

centerra**GOLD**



2006 ANNUAL REPORT



Who we are

Centerra is a growth-oriented Canadian-based gold company engaged in operating, developing, acquiring and exploring gold properties primarily in Central Asia, the former Soviet Union and other emerging markets.

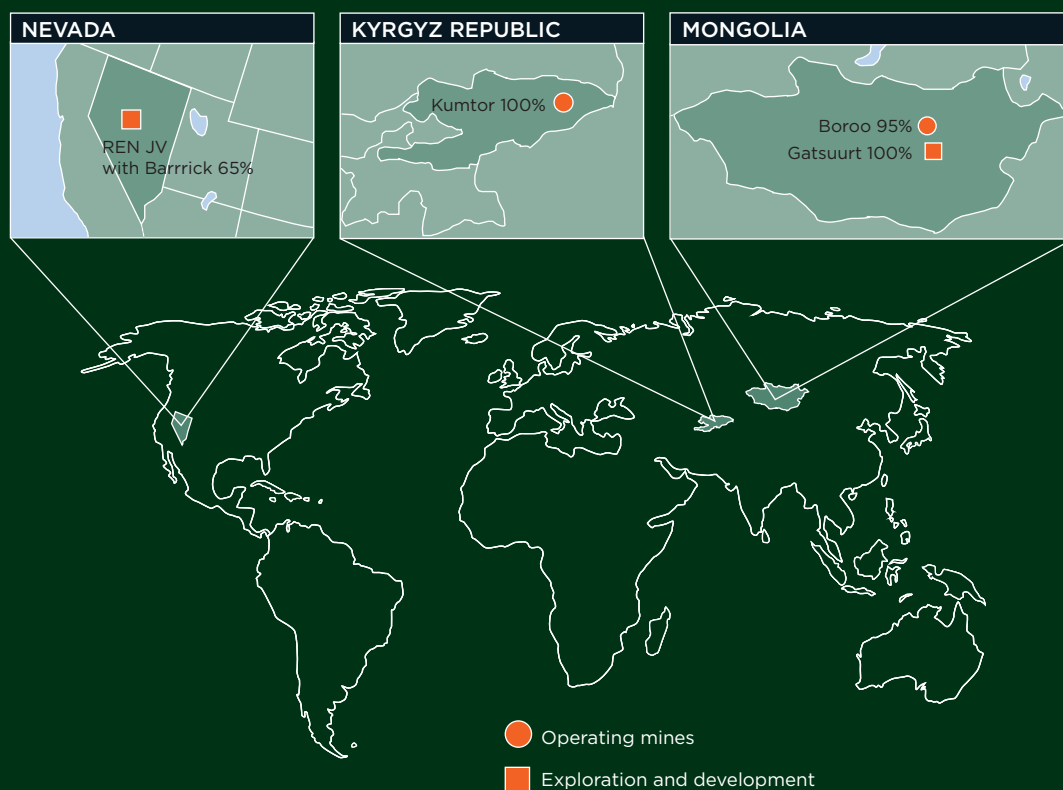
The two gold mines operated by the Company produced 586,384 ounces of gold in 2006 at a total cash cost of \$386 per ounce.

Centerra's objective is to aggressively increase its reserves and resources and expand its portfolio of gold mining operations.

Centerra's shares trade on the Toronto Stock Exchange (TSX) under the symbol CG. The Company is based in Toronto, Canada.

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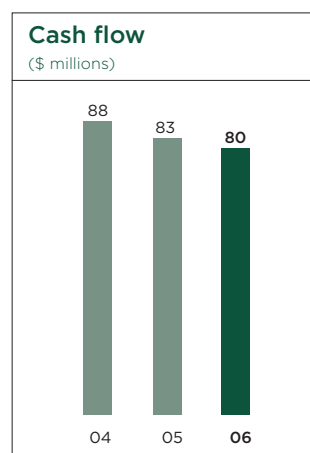
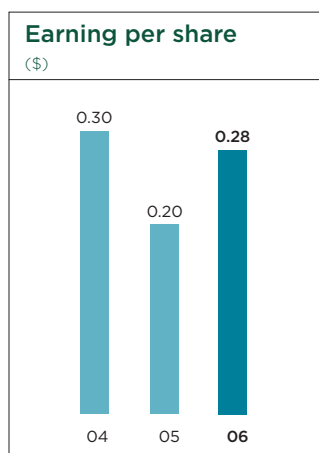
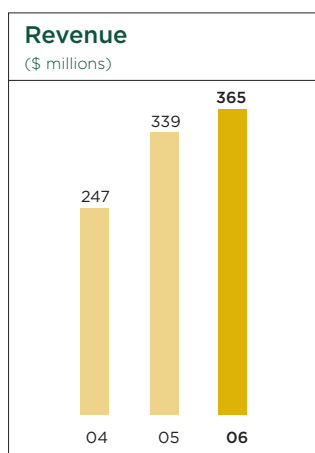
Why invest in Centerra?

- A leading North America-based gold producer with over 14 years of experience in one of the world's most promising and under-developed gold regions
- Largest Western-based gold producer in Central Asia and the former Soviet Union
- Two excellent operating mines producing solid cash flows and earnings
- Significant potential to increase reserves at existing Kumtor mine
- Promising exploration properties in Kyrgyz Republic, Mongolia and Nevada
- Debt-free balance sheet
- Unhedged strategy
- Seasoned management team with proven acquisition, development, operation and exploration experience
- Balanced growth strategy

HIGHLIGHTS



Financially Solid		
(US\$)	2006	2005
Revenue - millions	\$ 365	\$ 339
Net earnings - millions	\$ 61	\$ 42
EPS - \$ per share	\$ 0.28	\$ 0.20
Cash provided by operations - millions	\$ 80	\$ 83
CFPS - per share	\$ 0.37	\$ 0.39
Cash on hand - millions	\$ 186	\$ 202
Total assets - millions	\$ 794	\$ 699
Ounce poured - 100% basis	586,384	787,275
Average realized price - \$/oz	\$ 597	\$ 433



All dollar amounts are expressed in U.S. dollars in this report, except as otherwise indicated.

A commitment to high standards



Patrick M. James
Chair,
Board of Directors

GOVERNANCE

Centerra Gold remained firmly on track in 2006, replacing reserves and expanding resources through our exploration success at the south end of the Kumtor pit and heap leach initiative at the Boroo mine. Operational performance continued to be strong and both Kumtor and Boroo enjoyed solid environmental records. During the year, management also continued to pursue strategic acquisition opportunities in a highly disciplined and focused manner.

Emphasizing corporate governance

The Board and management believe that sound and effective corporate governance is essential to Centerra's performance. We understand that creating value for our shareholders both in the short-term and over the longer term is a process that never ends. In carrying out its responsibilities, Centerra's directors hold regular meetings, with additional meetings held as required to consider particular issues or conduct specific reviews. These dedicated and skilled individuals bring a wealth of international experience – in exploration, project development, mining and financial management – that encourages open, productive discussion in all areas affecting Centerra's business.

In addition, Centerra's commitment to sustainable development and its effective Health, Safety and Environmental management systems are strongly supported by the Board.

As we look ahead, I am confident the Board will continue to play a central role in Centerra's long-term success.

Patrick M. James

Chair, Board of Directors

March 19, 2007

Letter to Shareholders



MANAGEMENT TEAM

Dear Fellow Shareholders,

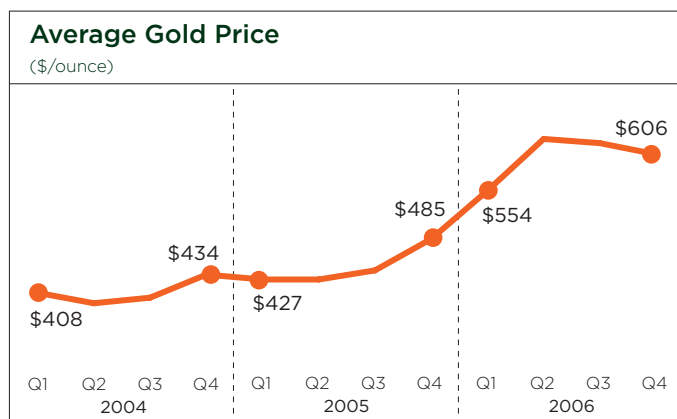
Centerra continued its strong financial and operating performance during the past year. 2006 was an eventful year for the Company. Gold prices were up from the previous year creating a strong share price environment enabling the Company to split the stock three-for-one to create increased trading liquidity. A pit wall movement at Kumtor occurred in the summer requiring us to revise our mine development plan. The year's most positive news was the successful drilling program at our mines and exploration properties; particularly, at Kumtor where we added 1.8 million ounces of high-grade underground inferred resources. The best news is that this mineralized structure is open along strike and at depth.

FROM LEFT TO RIGHT SITTING:

David M. Petroff,
*Executive Vice President and
Chief Financial Officer*
Leonard A. Homeniuk,
*President and Chief Executive
Officer*
George R. Burns,
*Vice President and Chief
Operating Officer*

FROM LEFT TO RIGHT STANDING:

Gordon D. Reid,
*Vice President, Business
Development*
Frank H. Herbert,
*General Counsel and Corporate
Secretary*
Ronald H. Colquhoun,
*Vice President, Project
Development and Engineering*
Jeffrey S. Parr,
Vice President, Finance
Ross S. Brown,
*Vice President, Human
Resources*
Ian Atkinson,
Vice President, Exploration



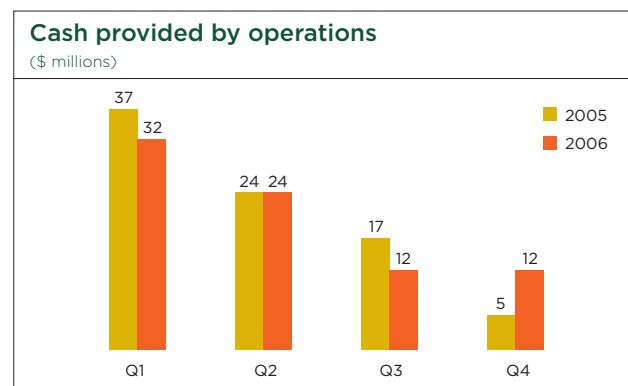
During the year, we replaced all the ounces we mined, so that on a 100 percent basis, proven and probable reserves total 7 million ounces of contained gold at year-end. Additionally, our measured and indicated resources on a 100 percent basis increased 626,000 ounces to a total of 5.6 million ounces of contained gold.

As I mentioned earlier, our greatest operational challenge came from the pit wall movement in July at Kumtor. This impacted our results for the year, with resulting lower gold production and higher costs at Kumtor. Consolidated gold production from our mines was 586,000 ounces in 2006. This compares to 787,000 ounces of gold produced in 2005. On the positive side, Kumtor exceeded our September 2006 revised forecast by over 11,000 ounces and Boroo once again exceeded our expectations.

Regarding total cash costs, while they came in at \$386 per ounce for 2006, above our forecast range of \$370 to \$380 per ounce, we would have improved over our forecast if not for extra costs recorded in December in connection with various settlements at Kumtor.

On the financial front during 2006, Centerra produced just over \$60 million in earnings or \$0.28 per share, which includes a one-time insurance settlement. Also, we generated \$80 million in cash from operations. At the end of the year we had \$186 million of cash in the bank. We also invested in capital assets \$111 million for the future of our operations. We continue to be debt-free and our gold sales remain unhedged allowing us to participate in all of the upside of any rises in the gold price.

For 2006, revenues increased to \$365 million, largely due to the positive movement in the gold prices. Our average realized price reached \$597 per ounce in 2006, up from \$433 per ounce in 2005.



2007 Goals

In 2007, Centerra's goals are focused on extending its excellent health, safety and environmental performance, developing the Gatsuurt deposit and the heap leach facility at Boroo, advancing access to the high-grade SB Zone at Kumtor from the open pit and underground and continuing to aggressively explore for new reserves and resources.



In the Kyrgyz Republic, the new administration and Centerra are actively engaged in discussions regarding outstanding issues with a view to reaching a new agreement regarding all aspects of the Kumtor project. This will benefit the Company, shareholders and the Kyrgyz Republic. In Mongolia, we are optimistic that the Government will ensure the continuation of an attractive investment environment. In fact, we are in negotiations with the Government which will allow us to make substantial additional investments in this country to advance the development of our Gatsuurt deposit and conduct further exploration throughout the country.

Looking forward in 2007, we are forecasting consolidated gold production on a 100 percent basis to be 20 percent higher than 2006 at 700,000 to 720,000 ounces. Total cash costs overall are forecast to be \$375 to \$385 per ounce.

Mining operations at Kumtor in 2007 will take place in both the Central Pit and the South West Pit. In the Central Pit, mining will be focused on targeting the high-grade mineralization of the SB Zone, for the second half of the year. The mill head grade at Kumtor is expected to increase to average 3.13 grams per tonne in 2007 compared to 2.27 grams per tonne in 2006 and mill recovery is expected to average 79.9 percent compared to 73.0 percent in 2006. Production from the mine is expected to increase to between 450,000 and 460,000 ounces of gold at a total cash cost of \$440 - \$450 per ounce. Growth capital expenditures are expected to be \$40 million. The most

significant expenditures are \$17 million for the development of the SB Zone decline and \$12 million to pre-strip the SB Zone in the Central Pit.

At Boroo, on a 100 percent basis, gold production is expected to be between 250,000 and 260,000 ounces at a total cash cost of between \$250 and \$260 per ounce. The 2007 mine plan will focus on developing the Pit 3 phases and stripping Pit 6 to access oxide ore for blending in the fourth quarter of the year. Mill head grades are expected to average 3.64 grams per tonne compared to 4.25 grams per tonne in 2006, with recoveries remaining constant at 87 percent. Growth capital expenditures are expected to be \$45 million, the new heap leach facility will account for \$20 million and \$25 million will be for advancing the Gatsuurt project.

Going forward, we plan to continue to invest in our properties. We will continue our aggressive exploration program investing \$25 million of which \$15 million is dedicated to Kumtor for further surface exploration. Growth spending in 2007 is expected to total \$85 million, which includes \$40 million at Kumtor and \$45 million at Boroo.

I look forward to substantially growing reserves at Kumtor and an even more supportive environment for the project in the country following the resolution of some outstanding issues, and a successful conclusion to our negotiations in Mongolia to ensure a stable future there.

Our priorities continue to be, firstly, to put in place the Gatsuurt development; secondly, advance the underground access to the Kumtor SB Zone; thirdly, to continue our aggressive exploration program to grow and expand our reserve and resource base; and lastly, to continue to look for new growth opportunities through acquisitions.



Leonard A. Homeniuk
President and Chief Executive Officer
March 19, 2007

2006 Accomplishments

During 2006, Centerra's successful exploration program replaced reserves and significantly expanded resources with the identification of a high-grade underground inferred resource at Kumtor. The Company's operations met or exceeded plans, Kumtor performed in-line with its revised mine plan and Boroo exceeded expectations. Future growth plans include the addition of a heap leach facility at Boroo, commencing an underground exploration and development program at Kumtor and aggressive exploration will continue around the mine sites.



2006 GOAL: IMPROVE PRODUCTIVITY

The Company's productivity was impacted during the year with the pit wall movement at Kumtor. Industry-wide operating costs continue to be impacted by the rising costs of consumables but management continues to focus on managing these rising costs while maintaining safe, efficient mine operations.



2006 GOAL: EXPAND RESERVES AND RESOURCES

Reserves on a 100 basis total 7 million ounces as Kumtor replaced reserves mined and Boroo increased reserves with the approval of the development of the heap leach facility. Resources increased significantly, measured and indicated resources were up 626,000 ounces and inferred resources increased due to the identification at Kumtor of a 1.8 million ounce underground high-grade inferred resource.



2006 GOAL: ADVANCE EXPLORATION

In 2006, \$23 million was successfully invested in an aggressive exploration program around the Company's operations and other exploration properties to further expand the reserve and resource bases. Accordingly, Centerra has forecast to invest \$25 million in 2007 to advance exploration.

A solid foundation

2006 Year-end Reserve and Resource Summary

(as of December 31, 2006)

Reserves ⁽¹⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Property	Proven			Probable			Total Proven and Probable Reserves				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor	12,014	4.9	1,893	19,426	4.6	2,852	31,440	4.7	4,745	4,745	OP
Boroo	5,294	2.6	449	19,230	1.3	785	24,523	1.6	1,234	1,173	OP
Gatsuurt	—	—	—	9,101	3.4	1,005	9,101	3.4	1,005	1,005	OP
Total	17,308	4.2	2,342	47,757	3.0	4,642	65,064	3.3	6,984	6,923	

Measured and Indicated Resources ⁽²⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Property	Measured			Indicated			Total Measured and Indicated Resources				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor ⁽⁵⁾⁽⁶⁾	17,710	3.5	1,964	14,810	3.2	1,538	32,520	3.3	3,502	3,502	OP
Boroo ⁽⁵⁾⁽⁸⁾	680	2.0	45	5,519	1.4	240	6,199	1.4	284	270	OP
Gatsuurt ⁽⁹⁾	—	—	—	6,238	3.0	607	6,238	3.0	607	607	OP
REN ⁽¹⁰⁾	—	—	—	2,991	12.7	1,220	2,991	12.7	1,220	756	UG
Total	18,390	3.4	2,009	29,558	3.8	3,605	47,948	3.6	5,613	5,135	

Inferred Resources ⁽²⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Property	Inferred					
	Tonnes	Grade (g/t)	Contained Gold (oz)		Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor ⁽⁵⁾⁽⁶⁾	571	2.2	40		40	OP
Kumtor SB Underground ⁽⁷⁾	2,781	20.5	1,830		1,830	UG
Boroo ⁽⁵⁾⁽⁸⁾	7,772	1.0	240		228	OP
Gatsuurt ⁽⁹⁾	2,437	3.3	256		256	OP
REN ⁽¹⁰⁾	835	16.1	432		268	UG
Total	14,396	6.0	2,798		2,622	

⁽¹⁾ The reserves have been estimated based on a gold price of \$475 per ounce.

⁽²⁾ Mineral resources are in addition to reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability when calculated using mineral reserve assumptions.

⁽³⁾ Centerra's equity interests are: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.

⁽⁴⁾ "OP" means open pit and "UG" means underground.

⁽⁵⁾ Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$475 per ounce.

⁽⁶⁾ The open pit reserves and resources at Kumtor are estimated based on a cut-off grade of 1.3 grams per tonne.

⁽⁷⁾ Underground resources occur below the main Kumtor pit shell and are estimated based on a cut-off grade of 7.0 grams per tonne.

⁽⁸⁾ The reserves and resources at Boroo are estimated based on a variable cut-off grade depending on the type of material and the associated recovery. The cut-off grades range from 0.2 grams per tonne to 0.8 grams per tonne.

⁽⁹⁾ The reserves and resources at Gatsuurt are estimated using either a 1.2 or 1.9 grams of gold per tonne cut-off grade depending on the type of material and the associated recovery. High-grade values were also cut using variable limits ranging from 20 to 45 g/t Au depending on the mineralized zone.

⁽¹⁰⁾ The resources at REN are estimated based on a cut-off grade of 8.0 grams per tonne.

⁽¹¹⁾ A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.

⁽¹²⁾ Numbers may not add up due to rounding.

RESERVES
AND
RESOURCES

Growing our reserves and production capability

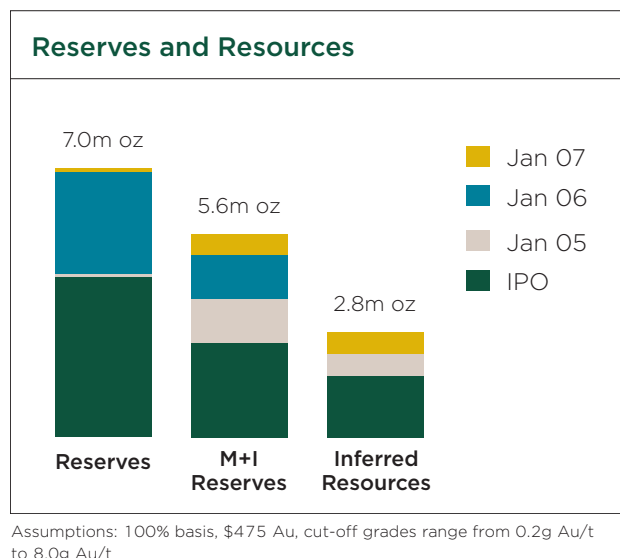
During 2006, the Company continued its drilling activities in and around its two mine sites and at the Gatsuurt deposit. As of December 31, 2006, on a 100 percent project basis, Centerra's proven and probable reserves totalled 7.0 million ounces of contained gold (Centerra's share is 6.9 million ounces), compared to 7.2 million ounces as of December 31, 2005 (Centerra's share was 7.1 million ounces). The Company essentially replaced reserves mined in 2006, having replaced the 742,000 contained ounces that were mined in 2006.

The reserve additions are a result of exploration drilling at the Kumtor mine (including Sarytor) in the Kyrgyz Republic and completion of a positive feasibility study for the development of a heap leach facility at its Boroo mine, in Mongolia. For the Kumtor and Boroo mines, there was only a minimal increase for the year-end reserve estimate attributable to using a gold price of \$475 per ounce in 2006 to calculate reserves, rather than \$400 per ounce used for the 2005 calculation.

As of December 31, 2006, on a 100 percent project basis, Centerra's measured and indicated resources increased 626,000 ounces over the December 31, 2005 figures to total 5.6 million ounces of contained gold (Centerra's share is 5.1 million ounces), compared to 5.0 million ounces (Centerra's share was 4.5 million ounces) as of December 31, 2005.

At the Kumtor mine, 208,000 ounces of reserves were added before accounting for mining 416,000 contained ounces in 2006. The reserve grade increased by 20 percent from 3.8 grams per tonne to 4.7 grams per tonne due to the higher grade mineralization being delineated in the SB Zone. Measured and indicated resources increased by approximately 500,000 ounces and inferred resources significantly increased by 1.1 million ounces with almost all of this addition being the result of drilling at the SB Zone, which has identified a high-grade underground inferred resource. The SB underground inferred resource, which has been outlined below the current ultimate pit design, is estimated to be 1.8 million ounces of contained gold at an average grade of 20.5 grams per tonne and accounts for almost the entire inferred resource at Kumtor.

At the Boroo mine, 342,000 contained ounces have been added, which replaces reserves mined in 2006.





Kumtor

An excellent gold mining operation

Centerra owns 100 percent of the Kumtor gold mine which is located in the Kyrgyz Republic, about 350 kilometres southeast of the capital Bishkek and about 60 kilometres north of the border with the People's Republic of China. It is the largest gold mine operated in Central Asia by a Western-based company, having produced more than 5.8 million ounces of gold between 1997 and the end of 2006.

The Company's involvement in Kumtor began in 1992 when an agreement to evaluate and develop the Kumtor gold deposit was entered into with the Government of the Kyrgyz Republic. The Kumtor area, located in the prolific Tien Shan gold belt, had a long history of intermittent exploration dating back to the late 1920s, but the actual discovery of the deposit was made in 1978.

Today, the Kumtor mine plays a particularly important role in the economic and political life of the Kyrgyz Republic. It is the largest private sector employer of Kyrgyz citizens and is the largest foreign investment in the country.

Production (100%)	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ore mined (thousands of tonnes)	5,349	8,054	6,518	5,606	5,141	4,634	3,303	6,135	3,887
Ore milled (thousands of tonnes)	5,254	5,298	5,498	5,470	5,611	5,631	5,654	5,649	5,696
Average mill feed grade (grams/tonne)	4.8	4.5	4.7	5.2	3.7	4.5	4.4	3.4	2.3
Recovery (%)	78.5	79.4	81.5	83.1	78.1	82.6	82.1	81.2	73.0
Gold poured ⁽¹⁾ (thousands of ounces)	646	610	670	753	529	678	657	501	304
Unit Production Total Cash Cost⁽²⁾									
Per tonne milled - (\$)	22.20	20.60	18.60	19.50	20.40	24.00	23.24	24.40	28.99
Per ounce - (\$)	181	179	153	141	216	191	200	274	544

Notes:

(1) Centerra's equity interest is 100% following the 2004 IPO.

(2) Total cash cost per ounce is a non-GAAP measure and is described under "Non-GAAP Measure - Total Cash Cost" in the Management's Discussion and Analysis accompanying this annual report.



AGGRESSIVE EXPLORATION

FOCUS ON UNDERGROUND ACCESS

Focus on accessing SB Zone

During the past year, production and costs were impacted by lower ore grades and recoveries reflecting the fact that the mill feed was primarily sourced from the low-grade stock piles and the Southwest Pit as result of a change in the mine development plan following a pit wall movement in July 2006. Mining and milling continued at full capacity during the year, but safety concerns identified in the engineering analysis undertaken after the pit wall movement required a new mining sequence. The new mine development plan deferred production from the high-grade stockwork area in the north part of the pit as mine equipment was redeployed to pre-strip the southern part of the pit, to gain access to the higher grade SB Zone. The higher grade ore from the SB Zone is expected to report to the mill in the second half of 2007.

Growing reserves and mine life

An exciting future at Kumtor is becoming evident as an aggressive exploration and drilling program continues to add reserves and resources. From the 2006 exploration expenditures of \$14 million, the reserve grade at Kumtor increased by 20 percent, from 3.8 grams per tonne to 4.7 grams per tonne gold, reflecting the higher grade mineralization being delineated in the SB Zone. As well, the exploration program identified in the SB Zone, a 1.8 million ounce high-grade underground inferred resource, which has been outlined below the current ultimate pit design, with an average grade of 20.5 grams per tonne. The SB Zone remains open at depth and along strike. The Company announced a two-year \$36 million underground exploration and development program, which will commence in 2007 and provide access via a decline to define and explore the resource at depth and give access for future underground mining.



Boroo

Continuing to exceed expectations

Centerra Gold has a 95 percent equity interest in Boroo, which is located 110 kilometres northwest of Ulaanbaatar, Mongolia's capital. Although this is a relatively remote part of the world, Boroo is within three kilometres of the all-weather Ulaanbaatar-Irkutsk highway and enjoys easy access to the Trans-Mongolian railway. This open pit operation began commercial production on March 1, 2004 and has produced more than 800,000 ounces of gold by the end of 2006. In 2007, a three-million tonne per annum heap leach facility will be constructed to process low-grade ores at the Boroo mine.

Additionally, the Boroo facility will process ore from the Gatsuurt deposit, Centerra's major development project, following negotiations with the Government of an investment agreement covering the Gatsuurt deposit. Gatsuurt is approximately 35 kilometres from the Boroo mine and the Company plans to truck the Gatsuurt ore for processing at Boroo, where the mill will need to be modified to accommodate the ore. The ore at Gatsuurt is refractory and therefore requires bio-oxidation to liberate the gold which will allow recoveries of approximately 87 percent. First, the higher grade oxide ore from Boroo and Gatsuurt will be processed together then followed by the Gatsuurt sulphide ore.

Notes:

- (1) Total cash cost per ounce is a non-GAAP measure and is described under "Non-GAAP Measure - Total Cash Cost" in the Management's Discussion and Analysis accompanying this annual report, and represents post-commissioning production costs from March 1, 2004.
- (2) Gold poured in 2003 and 2004 includes pre-commissioning production for December 2003 and January and February of 2004.
- (3) Centerra's equity interest is 95%.
- (4) In December 2006, a decision was reached to construct a 3 million tonne per year heap leach operation to process low-grade ore at the Boroo site. The heap leach pad is expected to be in operation in the second half of 2007. As of December 2006, over 4 million tonnes of low-grade material (with grades of approximately 0.6 g/t) had already been mined and stock piled. This material is not included in the ore tonnage mined to date and was previously considered waste. The heap leach tonnage was included in the year-end reserve statement. No cost has been associated to this material in the December 2006 inventory.

Production (100%)	2003	2004	2005	2006
Ore mined (thousands of tonnes)	145	1,884	2,865	3,082⁽⁴⁾
Ore milled (thousands of tonnes)	113	1,850	2,231	2,387
Average mill feed grade (grams/tonne)	2.9	4.5	4.2	4.3
Recovery (%)	97.0	93.7	91.5	87.0
Gold poured (thousands of ounces) ^{(2) (3)}	4	246	286	283
Unit Production Total Cash Cost ⁽¹⁾				
Per tonne milled - (\$)	—	17.57	23.49	25.77
Per ounce - (\$) ⁽¹⁾	—	149	183	217



**REPLACING
RESERVES**

**EXCEEDING
EXPECTATIONS**

Solid operating performance

In 2006, the Boroo mine exceeded the Company's forecast producing 283,000 ounces of gold at a total cash cost of \$217 per ounce. While continuing to perform well, gold production was one percent lower than 2005 due to lower recoveries. There were higher total cash costs resulting from higher consumable prices and increased mining and milling activity, which increased consumption of grinding media and higher costs for rental of drilling and loading equipment.

Successful replacement of reserves

During the past year, 342,000 contained ounces of gold were added to reserves, which replaced reserves mined in 2006. The majority of the reserve increase was due to the inclusion of heap leach material in reserves following the positive results from the heap leach feasibility study and the decision to develop a heap leach facility at the site.

Boroo is expected to complete construction of its heap leach pad in the third quarter of 2007. A total of 1.7 million tonnes of low-grade material is expected to be stacked on the new heap leach pad in the second half of the year. This three-million tonne per year operation is expected to have recovery rates on average for all material types of between 50 percent and 60 percent.

Growth and Exploration

GROWTH AND EXPLORATION

Promising Opportunities

During 2006, the Company continued its drilling activities in and around its two mine sites and at the Gatsuurt deposit spending \$23 million on exploration. 2006 was an excellent year for Centerra's exploration programs, resulting in replacing reserves at Kumtor and Boroo and significantly increasing resources through the discovery of a high-grade underground inferred resource at Kumtor.

Kyrgyz Republic

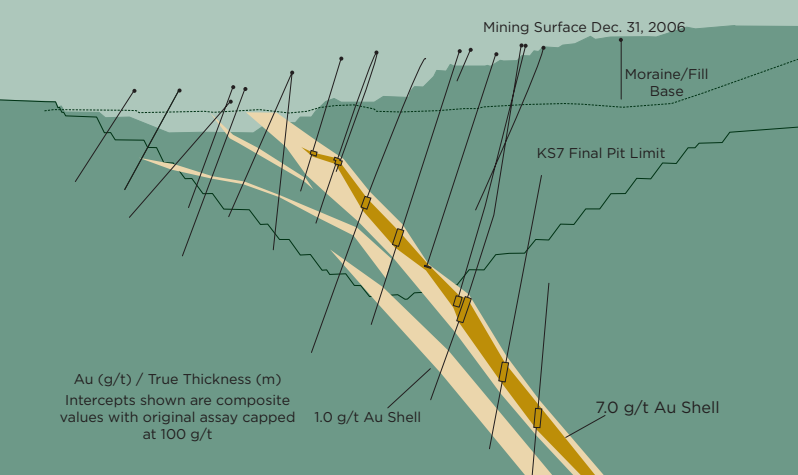
Exploration at Kumtor continued in 2006 with expenditures of \$14 million. Extensive drilling in the southern part of the Central Pit tested the strike and down dip extensions of the high-grade SB Zone identified in 2005. Results of drilling at the SB Zone, identified a high-grade underground inferred resource, which has been outlined below the current ultimate pit design and is estimated to contain 1.8 million ounces of gold at an average grade of 20.5 grams per tonne. The high-grade zone remains open along strike to the south and in the down dip direction.

At Sarytor, a satellite deposit located about four kilometres from the Kumtor mill, upon completion of the 2006 drilling program reserves totalled 296,000 contained ounces of gold at an average grade of 3.8 grams per tonne.

In 2007, exploration in the main Kumtor Pit will focus on testing strike and dip extensions of the high-grade SB Zone and the NB Zone, further delineate and extend the mineralization in the Sarytor deposit and explore other target areas on the property such as Bordoo and Akbel.

Mongolia

For the year 2006, \$1.0 million was spent on exploration in the immediate Boroo mine area. In addition to the drilling program at Boroo, \$1.2 million was spent on Mongolian licenses (excluding Boroo and Gatsuurt). Reserves at Boroo increased in 2006 as the result of the inclusion of lower grade heap leach material in the reserves following the positive results from the heap leach feasibility study and decision to develop a heap leach facility at Boroo.



Kumtor SB Zone Cross Section

Outline of the newly discovered, high-grade SB Zone. The mineralization currently remains open at depth and along strike to the south.

- > 1 g/t Au Mineralized zone
- > 7 g/t Au Mineralized zone
- Location of drill collars

At the Boroo mine, the 2007 exploration program will focus on generating and testing targets for additional mineralization around the Boroo operating facilities. At the Gatsuurt deposit, trenching and drilling of targets near the deposit is planned for 2007 in addition to target generation work. Exploration activities will continue to evaluate Centerra's significant land position in Mongolia.

Nevada

Drilling of known mineralization at REN continued in 2006 with total exploration expenditures of \$3.2 million (Centerra's share \$2.0 million). A new discovery of the 105 Zone as well as extending the JB Zone to the north resulted in a 323,000 ounce increase in contained gold in the indicated and inferred resource categories. Exploration drilling identified under-explored areas of favourable alteration and mineralization along important control structures which will be further evaluated.

Outlook for 2007

In 2007, Centerra will continue focused exploration programs around its mines and exploration projects to further expand the reserve and resource bases. The Company has budgeted \$25 million to fund its exploration activities in 2007. These activities include an aggressive exploration program at the Kumtor mine (\$15 million), target generation programs at the Boroo mine, around the Gatsuurt project and on our extensive land holdings in Mongolia. Generative programs will continue in Central Asia, Russia and China.





Corporate Responsibility

Centerra's commitment to sustainable development extends well beyond outstanding safety and environmental performances. Centerra continues to conduct itself in the Kyrgyz Republic and Mongolia as a responsible corporate citizen, promoting a high level of responsibility in workers' safety, environmental protection and sustainable development. Centerra is strongly committed to improving the social and community infrastructure in countries where we operate so that the economic well-being, skills, knowledge and career opportunities of people in the community are better now and after the eventual closure of the mines.

Health, Safety and Environmental Performance

Centerra's operations and projects are required to have documented health, safety and environmental management systems in place and in 2006 these systems were verified by independent third-party auditors.

The Boroo operation has implemented a "Safe Production" program that has driven safety leadership and responsibility throughout the organization, including workers and long-term contractors. In 2006, Boroo achieved more than one year and 2,000,000 hours worked without a lost-time injury and only one medical aid injury. Although Kumtor achieved a commendable lost-time injury frequency of 0.29 for employees and long-term contractors, the operation experienced a fatality in April 2006 when an employee was caught in an avalanche while accessing a remote yet critical radio communications station. His co-worker was unharmed.

A key component to the operations' contingency plans is to practice and test their emergency response procedures. The skill of Boroo's emergency response team (ERT) was demonstrated on January 15, 2007, when they helped save the lives of four trapped underground miners at a nearby underground mining operation even though the operation is located about 84 kilometres from Boroo and is not a Centerra property. The four trapped



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SUPPORT**

**PROTECTING
THE
ENVIRONMENT**

miners were artisanal miners who became trapped after the ground collapsed in a vertical shaft in the underground workings. Under the supervision of government officials, the Boroo team worked for 34 hours straight to help free the miners. Ultimately, all of the miners were successfully rescued. Senior government officials expressed appreciation of the key and decisive role the Boroo Gold Company played in the rescue operation.

Environmental protection programs have been integrated into both operations. There were no environmental non-compliance events in 2006. Boroo operates a zero-discharge to the environmental tailings management facility. Kumtor has a long history of contributing to conservation and biodiversity programs in the Kyrgyz Republic, including the International Snow Leopard Trust, the Sarychat-Ertash National Park Biodiversity Program, and the Fish Restocking Program in the Son-Kul and Issyk-Kul Lakes.

Community development programs

One of the many programs Centerra participates in and is very proud of is its five-year partnership with World Vision Canada to improve the health of Mongolian children. This program combats rickets and anaemia and improves capacity amongst health professionals and nutrition workers, so that prevention and treatment strategies can be effectively implemented.

September 2006 was the completion of the first full year of the five-year partnership and during the year many positive results occurred including the distribution of more than 243,000 packets of Sprinkles (a nutritional supplement) to more than 8,000 children; distributing more than 12,400 vitamin D tablets to over 6,600 children, of whom 980 had rickets; over 13,700 pregnant women received bottles of iron syrup and over 129,300 iron tablets were distributed to some 4,600 anaemic children. During this period, two health facilitators and 28 nutrition workers were hired and training was provided to 100 doctors and 150 nurses. The community's knowledge of micronutrient and health issues improved with 273 nutrition



ECONOMIC OPPORTUNITIES

education and rehabilitation sessions held and there was a 45 percent increase in the number of children with no deviation from the acceptable standard for height and weight.


In Mongolia and Kyrgyzstan there is extensive support for the traditional community development initiatives such as refurbishing schools, medical facilities, sports facilities and sponsoring cultural events. In both countries Centerra sponsors a number of programs designed to improve the economic infrastructure, expand the industry and business sector and increase the skills and knowledge of younger people so they can effectively find placement in the workforce.

Some of these successful initiatives were:

- funding of micro loan programs to develop small businesses and agricultural co-operatives;
- establishment of co-operative farming groups and the purchase of tractors, combine harvestors and other agricultural machinery;
- establishment of a road construction company and the purchase of road construction equipment to maintain local roads;
- repairing of bridges;
- upgrading of drinking and hot water systems;
- reconstruction of street lighting in local villages;
- provision of seeds and seedlings for agricultural projects;
- implementation of a graduate internship program where Kumtor will employ new graduates so they can get appropriate work experience to attain gainful, full-time employment;
- development of a two-year education program for young boys to gain skills as heavy-duty truck mechanics, drivers, industrial equipment repairmen and welding and electrical engineers. The curriculum is based on North American standards and was developed in conjunction with the Northern Alberta Institute of Technology in Canada. Ongoing practical job training sessions are provided at Kumtor.

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The following discussion has been prepared as of March 19, 2007, and is intended to provide a review of the financial position of Centerra Gold Inc. ("Centerra" or the "Company") as at December 31, 2006 and 2005 and the financial performance for the three years ending December 31, 2006. This discussion should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2006 prepared in accordance with Canadian generally accepted accounting principles. In addition, this discussion contains certain forward-looking statements regarding Centerra's businesses and operations. All dollar amounts are expressed in United States dollars, except as otherwise indicated. Additional information about Centerra, including the Company's annual information form for the year ended December 31, 2006, is available on the Company's website at www.centerragold.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Cautionary Statement on Forward-Looking Information

Statements contained herein, including those under the heading "Outlook", which are not historical facts are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things: volatility and sensitivity to market prices for gold; replacement of reserves; procurement of required capital equipment and operating parts and supplies, equipment failure; unexpected geological or hydrological conditions; political risks arising from operating in certain developing countries; inability to enforce legal rights; defects in title; imprecision in reserve estimates; success of future exploration and development initiatives; competition; operating performance of the facilities; environmental and safety risks including increased regulatory burdens; seismic activity, weather and other natural phenomena; failure to obtain necessary permits and approvals from government authorities; changes in government regulations and policies, including tax and trade laws and policies; ability to maintain and further improve positive labour relations; and other development and operating risks.

Reserve and resource figures included are estimates and no assurances can be given that the indicated levels of gold will be produced or that Centerra will receive the gold price assumed in determining its reserves. Such estimates are expressions of judgement based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While Centerra believes that the reserve and resource estimates included are well established and the best estimates of

Centerra's management, reserve and resource estimates by their nature are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable.

Furthermore, market price fluctuations in gold, as well as increased capital or production costs or reduced recovery rates may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. The evaluation of reserves or resources is always influenced by economic and technological factors, which may change over time.

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

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

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

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

Nature of Centerra's Business

Centerra is a growth-oriented Canadian-based gold company, focused on acquiring, exploring, developing and operating gold properties in Central Asia, the former Soviet Union and other emerging markets.

Centerra is the successor to substantially all of the gold business previously carried on by Cameco Gold Inc. ("Cameco Gold"), which is a wholly-owned subsidiary of Cameco Corporation ("Cameco") and now the controlling shareholder of Centerra.

Prior to Centerra's initial public offering ("IPO") in June, 2004 Cameco Gold held a one-third interest in the Kumtor mine in the Kyrgyz Republic, a 62% interest in the REN property in Nevada and, through its 56% interest in AGR Limited ("AGR"), a 53% interest in the Boroo mine and a 73% interest in the Gatsuurt exploration property, both located in Mongolia.

Prior to Centerra's IPO, Cameco Gold transferred substantially all of its gold assets to Centerra and Centerra acquired the remaining two-thirds of the Kumtor mine and the remaining 44% of AGR. As a result, Centerra's assets today consist of a 100% interest in the Kumtor mine, a 95% interest in the Boroo mine, a 100% interest in the Gatsuurt property and a 62% interest in the REN property.

Substantially all of Centerra's revenues are derived from the sale of gold. The Company's revenues are connected to production volumes from its mines and gold prices realized. Gold doré production from the Kumtor mine is purchased by Kyrgyzaltyn JSC ("Kyrgyzaltyn") for processing at its refinery in the Kyrgyz Republic while gold doré produced by the Boroo mine is exported and sold under a contract with a third party. Both sales agreements are based on spot prices.

In 2006, the Company's two mines produced a total of 586,000 ounces of gold of which 572,000 ounces were attributable to Centerra. This level of production ranks Centerra as a leading North American-based gold producer.

The average spot price for gold in 2006 increased 35% over the average in 2005. This follows year-over-year increases of 9% in 2005 and 13% in 2004. The average realized price of gold received by Centerra increased because of the higher spot price for gold. A number of factors continue to support the strengthening gold price, including the weakness in the U.S. dollar, geopolitical uncertainties, and an increase in the demand for gold for investment purposes (see the discussion below under "Gold Industry and Key Economic Trends").

The Company's cost of products and services sold is comprised primarily of the cash cost of producing gold from its two mines and secondarily from depreciation and depletion. There are many operating variables that affect the cash cost of producing an ounce of gold. In the mine, costs are influenced by the ore grade and the stripping ratio. The stripping ratio means the tonnage of waste material which must be removed to allow the mining of one tonne of ore in an open pit.

In the mill, costs are dependent mainly on the metallurgical characteristics of the ore and the ore grade. For example, a higher grade ore would typically contribute to a lower unit production cost. Both mining and milling costs are also affected by labour costs, which depend on both the availability of qualified personnel in the regions where the operations are located and the wages in those markets. Mining and milling activities involve the use of many materials. The varying costs and the amount of material purchased also influence the cash costs of mining. The non-cash costs are influenced by the amount of costs related to the mine's acquisition, development and ongoing capital requirements and the estimated useful lives of such items.

Over the life of each mine, another significant cost that must be planned for is the closure, reclamation and decommissioning of each operating site. In accordance with standard practices for Western-based mining companies, Centerra carries out remediation and reclamation work during the operating period of the mine where feasible in order to reduce the final decommissioning costs. Nevertheless, the majority of rehabilitation work can only be performed following the completion of mining operations. Centerra's practice is to record estimated final decommissioning costs based on conceptual closure plans, and disclosed as per Canadian GAAP standards. In addition, Kumtor has established a Reclamation Trust Fund to fund this amount (net of forecast salvage value of assets) from the revenues generated over the life of mine. Boroo deposits 50% of their annual reclamation budget into a government account and recovers this money when the annual commitments are implemented.

Gold Industry and Key Economic Trends

The two principal uses of gold are product fabrication and bullion investment. A broad range of end uses is included within the fabrication category, the most significant of which is the production of jewelry. Other fabrication uses include official coins, electronics, miscellaneous industrial and decorative uses, medals and medallions.

Currently strong gold industry fundamentals support management's positive view on the gold price, the Company's growth strategy and its continued policy of not entering into hedging arrangements.

Global gold industry production is expected to be flat to declining for the next few years after significant growth from 1995 to 2001. This is the result of, among other things, a material decline in global exploration funding from 1996 to 2002, which has led to relatively few material discoveries. In addition, Centerra believes the cost of gold production in U.S. dollar terms is rising globally due primarily to a declining quality of reserves at producing mines, higher cost of consumables, and the overall trend of U.S. dollar deterioration and instability. The period of low gold prices from 1998 to 2002 also coincided with significant consolidation among senior gold producers, with approximately one-half of global production now controlled by the



world's top 10 producers. Producers are being forced to explore new regions as their reserves are depleted in conventional locations for gold mining.

As well as supply factors internal to the industry, described above, external factors impact the gold price. Centerra believes the most important of these recently has been the trade-weighted U.S. dollar exchange rate. Historically, with the exception of 2005, there has been a strong inverse correlation between the trade-weighted U.S. dollar exchange rate and the gold price resulting in a positive gold price trend during extended periods of U.S. dollar weakness. The Company regards this strong inverse correlation and the recent extended period of U.S. dollar weakness as the single most important positive factor driving the gold price recovery over the last two years.

Other factors that have impacted the gold price recently include an increase in the demand for gold for investment purposes, primarily attributed to the Asian markets and underpinned by jewelry demand, de-hedging by gold producers, a sustained low U.S. interest rate environment contributing to an unstable U.S. dollar, the Washington Accord which has limited central bank gold sales, global inflationary pressures and a general increase in global geopolitical tensions.

Centerra expects the industry trends discussed above to continue to provide upward pressure on the gold price. The Company also expects increased competition for new reserves in all regions, including its principal area of geographic focus in Central Asia and the former Soviet Union. However, the Company believes that strong gold prices and renewed access to capital by junior exploration companies will foster increased exploration spending in all regions, which it expects will create increased acquisition opportunities.

The following table shows the average afternoon gold price fixing, by quarter, on the London Bullion Market for 2004, 2005 and 2006:

Quarter	Average Gold Price (\$)
2004 Q1	408
2004 Q2	393
2004 Q3	401
2004 Q4	434
2005 Q1	427
2005 Q2	427
2005 Q3	440
2005 Q4	485
2006 Q1	554
2006 Q2	628
2006 Q3	622
2006 Q4	606

Sensitivities

Centerra's revenues, earnings and cash flows are sensitive to changes in the gold price. The Company estimates that a \$25 per ounce change in the price of gold would change its revenues in 2007 by \$18 million, its earnings by \$14 million (\$0.06 per share) and cash provided by operations by \$15 million.

Vision and Strategy

Centerra's growth strategy is to increase its reserve base and expand its current portfolio of mining operations by:

- developing new reserves at its existing mines from in-pit, adjacent and regional exploration;
- advancing late stage exploration properties through drilling and feasibility studies, as warranted; and
- actively pursuing selective acquisitions primarily in Central Asia, the former Soviet Union and other emerging markets.

During 2006, the Company continued its drilling activities in and around its two mine sites and at the Gatsuurt deposit. In 2007, the Company announced its 2006 year-end reserves estimates of 7.0 million ounces of contained gold in proven and probable reserves. On a 100% project basis, the Company has essentially replaced reserves mined in 2006. The reserve additions are a result of exploration drilling at Kumtor (including Sarytor) in the Kyrgyz Republic and completion of a positive feasibility study for the development of a heap leach facility at its Boroo mine, in Mongolia. For the Kumtor and Boroo mines, there is only a minimal increase for the year-end reserve estimate attributable to using a gold price of \$475 per ounce in 2006, rather than \$400 per ounce used for the 2005. (See the "Reserves and Resources Summary" table.)

The Company's proven and probable reserves, measured and indicated resources, and inferred resources are shown on a 100% basis in the following table:

2006 Year-end Reserve and Resource Summary

(as of December 31, 2006)

Reserves ⁽¹⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Property	Proven			Probable			Total Proven and Probable Reserves				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor	12,014	4.9	1,893	19,426	4.6	2,852	31,440	4.7	4,745	4,745	OP
Boroo	5,294	2.6	449	19,230	1.3	785	24,523	1.6	1,234	1,173	OP
Gatsuurt	—	—	—	9,101	3.4	1,005	9,101	3.4	1,005	1,005	OP
Total	17,308	4.2	2,342	47,757	3.0	4,642	65,064	3.3	6,984	6,923	

Measured and Indicated Resources ⁽²⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Property	Measured			Indicated			Total Measured and Indicated Resources				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor ⁽⁵⁾⁽⁶⁾	17,710	3.5	1,964	14,810	3.2	1,538	32,520	3.3	3,502	3,502	OP
Boroo ⁽⁵⁾⁽⁸⁾	680	2.0	45	5,519	1.4	240	6,199	1.4	284	270	OP
Gatsuurt ⁽⁹⁾	—	—	—	6,238	3.0	607	6,238	3.0	607	607	OP
REN ⁽¹⁰⁾	—	—	—	2,991	12.7	1,220	2,991	12.7	1,220	756	UG
Total	18,390	3.4	2,009	29,558	3.8	3,605	47,948	3.6	5,613	5,135	

Inferred Resources ⁽²⁾

(Tonnes and ounces in thousands) ⁽¹¹⁾ ⁽¹²⁾

Inferred								
Property	Tonnes	Grade (g/t)	Contained Gold (oz)				Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor ⁽⁵⁾⁽⁶⁾	571	2.2	40				40	OP
Kumtor SB Underground ⁽⁷⁾	2,781	20.5	1,830				1,830	UG
Boroo ⁽⁵⁾⁽⁸⁾	7,772	1.0	240				228	OP
Gatsuurt ⁽⁹⁾	2,437	3.3	256				256	OP
REN ⁽¹⁰⁾	835	16.1	432				268	UG
Total	14,396	6.0	2,798				2,622	

⁽¹⁾ The reserves have been estimated based on a gold price of \$475 per ounce.

⁽²⁾ Mineral resources are in addition to reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability when calculated using mineral reserve assumptions.

⁽³⁾ Centerra's equity interests are: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.

⁽⁴⁾ "OP" means open pit and "UG" means underground.

⁽⁵⁾ Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$475 per ounce.

⁽⁶⁾ The open pit reserves and resources at Kumtor are estimated based on a cut-off grade of 1.3 grams per tonne.

⁽⁷⁾ Underground resources occur below the main Kumtor pit shell and are estimated based on a cut-off grade of 7.0 grams per tonne.

⁽⁸⁾ The reserves and resources at Boroo are estimated based on a variable cut-off grade depending on the type of material and the associated recovery. The cut-off grades range from 0.2 grams per tonne to 0.8 grams per tonne.

⁽⁹⁾ The reserves and resources at Gatsuurt are estimated using either a 1.2 or 1.9 grams of gold per tonne cut-off grade depending on the type of material and the associated recovery. High-grade values were also cut using variable limits ranging from 20 to 45 g/t Au depending on the mineralized zone.

⁽¹⁰⁾ The resources at REN are estimated based on a cut-off grade of 8.0 grams per tonne.

⁽¹¹⁾ A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.

⁽¹²⁾ Numbers may not add up due to rounding.

Reconciliation of Gold Reserves and Resources

		Centerra's Share			
(in thousands of ounces of contained gold) ⁽⁸⁾	Dec. 31, 2005 ⁽¹⁾	2006 Through-put ⁽²⁾	2006 Addition (Deletion) ⁽³⁾	Dec. 31, 2006	Dec. 31, 2006 ⁽⁴⁾
Reserves – Proven and Probable					
Kumtor ⁽⁵⁾	4,953	416	208	4,745	4,745
Boroo	1,218	326	342	1,234	1,173
Gatsuurt ⁽⁷⁾	986	—	19	1,005	1,005
Total Proven and Probable Reserves	7,157	742	569	6,984	6,923
Resources – Measured					
Kumtor ⁽⁶⁾	1,634	—	330	1,964	1,964
Boroo	147	—	(102)	45	43
Total Measured Resources	1,781	—	228	2,009	2,007
Resources – Indicated					
Kumtor ⁽⁶⁾	1,387	—	151	1,538	1,538
Boroo	54	—	186	240	228
Gatsuurt ⁽⁷⁾	565	—	42	607	607
REN	1,201	—	19	1,220	756
Total Indicated Resources	3,207	—	398	3,605	3,129
Total Measured and Indicated Resources	4,988	—	626	5,613	5,135
Resources – Inferred					
Kumtor ⁽⁶⁾	803	—	(763)	40	40
Kumtor SB Underground	—	—	1,830	1,830	1,830
Boroo	167	—	73	240	228
Gatsuurt ⁽⁷⁾	305	—	(49)	256	256
REN	128	—	304	432	268
Total Inferred Resources	1,403	—	1,395	2,798	2,622

Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

(1) Reserves and resources as reported in Centerra's 2005AIF.

(2) Corresponds to millfeed. The discrepancy between the 2006 millfeed and 2006 ounces of gold produced is due to gold recovery in the mill.

(3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, an increase in the gold price, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.

(4) Centerra's equity interests as at December 31, 2006, were as follows: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.

(5) Kumtor reserves include the main pit and the Southwest Zone and Sarytor satellite deposits.

(6) Kumtor open pit resources include the main pit and the Southwest Zone and Sarytor satellite deposits.

(7) Gatsuurt reserves and resources include the Central Zone and Main Zone deposits.

(8) Numbers may not add up due to rounding.

During 2007, aggressive exploration will continue with expenditures budgeted to be \$25 million.

Selected Annual Information

The consolidated financial statements of Centerra are prepared in accordance with Canadian generally accepted accounting principles and have been measured and expressed in United States dollars.

Year Ended December 31 \$ millions, unless otherwise specified	2006	2005	2004
Revenue	\$ 365	\$ 339	\$ 247
Cost of sales	237	186	110
Depreciation, depletion and amortization	40	61	53
Accretion and reclamation expenses	(2)	(1)	1
Exploration and business development	26	30	15
Interest and other	(23)	(4)	(8)
Administration	27	18	12
	60	49	64
Other expenses	—	—	8
Income tax expense (recovery)	(6)	5	—
Non-controlling interest	5	2	5
Net earnings	\$ 61	\$ 42	\$ 51
Earnings per common share - \$/share	\$ 0.28	\$ 0.20	\$ 0.30
Total assets	\$ 794	\$ 699	\$ 660
Long-term debt, provision for reclamation and future income taxes	\$ 17	\$ 18	\$ 24
Operating Highlights			
Sales volume - ounces ⁽¹⁾	610,441	781,274	618,843
Ounces poured ⁽¹⁾	586,384	787,275	640,779
Average realized price - \$/oz	\$ 597	\$ 433	\$ 397
Gold spot market price - \$/oz ⁽²⁾	\$ 602	\$ 444	\$ 409
Total cash cost - \$/oz ⁽³⁾	\$ 386	\$ 241	\$ 187

(1) Comprising one-third of the Kumtor mine to June 22, 2004 and 100% thereafter, and 100% of the Boroo mine.

(2) Average for the period as reported by the London Bullion Market Association (Gold P.M. Fix Rate).

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

Results

Overview of 2006 Versus 2005

For accounting purposes, Centerra's 2005 and 2006 results reflect fully consolidated interests in the Kumtor and Boroo mines, a 62% proportional consolidated interest in REN and a fully consolidated interest in Gatsurt.

Compared to 2005, the 2006 results were positively affected by higher gold prices in the year, increased production at Boroo, the receipt of proceeds of an insurance settlement and a tax recovery, offset in part by reduced production at Kumtor.

Net earnings for the year ended December 31, 2006, were \$60.6 million or \$0.28 per share. The comparative results were net earnings of \$42.4 million or \$0.20 per share in 2005. The higher net earnings was a result of higher realized gold prices, the receipt in the third quarter of a one-time \$13.6 million insurance settlement related to the 2002 pit wall failure at Kumtor, and a tax recovery of \$5.8 million resulting primarily from tax benefits recognized at Kumtor. This was partially offset by lower production at Kumtor and an accrual of \$5.7 million for the high altitude co-efficient settlement to be paid to Kumtor mine employees.

Gross profit, defined as revenue less cost of sales, depreciation, depletion, amortization, accretion and reclamation, was \$90 million in 2006 compared to \$93 million in 2005. This decrease was attributable to:

- Increases in the cost of sales to \$237 million in 2006 from \$186 million in 2005. This results primarily from higher labour costs (increased number of staff along with \$5.7 million for the high altitude settlement at Kumtor) and, higher consumables costs generally. On a unit basis, the total cash cost per ounce in 2006 was \$386 compared to \$241 in 2005. The increase mainly reflects lower production at Kumtor as a result of lower head grade, lower recovery and the impact of cost settlements in the Kyrgyz Republic in 2006.
- Partly offsetting the increase in cost of sales were revenues which for the year ended December 31, 2006 increased by \$26 million over 2005 on account of significantly higher realized gold prices, which more than offset decreased ore mined and lower grades at Kumtor, and lower recoveries at Boroo. The higher realized gold prices resulted from an increase in the spot market prices. Average realized prices were \$597 per ounce in 2006 compared to \$433 in 2005. Centerra's current policy is to leave its production unhedged so that the Company can continue to benefit fully from increases in the spot market prices.
- Depreciation, depletion, amortization, accretion and reclamation decreased to \$38 million in 2006 from \$60 million in 2005 due primarily to the reduced volumes at Kumtor in 2006. On a per unit basis, depreciation, depletion, amortization, accretion and reclamation amounted to \$63 per ounce sold in 2006 compared to \$77 per ounce sold in 2005. Unit costs are lower in 2006 due to the impact of the significant reserve increase at Kumtor in 2005 which, according to policy, impacts the year following the reserve announcement.

Interest and other income amounted to \$23 million compared to \$5 million in 2005. This change is primarily due to the receipt of a one-time \$13.8 million insurance settlement related to the 2002 pit wall failure at Kumtor. The Company had no outstanding interest-bearing debt at the end of 2006.

Administration costs were \$27 million in 2006 compared with \$18 million in 2005, reflecting increased staffing and higher stock-based compensation.

A tax recovery of \$6 million was recorded in 2006 compared to a tax expense of \$5 million in 2005. The 2006 tax recovery is primarily due to the tax benefit of the losses at Kumtor and the validation of the tax basis of property, plant and equipment by Kyrgyz tax auditors in the fourth quarter. For 2007, Centerra has minimal exposure to current corporate income taxes due to the availability of tax loss carry-forwards to offset taxable income in the Kyrgyz Republic. In Mongolia, the 100% tax relief period is scheduled to end March 1, 2007 following which Centerra is entitled under its existing stability agreement to 50% tax relief for the subsequent three-year period. In September 2006, at the request of the Government of Mongolia, the Company entered into discussions with the Government regarding amendments to the stability agreement, including the tax stabilization provisions of the agreement. These discussions have not yet resulted in agreement between the Government and the Company. See "Other Developments" below.

Non-controlling interest expense of \$5 million in 2006 compared with an expense of \$2 million in 2005. The change over the previous year reflects higher profitability at Boroo due mainly to higher realized prices.

Cash provided by operations in 2006 was \$80.4 million compared to \$83.4 million in 2005. This change is primarily the result of reduced working capital levels at Kumtor.

Results of Operating Segments

Operating and financial results of the Kumtor and Boroo mines are shown on a 100% basis. With the completion of the Kumtor restructuring and the acquisition of the AGR minority interest in the second quarter of 2004, Centerra owns 100% of the Kumtor mine and 95% of the Boroo mine.

Kumtor – 100% basis

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced more than 5.8 million ounces.

Kumtor Operating Results

Years Ended December 31	2006	2005
Sales volume – ounces	329,534	498,086
Revenue – \$ millions ⁽³⁾	195.9	213.8
Average realized price – \$/oz ⁽³⁾	594	429
Tonnes mined – 000s	85,421	81,038
Tonnes ore mined – 000s	3,887	6,135
Tonnes milled – 000s	5,696	5,649
Average mill head grade – g/t ⁽¹⁾	2.27	3.38
Recovery – %	73.0	81.2
Ounces recovered	303,363	497,497
Ounces poured	303,582	501,487
Total cash cost – \$/oz ⁽²⁾	544	274
Exploration – \$ millions	14	15
Capital expenditures – \$ millions	95	22

(1) g/t means grams per tonne.

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

(3) Net of the effect of gold hedges, closed in 2004.

Revenue

Revenue in 2006 was \$195.9 million compared to \$213.8 million in 2005. This change results from reduced production which is due to lower ore grades and recoveries reflecting the fact that the mill feed was primarily sourced from low-grade stock piles and the Southwest Pit as a result of the change in the mine development plan following the pit wall movement in July 2006. This negative impact was partially offset by higher realized gold prices.

Cost of Sales

The cost of sales for the 2006 year was \$177.2 million compared to \$134.6 million for the 2005 year. Total costs increased primarily due to lower grade and the higher cost of labour, taxes and consumables.

Total cash costs per ounce for the 2006 year increased to \$544 compared to \$274 for the 2005 year. This increase is primarily a result of lower production volumes, lower average grade fed to the mill, lower recovery and higher total costs.

Exploration and Business Development

Exploration and business development expenditures totalled \$13.9 million in the 2006 year compared to \$14.6 million in 2005. The expenditures relate primarily to ongoing drilling in the immediate vicinity of the Central Pit, and the Sarytor deposit.

Capital Expenditures

Capital expenditures of \$95 million in 2006 included \$86 million for projects to increase productivity including \$3 million for development of the Southwest Pit, \$3 million for the pre-stripping of the SB Zone, and \$80 million for additional mobile and ancillary equipment to facilitate the main Kumtor pit expansion and new production at the Southwest Zone. In 2007, capital expenditures are budgeted to total \$56 million including \$16.2 million of maintenance capital. Growth capital is forecast at \$39.8 million and includes \$17 million for the development of the SB zone decline and \$12 million to pre-strip the SB zone in the Central Pit.

Reserves

At the Kumtor mine, 208,000 ounces of contained gold were added to reserves before accounting for mining of 416,000 ounces of contained gold in 2006. At December 31, 2006, for the Kumtor mine, proven and probable reserves were estimated to be 31.4 million tonnes averaging 4.7 g/t gold for a total of 4,745,000 ounces of contained gold, compared to 40.2 million tonnes averaging 3.8 g/t gold for a total of 4,953,000 ounces of contained gold as at the end of 2005 as reported in the 2005 AIF. The decrease in reserves comes despite the successful exploration drilling in 2006. There is only a minimal impact attributable to using a gold price of \$475 per ounce in 2006, rather than \$400 per ounce used for the 2005 year-end reserve estimate. Measured and indicated resources are within an area between the bottom of the designed pit and a larger unengineered pit shell. They are estimated at 35.5 million tonnes averaging 3.3 g/t gold for a total of 3,502,000 ounces of contained gold. The most significant change was the increase in inferred resources as a result of the exploration success in defining the high-grade SB underground resource which is estimated to be 2,781,000 tonnes averaging 20.5 g/t gold for a total of 1,830,000 ounces of contained gold.

At the Southwest Zone, a satellite deposit about three kilometres southwest of the Kumtor mill, probable reserves are estimated at 1.6 million tonnes averaging 3.6 g/t gold for a total of 186,000 ounces of contained gold. Indicated resources are estimated at 1.2 million tonnes averaging 3.8 g/t gold for a total of 150,000 ounces using the same cut-off grade. These reserves and resources are included in the probable reserves and in the indicated resources noted previously for the Kumtor mine.

The Sarytor Zone at the Kumtor mine is a satellite deposit located four kilometres from the Kumtor mill. Upon completion of a drilling program during 2006, this zone is estimated to contain reserves of 2.4 million tonnes averaging 3.8 g/t gold for a total of 296,000 ounces of gold. Indicated resources are estimated at 3.8 million tonnes averaging 2.3 g/t gold for a total of 274,000 ounces of contained gold. Additional inferred resources are estimated at 174,000 tonnes averaging 2.0 g/t gold for a total of 11,000 ounces of contained gold. Like the Southwest Zone, these resources are included in the Kumtor resources noted previously.

The Company estimates that, together, the existing reserves of the Kumtor mine, which includes the Sarytor Deposit and the Southwest Zone should support gold production activities in excess of seven years.

The reserve and resource estimates for Kumtor above were prepared by Centerra's geological and mining engineering staff under the supervision of Ian Atkinson, Vice-President, Exploration, who is a Qualified Person for the purposes of National Instrument 43-101 Standards for Disclosure for Mineral Projects ("NI 43-101"). The Kumtor deposit is described in the Company's Annual Information Form (the "AIF") for the year ended December 31, 2006 and in the Technical Update Report on the Kumtor Gold Mine, Kyrgyz Republic dated March 9, 2006 (the "Kumtor Technical Report"), which has been prepared in accordance with NI 43-101. The Kumtor Technical Report describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site and satellite deposits are the same as, or similar to, those described in the Kumtor Technical Report. A copy of the Kumtor Technical Report can be obtained from SEDAR at www.sedar.com.

Boroo - 100% basis

The Boroo open pit gold mine in Mongolia began commercial production on March 1, 2004.

Boroo Operating Results

Years Ended December 31	2006	2005
Sales volume - ounces	280,907	283,188
Revenue - \$ millions ⁽³⁾	168.6	124.8
Average realized price - \$/oz ⁽³⁾	600	441
Tonnes mined - 000s	18,577	18,582
Tonnes ore mined - 000s	3,082⁽⁴⁾	2,865
Tonnes milled - 000s	2,387	2,231
Average mill head grade (g/t) ⁽¹⁾	4.25	4.23
Recovery - %	87.0	91.5
Ounces recovered	283,716	277,522
Ounces poured	282,802	285,788
Total cash cost - \$/oz ⁽²⁾	217	183
Exploration - \$ millions	1	2
Capital expenditures - \$ millions	14	11

(1) g/t means grams per tonne

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

(3) Net of the effect of gold hedges, eliminated in 2004.

(4) In December 2006, a decision was reached to construct a 3 million tonne per year heap leach operation to process low-grade ore at the Boroo site. The heap leach pad is expected to be in operation in the second half of 2007. As of December 2006, over 4 million tonnes of low-grade material (with grades of approximately 0.6 g/t) had already been mined and stock piled. This material is not included in the ore tonnage mined to date and was previously considered waste. The heap leach tonnage was included in the year-end reserve statement. No cost has been associated to this material in the December 2006 inventory.

Revenue

Revenues for the twelve months of 2006 were \$168.6 million, compared to \$124.8 million in 2005, reflecting the significantly higher realized gold price in 2006, offset by lower production volume. Boroo realized an average gold price of \$600 per ounce for the year, a significant increase over the \$441 per ounce realized in the same period of 2005.

Cost of Sales

The cost of sales for the 2006 year was \$59.7 million compared to \$51.6 million in the 2005 year, reflecting lower recovery and increased operating costs due to the higher cost of drill and loading equipment rental, higher consumable prices, increased consumption of grinding media and higher labour costs.

For the 2006 year, total cash costs per ounce increased to \$217 from \$183 in the 2005 year. The increase resulted primarily from the higher cost of drill and loading equipment rental, higher consumable prices and increased consumption of grinding media.

Exploration

For the 2006 year, \$1.0 million was spent on exploration in the immediate Boroo mine area. In addition, \$1.2 million was spent on Mongolian licenses (excluding Boroo and Gatsuurt).

Capital Expenditures

Capital expenditures of \$13.5 million in 2006 included \$12.5 million to sustain current operations and \$1.0 million invested in growth projects. In Mongolia, capital expenditures are budgeted to increase to \$45 million in 2007, mainly to support growth initiatives such as a heap leach facility (\$17 million) and development of the Gatsuurt project (\$20 million).

Reserves

The updated reserve estimate at December 31, 2006 on a 100% basis was prepared using a gold price of \$475 per ounce and variable cut-off grades ranging from 0.2 g/t gold to 0.8 g/t gold depending upon the type of material and the associated gold recovery. The proven and probable reserves, including the stockpiles, are estimated at 24.5 million tonnes averaging 1.6 g/t gold for a total of 1,234,000 ounces of contained gold, compared to 13.4 million tonnes averaging 2.8 g/t gold for a total of 1,218,000 ounces of contained gold as at the 2005 year-end. In 2006, ore with 326,000 ounces of contained gold was fed to the mill, and 342,000 ounces of contained gold were added to the reserves. There is only a minimal increase in reserves attributable to using a gold price of \$475 per ounce in 2006, rather than \$400 per ounce used for the 2005 year-end reserve estimate. The increase in reserves are the result of the inclusion of lower grade heap leach material in the

reserves following the positive results from the heap leach feasibility study and decision to develop a heap leach facility at Boroo. Measured and indicated resources are estimated at 6.2 million tonnes averaging 1.4 g/t gold for a total of 285,000 ounces of contained gold using the same variable cut-off grades as the reserve estimate. These resources are in addition to the proven and probable reserves. This is an increase of about 83,000 ounces of contained gold from the 2005 year-end measured and indicated resources.

Mill and heap leach production from Boroo over the next seven years is expected to include ore from the Boroo and Gatsuurt deposits. The combined Boroo and Gatsuurt reserves represent seven years of total operation.


The reserve and resource estimates for Boroo above were prepared by Centerra's geological and mining engineering staff and external consultants under the supervision of Ian Atkinson, Vice-President, Exploration, who is a Qualified Person under NI 43-101. The Boroo deposit is described in the Company's AIF for the year ended December 31, 2006 and a technical report dated May 13, 2004 prepared in accordance with NI 43-101, which are available on SEDAR at www.sedar.com. The technical report describes the exploration history, geology and style of gold mineralization at the Boroo deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Boroo site are the same as, or similar to, those described in the technical report.

The Gatsuurt Project

At December 31, 2006, proven and probable reserves for the Gatsuurt project, which includes the Main and Central Zones, are estimated to be 9.1 million tonnes, averaging 3.4 g/t gold for a total of 1,005,000 ounces of contained gold. Indicated resources are estimated at 6.2 million tonnes, averaging 3.0 g/t gold for a total of 607,000 ounces of contained gold. In 2006, exploration and development expenditures were \$2.9 million. The modest increase in reserves is a result of using a higher gold price of \$475 per ounce for estimates in 2006 compared to \$400 per ounce used for the 2005 estimate.

Metallurgical studies on the oxide mineralization at Gatsuurt indicate that a gold leach recovery of 92% may be achieved on oxide ore using the existing Boroo processing facility. For the refractory ore, metallurgical studies have concluded that a bio-oxidation process should be used as the preferred method of gold recovery. Pilot plant test results confirmed that a gold leach recovery of 94% may be achieved by oxidizing flotation concentrates with a bio-oxidation process followed by cyanide leaching. The resulting overall plant recovery for refractory ores is estimated to be 87%.

A feasibility study was completed in December 2005. The open pit ore will be hauled from Gatsuurt to the existing Boroo facilities. The oxide ore from Gatsuurt will be processed in the existing Boroo processing circuit. After depletion of the Boroo reserves and Gatsuurt oxide reserves, the Boroo processing facility will be modified to include a bio-oxidation circuit to recover gold from the refractory Gatsuurt ore. The estimated capital cost of the project is \$75 million.



Pursuant to an agreement between Centerra Gold Mongolia Limited ("CGM") and Gatsuurt LLC, an arm's length Mongolian limited liability company, under which CGM acquired the Gatsuurt licenses, CGM agreed to transfer the license that covers the Central Zone of the Gatsuurt property to Gatsuurt LLC if CGM did not complete a feasibility study by December 31, 2005. CGM completed a feasibility study in December 2005. In early 2006 Gatsuurt LLC informed Centerra that it does not believe that CGM complied with its obligation. Gatsuurt LLC has recently begun proceedings in the Mongolian National Arbitration Court ("MNAC") alleging non-compliance by CGM and seeking the return of the license. CGM intends to contest the jurisdiction of the arbitration court and continues to believe that the Gatsuurt LLC claim is without merit. However, CGM's challenges may be unsuccessful, resulting in the MNAC taking jurisdiction over the dispute. Any decision of the MNAC may be final and binding on CGM. An appeal, if any, would likely be to the courts of Mongolia.

The reserve and resource estimates for Gatsuurt above were prepared by Centerra's geological and mining engineering staff and external consultants under the supervision of Ian Atkinson, Vice-President, Exploration, who is a Qualified Person under NI 43-101. The Gatsuurt deposit is described in the Company's AIF for the year ended December 31, 2006 and a technical report dated May 9, 2006 prepared in accordance with NI 43-101, which are available on SEDAR at www.sedar.com. The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt site are the same as, or similar to, those described in the technical report.

Fourth Quarter of 2006

Centerra's fourth quarter revenue in 2006 was \$88.4 million compared to \$75.0 million in the fourth quarter of 2005. Production totalled 142,000 ounces in the fourth quarter of 2006 from 167,000 ounces reported in the fourth quarter of 2005. Fourth quarter 2006 results reflect lower gold production at Kumtor due to lower ore grades, recoveries and throughput, as a result of changes in the mine plan stemming from the pit wall ground movement in July 2006, the accrual of \$5.7 million for the high altitude co-efficient settlement payable to Kumtor employees and a \$1.2 million land tax settlement payment at Kumtor. This was partially offset by higher realized gold prices, and a tax recovery of \$8.1 million primarily resulting from the recognition of tax benefits at Kumtor.

Centerra realized an average gold price of \$604 per ounce for the fourth quarter of 2006 (including the amortization of \$0.6 million of deferred charges), compared to \$476 per ounce realized in the fourth quarter of 2005. This increase was due to higher spot gold prices that averaged \$606 per ounce in the fourth quarter of 2006, compared to \$485 per ounce in the fourth quarter of 2005.

Cost of sales in the fourth quarter of 2006 was \$66.9 million compared to \$42.8 million in the same period in 2005 reflecting lower grade production at the

Kumtor mine, the higher cost of labour and consumables, and the additional costs booked in the quarter at Kumtor.

Net earnings for the fourth quarter of 2006 were \$1.9 million or \$0.01 per share compared to \$6.4 million or \$0.03 per share for the same period in 2005, due primarily to lower gold production, a \$5.7 million accrual for the high altitude co-efficient settlement and a \$1.2 million land tax settlement at Kumtor partially offset by higher realized gold prices and a tax recovery of \$8.1 million primarily resulting from the recognition of tax benefits at Kumtor.

Quarterly Consolidated Financial Results

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, partially offset by rising cash costs and reduced production due to progressively lower grades and recovery at the Kumtor mine. Quarterly results in 2006 also include the impact of special items at Kumtor such as the insurance settlement from the 2002 pit wall movement insurance claim (third quarter), accrual of costs related to the high altitude co-efficient settlement and land tax and the recognition of tax benefits (all fourth quarter). The quarterly financial results for 2006 and 2005 are shown below:

Key results by quarter

	2005				2006			
\$ millions, except per share data	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	92	95	77	75	93	107	76	88
Net earnings	12	15	9	6	18	29	12	2
Earnings per share -								
basic and diluted - \$	0.06	0.07	0.04	0.03	0.08	0.13	0.05	0.01
Cash provided by operations	37	24	17	5	32	24	12	12

Overview of 2005 Versus 2004

For accounting purposes, Centerra's 2005 results reflect fully consolidated interests for the Kumtor and Boroo mines, a 62% proportional consolidated interest in REN and a fully consolidated interest in Gatsuurt. Centerra's 2004 results reflect, for the Kumtor and Boroo mines, proportional consolidation in the first and second quarter and fully consolidated interests in the third and fourth quarters, a 62% interest in REN and a fully consolidated interest in Gatsuurt.

Revenues for 2005 increased by \$92 million over 2004 on account of the increased share of production at the Kumtor mine after the IPO in June 2004, the start-up of the Boroo mine and higher realized gold prices. The higher realized prices resulted from an increase in the spot market prices. Revenue for 2005 was \$338.6 million compared to \$247.1 million in 2004.

Net earnings for 2005 were \$42.4 million or \$0.20 per share while the comparative results were net earnings of \$50.6 million or \$0.30 per share in 2004. The change reflects the increased share of production at the Kumtor mine, the start-up of the Boroo mine and an average 9% higher realized gold prices in 2004. Average realized prices were \$433 per ounce in 2005 compared to \$397 in 2004.

Increases in the cost of sales to \$186 million in 2005 from \$110 million in 2004 were due to an increased ownership in the Kumtor mine, the start of commercial production at the Boroo mine and the higher cost of consumables and employee remuneration. On a unit basis, the total cash cost per ounce in 2005 was \$241 compared to \$187 in 2004. The increase on a unit basis from 2004 to 2005 was attributable to lower grade at Kumtor and Boroo mines and higher cost of labour, taxes and consumables, partly offset by higher mine production and mill throughput at the Boroo mine.

Depreciation, depletion, amortization, accretion and reclamation increased in 2005 to \$60 million from \$54 million in 2004. This change was primarily due to an increased ownership in the Kumtor mine and the start of commercial operation at the Boroo mine. On a per unit basis, depreciation, depletion, amortization, accretion and reclamation amounted to \$77 per ounce sold in 2005 compared to \$87 per ounce sold in 2004. The primary reasons for the per unit decrease was the addition of new reserves in early 2005.

Exploration expenses increased to \$26 million in 2005. This increase reflected increased drilling activities in and around its two mine sites and at the Gatsurt project.

Interest income, net of other operating items amounted to \$5 million compared to \$8 million in 2004. The change is primarily due to interest generated on the Company's increasing cash balance and foreign exchange adjustments. The Company had no outstanding interest-bearing debt at the end of 2005.

Administration costs of \$18 million in 2005 were \$6 million higher than in 2004, reflecting a full twelve months of corporate head office costs.

Other expense of \$9 million in 2004 resulted largely from the restructuring of the Company and reflected the loss on the exchange of the Kumtor Gold Company ("KGC") subordinated debt for common shares of Centerra. A small recovery of taxes was recorded during 2004 compared to an expense of \$5 million in 2005, reflecting the increased ownership and a full year of operation at Boroo.

Cash provided by operations in 2005 was \$83 million compared to \$88 million in 2004. This change was primarily the result of increased operating costs and higher working capital levels.

Balance Sheet

Property, Plant and Equipment

The aggregate book value of property, plant and equipment at December 31, 2006 of \$305 million is allocated as follows: Kumtor \$219 million, Boroo \$83 million and corporate \$3 million.

Goodwill

As a result of the acquisition and restructuring that took place during the second quarter of 2004, Centerra recorded \$156 million of goodwill in 2004, which was adjusted in 2005 to \$155 million following a tax valuation adjustment. Goodwill as at December 31, 2006 is allocated as follows: Kyrgyz Republic \$130 million, Mongolia \$25 million.

Share Capital

As at March 19, 2007, Centerra had 216,238,815 common shares outstanding and 879,321 options outstanding under its stock-based incentive plans.

Gold Hedging and Off-Balance Sheet Arrangements

Centerra does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated affiliates. In the case of joint ventures, the Company's proportionate interest for consolidation purposes is equivalent to the economic returns to which it is entitled as a joint-venture partner.

In 2004, all forward sales agreements were closed and all related credit support, previously provided by Cameco, was removed. Centerra currently intends that its gold production will remain unhedged.

The deferred charges, net of deferred revenue, related to the closing of the hedges, will be recognized in future periods. During 2005, a \$5.8 million charge was recorded on the income statement in relation to the early closure of these hedges. During 2006, a \$2.3 million charge for the early closure of these hedges designated for 2006 was recorded on the income statement. As at December 31, 2006, deferred charges on the balance sheet totalled \$0.5 million and are expected to be fully amortized in the first quarter of 2007.

Non-GAAP Measure – Total Cash Cost

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

Total cash costs, as defined in The Gold Institute Production Cost Standard, include mine operating costs such as mining, processing, administration, royalties and production taxes, but exclude amortization, reclamation costs, financing costs and capital, development and exploration.

Total cash cost per ounce has been included because certain investors use this information to assess performance and also to determine the ability of Centerra to generate cash flow for use in investing and other activities. The inclusion of total cash cost per ounce enables investors to better understand year-over-year changes in production costs, which in turn affect profitability and cash flow.

Total cash cost per ounce can be reconciled as follows:

2006 Year

\$ millions, unless otherwise specified	Kyrgyz Republic (Kumtor)	Mongolia (Boroo)	Total
Cost of sales, as reported	\$ 177.2	\$ 59.7	\$ 236.9
Adjust for:			
Refining fees and by-product credits	(0.1)	0.4	0.3
Non-operating costs	(4.6)	(0.2)	(4.8)
Inventory movement	(7.4)	1.6	(5.8)
Total cash cost - 100%	\$ 165.1	\$ 61.5	\$ 226.6
Ounces poured - 100% (000s)	303.6	282.8	586.4
Total cash cost per ounce - \$	\$ 544	\$ 217	\$ 386

2005 Year

\$ millions, unless otherwise specified	Kyrgyz Republic (Kumtor)	Mongolia (Boroo)	Total
Cost of sales, as reported	\$ 134.6	\$ 51.6	\$ 186.2
Adjust for:			
Refining fees and by-product credits	0.3	(0.3)	—
Non-operating costs	(4.5)	1.0	(3.5)
Inventory movement	6.8	0.1	6.9
Total cash cost - 100%	\$ 137.2	\$ 52.4	\$ 189.6
Ounces poured - 100% (000s)	501.5	285.8	787.3
Total cash cost per ounce - \$	\$ 274	\$ 183	\$ 241

Liquidity and Capital Resources

Cash on hand was \$186.2 million on December 31, 2006. Centerra has sufficient cash to carry out its business plan in 2007, including its exploration plans. To the extent that new property is acquired and/or developed, additional financial arrangements may be required. The Company's cash is derived from the proceeds of the IPO in 2004 and cash provided by operating activities.

A summary of the Company's cash position and changes in cash is provided below:

\$ millions	2006	2005	2004
Cash provided by operating activities	\$ 80	\$ 83	\$ 89
Cash provided by (used in) investing activities	(96)	(34)	13
Cash provided by financing activities	—	—	41
Cash provided (used) during the year	(16)	49	143
Cash and cash equivalents, beginning of the year	202	153	10
Cash and cash equivalents, end of the year	\$ 186	\$ 202	\$ 153

Cash provided by operations was \$80 million in 2006 compared to \$83 million in 2005 and \$89 million in 2004. The change year-over-year resulted from higher operating costs, receipt of an insurance settlement, higher realized gold prices, the increased ownership at the Kumtor mine, the start of commercial production at the Boroo mine and high working capital levels.

Investing activities in 2006 of \$111 million, included \$96 million paid in cash and \$15 million accrued. These amounts reflect \$24 million of sustaining capital and \$87 million of growth capital spent at the Kumtor and Boroo mines. The comparative in 2005 of \$34 million reflects \$15 million of sustaining capital and \$19 million of growth capital spent at the Kumtor and Boroo mines. The \$13 million of cash provided by investing activities in 2004 is net of \$12 million of sustaining capital and the return of funds previously invested in the Cameco group of companies of \$23 million.

Working capital which consists of accounts receivable, prepaids, inventory, supplies and accounts payable was \$70 million in 2006 compared to \$70 million in 2005.

In 2007, the Company's expected capital expenditure requirement of \$110 million and exploration program of \$25 million may be funded from cash provided by operations and existing cash. Alternative forms of financing the capital expenditure program are also under consideration.

Contractual Obligations

The following table summarizes Centerra's contractual obligations (including those of Kumtor Gold Company ("KGC") at 100% and those related to the Boroo mine at 100%), including payments due for the next five years and thereafter, as of December 31, 2006.

\$ millions	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
Kumtor					
Reclamation trust deed ⁽¹⁾	\$ 1.4	\$ 0.2	\$ 0.4	\$ 0.4	\$ 0.4
Community payment agreement ⁽²⁾	1.4	1.4	—	—	—
Equipment lease ⁽³⁾	18.0	6.0	12.0	—	—
Operational supplies	9.1	9.1	—	—	—
Social development fund ⁽⁴⁾	1.1	0.5	0.5	0.05	0.05
Corporate					
Program sponsorship ⁽⁵⁾	0.6	0.1	0.3	0.2	—
Lease of premises ⁽⁶⁾	3.9	0.8	1.6	1.5	—
Total contractual obligations	\$ 35.5	\$ 18.1	\$ 14.8	\$ 2.15	\$ 0.45

- (1) Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$21.0 million. In 1998, a reclamation trust fund was established to cover the future costs of reclamation, net of expected salvage value which was estimated at \$14.9 million. At December 31, 2006, the balance in the fund was \$4.7 million, with the remaining \$1.4 million to be funded over the life of the mine.
- (2) The Company has agreed to loan the government of the Kyrgyz Republic a total of \$4.4 million, whereby under certain conditions one-half of this loan would be forgivable. At December 31, 2006, \$1.4 million had yet to be loaned.
- (3) Agreement to lease mobile equipment.
- (4) The Company has entered into a funding agreement with local authorities in the Kyrgyz Republic to fund a diagnostic clinic and social development program.
- (5) The Company has entered into a five-year commitment with World Vision Canada to support its nutritional and health strategy in the Selenge Province of Mongolia. Over the five years commencing in 2006, this commitment will total \$700,000 payable in annual instalments of \$140,000.
- (6) Lease of corporate office premises expiring in November 2011.

Related Party Transactions

Cameco Corporation

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

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to Centerra in return for reimbursement for all its direct and indirect costs relating to those services. Services in the amount of \$127,000 were provided by Cameco under the services agreement during 2006 (\$779,000 during 2005).

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) were shared with Cameco in 2006 to a prescribed amount. During 2006, \$4.8 million was charged to Cameco (2005 - nil).

A net balance of \$3.3 million was receivable from Cameco at December 31, 2006 (\$0.8 million payable at December 31, 2005).

Kyrgyzaltyn and the Government of the Kyrgyz Republic

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

The table below summarizes 100% of the management fees, royalties and concession payments paid by KGC to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid by Kyrgyzaltyn to KGC according to the terms of a Gold and Silver Sale Agreement between Kumtor Operating Company (“KOC”) (on behalf of KGC), Kyrgyzaltyn and the Government of the Kyrgyz Republic.

Year ended December 31 \$ millions	2006	2005
Related Parties in the Kyrgyz Republic		
Management fees to Kyrgyzaltyn	\$ 0.5	\$ 0.7
Concession payments to Kyrgyz Republic	1.3	2.0
Total	1.8	2.7
Gross gold and silver sales to Kyrgyzaltyn	199	220
Deduct: refinery and financing charges	(2)	(3)
Net sales revenue received from Kyrgyzaltyn	\$ 197	\$ 217

During 2006, management fees to Kyrgyzaltyn were offset against an advance of \$1.0 million which was made in respect of such fees in November 2005.

Kyrgyzaltyn and Kumtor have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended (the “GPA”) and most recently extended effective November 15, 2006, that until the earlier of (i) May 15, 2007 and (ii) the date on which at least \$12 million of proceeds from the sale of shares of Centerra currently owned by Kyrgyzaltyn have been deposited into a special purpose gold payment account of Kyrgyzaltyn, Kyrgyzaltyn will have 12 days to pay for gold shipped from the Kumtor mine. Kyrgyzaltyn shall pay interest on unpaid amounts equal to LIBOR plus 0.25%. Prior to the effective date of the GPA, Kumtor shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA Kyrgyzaltyn has agreed to sell before May 15, 2007, a sufficient number of Centerra shares to yield \$12 million of proceeds. These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect the obligations of Kyrgyzaltyn to Kumtor are secured by a pledge of Centerra shares owned by Kyrgyzaltyn. As at December 31, 2006, amounts outstanding under this agreement were \$8.3 million.

Other

The Company paid approximately Cdn \$590,000 for the 2006 year (approximately Cdn \$429,000 for the 2005 year) to Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Ms. Stephens provides certain designated legal and business advisory services related to international operations.

At December 31, 2006, a relocation loan in the amount of Cdn \$250,000 (Cdn \$250,000 at December 31, 2005) was outstanding with Centerra's President and Chief Executive Officer, Mr. Homeniuk. The loan principal is payable in June 2010, while interest is charged as a taxable benefit to Mr. Homeniuk.

Other Developments

Kyrgyz Republic

The political situation in the Kyrgyz Republic continues to evolve and there continues to be a risk of future political instability. The President has gained substantial constitutional powers through constitutional amendments introduced at the end of 2006. The Cabinet resigned on December 19, 2006. A new Prime Minister, Mr. Azim Isabekov, was appointed on February 1, 2007, and the new structure of the Government has been approved by Parliament. Subsequently, a new Cabinet was formed. The Company continues its efforts to establish a closer relationship with local communities to ensure broad-based regional support for its operations.

The newly-appointed Prime Minister is engaged in dealing with long outstanding Kumtor issues. Specifically, based on the long-term relationship between the Government of the Kyrgyz Republic and Cameco Corporation as original founders of Centerra, he invited Cameco to conduct discussions regarding a number of issues concerning Kumtor. Cameco and Centerra are meeting with the new Government to discuss these issues. The positive resolution of these issues would help to provide a stable and favourable operational environment and an improved investment climate in the Kyrgyz Republic. If the issues between Cameco and Centerra and the Kyrgyz Republic are not resolved to their mutual satisfaction, the risks to Centerra will increase.

In December 2006, at the direct request of the Government, the Company paid disputed amounts relating to land tax and high altitude premium payable to its Kumtor mine employees. The Company has begun international arbitration with the Government to recover the disputed amounts. The total amount in dispute for 2006 is about \$7 million.

The Company has previously reported on inquiries and investigations following the ouster of President Akaev in 2005. None of these inquiries and investigations has resulted in any material negative effect on Kumtor, and to Centerra's knowledge, are inactive or are currently not being pursued by the Kyrgyz authorities. Nonetheless, as the largest foreign investment enterprise in the Kyrgyz Republic, the Kumtor project continues to be the subject of significant political debate.

In July 2005, protesters, in an action related to the 1998 cyanide spill, illegally blocked access to the Kumtor mine alleging, among other things, a lack of compensation from the Government. In response to the roadblock, the Government created a State Committee to inquire into various aspects of the Kumtor operations and the consequences of the spill. Based on the inquiries of the State Committee, the Government issued a decree in September 2005, requesting, among other things, that certain Government agencies enter into negotiations with Kumtor Operating Company (“KOC”) and ask that KOC provide new funds to compensate local residents. Throughout these negotiations KGC’s position continued to be that the settlement agreement previously entered into with the Government in 1998 was a final settlement of all claims and that any new compensation was the responsibility of the Government. On November 14, 2005, there was a further illegal roadblock by protesters that blocked access to the mine. This roadblock was lifted on November 21, 2005 after further negotiations among the protesters, the Government and KGC. As a result of these negotiations, the Government acknowledged its responsibility for any new compensation relating to the spill. To assist the Government in fulfilling its responsibilities in December 2006, KGC agreed to make interest free advances of \$4.4 million to the Government.

Pursuant to an agreement dated December 7, 2006 between the Government, KGC, Centerra and Kyrgyzaltyn, KGC has advanced a total of \$3 million with the final instalment of \$1.4 million due in 2007. This money has been distributed to members of the local communities by a committee created by the Government to administer the distribution of compensation. One half of the loan (\$2.2 million) is repayable no later than 2010 and is secured by shares of Centerra owned by Kyrgyzaltyn and the other half of the loan (\$2.2 million) is forgivable in 2012 if there is no event of default, pursuant to the Investment Agreement between KGC, Centerra and the Government of the Kyrgyz Republic.

Mongolia

In 2000, the Mongolian People’s Revolutionary Party (“MPRP”) won a strong majority in the Mongolian legislature. It continued many of the reform policies and focused on social welfare and public order priorities. In the June 2004 election, the MPRP lost its majority but regained it in January 2005 when several members of the coalition government joined the MPRP to form a coalition cabinet. Presidential elections were held in May 2005, and Mr. Enkhbayar from the MPRP was elected in the first round of voting. In late-2005, the coalition cabinet dissolved, and in early-2006, the Government was reformed and is now dominated by members of the MPRP.

The Company continues its negotiations regarding its Boroo stability agreement and Gatsuurt Investment Agreement with the Mongolian Government amid strong nationalistic sentiment in the country. No agreements have yet been reached. The Ministry of Finance has alleged certain tax-related violations by the Company and notified it on January 15, 2007 that the Boroo stability agreement will be terminated

unless the alleged violations are cured within 120 days. The Company responded to the Minister that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. On February 13, 2007, the Company received a reply from the Minister of Finance re-iterating the allegations of violations. The Company believes that this dispute will be resolved as part of the negotiations on the Boroo and Gatsuurt agreements.

The Mongolian Parliament continues to debate recent changes to mining legislation and the applicability of windfall profit tax as well as State participation in various mining projects. The windfall tax applies at the rate of 68% on sales of gold above \$500 per ounce. Under the new minerals law, Parliament may designate deposits as strategic and the State may take up to a 34% interest in those strategic deposits in respect of which exploration was funded privately or 50% interest in those strategic deposits in respect of which exploration was funded by the State. On February 6, 2007, Parliament designated the Boroo deposit as strategic but resolved that the State would take no interest as the deposit would continue to be subject to the terms of the existing Stability Agreement. While the Government has acknowledged neither that the windfall tax or the strategic deposit provisions will apply to the Boroo project, it has not yet agreed to provide similar protection to the Company's Gatsuurt project.

As discussed above Centerra Gold Mongolia Limited ("CGM") has an ongoing dispute with Gatsuurt LLC, an arm's length Mongolian company, under which CGM acquired the Gatsuurt licenses. CGM believes that the Gatsuurt LLC claim is without merit.

Critical Accounting Estimates

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

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

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

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

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

Changes in Accounting Standards

Financial Instruments

In January 2005, the CICA approved Handbook Sections 3855, *Financial Instruments – Recognition and Measurement*, 1530, *Comprehensive Income* and 3865, *Hedges* which became effective for the Company beginning January 1, 2007. These standards will increase harmonization with U.S. and International accounting standards.

Section 3855 expands on Section 3860, *Financial Instruments – Disclosure and Presentation*, by providing guidance on when all financial instruments must be recognized on the balance sheet and how they must be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The initial adoption of this new section will result in the Company (i) measuring financial assets classified as loans and receivables, held to maturity, if any, at their amortized cost; (ii) measuring financial assets and financial liabilities classified as held for trading, if any, at fair value with related gains and losses on measurement recognized in net income; (iii) measuring financial assets classified as available-for-sale at fair value, with the related gains and losses on measurement recognized in “other comprehensive income”, a new account introduced with the application of Section 1530 discussed above; (iv) recognizing all derivative financial instruments on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract, with the gains and losses on instruments designated as cash flow hedges recognized in other comprehensive income, except for the ineffective portion of the hedges which will be recognized in net income.

Section 1530 requires an entity to recognize certain unrealized gains and losses in “other comprehensive income”, the accumulated amount of which is included in

shareholders' equity, until such gains and losses are realized and then recognized in net income, and requires the introduction of a statement of comprehensive income.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, *Hedging Relationships*, and the hedging guidance in Section 1650 *Foreign Currency Translation*, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The impact of these new standards is being evaluated by the Company and is not expected to be material to the Company's financial position.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

As of December 31, 2006, Centerra evaluated its disclosure controls and procedures as defined in the rules of the Canadian Securities Administrators. This evaluation was carried out under the supervision of and with the participation of management, including the president and chief executive officer and the chief financial officer. Based on that evaluation, the president and chief executive officer and chief financial officer concluded that the design and operation of these disclosure controls and procedures were effective.

The CEO and CFO are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The CEO and CFO have certified that the internal controls over financial reporting of Centerra were suitably designed to achieve this objective as of December 31, 2006.

No changes were made in Centerra's internal control over financial reporting during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Sustainable Development

Centerra believes in the principles of sustainable development. In endeavouring to achieve its strategic objectives, the Company strives to be a leading performer among its peers with regard to shareholder value, business ethics, workplace safety, environmental protection and community economic development. Centerra believes that its strong commitment to these principles, which are supported by its past practices, will further its objective of becoming a partner of choice for governments and state-owned enterprises in Central Asia, the former Soviet Union and other emerging markets.

Outlook

Production and Unit Cost – 2006 by Quarter and 2007 Forecast

For the 2007 year, Centerra is forecasting consolidated gold production (100% basis) of 700,000 – 720,000 ounces, 20% higher than in 2006. This increase is primarily as a result of higher grades and recovery at the Kumtor mine. Total cash costs are forecast to be \$375 – \$385 per ounce in 2007 similar to \$386 per ounce in 2006.

Centerra is forecasting production for the Kumtor mine in 2007 to increase to between 450,000 – 460,000 ounces. Overall, the good cumulative experience of reconciling nine years of production with the reserve estimates for the areas mined has resulted in a growing degree of confidence in projections of future production. Nonetheless, beginning in the fourth quarter of 2005 the ore zones have tended to be narrower, causing increased dilution and lower than anticipated mill head grade. In 2007, mining will focus on targeting the high-grade mineralization of the SB Zone. The mill head grade at the Kumtor mine is expected to average 3.13 g/t in 2007 compared to 2.27 g/t in 2006 and production from the mine is expected to be between 450,000 – 460,000 ounces at an average cash cost of \$440 – \$450 per ounce. Kumtor's life-of-mine plan is focused on accessing the highest available ore grades; this will require mining through lower grades in 2007.

At the Boroo mine, production is expected to decline to between 250,000 – 260,000 ounces in 2007 due primarily to a lower mill head grade which is expected to average 3.64 g/t in 2007 compared to 4.25 g/t in 2006. Total cash cost is forecast to be \$250 – \$260 per ounce in 2007.

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

	2006					2007
Ounces 000s except where noted	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	Total Actual	Year Forecast
Kumtor's production (100% Centerra share)	89	100	53	62	304	450-460
Boroo's production (100%)	65	65	73	80	283	250-260
Centerra's share of total production ⁽¹⁾	151	161	122	138	572	688-707

(1) Centerra's share of Boroo's production is 95%.

Total cash cost ⁽¹⁾	2006					2007
\$ per ounce	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	Total Actual	Year Forecast
Kumtor	\$ 427	\$ 402	\$ 719	\$ 789	\$ 544	\$ 440-450
Boroo	215	207	220	225	217	250-260
Consolidated	337	325	429	473	386	375-385

(1) Total cash cost is a non-GAAP measure. See "Non-GAAP Measure – Total Cash Cost" above.

Exploration and Business Development

The 2007 exploration program will continue the aggressive exploration at the Kumtor mine, target generation programs at the Boroo mine and around the Gatsuurt project and on our extensive land holdings in Mongolia. Generative programs will continue in Central Asia, Russia and China. Accordingly, the Company has forecast \$25 million of spending on its program for the year. The forecast includes \$15 million for exploration at Kumtor.

The business development program is budgeted at \$4.2 million for 2007 to support the M&A initiatives of the Company during the year.

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

Kumtor

- Additional drilling programs are planned in the vicinity of the main Kumtor pit to test for strike and dip extensions of the SB and NB zones. A drilling program is planned in the Sarytor target area to further delineate and extend the resource outlined in 2005. The Sarytor area is located about five kilometres from the Kumtor mill.
- Exploration work will continue on other target areas such as Bordoo and Akbel.

Boroo

- At the Boroo mine, programs will focus on generating and testing targets for additional mineralization around the Boroo operating facilities.

Mongolia

- Trenching and drilling of targets in the area of the Gatsuurt deposit is planned for 2007, and also additional target generation work.
- Exploration programs will continue to evaluate Centerra's significant land position.

REN

- Data from the 2006 drill program will be compiled and target evaluated for further drilling. Barrick Gold holds a 32% joint-venture interest in the REN property. Barrick Gold has elected not to participate in further exploration on the REN property in 2007.

Administration

Annual corporate and general administration expenses are expected to amount to \$29.8 million, \$2.6 million higher than 2006. The forecast includes increased personnel at the corporate office, costs for securing a credit facility and the continued implementation and maintenance costs of regulatory standards.

Corporate Income Taxes

The tax rates for 2007 applicable to Kumtor, based on the existing investment agreement is 10% and for Boroo, based on the existing investment agreement is 20%, (from March 1, 2007). Boroo's three-year 100% tax exemption is scheduled to end March 1, 2007 following which the mine is subject to half of the statutory rate (which was 40% at the time of executing the agreement). The Boroo Stability Agreement protects it from the windfall profits tax. Negotiations with the Mongolian Government to amend the Boroo Stability Agreement, and to implement an investment agreement for the Gatsuurt project, are continuing.

Capital Expenditures

The total capital requirement in 2007 is budgeted at \$110 million including \$26 million of maintenance capital. Growth capital is forecast at \$84 million, which includes \$39 million at Kumtor (\$17 million for the development of the SB zone decline and \$12 million to pre-strip the SB zone in the Central Pit) and \$44 million at Boroo (Heap Leach and Gatsuurt projects accounting for \$19 million and \$25 million, respectively). Amounts for the development of the SB zone decline, pre-stripping of the SB zone, heap leach at Boroo and the Gatsuurt project will be capitalized and amortized on a units of production basis consistent with the Company's accounting policies.

Risk Factors

Below are some risk factors that Centerra believes can have an adverse effect on its profitability. A complete list of the Company's risk factors is listed in Centerra's Annual Information Form which is filed and available on SEDAR at www.sedar.com.

Volatility of Gold Prices

Centerra's revenue is largely dependent on the world market price of gold. The gold price is subject to volatile price movements over time and is affected by numerous factors beyond the Company's control. These factors include global supply and demand; central bank lending, sales and purchases; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including the performance of Asia's economies.

If the market price of gold falls and remains below variable production costs of any of the Company's mining operations for a sustained period, losses may be sustained and, under certain circumstances, there may be a curtailment or suspension of some or all of Centerra's mining and exploration activities. The Company would also have to assess the economic impact of any sustained lower gold prices on recoverability and, therefore, the cut-off grade and level of its gold reserves and resources. These factors could have an adverse impact on its future cash flows, earnings, results of operations, stated reserves and financial condition.

Further Ground Movements at the Kumtor Mine

On July 8, 2002, a highwall ground movement at the northern end of the Kumtor pit resulted in the death of one of Centerra's employees and the temporary suspension of mining operations. The movement led to a considerable shortfall in 2002 gold production because the high-grade Stockwork Zone was rendered temporarily inaccessible. Consequently, the Company milled lower grade ore and achieved lower recovery rates. In February 2004, there was also movement detected in the southeast wall of the open pit and in February 2006 there was further movement detected.

In July 2006, a pit wall ground movement occurred involving a significant portion of the northeast wall. Kumtor's extensive slope monitoring system was effective, enabling safe advance evacuation of the mining area. The movement occurred above the higher grade stockwork area which was planned to be mined in 2007. While the stockwork area was not covered, safety concerns identified in our engineering analysis undertaken after the event required new mining sequence, which deferred production from the area. Although extensive efforts are employed by the Company to prevent further ground movement, there is no guarantee against further ground movements. A future ground movement could result in a significant interruption of operations. Centerra may also experience a loss of reserves or material increase in costs, if it is necessary to redesign the open pit as a result of a future ground movement. The consequences of a future ground movement will depend upon the magnitude, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of reserves or materially higher costs of operation, this would have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

Political Risk

All of Centerra's current gold production and reserves are derived from assets located in the Kyrgyz Republic and Mongolia, developing countries that have experienced political difficulties in recent years. Centerra's mining operations and gold exploration activities are affected in varying degrees by political stability and government regulations relating to foreign investment, corporate activity and the mining business in each of these countries. Operations may also be affected in varying degrees by terrorism, military conflict or repression, crime, civil unrest, extreme fluctuations in currency rates and high inflation in Central Asia and the former Soviet Union.

The relevant governments have entered into contracts with Centerra or granted permits or concessions that enable the Company to conduct operations or development and exploration activities. Notwithstanding these arrangements, Centerra's ability to conduct operations or exploration and development activities is subject to changes in government regulations or shifts in political attitudes beyond the Company's control.

There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may

change to discourage foreign investment, renationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. While there are provisions for compensation and reimbursement of losses to investors under such circumstances, there is no assurance that such provisions would be effective to restore the value of Centerra's original investment. Similarly, the Company's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, wage and benefits requirements, expropriation of property, environmental legislation, mine safety and annual fees to maintain mineral properties in good standing. There can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. Furthermore, there can be no assurance that the existing or future agreements Centerra has with the governments of these countries will prove to be enforceable or provide adequate protection against any or all of the risks described above.

Centerra has made an assessment of the political risk associated with each of its foreign investments and currently has political risk insurance to mitigate losses as deemed appropriate. The Company regularly assesses the costs and benefits of maintaining such insurance to determine whether or not to continue to purchase the coverage. Additionally, the political risk coverage provides that on a change of control of Centerra the insurers have the right to terminate the coverage. If that were to happen, there can be no assurance that the political risk insurance would continue to be available on reasonable terms. Furthermore, there can be no assurance that the insurance would continue to be available at any time or that particular losses Centerra may suffer with respect to its foreign investments will be covered by the insurance. These losses could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition if not adequately covered by insurance.

Production Estimates May Be Inaccurate

Centerra prepares estimates of future production and future production costs for particular operations. No assurance can be given that production estimates will be achieved. These production estimates are based on, among other things, the following factors: the accuracy of reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; provision of infrastructure and services; equipment and mechanical availability and the accuracy of estimated rates and costs of mining and processing, including the cost of human and physical resources required to carry out the Company's activities.

Actual production may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades; risk and hazards associated with mining; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures and cave-ins; unexpected labour shortages or strikes; and cost increases for contracted and/or purchased goods and services, electrical power interruptions or unavailability of critical equipment. Failure to achieve production estimates could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Gold Mining is Subject to a Number of Operational Risks and Centerra May Not Be Adequately Insured for Certain Risks

Centerra's business is subject to a number of risks and hazards, including environmental pollution, accidents or spills; industrial and transportation accidents; mechanical and equipment failure; labour disputes; changes in the regulatory environment; natural phenomena, such as inclement weather conditions, floods, earthquakes, pit wall failures, tailings dam failures and cave-ins; and encountering unusual or unexpected geological conditions.

While Centerra takes measures to mitigate these risks and hazards, there is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's gold properties, personal injury or death, environmental damage, delays in or interruption of or cessation of production from its mines or in its exploration or development activities, costs, monetary losses and potential legal liability and adverse governmental action, all of which could have an adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

Although the Company maintains insurance to cover some of these risks and hazards in amounts it believes to be reasonable, its insurance may not provide adequate coverage in all circumstances. No assurance can be given that insurance will continue to be available at economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards.

Centerra may also be subject to liability or sustain loss for certain risks and hazards against which it cannot insure or which it may elect not to insure. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Environmental, Health and Safety Risks

Centerra expends significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations and permitting requirements (for the purpose of this paragraph, "laws") drawn from a number of different jurisdictions. The Company anticipates that it will be required to continue to

do so in the future as the historical trend toward stricter such laws is likely to continue. The possibility of more stringent laws exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining sites and other environmental matters, each of which could have a material adverse effect on the Company's exploration, the cost or the viability of a particular project, future cash flows, earnings, results of operations and financial condition.

Centerra's facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and the Company's right to continue operating the facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties, all of which could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Decommissioning and Reclamation Costs May be Difficult to Predict Accurately

At each of Centerra's mine sites the Company is required to establish a decommissioning and reclamation plan. Provision must be made for the cost of decommissioning and reclamation. These costs can be significant and are subject to change. The Company cannot predict what level of decommissioning and reclamation may be required in the future by regulators. If Centerra is required to comply with significant additional regulations or if the actual cost of future decommissioning and reclamation is significantly higher than current estimates, this could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Reduced Liquidity and Difficulty in Obtaining Future Financing

The further development and exploration of mineral properties in which Centerra holds interests or which it acquires may depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that it will be successful in obtaining required financing as and when needed. Volatile gold markets may make it difficult or impossible for Centerra to obtain debt financing or equity financing on favourable terms or at all. The Company's principal operations are located in, and its strategic focus is on, Central Asia and the former Soviet Union, developing areas that have experienced past political difficulties and may be perceived as unstable. This may make it more difficult for Centerra to obtain debt financing from project or other lenders. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint ventures or reduce or terminate operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Report of Management's Accountability

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

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

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

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

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

Original signed by:
Leonard A. Homeniuk
President and
Chief Executive Officer

Original signed by:
David M. Petroff
Executive Vice President and
Chief Financial Officer

February 22, 2007

Auditors' Report

To the Shareholders of Centerra Gold Inc.

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 22, 2007

Original signed by:
KPMG LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

(Thousands of US\$)	Notes	2006	2005
Assets			
Current assets			
Cash		\$ 186,159	\$ 202,417
Accounts receivable		24,006	8,951
Inventories	4	83,714	76,721
Prepaid expenses		24,737	16,151
		318,616	304,240
Property, plant and equipment	5	305,366	232,114
Goodwill		154,586	154,586
Long-term receivables and other	6	6,778	8,357
Future income tax asset	10	8,901	—
		475,631	395,057
Total assets		\$ 794,247	\$ 699,297
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 62,347	\$ 32,129
Provision for reclamation	7	16,532	17,897
Future income tax liability	10	—	29
		16,532	17,926
Non-controlling interest		9,829	4,821
Shareholders' equity	13		
Share capital		522,383	522,383
Contributed surplus		30,257	29,739
Retained earnings		152,899	92,299
		705,539	644,421
Total liabilities and shareholders' equity		\$ 794,247	\$ 699,297
Commitments and contingencies (notes 7, 14, 16)			
The accompanying notes form an integral part of these consolidated financial statements			
Approved by the Board of Directors			
Original signed by:			
Ian G. Austin		Patrick M. James	
Director		Director	

Consolidated Statements of Earnings and Retained Earnings

For the Years Ended December 31

(Thousands of US\$ except per share amounts)	Notes	2006	2005	2004
Revenue from				
Gold sales		\$ 364,520	\$ 338,583	\$ 245,421
Management fees		—	—	1,642
		364,520	338,583	247,063
Expenses				
Cost of sales		236,915	186,177	109,920
Depreciation, depletion and amortization		39,662	60,790	52,785
Accretion and reclamation expense	7	(1,454)	(894)	978
Exploration and business development	8	25,702	29,931	15,000
Interest and other (income)	9	(23,362)	(4,773)	(7,582)
Administration		27,221	17,934	11,544
		304,684	289,165	182,645
Earnings from operations		59,836	49,418	64,418
Other expense		—	—	8,541
Earnings before income taxes and non-controlling interest		59,836	49,418	55,877
Income tax expense (recovery)	10	(5,771)	4,572	(156)
Non-controlling interest		5,007	2,412	5,398
Net earnings		60,600	42,434	50,635
Retained earnings (deficit), beginning of year		92,299	49,865	(770)
Retained earnings, end of year		\$ 152,899	\$ 92,299	\$ 49,865
Basic and diluted earnings per common share	13	\$ 0.28	\$ 0.20	\$ 0.30
The accompanying notes form an integral part of these consolidated financial statements				

Consolidated Statements of Cash Flows

For the Years Ended December 31

(Thousands of US\$)	2006	2005	2004
Operating activities			
Net earnings	\$ 60,600	\$ 42,434	\$ 50,635
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	39,662	60,790	52,785
Accretion and reclamation expense	(1,454)	(894)	978
Deferred charges recognized	2,266	5,397	6,979
Loss on settlement of debt	—	—	9,084
Future income tax expense (recovery)	(8,930)	2,540	(1,041)
Non-controlling interest	5,007	2,412	5,398
Other operating items	(2,141)	2,817	3,264
	95,010	115,496	128,082
Change in working capital	(14,676)	(32,096)	(39,605)
Cash provided by operations	80,334	83,400	88,477
Investing activities			
Acquisition of net business assets, net of cash acquired	—	—	(2,697)
Additions to property, plant and equipment	(96,645)	(33,574)	(11,785)
Proceeds from disposition of fixed assets	53	—	—
Pre-commissioning revenues	—	—	4,223
Redemption of shares, Cameco Ireland	—	—	22,900
Cash provided by (used in) investing	(96,592)	(33,574)	12,641
Financing activities			
Proceeds of share issue	—	—	84,746
Repayment of long-term debt	—	—	(41,509)
Advances from (to) parent company	—	—	(1,865)
Cash provided by (used in) financing	—	—	41,372
Increase (decrease) in cash during the year	(16,258)	49,826	142,490
Cash at beginning of the year	202,417	152,591	10,101
Cash at end of the year	\$ 186,159	\$ 202,417	\$ 152,591
Supplemental cash flow disclosure			
Change in working capital:			
Accounts receivable	\$ (15,055)	\$ (6,355)	\$ 3,753
Inventory - ore and metal	8,567	(7,078)	(12,696)
Inventory - supplies	(15,580)	(14,561)	(9,897)
Prepays	(8,586)	(4,208)	(4,840)
Hedges	—	—	(20,622)
Accounts payable and accrued liabilities	30,218	106	4,697
	(436)	(32,096)	(39,605)
Reduction to accrued liabilities related to property, plant and equipment, non-cash additions	(14,240)	—	—
	\$ (14,676)	\$ (32,096)	\$ (39,605)
Other cash payments:			
Interest paid	\$ 274	\$ 55	\$ 1,637
Income taxes paid	3,159	1,525	223
The accompanying notes form an integral part of these consolidated financial statements			

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

(Expressed in United States Dollars)

NOTE 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.

NOTE 2: Basis of Presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Kumtor Gold Company ("KGC"), its 95%-owned subsidiary Boroo Gold Company ("BGC") and its wholly-owned interest in the Gatsuurt property. Interest in the 62.14%-owned REN property in Nevada is accounted for by the proportionate consolidation method.

NOTE 3: Significant Accounting Policies

A summary of significant accounting policies of Centerra follows the notes to the consolidated financial statements.

NOTE 4: Inventories

(Thousands of US\$)	2006	2005
Broken ore	\$ 8,892	\$ 13,930
Gold in-circuit	6,287	3,319
Gold doré	5,758	12,275
	20,937	29,524
Supplies	62,777	47,197
Total	\$ 83,714	\$ 76,721

NOTE 5: Property, Plant and Equipment

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2006 Net
Mine buildings	\$ 32,789	\$ 21,029	\$ 11,760
Plant and equipment	241,792	144,143	97,649
Mineral properties	148,603	74,753	73,850
Mobile equipment	88,214	26,930	61,284
Construction in process	60,823	—	60,823
Total	\$ 572,221	\$ 266,855	\$ 305,366

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2005 Net
Mine buildings	\$ 27,164	\$ 14,251	\$ 12,913
Plant and equipment	222,919	126,768	96,151
Mineral properties	143,187	63,159	80,028
Mobile equipment	49,126	18,907	30,219
Construction in process	12,803	—	12,803
Total	\$ 455,199	\$ 223,085	\$ 232,114

NOTE 6: Long-term Receivables and Other

(Thousands of US\$)	2006	2005
Reclamation trust fund (note 7)	\$ 4,676	\$ 4,363
Deferred charges	557	2,823
Other long-term receivables	1,545	1,171
Total	\$ 6,778	\$ 8,357

All gold forward sales agreements were closed in 2004. Deferred charges relating to the closing of the hedges of \$2.3 million were recognized in 2006, leaving the balance of \$0.6 million to be recognized in 2007.

NOTE 7: Asset Retirement Obligations

(Thousands of US\$)	2006	2005
Kumtor gold mine	\$ 13,992	\$ 15,633
Boroo gold mine	2,540	2,264
Total	\$ 16,532	\$ 17,897

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

The Company estimates its total future decommissioning and reclamation costs to be \$24.5 million.

Following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- (i) Total undiscounted amount of the estimated cash flows is \$24.5 million.
- (ii) Expected timing of payment of the cash flows is based on the life of mine plans.
The majority of expenditures is expected to occur after 2008.
- (iii) Discount rates of 8.0% for both Kumtor and Boroo gold mines.

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

(Thousands of US\$)	2006	2005	2004
Balance, beginning of year	\$ 17,897	\$ 18,868	\$ 7,112
Additional liability assumed on restructuring (note 12)	—	—	10,778
Liabilities incurred / (settled)	89	(77)	—
Revisions in estimated cash flows	(2,589)	(2,209)	—
Accretion expense	1,135	1,315	978
Balance, end of year	\$ 16,532	\$ 17,897	\$ 18,868

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of estimated salvage values of \$14.9 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2006 was \$4.7 million (2005 - \$4.4 million) (note 6).

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

NOTE 8: Exploration and Business Development Costs

(Thousands of US\$)	2006	2005	2004
Exploration	\$ 22,947	\$ 25,457	\$ 15,000
Business development	2,755	4,474	—
Total	\$ 25,702	\$ 29,931	\$ 15,000

NOTE 9: Interest and Other (Income)

(Thousands of US\$)	2006	2005	2004
Interest income	\$ (9,764)	\$ (5,269)	\$ (1,546)
Proceeds on insurance claim, net of fees	(13,436)	—	—
Loss on sales of assets	525	—	—
Interest expense on long-term debt	—	55	1,146
Financing charges and other interest	1,244	—	82
Foreign exchange loss (gain)	(1,931)	441	(7,264)
Net	\$ (23,362)	\$ (4,773)	\$ (7,582)

NOTE 10: Income Taxes

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

(Thousands of US\$)	2006	2005
Future tax assets		
Property, plant and equipment	\$ 31,560	\$ 19,897
Foreign exploration and development	2,722	1,473
Inventory	2,209	—
Tax losses carried forward	17,546	12,793
Other	1,205	1,539
Future income tax assets before valuation allowance	55,242	35,702
Valuation allowance	(46,341)	(28,079)
Future income tax assets, net of valuation allowance	8,901	7,623
Future tax liabilities		
Property, plant and equipment	—	6,673
Deferred hedge losses	—	323
Inventory	—	656
Future income tax liabilities	—	7,652
Net future income tax assets (liabilities)	\$ 8,901	\$ (29)

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

(Thousands of US\$)	2006	2005	2004
Earnings before income taxes			
and minority interest	\$ 59,836	\$ 49,418	\$ 55,877
Combined federal and provincial			
tax rate	36.1%	36.1%	36.1%
Computed income tax expense	\$ 21,601	\$ 17,840	\$ 20,172
Increase (decrease) in taxes			
resulting from:			
Permanent differences and other	4,057	1,379	404
Valuation allowance	18,262	4,728	(4,911)
Resolution of tax uncertainties	(7,129)	—	—
Tax loss expired	—	—	1,029
Difference between Canadian rate			
and rates applicable to subsidiaries			
in other countries	(41,284)	(19,922)	(16,855)
Changes in tax legislation	(1,765)	—	—
Large corporations and other taxes	487	547	5
Income tax expense (recovery)	\$ (5,771)	\$ 4,572	\$ (156)

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2006	2005	2004
Current income taxes	\$ 3,159	\$ 2,032	\$ 885
Future income taxes (recovery)	(8,930)	2,540	(1,041)
Net	\$ (5,771)	\$ 4,572	\$ (156)

Tax losses

At December 31, 2006, the Company and its subsidiaries have losses carried forward in the amount of \$89.4 million (2005 – \$50.1 million) available to reduce taxes in 2007 and subsequent years. Of these tax losses \$31.1 million are expected to expire in 2007, and the balance would begin to expire in 2011. Of the 2006 losses carried forward, tax benefits have not been recorded for \$64.8 million.

Tax legislation

During 2006, the corporate income tax rate in the Kyrgyz Republic was reduced from 20% to 10%.

Changes to Mongolian tax legislation enacted during 2006, including the enactment of the windfall profits tax, are not applicable to Boroo.

Resolution of tax uncertainties

During 2006, the Kyrgyz tax authorities confirmed the tax basis for certain fixed assets used in the operations of KGC. As a result, the Company was able to recognize an increase in its future tax asset in the amount of \$7.1 million, offset however, by a \$1.8 million increase in the related valuation allowance, for a net increase in the future tax asset of \$5.3 million.

NOTE 11: Joint Ventures

Centerra's joint-venture interests are comprised of:

- prior to the restructuring in June 2004, as described in note 12 (a), a 33.33% interest in the Kumtor gold mine; and
- a 62.14% participation interest in the REN property which is currently in the exploration stage and has zero book value.

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

(Thousands of US\$)	2006	2005	2004
Revenues	\$ —	\$ —	\$ 41,718
Expenses	(1,996)	(3,740)	(33,850)
Net earnings (loss)	\$ (1,996)	\$ (3,740)	\$ 7,868
Cash provided by (used in)			
Operating activities	\$ (1,996)	\$ (3,740)	\$ 14,882
Investing activities	—	—	(930)
Financing activities	—	—	(5,667)
Increase (decrease) in cash during the year	\$ (1,996)	\$ (3,740)	\$ 8,285

NOTE 12: Restructuring of Centerra

(a) Transfer of gold interests from Cameco Gold

Pursuant to the restructuring agreement of June 2004 between Cameco Gold and Kyrgyzaltyn, the major assets contributed to Centerra by Cameco Gold included its one-third interest in KGC, a 56% interest in AGR Limited ("AGR"), shareholder loans to KGC and AGR, a 73% interest in the Gatsuurt exploration property in Mongolia, a 62.14% interest in the REN exploration project in Nevada and \$11.0 million in cash.

Assets and liabilities totalling \$27.2 million, included in Cameco Gold's financial statements, were not contributed to Centerra as part of the reorganization. The share capital of Centerra has been adjusted to reflect these assets and liabilities, as noted below.

In addition to the transfer of assets from Cameco Gold, Cameco converted \$64.2 million of Centerra's inter-company debt and advances into equity.

(Thousands of US\$)	
Share capital of Cameco Gold, presented on a continuity of interests basis	\$ 120,831
Adjustment for net assets retained by Cameco Gold	(27,205)
Conversion of inter-company debt and advances to equity	64,180
	\$ 157,806

(b) Acquisition of two-thirds interest in KGC

Pursuant to the restructuring agreement of June 2004 between Cameco Gold and Kyrgyzaltyn, Centerra acquired an additional two-thirds interest in KGC, resulting in KGC becoming a wholly-owned subsidiary. The purchase price consisted of \$11.0 million in cash, the contribution of a promissory note receivable from

Kyrgyzaltyn and common shares of Centerra. The acquisition was accounted for using the purchase method and the results of operations are included, as to 100%, in the consolidated financial statements from June 22, 2004. Previously, Cameco Gold's one-third interest was accounted for by the proportionate consolidation method.

The values assigned to the net assets acquired were as follows:

(Thousands of US\$)	
Cash and other working capital	\$ 31,820
Property, plant and equipment	139,643
Goodwill	129,705
Subordinated debt	(32,135)
Future income tax liability	(9,257)
Net assets acquired	\$ 259,776
Financed by:	
Cash	\$ 11,000
Note receivable from Kyrgyzaltyn	4,000
Settlement of shareholder subordinated loan	43,993
Common shares	200,783
	\$ 259,776

(c) Acquisition of additional 43.8% in AGR Limited

Effective June 30, 2004, Centerra acquired an additional 43.8% interest in AGR, raising the Company's interest in AGR to 99.9%. The purchase price was satisfied through the issuance of Centerra common shares. The acquisition was accounted for as a step purchase and the results of operations are included for all periods presented.

Subsequent to June 30, 2004, the Company acquired the remaining ownership interests in AGR, making it a wholly-owned subsidiary and resulting in a 100% interest in the Gatsuurt exploration property in Mongolia.

The values assigned to the net assets acquired were as follows:

(Thousands of US\$)	
Reduction of minority interest	\$ 12,011
Mark to market loss on hedge contracts	(5,766)
Property, plant and equipment	25,136
Goodwill	25,815
Future income tax liability	(1,430)
Net assets acquired	\$ 55,766
Financed by:	
Cash	\$ 151
Common shares	55,615
	\$ 55,766

(d) Exchange of KGC subordinated debt

Effective June 30, 2004, Centerra exchanged common shares and \$13.8 million in cash in exchange for the subordinated debt of KGC.

(Thousands of US\$)	
Fair value of exchange amount:	
Common shares issued	\$ 34,433
Cash	13,770
	48,203
Net book value of subordinated debt acquired	(39,119)
Loss on exchange of debt	\$ 9,084

The loss is included in other expense on the Statement of Earnings.

(e) Initial public offering

Under its initial public offering, Centerra issued 5,000,000 common shares (15,000,000 common shares post-split) to the public on June 30, 2004 for net proceeds of \$53.4 million after deducting the underwriters' fees of 5%. On July 28, 2004, the underwriters to the initial public offering of Centerra exercised their over-allotment option to acquire an additional 1,875,000 shares (5,625,000 shares post-split) for net proceeds of \$20.3 million.

NOTE 13: 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. On May 9, 2006, the Board of Directors of Centerra approved a three-for-one stock split of the Corporation's outstanding common shares, effected by way of a stock dividend. On June 1, 2006, shareholders of record at the close of business on May 29, 2006 received two additional common shares for each common share held. All share and per share data, including stock options, have been adjusted to reflect the stock split.

At December 31, 2006, only common shares had been issued as follows:

Number Issued	2006	2006
	(Number of Shares)	(Thousands of US\$)
Balance, January 1, 2003 and 2004	114,447,213	\$ 120,831
Adjustment on restructuring (note 12(a))	—	36,975
Issued to Kyrgyzaltyn (note 12(b))	56,369,151	200,783
Issued to AGR shareholders (note 12(c))	15,613,815	55,615
Issued to subordinated debt holders (note 12(d))	9,183,636	34,433
Initial public offering (note 12(e))	20,625,000	73,746
Balance, December 31, 2004, 2005 and 2006	216,238,815	\$ 522,383

(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.

The weighted average number of shares outstanding for 2004 is comprised of the shares issued under the restructuring reflected on a continuity of interest basis, plus the incremental effect of the shares issued under the transactions described in note 12.

	2006	2005	2004
Basic weighted average number of common shares outstanding (thousands)	216,239	216,237	166,812
Effect of stock options (thousands)	308	102	54
Diluted weighted average number of common shares outstanding (thousands)	216,547	216,339	166,866
Basic and diluted earnings per common share	\$ 0.28	\$ 0.20	\$ 0.30

The basic and diluted earnings per share have been adjusted to reflect the stock split described in note 13(a).

(c) Stock-based compensation

The impact of stock-based compensation is summarized as follows:

(Millions of US\$, except as indicated)	Number Outstanding Dec. 31, 2006	Expense 2006	Expense 2005	Expense 2004	Liability Dec. 31, 2006
(i) Centerra stock options	879,321	\$ 1.6	\$ 0.7	\$ 0.1	\$ 1.7
(ii) Centerra performance share units	726,733	3.9	1.3	0.2	5.4
(iii) Centerra annual performance share units	173,098	3.3	2.8	1.9	0.8
(iv) Deferred share units	142,093	1.0	0.4	0.3	1.6
(v) Cameco stock options	129,600	2.4	4.2	1.4	4.1
		\$ 12.2	\$ 9.4	\$ 3.9	\$ 13.6

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 after 2005 vest over three years. All issued options expire after eight years from the date granted. Options may be granted with a related share appreciation right. In these circumstances, the participant can either elect to receive shares by exercising the stock option or to receive payment in cash equal to the equivalent gain in the stock price. Centerra, at its discretion, can require any holder who has exercised a share appreciation right to exercise their option instead, or can elect to satisfy the cash amount owing upon exercise of a share appreciation right with common shares.

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

Centerra stock option transactions during the year were as follows:

(Number of options, except as indicated)	2006	2005	2004
Beginning of year	600,549	322,581	—
Options granted	278,772	277,968	322,581
End of year	879,321	600,549	322,581
Award price for options granted in the year (\$Cdn/share)	\$ 12.78	\$ 6.71	\$ 5.17
Weighted average price on outstanding options (\$Cdn/share)	\$ 8.07	\$ 5.88	\$ 5.17

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

The resulting fair value of the options granted in 2006 was \$1.2 million (2005 – \$0.6 million, 2004 – \$0.5 million).

For 2006, \$1.6 million (2005 – \$0.7 million, 2004 – \$0.2 million) was recognized in the income statement in respect of the Centerra stock option plan.

The terms of the options outstanding as at December 31, 2006 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2004	\$ 5.17 (Cdn)	2012	322,581	129,032
2005	\$ 6.71 (Cdn)	2013	277,968	55,594
2006	\$ 12.78 (Cdn)	2014	278,772	—
			879,321	184,626

(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 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, 2006, the number of units outstanding was 726,733 (424,119 at December 31, 2005). In 2006, \$3.9 million of compensation expense was recorded on this plan (\$1.3 million in 2005 and \$0.2 million in 2004).

On January 15, 2007, the Company settled 304,794 units outstanding under the performance share units plan for a gross amount paid of \$3.6 million.

(iii) Annual performance share unit plan

Centerra has established an annual performance share unit plan for eligible employees at their mine site operations. At the start of a contract period, an eligible employee receives a number of performance share units based on the Centerra share price on that start date. This award vests in one year and on the annual anniversary date of their contract, the eligible employee is entitled to receive an amount based on the assigned number of performance share units times the five-day average Centerra share price preceding the annual anniversary date. The performance share units cannot be converted to shares and the eligible employee must complete the annual

contract period in order to receive payment. At December 31, 2006, the number of units outstanding was 173,098 with a related liability of \$1.0 million (December 31, 2005 – 392,442 units, \$2.0 million liability). In 2006, \$3.3 million of compensation expense was recorded on this plan (\$2.8 million in 2005 and \$1.9 million in 2004).

(iv) Deferred share unit plan

Centerra has established a deferred share unit plan for directors of the Company to receive all or a portion of their director's compensation as deferred share units. Deferred share units are paid in full to a director no later than December 31 in the calendar year that immediately follows the calendar year of termination of the director's Board service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each director will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held by the director. At December 31, 2006, the number of units outstanding was 142,093 (94,011 at December 31, 2005). In 2006, approximately \$1.0 million of compensation expense was recorded on this plan (\$0.4 million in 2005 and \$0.3 million in 2004).

Cameco Plan

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

The liability for this option plan was assumed by Centerra upon restructuring (note 13). No further grants to Centerra employees will be made under the Cameco plan. Options under this plan were last granted in 2004.

The market price of Cameco common shares as at December 31, 2006 was \$47.20 (Cdn) (December 31, 2005 was \$36.90 (Cdn) per share, stock split adjusted).

In 2006, \$2.4 million of compensation expense was recorded on this plan (\$4.2 million in 2005 and \$1.4 million in 2004).

Transactions under the Cameco plan for the respective years were as follows (adjusted for the two most recent Cameco share stock splits which were effective February 17, 2006 and December 31, 2004):

(number of options, except as indicated)	2006	2005	2004
Beginning of year	232,200	344,400	459,000
Options granted	—	—	248,400
Options exercised	(91,200)	(102,600)	(144,600)
Options cancelled	(11,400)	(9,600)	(218,400)
End of year	129,600	232,200	344,400
Average award price for options granted - Cdn\$	—	—	\$ 10.52
Award price for options exercised - Cdn\$	\$ 4.81 - \$ 10.52	\$ 4.81 - \$ 10.52	\$ 4.81 - \$ 7.31

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

Award Date	Award Price (Cdn\$)	Expiry Date	2006 (Number of Options)	2005
2001	\$ 4.81	2009	1,200	3,000
2002	\$ 7.31	2010	9,600	17,400
2003	\$ 5.88	2006	—	4,800
2003	\$ 5.88	2007	5,400	3,600
2003	\$ 5.88	2008	600	3,000
2003	\$ 5.88	2011	33,000	66,000
2004	\$ 10.52	2007	1,800	5,400
2004	\$ 10.52	2008	1,200	—
2004	\$ 10.52	2012	76,800	128,400
			129,600	232,200
Weighted average price on outstanding options (Cdn\$/share)			\$ 8.83	\$ 8.65

NOTE 14: Commitments and Contingencies

Kumtor operations

During the year ended December 31, 2006, KGC entered into contracts to purchase capital equipment and operational supplies totalling \$27.1 million which are expected to be settled in the following financial year.

In December 2006, at the direct request of the Government, the Company paid disputed amounts relating to land tax (\$1.2 million) on certain non-agricultural land leased by Kumtor and high altitude premium (\$5.7 million) payable to its Kumtor mine employees. The Company has begun international arbitration with the

Government to recover the disputed amounts. The total amount in dispute for 2006 is about \$7 million.

In December 2006, an agreement was signed between Kumtor and the Government of the Kyrgyz Republic under which Kumtor agreed to loan the Government \$4.4 million. As of the end of the year \$3.0 million has been advanced. The balance will be advanced in 2007. Half of the loan (\$2.2 million) is repayable no later than 2010. The balance (\$2.2 million) will be forgiven provided that the Government does not default under its Investment Agreement with the Company. The amounts to be forgiven are expensed as advanced.

In accordance with the Investment Agreement, KGC makes contributions to a social fund set up for the benefit of residents of the Issyk-Kul region of the Republic. The annual contribution is calculated at the rate of 2% (4% after all the project loans have been repaid) of the annual net profit of KGC. These costs are expensed in the year they are incurred. Due to losses incurred at KGC in 2006, no contributions were required in the year (2005 - \$0.4 million).

In accordance with its Master Agreement and Reclamation Trust Deed, KGC has an obligation to contribute funds to the Reclamation Trust Fund. The Reclamation Trust Fund was established by KGC, a single contributor, to fund its decommissioning obligations for the Kumtor mine site. The fund is separately administered by an independent trustee (note 7).

Boroo operations

The Ministry of Finance has alleged certain tax-related violations by the Company and notified it on January 15, 2007 that the Boroo stability agreement will be terminated unless the alleged violations are cured within 120 days. The Company responded to the Minister that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. On February 13, 2007, the Company received a reply from the Minister of Finance re-iterating the allegations of violations. The potential impact of this claim is not determinable at this time. The Company has responded that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. The Company believes that this dispute will be fully resolved as part of the negotiations on the Boroo and Gatsuurt agreements.

Mongolia

Pursuant to an agreement between Centerra Gold Mongolia Limited ("CGM") and Gatsuurt LLC, an arm's length Mongolian company, under which CGM acquired the Gatsuurt licenses, CGM agreed to transfer the principal license covering the Gatsuurt property to Gatsuurt LLC if CGM did not complete a feasibility study by December 31, 2005. CGM completed a feasibility study in 2005. Gatsuurt LLC informed Centerra

that it did not believe that CGM complied with its obligation and filed a claim in the Mongolian national arbitration court alleging non-compliance by CGM and seeking the return of the principal license for the Gatsuurt property. CGM intends to contest the jurisdiction of the arbitration court and continues to believe that the terms of this agreement have been fully met and that the Gatsuurt LLC claim is without merit.

The Company has entered into a five-year commitment with World Vision Canada to support World Vision's nutritional and health strategy in the Selenge Province of Mongolia. Over the five years commencing in 2006, this commitment will total \$700,000, payable in annual instalments of \$140,000.

Corporate

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The lease, including operating costs for 2006, was approximately \$822,000 Cdn (2005 - \$647,000 Cdn) and is expected to increase to approximately \$850,000 Cdn by November 2011, the end of the lease term.

NOTE 15: Financial Instruments

Fair values of financial instruments

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

Foreign exchange risk

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

NOTE 16: Related Party Transactions

Cameco Corporation

Cameco owned 100% of the Company until the restructuring. As at December 31, 2006, 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. For periods prior to the restructuring, the Centerra financial statements reflect one-third of charges with Kumtor, in accordance with the accounting described in note 12.

Yearly activity

(Thousands of US\$)	2006	2005	2004
Charged by Cameco:			
Senior debt guarantee fee	\$ —	\$ —	\$ 85
Credit support fee	—	—	58
Administration fee	127	779	359
	127	779	502
Charged by Centerra:			
SOX related work activity	(4,777)	—	—
Total activity	\$ (4,650)	\$ 779	\$ 502

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to the Company in return for reimbursement of all its direct and indirect costs relating to those services. In 2006, services totalling \$0.1 million were provided by Cameco under the services agreement (in 2005, \$0.8 million was incurred).

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

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

A net balance related to these inter-company transactions of \$3.3 million was receivable from Cameco at December 31, 2006 (\$0.8 million payable to Cameco at December 31, 2005).

Kyrgyzaltyn and the Government of the Kyrgyz Republic

Revenues from the Kumtor gold mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company. During 2006, management fee commitments to Kyrgyzaltyn are offset against the advance of \$1.0 million which was made for this purpose in November 2005.

The table below summarizes 100% of the management fees, royalties and concession payments paid by KGC to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid by Kyrgyzaltyn to KGC according to the terms of a Gold and Silver Sales Agreement. For periods prior to the restructuring, the Centerra financial statements reflect one-third of these charges in accordance with the accounting described in note 12.

Related parties in the Kyrgyz Republic

(Thousands of US\$)	2006	2005	2004
Management fees to Kyrgyzaltyn	\$ 494	\$ 747	\$ 949
Concession payments to the Kyrgyz Republic	1,318	1,992	2,531
	\$ 1,812	\$ 2,739	\$ 3,480
Gross gold and silver sales to Kyrgyzaltyn	\$ 198,906	\$ 220,242	\$ 257,739
Deduct: refinery and financing charges	(1,480)	(2,603)	(2,766)
Net sales revenue received from Kyrgyzaltyn	\$ 197,426	\$ 217,639	\$ 254,973

During 2006, management fees to Kyrgyzaltyn were offset against an advance of \$1.0 million which was made in respect of such fees in November 2005.

Kyrgyzaltyn and Kumtor have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended (the “GPA”) and most recently extended effective November 15, 2006, that until the earlier of (i) May 15, 2007 and (ii) the date on which at least \$12 million of proceeds from the sale of shares of Centerra currently owned by Kyrgyzaltyn have been deposited into a special purpose gold payment account of Kyrgyzaltyn, Kyrgyzaltyn will have 12 days to pay for gold shipped from the Kumtor mine. Kyrgyzaltyn shall pay interest on unpaid amounts equal to LIBOR plus 0.25%. Prior to the effective date of the GPA, Kumtor shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA Kyrgyzaltyn has agreed to sell before May 15, 2007, a sufficient number of Centerra shares to yield \$12 million of proceeds. These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect, the obligations of Kyrgyzaltyn to Kumtor are secured by a pledge of Centerra shares owned by Kyrgyzaltyn. As at December 31, 2006, amounts outstanding under this agreement were \$8.3 million.

Other

The Company has entered into a consulting agreement with Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Pursuant to this agreement, Ms. Stephens provides certain designated legal and business advisory services related to the international operations. In return for these services, Ms. Stephens receives a sum of \$200,000 Cdn per year. The agreement also provides that Ms. Stephens will receive \$275 Cdn per hour for any additional services

she provides to the Company, as authorized by the Chairman of the Board. In 2006, Ms. Stephens received \$589,455 Cdn in aggregate (2005 - \$429,055 and 2004 - \$375,137 Cdn).

At December 31, 2006, a relocation loan in the amount of \$250,000 Cdn was outstanding with Centerra's President and Chief Executive Officer, Mr. Homeniuk. The loan which is payable in June 2010, is interest-free giving rise to a taxable benefit to Mr. Homeniuk.

NOTE 17: Segmented Information

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

Year ended December 31, 2006 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 195.9	\$ 168.6	\$ —	\$ 364.5
Expenses				
Cost of sales	177.2	59.7	—	236.9
Depreciation, depletion and amortization	19.5	19.7	0.5	39.7
Accretion and reclamation expense	(1.6)	0.2	—	(1.4)
Exploration and business development	14.3	5.2	6.2	25.7
Interest and other	(11.5)	(2.6)	(9.3)	(23.4)
Administration	2.7	1.4	23.1	27.2
Other expense	—	—	—	—
Earnings (loss) before income taxes	(4.7)	85.0	(20.5)	59.8
Income tax expense (recovery)	(0.9)	(5.2)	0.3	(5.8)
Non-controlling interest	—	5.0	—	5.0
Net earnings (loss)	\$ (3.8)	\$ 85.2	\$ (20.8)	\$ 60.6
Assets (excluding goodwill)	\$ 332.3	\$ 233.7	\$ 73.6	\$ 639.6
Goodwill	\$ 129.7	\$ 24.9	\$ —	\$ 154.6
Capital expenditures for the year	\$ 95.0	\$ 15.1	\$ 1.1	\$ 111.2

Year ended December 31, 2005 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 213.8	\$ 124.8	\$ —	\$ 338.6
Expenses				
Cost of sales	134.6	51.6	—	186.2
Depreciation, depletion and amortization	34.1	24.1	0.4	58.6
Accretion and reclamation expense	1.1	0.2	—	1.3
Exploration and business development	14.6	8.6	6.7	29.9
Interest and other	3.9	0.6	(9.3)	(4.8)
Administration	2.8	0.8	14.4	18.0
Other expense	—	—	—	—
Earnings (loss) before income taxes	22.7	38.9	(12.2)	49.4
Income tax expense (recovery)	5.3	(1.6)	0.9	4.6
Non-controlling interest	—	2.4	—	2.4
Net earnings (loss)	\$ 17.4	\$ 38.1	\$ (13.1)	\$ 42.4
Assets (excluding goodwill)	\$ 243.0	\$ 136.6	\$ 172.1	\$ 551.7
Goodwill	\$ 129.7	\$ 24.9	\$ —	\$ 154.6
Capital expenditures for the year	\$ 21.5	\$ 11.4	\$ 0.7	\$ 33.6

Year ended December 31, 2004 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 159.2	\$ 87.9	\$ —	\$ 247.1
Expenses				
Cost of sales	81.2	28.7	—	109.9
Depreciation, depletion and amortization	30.8	21.7	0.1	52.6
Accretion and reclamation expense	1.1	0.1	—	1.2
Exploration and business development	6.0	4.4	4.6	15.0
Interest and other	7.2	0.5	(15.3)	(7.6)
Administration	1.3	2.7	7.6	11.6
Other expense	—	—	8.6	8.6
Earnings (loss) before income taxes	31.6	29.8	(5.6)	55.8
Income tax expense (recovery)	(0.3)	—	0.1	(0.2)
Non-controlling interest	—	5.4	—	5.4
Net earnings (loss)	\$ 31.9	\$ 24.4	\$ (5.7)	\$ 50.6
Assets (excluding goodwill)	\$ 239.8	\$ 132.6	\$ 132.6	\$ 505.0
Goodwill	\$ 129.7	\$ 25.8	\$ —	\$ 155.5
Capital expenditures for the year	\$ 4.7	\$ 7.1	\$ —	\$ 11.8

Geographic segmentation of revenue

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

NOTE 18: Comparative Information

Certain prior year balances have been reclassified to conform to current year presentation, including a reduction of \$6.9 million for property, plant and equipment and a corresponding reduction of \$6.9 million in future income tax liabilities for temporary differences related to property, plant and equipment.

Summary of 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.

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.

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.

Cash and cash equivalents

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

Inventories

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

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

Exploration and development properties

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

Property, plant and equipment

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

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

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 underlying fair value estimates are subject to risks and uncertainties.

Property and equipment impairment

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

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.

Depreciation and depletion

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

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 substantially 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.

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. Expenditures relating to ongoing environmental programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings.

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.

Derivative financial instruments and hedging transactions

Centerra may use derivative commodity instruments to reduce exposure to fluctuations in commodity prices, interest rates and foreign currencies. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes the linking of all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Centerra also formally assesses, both at the hedge's inception and on an ongoing basis, whether any derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Gains and losses related to hedging items may be deferred and recognized in the same period as the corresponding hedged items, subject to completion of necessary hedge accounting testing. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date. In the event a hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any realized gain or loss on such derivative instrument is recognized immediately in earnings. Should a hedge be deemed ineffective, the change in fair value is charged to earnings.

Stock-based compensation

Centerra has a stock option plan that is described in note 13. Options granted under the plan with share appreciation rights are accounted for using the liability method. Under this method, the options granted are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery.

Other Centerra options granted under the plan without share appreciation rights (as has been the case for 2005 and 2006), are accounted for using the fair value method, with compensation expense recognized over the vesting period.

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

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

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

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.

Definitions and Notes

Mineral Reserve

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

Proven Mineral Reserve

A proven mineral reserve is the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate at the time of reporting that economic extraction is justified.

Probable Mineral Reserve

A probable mineral reserve is the economically mineable part of an indicated, and in some circumstances a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate at the time of reporting that economic extraction can be justified.

Mineral Resource

A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

Measured Mineral Reserve

A measured mineral resource is that part of a mineral resource for which quantity, grade or quality, density, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Indicated Mineral Reserve

An indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, density, shape and physical characteristics can be estimated with a

level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

Inferred Mineral Resource

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed but not verified geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

In this mineral reserves and resources statement Centerra uses a definition of classes of mineralization taking into account a maximum number of parameters of various natures. These parameters are:

- the precision of the estimate;
- the economic feasibility of the project which relates not only to grades but to the volume of the reserves, the location, the chemistry of the expected ore, the price of the product, etc; and
- the legal status of the project and its possible evolution in the very near future.

Centerra's mineral reserves include allowances for dilution, and mining and/or metallurgical recovery. No allowances have been applied to mineral resources. Stated mineral reserves and resources have been reported based on estimated quantities of mineralized material recoverable by established mining methods. This includes only deposits with mineral values in excess of cut-off grades used in normal mining operations. Centerra's mineral reserves include material in place and on stockpiles. Only mineral reserves have demonstrated economic viability.

There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgement. Results from drilling, testing and production, as well as material changes in gold prices, subsequent to the date of the estimate, may justify revision of such estimates.

Centerra's classification of mineral reserves and resources and the subcategories of each conforms to the definitions adopted by the CIM Council on August 20, 2000, which are incorporated by reference into NI 43-101, issued by the Canadian Securities Administrators. Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

Corporate Information

Shareholder Meeting

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Directors

Patrick M. James^{(1), (2), (4), (6)}

Ian G. Austin^{(1), (2), (3)}

John S. Auston^{(1), (5)}

Almazbek S. Djakypov^{(4), (5)}

Gerald W. Grandey⁽²⁾

Leonard A. Homeniuk

Terry V. Rogers⁽⁴⁾

Josef Spross^{(3), (4), (5)}

Anthony J. Webb^{(2), (3)}

(1) Member of the Audit Committee

(2) Member of the Nominating and Corporate Governance Committee

(3) Member of the Human Resources and Compensation Committee

(4) Member of the Safety, Health and Environmental Committee

(5) Member of the Reserves Committee

(6) Mr. James is Chair of the Board of Directors

Shareholder Meeting

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Shareholder Meeting

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Shareholder Meeting

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Shareholder Meeting

Officers and Management

Leonard A. Homeniuk

President and

Chief Executive Officer

David M. Petroff

Executive Vice President

and Chief Financial Officer

George R. Burns

Vice President

and Chief Operating Officer

Ian Atkinson

Vice President, Exploration

Ross S. Brown

Vice President, Human Resources

Ronald H. Colquhoun

Vice President, Project

Development and Engineering

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Shareholder Meeting

Frank H. Herbert

General Counsel and

Corporate Secretary

Jeffrey S. Parr

Vice President, Finance

Gordon D. Reid

Vice President, Business

Development

Paul A. Korpi

President, Boroo Gold Company

Andrew M. Lewis

President, Kumtor Operating

Company

Shareholder Meeting

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Shareholder Meeting

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