

2005

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The following discussion has been prepared as of March 29, 2006, and is intended to provide a review of the financial position of Centerra Gold Inc. ("Centerra" or the "Company") as at December 31, 2005 and 2004 and the financial performance for the three years ending December 31, 2005. This discussion should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2005 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, 2005, 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; 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 judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While Centerra believes that the reserve and resource estimates included are well established and the best estimates of Centerra's management, 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. ■ Resources figures included herein have not been adjusted in consideration of these risks and, therefore, no assurances can be given that any resource estimate will ultimately be reclassified as proven or probable reserves. ■ If Centerra's reserve or resource estimates for its gold properties are inaccurate or are reduced in the future, this could have 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. ■ 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 certainty that mineral resources can be upgraded to mineral reserves of any category through continued exploration.

Management's Discussion and Analysis

Overview

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 deposit.

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 2005, the Company's two mines produced a total of 787,275 ounces of gold of which 772,986 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 2005 increased 9% over the average in 2004. This follows year-over-year increases of 13% in 2004 and 20% in 2003. The average realized price of gold received by Centerra increased because of the higher spot price for gold applicable to unhedged gold and as a result of the Company reducing the amount of gold that was hedged. 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 following 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 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 to buy 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 establish a fund in concert with the local government to cover 100% of the estimated post-mining decommissioning and reclamation costs, and to fund these amounts (net of forecast salvage value of assets) from the revenues generated over the life of the mine.

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 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.

The supply factors internal to the industry, described above, are accompanied by other external factors that 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 reflationary 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 and 2005:

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	484

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 2006 by approximately \$18 million, its earnings by \$15 million (\$0.21 per share) and cash provided by operations by \$17 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, with a focus on mid- to advanced-stage exploration and development projects and operating properties primarily in Central Asia, the former Soviet Union and other emerging markets.

During 2005, the Company increased its drilling activities in and around its two mine sites and at the Gatsuurt deposit. In 2006, the Company announced its 2005 year-end reserves estimates and added 3.7 million ounces of contained gold in proven and probable reserves. The significant increase in reserves was produced by the excellent results of exploration drilling in 2005. For Kumtor and Boroo mines there is only a minimal increase attributable to using a gold price of \$400 per ounce in 2005, rather than \$375 per ounce used for the 2004 year-end reserve estimate. The reserve additions result in almost three years of additional mine life at the Kumtor mine and one year at the Boroo mine, Gatsuurt reserves will further extend the life of the Boroo facility (see the "Reserves and Resources Summary" table on page 91 of Centerra's annual report for the year ended December 31, 2005 (the "Annual Report").

Additionally, the Gatsuurt reserve and resource base has been significantly expanded by drilling programs completed in 2005 at the Central and Main Zones. A feasibility study on the Central Zone was completed in 2005. The Gatsuurt project was further optimized in early 2006 to include the Main zone. Probable reserves for the Gatsuurt project are estimated to be 9.0 million tonnes, averaging 3.4 g/t gold for a total of 986,000 ounces of contained gold. Indicated resources are estimated at 5.6 million tonnes, averaging 3.1 g/t gold for a total of 565,000 ounces of contained gold (see the "Reserves and Resources Summary" table on page 91 of the Annual Report).

At REN, the updated resource estimate has resulted in a 52% increase in contained gold in the indicated resource category over the 2004 year-end resource estimate. The increase is due to upgrading inferred resources in the 69 Zone through additional drilling, the completion of two additional holes into a high-grade section of the JB Zone and increasing the higher grade capping level from 40 g/t gold to 70 g/t gold (see the "Reserves and Resources Summary" table on page 91 of the Annual Report).

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

Reconciliation of Gold Reserves and Resources

(in thousands of ounces of contained gold)	December 31, 2004 ⁽¹⁾	2005 Throughput ⁽²⁾	2005		Centerra's Share	
			Addition (Deletion) ⁽³⁾	December 31, 2005	December 31, 2005 ⁽⁴⁾	
Reserves – Proven and Probable						
Kumtor ⁽⁵⁾⁽⁹⁾	3,249	614	2,318	4,953	4,953	
Boroo ⁽⁹⁾	1,172	303	349	1,218	1,157	
Gatsuurt ⁽⁷⁾⁽⁸⁾	—	—	986	986	986	
Total Reserves	4,421	917	3,653	7,157	7,096	
Resources – Measured						
Kumtor ⁽⁶⁾⁽⁹⁾	997	—	637	1,634	1,634	
Boroo ⁽⁹⁾	—	—	147	147	140	
Total Measured Resources	997	—	784	1,781	1,774	
Resources – Indicated						
Kumtor ⁽⁶⁾⁽⁹⁾	917	—	470	1,387	1,387	
Boroo ⁽⁹⁾	194	—	(140)	54	51	
Gatsuurt ⁽⁷⁾⁽⁸⁾	890	—	(325)	565	565	
REN ⁽¹⁰⁾	791	—	410	1,201	746	
Total Indicated Resources	2,792	—	415	3,207	2,749	
Total Measured and Indicated Resources	3,789	—	1,199	4,988	4,523	
Resources – Inferred						
Kumtor ⁽⁶⁾⁽⁹⁾	1,448	—	(645)	803	803	
Boroo ⁽⁹⁾	193	—	(26)	167	159	
Gatsuurt ⁽⁷⁾⁽⁸⁾	152	—	153	305	305	
REN ⁽¹⁰⁾	516	—	(388)	128	80	
Total Inferred Resources	2,309	—	(906)	1,403	1,347	

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 2004 AIF.
- (2) Corresponds to millfeed. The discrepancy between the 2005 millfeed and 2005 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 equity interests as at December 31, 2005, were: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.
- (5) Kumtor reserves include the main pit and the Southwest Zone satellite deposit.
- (6) Kumtor resources include the main pit, and the Southwest Zone and Sarytor satellite deposit.
- (7) The Gatsuurt reserves and resources have been updated since Centerra's January 23, 2006 press release, which announced year-end reserves and resources at Centerra's properties.
- (8) The Gatsuurt reserves and resources include the Central Zone and the Main Zone deposits. The reserves and resources estimate for Gatsuurt was prepared by Centerra, and reviewed and approved by Dr. William E. Roscoe, P.Eng., and James W. Hendry, P.Eng., of Roscoe Postle Associates, Inc. ("RPA") who are independent of Centerra and the qualified persons under National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") for the purposes of the reserve and resource estimate.
- (9) The reserves and resources estimates for Kumtor and Boroo were prepared under the supervision of Robert S. Chapman, M.Sc., P.Geo., Centerra's Director, Mergers and Acquisitions who is a qualified person under NI 43-101.
- (10) The resource estimate for REN was prepared by RPA in collaboration with and under the supervision of Robert S. Chapman, M.Sc., P.Geo., Centerra's Director, Mergers and Acquisitions who is a qualified person under NI 43-101.

During 2006, aggressive exploration programs will be continued and expenditures are budgeted to be approximately \$21 million.

Selected Annual Information

\$ millions, unless otherwise specified

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

Year Ended December 31

\$ millions, unless otherwise specified

	2005	2004	2003
Revenue	\$ 339	\$ 247	\$ 82
Cost of sales	186	110	47
Depreciation, depletion and reclamation	60	54	15
Exploration and business development	30	15	7
Interest and other	(4)	(8)	1
Administration	18	12	4
	49	64	8
Other expenses	—	8	—
Income tax expense (recovery)	5	—	1
Minority interest	2	5	(2)
Net earnings (loss)	\$ 42	\$ 51	\$ 9
Earnings (loss) per common share	\$ 0.59	\$ 0.91	\$ 0.24
Total assets	706	660	241
Long-term debt, provision for reclamation and future income taxes	25	24	25
Operating Highlights			
Sales volume – ounces ⁽¹⁾	781,274	618,843	234,864
Ounces poured ⁽¹⁾	787,275	640,779	225,851
Average realized price – \$/oz	433	397	334
Gold spot market price – \$/oz ⁽²⁾	444	409	363
Total cash cost – \$/oz ⁽³⁾	241	187	191

(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 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 Gatsurt.

Compared to 2004, the 2005 results were positively affected by higher sales volumes in the year, an increased share of production at Kumtor, a full year of commercial operation at Boroo and an average 9% higher realized gold price.

Net earnings decreased year-over-year, primarily due to the lower grade and production at the Kumtor mine, and higher exploration and business development expenses, during the second half of 2005 and the higher cost of labour, taxes, and consumables. Net earnings for the year ended December 31, 2005, were \$42.4 million or \$0.59 per share. The comparative results were net earnings of \$50.6 million or \$0.91 per share in 2004.

Gross profit, defined as revenue less cost of sales and depreciation, depletion and reclamation, was \$93 million in 2005 compared to \$83 million in 2004. This increase was attributable to:

- Revenues for the year ended December 31, 2005 increased by \$92 million over 2004 on account of higher sales volumes in 2005 and higher realized gold prices. Sales volumes in 2005 reached 781,274 ounces compared to 618,843 ounces in 2004. In 2004, for the first six months only 33.3% of the results of the Kumtor mine were included, and, at the Boroo mine, commercial operation did not commence until March 2004. The higher realized gold prices resulted from an increase in the spot market prices. Average realized prices were \$433 per ounce in 2005 compared to \$397 in 2004. 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.

Partly offsetting the increases in revenues were:

- Increases in the cost of sales to \$186 million in 2005 from \$110 million in 2004. The changes 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 the 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.
- Increases in depreciation, depletion and reclamation to \$60 million in 2005 from \$54 million in 2004. On a per unit basis, depreciation, depletion and reclamation amounted to \$77 per ounce sold in 2005 compared to \$87 per ounce sold in 2004. The main reasons for the change were the commencement of depreciation and amortization at the Boroo mine, the amortization of purchase price adjustments related to the acquisition and restructuring that took place in the second quarter of 2004 and the addition of new reserves in early 2005.

Exploration expenses of \$26 million in 2005 compared with \$15 million in 2004. This change reflects the Company's decision to accelerate exploration activities as part of its growth strategy to increase its reserves.

Business development expenses were \$5 million compared to a minimal amount in 2004. This reflects the spending on growth initiatives, including the feasibility study on the Gatsuurt project.

Interest income, net of other operating items amounted to \$5 million compared to \$8 million in 2004. This 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 expenses of \$8 million in 2004 resulted largely from the restructuring of the Company, reflecting the loss on the exchange of the Kumtor Gold Company ("KGC") subordinated debt for common shares of Centerra.

A tax expense of \$5 million was recorded in 2005 compared to a small recovery in 2004. In the near-term, Centerra has minimal exposure to cash corporate income taxes due to the availability of tax loss carry-forwards to offset taxable income in the Kyrgyz Republic and a full three-year tax relief period on income earned in Mongolia. At current gold prices and planned mining activity, the Company expects the loss carry-forwards at KGC to be fully utilized during 2007. In 2005 the Company was in the second year of the three-year Mongolian tax relief. After the expiry of the tax relief period (starting in 2007), Centerra will be entitled to 50% tax relief for the subsequent three-year period.

Non-controlling interest expense of \$2 million in 2005 compared with an expense of \$5 million in 2004. The change over the previous two years reflects lower profitability due to grades and increased ownership of the Boroo mine.

Cash provided by operations in 2005 was \$83.4 million compared to \$88.5 million in 2004. This change is primarily the result of increased operating costs and higher working capital levels.

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 \mapsto 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 5.5 million ounces.

Kumtor Operating Results

Years ended December 31	2005	2004
Sales volume – ounces	498,086	632,788
Revenue – \$ millions ⁽³⁾	213.8	240.9
Average realized price – \$/oz ⁽³⁾	429	381
Tonnes mined – 000s	81,038	84,855
Tonnes ore mined – 000s	6,135	3,428
Tonnes milled – 000s	5,649	5,654
Average mill head grade – g/t ⁽¹⁾	3.38	4.4
Recovery – %	81.2%	82.1%
Ounces recovered	497,497	657,523
Ounces poured	501,487	657,329
Total cash cost – \$/oz ⁽²⁾	274	200
Exploration – \$ millions	15	6
Capital expenditures – \$ millions	22	5

(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 2005 was \$213.8 million compared to \$240.9 million in 2004. This change reflects reduced production, as a result of lower grades, partially offset by higher realized prices. The higher average realized prices were due to higher gold spot prices and the closing of gold hedges in 2004.

Cost of Sales

The cost of sales for the 2005 year was \$134.6 million compared to \$122.5 million for the 2004 year. Total costs increased primarily as a result of the higher cost of labour, taxes and consumables.

Total unit cash costs for the 2005 year increased to \$274 compared to \$200 for the 2004 year. This increase is primarily a result of a lower average grade fed to the mill and higher total costs.

Exploration and Business Development

Exploration and business development expenditures totaled \$14.6 million in 2005 year compared to \$6 million in 2004. The expenditures relate primarily to ongoing drilling in the immediate vicinity of the open pit, and the Sarytor Zone.

Capital Expenditures

Capital expenditures of \$21.5 million in 2005 included \$5.5 million to sustain current operations and \$16 million invested in growth projects. In 2006, capital expenditures are budgeted to total \$95 million of which \$86 million is allocated to projects to increase productivity, including \$3 million for development of the Southwest Pit, and \$83 million for additional mobile equipment and ancillary equipment to increase mine production to facilitate the main Kumtor pit expansion and new production at the Southwest Zone.

Reserves

At the Kumtor mine, 2,318,000 ounces of contained gold were added to reserves before accounting for mining of 614,000 ounces of contained gold in 2005. At December 31, 2005, for the Kumtor mine pit, proven and probable reserves were estimated to be 37.4 million tonnes averaging 3.9 g/t gold for a total of 4,670,000 ounces of contained gold, compared to 28.2 million tonnes averaging 3.3 g/t gold for a total of 2,996,000 ounces of contained gold as at the end of 2004. The significant increase in reserves comes from the excellent results of exploration drilling in 2005. There is only a minimal increase attributable to using a gold price of \$400 per ounce in 2005, rather than \$375 per ounce used for the 2004 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 21.0 million tonnes averaging 4.0 g/t gold for a total of 2,705,000 ounces of contained gold. These resources are not included in the reserves. Materials in this area may be amenable to either open pit or underground mining. Using a 5.0 g/t cut-off grade, there are approximately 5.3 million tonnes of material averaging 8.2 g/t gold for a total of 1,400,000 ounces of contained gold within the measured and indicated resources quoted above (see the "Resources and Reserves Summary" table on page 91 of the Annual Report).

At the Southwest Zone, a satellite deposit about three kilometres southwest of the Kumtor mill, probable reserves are estimated at 2.8 million tonnes averaging 3.2 g/t gold for a total of 283,000 ounces of contained gold. Indicated resources are estimated at 1.2 million tonnes averaging 3.8 g/t gold for a total of 149,000 ounces using the same cut-off grade. These reserves and resources are not included in the probable reserves nor in the indicated resources noted previously for the Kumtor main pit, and are additional to them.

The Company estimates that, together, the existing reserves of the Kumtor mine and the Southwest Zone should support gold production activities for another seven years.

The Sarytor Zone at the Kumtor mine is a satellite deposit located five kilometres from the Kumtor mill. Upon completion of a drilling program during 2005, this zone is estimated to contain indicated resources of 1.7 million tonnes averaging 3.0 g/t gold for a total of 167,000 ounces of contained gold. Additional inferred resources are estimated at 2.8 million tonnes averaging 2.7 g/t gold for a total of 246,000 ounces of contained gold. Like the Southwest Zone, these resources are not included in the Kumtor resources noted previously and are in addition to them (see the "Resources and Reserves Summary" table on page 91 of the Annual Report).

The reserve and resource estimates for Kumtor above were prepared by Centerra's geological and mining engineering staff under the supervision of Robert S. Chapman, P. Geo., Centerra's Director, Mergers & Acquisitions who is a qualified person under National Instrument 43-101. The Kumtor deposit and the above reserve and resource estimates are described 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 → 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	2005	2004
Sales volume – ounces ⁽¹⁾	283,188	217,679
Revenue – \$ millions ⁽³⁾	124.8	87.9
Average realized price – \$/oz ⁽³⁾	441	404
Tonnes mined – 000s	18,582	13,656
Tonnes ore mined – 000s	2,865	1,884
Tonnes milled – 000s	2,231	1,850
Average mill head grade (g/t)	4.2	4.5
Recovery – %	91.5%	93.7%
Ounces recovered ⁽¹⁾	277,522	251,740
Ounces poured ⁽¹⁾	285,788	217,998
Total cash cost – \$/oz ⁽²⁾	183	149
Exploration – \$ millions	2	1
Capital expenditures – \$ millions	11	7

(1) Does not include pre-commissioning production or sales volumes for January and February 2004 of 27,703 ounces.

(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.

Revenue

Revenue in 2005 was \$124.8 million compared to \$87.9 million in 2004, reflecting a higher realized price per ounce and increased production during the first full year of commercial operations. Higher average realized price for the 2005 year was due to higher spot gold prices and the closing of gold hedges in 2004.

Cost of Sales

The cost of sales for the 2005 year was \$51.6 million compared to \$28.7 million in the 2004 year, reflecting the higher sales and production levels.

For the 2005 year, total cash costs per ounce increased to \$183 from \$149 in the 2004 year. The increase resulted primarily from the scheduled rebuild of the mining fleet, and the higher cost of labour, taxes, and consumables.

Exploration and Business Development

For the 2005 year, exploration and business development expenditures of \$2.2 million was spent in the immediate Boroo mine area. In addition \$0.6 million was spent on Mongolian licenses (excluding Boroo and Gatsuurt).

Capital Expenditures

Capital expenditures of \$11.4 million in 2005 included \$8.9 million to sustain current operations and \$2.5 million invested in growth projects. These expenditures are budgeted to decrease to \$7.5 million in 2006, mainly to sustain the operation.

Reserves

The updated reserve estimate at December 31, 2005 was prepared using a gold price of \$400 per ounce and variable cut-off grades ranging from 0.9 g/t gold to 1.1 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 13.4 million tonnes averaging 2.8 g/t gold for a total of 1,218,000 ounces of contained gold, compared to 11.8 million tonnes averaging 3.1 g/t gold for a total of 1,172,000 ounces of contained gold as at the 2005 year-end. In 2005, ore with 303,000 ounces of contained gold were fed to the mill, and 349,000 ounces of contained gold were added to the reserves. There is only a minimal increase in reserves attributable to using a gold price of \$400 per ounce in 2005, rather than \$375 per ounce used for the 2004 year-end reserve estimate. The additional reserves are the result of exploration success and a pit expansion to the north of Pit 6, and changes in pit designs for Pit 3 and Pit 2. Measured and indicated resources are estimated at 2.7 million tonnes averaging 2.4 g/t gold for a total of 201,000 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 7,000 ounces of contained gold from the 2004 year-end measured and indicated resources (see the "Resources and Reserves Summary" table on page 91 of the Annual Report).

Mill production from Boroo over the next 11 years will include ore from the Boroo and Gatsuert deposits. The Boroo reserves represent five and one-half 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 Robert S. Chapman, P. Geo., and Centerra's Director, Mergers & Acquisitions, who is a qualified person under NI 43-101.

Fourth Quarter of 2005

Centerra's fourth quarter revenue in 2005 was \$75.0 million compared to \$87.7 million in the fourth quarter of 2004. Production decreased to 166,704 ounces in the fourth quarter of 2005 from 205,274 ounces reported in the fourth quarter of 2004, mainly as a result of lower ore grade at the Kumtor mine.

Centerra realized an average gold price of \$476 per ounce for the fourth quarter of 2005 (including the amortization of \$1.1 million of deferred charges), a significant increase over the \$430 per ounce realized in the fourth quarter of 2004. This increase was due to higher spot gold prices that averaged \$485 per ounce in the fourth quarter of 2005, compared to \$434 per ounce in the fourth quarter of 2004.

Cost of sales in the fourth quarter of 2005 remained virtually unchanged year-over-year at \$43 million, reflecting higher mine production and mill throughput at the Boroo mine and the higher cost of labour, taxes, and consumables at the Boroo and Kumtor mines.

Earnings and cash provided by operations were negatively affected during the fourth quarter of 2005 by a deferral of a gold shipment as well as the build-up of accounts receivable from a gold shipment at the Boroo mine for which payment was received in January 2006. Net earnings for the fourth quarter of 2005 were \$6.4 million or \$0.09 per share compared to \$14.9 million or \$0.21 per share for the same period in 2004. This decrease reflects lower production levels at the Kumtor mine and an increase in administration and operating costs, including labour, taxes and consumables.

Quarterly Consolidated Financial Results

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, the increased ownership in both the Kumtor and Boroo mines in June 2004, partially offset by rising cash costs and reduced production due to lower grades at the Kumtor mine in the second half of 2005. The quarterly financial results for 2005 and 2004 are shown below:

Key results by quarter

\$ millions, except per share data	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	26	47	86	88	92	95	77	75
Net earnings (loss)	8	(1)	29	15	12	15	9	6
Earnings (loss) per share –								
basic and diluted – \$	0.20	(0.02)	0.40	0.21	0.17	0.21	0.12	0.09
Cash provided by operations	3	31	29	25	37	24	17	5

Overview of 2004 Versus 2003

Revenues for 2004 increased by \$165 million over 2003 on account of the increased share of production at the Kumtor mine, the start-up of the Boroo mine and higher realized gold prices. The higher realized prices resulted from a combination of an increase in the spot market prices and the elimination of the Company's hedge book. Revenue for 2004 was \$247.1 million compared to \$82 million in 2003.

Net earnings for 2004 were \$50.6 million or \$0.91 per share while the comparative results were net earnings of \$9.1 million or \$0.24 per share in 2003. The change reflects the increased share of production at the Kumtor mine, the start-up of the Boroo mine and an average 19% higher realized gold prices in 2004. Average realized prices were \$397 per ounce in 2004 compared to \$334 in 2003.

Increases in the cost of sales to \$110 million in 2004 from \$47 million in 2003 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 2004 was \$187 compared to \$191 in 2003. The decrease on a unit basis from 2003 to 2004, was attributable to the additional, lower-cost production from the Boroo mine.

Depreciation, depletion and reclamation increased in 2004 to \$54 million in 2004 from \$15 million in 2003. 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 and reclamation amounted to \$87 per ounce sold in 2004 compared to \$65 per ounce sold in 2003. The primary reasons for the increase were the commencement of depreciation and amortization at the Boroo mine and the amortization of purchase price adjustments related to the acquisitions that took place in the second quarter of 2004.

Exploration expenses increased to \$15 million in 2004. This increase reflected the Company's decision to accelerate the drilling activities as part of its growth strategy to increase its reserves.

Interest income, net of other operating items amounted to \$8 million compared to an expense of \$1 million in 2003. This change was primarily due to a \$7 million foreign exchange gain on Centerra's Canadian cash balance which appreciated in value as the Canadian dollar strengthened compared to the U.S. dollar. The Company had no outstanding interest-bearing debt at the end of 2004.

Administration costs of \$12 million in 2004 were \$8 million higher than in 2003, reflecting expenses related to the start-up of Centerra, its development as a stand-alone entity and the reclassification of insurance costs.

Other expenses of \$8 million in 2004 resulted largely from the restructuring of the Company and reflected the loss on the exchange of the KGC subordinated debt for common shares of Centerra. A small recovery of taxes was recorded during 2004 compared to an expense of \$1 million in 2003.

Cash provided by operations in 2004 was \$88 million compared to \$24 million in 2003. This change was primarily the result of the increased ownership at both the Kumtor and Boroo mines, the start-up of commercial operation at the Boroo mine and higher spot gold prices.

Balance Sheet

Property, Plant and Equipment

The aggregate book value of property, plant and equipment at December 31, 2005 of \$239 million is allocated as follows: Kumtor \$147 million, Boroo \$89 million and corporate \$3 million.

Goodwill

As a result of the acquisition and restructuring that took place during the second quarter of 2004, Centerra has 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, 2005 is allocated as follows: Kyrgyz Republic \$130 million, Mongolia \$25 million.

Share Capital

As at March 29, 2006, Centerra had 72,079,605 common shares outstanding and 293,107 options outstanding under its stock-based incentive plans.

The Gatsuurt Project

The Gatsuurt project continued to be extensively studied and developed in many technical areas. The geological model and resource model for the Central Zone were completed following the drilling and compiling of data from 28 additional drill holes. The Main Zone ore body, located 500 metres along strike of the Central Zone, was defined by an additional 59 holes totalling 10,254 metres, bringing the overall drilling database for the Main Zone up to 83 drill holes and 12 trenches. Proven and probable reserves for the Gatsuurt project, which includes the Main and Central Zones, are estimated to be 9.0 million tonnes, averaging 3.4 g/t gold for a total of 986,000 ounces of contained gold. Indicated resources are estimated at 5.6 million tonnes, averaging 3.1 g/t gold for a total of 565,000 ounces of contained gold (see the "Reserves and Resources Summary" table on page 91 of the Annual Report). In 2005, exploration and business development expenditures were \$5.3 million.

Metallurgical studies on the oxide mineralization at Gatsuurt indicated 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 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 would be 87.6%.

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 approximately \$72 million.

In January 2006, Centerra announced additional resources in the Main Zone after completion of a successful 2005 exploration drilling program. An updated feasibility study was completed in March 2006 which identified an economic pit in the Main Zone. The combined reserves from Gatsuurt's Central and Main Zone will significantly extend the life of the Boroo processing facility.

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 licences, 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. Gatsuurt LLC has recently informed Centerra that it does not believe that CGM complied with its obligation. Centerra believes that Gatsuurt LLC's position is without merit.

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.

During the 2004 year, all forward sales agreements have been closed and all related credit support, previously provided by Cameco, has been 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 2004, a \$7.0 million charge was recorded on the income statement in relation to the early closure of these hedges. During 2005, a \$5.8 million charge for the early closure of these hedges designated for 2005 was recorded on the income statement. As at December 31, 2005, deferred charges on the balance sheet totaled \$2.8 million and are expected to be amortized as follows:

Recognition of Deferred Charges (Net of Deferred Revenue)

\$ millions	Q1	Q2	Q3	Q4	Total
2006	1.9	(0.6)	0.4	0.6	2.3
2007	0.5	—	—	—	0.5
Total					<u>2.8</u>

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:

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	273.9	183.4	241.1

2004 Year

\$ millions, unless otherwise specified	Kyrgyz Republic (Kumtor)	Mongolia (Boroo)	Total
Cost of sales, as reported	81.2	28.7	109.9
Adjust for:			
Refining fees and by-product credits	1.2	—	1.2
Non-operating costs	(2.7)	(2.4)	(5.1)
Inventory movement	9.6	6.2	15.8
Pre-acquisition operating costs ⁽¹⁾	42.1	—	42.1
Total cash cost – 100%	131.4	32.5	163.9
Ounces poured – 100% (000s)	657.3	217.9	875.2
Total cash cost per ounce	199.9	149.0	187.3

(1) Total cash cost per ounce is calculated on a 100% basis. The adjustment above is needed to increase the pre-acquisition cost of sales (to June 30, 2004), which is recorded at Centerra's share of 33.3%, to the full 100% value.

Liquidity and Capital Resources

Cash on hand was \$202 million on December 31, 2005 of which \$47 million was held in Canadian funds. Centerra has sufficient cash to carry out its business plan in 2006, 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	2005	2004	2003
Cash provided by operating activities	\$ 83	\$ 89	\$ 24
Cash provided by (used in) investing activities	(34)	13	(60)
Cash provided by financing activities	—	41	26
Cash provided (used) during the year	49	143	(10)
Cash and cash equivalents, beginning of the year	153	10	20
Cash and cash equivalents, end of the year	\$ 202	\$ 153	\$ 10

Cash provided by operations was \$83 million in 2005 compared to \$89 million in 2004 and \$24 million in 2003. The change year-over-year resulted from higher operating costs, 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.

Cash provided by (used in) investing activities in 2005 of \$34 million reflects \$14 million of sustaining capital and \$19 million of growth capital spent at the Kumtor and Boroo mines. The \$13 million of cash provided by operations 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 \$71 million in 2005 compared to \$40 million in 2004. This increase mainly resulted from a timing difference of gold shipments and receipts, coupled with a build-up of working capital during the fourth quarter of 2005.

In 2006, the Company's expected expenditure requirement of \$103 million and exploration program of \$21 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 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, 2005.

\$ 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⁾	\$ 15.9	\$ 0.3	\$ 0.7	\$ 14.9	\$ —
Priority power supply agreement ⁽²⁾	5.2	3.5	1.7	—	—
Boroo					
Power supply agreement ⁽³⁾	9.5	2.7	6.8	—	—
Mongolian exploration refund ⁽⁴⁾	1.0	0.6	0.4	—	—
Corporate					
Program sponsorship ⁽⁵⁾	0.6	0.1	0.3	0.2	—
Insurance coverage ⁽⁶⁾	2.0	2.0	—	—	—
Total contractual obligations	\$ 34.2	\$ 9.2	\$ 9.9	\$ 15.1	\$ —

(1) In 1999, Centerra's future decommissioning and reclamation costs for the Kumtor mine were estimated to be \$20.4 million. In 1996, a reclamation trust fund was established to cover the future costs of reclamation, net of expected salvage value which was estimated, in 1998, at \$14.9 million. At December 31, 2005, the balance in the fund was \$4.4 million, with the remaining \$1.1 million to be funded over the life of the mine.

(2) The Kumtor priority power supply agreement guarantees an uninterrupted source of electricity to the Kumtor mine site in return for payment by Centerra of a standard cost for electricity together with the principal and interest payments associated with the loan Kyrgyzenergo JSC utilized to finance the construction of the power facilities.

(3) The Boroo five-year priority power supply agreement which expires June 30, 2009, guarantees the delivery of power to the Boroo mine site to meet forecasted demand levels. Power rates charged are as agreed in the contract or as re-negotiated from time-to-time. This agreement can be terminated by Centerra with 30-days notice. The information in the table reflects Centerra's estimate of payments under the agreement.

(4) The Company has agreed to reimburse the Government of Mongolia for certain prior exploration expenditures. In total, the obligation was \$2.4 million, which is repaid in quarterly instalments (commenced in 2002 and will end in 2007).

(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, this commitment will total \$700,000 payable in annual instalments of \$140,000.

(6) The Company has entered into a five-year agreement ending June 30, 2009 for certain insurance coverage. A minimum commitment level totaling \$8 million will be reached in June 2006.

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 has agreed to provide services and expertise to Centerra in return for reimbursement for all its direct and indirect costs relating to those services.

As a result of the above items, the balance owing to Cameco at December 31, 2005 was \$1.0 million (\$3.7 million at December 31, 2004). Services under the services agreement, in the amount of \$0.8 million were provided by Cameco during the 2005 year, (\$0.4 million during the 2004 year).

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. In November 2005, the Company prepaid \$1.0 million of these fees, which will be fully recovered against future commitments.

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. For periods prior to the restructuring, the Centerra financial statements reflect one-third of the charges.

Year ended December 31

\$ millions

	2005	2004
Related Parties in the Kyrgyz Republic		
Management fees to Kyrgyzaltyn	\$ 1	\$ 1
Concession payments to Kyrgyz Republic	2	2
Total	3	3
Gross gold and silver sales to Kyrgyzaltyn	220	258
Deduct: refinery and financing charges	(3)	(3)
Net sales revenue received from Kyrgyzaltyn	\$ 217	\$ 255

Effective as of December 22, 2005, Kyrgyzaltyn and KGC have agreed to temporarily permit Kyrgyzaltyn to pay within twelve days after date of shipment of gold from the Kumtor mine. No later than April 28, 2006, Kyrgyzaltyn will resume the prior practice of pre-paying for gold. Kyrgyzaltyn shall pay interest on unpaid amounts equal to LIBOR plus 0.25%. Kyrgyzaltyn has agreed to sell, after March 1, 2006 but before April 28, 2006, a sufficient number of Centerra shares to yield \$11 million of proceeds. These proceeds, which will continue to be held by

Kyrgyzaltyn, will fund a gold payment facility, to be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. The obligations of Kyrgyzaltyn to KGC are secured by a pledge of a portion of the Centerra shares owned by Kyrgyzaltyn.

Other

The Company paid approximately \$429,000 Cdn for the 2005 year (approximately \$375,000 Cdn for 2004) 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, 2005 a relocation loan in the amount of \$250,000 Cdn 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

In 2005, the Kyrgyz Republic went through a major change in its political life.

On February 28, 2005, the 105 member two-chamber parliament ceased to exist and was replaced by a one chamber parliament with 75 seats. The new one-chamber parliament has broader constitutional powers, with certain powers being relinquished to it by the President. These changes were made pursuant to constitutional referendums which were conducted in 2003.

There was political unrest in the lead-up to the new parliamentary elections, which were held on February 27, 2005. As a result, from February 22 to 26, 2005, the Kumtor mine was unable to move employees and supplies to and from the minesite due to roadblocks on public highways. The roadblocks ceased on February 27, 2005 and normal operations resumed on March 2, 2005, with production having been unaffected.

The parliamentary elections precipitated additional unrest, and on March 24, 2005, President Askar Akaev, who had first been elected to that position in 1990, resigned under allegations of election fraud. The newly-elected parliament designated Mr. Kurmanbek Bakiyev as the acting President. Subsequently, on July 10, 2005, Mr. Bakiyev won a presidential election and was inaugurated as the President of the Kyrgyz Republic for a five-year term. Mr. Felix Kulov has been appointed the Prime Minister.

Following the ouster of President Akaev, the new government began various investigations into the activities of the prior Government and former President Akaev's assets. Centerra's wholly-owned Kyrgyz subsidiary, KGC, was included in the list of assets subject to inquiry by a special commission formed for this purpose on April 18, 2005. The commission published a report in June 2005 on its findings that did not contain any allegations against Centerra or its subsidiaries.

The State Audit Chamber of the Kyrgyz Republic was asked by the previous parliament to provide clarification to it with respect to the Kumtor restructuring in 2004. In April 2005, KGC was requested to provide information with respect to the restructuring. KGC agreed to assist the Chamber in its review. Subsequently, in June 2005, the Attorney General's office requested documents from KOC and Centerra as part of a criminal investigation into the alleged abuses of power or authority by officers of the Kyrgyz government, Kyrgyzaltyn, KGC and KOC. The investigation was based on previous parliamentary resolutions opposing and challenging the Kumtor agreements and the legality of the restructuring. Centerra responded cooperatively to these requests. Centerra stated publicly that it was not aware of any basis for allegations of criminal conduct, and noted that the Kumtor restructuring had been approved by government decree and was supported by legal opinions of the Ministry of Justice on the authority of the government to enter into and complete the restructuring.

None of these inquiries and investigations have 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. President Bakiyev and Prime Minister Kulov have also stated on several occasions that the Kyrgyz Republic will honour its agreements with Kumtor and Centerra. Nonetheless, as the largest foreign investment enterprise in the Kyrgyz Republic, the Kumtor project continues to be the subject of political debate.

Although the election of Mr. Bakiyev as President and the appointment of Mr. Kulov as Prime Minister brought a measure of stability to the Kyrgyz Republic following the events of March 2005, the political situation in the country continues to evolve. There continues to be a risk of future political instability.

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 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, KGC agreed in principle to make advances of approximately \$4 million to the Government. In December 2005, Centerra advanced \$1 million of this amount to the Issyk-Kul Social Fund. This money was distributed to members of the local communities by a committee created by the

Government to administer the distribution of compensation. This advance will be repaid from regular ongoing contributions made by KGC to the Issyk-Kul Social Fund pursuant to the Investment Agreement dated December 31, 2003 among the Government of the Kyrgyz Republic, Centerra and KGC. KGC has proposed terms for further advances and their repayment and expects to reach agreement with the Government in the near future. However, if the Government and KGC are unable to come to an agreement with respect to further advances to fund compensation, there is a substantial risk of further protests and roadblocks.

The Kumtor mine is unionized and all of Centerra's national employees in the Kyrgyz Republic are subject to a collective agreement between KOC and the Trade Union Committee. Centerra's labour relations to date have been generally good and there have been no work stoppages due to labour disputes. However, the Trade Union Committee has recently demanded substantial additional compensation and alleged violations of labour legislation by KOC. KOC does not believe that the Trade Union Committee's position has merit. However, KOC is in discussions with the Trade Union Committee with a view to resolving the outstanding issues amicably. The collective agreement expires at the end of 2006.

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.

Mongolian minerals legislation is principally governed by the Minerals Law of Mongolia (the "Minerals Law"), which was enacted in 1997. The Minerals Law provisions apply to activities and relationships with respect to the exploration for and mining of all types of mineral resources other than water, petroleum and natural gas, although there are other legislative enactments that apply to minerals. In mid-2005, the Government was considering proposals to amend the Minerals Law. These proposals had the potential to affect negatively the investment climate for the mining industry, especially foreign investors. The proposals' principal effect would have been on new projects rather than existing projects, such as Centerra's Boroo project. It is not clear whether the newly formed Government will proceed with any or all of these proposals, and if the Government does proceed, whether they will have a negative effect on the Boroo or Gatsuurt projects.

Critical Accounting Estimates

Centerra prepares its consolidated financial statements in accordance with Canadian GAAP. In doing so, management is required to make various estimates and judgments in determining

the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. Management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

Depreciation and depletion of property, plant and equipment directly involved in 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 judgment and could change significantly over time. If actual reserves prove to be significantly different than the estimates, there would be a material impact on the amounts of depreciation and depletion charged to earnings.

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

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of 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 judgments 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 Canadian Institute of Chartered Accountants issued Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges". Under the new standards, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced, providing for certain gains and losses arising from changes in fair value to be

temporarily recorded outside the income statement, but in a transparent manner. In addition, existing requirements for hedge accounting are extended and all financial instruments, including derivatives, are to be included on a company's balance sheet and measured (in most cases) at fair value. The guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. In Centerra's case, it would change its accounting policy January 1, 2007. Centerra is currently assessing the potential impact of these new standards on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

As of December 31, 2005, 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 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. No changes were made in Centerra's internal control over financial reporting during the year ended December 31, 2005, 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 — 2005 by Quarter and 2006 Forecast

Centerra is forecasting production for Kumtor in 2006 to total 461,000 ounces. Historically, the good cumulative experience of reconciling nine years of production with the reserve estimates for the areas mined has resulted in a high degree of confidence in projections of future production. However, beginning in the fourth quarter of 2005 and continuing to date, the ore zones have tended to be narrower, causing increased dilution and lower than anticipated mill head grade. Production variations are continuing and further drilling is underway to better delineate the mineralization.

The mill head grade at the Kumtor mine is expected to average 3.34 g/t in 2006 compared to 3.38 g/t in 2005 and production from the mine is expected to total 461,000 ounces at an average cash cost of \$347 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 2006.

At the Boroo mine, production is expected to decline to a total of 266,000 ounces in 2006 due primarily to a lower mill head grade which is expected to average 3.94 g/t in 2006 compared to 4.23 g/t in 2005. Total cash cost is forecasted to be \$203 per ounce in 2006.

At the Gatsuurt project 70,000 tonnes of oxide ore will be processed through the Boroo plant in 2006. This will be the first production from Gatsuurt.

For the 2006 year, Centerra is forecasting production (100% basis) of 732,000 ounces, approximately 7% lower than in 2005. This decline is primarily as a result of lower grades at the Kumtor and Boroo mines, and lower recovery at the Kumtor mine. Cash costs are forecast to increase to \$295 per ounce in 2006 from \$241 per ounce in 2005, reflecting the lower projected production.

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

Ounces except where noted	2005					2006
	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	Total Actual	Year Forecast
Kumtor's production (100% Centerra share)	141,558	137,794	123,162	98,973	501,487	461,000
Boroo's production ⁽¹⁾	68,297	71,659	67,197	64,344	271,497	253,000
Gatsuurt's production (100% Centerra share)	—	—	—	—	—	5,000
Centerra's share of total production	209,855	209,453	190,359	163,317	772,984	719,000

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

Total cash cost ⁽¹⁾ \$ per ounce	2005					2006
	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	Total Actual	Year Forecast
Kumtor	\$ 235	\$ 253	\$ 277	\$ 355	\$ 274	\$ 347
Boroo	165	162	187	223	183	203
Gatsuurt	—	—	—	—	—	296
Consolidated	211	221	245	300	241	295

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

Exploration and Business Development

One of Centerra's priorities in 2006 is to continue to add to its reserves and resources base through its exploration program. Accordingly, the Company has targeted \$28 million of spending on its program for the 2006 year for exploration, business development, and the estimated costs associated with due diligence activities for potential acquisitions.

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 Bordo and Akbel.

Boroo

- At the Boroo mine, drill programs will focus on testing for additional mineralization around the peripheries of the pits.

Gatsuurt

- The Gatsuurt deposit is open at depth and additional drilling is planned to test the higher grade mineralization beneath the Gatsuurt Central Zone as a potential underground mining opportunity.
- Exploration programs will continue to evaluate Centerra's significant land position. Programs are planned to further explore the Ulan Bulag, Nart, Zurgaadai and Argal target areas.

REN

- Drilling programs will focus on testing under-explored areas of favourable alteration and mineralization along two main control structures referred to as the Corona Dyke and the East fault.

Administration

Annual administration expenses are expected to amount to approximately \$21 million. The forecast includes the ongoing costs of maintaining the corporate office and the continued implementation costs of regulatory standards.

Corporate Income Taxes

Corporate income taxes in the Kyrgyz Republic are calculated and provisioned at 20% of taxable income. In 2006, the Boroo project will be in its third year of a three-year 100% income tax relief.

Capital Expenditures

The capital requirement in 2006 is forecast at \$103 million. This includes \$87 million in growth capital spending primarily attributable to the addition of larger, more productive haulage trucks and shovels as well as other support and auxiliary equipment and infrastructure in support of the increase of mine life at the Kumtor mine.

Five-Year Forecast Based on Revised Life-of-Mine

Centerra has substantially increased reserves at the Kumtor and Boroo mines since the IPO. In the one and one-half years since the IPO, reserves at the Kumtor mine have increased by 3.1 million ounces, at the Boroo mine by 600,000 ounces, and one million ounces have been added to the Gatsuurt project. These significant exploration results are reflected in updated

life-of-mine production data for the Kumtor and Boroo mines and the Gatsuert project, the next five years of which are summarized below. The full life-of-mine data can be found at Centerra's website at www.centerragold.com and the related cost information for the Kumtor mine can be found in the Kumtor Technical Report filed on SEDAR at www.sedar.com. Centerra's gold production in 2009 is now forecast to exceed one million ounces.

	2006	2007	2008	2009	2010
Kumtor					
Mined Ore (tonnes/yr, 000s)	7,569	6,775	5,138	4,926	6,939
Mined Waste (tonnes/yr, 000s)	93,385	124,800	107,293	113,514	116,337
Total Mined (tonnes/yr, 000s)	101,367	131,575	112,431	118,441	123,275
Strip Ratio	12.4	18.4	20.9	23.0	16.8
Throughput (tonnes/yr, 000s)	5,659	5,658	5,658	5,658	5,658
Mill Grade (g/t)	3.3	3.5	4.3	5.3	4.8
Mill Recovery (%)	76.2	82.9	86.7	87.4	87.1
Ounces Poured (000s) (100%)	461	533	673	843	764
Boroo					
Mined Ore (tonnes/yr, 000s)	2,678	3,298	2,584	3,889	—
Mined Waste (tonnes/yr, 000s)	16,033	15,862	16,116	9,105	—
Total Mined (tonnes/yr, 000s)	18,711	19,160	18,700	12,994	—
Strip Ratio	6.0	4.8	6.2	2.3	—
Throughput (tonnes/yr, 000s)	2,285	1,965	1,454	414	—
Mill Grade (g/t)	3.95	4.06	3.97	5.92	—
Mill Recovery (%)	91.6	88.9	91.1	92.0	—
Ounces Poured (000s) (100%)	266	228	170	73	—
Ounces Poured (000s) (95%)	253	217	161	69	—
Gatsuert					
Mined Ore (tonnes/yr, 000s)	70	792	1,596	1,469	2,100
Mined Waste (tonnes/yr, 000s)	933	11,243	10,434	10,562	9,952
Total Mined (tonnes/yr, 000s)	1,003	12,035	12,030	12,031	12,052
Strip Ratio	13.3	14.2	6.5	7.2	4.7
Throughput (tonnes/yr, 000s)	70	382	893	1,267	1,750
Mill Grade (g/t)	2.59	2.02	2.50	3.67	4.22
Mill Recovery (%)	92.0	92.0	92.0	87.9	87.6
Ounces Poured (000s) (100%)	5	23	66	131	208
Boroo and Gatsuert Combined Processing					
Throughput (tonnes/yr, 000s)	2,355	2,347	2,347	1,681	1,750
Mill Grade (g/t)	3.93	3.73	3.41	4.22	4.22
Mill Recovery (%)	91.6	89.2	91.4	89.3	87.6
Ounces Poured (000s) (100%)	271	251	236	204	208
Ounces Poured* (000s)	258	231	236	214	208
Consolidated (100%)	732	784	909	1,047	972

*Represents 95% of Boroo gold poured and 100% of Gatsuert gold poured.

The foregoing life-of-mine information is forward-looking information that involves risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking information. Refer to “Forward-Looking Statements” for a further discussion of the factors that could cause actual results to differ materially.

The life-of-mine information is based on the 2005 year-end reserves estimates, which were estimated using a gold price of US\$400, and the implementation of the Company’s expenditure plan to replace its mining fleet and related equipment and infrastructure.

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 our 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. In February 2006, there was further movement detected in the southeast wall of the open pit. 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. From time to time, the Company assesses the costs and benefits of maintaining such insurance and may not continue to purchase the coverage. However, our 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 our 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 orebodies 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, guidelines 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, licences 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.