in the REN deposit.

**2. Changes in 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, 2006, except for the following 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 impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

**2. Changes in accounting policies (continued):**

**b. Financial instruments:**

Effective on January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income ("Section 1530") and Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"). 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.

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.

As at September 30, 2007 the fair values of the Company's assets and liabilities approximate their carrying values due to the relatively short maturity of these instruments.

**2. Changes in accounting policies (continued):**

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.

**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" prospectively. This standard establishes requirements for the presentation of equity and changes in equity during the reporting period.

**e. 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. The impact that the adoption of Section 3031 will have on the Company's future results of operations and financial condition is not known or reasonably estimable at this time.

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 duplicative 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 plans to adopt these standards on January 1, 2008.

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

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**3. 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 September 30, 2007, CGMC has drawn \$10 million under the LIBOR loan facility. Interest on this loan of \$0.2 million and \$0.3 million has been charged to earnings during the three month and nine month period ended September 30, 2007.

**4. Asset Retirement Obligations**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30/07</b>	<b>Sept 30/06</b>	<b>Sept 30/07</b>	<b>Sept 30/06</b>
	(Thousands)		(Thousands)	
Balance, beginning of period	<b>\$ 20,289</b>	\$ 16,135	<b>\$ 16,532</b>	\$ 17,897
Liabilities incurred / (settled)	-	(124)	<b>(147)</b>	118
Revisions in estimated timing of cash flows	-	-	<b>3,237</b>	(2,589)
Accretion expense	<b>334</b>	275	<b>1,001</b>	860
Balance, end of period	<b>\$ 20,623</b>	\$ 16,286	<b>\$ 20,623</b>	\$ 16,286

An increase to the present value of the closure cost estimate at the Boroo mine site of \$3.2 million was recorded during the first half of 2007, following the completion of a regularly scheduled closure cost update study.

A reduction in the present value of the obligation of \$2.6 million recorded in the second quarter 2006 reflected the planned delay in the reclamation spending at Kumtor due to the significant new reserves announced at the beginning of the year.

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

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**5. Shareholders' Equity**

**a) Share capital**

Centerra is authorised to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value. As at September 30, 2007 the number of outstanding shares is as follows:

<b>Number Issued</b>	(Number of Shares)	(Thousands of \$US)
Balance at January 1, 2006 and 2007	<b>216,238,815</b>	<b>\$ 522,383</b>
Shares issued for stock options exercised	<b>79,373</b>	<b>724</b>
Balance at September 30, 2007	<b>216,318,188</b>	<b>\$523,107</b>

**b) Contributed surplus**

The following summarizes movements in contributed surplus:

(Thousands of \$US)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30/07</b>	<b>Sept 30/06</b>	<b>Sept 30/07</b>	<b>Sept 30/06</b>
Balance at beginning of period	<b>\$30,504</b>	\$29,981	<b>\$ 30,257</b>	\$ 29,739
Stock options exercised	<b>(85)</b>	-	<b>(90)</b>	-
Compensation cost for equity based awards	<b>174</b>	138	<b>426</b>	380
Balance at end of period	<b>\$30,593</b>	\$30,119	<b>\$ 30,593</b>	\$ 30,119

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**5. 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 Sept 30/07	Expense				Liability	
		Three months ended		Nine months ended		Sept 30/07	Dec 31/06
		Sept 30/07	Sept 30/06	Sept 30/07	Sept 30/06		
(i) Centerra stock options	<b>941,335</b>	<b>(0.2)</b>	0.1	<b>(0.7)</b>	0.9	<b>0.4</b>	1.7
(ii) Centerra performance share units	<b>495,962</b>	<b>(0.1)</b>	0.4	<b>(0.2)</b>	1.9	<b>2.0</b>	5.4
(ii) Centerra annual performance share units	<b>129,100</b>	<b>0.2</b>	0.8	<b>1.1</b>	3.0	<b>0.7</b>	0.8
(iv) Deferred share units	<b>185,211</b>	<b>(0.1)</b>	0.1	<b>(0.2)</b>	0.5	<b>1.7</b>	1.6
(v) Cameco stock options	<b>73,800</b>	<b>(0.2)</b>	(0.4)	<b>0.6</b>	1.8	<b>2.8</b>	4.1
		<b>(0.4)</b>	1.0	<b>0.6</b>	8.1	<b>7.6</b>	13.6

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

	Number outstanding Dec 31/06	Issued	Exercised	Forfeited	Number outstanding Sept 30/07
(i) Centerra stock options	879,321	261,317	(79,373)	(119,930)	941,335
(ii) Centerra performance share units	726,733	160,348	(304,794)	(86,325)	495,962
(iii) Centerra annual performance share units	173,098	191,600	(211,171)	(24,427)	129,100
(iv) Deferred share units	142,093	43,118	-	-	185,211
(v) Cameco stock options	129,600	-	(55,800)	-	73,800

**Centerra Stock Option Issue**

On May 8, 2007, Centerra granted an additional 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 Consolidated Financial Statements**  
**(Unaudited)**

**6. Exploration and Business Development**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30/07</b>	<b>Sept 30/06</b>	<b>Sept 30/07</b>	<b>Sept 30/06</b>
	<b>(Thousands)</b>		<b>(Thousands)</b>	
Exploration costs	<b>\$ 3,949</b>	\$ 6,049	<b>\$ 13,501</b>	\$ 16,321
Business development and feasibility costs	<b>16</b>	120	<b>1,353</b>	2,297
	<b>\$ 3,965</b>	\$ 6,169	<b>\$ 14,854</b>	\$ 18,618

**7. Unusual Items**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30/07</b>	<b>Sept 30/06</b>	<b>Sept 30/07</b>	<b>Sept 30/06</b>
	<b>(Thousands)</b>		<b>(Thousands)</b>	
a) Contingent issuable common shares	<b>\$ 90,334</b>	-	<b>\$ 90,334</b>	-
b) Settlement Negotiations	<b>3,000</b>	-	<b>3,000</b>	-
c) Forgiven loan	<b>1,843</b>	-	<b>1,843</b>	-
	<b>\$ 95,177</b>	-	<b>\$ 95,177</b>	-

**a) Contingent issuable common shares**

In August 2007, Centerra, Cameco and the Government of the Kyrgyz Republic entered into preliminary agreements on certain outstanding issues regarding the Kumtor project. The parties have agreed to extend the deadline for closing the transactions contemplated by the agreements from October 31, 2007 to February 15, 2008.

The preliminary agreements are subject to the satisfaction of certain conditions, including approval of the Parliament of the Kyrgyz Republic, Centerra's board of directors and Cameco's board of directors, the completion and signing of final agreements among Centerra, Cameco and the Government and any required regulatory or other approvals. The terms of the preliminary agreement were disclosed in the Company's news release of August 30, 2007. The Agreements on New Terms between Centerra and the Government provides that the tax regime for the Kumtor project will be replaced with a simplified new tax rate applied to proceeds from products sold at the rate of 11% in 2008, 12% in 2009 and 13% thereafter.

Upon the satisfaction of the conditions to completion, Cameco will transfer 32.3 million shares of Centerra to the Kyrgyz Government; 17.3 million of such shares will be held in escrow to be released within four years subject to earlier release on certain conditions. The Company has entered into an agreement with Cameco that it will issue 10 million treasury shares (the "Treasury Shares") of Centerra to Cameco after the transfer of shares by Cameco to the Government. The issue of treasury shares will result in a 4.6% dilution to Centerra's shareholders. After completion of the transactions, the Kyrgyz Government will own 29.3% of Centerra, Cameco will own 40.5% and the balance, 30.2%, will be held by public

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

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**7. Unusual Items (continued)**

shareholders.

The value associated with the issuing of Treasury shares by the Company has been 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 September 30, 2007.

On closing of the agreements the value of the shares issued will be recalculated based on the closing market price of the Company's shares at that time. Any increase or decrease in the value over the value at September 30, 2007 will result in a corresponding increase or decrease in the expense recorded at September 30, 2007 with the offsetting entry recorded to share capital.

**b) Settlement Negotiations**

During the quarter Centerra Gold Mongolia Limited ("CGM") a subsidiary wholly owned by the Company, and Gatsuurt LLC (an unrelated third party), have suspended arbitration proceedings pending on-going settlement discussions. In anticipation of a possible settlement, CGM has recorded a \$3 million provision against third quarter earnings.

**c) Forgiven loan**

Pursuant to an agreement dated December 7, 2006 between the Government of the Kyrgyz Republic, KGC, Centerra and Kyrgyzaltyn, KGC has advanced a total of \$4.4 million as at September 30, 2007. One half of the advance (\$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 of the advance (\$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. This portion of the advance has been expensed as the funds were distributed.

In connection with the August 30, 2007 agreement described in note 7(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. In the third quarter, the Company recorded a provision for this loan forgiveness as an expense of \$1.8 million, representing the discounted value of the loan receivable.

**8. Income Tax Expense**

Income tax in the amount of \$9.6 million and \$22.3 million was expensed during the three and nine month periods ended September 30, 2007 (September 30, 2006 \$0.4 million and \$2.3 million).

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

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**8. Income Tax Expense (continued)**

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 Stability Agreement. As a result of the change in rate an additional tax expense in the amount of \$4.1 million was recorded in the third quarter of 2007 to adjust the income tax provision for the first two quarters of 2007 to the higher rate.

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. Subject to the terms of the definitive agreement to be completed, the future tax asset recorded as at September 30, 2007 may not be realizable resulting in a charge to earnings arising of \$4.3 million.

Losses incurred in the North American segment have not been tax effected.

**9. Earnings Per Share Amounts**

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 quarter and year.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept 30/07</b>	<b>Sept 30/06</b>	<b>Sept 30/07</b>	<b>Sept 30/06</b>
Basic weighted average number of common shares outstanding (Thousands)	<b>216,300</b>	216,239	<b>216,271</b>	216,239
Diluted weighted average number of common shares outstanding (Thousands)	<b>216,300</b>	216,510	<b>216,271</b>	216,544
<b>Basic and diluted earnings per common share</b>	<b>\$(0.42)</b>	\$0.05	<b>\$(0.30)</b>	\$0.27

## **10. Commitments and Contingencies**

### **Kyrgyz Republic operations**

As at September 30, 2007, Kumtor had entered into contracts to purchase capital equipment and operational supplies totalling \$10.3 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. 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.

Centerra received written confirmation, dated July 18, 2007, from the Minister of Finance that the Mongolian government has no objection to concluding an investment agreement regarding the Gatsuurt Project based on the current mineral laws of Mongolia, provided that all necessary documents required for registration of Gatsuurt's reserves have been received by the appropriate Mongolian agency and such registration has taken place. The Mongolian Ministry of Finance has acknowledged receipt of documentation from Centerra related to the registration of reserves and the Company expects such registration to be completed in the fourth quarter. The Company is preparing to advance discussions with the Mongolian government regarding an investment agreement for Gatsuurt now that a resolution of outstanding issues concerning the Boroo Stability Agreement has been reached.

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 does 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.

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

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

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. As described in note 7 (b) proceedings have been suspended pending on-going discussions.

## **11. Related Party Transactions**

### **Cameco Corporation**

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.

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) were shared with Cameco up to February 28, 2007 to a prescribed amount. During the nine month period ended September 30, 2007, approximately \$0.3 million Cdn (\$4.0 million Cdn during the first nine months of 2006) was charged to Cameco.

A net receivable balance from Cameco of \$0.9 million Cdn was outstanding at September 30, 2007 (\$3.8 million Cdn receivable from Cameco at December 31, 2006).

### **Other**

The Company paid approximately \$133,100 Cdn and \$ 413,155 Cdn during the three month and nine month period ended September 30, 2007 (\$115,000 Cdn three months ended September 30, 2006 and \$493,000 Cdn nine months ended September 30, 2006) to Ms Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Ms Stephens provides certain designated legal and business advisory services related to international operations.



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

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 September 30, 2007, \$7.4 million was receivable under this agreement (September 30, 2006 – nil).

### **12. Subsequent Events**

On October 17, 2007, Centerra acquired the 5% minority 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.

### **13. 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.

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
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**13. Segmented Information (continued)**

**Three months ended September 30, 2007**

(\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 55.8	\$ 42.2	\$ -	\$ 98.0
Expenses				
Cost of sales	48.4	15.3	-	63.7
Depreciation, depletion and amortization	7.1	4.1	0.2	11.4
Accretion and reclamation expense	0.3	0.3	-	0.6
Exploration and business development	2.4	0.5	1.1	4.0
Interest and other	0.6	(1.5)	(0.1)	(1.0)
Administration	0.7	0.2	3.3	4.2
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(3.7)</b>	<b>23.3</b>	<b>(4.5)</b>	<b>15.1</b>
Unusual Items				95.2
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>(80.1)</b>
Income tax expense (recovery)				9.6
Non-controlling interest				0.7
<b>Net earnings (loss)</b>				<b>(90.4)</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 26.1</b>	<b>\$ 11.1</b>	<b>\$ 0.1</b>	<b>\$ 37.3</b>

**Three months ended September 30, 2006**

(\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 33.7	\$ 42.6	\$ -	\$ 76.3
Expenses				
Cost of sales	43.3	15.2	-	58.5
Depreciation, depletion and amortization	3.4	5.3	0.1	8.8
Accretion and reclamation expense	0.3	-	-	0.3
Exploration and business development	3.6	0.4	2.1	6.1
Interest and other	(13.0)	(0.6)	(2.2)	(15.8)
Administration	0.7	0.4	4.1	5.2
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(4.6)</b>	<b>21.9</b>	<b>(4.1)</b>	<b>13.2</b>
Unusual Items				-
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				
Income tax expense (recovery)				0.4
Non-controlling interest				1.3
<b>Net earnings (loss)</b>				<b>11.5</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 15.8</b>	<b>\$ 3.3</b>	<b>\$ 0.4</b>	<b>\$ 19.5</b>

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
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**13. Segmented Information (continued)**  
**Nine months ended September 30, 2007**

(\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 152.6	\$ 131.5	\$ -	\$ 284.1
Expenses				
Cost of sales	132.9	37.5	-	170.4
Depreciation, depletion and amortization	20.0	12.2	0.7	32.9
Accretion and reclamation expense	0.7	1.1	-	1.8
Exploration and business development	9.1	1.3	4.5	14.9
Interest and other	1.5	(4.5)	(2.2)	(5.2)
Administration	2.0	1.2	11.4	14.6
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(13.6)</b>	<b>82.7</b>	<b>(14.4)</b>	<b>54.7</b>
Unusual Items				95.2
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>(40.5)</b>
Income tax expense (recovery)				22.3
Non-controlling interest				3.0
<b>Net earnings (loss)</b>				<b>(65.8)</b>
<b>Capital expenditures for the period</b>	<b>\$ 72.1</b>	<b>\$ 28.9</b>	<b>\$ 0.1</b>	<b>\$ 101.1</b>

**Nine months ended September 30, 2006**

(\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 156.6	\$ 119.5	\$ -	\$ 276.1
Expenses				
Cost of sales	127.1	42.9	-	170.0
Depreciation, depletion and amortization	13.6	14.7	0.3	28.6
Accretion and reclamation expense	(1.8)	0.1	-	(1.7)
Exploration and business development	10.4	4.1	4.1	18.6
Interest and other	(12.2)	(1.0)	(8.4)	(21.6)
Administration	2.0	1.1	14.7	17.8
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>17.5</b>	<b>57.6</b>	<b>(10.7)</b>	<b>64.4</b>
Unusual Items				-
<b>Earnings (loss) before income taxes and Non-controlling interest</b>				<b>64.4</b>
Income tax expense (recovery)				2.3
Non-controlling interest				3.4
<b>Net earnings (loss)</b>				<b>58.7</b>
<b>Capital expenditures for the period</b>	<b>\$ 42.7</b>	<b>\$ 10.5</b>	<b>\$ 1.1</b>	<b>\$ 54.3</b>