

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Years Ended December 31, 2008, 2007 and 2006**

**(Expressed in United States Dollars)**

## Report of Management's Accountability

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

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

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

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

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

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

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

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

February 23, 2009

## **AUDITORS' REPORT**

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

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, retained earnings, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

*Original signed by:*

KPMG LLP

Chartered Accountants

Toronto, Canada

February 23, 2009

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

As at December 31, (Expressed in Thousands of United States Dollars)	Notes	2008	2007
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 149,583	\$ 105,482
Short-term investments		17,781	-
Amounts receivable		30,247	18,021
Income taxes recoverable		3,323	-
Inventories	5	170,157	115,062
Prepaid expenses		18,012	21,230
		<b>389,103</b>	<b>259,795</b>
Property, plant and equipment	6	394,933	373,841
Goodwill	7	129,705	148,540
Long-term receivables and other	8	5,917	6,632
Long-term inventories	5	18,009	9,093
Future income tax asset	17	3,160	16,467
		<b>551,724</b>	<b>554,573</b>
<b>Total assets</b>		<b>\$ 940,827</b>	<b>\$ 814,368</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 35,611	\$ 42,482
Taxes payable		14,493	-
Current portion of provision for reclamation	10	3,458	-
Short term debt	9	-	10,000
		<b>53,562</b>	<b>52,482</b>
Provision for reclamation	10	29,322	20,868
Future income tax liability	17	1,121	-
		<b>30,443</b>	<b>20,868</b>
Contingent common shares issuable	15	89,084	-
<b>Shareholders' equity</b>			
Share capital	18	523,107	523,107
Contingent common shares issuable	15	-	126,794
Contributed surplus		32,904	30,767
Retained earnings		211,727	60,350
		<b>767,738</b>	<b>741,018</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 940,827</b>	<b>\$ 814,368</b>

Commitments and contingencies (notes 15 and 19)

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

**Approved by the Board of Directors**

*Original signed by:*

Patrick M. James , Director  
Ian G. Austin , Director

# Centerra Gold Inc.

## Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

For the years ended December 31,

2008

2007

2006

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

	Notes			
<b>Revenue from Gold Sales</b>		<b>\$ 635,980</b>	\$ 373,462	\$ 364,520
<b>Expenses</b>				
Cost of sales <sup>(i)</sup>		332,037	207,357	219,443
Regional office administration		18,831	19,357	17,472
Depreciation, depletion and amortization		78,332	44,161	39,662
Accretion and reclamation expense	10	1,404	1,334	(1,454)
Impairment charge	7	18,835	-	-
Exploration and business development	11	23,628	20,440	25,702
Other (income) and expenses	12	4,458	(5,795)	(23,362)
Corporate administration	13	27,312	24,980	27,221
		<b>504,836</b>	311,834	304,684
<b>Earnings before unusual items, income taxes and non-controlling interest</b>		<b>131,144</b>	61,628	59,836
Contingent common shares issuable	15	(37,710)	126,794	-
Other unusual items	16	-	4,843	-
<b>Earnings (loss) before income taxes and non-controlling interest</b>		<b>168,854</b>	(70,009)	59,836
Income tax expense (recovery)	17	34,089	19,322	(5,771)
Non-controlling interest		-	3,218	5,007
<b>Net earnings (loss) and comprehensive income</b>		<b>134,765</b>	(92,549)	60,600
<b>Basic and diluted earnings (loss) per common share</b>	18	<b>\$ 0.62</b>	\$ (0.43)	\$ 0.28
(i)- Excludes dereciation, depletion and amortization expenses of		77,315	43,182	39,026

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

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

For the years ended December 31, (Expressed in Thousands of United States Dollars)	Notes	2008	2007	2006
<b>Operating activities</b>				
Net earnings (loss)		\$ 134,765	\$ (92,549)	\$ 60,600
Items not requiring (providing) cash:				
Depreciation, depletion and amortization		78,332	44,161	39,662
Accretion and reclamation expense	10	1,404	1,334	(1,454)
Impairment charge		18,835	-	-
Loss on disposal of plant and equipment		3,939	322	525
Stock based compensation expense		2,137	600	518
Deferred charges recognized		-	557	2,266
Contingent common shares issuable	15	(37,710)	126,794	-
Forgiven loan		-	1,843	-
Future income tax expense (recovery)		10,630	(7,566)	(8,930)
Long-term inventory		1,481	-	-
Non-controlling interest		-	3,218	5,007
Other operating items		146	(561)	(3,184)
		<u>213,959</u>	<u>78,153</u>	<u>95,010</u>
Change in operating working capital	24	<u>(47,649)</u>	<u>(36,853)</u>	<u>(14,676)</u>
<b>Cash provided by operations</b>		<u>166,310</u>	<u>41,300</u>	<u>80,334</u>
<b>Investing activities</b>				
Additions to property, plant and equipment		(95,104)	(125,409)	(96,645)
Short-term investments		(17,781)		
Proceeds from disposition of fixed assets		676	-	53
Acquisition of minority interest	14	-	(7,000)	-
<b>Cash used in investing</b>		<u>(112,209)</u>	<u>(132,409)</u>	<u>(96,592)</u>
<b>Financing activities</b>				
Proceeds from short term debt		-	10,000	-
Repayment of short term debt		(10,000)	-	-
Proceeds of common shares issued for cash		-	432	-
<b>Cash provided by (used in) financing</b>		<u>(10,000)</u>	<u>10,432</u>	<u>-</u>
Increase (decrease) in cash during the year		44,101	(80,677)	(16,258)
Cash and cash equivalents at beginning of the year		105,482	186,159	202,417
<b>Cash and cash equivalents at end of the year</b>		<u>\$ 149,583</u>	<u>\$ 105,482</u>	<u>\$ 186,159</u>
<b>Cash and cash equivalents consist of:</b>				
Cash		\$ 91,227	\$ 62,524	\$ 18,838
Cash equivalents		58,356	42,958	167,321
		<u>\$ 149,583</u>	<u>\$ 105,482</u>	<u>\$ 186,159</u>

Supplemental cash flow disclosure (note 24)

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

Centerra Gold Inc.  
Consolidated Statements of Shareholders' Equity

Years ended December 31

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

	Number of Common Shares	Amount	Contingent Common Shares Issuable	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive income (note 4)	Total
<b>Balance at December 31, 2005</b>	216,238,815	522,383	-	29,739	92,299	-	644,421
Stock-based compensation expense	-	-	-	518	-	-	518
Net earnings for the year	-	-	-	-	60,600	-	60,600
<b>Balance at December 31, 2006</b>	216,238,815	522,383	-	30,257	152,899	-	705,539
Shares issued:							
Options exercised by employees	79,373	724	-	(90)	-	-	634
Contingent common shares issuable	-	-	126,794	-	-	-	126,794
Stock-based compensation expense	-	-	-	600	-	-	600
Change in accounting policy	-	-	-	-	-	557	557
Recognition in net income	-	-	-	-	-	(557)	(557)
Net loss for the year	-	-	-	-	(92,549)	-	(92,549)
<b>Balance at December 31, 2007</b>	216,318,188	\$ 523,107	\$ 126,794	\$ 30,767	\$ 60,350	\$ -	\$ 741,018
Shares issued:							
Options exercised by employees	-	-	-	-	-	-	-
Contingent common shares issuable revalued (note 15)	-	-	(37,710)	-	-	-	(37,710)
Contingent common shares issuable reclassified (note 15)	-	-	(89,084)	-	-	-	(89,084)
Stock-based compensation expense	-	-	-	2,137	-	-	2,137
Inventory adjustments, on adoption of accounting standard net of tax( note 4(a))	-	-	-	-	16,612	-	16,612
Net earnings for the year	-	-	-	-	134,765	-	134,765
<b>Balance at December 31, 2008</b>	216,318,188	\$ 523,107	\$ -	\$ 32,904	\$ 211,727	\$ -	\$ 767,738

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 1. Nature of operations

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

### 2. Basis of presentation

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

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Kumtor Gold Company (“KGC”), its 100% owned subsidiary Boroo Gold Company (“BGC”) and its wholly owned interest in the Gatsuert property.

### 3. Significant accounting policies

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### a. Consolidation principles

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

#### b. Foreign currency

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

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

#### c. Cash and cash equivalents

Cash and cash equivalents consist of balances with financial institutions and investments in money market instruments which have a term to maturity of three months or less at time of purchase. These assets are classified as assets held for trading and are recorded at fair value. A financial asset is classified in this category if it is acquired principally for the purpose of being held for a short term period.

#### d. Short-term investments

Short-term investments consist of highly liquid marketable securities with maturities of more than 90 days, but no longer than 12 months, from date of purchase. Short-term investments consist mostly of, bonds, US and Canadian government treasury bills and agency notes. These assets are classified as assets held for trading and are recorded at fair value. A financial asset is classified in this category if it is acquired principally for the purpose of being held for a short term period.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### e. Inventories

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

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

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

#### f. Exploration and development properties

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

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

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

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

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

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

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

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### j. Goodwill

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

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

#### k. Property and equipment impairment

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

#### l. Depreciation and depletion

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### m. Future income taxes

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

#### n. Environmental protection and reclamation costs

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

#### o. Revenue recognition

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### p. Stock-based compensation

Centerra's stock option plans are described in note 18. Options granted with share appreciation rights are accounted for using the liability method. Under this method, the options granted are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense for the vested amount, or if negative, a recovery.

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

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

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

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

#### q. Earnings per share

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

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

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

The Company utilizes forward exchange contracts to hedge certain anticipated cash flows as well as balance sheet foreign exchange risks. The Company does not enter into derivatives for speculative purposes and the only derivatives the Company utilizes for hedging are forward exchange contracts.

#### t. Other financial instruments

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

### 4. Changes in accounting policies:

#### Adoption of New Accounting Standards and Developments

##### a. Inventories:

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) 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 cost formulae that are used to assign costs to inventories and requires the reversal of write downs, if applicable, on inventory.

Upon adoption of this standard at January 1, 2008, \$10.4 million of previously written-off heap leach inventory and \$10.0 million of mineralized material now reclassified as low-grade ore inventory following the lowering of the cut-off grade (\$16.6 million, net of tax in total) were recorded as inventory with a corresponding recognition in retained earnings. Prior periods have not been restated as permitted by the standard.

##### b. Capital Disclosures

Effective January 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 1535- Capital Disclosures. Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The Company has included disclosures recommended by the new section in Note 23 to these consolidated financial statements

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

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

##### c. Financial Instruments – Disclosures

Effective January 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments – Presentation.

Section 3862 on financial instrument disclosures, provides guidance on disclosures in the financial statements to enable users of the financial statements to evaluate the significance of financial instruments to the Company's financial position and performance and about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new Section removes duplicate disclosures and simplifies the disclosures relating to concentrations of risk, counterparty credit risk, currency risk, liquidity risk and commodity price risk currently found in Section 3861 Financial instruments — disclosure and presentation.

The purpose of Section 3863 on financial instruments - presentation is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company has included disclosures recommended by these new sections in Notes 21 and 22 to these consolidated financial statements.

##### d. Financial Statements Presentation

Effective January 1, 2008, the Company adopted the new recommendations of CICA amended Handbook Section 1400-General Standards of Financial Statements Presentation. The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

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

##### e. New Pronouncements

On February 1, 2008 the CICA issued Handbook section 3064, Goodwill and Intangible assets. This Section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

On January 20, 2009, the CICA issued EIC 173, Credit risk and the fair value of financial assets and liabilities. This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 5. Inventories

	<b>2008</b>	2007
<hr/> <small>(Thousands of US\$)</small> <hr/>		
Stockpiles (a)	<b>\$ 49,698</b>	\$ 26,769
Gold in-circuit	<b>6,394</b>	6,962
Heap leach in circuit	<b>5,913</b>	-
Gold doré	<b>15,239</b>	11,118
	<b>77,244</b>	44,849
Supplies	<b>110,922</b>	79,306
	<b>188,166</b>	124,155
Less: Long-term inventory (heap leach) (a)	<b>(18,009)</b>	(9,093)
	<b>\$ 170,157</b>	\$ 115,062

(a) Includes recognition of heap leach stockpiles and mineralized materials reclassified as low-grade inventory of \$20.4 million before tax in the first quarter of 2008 (see note 4 (a)) as a result of the application of the new accounting standard Section 3031-Inventories.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 6. Property, plant and equipment

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

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

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

(Thousands of US\$)	2008			2007		
	Kumtor	Boroo	Total	Kumtor	Boroo	Total
Opening balance	\$ 32,571	\$ 6,602	\$ 39,173	\$ 6,212	\$ -	\$ 6,212
Additions	-	13,204	13,204	28,278	8,033	36,311
Amortized	(6,068)	(2,943)	(9,011)	(1,919)	(1,431)	(3,350)
<b>Ending balance</b>	<b>\$ 26,503</b>	<b>\$ 16,863</b>	<b>\$ 43,366</b>	<b>\$ 32,571</b>	<b>\$ 6,602</b>	<b>\$ 39,173</b>

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 7. Goodwill

During the third and fourth quarters of 2008, the Company undertook a review of goodwill in light of the recent economic events and the shortening of the mine life in the mining operation at Boroo.

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

As a result of a review of goodwill at year-end, management concluded that current circumstances did not indicate that the carrying value of the Kyrgyz reporting unit exceeded its fair value. However, as a result of the short mine life due to production at Boroo, it was determined that the fourth quarter production had caused the carrying value of the Mongolia reporting unit to exceed its fair value.

Gold mining companies typically trade at a market capitalization based on a multiple of net asset value (NAV). To calculate the goodwill impairment test and determine the fair value of the Mongolian reporting unit, NAV was calculated using a discounted cash flow valuation in which the primary assumption was a gold price of \$850 per ounce from 2009 to 2011. A multiple is then usually applied to NAV.

A review of the Company's peer comparable multiples concluded that at present a multiple in excess of 1.0 could not be supported and thus the full carrying value of the Mongolia goodwill of \$18.8 million was considered impaired and written off.

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

	2008			2007		
	Kyrgyz	Mongolia	Total	Kyrgyz	Mongolia	Total
(Thousands of US\$)						
Opening balance	\$129,705	\$ 18,835	\$148,540	\$129,705	\$ 24,881	\$154,586
Impairment charge	-	(18,835)	(18,835)	-	-	-
Reduction (i)	-	-	-	-	(6,046)	(6,046)
Ending balance	\$129,705	\$ -	\$129,705	\$129,705	\$ 18,835	\$148,540

(i)-Reduction in goodwill as a result of the acquisition of the non-controlling interest in Boroo Gold Limited (note 14).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 8. Long-term receivables and other

(Thousands of US\$)	2008	2007
Reclamation trust fund [note 10]	\$ 4,915	\$ 4,853
Other long term receivables	1,002	1,779
Total	\$ 5,917	\$ 6,632

### 9. Short-term debt

On June 1, 2007 Centerra Gold Mongolia LLC (CGML), one of the Company's subsidiaries, signed a revolving demand credit facility agreement of \$10 million with HSBC Bank USA for purposes primarily of developing the Gatsuurt gold deposit. The credit facility may be drawn down, converted or rolled over under the credit facility at either a Base Rate Loan or a 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 assets of CGML which include the Gatsuurt mining licenses, and is guaranteed by Centerra Gold Inc.

This facility was fully drawn at December 31, 2007. In August 2008, the facility was fully repaid by CGML and remains undrawn at December 31, 2008.

Interest on this loan of \$0.5 million (2007- \$0.5 million) has been charged to earnings during the year ended December 31, 2008.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 10. Asset Retirement Obligations

(Thousands of US\$)	2008	2007
Kumtor gold mine	\$ 16,176	\$ 14,906
Boroo gold mine	16,604	5,962
	<b>32,780</b>	20,868
Less: current portion	<b>(3,458)</b>	-
Total	<b>\$ 29,322</b>	\$ 20,868

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

The Company estimates its total undiscounted future decommissioning and reclamation costs to be \$46.4 million. Following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- (i) Expected timing of payment of the cash flows is based on the life of mine plans. The majority of expenditures are expected to occur over the next 1 to 6 years.
- (ii) Weighted average discount rates of 6.99% at Kumtor and 8.0% at Boroo at December 31, 2008 (2007 - 6.99% and 8.0%; 2006 - 6.84% and 8.0% at Kumtor and Boroo).

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

(Thousands of US\$)	2008	2007	2006
Balance, beginning of year	\$ 20,868	\$ 16,532	\$ 17,897
Liabilities incurred / (settled)	<b>(918)</b>	(235)	89
Revisions in estimated timing and amount of cash flows	<b>11,426</b>	3,237	(2,589)
Accretion expense	<b>1,404</b>	1,334	1,135
	<b>32,780</b>	20,868	16,532
Less: current portion	<b>(3,458)</b>	-	-
<b>Balance, end of year</b>	<b>\$ 29,322</b>	\$ 20,868	\$ 16,532

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values which are now estimated to be \$8.4 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2008 was \$4.9 million (2007 - \$4.9 million). (note 8)

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 10. Asset Retirement Obligations (continued)

During the year ended 2008, the Company completed regularly scheduled closure cost update studies at the Boroo and Kumtor mine sites. As a result an increase to the present value of the closure cost estimate of \$11.0 million at Boroo (\$3.2 million-2007) and \$0.4 million at Kumtor (Nil – 2007) were recorded during year ended December 31, 2008.

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

### 11. Exploration and business development costs

(Thousands of US\$)	2008	2007	2006
Exploration	\$ 23,508	\$ 19,087	\$ 22,947
Business development	120	1,353	2,755
Total	\$ 23,628	\$ 20,440	\$ 25,702

### 12. Other (income) and expenses

(Thousands of US\$)	2008	2007	2006
Interest income	\$ (1,985)	\$ (6,663)	\$ (9,764)
Proceeds on insurance claim, net of fees	-	-	(13,436)
Loss on sales of assets	3,572	321	525
Interest expense on short-term debt	551	519	-
Financing charges and other interest	845	96	1,244
Provision for uncollectable advances	408	-	-
Foreign exchange loss (gain)	1,067	(68)	(1,931)
Net	\$ 4,458	\$ (5,795)	\$ (23,362)

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 13. Corporate Administration

On June 17, 2008, Centerra announced a re-organization of its senior management team. As a result, corporate administration costs for year ended December 31, 2008 include a \$5 million expense as severance payments to the former Chief Executive Officer and Chief Financial Officer, including the forgiveness of a relocation loan to the former Chief Executive Officer in the amount of Cdn \$0.25 million. Partially off-setting this is a reduction in the stock-based compensation expense resulting from a decrease in the share price. No similar expense occurred in prior year.

### 14. Acquisition of Non-Controlling interest

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

The allocation of the purchase price is as follows;

Prepaid Royalties	\$ 1,300
Non-controlling interest	7,000
	<hr/>
	\$ 8,300

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 15. Contingent common shares issuable

(Thousands of US\$)	December 31, 2008		December 31, 2007	
	Liability	Equity	Liability	Equity
Contingent common shares issuable	\$ -	\$ 126,794	\$ -	\$ 126,794
Change in value during the period	-	(37,710)	-	-
Reclassification	89,084	(89,084)	-	-
Provision, end of the period	\$ 89,084	\$ -	\$ -	\$ 126,794

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 agreed on revised terms with respect to the Kumtor Project. The Agreement on New Terms would have been subject to satisfaction of certain conditions, including approvals by the Kyrgyz Parliament and Centerra’s board of directors and the completion and signing of definitive agreements, all on or before June 1, 2008.

The Agreement on New Terms provided that Kumtor would be subject to tax on proceeds from sold products (gross revenue) rather than on income, at the rate of 11% in 2008, 12% in 2009 and 13% thereafter. The agreement contemplated that Cameco Corporation (“Cameco”) would transfer 32.3 million shares of the Company to the Kyrgyz Government, 17.3 million of which would be held in escrow to be released within 4 years subject to certain conditions. The Company entered into an agreement with Cameco pursuant to which the Company was to issue 10 million treasury shares (the “Treasury Shares”) to Cameco on completion and signing of the definitive agreements.

On June 2, 2008 the Company reported that the “Agreement on New Terms had not been ratified by the Kyrgyz Parliament within the timeframe agreed by the parties and therefore expired. As such, the Company has reclassified the amount recorded as contingent common shares issuable from equity to long-term liabilities.

The Company believes that if a settlement with the Kyrgyz Government occurs through ongoing negotiations such a settlement will include the issuance of treasury shares. The ultimate value of the contingently issuable common shares will be determined based on the Company’s share price when the agreement with the Kyrgyz Government is finalized and the shares are issued. While this amount cannot be reasonably determined at this time, the Company believes that the stock price on May 30<sup>th</sup> 2008, the last day of trading prior to the expiry of the Agreement on New Terms reflects the minimum amount of a range of possible values required to settle with the government.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 16. Other unusual Items

(Thousands of US\$)	2008	2007	2006
a) Claim settlement	\$ -	\$ 3,000	\$ -
b) Forgiven loan	-	1,843	-
Total	\$ -	\$ 4,843	\$ -

#### a Claim Settlement

During 2007 Centerra Gold Mongolia LLC ("CGML") a subsidiary wholly owned by the Company, and Gatsuurt LLC (an unrelated third party), reached an agreement to terminate the arbitration proceedings between CGML and Gatsuurt LLC.

Further to that agreement, CGML paid \$1.5 million to Gatsuurt LLC. On signing the definitive agreement, but subject to CGML having entered into an Investment Agreement with the Government of Mongolia in respect of the development of the Gatsuurt project, CGML will make a further non-refundable payment to Gatsuurt LLC in the amount of \$1.5 million.

#### b Forgiven loan

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

In connection with the August 30, 2007 agreement described in note 15, the Company agreed to reconsider the terms of the agreement with a view to forgiving the entire amount of the \$4.4 million advance. In 2007, the Company recorded the balance of this loan forgiveness of \$1.8 million as an expense in the income statement.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 17. Income Taxes

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

(Thousands of US\$)

<b>Future income tax assets</b>	<b>2008</b>	<b>2007</b>
Property, plant and equipment	\$ 15,407	\$ 16,311
Foreign exploration and development	8,640	7,442
Inventory	225	1,242
Tax losses carried forward	20,146	25,367
Other	936	4,146
Future income tax assets before valuation allowance	45,354	54,508
Valuation allowance	(42,194)	(38,041)
<b>Future income tax assets, net of valuation allowance</b>	<b>\$ 3,160</b>	<b>\$ 16,467</b>

(Thousands of US\$)

<b>Future income tax liabilities</b>	<b>2008</b>	<b>2007</b>
Property, plant and equipment	\$ 1,121	\$ -
<b>Future income tax liabilities</b>	<b>\$ 1,121</b>	<b>\$ -</b>

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 17. Income Taxes (continued)

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

(Thousands of US\$)	2008	2007	2006
Earnings (loss) before income taxes and non-controlling interest	\$ 168,854	\$ (70,009)	\$ 59,836
Combined federal and provincial tax rate	33.5%	36.1%	36.1%
Computed income tax expense (recovery)	56,566	(25,273)	21,601
Increase (decrease) in taxes resulting from:			
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(24,982)	(6,484)	(41,284)
Changes in tax legislation	-	7,450	(1,765)
Valuation allowance	4,153	(8,300)	18,262
Non-deductible contingent shares issuable	(12,633)	45,798	-
Non-deductible goodwill impairment expense	4,708	-	-
Other non-deductible expenses	6,277	6,131	4,057
Resolution of tax uncertainties	-	-	(7,129)
Large corporation and other taxes	-	-	487
<b>Income tax expense (recovery)</b>	<b>\$ 34,089</b>	<b>\$ 19,322</b>	<b>\$ (5,771)</b>

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2008	2007	2006
Current income tax (recovery)	\$ 23,093	\$ 26,888	\$ 3,159
Future income tax (recovery)	10,996	(7,566)	(8,930)
Net income tax expense (recovery)	\$ 34,089	\$ 19,322	\$ (5,771)

Note: Each item of income tax expense (recovery) above relates to foreign operations.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 17. Income Taxes (continued)

#### Tax Losses

At December 31, 2008 the Company and its subsidiaries have tax losses carried forward in the amount of \$70.4 million (2007 - \$119.7 million) available to reduce taxes in 2009 and subsequent years. No tax losses expired in 2008 (2007 – \$31.2 million), and the losses available for carry forward would begin to expire in 2011. A valuation allowance has reduced the benefits recorded for losses carried forward at December 31, 2008 to a minimal amount.

#### Tax Legislation

##### Mongolia

On August 3, 2007, Boroo entered into an amended Stability Agreement with the Government of Mongolia, resulting in Boroo's income tax rate being changed, effective January 1, 2007 for the balance of the term of the amended Stability Agreement, to 25% for income in excess of 3 billion tugriks (approximately \$2.4 million at the year end rate of exchange) and 10% up to that amount.

##### Kyrgyzstan

The existing Kumtor Investment Agreement provides for a corporate income tax rate applicable to Kumtor for 2008 of 10%. In addition, the Investment Agreement requires Kumtor to make a payment of 2% of its net income to the Issyk Kul Social Fund. As a result, the combined tax rate on Kumtor income in 2008 is 12%.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity

#### (a) Share Capital

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

#### (b) Earnings per Share

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

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	<b>2008</b>	<b>2007</b>	<b>2006</b>
Basic weighted average number of common shares outstanding (thousands)	<b>216,318</b>	216,269	216,239
Effect of stock options (thousands)	<b>120</b>	-	308
Diluted weighted average number of common shares outstanding (thousands)	<b>216,438</b>	216,269	216,547
<b>Basic and diluted earnings (loss) per common share</b>	<b>\$ 0.62</b>	\$ (0.43)	\$ 0.28

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# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### (c) Stock-Based Compensation

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

(Millions of US\$ except as indicated)	Number outstanding Dec 31/08	Expense			Liability	
		Dec 31/08	Dec 31/07	Dec 31/06	Dec 31/08	Dec 31/07
(i) Centerra stock options	<b>1,848,165</b>	\$ 1.0	\$ 0.3	\$ 1.6	\$ -	\$ 1.2
(ii) Centerra performance share units	<b>718,877</b>	(1.8)	1.7	3.9	-	4.0
(iii) Centerra annual performance share units	<b>116,183</b>	<b>0.7</b>	1.7	3.3	<b>0.3</b>	1.2
(iv) Deferred share units	<b>298,077</b>	(1.0)	0.9	1.0	<b>1.1</b>	2.5
(v) Cameco stock options	<b>55,200</b>	(1.3)	0.1	2.4	<b>0.6</b>	2.3
		\$ (2.4)	\$ 4.7	\$ 12.2	\$ 2.0	\$ 11.2

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

	Number outstanding Dec 31/07	Granted	Exercised	Forfeited	Number outstanding Dec 31/08
(i) Centerra stock options	962,028	886,137	-	-	1,848,165
(ii) Centerra performance share units	595,080	353,541	(212,056)	(17,688)	718,877
(iii) Centerra annual performance share units	122,911	157,413	(143,371)	(20,770)	116,183
(iv) Deferred share units	197,351	112,717	(11,991)	-	298,077
(v) Cameco stock options	73,200	-	(17,400)	(600)	55,200

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

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

##### Centerra Plan

##### (i) Stock Option.

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

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

Centerra stock option transactions during the year were as follows:

	2008	2007	2006
Average award price for options granted in the year (\$Cdn/share)	\$8.06	\$11.22	\$12.78
Weighted average price on outstanding options (\$Cdn/share)	\$8.64	\$9.17	\$8.07

During the year 2008, Centerra granted 886,137 stock options at an average strike price of Cdn \$8.06 per share (2007 - 388,268 options granted at average strike price of Cdn \$11.22 per share, 2006 - 209,361 options granted at average strike price of Cdn \$12.78)

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

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

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

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

	2008	2007	2006
Expected life (years)	4.31	6.0	6.0
Expected volatility	50.38%	37.5%	32.0%
Risk-free rate of return	3.40%	4.12%	4.50%
Expected dividends	-	-	-

The resulting fair value of the options granted in 2008 was \$2.5 million (2007-\$1.4 million, 2006 - \$1.2 million).

The terms of the options outstanding as at December 31, 2008 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2004	\$5.17 (Cdn)	2012	230,736	230,736
2005	\$6.71 (Cdn)	2013	199,460	190,765
2006	\$12.78 (Cdn)	2014	209,361	189,750
2007	\$11.17 (Cdn)	2015	261,317	195,195
2007	\$11.43 (Cdn)	2015	61,154	20,385
2008	\$14.29 (Cdn)	2016	277,545	127,694
2008	\$5.24 (Cdn)	2016	89,403	-
2008	\$5.24 (Cdn)	2016	500,000	-
2008	\$4.68 (Cdn)	2016	19,189	-
			1,848,165	954,525

In 2008, \$1.0 million of compensation expense was recorded on this plan (\$0.3 million in 2007 and \$1.6 million in 2006).

The 2004 series which contains a share appreciation rights feature, was issued at an award price of Cdn \$5.17, and is accounted for under the liability method.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity (continued)

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

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

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

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant. At December 31, 2008, the number of units outstanding was 718,877 (595,080 at December 31, 2007).

In 2008, compensation cost recovery of \$1.8 million was recorded on this plan (compensation expense of \$1.7 million in 2007 and \$3.9 million in 2006)

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

Centerra has established an annual performance share unit plan for eligible employees at its mine site operations. At the start of a contract period, an eligible employee receives a number of performance share units based on the Centerra share price on that start date. This award vests in one year, on the annual anniversary date of the contract and the eligible employee is entitled to receive an amount based on the assigned number of performance share units times the five day average Centerra share price preceding the annual anniversary date. The performance share units cannot be converted to shares and the eligible employee must complete the annual contract period in order to receive payment. At December 31, 2008 the number of units outstanding was 116,183 with a related liability of \$0.3 million (December 31, 2007 – 122,911 units, \$1.2 million liability).

In 2008, \$0.7 million of compensation expense was recorded on this plan (\$1.7 million in 2007 and \$3.3 million in 2006).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 18. Shareholders' Equity (continued)

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

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

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

Deferred share units are paid in full to a director and to the vice chair no later than December 31 in the calendar year that immediately follows the calendar year of termination of service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held. At December 31, 2008, the number of units outstanding was 298,077 (197,351 at December 31, 2007).

In 2008, compensation cost recovery of \$1.0 million was recorded on this plan (compensation expense of \$0.9 million in 2007 and \$1.0 million in 2006)

##### (v) Cameco Plan

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 18. Shareholders' Equity (continued)

#### Stock-Based Compensation (continued)

##### (v) Cameco Plan (continued)

The market price of Cameco common shares as at December 31, 2008 was \$21.05 (Cdn) (December 31, 2007 was \$39.57 (Cdn) per share, stock split adjusted).

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
(Number of options, except as indicated)			
Beginning of year	<b>73,200</b>	129,600	232,200
Options exercised	<b>(17,400)</b>	(55,800)	(91,200)
Options cancelled	<b>(600)</b>	(600)	(11,400)
End of year	<b>55,200</b>	73,200	129,600
Award price for options exercised – Cdn\$	<b>\$5.88-\$10.52</b>	\$5.88-\$10.52	\$4.81-\$10.52

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

Award Date	Award price (Cdn\$)	Expiry date	<b>2008</b>	<b>2007</b>
			(Number of options)	
2001	\$ 4.81	2009	<b>1,200</b>	1,200
2002	\$ 7.31	2010	<b>8,400</b>	8,400
2003	\$ 5.88	2011	<b>16,800</b>	19,200
2004	\$10.52	2012	<b>28,800</b>	44,400
			<b>55,200</b>	73,200
Weighted average price on outstanding options (Cdn\$/share)			<b>\$8.50</b>	\$8.84

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies

#### Commitments

As at December 31, 2008, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$32.5 million (Kumtor \$31.8 million, Boroo \$0.7 million): these are expected to be settled over the next twelve months.

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The total obligation outstanding, including operating costs, as at December 2008 is \$2.3 million of which approximately \$0.8 million will be spent in 2009.

#### Contingencies

##### Kyrgyz Republic

Centerra continues to hold discussions with Cameco Corporation and a Kyrgyz Republic Government working group with a view to resolving outstanding matters relating to the Kumtor project. The Company believes that it is reasonably likely that these discussions will ultimately result in a mutually acceptable and lasting settlement of all issues.

The following discussion summarizes the legal, arbitration and regulatory proceedings affecting the Company and the Kumtor project since June, 2008, when the previously announced framework agreements among the parties expired. To allow for discussions with Cameco and the Kyrgyz Republic to continue and for the parties to concentrate on resolving the issues, the Company agreed in September 2008 to suspend the international arbitration proceedings previously initiated by it. That suspension continues. The Company believes that all of the proceedings affecting the project will be resolved when the principal matters at issue between Cameco, the Kyrgyz Republic and Centerra have been resolved.

On June 2, 2008, the Company reported that the previously announced framework agreements entered into between the Company, Cameco Corporation and the Government of the Kyrgyz Republic (the "Government") on August 30, 2007 relating to the Kumtor project had not been ratified by the Parliament of the Kyrgyz Republic within the timeframe agreed by the parties and had therefore expired.

Under the circumstances and in response to court proceedings, on June 4, 2008 the Company resumed international arbitration previously initiated by the Company in accordance with its Investment Agreement, which provides that all disputes with respect to the project are subject to international arbitration. As discussed above, these arbitration proceedings have been suspended to allow for the continuation of discussions with Cameco and the Government regarding outstanding issues related to the project.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Contingencies (continued)

A Vice-Speaker of the Parliament, K.S. Isabekov filed two lawsuits in 2008 against the Government of the Kyrgyz Republic seeking to invalidate the licenses and agreements pursuant to which the Kumtor mine is operated. Although the Company and its subsidiary Kumtor Gold Company (KGC), the owner of the project, were not parties to those lawsuits, and despite their objections to the court's jurisdiction on the basis of the Investment Agreement's arbitration clause and the ongoing international arbitration, they were ordered to appear as third parties by the Kyrgyz court.

The Vice-Speaker's lawsuits sought to annul: (i) the Government's decree approving the December 31, 2003 agreements implementing the restructuring of the project (the "2003 Decree"); (ii) the 2003 agreements giving effect to the restructuring, including the Investment Agreement and the Concession Agreement providing for Kumtor's right to explore and develop the main Kumtor deposit within the Kumtor concession; (iii) the exploration license covering all of the Kumtor deposits; (iv) the mining license covering the Southwest Zone; (v) the mining license covering the Sarytor area; (vi) the Government's decree approving the 1993 Concession Agreement (superseded by the 2003 Concession Agreement); and (vii) the 1993 Concession Agreement itself. The Vice-Speaker argued that the 2003 agreements and 1993 Concession Agreement required Parliamentary approval to be effective and that as no such approval was obtained, such agreements are void. He also argued that the licenses were invalid because they were granted without a competition having been held and pursuant to agreements that are themselves invalid for lack of Parliamentary ratification.

On May 12, 2008, the Supreme Court of the Kyrgyz Republic, pending resolutions of the claims before the lower courts, issued an order suspending: the 2003 Decree; the 2003 Concession Agreement; and the mining and exploration licenses. Acting on the order, the State Agency on Geology and Mineral Resources Management notified Kumtor that as issues relating to the 2003 Decree and the Concession Agreement are regulated by "international legislation", operations within the concession area as well as work on the underground decline (to further develop the SB zone) should be continued but that operations on the licenses should be stopped. In response to the notice, Kumtor halted activity on the mining and exploration licenses and suspended development of the Sarytor deposit. All Kumtor mining operations take place in the concession area and have continued uninterrupted.

On June 17, 2008, the Bishkek Inter District Court issued an order invalidating the Southwest and Sarytor mining and Kumtor exploration licenses.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 19. Commitments and Contingencies (continued)

#### Contingencies (continued)

##### Kyrgyz Republic (continued)

Having been joined involuntarily as third parties, KGC and the Company defended the validity of the agreements, licenses and decrees in the Kyrgyz court actions on procedural and substantive grounds. At the same time, KGC and the Company maintained their position that the Investment Agreement's arbitration clause confers exclusive jurisdiction over questions surrounding the validity of the agreements and licenses on the international arbitration tribunal. With respect to the relevant agreements and decrees, at the time of the 2003 restructuring the Kyrgyz Ministry of Justice issued various legal opinions repeatedly affirming that the Government had the legal capacity to enter into and perform the agreements.

After reactivating the international arbitration proceedings on June 2, 2008, Centerra and KGC, on June 13, 2008, added claims based on the Vice-Speaker's lawsuits and their consequences. At the initial conference on June 23, 2008, Centerra filed an application for interim relief in the arbitration, requesting that all parties to the arbitration be directed to maintain the *status quo* and treat the licenses, agreements and decrees at issue in the Kyrgyz Republic as valid and enforceable. The Kyrgyz Republic has taken the position in its response to such application that, among other things, the 2003 Investment Agreement required but did not receive Parliamentary approval and therefore is not in effect.

On August 26, 2008, the Bishkek Inter-District Court of the Kyrgyz Republic dismissed the Vice-Speaker's lawsuit relating to the Government decrees and the 2003 Kumtor Agreements. On December 24, 2008, the Supreme Court of the Kyrgyz Republic upheld the dismissal of the Vice-Speaker's lawsuit. The Company cautions that the court's ruling does not resolve the principal matters at issue between the Company and the Kyrgyz Republic. As well, the ruling had no effect on the previously reported court decision (June 17, 2008) to invalidate the exploration and development licenses referred to above.

In January 2009, the Vice-Speaker filed a further lawsuit against the Government seeking to invalidate the 2003 Decree. Although not parties to the lawsuit, Centerra, Cameco and KGC have been ordered to appear as third parties by the Kyrgyz court. The Company does not believe there is any basis for this claim.

In 2008, Kumtor was made the subject of several new tax assessments and other proceedings in the Kyrgyz Republic. These include an investigation by the Kyrgyz Republic financial police into alleged tax evasion in relation to the grant of tax exemptions pursuant to the Investment Agreement governing the Kumtor project and an audit by the state tax inspectorate to determine the amount of taxes that Kumtor would have owed for the years 2005 to 2007 had the Investment Agreement and the Concession Agreement relating to the project not been in effect. The financial police requested, and were provided by Kumtor with, information and documents relating to the project and interviewed senior Kumtor personnel.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 19. Commitments and Contingencies (continued)

#### Contingencies (continued)

##### Kyrgyz Republic (continued)

Kumtor also received assessments from tax authorities relating to value-added taxes, land taxes and customs duties alleged to be owed by Kumtor. Kumtor is continuing to cooperate with the relevant authorities and continues to pay all taxes in accordance with applicable laws and the Investment Agreement and believes that there is no basis for these investigations or assessments.

##### Mongolia

On June 29, 2008, Mongolia held parliamentary elections. The Mongolian People's Revolutionary Party (MPRP), which held a slight majority in the prior parliament, won 45 of 76 seats and the Mongolian Democratic Party won 28 seats. Despite the fact that the MPRP won a clear majority, a coalition government was formed and, as a result of government restructuring a new ministry of mining was established. Centerra has resumed negotiations with respect to an investment agreement for the Gatsuurt Project. In December 2008, the Parliament enacted a change to the windfall profits tax in respect to gold sales. The tax is calculated as 68% of gold sales in excess of a threshold gold price. The revised threshold price is now set at \$850 per ounce, up from \$500 per ounce previously. Although this tax would apply to the Gatsuurt Project, the windfall profits tax does not apply to Boroo as it continues to be taxed under the terms of its existing Stability Agreement.

### 20. Related Party Transactions

#### Cameco Corporation

Cameco owned 100% of the Company until the Company's IPO in 2004. As at December 31, 2008, Cameco owned 52.7% of the Company's common stock. The table below summarizes 100% of the fees and services transacted between Cameco and Centerra in the respective years.

<b>Yearly Activity</b> (Thousands of US\$)	<b>2008</b>	<b>2007</b>	<b>2006</b>
Charged by Cameco:			
Administration fee	\$ -	\$ -	\$ 127
Charged by Centerra:			
Enhancement of internal controls over financial reporting	-	(278)	(4,777)
Total activity	\$ -	\$ (278)	\$ (4,650)

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, are repaid in the ordinary course of business.

A net balance related to these inter-company transactions of \$0.5 million was payable to Cameco at December 31, 2008 (\$0.9 million payable to Cameco at December 31, 2007).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 20. Related Party Transactions (continued)

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

Revenues from the Kumtor gold mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company.

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

<b>Related parties in the Kyrgyz Republic</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
(Thousands of US\$)			
Management fees to Kyrgyzaltyn	\$ 828	\$ 451	\$ 494
Concession payments to the Kyrgyz Republic	2,209	1,202	1,318
	<b>\$ 3,037</b>	<b>\$ 1,653</b>	<b>\$ 1,812</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 470,759	\$ 210,367	\$ 198,906
Deduct: refinery and financing charges	(2,465)	(1,217)	(1,480)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 468,294</b>	<b>\$ 209,150</b>	<b>\$ 197,426</b>

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the Gold and Silver Sale Agreement entered into between Kumtor Operating Company, a wholly owned subsidiary of the Company ("KOC"), Kyrgyzaltyn and the Government of the Kyrgyz Republic. Under these arrangements, Kyrgyzaltyn is required to prepay for all gold delivered to it, based on the price of gold on the London Bullion Market on the same day on which KOC provides notice that a consignment is available for purchase. Pursuant to an amendment to the Gold and Silver Sale Agreement, effective from December 22, 2005, as amended from time to time since then, Kyrgyzaltyn is permitted, until June 30, 2009, to defer payments for gold for up to 12 calendar days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn. As at December 31, 2008, \$24.1 million was outstanding under these arrangements (December 31, 2007 - \$14.1 million).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 20. Related Party Transactions (continued)

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

On August 30, 2007, the Company entered into an agreement with the Government of the Kyrgyz Republic, pursuant to which the parties had agreed on revised terms with respect to the Kumtor Project. This agreement was not ultimately ratified and therefore expired. Provisions and conditions of this agreement are further described in note 15.

#### Other

Ms Marina Stephens, a lawyer and the spouse of Centerra's former President and Chief Executive Officer, Mr Len Homeniuk provided certain designated legal and business advisory services related to the Company's international operations under the terms of a consulting contract, which came to an end on June 16, 2008. As a result, payments made to Ms Stephens under this contract totalled Cdn \$287,800 in 2008 (2007-Cdn \$551,000 and 2006- Cdn \$589,455). As of June 16, 2008, Ms Stephens is no longer considered a related party of Centerra.

### 21. Fair Value of Financial Instruments

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

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

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

The carrying values of these financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
(Thousands of US\$)				
<b>Financial assets</b>				
Cash and cash equivalents	\$ 149,583	\$ 149,583	\$ 105,482	\$ 105,482
Short-term investments	17,781	17,781	-	-
Amounts receivable	30,247	30,247	18,021	18,021
Reclamation trust fund	4,915	4,915	4,853	4,853
	\$ 202,526	\$ 202,526	\$ 128,356	\$ 128,356

	December 31, 2008		December 31, 2007	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
(Thousands of US\$)				
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities and taxes	\$ 35,611	\$ 35,611	\$ 42,482	\$ 42,482
Short-term debt	-	-	10,000	10,000
Contingent common shares issuable	89,084	89,084	-	-
	\$ 124,695	\$ 124,695	\$ 52,482	\$ 52,482

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 22. Financial Risk Exposure and Risk management

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

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

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

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

#### i) Currency Risk

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

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

As required, the Company either makes purchases at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian Dollars. During the year ended December 31, 2008, \$5.5 million of such forward contracts were executed (2007- Nil). There were no outstanding forward contracts at December 31, 2008 (2007- Nil).

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### i) Currency Risk (continued)

The exposure of the Company's financial assets and liabilities to currency risk as at December 31, 2008 are as follows:

(Thousands of US\$)	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Australian Dollar	European Euro
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 822	\$ 1,378	\$ 2,814	\$ -	\$ 4
Amounts receivables	190	2,514	219	-	-
	\$ 1,012	\$ 3,892	\$ 3,033	\$ -	\$ 4
<b>Financial Liabilities</b>					
Accounts payable and accrued liabilities	\$ 7,035	\$ 667	\$ 6,244	\$ 53	\$ 1,873

A strengthening of the US Dollar by 5% against the Canadian Dollar, the Kyrgyz Som and the Mongolian Tugrik at December 31, 2008, with all other variables held constant would have lead to additional before tax net income of \$0.4 million as a result of a change in value of the financial assets and liabilities denominated in those currencies.

#### ii) Interest Rate Risk

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

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### ii) Interest Rate Risk (continued)

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

Fluctuations in market interest rates have not had a significant impact on the Company's results of operations due to the short-term to maturity of the investments held and a low interest rate environment has resulted in lower interest paid during the twelve-month period ending December 31, 2008, on the repaid \$10 million credit facility

#### iii) Concentration of Credit Risk

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

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with two customers. Boroo sells its product to Johnson Matthey Limited, under the terms of a refining agreement with its North American precious metals division.

Kyrgyzaltyn, a state-owned refinery in the Kyrgyz Republic, is Kumtor's sole customer and is a shareholder of Centerra. To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 of Centerra shares as security against an individual gold shipment, in the event of default on payment (Note 20). Based on movements of Centerra's share price, and the value of individual gold shipments, over the course of 2008, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of a given shipment, was approximately \$18.7 million.

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

At the balance sheet date, approximately 19% of the Company's liquid assets were held with Citigroup bank and 19% with HSBC Bank. The remainder of cash and cash equivalents, and short-term investments were held in government securities, term deposits, banker's acceptances and highly-rated corporate direct credit issues.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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

#### iv) Liquidity Risk

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

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

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

#### v) Commodity Price Risk

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

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

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

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

At the balance sheet date there was no significant impact of commodity price risk on the Company's financial assets and liabilities.

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 23. Capital Management

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

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

As at December 31, 2008, the Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy.

### 24. Supplemental cash flow disclosure

#### a. Changes in operating working capital

	2008	2007	2006
(Thousands of US\$)			
(Increase) decrease in amounts receivable	\$ (12,226)	\$ 5,985	\$ (15,055)
Increase in income taxes recoverable	(3,323)	-	-
(Increase) decrease inventory-ore and metal	(13,470)	(23,912)	8,567
Increase in inventory-supplies	(31,616)	(11,970)	(15,580)
(Increase) decrease in prepaids	3,218	3,507	(8,586)
Increase (decrease) in accounts payable and accrued liabilities	(4,725)	(7,495)	15,978
Increase (decrease) in taxes payable	14,493	(2,968)	-
	\$ (47,649)	\$ (36,853)	\$ (14,676)

#### b. Other cash payments

	2008	2007	2006
(Thousands of US\$)			
Interest paid	\$ 500	\$ 500	\$ 274
Income taxes paid	11,923	21,660	3,159

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

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### 25. Comparative Information

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

### 26. Segmented Information

The Company's operations are segmented on a regional basis. The Kyrgyz Republic segment involves the operations of the Kumtor Gold Project and local exploration activities, and the Mongolian segment involves the operations of the Boroo Gold Project, activities related to the Gatsuurt project and local exploration activities. The North American segment involves the head office located in Toronto and exploration activities on North American projects. The segments' accounting policies are the same as those described in the summary of significant accounting policies (note 2) except that self-eliminating inter-company loan interest income and expenses are presented in the individual operating segments where they are generated when determining earnings or loss.

#### Geographic Segmentation of Revenue

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2008

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2007

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

# Centerra Gold Inc.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(Expressed in United States Dollars)

### 26. Segmented Information (continued)

#### Year ended December 31, 2006

(millions of US\$)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 195.9	\$ 168.6	\$ -	\$ 364.5
Expenses				
Cost of sales	169.5	49.9	-	219.4
Regional office administration	7.7	9.8	-	17.5
Depreciation, depletion and amortization	19.5	19.7	0.5	39.7
Accretion and reclamation expense	(1.6)	0.2	-	(1.4)
Exploration and business development	14.3	5.2	6.2	25.7
Other income and expenses	(11.5)	(2.6)	(9.3)	(23.4)
Administration	2.7	1.4	23.1	27.2
<b>Earnings (loss) before unusual items, income taxes and Non-controlling interest</b>	<b>(4.7)</b>	<b>85.0</b>	<b>(20.5)</b>	<b>59.8</b>
Contingent common shares issuable				-
Other unusual items				-
<b>Earnings before income taxes and Non- controlling interest</b>				<b>59.8</b>
Income tax recovery				(5.8)
Non controlling interest				5.0
<b>Net earnings and comprehensive income</b>				<b>\$ 60.6</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 332.3</b>	<b>\$ 233.7</b>	<b>\$ 73.6</b>	<b>\$ 639.6</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ 24.9</b>	<b>\$ -</b>	<b>\$ 154.6</b>
<b>Capital expenditures for the year</b>	<b>\$ 95.0</b>	<b>\$ 15.1</b>	<b>\$ 1.1</b>	<b>\$ 111.2</b>