

## Report of Management's Accountability

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

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

The integrity and reliability of Centerra's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Centerra's code of ethics, which is communicated to all management levels in the organization, requires employees to maintain high standards in their conduct of the Company's affairs.

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

The Board of Directors annually appoints an Audit Committee comprised of directors who are not employees of the Company. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. The Audit Committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the Board of Directors for formal approval.

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

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

January 29, 2006

## Auditors' Report

### To the Shareholders of Centerra Gold Inc.

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
January 29, 2006  
(except for notes 12 and 15  
which are as of March 14, 2006)

Original signed by KPMG LLP  
Chartered Accountants

## Consolidated Balance Sheets

As at December 31

(In Thousands of US\$)		2005	2004
	Notes		
<b>Assets</b>			
Current assets			
Cash		\$ 202,417	\$ 152,591
Accounts receivable		8,951	2,596
Inventories	3	76,721	56,796
Prepaid expenses		17,151	12,943
		<b>305,240</b>	<b>224,926</b>
Property, plant and equipment	4	239,098	267,557
Goodwill		154,586	155,520
Long-term receivables and other	5	7,357	12,456
		<b>401,041</b>	<b>435,533</b>
<b>Total assets</b>		<b>\$ 706,281</b>	<b>\$ 660,459</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 32,129	\$ 32,023
Provision for reclamation	6	17,897	18,868
Future income taxes	9	7,013	5,407
		<b>24,910</b>	<b>24,275</b>
Non-controlling interest		4,821	2,410
Shareholders' equity	12		
Share capital		522,383	522,383
Contributed surplus		29,739	29,503
Retained earnings		92,299	49,865
		<b>644,421</b>	<b>601,751</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 706,281</b>	<b>\$ 660,459</b>

Commitments and contingencies (notes 6, 13, 15)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Original signed by:

Ian G. Austin  
Director

Patrick M. James  
Director

## Consolidated Statements of Earnings and Retained Earnings (Deficit)

For the Years Ended  
December 31

(In Thousands of US\$)		2005	2004	2003
	Notes			
<b>Revenue from</b>				
Gold sales		\$ 338,583	\$ 245,421	\$ 78,557
Management fees		—	1,642	3,485
		<b>338,583</b>	<b>247,063</b>	<b>82,042</b>
<b>Expenses</b>				
Cost of sales		186,177	109,920	47,102
Depreciation, depletion and reclamation		59,896	53,763	15,195
Exploration and business development	7	29,931	15,000	6,574
Interest and other	8	(4,773)	(7,582)	952
Administration		17,934	11,544	3,861
		<b>289,165</b>	<b>182,645</b>	<b>73,684</b>
<b>Earnings from operations</b>				
Other expense		—	8,541	—
<b>Earnings before income taxes and minority interest</b>				
Income tax expense (recovery)	9	4,572	(156)	1,452
Non-controlling interest		2,412	5,398	(2,158)
<b>Net earnings</b>				
Retained earnings (deficit), beginning of year		49,865	(770)	(9,834)
<b>Retained earnings (deficit), end of year</b>				
<b>Basic and diluted earnings per common share</b>				
	12	\$ 0.59	\$ 0.91	\$ 0.24

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

For the Years Ended  
December 31

(In Thousands of US\$)	2005	2004	2003
<b>Operating activities</b>			
Net earnings	\$ 42,434	\$ 50,635	\$ 9,064
Items not requiring (providing) cash:			
Depreciation, depletion and reclamation	59,896	53,763	15,195
Deferred charges recognized	5,397	6,979	6,655
Loss on settlement of debt	—	9,084	—
Future income tax expense (recovery)	2,540	(1,041)	1,276
Non-controlling interest	2,412	5,398	(2,158)
Other	2,817	3,264	(10,060)
	115,496	128,082	19,972
Change in working capital	(32,096)	(39,605)	4,475
<b>Cash provided by operations</b>	<b>83,400</b>	<b>88,477</b>	<b>24,447</b>
<b>Investing activities</b>			
Acquisition of net business assets, net of cash acquired	—	(2,697)	—
Additions to property, plant and equipment	(33,574)	(11,785)	(60,605)
Pre-commissioning revenues	—	4,223	—
Redemption of shares, Cameco Ireland	—	22,900	—
<b>Cash provided by (used in) investing</b>	<b>(33,574)</b>	<b>12,641</b>	<b>(60,605)</b>
<b>Financing activities</b>			
Proceeds of share issue	—	84,746	—
Increase in long-term debt	—	—	10,000
Repayment of long-term debt	—	(41,509)	(20,842)
Advances from (to) parent company	—	(1,865)	36,836
<b>Cash provided by (used in) financing</b>	<b>—</b>	<b>41,372</b>	<b>25,994</b>
Increase (decrease) in cash during the year	49,826	142,490	(10,164)
Cash at beginning of the year	152,591	10,101	20,265
<b>Cash at end of the year</b>	<b>\$ 202,417</b>	<b>\$ 152,591</b>	<b>\$ 10,101</b>
<b>Supplemental cash flow disclosure</b>			
Change in working capital:			
Accounts receivable	\$ (6,355)	\$ 3,753	\$ (6,042)
Inventory – ore and metal	(7,078)	(12,696)	2,616
Inventory – supplies	(14,561)	(9,897)	(310)
Prepays	(4,208)	(4,840)	(1,739)
Hedges	—	(20,622)	(5,110)
Accounts payable and accrued liabilities	106	4,697	15,060
	(32,096)	(39,605)	4,475
Other cash payments:			
Interest paid	\$ 55	\$ 1,637	\$ 1,403
Income taxes paid	1,525	223	137

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the Year Ended  
December 31, 2005

### 1. Basis of Presentation

The consolidated financial statements of Centerra Gold Inc. ("Centerra", or "the Company") have been prepared by management in accordance with Canadian generally accepted accounting principles.

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

The 2004 comparative year reflects the various transactions which created Centerra, namely the transfer of assets from Cameco Gold Inc. ("Cameco Gold"), considered the predecessor company of Centerra for purposes of financial reporting, the restructuring agreement between Cameco Gold and Kyrgyzaltyn JSC ("Kyrgyzaltyn"), the acquisition of substantially all of the minority interest in AGR Limited ("AGR"), a subsidiary which owns the BGC project and was previously controlled by Cameco Gold through a 56% ownership interest, the exchange of KGC subordinated debt and the initial public offering of Centerra (note 11).

In accordance with Canadian generally accepted accounting principles relating to transfers of assets between entities under common control, the book values reflected on the Centerra financial statements for the assets contributed from Cameco Gold were equal to the carrying value of those assets in the Cameco Gold financial statements.

In addition, for periods prior to the transactions described above, the financial position, results of operations and cash flows of Centerra reflect the financial position, results of operations and cash flows of Cameco Gold.

### 2. Significant Accounting Policies

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

### 3. Inventories

(Thousands of US\$)	2005	2004
Broken ore	\$ 13,930	\$ 4,971
Gold in-circuit	3,319	6,679
Gold doré	12,275	10,511
	29,524	22,161
Supplies	47,197	34,635
Total	\$ 76,721	\$ 56,796

#### 4. Property, Plant and Equipment

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2005 Net
Mine buildings	\$ 44,526	\$ 31,613	\$ 12,913
Plant and equipment	383,236	287,085	96,151
Mineral properties	203,011	115,999	87,012
Mobile equipment	75,558	45,339	30,219
Construction in process	12,803	—	12,803
<b>Total</b>	<b>\$ 719,134</b>	<b>\$ 480,036</b>	<b>\$ 239,098</b>

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2004 Net
Mine buildings	\$ 23,238	\$ 11,011	\$ 12,227
Plant and equipment	210,775	102,325	108,450
Mineral properties	151,921	37,834	114,087
Mobile equipment	41,402	16,628	24,774
Construction in process	8,019	—	8,019
<b>Total</b>	<b>\$ 435,355</b>	<b>\$ 167,798</b>	<b>\$ 267,557</b>

#### 5. Long-Term Receivables and Other

(Thousands of US\$)	2005	2004
Reclamation trust fund (note 6)	\$ 4,363	\$ 4,065
Deferred charges	2,823	8,220
Other long-term receivables	171	171
<b>Total</b>	<b>\$ 7,357</b>	<b>\$ 12,456</b>

All gold forward sales agreements were closed in 2004. The deferred charges, relating to the closing of the hedges, will be recognized in future periods as follows:

(Thousands of US\$)	
2006	\$ 2,266
2007	557
	<b>\$ 2,823</b>

During 2005 Centerra recognized a charge of \$5.4 million against income from its deferred hedge balance.

## 6. Asset Retirement Obligations

(Thousands of US\$)	2005	2004
Kumtor gold mine	\$ 15,633	\$ 16,701
Boroo gold mine	2,264	2,167
<b>Total</b>	<b>\$ 17,897</b>	<b>\$ 18,868</b>

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

The Company estimates its total future decommissioning and reclamation costs to be \$23.0 million.

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

- (i) Total undiscounted amount of the estimated cash flows are \$23.0 million.
- (ii) Expected timing of payment of the cash flows is based on the life of mine plans.  
The majority of expenditures are expected to occur after 2008.
- (iii) Discount rates of 6.8% for Kumtor gold mine and 8.5% for the Boroo gold mine.

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

(Thousands of US\$)	2005	2004	2003
Balance, beginning of year	\$ 18,868	\$ 7,112	\$ 6,672
Additional liability assumed on restructuring (note 11)	—	10,778	—
Liabilities incurred / (settled)	(77)	—	—
Revisions in estimated cash flows	(2,209)	—	—
Accretion expense	1,315	978	440
<b>Balance, end of year</b>	<b>\$ 17,897</b>	<b>\$ 18,868</b>	<b>\$ 7,112</b>

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of estimated salvage values of \$14.9 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2005 was \$4.4 million (2004 – \$4.1 million) (note 5).



### 7. Exploration and business development costs

(Thousands of US\$)	2005	2004	2003
Exploration	\$ 25,457	\$ 15,000	\$ 6,574
Business development	4,474	—	—
<b>Total</b>	<b>\$ 29,931</b>	<b>\$ 15,000</b>	<b>\$ 6,574</b>

### 8. Interest and other

(Thousands of US\$)	2005	2004	2003
Interest income	\$ (5,269)	\$ (1,546)	\$ (3,038)
Interest expense on long-term debt	55	1,146	1,992
Financing charges and other interest	—	82	2,477
Foreign exchange loss (gain)	441	(7,264)	492
Capitalized interest	—	—	(971)
<b>Net</b>	<b>\$ (4,773)</b>	<b>\$ (7,582)</b>	<b>\$ 952</b>

### 9. Income Taxes

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

#### Future tax assets

(Thousands of US\$)	2005	2004
Property, plant and equipment	\$ 32,422	\$ 26,990
Foreign exploration and development	655	726
Tax loss carryforwards	9,832	14,664
Other	403	—
Future income tax assets before valuation allowance	43,312	42,380
Valuation allowance	(34,259)	(29,531)
<b>Future income tax assets, net of valuation allowance</b>	<b>\$ 9,053</b>	<b>\$ 12,849</b>

#### Future tax liabilities

(Thousands of US\$)	2005	2004
Property, plant and equipment	\$ 15,087	\$ 16,617
Deferred hedge losses	323	1,078
Inventory	656	561
<b>Future income tax liabilities</b>	<b>\$ 16,066</b>	<b>\$ 18,256</b>
<b>Net Future income tax assets (liabilities)</b>	<b>\$ (7,013)</b>	<b>\$ (5,407)</b>

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

(Thousands of US\$)	2005	2004	2003
Earnings (loss) before income taxes and minority interest	\$ 49,418	\$ 55,877	\$ 8,358
Combined federal and provincial tax rate	36.1%	36.1%	37.0%
Computed income tax expense (recovery)	17,840	20,172	3,092
Increase (decrease) in taxes resulting from:			
Permanent differences and other	1,379	404	1,760
Valuation allowance	4,728	(4,911)	60
Tax loss expired	—	1,029	—
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(19,922)	(16,855)	(3,467)
Large corporations and other taxes	547	5	7
<b>Income tax expense (recovery)</b>	<b>\$ 4,572</b>	<b>\$ (156)</b>	<b>\$ 1,452</b>

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2005	2004	2003
Current income taxes	\$ 2,032	\$ 885	\$ 176
Future income taxes (recovery)	2,540	(1,041)	1,276
Net	<b>\$ 4,572</b>	<b>\$ (156)</b>	<b>\$ 1,452</b>

## 10. Joint Ventures

Centerra's gold joint-venture interests are comprised of:

- prior to the restructuring in June 2004, as described in note 11 (a), a 33.33% interest in the Kumtor gold mine; and
- a 62.14% participation interest in the REN project which is currently in the exploration stage and has zero book value.

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

(Thousands of US\$)	2005	2004	2003
Revenues	\$ —	\$ 41,718	\$ 78,557
Expenses	(3,740)	(33,850)	(74,988)
<b>Net earnings (loss)</b>	<b>\$ (3,740)</b>	<b>\$ 7,868</b>	<b>\$ 3,569</b>
<b>Cash provided by (used in)</b>			
Operating activities	\$ (3,740)	\$ 14,882	\$ 25,084
Investing activities	—	(930)	(3,181)
Financing activities	—	(5,667)	(22,465)
<b>Increase (decrease) in cash during the year</b>	<b>\$ (3,740)</b>	<b>\$ 8,285</b>	<b>\$ (562)</b>

## 11. Restructuring of Centerra

### (a) Transfer of gold interests from Cameco Gold

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

Assets and liabilities totaling \$27.2 million, included in Cameco Gold's financial statements, were not contributed to Centerra as part of the reorganization. The share capital of Centerra has been adjusted to reflect these assets and liabilities, as noted below. In addition to the transfer of assets from Cameco Gold, Cameco converted \$64.2 million of Centerra's inter-company debt and advances into equity.

(Thousands of US\$)

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

### (b) Acquisition of two-thirds interest in KGC

Pursuant to the restructuring agreement of June 2004 between Cameco Gold and Kyrgyzaltyn, Centerra acquired an additional two-thirds interest in KGC, resulting in KGC becoming a wholly-owned subsidiary. The purchase price consisted of \$11.0 million in cash, the contribution of a promissory note receivable from Kyrgyzaltyn and common shares of Centerra. The acquisition was accounted for using the purchase method and the results of operations are included, as to 100%, in the consolidated financial statements from June 22, 2004. Previously, Cameco Gold's one-third interest was accounted for by the proportionate consolidation method.

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

(Thousands of US\$)	
Cash and other working capital	\$ 31,820
Property, plant and equipment	139,643
Goodwill	129,705
Subordinated debt	(32,135)
Future income tax liability	(9,257)
<b>Net assets acquired</b>	<b>\$ 259,776</b>
Financed by:	
Cash	\$ 11,000
Note receivable from Kyrgyzaltyn	4,000
Settlement of shareholder subordinated loan (note 6)	43,993
Common shares	200,783
	<b>\$ 259,776</b>

(c) Acquisition of additional 43.8% in AGR Limited

Effective June 30, 2004, Centerra acquired an additional 43.8% interest in AGR, raising the Company's interest in AGR to 99.9% and resulting in a 100% interest in the Gatsuurt exploration property in Mongolia. The purchase price was satisfied through the issuance of Centerra common shares. The acquisition was accounted for as a step purchase and the results of operations are included for all periods presented.

Subsequent to June 30, 2004, the Company acquired the remaining ownership interests in AGR, making it a wholly-owned subsidiary.

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

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

**(d) Exchange of KGC subordinated debt**

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

(Thousands of US\$)

Fair value of exchange amount:

Common shares issued	\$ 34,433
Cash	13,770
	<u>48,203</u>
Net book value of subordinated debt acquired	(39,119)
Loss on exchange of debt	<u>\$ 9,084</u>

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

**(e) Initial Public Offering**

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

**(f) Debt Repayment**

The senior debt outstanding in 2003 was settled with cash in March 2004 and the subordinated debt obligations were settled at the time of the restructuring (note 12(d)).

**12. Shareholders' Equity****(a) Share Capital**

Centerra is authorized to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value. At December 31, 2005, only common shares had been issued as follows:

Number Issued	2005 (Number of Shares)	2005 (Thousands of US\$)
Balance, January 1, 2002, 2003 and 2004	38,149,071	\$ 120,831
Adjustment on restructuring (note 11(a))	—	36,975
Issued to Kyrgyzaltyn (note 11(b))	18,789,717	200,783
Issued to AGR shareholders (note 11(c))	5,204,605	55,615
Issued to subordinated debt holders (note 11(d))	3,061,212	34,433
Initial public offering (note 11(e))	6,875,000	73,746
Balance, December 31, 2004	<u>72,079,605</u>	<u>\$ 522,383</u>
Issued during 2005	—	—
Balance, December 31, 2005	<u>72,079,605</u>	<u>\$ 522,383</u>

### (b) Earnings per Share

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

The weighted average number of shares outstanding for 2004 is comprised of the shares issued under the restructuring reflected on a continuity of interest basis, plus the incremental effect of the shares issued under the transactions described in note 11.

	2005	2004	2003
Basic weighted average number of common shares outstanding (thousands)	72,079	55,604	38,149
Diluted weighted average number of common shares outstanding (thousands)	72,113	55,622	38,149
<b>Basic and diluted earnings per common share</b>	<b>\$ 0.59</b>	<b>\$ 0.91</b>	<b>\$ 0.24</b>

### (c) Stock-Based Compensation

#### Centerra Plan

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

A maximum of 6,000,000 common shares are available for issuance upon the exercise of options granted under the plan. Certain restrictions on grants will apply, including that the maximum number of shares that may be granted to any individual within a 12-month period will not exceed 5% of the outstanding common shares of the Company.

Centerra stock option transactions during the year were as follows:

(Number of Options)	2005	2004
Beginning of year	107,527	—
Options granted	92,656	107,527
End of year	200,183	107,527
Award price for options granted (\$Cdn/share)	\$ 20.12	\$ 15.50

Fair Value of options granted in 2005 was \$564,402.

The compensation expense associated with this stock option series was calculated using the Black-Scholes valuation model, assuming a 6-year term, 34% volatility and a risk-free rate of return of 3.49%, and is being charged against net income over its vesting period.

For 2005, \$0.7 million (2004 – \$0.2 million) has been recognized in the income statement in respect of the Centerra stock-based compensation plan.

The terms of the options outstanding as at December 31, 2005 are as follows:

Award Date	Award Price	Expiry Date	Number of Options
2004	\$ 15.50 (Cdn)	2012	107,527
2005	\$ 20.12 (Cdn)	2013	92,656

(ii) Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Performance share units will vest three years after December 31 of the year in which they were granted, except for the performance share units that were issued June 30, 2004, for which vesting will be December 31, 2006. The number of units that will vest may be higher or lower than the number of units credited to a participant. The number of units which will vest is determined based on Centerra's total return performance relative to the S&P/TSX Capped Gold Index Total Return Investment Value during the applicable period. The number of units that vest is determined by multiplying the number of units credited to the participant by the adjustment factor, which can be as high as a factor of 1.5 or potentially result in no payout. If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant. At December 31, 2005, the number of units outstanding was 141,373 (61,051 at December 31, 2004). In 2005, approximately \$1.3 million of compensation expense was recorded on this plan (\$0.2 million in 2004).

(iii) Centerra has established an annual performance share unit plan for eligible employees at their mine site operations. At the start of a contract period, an eligible employee receives a number of performance share units based on the Centerra share price on that start date. This award vests in one year and on the annual anniversary date of their contract, the eligible employee is entitled to receive an amount based on the assigned number of performance share units times the five-day average Centerra share price preceding the annual anniversary date. The performance share units cannot be converted to shares and the eligible employee must complete the annual contract period in order to receive payment. At December 31, 2005 the number of units outstanding was 130,814 with a related liability of \$2,038 (December 31, 2004 – 142,699 units, \$1,088). In 2005, approximately \$2.8 million of compensation expense was recorded on this plan (\$1.9 million in 2004).

(iv) Centerra has established a deferred share unit plan for directors of the Company to receive all or a portion of their director's compensation as deferred share units. Deferred share units are paid in full to a director no later than December 31 in the calendar year that immediately follows the calendar year following termination of the director's Board service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each director will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held by the director. At December 31, 2005, the number of units outstanding was 31,337 (17,291 at December 31, 2004). In 2005, approximately \$0.4 million of compensation expense was recorded on this plan (\$0.3 million in 2004).

#### Cameco Plan

On January 1, 2001, prior to the establishment of the Centerra stock plan, Cameco established a stock-based compensation plan under which stock options ("options") convertible to a cash amount were granted to eligible employees of the Company. Options granted under the plan cannot be converted to shares and have an award price of not less than the closing price quoted on the TSX for the common shares of Cameco on the trading day prior to the date on which the option is granted. Upon redemption the options are convertible to a cash amount based on the excess of the closing price quoted on the TSX for the common shares of Cameco on the last trading date prior to the redemption date over the award price. The options vest over three years and expire eight years from the date granted. No further grants to Centerra employees are expected to occur under the Cameco plan.

The market price of Cameco common shares as at December 31, 2005 was \$73.79 (Cdn) per share (December 31, 2004 – \$41.95 (Cdn) per share).

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

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

	2005	2004
	(Number of options, except as noted)	
Beginning of year	334,400	459,000
Options granted	—	248,400
Options exercised	(102,600)	(144,600)
Options cancelled	(9,600)	(218,400)
End of year	232,200	344,400
Average award price for options granted – Cdn \$	—	\$ 10.52
Award price for options exercised – Cdn \$	\$4.81 – \$10.52	\$4.81 – \$7.31



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

Award Date	Award Price (Cdn\$)	Expiry Date	2005	2004
			(Number of options)	
2001	\$ 4.81	2009	3,000	8,400
2002	\$ 7.31	2010	17,400	51,000
2003	\$ 5.88	2006	4,800	4,800
2003	\$ 5.88	2007	3,600	3,600
2003	\$ 5.88	2008	3,000	3,000
2003	\$ 5.88	2011	66,600	95,400
2004	\$ 10.52	2007	5,400	5,400
2004	\$ 10.52	2012	128,400	172,800
			<b>232,200</b>	<b>344,400</b>

### 13. Commitments and Contingencies

#### Kumtor operations

KGC entered into a priority power supply agreement with Kyrgyzenergo JSC ("Kyrgyzenergo") commencing May 22, 1995. The agreement provides for KGC to pay to Kyrgyzenergo, during the life of the Kumtor Gold Project, the standard cost of energy consumed and a construction charge. The construction charge is equal to the principal and interest payments associated with KGC's \$32.7 million portion of a loan of \$37.2 million that Kyrgyzenergo obtained in order to construct power facilities. The loan repayments together with interest commenced on December 19, 1997 and are in 20 equal semi-annual instalments. KGC is obligated to the full repayment of their portion of the loan in accordance with the remaining construction charge payments amounting to \$4.8 million as at December 31, 2005 (December 31, 2004 – \$8.2 million).

In March of 2002, the Republic completed the restructuring and privatization of electric power companies in the country and OJSC National Electric Network of Kyrgyzstan ("NENK") assumed all assets and liabilities of Kyrgyzenergo. KGC now pays the cost of the energy and the construction charge to NENK. All scheduled payments to December 31, 2005 have been made.

Under the Investment Agreement, the Company agreed to spend \$2.5 million during 2004 and 2005 on underground exploration to investigate the feasibility of developing that portion of the Kumtor deposit located below the current ultimate design. This commitment was met during 2005.

During the year ended December 31, 2005, KGC entered into contracts to purchase plant and equipment for \$62.2 million (December 31, 2004 – \$5.5 million). These commitments are expected to be settled in 2006.

In late June 2005, the Kyrgyz tax authorities completed their previously announced state tax audit and customs audit of the Kumtor Operating Company ("KOC"). The tax audit related

to the 2003 year, while the customs audit related to the years 2000 to 2004. After further review and appeal with the tax authorities, agreements have been reached on the major items in these assessments. The remaining open items are not expected to have a material impact on Centerra's financial position.

#### Boroo operations

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 commencing in 2002 and concluding in 2007. The outstanding obligation at the balance sheet date is \$1.0 million of which \$0.6 million is repayable in 2006 and \$0.4 million is repayable in 2007.

BGC entered into a five (5) year agreement with the Electric Power Supply of Darkhan-Selenge ("ESPO") to provide power to the mine site and surrounding facilities ending in June 2009. In 2005, the terms of this agreement were renegotiated and the rates were fixed at \$0.042 per KW.

#### Corporate

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The lease including operating costs for 2005 was approximately \$647,000 Cdn and is expected to increase to approximately \$710,000 Cdn by November 2011, the end of the lease term.

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

#### Insurance

The Company has entered into a five-year agreement ending June 30, 2009 for certain insurance coverage. Considerations under this agreement require annual payments of approximately \$4.0 million, with a minimum guaranteed payment under this contract of \$8.0 million. This minimum commitment level will be reached in June 2006.

## 14. Financial Instruments

#### Fair values of financial instruments

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

#### Foreign Exchange Risk

By virtue of our international operations, the Company incurs costs and expenses in a number of foreign currencies other than the U.S. dollar. The Company's revenue is substantially all in

U.S. dollars while some costs and expenses are incurred in Canadian dollars and other foreign currencies. The primary foreign exchange risk is to changes in the value of Canadian dollar relative to the U.S. dollar.

### 15. Related Party Transactions

#### Cameco Corporation

Cameco owned 100% of the Company until the restructuring. As at December 31, 2005, Cameco owned 52.7% of the Company's common stock. The table below summarizes 100% of the charges made by Cameco to Centerra. For periods prior to the restructuring, the Centerra financial statements reflect one-third of these charges in accordance with the accounting described in note 11.

#### Paid to Cameco

(Thousands of US\$)

	2005	2004	2003
Senior debt guarantee fee	\$ —	\$ 85	\$ 1,440
Credit support fee	—	58	284
Administration fee	779	359	—
<b>Total</b>	<b>\$ 779</b>	<b>\$ 502</b>	<b>\$ 1,724</b>

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco has agreed to provide services and expertise to the Company in return for reimbursement of all its direct and indirect costs relating to those services.

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.

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

#### Other

The Company has entered into a consulting agreement with Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Pursuant to this agreement, Ms. Stephens provides certain designated legal and business advisory services related to the international operations. In return for these services, Ms. Stephens receives a sum of \$200,000 Cdn per year. The agreement also provides that Ms. Stephens will receive \$275 Cdn per hour for any additional services she provides to the Company, as authorized by the Chairman of the Board. In 2005, Ms. Stephens received \$429,055 Cdn in aggregate (2004 – \$375,137 Cdn). This agreement replaces earlier consulting agreements pursuant to which Ms. Stephens provided similar legal and business advisory services to KOC and Cameco, for which she was paid aggregate amounts of \$508,687 Cdn in 2003.

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 which is payable in June 2010, is interest-free giving rise to a taxable benefit to Mr. Homeniuk.

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

Revenues from the Kumtor gold mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company. 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 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 these charges in accordance with the accounting described in note 11.

#### Related parties in the Kyrgyz Republic

(Thousands of US\$)	2005	2004	2003
Management fees to Kyrgyzaltyn	\$ 747	\$ 949	\$ 813
Concession payments to the Kyrgyz Republic	1,992	2,531	3,875
	<u>\$ 2,739</u>	<u>\$ 3,480</u>	<u>\$ 4,688</u>
Gross gold and silver sales to Kyrgyzaltyn	\$ 220,242	\$ 257,739	\$ 258,908
Deduct: refinery and financing charges	(2,603)	(2,766)	(3,220)
Net sales revenue received from Kyrgyzaltyn	<u>\$ 217,639</u>	<u>\$ 254,973</u>	<u>\$ 255,688</u>

Kyrgyzaltyn and KGC have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 (the "GPA"), as amended, that until the earlier of (i) April 28, 2006 and (ii) the date on which at least \$11 million of proceeds from the sale of shares of Centerra owned by Kyrgyzaltyn have been deposited into a special purpose gold payment account of Kyrgyzaltyn, Kyrgyzaltyn will have 12 days to pay for gold shipped from the Kumtor mine. Kyrgyzaltyn shall pay interest on unpaid amounts equal to LIBOR plus 0.25%. Prior to the effective date of the GPA, KGC shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA, 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, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect the obligations of Kyrgyzaltyn to KGC shall be secured by a pledge of a portion of Centerra shares owned by Kyrgyzaltyn.

### 16. Segmented Information

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

Year Ended December 31, 2005 (\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 213.8	\$ 124.8	\$ —	\$ 338.6
Expenses				
Cost of sales	134.6	51.6	—	186.2
Depreciation, depletion and reclamation	35.2	24.3	0.4	59.9
Exploration and business development	14.6	8.6	6.7	29.9
Interest and other	3.9	0.6	(9.3)	(4.8)
Administration	2.8	0.8	14.4	18.0
<b>Earnings (loss) before income taxes</b>	<b>22.7</b>	<b>38.9</b>	<b>(12.2)</b>	<b>49.4</b>
Income tax expense (recovery)	5.3	(1.6)	0.9	4.6
Non Controlling interest	—	2.4	—	2.4
<b>Net earnings (loss)</b>	<b>\$ 17.4</b>	<b>\$ 38.1</b>	<b>\$ (13.1)</b>	<b>\$ 42.4</b>
Assets (excluding goodwill)	\$ 243.0	\$ 136.6	\$ 172.1	\$ 551.7
Goodwill	\$ 129.7	\$ 24.9	\$ —	\$ 154.6
Capital expenditures for the year	\$ 21.5	\$ 11.4	\$ 0.7	\$ 33.6

Year Ended December 31, 2004 (\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 159.2	\$ 87.9	\$ —	\$ 247.1
Expenses				
Cost of sales	81.2	28.7	—	109.9
Depreciation, depletion and reclamation	31.9	21.8	0.1	53.8
Exploration and business development	6.0	4.4	4.6	15.0
Interest and other	7.2	0.5	(15.3)	(7.6)
Administration	1.3	2.7	7.6	11.6
Other expense	—	—	8.6	8.6
<b>Earnings (loss) before income taxes</b>	<b>31.6</b>	<b>29.8</b>	<b>(5.6)</b>	<b>55.8</b>
Income tax expense (recovery)	(0.3)	—	0.1	(0.2)
Non Controlling interest	—	5.4	—	5.4
<b>Net earnings (loss)</b>	<b>\$ 31.9</b>	<b>\$ 24.4</b>	<b>\$ (5.7)</b>	<b>\$ 50.6</b>
<b>Assets (excluding goodwill)</b>	<b>\$ 239.8</b>	<b>\$ 132.6</b>	<b>\$ 132.6</b>	<b>\$ 505.0</b>
<b>Goodwill</b>	<b>\$ 129.7</b>	<b>\$ 25.8</b>	<b>\$ —</b>	<b>\$ 155.5</b>
<b>Capital expenditures for the year</b>	<b>\$ 4.7</b>	<b>\$ 7.1</b>	<b>\$ —</b>	<b>\$ 11.8</b>

Year Ended December 31, 2003 (\$ millions)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 82.0	\$ —	\$ —	\$ 82.0
Expenses				
Cost of sales	47.1	—	—	47.1
Depreciation, depletion and reclamation	15.2	—	—	15.2
Exploration and business development	0.3	1.9	4.4	6.6
Interest and other	6.2	1.6	(6.9)	0.9
Administration	0.5	0.8	2.5	3.8
<b>Earnings (loss) before income taxes</b>	<b>12.7</b>	<b>(4.3)</b>	<b>—</b>	<b>8.4</b>
Income tax expense (recovery)	1.3	—	0.2	1.5
Non-controlling interest	—	(2.2)	—	(2.2)
<b>Net earnings (loss)</b>	<b>\$ 11.4</b>	<b>\$ (2.1)</b>	<b>\$ (0.2)</b>	<b>\$ 9.1</b>
<b>Assets</b>	<b>\$ 99.6</b>	<b>\$ 97.2</b>	<b>\$ 44.6</b>	<b>\$ 241.4</b>
<b>Capital expenditures for the year</b>	<b>\$ 3.9</b>	<b>\$ 56.7</b>	<b>\$ —</b>	<b>\$ 60.6</b>

#### Geographic Segmentation of Revenue

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

#### 17. Comparative Information

Certain prior year balances have been reclassified to conform to current year presentation.

#### Summary of Significant Accounting Policies

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

#### Consolidation principles

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

#### Foreign currency

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

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

#### Cash and cash equivalents

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

### Inventories

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

Consumable supplies and spares are valued at the lower of cost and weighted-average cost and replacement cost, which includes expenditures incurred to acquire the inventories and bring them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of overheads based on normal operating capacity.

### Exploration and development properties

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

### Property, plant and equipment

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

After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets.

### Goodwill

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

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the Company compares the fair value of reporting units, to which goodwill was allocated, to their carrying amounts. If the carrying value of a



reporting unit were to exceed its fair value, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess of the carrying value over the fair value would be charged to earnings. Assumptions underlying fair value estimates are subject to risks and uncertainties.

#### Property and equipment impairment

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

#### Capitalization of interest

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

#### Depreciation and depletion

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

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

#### Future income taxes

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

#### Environmental protection and reclamation costs

The fair value of the liability for an asset retirement obligation is recognized in the period incurred. The fair value is added to the carrying amount of the associated asset and depreciated over the asset's useful life. The liability is accreted over time through periodic charges to earnings and it is reduced by actual costs of decommissioning and reclamation. Centerra's estimates of reclamation costs could change as a result of changes in regulatory requirements, reclamation plans and cost estimates. Expenditures relating to ongoing environmental programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings.

#### Revenue recognition

Centerra records revenue on the sale of gold when title passes and delivery is effected.

#### Derivative financial instruments and hedging transactions

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

#### Stock-based compensation

Centerra has a stock option plan that is described in note 12. Options granted under the plan with share appreciation rights are accounted for using the mark-to-market method. Under this method, the options granted are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery.

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

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

For options granted under the Cameco stock option plan prior to January 1, 2003, no compensation expense was recognized when the stock options were granted. Options granted under this plan are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense, or, if negative, a recovery. The consideration paid to employees on exercise of Cameco stock options is offset against the accrued obligation.

#### Earnings per share

Earnings per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method to compute the dilutive effect of stock options.