



## NEWS RELEASE

(All figures are in United States dollars)

### Centerra Gold Reports Third Quarter Earnings of US\$0.05 per Share

**Toronto, Canada, October 31, 2006:** Centerra Gold Inc. (TSX: CG) today reported third quarter net earnings of \$11.5 million (\$0.05 per common share) on revenue of \$76.3 million, up from net earnings of \$9.0 million (\$0.04 per common share) on revenue of \$76.5 million in the same quarter of last year. The Company implemented a 3-for-1 share split by way of a stock dividend effective June 1, 2006, which is reflected in all current and historic per share metrics in this release. Cash provided by operations, net of working capital changes and other operating items, was \$12.0 million compared to \$17.2 million in the third quarter of 2005. Gold production, on a 100% basis, totaled 126,000 ounces at a total cash cost of \$429 per ounce in the third quarter compared to 194,000 ounces at a total cash cost of \$245 per ounce in the corresponding quarter of 2005.

For the first nine months of 2006, net earnings were \$58.7 million (\$0.27 per common share) on revenue of \$276.1 million and cash provided by operations amounted to \$68.0 million, net of working capital changes and other operating items. Gold production totaled 444,000 ounces at a total cash cost of \$359 per ounce. In the comparable period of 2005, Centerra reported net earnings of \$36.1 million (\$0.17 per common share) on revenue of \$263.5 million and cash provided by operations of \$78.6 million, net of working capital changes and other operating items. Gold production was 621,000 ounces at a total cash cost of \$225 per ounce.

The higher year-over-year net earnings for the quarter and the nine-month periods reflects a \$13.6 million insurance settlement received during the quarter for the 2002 Kumtor pit wall failure and higher realized gold prices due to the substantially higher market prices for gold in 2006, partially offset by lower gold production at the Kumtor mine due to the previously reported pit wall movement in July 2006 and lower grades and recoveries earlier in the year.

#### Third Quarter Highlights

- Exploration program identifies underground potential of SB Zone at Kumtor and continues to show positive results at Sarytor and REN expanding the known mineralization.
- Boroo heap leach project determined to be viable.
- Kumtor performing in line with revised mine plan.
- Discussions ongoing with the Mongolian government regarding investment agreements.
- Gold production unhedged resulting in a realized gold price of \$617 per ounce.

As previously reported, the Company announced that a pit wall ground movement occurred at the Kumtor mine in July involving a portion of the northeast wall. Gold reserves are not affected as the wall movement lies entirely within the ultimate pit design. The fallen rock delayed access to ore from this area in the mine representing about 125,000 ounces of scheduled 2006 gold production. The Company has re-sequenced mining of the ore body and continues to mine and mill at full capacity from the SW Zone and drawing from stockpiles. Gold production at Kumtor in 2006, as previously announced, is expected to be about 300,000 ounces of gold at a total cash cost of \$530 per ounce. As noted in the Company's news release of September 6, 2006, gold production at Kumtor in 2007 is forecast to be in the range of 440,000 to 475,000 ounces of gold. Production delayed from 2006 and 2007 will be produced in subsequent years.

The Company is currently in discussions with the Government of Mongolia regarding amendments to its existing Boroo stability agreement and the negotiation of a stability agreement (called an investment agreement under the newly-enacted minerals law) with respect to its Gatsuurt project. The purpose of these negotiations is to conclude definitive agreements that will provide continued long-term stability to Boroo and enable the prompt development and long-term stability of the Gatsuurt project.

## **Commentary**

“Our mine engineers at Kumtor have done an impressive job preparing a revised mine plan that accelerates production from the high-grade SB Zone in the south end of the main pit toward the end of 2007 to mitigate the impact of the pit wall ground movement,” said Len Homeniuk, President and CEO. “Additionally, we continue to receive encouraging drill results from our exploration program at Kumtor. The SB Zone has been extended down dip and along strike. The recent high-grade intercepts below the ultimate pit are extremely encouraging and demonstrate significant underground mining potential at Kumtor. Furthermore, exploration continues to delineate the Sarytor deposit with the majority of the drill holes returning results as expected and a number of holes returning intercepts better than expected, which is expected to expedite development of the pit in 2007.”

## **Financial Summary – Third Quarter**

Revenue at \$76.3 million in the third quarter of 2006 was essentially the same as the same quarter last year at \$76.5 million reflecting the significantly higher realized gold price, offset by lower production volume. Centerra realized an average gold price of \$617 per ounce for the third quarter, a significant increase over the \$429 per ounce realized in the same quarter of 2005.

Total production for the three months ended September 30, 2006 at Kumtor and Boroo mines was 126,000 ounces of gold. This compares to production of 164,000 ounces of gold in the second quarter of 2006 and 194,000 ounces of gold in the third quarter of 2005. Lower production in the third quarter of 2006 was due primarily to reduced production at Kumtor resulting from the mine pit wall movement in July, and lower mill grade at both Kumtor and Boroo, which were partially offset by slightly higher production at Boroo.

Using the Gold Institute standard, Centerra's total cash cost per ounce of gold was \$429 for the third quarter, compared to \$245 recorded in the same period of 2005. The increase mainly reflects lower production at the Kumtor mine as a result of lower head grades and recovery. (Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measure – Total Cash Cost" in the Management's Discussion and Analysis for the three months ended September 30, 2006, issued in conjunction with this press release.)

Net earnings totalled \$11.5 million or \$0.05 per share in the third quarter of 2006, compared to net earnings of \$9.0 million or \$0.04 per share in the third quarter of 2005. The higher net earnings were a result of higher realized gold prices and the receipt of a \$13.6 million insurance settlement related to the 2002 pit wall failure at Kumtor offset by lower gold production at Kumtor and a \$6.7 million charge reflecting an adjustment to inventory at Kumtor resulting from higher operating costs per ounce following the 2006 pit wall movement.

For the three months ended September 30, 2006, cash provided by operations was \$12.0 million compared to \$17.2 million reported in the same period a year ago. The lower cash provided by operations reflected the higher net earnings, which was more than offset by an increase in working capital due primarily to a decrease in accounts payable

Capital expenditures in the third quarter of 2006 amounted to \$19.4 million of which \$5.8 million was spent on sustaining capital projects and the balance on growth projects. Centerra's cash position at the end of September, 2006 was \$216.3 million, \$13.9 million higher than \$202.4 million at December 31, 2005. The Company has no long-term debt or gold hedge positions.

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

At the Kumtor mine, gold production was 53,000 ounces in the third quarter of 2006, compared to 123,000 ounces in the third quarter of 2005. During the quarter, a total of 1.4 million tonnes was milled with a mill head grade of 1.64 g/t and a recovery rate of 64.4%, compared to 1.4 million tonnes with a mill head grade of 3.35 g/t and a recovery rate of 82.0% in the third quarter of 2005. The lower gold production is due to lower ore grades and recoveries reflecting the fact that the mill feed is now primarily sourced from the low grade stock piles and the Southwest pit as result of the change in the Mine Development Plan following the pit wall movement in July 2006.

Total cash costs per ounce, a non-GAAP measure of production efficiency, at Kumtor increased to \$719 for the third quarter of 2006 from \$277 per ounce in the same period in 2005. A 57% reduction in gold production combined with increased tonnages mined and higher operating costs during the quarter have contributed to the higher total unit cash costs in 2006.

During the third quarter of 2006 capital expenditures at Kumtor were \$15.8 million, of which \$3.1 million was for sustaining capital and the balance on growth projects.

At the Boroo mine, gold production was 73,000 ounces in the third quarter of 2006, compared to 71,000 ounces in the third quarter of 2005. During the quarter, a total of 640,000 tonnes were milled with a mill head grade of 4.15 g/t and a recovery rate of 84.7%, compared to 596,000 tonnes with a mill head grade of 4.05 g/t and a recovery rate of 90.3% in the third quarter of 2005. Higher gold

production is due to the increase in tonnes milled and higher ore grade offset by the lower recovery due to the processing of more transition ore and fresh material compared to the prior period.

Total cash costs per ounce, a non-GAAP measure of production efficiency, at Boroo increased to \$220 for the third quarter of 2006 from \$187 per ounce in the same period in 2005. The increase is a result of higher mining costs from rental equipment used to handle increased tonnages, higher mill cost due to increased throughput, higher revenue-based taxes due to the high gold prices and higher costs of consumables.

During the third quarter of 2006 capital expenditures at Boroo were \$3.0 million, of which \$2.5 million was for sustaining capital.

### **Boroo Heap Leach Project**

The Boroo mine has investigated the possibility of constructing and operating a heap leach operation that would leach and recover the gold from the low grade materials presently defined in the 2006 life-of-mine reserve and resource plan of the Boroo mine some of which is currently in stockpiles. Metallurgical samples of the various ore types were column and crib tested during the year with good metallurgy recovery rates. An internal feasibility study, with assistance from outside expert consultants was completed and determined that a 3 million tonne per annum facility at a capital cost of approximately \$20 million was a cost effective project and would add value to the Boroo operation. Further economic analysis and internal review of the reserves at Boroo are scheduled for the fourth quarter of 2006.

### **Exploration Update – Third Quarter**

Exploration activities continued to produce positive results during the third quarter of 2006, with expenditures of \$6.0 million dollars for the quarter. At Kumtor, further drilling was completed to test the SB Zone. The recent drilling has extended the SB Zone down dip and along strike, delineating a strike length of over 360 metres and down dip lengths ranging from 70 to 520 metres. Hole D1121A, the deepest drill hole completed on the SB Zone to date, returned an intercept of 6.2 g/t Au over 109.7 metres, which includes an intercept of 22.2 g/t Au over 19.4 metres at the 3,600 metre elevation. True widths of the mineralized zones are typically from 70% to 95% of the stated intercepts. This hole continues to define a higher grade core in the SB Zone, which extends down dip below the ultimate pit design, and indicates the opportunity for a significant high grade deposit. The SB Zone remains open both along strike and in the down dip direction. Drilling of the SB Zone is continuing in the fourth quarter and preliminary engineering work is underway to evaluate the opportunity for mining the higher grade mineralization from underground.

The delineation drilling continued in the third quarter at the Sarytor deposit to determine the limits of the mineralization and infill between existing holes to allow a reserve estimation to be completed. The infill drilling has now confirmed the mineralization between 80 metre wide sections and also extended mineralization down dip on some sections with the majority of the drill holes returning results as expected and a number of holes returning intercepts better than expected. Thirty drill holes totaling 5,321 metres were completed during the quarter.. Infill drill holes are confirming the continuity of the mineralization between the drill sections with results ranging from 1.29 to 24.1 g/t Au over widths

from 0.8 to 55.2 metres. The best down hole intersections averaged 8.5 g/t Au over 26.7 metres, 7.02 g/t Au over 18.6 metres, and 12.7 g/t Au over 14.1 metres. True widths of the mineralized zones are typically from 70% to 95% of the stated intercepts.

At the REN property drilling continued through the third quarter of 2006. Two of three wedge holes were completed to follow up the high grade intercept of 18.5 g/t Au over 19.8 metres reported in the second quarter of 2006. Positive results were returned with the best intercept being a high-grade intercept of 14.42 g/t over 3.0 metres. These two holes extend the 95C-105C zone of mineralization to the north and east of drill hole 105C. The mineralized zone is open in these directions as well as to the south.

A news release providing a full update on its exploration activities was issued by the Company on October 26, 2006.

### **Outlook for 2006**

At Kumtor, the Company continues to expect production in 2006 to be about 300,000 ounces of gold at a total cash cost of about \$530 per ounce. At Boroo, on a 100% basis, the Company continues to expect production for the full year 2006 of 270,000 to 275,000 ounces of gold with expected total cash costs of \$210 to \$215 per ounce. Overall, Centerra continues to expect production in 2006 of 570,000 to 575,000 ounces of gold with total cash costs expected to be \$370 to \$380 per ounce.

In aggregate for the fourth quarter of 2006, a \$25 per ounce change in the gold spot price is anticipated to affect revenues, net earnings and cash from operations by approximately \$3.4 million, \$4.3 million and \$3.2 million, respectively.

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

- no significant changes in our estimates of future production or costs, and
- no delays in or interruption of production from our mines or in our development activities.

For further discussion of the factors that could cause actual results to differ materially, refer to Centerra's Annual Information Form and annual Management's Discussion and Analysis for the year ended December 31, 2005 available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **About Centerra**

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

The new drilling results for Kumtor, and REN in this news release and on Centerra's website, were reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Ian Atkinson, Certified Professional Geologist, Centerra's Vice President, Exploration, who is the qualified person for the purpose of NI 43-101.

*Statements contained in this news release, 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; 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.*

*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.*

## **Conference Call**

Centerra invites you to join its third-quarter conference call on Wednesday, November 1, 2006 at 10:00 am. Eastern Time. The call is open to all investors and the media. To join the call, please dial (416) 641-6652 or (800) 633-8763 (Canada and U.S.). Alternatively, an audio feed web cast will be available on [www.centerragold.com](http://www.centerragold.com). A recording of the call will be available on [www.centerragold.com](http://www.centerragold.com) shortly after the call, and via telephone until midnight on Wednesday, November 8, 2006 by calling (416) 626-4100 or (1-800) 558-5253 and using passcode 21306322.

## **For more information:**

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Additional information on Centerra is available on the Company’s web site at [www.centerragold.com](http://www.centerragold.com) and at SEDAR at [www.sedar.com](http://www.sedar.com).

## **Management's Discussion and Analysis**

The following discussion of the financial condition and results of operations of Centerra Gold Inc. (Centerra or the Company) for the three and nine months ended September 30, 2006 should be read in conjunction with the unaudited consolidated financial statements and the notes of the Company for the period ended September 30, 2006, the audited consolidated financial statements and the notes of the Company for the year ended December 31, 2005 and the management's discussion and analysis of the audited statements, both of which are included in the 2005 Annual Report, and the Annual Information Form. The financial statements of Centerra are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and, unless otherwise specified, all figures are in United States dollars. The 2005 Annual Report and the Annual Information Form are available at [www.centerragold.com](http://www.centerragold.com) and [www.sedar.com](http://www.sedar.com).

**Toronto, Ontario, Canada, October 31, 2006**

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

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.

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.

### **Consolidated Financial Results**

For accounting purposes, Centerra's consolidated results for the three and nine months ended September 30, 2006 reflect fully consolidated interests in the Kumtor and Boroo mines, a 62% interest in REN and 100% interest in Gatsuurt. The Company implemented a 3-for-1 share split by way of a stock dividend effective June 1, 2006, which is reflected for all current and historic per share metrics contained herein.

## Highlights – Centerra

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Financial Highlights</b>				
Revenue - \$ millions <sup>(1)</sup>	<b>76.3</b>	76.5	<b>276.1</b>	263.5
Gross profit - \$ millions <sup>(2)</sup>	<b>8.7</b>	19.7	<b>79.2</b>	72.6
Net earnings - \$ millions	<b>11.5</b>	9.0	<b>58.7</b>	36.1
Earnings per common share - \$ - basic and diluted <sup>(3)</sup>	<b>0.05</b>	0.04	<b>0.27</b>	0.17
Cash provided by operations - \$ millions	<b>12.0</b>	17.2	<b>68.0</b>	78.6
Weighted average shares outstanding – basic – (thousands) <sup>(3)</sup>	<b>216,239</b>	216,239	<b>216,239</b>	216,239
<b>Operating Highlights</b>				
Tonnes mined – 000s	<b>26,741</b>	25,537	<b>75,703</b>	75,332
Tonnes ore mined – 000s	<b>1,154</b>	2,369	<b>5,118</b>	6,002
Tonnes milled – 000s	<b>2,066</b>	1,984	<b>6,136</b>	5,866
Average mill head grade – g/t <sup>(4)</sup>	<b>2.42</b>	3.56	<b>2.80</b>	3.80
Recovery - %	<b>76.6</b>	85.0	<b>80.3</b>	85.4
Ounces poured	<b>126,030</b>	193,896	<b>444,093</b>	620,571
Ounces sold	<b>123,608</b>	178,422	<b>464,187</b>	623,624
Average realized price - \$/oz <sup>(1)</sup>	<b>617</b>	429	<b>595</b>	423
Gold spot market price - \$/oz - average for period	<b>622</b>	439	<b>601</b>	431
Total cash cost <sup>(5)</sup> - \$/oz	<b>429</b>	245	<b>359</b>	225

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

(2) Gross profit is defined as total revenues less cost of sales and depreciation, depletion and reclamation and accretion.

(3) All periods reflect a three-for-one stock split by way of stock dividend, effective June 1, 2006

(4) g/t means grams per tonne

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

## Third Quarter Results

### Gold Production and Revenue

Revenue at \$76.3 million in the third quarter of 2006 was essentially the same as the same quarter last year at \$76.5 million reflecting the significantly higher realized gold price, partially offset by lower production volume. Production of 126,030 ounces was lower than the 193,896 ounces reported in the third quarter of 2005 due primarily to significantly lower production resulting from the mine pit wall movement at Kumtor in July, lower mill grade at both Kumtor and Boroo and lower recovery at Kumtor, which was partially offset by slightly higher production at Boroo.

Centerra realized an average gold price of \$617 per ounce for the third quarter, a significant increase over the \$429 per ounce realized in the same quarter in 2005.

Centerra’s gold production is unhedged. The impact of prior closures of the hedge position is discussed below under “Gold Hedges”.

## **Cost of sales**

Cost of sales was \$58.5 million in the quarter compared to \$43.1 million in the same period of 2005 primarily reflecting higher mining and milling costs, higher compliance-related costs and a \$6.7 million charge reflecting an adjustment to inventory at Kumtor resulting from higher operating costs following the pit wall movement. On a unit basis, the total cash cost per ounce was \$429 up from \$245 in the third quarter of 2005, primarily due to lower gold production and lower head grades at Kumtor.

## **Depreciation, Depletion and Amortization**

Depreciation, depletion and amortization decreased to \$8.8 million from \$13.4 million in the prior year's third quarter due to lower production and lower unit rates. On a per unit basis, depreciation and amortization for the third quarter of 2006 was \$71.19 per ounce sold compared to \$75.11 per ounce sold in the third quarter of 2005, reflecting the addition of reserves announced in the first quarter of 2006.

## **Accretion and Reclamation Expense**

Accretion and reclamation expense remained at \$0.3 million unchanged from the prior year's third quarter.

## **Exploration & Business Development**

Exploration and business development costs in the third quarter of 2006 decreased to \$6.2 million from \$9.2 million in the third quarter of 2005. While exploration expenditures decreased slightly, business development expense was significantly lower in the quarter with fewer projects underway compared to the same period in 2005, which included the Gatsuert feasibility study.

## **Interest and Other**

Interest and other expenses resulted in a net recovery of \$15.8 million in the third quarter of 2006, compared to a net recovery of \$3.5 million in the third quarter of 2005. The increase in the recovery in the quarter relates to the receipt of an insurance settlement of \$13.6 million related to the 2002 pit wall failure at Kumtor. Current insurance policies do not include similar coverage for the recent pit wall movement that occurred at Kumtor in July 2006. The Company has no outstanding interest-bearing debt.

## **Administration**

Administration costs for the third quarter 2006 were \$5.2 million compared to \$3.7 million in the same period last year. The increase reflects costs of establishment of the Company as a public company and costs associated with Centerra's compliance-related activities including controls, business process and IT.

## **Income Tax Expense**

The Company recorded an income tax expense of \$0.4 million in the third quarter of 2006 compared to an income tax expense of \$1.2 million in the same period in 2005. As a result of the pit wall failure, Kumtor reversed in the quarter a tax benefit of \$3.1 million related to tax losses that are now anticipated to expire unused. This was partially offset by the recognition of a tax recovery of \$2.3 million at Boroo.

## **Net earnings**

Net earnings for the third quarter of 2006 were \$11.5 million or \$0.05 per share compared to net earnings of \$9.0 million or \$0.04 per share for the same period in 2005. This improvement is primarily the result of the insurance settlement at Kumtor, higher gold prices, lower depreciation related to lower production, partially offset by lower production at Kumtor and a \$6.7 million charge to adjust inventory to the current net realizable value following the pit wall movement.

## **Liquidity and capital resources**

Cash provided by operations was \$12.0 million for the quarter compared to \$17.2 million for the prior year third quarter reflecting higher net earnings resulting from the insurance settlement of \$13.6 million which was more than offset by an increased change in working capital due primarily to a decrease in accounts payable.

Cash used in investing activities in the third quarter of 2006 was \$19.4 million for capital spending, compared to \$8.5 million in the same quarter in 2005. In the third quarter, \$5.8 million was spent on sustaining capital projects while \$13.6 million was spent on growth projects, mainly additional mobile mining equipment at Kumtor.

Cash on hand was \$216.3 million at the end of the quarter, including \$25 million held in Canadian funds for anticipated Canadian dollar expenditures.

Centerra has sufficient cash to carry out its operational business plan in 2006.

## **Year-to-Date Results**

Revenue for the first nine months of 2006 was \$276.1 million compared to \$263.5 million in the same period in 2005. The average realized gold price for the first nine months of 2006 was \$595 per ounce compared to \$423 per ounce in the same period in 2005. Net earnings in the first nine months of 2006 were \$58.7 million (\$0.27 per share) compared to net earnings of \$36.1 million (\$0.17 per share) in the same period in 2005.

Cash flow provided by operations for the first nine months of 2006 amounted to \$68.0 million down from \$78.6 million in the comparable period in 2005. The lower cash flow provided by operations reflect the higher net earnings resulting from a \$13.6 million insurance settlement at Kumtor offset by an increase in working capital due primarily to a decrease in accounts payable.

## Share capital

As of September 30, 2006, after giving effect to a 3 for 1 stock split by way of a stock dividend effective June 1, 2006 Centerra had 216,238,815 shares outstanding and 879,321 share options outstanding under its stock option plans.

## Gold Hedging and Off-balance Sheet Obligations

The deferred charges, net of deferred revenue, related to the closing of the gold hedges in 2004, will be recognized in future periods. During the third quarter of 2006, a \$0.4 million charge was recorded in-line with the schedule for recognizing the deferred charges.

<i>\$ millions</i>	<b>Total</b>
Balance as at June 30, 2006	1.5
Amortized in Q3 2006	0.4
Balance as at September 30, 2006	1.1

At September 30, 2006, deferred charges on the balance sheet totaled \$1.1 million and are expected to be recognized; \$0.6 million in fourth quarter 2006 and \$0.5 million in first quarter 2007.

## Market Update

The spot market gold price closed the quarter at \$599 per ounce after reaching a high of \$663 during the period. For the three months ended September 30, 2006, the price averaged \$622 per ounce.

## Mine Operations

Operating and financial results of the Kumtor and Boroo mines are shown on a 100% basis. Centerra continues to own 100% of Kumtor and 95% of Boroo.

### Kumtor – 100% basis

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced more than 5.8 million ounces. During the quarter, Kumtor experienced three lost time injuries. There was one reportable environmental exceedance during the period. A pit wall ground movement occurred at the Kumtor mine site on July 13, 2006 involving a significant portion of the northeast wall.

Kumtor Operating Results	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Sales volume – ounces	53,953	110,668	263,480	410,753
Revenue - \$ millions <sup>(1)</sup>	33.7	46.7	156.6	173.1
Average realized price - \$/oz <sup>(1)</sup>	626	422	595	421
Tonnes mined - 000s	21,574	20,803	62,403	61,445
Tonnes ore mined – 000s	283	1,712	2,839	4,245
Tonnes milled - 000s	1,426	1,388	4,355	4,224
Average mill head grade - g/t <sup>(2)</sup>	1.64	3.35	2.29	3.58
Recovery - %	64.4	82.0	73.9	82.1
Ounces recovered	48,373	122,763	237,189	399,129
Ounces poured	52,665	123,162	241,105	402,514
Total cash costs - \$/oz <sup>(3)</sup>	719	277	480	254
Capital expenditures - \$ millions	15.8	4.9	42.7	10.6

<sup>(1)</sup> Net of the effect of gold hedges, closed out in 2004.

<sup>(2)</sup> g/t means grams per tonne.

<sup>(3)</sup> Total cash cost is a non-GAAP measure and is discussed under “Non-GAAP Measure – Total Cash Cost”.

As previously reported, a pit wall ground movement occurred at the Kumtor mine site on July 13, involving a significant portion of the northeast wall. The ground movement did not reduce the amount of reserves in the pit because it was within the ultimate life-of-mine pit design.

The fallen rock delayed access to ore from this area in the mine representing about 125,000 ounces of scheduled 2006 production. The company has re-sequenced mining of the ore body and continues to mine and mill at full capacity drawing from low-grade stockpiles and the SW Zone. Gold production at Kumtor in 2006 is expected to be about 300,000 ounces at a total cash cost of \$530 per ounce. As noted in the Company’s news release of September 6, gold production at Kumtor in 2007 is expected to be in the range of 440,000 – 475,000 ounces of gold. Production delayed from 2006 and 2007 will be produced in subsequent years.

## **Revenue**

In the third quarter of 2006, revenue was \$33.7 million compared to \$46.7 million in the same period in 2005. The decrease is mainly due to reduced production following a pit wall movement in July which was partially offset by a higher average realized gold price of \$626 per ounce compared to \$422 per ounce in the same period last year. Production in the quarter was 52,665 ounces poured, compared to 123,162 ounces poured in the prior year quarter and gold sold in the third quarter was 53,953 ounces compared to the 110,668 ounces sold in the same period last year. The lower production was mainly due to lower ore grades averaging 1.64 g/t compared to 3.35 g/t in 2005 and lower recovery, which was 64.4% compared to 82.0% in the same period in 2005 reflecting the fact that the mill feed is now primarily sourced from the low grade stock piles and the south west pit as result of the change in the Mine Development Plan following the pit wall movement in July 2006.

Revenue for the first nine months of 2006 was \$156.6 million compared to \$173.1 million in the same period of 2005, reflecting significantly lower production and lower ore grades partially offset by the higher realized price per ounce.

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

## **Cost of sales**

The cost of sales for the third quarter and first nine months of 2006 was \$43.3 million and \$127.1 million compared to \$30.4 million in the third quarter and \$106.1 million in the first nine months of 2005. The higher costs reflect higher mining costs, higher cost of consumables and a \$6.7 million charge to adjust the carrying value of the inventory as a result of higher operating costs per ounce following the revised mining sequence to adjust for the pit wall movement.

Total cash costs per ounce increased to \$719 and \$480 in the third quarter and first nine months of 2006, respectively, compared to \$277 and \$254 in the same periods in 2005. The increases in 2006 are primarily due to lower gold production as a result of lower average grade fed to the mill, increased tonnages mined, higher cost of consumables, and higher revenue-based taxes and royalties due to the high gold price.

## **Exploration**

Exploration expenditures totaled \$3.6 million for the quarter and \$10.4 million year-to-date, compared to \$4.0 million and \$10.6 million in the same periods in 2005. The expenditures relate primarily to ongoing drilling in the immediate vicinity of the Central Pit (SB Zone) and Sarytor Zone. Exploration results at the Kumtor mine continues to expand the SB Zone along strike and down dip and drilling continues to define a higher grade core indicating high grade underground mining potential. Drilling on the Sarytor Zone confirms grade and continuity of the resource with the majority of the drill holes returning results as expected and some holes returning intercepts better than expected.

## Boroo - 100% basis

This open pit mine is the first hard rock gold mine in Mongolia. During the third quarter of 2006, the mine had one reportable lost-time injury and no environmental exceedances.

	Three months ended September 30		Nine months ended September 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Boroo Operating Results</b>				
Sales volume – ounces	<b>69,655</b>	67,754	<b>200,707</b>	212,871
Revenue - \$ millions <sup>(1)</sup>	<b>42.6</b>	29.8	<b>119.5</b>	90.4
Average realized price - \$/oz <sup>(1)</sup>	<b>611</b>	440	<b>595</b>	425
Tonnes mined – 000s	<b>5,167</b>	4,734	<b>13,300</b>	13,877
Tonnes ore mined – 000s	<b>871</b>	657	<b>2,279</b>	1,757
Tonnes milled – 000s	<b>640</b>	596	<b>1,781</b>	1,642
Average mill head grade-(g/t) <sup>(2)</sup>	<b>4.15</b>	4.05	<b>4.05</b>	4.36
Recovery - %	<b>84.7</b>	90.3	<b>87.8</b>	91.7
Ounces recovered	<b>72,341</b>	70,110	<b>203,703</b>	211,227
Ounces poured	<b>73,365</b>	70,734	<b>202,988</b>	218,057
Total cash cost - \$/oz <sup>(3)</sup>	<b>220</b>	187	<b>215</b>	171
Capital expenditures - \$ millions	<b>3.0</b>	3.5	<b>10.1</b>	8.3

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

(2) g/t means grams per tonne

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

## Revenue

In the third quarter of 2006, revenue increased to \$42.6 million from \$29.8 million in the same period in 2005. This was primarily due to the higher year-over-year realized gold price and slightly higher production which was 73,365 poured ounces, compared to 70,734 poured ounces in the prior year quarter.

Revenue for the first nine months of 2006 was \$119.5 million compared to \$90.4 million in the same period of 2005, primarily reflecting the higher realized gold prices, partially offset by lower production for the period due to lower grade and recovery.

The higher average realized price for the third quarter and nine months of 2006 compared to the same periods in 2005 was due to higher spot gold prices.

## **Cost of sales**

The cost of sales for the third quarter and first nine months of 2006 were \$15.2 million and \$42.9 million, respectively compared to \$12.7 million and \$37.2 million respectively in the third quarter and first nine months of 2005. This reflects higher mining costs due primarily to rental equipment used to handle the increased tonnages, higher cost of consumables and higher costs of revenue-based taxes due to higher gold prices.

Total cash costs per ounce increased to \$220 in the third quarter of 2006 compared to \$187 in the third quarter of 2005, and to \$215 for the first nine months of 2006 compared to \$171 for the first nine months of 2005. The increase resulted from higher mining costs, higher cost of consumables and higher costs of revenue-based taxes due to higher gold prices.

## **Exploration**

Exploration expenditures were \$1.0 million and \$3.0 million in the third quarter and nine months of 2006 in Mongolia compared to \$1.4 million and \$4.4 spent in the third quarter and first nine months of 2005. The lower expenditures primarily reflect reduced drilling activity around the Boroo operations.

## **Boroo Heap Leach Project**

The Boroo mine has investigated the possibility of constructing and operating a heap leach operation that would leach and recover the gold from the low grade materials presently defined in the 2006 life-of-mine reserve and resource plan of the Boroo mine coming from stockpiles as well as material yet to be mined. Metallurgical samples of the various ore types were column and crib tested during the year with good metallurgy recovery rates. An internal feasibility study, with assistance from outside expert consultants was completed and determined that a 3 million tonne per annum facility at a capital cost of approximately \$20 million was a cost effective project and would add value to the Boroo operation. Further economic analysis and internal review of the reserves at Boroo are scheduled for the fourth quarter of 2006.

## Other Financial Information - Related party transactions

### Cameco Corporation

Centerra and its subsidiaries maintain inter-company advances to and from Cameco Corporation (“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 of all of its direct and indirect costs relating to these services. Minimal services were provided by Cameco under the services agreement during the first nine months of 2006.

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) are shared with Cameco for 2006 to an agreed amount. During the first nine months of 2006, approximately \$4.0 million Cdn was subject to a cost sharing agreement with Cameco.

A net receivable balance of \$2.6 million Cdn from Cameco was outstanding at September 30, 2006 (\$1.4 million Cdn payable to Cameco at December 31, 2005).

### Kyrgyzaltyn and the Government of the Kyrgyz Republic

The revenues from the Kumtor mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn JSC (“Kyrgyzaltyn”), a Kyrgyz company wholly-owned by the Government of the Kyrgyz Republic.

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

<i>\$ thousands</i>	Three months ended		Nine months ended	
	September 30		September 30	
<b>Related Parties in the Kyrgyz Republic</b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Management fees to Kyrgyzaltyn	<b>81</b>	166	<b>395</b>	616
Concession payments to Kyrgyz Republic	<b>216</b>	443	<b>1,054</b>	1,643
Total	<b>297</b>	609	<b>1,449</b>	2,259
Gross gold and silver sales to Kyrgyzaltyn	<b>34,439</b>	48,459	<b>158,838</b>	177,815
Deduct: refinery and financing charges	<b>259</b>	614	<b>1,214</b>	2,053
Net sales revenue received from Kyrgyzaltyn	<b>34,180</b>	47,845	<b>157,624</b>	175,762

During 2006, management fee commitments to Kyrgyzaltyn are offset against the advance of \$1.0 million made in November 2005.

No further advances were made to the Issyk-Kul Social Fund during the third quarter 2006. The total advance to date is \$2.0 million.

Kyrgyzaltyn and KGC have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended and most recently extended on July 20, 2006 (the “GPA”), that until the earlier of (i) November 15, 2006 and (ii) the date on which at least \$12 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 GPA Kyrgyzaltyn has agreed to sell, before November 15, 2006, a sufficient number of Centerra shares to yield \$12 million of proceeds. These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which 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 are secured by a pledge of Centerra shares owned by Kyrgyzaltyn. A further extension to the Gold Payment Agreement is currently under discussion.

### Other

The Company paid approximately \$115,000 Cdn in the third quarter of 2006 (approximately \$493,000 Cdn for the nine months ended September 30, 2006) to Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Ms. Stephens provides legal and business advisory services related to international operations.

As at September 30, 2006, a relocation loan in the amount of \$250,000 Cdn was outstanding with Centerra’s President and Chief Executive Officer, Mr. Homeniuk. The loan principal is payable in June 2010, while interest is treated as a taxable benefit to Mr. Homeniuk.

### Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra’s results reflect the positive impact of rising gold prices, offset by rising cash costs and reduced production due to lower grades at Kumtor beginning in the second half of 2005 and the Kumtor pit wall movement that occurred in July 2006.

<i>\$ millions, except per share data</i>	2006				2005			2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	76	107	93	75	77	95	92	88
Net earnings	12	29	18	6	9	15	12	15
Earnings per share (basic & diluted)*	0.05	0.13	0.08	0.03	0.04	0.07	0.06	0.07

\* All figures have been adjusted to reflect a 3-for-1 share split by way of a stock dividend effective June 1, 2006.

## **Other Developments**

### **Kyrgyz Republic**

The political situation in the Kyrgyz Republic continued to evolve over the course of the third quarter of 2006. Opposition parties continue to demand constitutional reforms and other changes. Anti Government demonstrations are planned for November 2. The Government is working on a long-term economic development plan that may include strategic decisions with respect to the interest of JSC “Kyrgyzaltyn” in Centerra.

Kumtor Gold Company is engaged in negotiation of the next Collective Labour Agreement (the current Agreement expires on December 31, 2006) with the Kumtor Trade Union leadership. These negotiations are proceeding in a normal, business-like manner and any work stoppages are not expected at this time. The Company has given notice of its intention to bring two disputes with the Government to international arbitration related to land use taxes and regulation of wages for high altitude work. It is unlikely that a material impact to the Company’s financial position will result.

### **Mongolia**

The Company is currently in discussions with the Government of Mongolia regarding amendments to its existing Boroo stability agreement and the negotiation of a stability agreement (called an investment agreement under the newly-enacted minerals law) with respect to its Gatsuurt project. The purpose of these negotiations is to conclude definitive agreements that will provide continued long-term stability to Boroo and enable the prompt development and long-term stability of the Gatsuurt project.

## **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, which are calculated on a unit of production basis.

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 and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

## **Outlook**

At Kumtor, the Company continues to expect production for the full year 2006 to be about 300,000 ounces of gold at a total cash cost of about \$530 per ounce as a result of the pit wall movement that occurred in July 2006.

At Boroo, on a 100% basis, the Company continues to expect production for the full year 2006 of 270,000 to 275,000 ounces of gold with expected total cash costs of \$210 to \$215 per ounce.

Overall, Centerra continues to expect production in 2006 of 570,000 to 575,000 ounces of gold with overall total cash costs expected to be \$370 to \$380 per ounce in 2006.

In aggregate for the fourth quarter of 2006, a \$25 per ounce change in the gold spot price is anticipated to affect revenues, net earnings and cash from operations by approximately \$3.4 million, \$4.3 million and \$3.2 million respectively.

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

<b>Production</b> <i>Ounces of gold</i>	<b>2006</b> <b>YTD Actual</b>		<b>2006</b> <b>Forecast</b>	<b>2005</b> <b>Actual</b>
Kumtor production (Centerra share – 100%)	<b>241,105</b>		300,000	501,487
Boroo production (Centerra share – 95%)	<b>192,838</b>		256,000 – 261,000	271,497
Total production (Centerra share)	<b>433,943</b>		556,000 – 561,000	772,984

<b>Total Cash Cost</b> <sup>(1)</sup> <i>\$ per ounce</i>	<b>2006</b> <b>YTD Actual</b>		<b>2006</b> <b>Forecast</b>	<b>2005</b> <b>Actual</b>
Kumtor	<b>480</b>		530	274
Boroo	<b>215</b>		210 – 215	183
Consolidated	<b>359</b>		370 – 380	241

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

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

- no significant changes in our estimates of future production or costs, and
- no delays in or interruption of production from our mines or in development activities.

For further discussion of the factors that could cause actual results to differ materially, refer to Centerra's Annual Information Form and annual Management's Discussion and Analysis for the year ended December 31, 2005 available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Exploration and Business Development**

One of Centerra's priorities in 2006 is to continue to add to its reserves and resources through its exploration program. The Company expects to spend \$25 million for exploration.

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

### **Kumtor**

- Drilling programs are ongoing in the vicinity of the main Kumtor pit to test for strike and dip extensions of the SB and NB zones. Exploration results continue to expand the SB Zone along strike and down dip and have defined a higher grade core in the SB Zone, which extends down dip below the ultimate pit design, and indicates the opportunity for a high grade underground deposit. The SB Zone remains open along strike to the south and in the down dip direction. Drilling of the SB Zone is continuing in the fourth quarter and preliminary engineering work is underway to evaluate the opportunity for mining the higher grade mineralization from underground. A drilling program is ongoing 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. The infill drill holes are confirming the continuity of the mineralization with the majority of the drill holes returning results as expected and a number of holes returning intercepts better than expected.

- Exploration work continues on other target areas such as Bordoo and Akbel.

### **Boroo**

- At Boroo, drill programs are focusing on testing for additional mineralization around the peripheries of the pits and also geophysical targets in the area of the pits.

### **Gatsuurt**

- Exploration work will continue to evaluate other targets in close proximity to the Gatsuurt deposit.

### **Mongolia**

- Exploration programs will continue to evaluate Centerra's significant land position elsewhere in Mongolia.

### **REN**

- Drilling programs are focused on testing under-explored areas of favorable alteration and mineralization along two main control structures, the Corona Dyke and East Fault.

## **Administration**

Annual administration expenses are expected to amount to approximately \$26 million in 2006. The forecast includes the ongoing costs of maintaining the corporate office in Toronto, Canada and the continuing implementation costs of regulatory standards.

## **Corporate Income Taxes**

Corporate income taxes in the Kyrgyz Republic will be calculated and provisioned at 10% of taxable income in 2006. The Boroo project is in the third year of a three-year 100% income tax relief period.

## **Capital Expenditures**

The capital requirement for 2006 is estimated to be about \$125 million. This includes about \$100 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 Kumtor. The delivery of the new fleet will be largely completed by year-end 2006. The remaining \$25 million of capital spending primarily pertains to maintenance capital at both mine sites.

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

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

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

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

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

**Third Quarter 2006**

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	43.3	15.2	58.5
Adjust for:			
Refining fees & by-product credits	--	--	--
Non-operating costs	0.2	(0.2)	--
Inventory movement	(5.6)	1.2	(4.4)
Total cash cost – 100%	37.9	16.2	54.1
Ounces poured – 100% (000)	52.7	73.4	126.1
Total cash cost per ounce	719	220	429

**Third Quarter 2005**

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	30.4	12.7	43.1
Adjust for:			
Refining fees & by-product credits	--	(0.1)	(0.1)
Non-operating costs	(2.0)	--	(2.0)
Inventory movement	5.7	0.7	6.4
Total cash cost – 100%	34.1	13.3	47.4
Ounces poured – 100% (000)	123.2	70.7	193.9
Total cash cost per ounce	277	187	245

## First Nine Months 2006

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	127.1	42.9	170.0
Adjust for:			
Refining fees & by-product credits	(0.1)	0.3	0.2
Non-operating costs	(1.5)	(0.3)	(1.8)
Inventory movement	(9.7)	0.6	(9.1)
Total cash cost – 100%	115.8	43.5	159.3
Ounces poured – 100% (000)	241.1	202.9	444.0
Total cash cost per ounce	480	215	359

## First Nine Months 2005

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	106.1	37.2	143.3
Adjust for:			
Refining fees & by-product credits	0.3	(0.3)	--
Non-operating costs	(2.8)	0.8	(2.0)
Inventory movement	(1.4)	(0.3)	(1.7)
Total cash cost – 100%	102.2	37.4	139.6
Ounces poured – 100% (000)	402.5	218.1	620.6
Total cash cost per ounce	254	171	225

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Nine Months Ended September 30, 2006**

**(Unaudited)**

**(\$US)**

**Centerra Gold Inc.**  
**Consolidated Balance Sheets**  
(In Thousands of US\$)

	Sept 30/06 (Unaudited)	Dec 31/05
<b>Assets</b>		
Current assets		
Cash	\$ 216,299	\$ 202,417
Amounts receivable	17,281	8,951
Inventories (note 2)	71,563	76,721
Prepaid expenses	33,261	16,151
	<u>338,404</u>	<u>304,240</u>
Property, plant and equipment	260,413	232,114
Goodwill (note 3)	154,586	154,586
Long-term receivables, investments and other	7,992	8,357
	<u>422,991</u>	<u>395,057</u>
<b>Total assets</b>	<b>\$ 761,395</b>	<b>\$ 699,297</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 32,084	\$ 32,129
Provision for reclamation (note 4)	16,286	17,897
Future income taxes	1,295	29
	<u>17,581</u>	<u>17,926</u>
Non-controlling interest	8,198	4,821
<b>Shareholders' equity</b>		
Share capital (note 5)	522,383	522,383
Contributed surplus	30,119	29,739
Retained earnings	151,030	92,299
	<u>703,532</u>	<u>644,421</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 761,395</b>	<b>\$ 699,297</b>

Commitments and Contingencies (note 10)

See accompanying notes to the consolidated financial statements.

**Centerra Gold Inc.**  
**Consolidated Statements of Earnings and Retained Earnings**

(Unaudited)

(In Thousands of US\$)

	Three Months Ended		Nine Months Ended	
	Sept 30/06	Sept 30/05	Sept 30/06	Sept 30/05
<b>Revenue from</b>				
Gold sales	\$ 76,326	\$ 76,529	\$ 276,116	\$ 263,539
<b>Expenses</b>				
Cost of sales (note 2)	58,507	43,136	170,050	143,359
Depreciation, depletion and amortization	8,816	13,372	28,586	46,572
Accretion and reclamation expense (note 4)	275	329	(1,728)	986
Exploration and business development (note 6)	6,169	9,231	18,618	21,444
Interest and other (income) (note 7)	(15,840)	(3,519)	(21,629)	(3,699)
Administration	5,189	3,697	17,764	11,988
	<b>63,116</b>	<b>66,246</b>	<b>211,661</b>	<b>220,650</b>
<b>Earnings before income taxes and non-controlling interest</b>	<b>13,210</b>	<b>10,283</b>	<b>64,455</b>	<b>42,889</b>
Income tax expense (note 8)	435	1,169	2,347	5,254
Non-controlling interest	1,274	161	3,377	1,564
<b>Net earnings</b>	<b>11,501</b>	<b>8,953</b>	<b>58,731</b>	<b>36,071</b>
Retained earnings, beginning of period	139,529	76,983	92,299	49,865
<b>Retained earnings, end of period</b>	<b>151,030</b>	<b>85,936</b>	<b>151,030</b>	<b>85,936</b>
<b>Basic and diluted earnings per common share [note 9]</b>	<b>\$ 0.05</b>	<b>\$ 0.04</b>	<b>\$ 0.27</b>	<b>\$ 0.17</b>

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

(Unaudited)  
(In Thousands of US\$)

	Three Months Ended		Nine Months Ended	
	Sept 30/06	Sept 30/05	Sept 30/06	Sept 30/05
<b>Operating activities</b>				
Net earnings	\$ 11,501	\$ 8,953	\$ 58,731	\$ 36,071
Items not requiring (providing) cash:				
Depreciation, depletion and amortization	8,816	13,372	28,586	46,572
Accretion and reclamation expense	275	329	(1,728)	986
Deferred charges recognized	391	1,131	1,702	4,314
Future income tax expense (recovery)	331	933	1,266	3,902
Non-controlling interest	1,274	161	3,377	1,564
Other operating items	(400)	659	(2,180)	943
	<u>22,188</u>	<u>25,538</u>	<u>89,754</u>	<u>94,352</u>
Change in working capital	(10,191)	(8,293)	(21,759)	(15,766)
<b>Cash provided by operations</b>	<u>11,997</u>	<u>17,245</u>	<u>67,995</u>	<u>78,586</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	(19,418)	(8,456)	(54,162)	(18,881)
Proceeds from disposition of fixed assets	49	-	49	-
<b>Cash provided by (used in) investing</b>	<u>(19,369)</u>	<u>(8,456)</u>	<u>(54,113)</u>	<u>(18,881)</u>
Increase in cash during the period	(7,372)	8,789	13,882	59,705
Cash at beginning of the period	223,671	203,507	202,417	152,591
<b>Cash at end of the period</b>	<u>\$ 216,299</u>	<u>\$ 212,296</u>	<u>\$ 216,299</u>	<u>\$ 212,296</u>

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

**1. Basis of Presentation**

The consolidated financial statements of Centerra Gold Inc. (“Centerra”) have been prepared by management in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as the most recent annual consolidated financial statements. The financial statements should be read in conjunction with Centerra's annual consolidated financial statements included in the 2005 annual report, since they do not contain all of the disclosures required by Generally Accepted Accounting Principles.

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

**2. Inventory Impairment**

During the quarter, the company incurred a \$6.7 million charge to reduce the inventory at the Kumtor Gold Project to net realizable value which is included in cost of sales.

**3. Goodwill**

The Company tests goodwill for possible impairment on an annual basis and at any other time if an event occurs or circumstances change that would more likely than not reduce fair value of a reporting unit below its carrying amount. During the third quarter of 2006, the company completed its goodwill impairment test for all reporting units. The results of this test have indicated that there is no impairment.

**4. Asset Retirement Obligations**

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

(Thousands)	Three Months Ended		Nine Months Ended	
	Sept 30/06	Sept 30/05	Sept 30/06	Sept 30/05
Balance, beginning of period	\$ 16,135	\$ 19,521	\$ 17,897	\$ 18,868
Liabilities incurred / (settled)	(124)	(53)	118	(57)
Revisions in estimated timing of cash flows	-	-	(2,589)	-
Accretion expense	275	329	860	986
Balance, end of period	\$ 16,286	\$ 19,797	\$ 16,286	\$ 19,797

The year to date balance of \$16.3 million reflects the previously announced significant new reserves at Kumtor, resulting in a delay in reclamation spending at the site. Those two factors, resulted in the reduction of the present value of the obligation by \$2.6 million, which was recorded in earnings in the first quarter of 2006.

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**5. Shareholders' Equity**

**a) Share capital**

Centerra is authorised to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value. On May 9, 2006 the board of directors of Centerra Gold approved a three-for-one stock split of the Corporation's outstanding common shares, effected by way of a stock dividend. On June 1, 2006, shareholders of record at the close of business on May 29, 2006 received two additional common shares for each common share held. All share and per share data, including stock options, have been adjusted to reflect the stock split. As at September 30, 2006 the number of outstanding shares is as follows:

<b>Number Issued</b>	<b>2006</b> (Number of Shares)	<b>2006</b> (Thousands of \$US)
Beginning and end of period	<b>216,238,815</b>	<b>\$ 522,383</b>

**b) Stock-based compensation**

**Stock options**

**Centerra Plan**

At the start of 2006, a total of 600,549 stock options with a weighted-average strike price of Cdn \$5.88 per share were outstanding.

In February 2006, Centerra granted an additional 278,772 stock options at a strike price of Cdn \$12.78 per share. The compensation expense associated with this stock option series was calculated using the Black-Scholes valuation model, assuming a 6-year term, 32% volatility and a risk-free rate of return of 4.5%, and is being charged against net income over its vesting period.

A total of 879,321 stock options was outstanding at September 30, 2006 with strike prices as indicated above.

**Cameco Plan**

A total of 149,400 stock options was outstanding at September 30, 2006 at a market price of Cdn \$40.73 per share.

**Performance share units**

At September 30, 2006, a total of 850,750 performance share units for employees and officers of the Company was outstanding.

**Deferred share units**

At September 30, 2006, a total of 130,534 deferred share units for directors of the Company was outstanding.

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**6. Exploration and Business Development**

(Thousands)	Three months ended		Nine months ended	
	Sept 30/06	Sept 30/05	Sept 30/06	Sept 30/05
Exploration costs	\$ 6,049	\$ 6,793	\$ 16,321	\$ 18,387
Business development and feasibility study costs	120	2,438	2,297	3,057
	\$ 6,169	\$ 9,231	\$ 18,618	\$ 21,444

**7. Insurance Proceeds**

During the quarter, the company received insurance proceeds of \$13.6 million arising from a claim relating to the 2002 pit wall failure at the Kumtor Gold Project.

**8. Income Tax Expense**

As a result of the pit wall failure, Kumtor in the quarter reversed a tax benefit of \$3.1 million previously recognized, relating to tax losses that are now anticipated to expire. This was partially offset by the recognition of a tax recovery of \$2.3 million at Boroo.

**9. Earnings Per Share Amounts**

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

	Three Months Ended		Nine Months Ended	
	Sept 30/06	Sept 30/05	Sept 30/06	Sept 30/05
Basic weighted average number of common shares outstanding (Thousands)	216,239	216,239	216,239	216,239
Diluted weighted average number of common shares outstanding (Thousands)	216,510	216,327	216,544	216,303
<b>Basic and diluted earnings per common share</b>	<b>\$ 0.05</b>	\$ 0.04	<b>\$ 0.27</b>	\$ 0.17

**10. Commitments and Contingencies**

In April 2006, the Social Fund of the Kyrgyz Republic asserted that Kumtor is liable for failing to submit required information on Social Identification Numbers of Kumtor employees for 2004 and 2005. This matter was settled during the quarter with no financial impact to Kumtor.

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A judgement in the amount of \$1.0 million has been issued by a Kyrgyz court against Kumtor ordering it to pay land tax on certain non-agricultural land leased by Kumtor. Kumtor has notified the government of its intent to bring the matter to international arbitration. It is unlikely that a material impact to the company's financial position will result.

Kumtor is disputing the application of a new law regulating wages for high altitude work. The Company has notified the Government of its intent to bring the matter to international arbitration. It is unlikely that a material impact to the company's financial position will result.

## **11. Related Party Transactions**

### **Cameco Corporation**

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

Effective April 1, 2004 Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to Centerra in return for reimbursement for all its direct and indirect costs relating to those services. Minimal services were provided by Cameco under the services agreement during the first nine months of 2006 (For 2005, \$195,000 was incurred in the third quarter and \$609,000 year to date).

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) are shared with Cameco for 2006 to a prescribed amount. During the first nine months of 2006, approximately \$4.0 million Cdn was subject to this cost sharing agreement with Cameco.

A net receivable balance of \$2.6 million Cdn from Cameco was outstanding at September 30, 2006 (\$1.4 million Cdn payable to Cameco at December 31, 2005).

### **Other**

The Company paid approximately \$115,000 Cdn in the third quarter of 2006, (\$109,000 Cdn in the third quarter of 2005) and approximately \$493,000 Cdn year to date, (\$320,000 Cdn for the nine month ended September, 2005) 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.

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

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

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<b>(Thousands)</b>	<b>Three Months Ended</b>	
	<b>Sept 30/06</b>	<b>Sept 30/05</b>
Management fees to Kyrgyzaltyn	\$ 81	\$ 166
Concession payments to the Kyrgyz Republic	216	443
	<b>\$ 297</b>	<b>\$ 609</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 34,439	\$ 48,459
Deduct: refinery and financing charges	(259)	(614)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 34,180</b>	<b>\$ 47,845</b>

  

<b>(Thousands)</b>	<b>Nine Months Ended</b>	
	<b>Sept 30/06</b>	<b>Sept 30/05</b>
Management fees to Kyrgyzaltyn	\$ 395	\$ 616
Concession payments to the Kyrgyz Republic	1,054	1,643
	<b>\$ 1,449</b>	<b>\$ 2,259</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 158,838	\$ 177,815
Deduct: refinery and financing charges	(1,214)	(2,053)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 157,624</b>	<b>\$ 175,762</b>

During 2006, management fee commitments to Kyrgyzaltyn are offset against the advance of \$1.0 million which was made for this purpose in November 2005.

As at September 30, 2006, prepayments against future commitments to the Issyk-Kul Social Fund totalled \$2.0 million. No amounts were advanced during the quarter.

Kyrgyzaltyn and Kumtor have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended (the "GPA") and most recently extended on July 20, 2006, that until the earlier of (i) November 15, 2006 and (ii) the date on which at least \$12 million of proceeds from the sale of shares of Centerra currently owned by Kyrgyzaltyn have been deposited into a special purpose gold payment account of Kyrgyzaltyn, Kyrgyzaltyn will have 12 days to pay for gold shipped from the Kumtor mine. Kyrgyzaltyn shall pay interest on unpaid amounts equal to LIBOR plus 0.25%. Prior to the effective date of the GPA, Kumtor shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA Kyrgyzaltyn has agreed to sell before November 15, 2006, a sufficient number of Centerra shares to yield \$12 million of proceeds. These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect the obligations of Kyrgyzaltyn to Kumtor are secured by a pledge of Centerra shares owned by Kyrgyzaltyn.

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**12. Segmented Information**

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

**Geographic Segmentation of Revenue**

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

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**Three months ended September 30, 2006**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 33.7	\$ 42.6	\$ -	\$ 76.3
Expenses				
Cost of sales	43.3	15.2	-	58.5
Depreciation, depletion and amortization	3.4	5.3	0.1	8.8
Accretion and reclamation expense	0.3	-	-	0.3
Exploration and business development	3.6	0.4	2.1	6.1
Interest and other	(13.0)	(0.6)	(2.2)	(15.8)
Administration	0.7	0.4	4.1	5.2
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>(4.6)</b>	<b>21.9</b>	<b>(4.1)</b>	<b>13.2</b>
Income tax expense (recovery)	2.6	(2.3)	0.1	0.4
Non-controlling interest	-	1.3	-	1.3
<b>Net earnings (loss)</b>	<b>(7.2)</b>	<b>22.9</b>	<b>(4.2)</b>	<b>11.5</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 15.8</b>	<b>\$ 3.3</b>	<b>\$ 0.4</b>	<b>\$ 19.5</b>

**Three months ended September 30, 2005**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 46.7	\$ 29.8	\$ -	\$ 76.5
Expenses				
Cost of sales	30.4	12.7	-	43.1
Depreciation, depletion and amortization	7.6	5.7	0.1	13.4
Accretion and reclamation expense	0.3	-	-	0.3
Exploration and business development	4.0	2.6	2.7	9.3
Interest and other	0.6	0.2	(4.3)	(3.5)
Administration	0.5	-	3.1	3.6
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>3.3</b>	<b>8.6</b>	<b>(1.6)</b>	<b>10.3</b>
Income tax expense	1.1	-	0.1	1.2
Non-controlling interest	-	0.2	-	0.2
<b>Net earnings (loss)</b>	<b>\$ 2.2</b>	<b>\$ 8.4</b>	<b>\$ (1.7)</b>	<b>\$ 8.9</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 4.9</b>	<b>\$ 3.5</b>	<b>\$ -</b>	<b>\$ 8.4</b>

**Centerra Gold Inc.**  
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**Nine months ended September 30, 2006**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 156.6	\$ 119.5	\$ -	\$ 276.1
Expenses				
Cost of sales	127.1	42.9	-	170.0
Depreciation, depletion and amortization	13.6	14.7	0.3	28.6
Accretion and reclamation expense	(1.8)	0.1	-	(1.7)
Exploration and business development	10.4	4.1	4.1	18.6
Interest and other	(12.2)	(1.0)	(8.4)	(21.6)
Administration	2.0	1.1	14.7	17.8
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>17.5</b>	<b>57.6</b>	<b>(10.7)</b>	<b>64.4</b>
Income tax expense (recovery)	4.4	(2.3)	0.2	2.3
Non-controlling interest	-	3.4	-	3.4
<b>Net earnings (loss)</b>	<b>13.1</b>	<b>56.5</b>	<b>(10.9)</b>	<b>58.7</b>
<b>Capital expenditures for the period</b>	<b>\$ 42.7</b>	<b>\$ 10.5</b>	<b>\$ 1.1</b>	<b>\$ 54.3</b>

**Nine months ended September 30, 2005**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 173.1	\$ 90.4	\$ -	\$ 263.5
Expenses				
Cost of sales	106.1	37.2	-	143.3
Depreciation, depletion and amortization	28.0	18.2	0.4	46.6
Accretion and reclamation expense	0.9	0.1	-	1.0
Exploration and business development	10.6	5.9	4.9	21.4
Interest and other	3.4	0.2	(7.3)	(3.7)
Administration	2.1	0.9	9.0	12.0
<b>Earnings (loss) before income taxes and minority interest</b>	<b>22.0</b>	<b>27.9</b>	<b>(7.0)</b>	<b>42.9</b>
Income tax expense	4.9	-	0.3	5.2
Non-controlling interest	-	1.6	-	1.6
<b>Net earnings (loss)</b>	<b>\$ 17.1</b>	<b>\$ 26.3</b>	<b>\$ (7.3)</b>	<b>\$ 36.1</b>
<b>Capital expenditures for the period</b>	<b>\$ 10.6</b>	<b>\$ 8.3</b>	<b>\$ -</b>	<b>\$ 18.9</b>

**13. Comparative Information**

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