

Centerra Gold Inc.

Management's Discussion and Analysis

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

Cautionary Statement on Forward-Looking Information

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

Reserve and resource figures included are estimates and no assurances can be given that the indicated levels of gold will be produced or that Centerra will receive the gold price assumed in determining its reserves. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While Centerra believes that the reserve and resource estimates included are well established and the best estimates of Centerra's management, reserve and resource estimates by their nature are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable.

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

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

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

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

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

Nature of Centerra's Business

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

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

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

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

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

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

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

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

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

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

Gold Industry and Key Economic Trends

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

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

Global gold industry production is expected to be flat to declining for the next few years after significant growth from 1995 to 2001. This is the result of, among other things, a material decline in global exploration funding from 1996 to 2002, which has led to relatively few material discoveries. In addition, Centerra believes the cost of gold production in U.S. dollar terms is rising globally due primarily to a declining quality of reserves at producing mines, higher cost of consumables, and the overall trend of U.S. dollar deterioration and instability. The period of low gold prices from 1998 to 2002 also coincided with significant consolidation among senior gold producers, with approximately one-half of global production now controlled by the world's top 10 producers. Producers are being forced to explore new regions as their reserves are depleted in conventional locations for gold mining.

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

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

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

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

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

Sensitivities

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

Vision and Strategy

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

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

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

ounce in 2006, rather than \$400 per ounce used for the 2005. (See the “Reserves and Resources Summary” table).

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

**2006 Year-end Reserve and Resource Summary
(as of December 31, 2006)**

Reserves ⁽¹⁾ (Tonnes and ounces in thousands) ⁽¹¹⁾⁽¹²⁾											
Property	Proven			Probable			Total Proven and Probable Reserves				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor	12,014	4.9	1,893	19,426	4.6	2,852	31,440	4.7	4,745	4,745	OP
Boroo	5,294	2.6	449	19,230	1.3	785	24,523	1.6	1,234	1,173	OP
Gatsuurt	-	-	-	9,101	3.4	1,005	9,101	3.4	1,005	1,005	OP
Total	17,308	4.2	2,342	47,757	3.0	4,642	65,064	3.3	6,984	6,923	

Measured and Indicated Resources ⁽²⁾ (Tonnes and ounces in thousands) ⁽¹¹⁾⁽¹²⁾											
Property	Measured			Indicated			Total Measured and Indicated Resources				
	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Tonnes	Grade (g/t)	Contained Gold (oz)	Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
Kumtor ⁽⁵⁾⁽⁶⁾	17,710	3.5	1,964	14,810	3.2	1,538	32,520	3.3	3,502	3,502	OP
Boroo ⁽⁵⁾⁽⁸⁾	680	2.0	45	5,519	1.4	240	6,199	1.4	284	270	OP
Gatsuurt ⁽⁹⁾	-	-	-	6,238	3.0	607	6,238	3.0	607	607	OP
REN ⁽¹⁰⁾	-	-	-	2,991	12.7	1,220	2,991	12.7	1,220	756	UG
Total	18,390	3.4	2,009	29,558	3.8	3,605	47,948	3.6	5,613	5,135	

Inferred Resources ⁽²⁾ (Tonnes and ounces in thousands) ⁽¹¹⁾⁽¹²⁾					
Property	Inferred			Centerra Share (oz) ⁽³⁾	Mining Method ⁽⁴⁾
	Tonnes	Grade (g/t)	Contained Gold (oz)		
Kumtor ⁽⁵⁾⁽⁶⁾	571	2.2	40	40	OP
Kumtor SB Underground ⁽⁷⁾	2,781	20.5	1,830	1,830	UG
Boroo ⁽⁵⁾⁽⁸⁾	7,772	1.0	240	228	OP
Gatsuurt ⁽⁹⁾	2,437	3.3	256	256	OP
REN ⁽¹⁰⁾	835	16.1	432	268	UG
Total	14,396	6.0	2,798	2,622	

- (1) The reserves have been estimated based on a gold price of \$475 per ounce.
- (2) Mineral resources are in addition to reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability when calculated using mineral reserve assumptions.
- (3) Centerra’s equity interests are: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.
- (4) “OP” means open pit and “UG” means underground.
- (5) Open pit resources occur outside the current ultimate pits which have been designed using a gold price of \$475 per ounce.
- (6) The open pit reserves and resources at Kumtor are estimated based on a cutoff grade of 1.3 grams per tonne.
- (7) Underground resources occur below the main Kumtor pit shell and are estimated based on a cutoff grade of 7.0 grams per tonne.
- (8) The reserves and resources at Boroo are estimated based on a variable cutoff grade depending on the type of material and the associated recovery. The cutoff grades range from 0.2 grams per tonne to 0.8 grams per tonne.
- (9) The reserves and resources at Gatsuurt are estimated using either a 1.2 or 1.9 grams of gold per tonne cutoff grade depending on the type of material and the associated recovery. High grade values were also cut using variable limits ranging from 20 to 45 g/t Au depending on the mineralized zone.
- (10) The resources at REN are estimated based on a cutoff grade of 8.0 grams per tonne.
- (11) A conversion factor of 31.10348 grams per ounce of gold is used in the reserve and resource estimates.
- (12) Numbers may not add up due to rounding.

**Reconciliation of Gold Reserves and Resources
(in thousands of ounces of contained gold)⁽⁸⁾**

	December 31 <u>2005⁽⁴⁾</u>	2006 <u>Throughput⁽²⁾</u>	2006 Addition <u>(Deletion)⁽³⁾</u>	December 31 <u>2006</u>	Centerra's <u>Share</u> December 31 <u>2006⁽⁴⁾</u>
Reserves – Proven and Probable					
Kumtor ⁽⁵⁾	4,953	416	208	4,745	4,745
Boroo	1,218	326	342	1,234	1,173
Gatsuurt ⁽⁷⁾	<u>986</u>	<u>0</u>	<u>19</u>	<u>1,005</u>	<u>1,005</u>
Total Proven and Probable Reserves	<u>7,157</u>	<u>742</u>	<u>569</u>	<u>6,984</u>	<u>6,923</u>
Resources – Measured					
Kumtor ⁽⁶⁾	1,634	0	330	1,964	1,964
Boroo	<u>147</u>	<u>0</u>	<u>(102)</u>	<u>45</u>	<u>43</u>
Total Measured Resources	<u>1,781</u>	<u>0</u>	<u>228</u>	<u>2,009</u>	<u>2,007</u>
Resources – Indicated					
Kumtor ⁽⁶⁾	1,387	0	151	1,538	1,538
Boroo	54	0	186	240	228
Gatsuurt ⁽⁷⁾	565	0	42	607	607
REN	<u>1,201</u>	<u>0</u>	<u>19</u>	<u>1,220</u>	<u>756</u>
Total Indicated Resources	<u>3,207</u>	<u>0</u>	<u>398</u>	<u>3,605</u>	<u>3,129</u>
Total Measured & Indicated Resources	<u>4,988</u>	<u>0</u>	<u>626</u>	<u>5,613</u>	<u>5,135</u>
Resources – Inferred					
Kumtor ⁽⁶⁾	803	0	(763)	40	40
Kumtor SB Underground	0	0	1,830	1,830	1,830
Boroo	167	0	73	240	228
Gatsuurt ⁽⁷⁾	305	0	(49)	256	256
REN	<u>128</u>	<u>0</u>	<u>304</u>	<u>432</u>	<u>268</u>
Total Inferred Resources	<u>1,403</u>	<u>0</u>	<u>1,395</u>	<u>2,798</u>	<u>2,622</u>

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

- (1) Reserves and resources as reported in Centerra's 2005 AIF.
- (2) Corresponds to millfeed. The discrepancy between the 2006 millfeed and 2006 ounces of gold produced is due to gold recovery in the mill.
- (3) Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, an increase in the gold price, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.
- (4) Centerra's equity interests as at December 31, 2006, were as follows: Kumtor 100%, Gatsuurt 100%, Boroo 95% and REN 62%.
- (5) Kumtor reserves include the main pit and the Southwest Zone and Sarytor satellite deposits.
- (6) Kumtor open pit resources include the main pit and the Southwest Zone and Sarytor satellite deposits.
- (7) Gatsuurt reserves and resources include the Central Zone and Main Zone deposits.
- (8) Numbers may not add up due to rounding.

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

Selected Annual Information

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

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

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

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

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

Results

Overview of 2006 Versus 2005

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

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

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

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

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

reserve increase at Kumtor in 2005 which, according to policy, impacts the year following the reserve announcement.

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

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

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

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

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

Results of Operating Segments

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

Kumtor – 100% basis

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

Kumtor Operating Results

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

⁽¹⁾ g/t means grams per tonne.

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

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

Revenue

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

Cost of Sales

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

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

Exploration and Business Development

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

Capital Expenditures

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

Reserves

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

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

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

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

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

Boroo – 100% basis

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

Boroo Operating Results

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

⁽¹⁾ g/t means grams per tonne

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

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

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

Revenue

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

Cost of Sales

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

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

Exploration

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

Capital Expenditures

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

Reserves

The updated reserve estimate at December 31, 2006 on a 100% basis was prepared using a gold price of \$475 per ounce and variable cut-off grades ranging from 0.2 g/t gold to 0.8 g/t gold depending upon the type of material and the associated gold recovery. The proven and probable reserves, including the stockpiles, are estimated at 24.5 million tonnes averaging 1.6 g/t gold for a total of 1,234,000 ounces of contained gold, compared to 13.4 million tonnes averaging 2.8 g/t gold for a total of 1,218,000 ounces of contained gold as at the 2005 year-end. In 2006, ore with 326,000 ounces of contained gold was fed to the mill, and 342,000 ounces of contained gold were added to the reserves. There is only a minimal increase in reserves attributable to using a gold price of \$475 per ounce in 2006, rather than \$400 per ounce used for the 2005 year-end reserve estimate. The increase in reserves are the result of the inclusion of lower grade heap leach material in the reserves following the positive results from the heap leach feasibility study and decision to develop a heap leach facility at Boroo. Measured and indicated resources are estimated at 6.2 million tonnes averaging 1.4 g/t gold for a total of 285,000 ounces of contained gold using the same variable cut-off grades as the reserve estimate. These resources are in addition to the proven and probable reserves. This is an increase of about 83,000 ounces of contained gold from the 2005 year-end measured and indicated resources.

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

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

The Gatsuurt Project

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

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

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

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

jurisdiction over the dispute. Any decision of the MNAC may be final and binding on CGM. An appeal, if any, would likely be to the courts of Mongolia.

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

Fourth Quarter of 2006

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

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

Cost of sales in the fourth quarter of 2006 was \$66.9 million compared to \$42.8 million in the same period in 2005 reflecting lower grade production at the Kumtor mine, the higher cost of labor and consumables, and the additional costs booked in the quarter at Kumtor.

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

Quarterly Consolidated Financial Results

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, partially offset by rising cash costs and reduced production due to progressively

lower grades and recovery at the Kumtor mine. Quarterly results in 2006 also include the impact of special items at Kumtor such as the insurance settlement from the 2002 pitwall movement insurance claim (third quarter), accrual of costs related to the high altitude coefficient settlement and land tax and the recognition of tax benefits (all fourth quarter). The quarterly financial results for 2006 and 2005 are shown below:

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

Overview of 2005 Versus 2004

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

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

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

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

Depreciation, depletion, amortization, accretion and reclamation increased in 2005 to \$60 million in 2005 from \$54 million in 2004. This change was primarily due to an increased ownership in the Kumtor mine and the start of commercial operation at the Boroo

mine. On a per unit basis, depreciation, depletion, amortization, accretion and reclamation amounted to \$77 per ounce sold in 2005 compared to \$87 per ounce sold in 2004. The primary reasons for the per unit decrease was the addition of new reserves in early 2005.

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

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

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

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

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

Balance Sheet

Property, Plant and Equipment

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

Goodwill

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

Share Capital

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

Gold Hedging and Off-Balance Sheet Arrangements

Centerra does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated affiliates. In the

case of joint ventures, the Company's proportionate interest for consolidation purposes is equivalent to the economic returns to which it is entitled as a joint-venture partner.

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

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

Non-GAAP Measure – Total Cash Cost

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

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

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

Total cash cost per ounce can be reconciled as follows:

2006 Year

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

2005 Year

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

Liquidity and Capital Resources

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

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

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

Investing activities in 2006 of \$111 million, included \$96 million paid in cash and \$15 million accrued. These amounts reflect \$24 million of sustaining capital and \$87 million of growth capital spent at the Kumtor and Boroo mines. The comparative in 2005 of \$34 million reflects \$15 million of sustaining capital and \$19 million of growth capital spent at the Kumtor

and Boroo mines. The \$13 million of cash provided by investing activities in 2004 is net of \$12 million of sustaining capital and the return of funds previously invested in the Cameco group of companies of \$23 million.

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

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

Contractual Obligations

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

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

(1) Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$21.0 million. In 1998, a reclamation trust fund was established to cover the future costs of reclamation, net of expected salvage value which was estimated, at \$14.9 million. At December 31, 2006, the balance in the fund was \$4.7 million, with the remaining \$1.4 million to be funded over the life of the mine.

(2) The Company has agreed to loan the government of the Kyrgyz Republic a total of \$4.4 million, whereby under certain conditions one-half of this loan would be forgivable. At December 31, 2006, \$1.4 million had yet to be loaned.

(3) Agreement to lease mobile equipment.

(4) The Company has entered into a funding agreement with local authorities in the Kyrgyz Republic to fund a diagnostic clinic and social development program.

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

(6) Lease of corporate office premises expiring in November 2011.

Related Party Transactions

Cameco Corporation

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

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

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

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

Kyrgyzaltyn and the Government of the Kyrgyz Republic

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

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

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

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

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

Other

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

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

Other Developments

Kyrgyz Republic

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

The newly-appointed Prime Minister is engaged in dealing with long outstanding Kumtor issues. Specifically, based on the long-term relationship between the Government of the Kyrgyz Republic and Cameco Corporation as original founders of Centerra, he invited Cameco to conduct discussions regarding a number of issues concerning Kumtor. Cameco and Centerra are meeting with the new Government to discuss these issues. The positive resolution of these issues would help to provide a stable and favourable operational environment for and an improved investment climate in the Kyrgyz Republic. If the issues between Cameco and

Centerra, and the Kyrgyz Republic are not resolved to their mutual satisfaction, the risks to Centerra will increase.

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

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

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

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

Mongolia

In 2000, the Mongolian People's Revolutionary Party ("MPRP") won a strong majority in the Mongolian legislature. It continued many of the reform policies and focused on social welfare and public order priorities. In the June 2004 election, the MPRP lost its majority

but regained it in January 2005 when several members of the coalition government joined the MPRP to form a coalition cabinet. Presidential elections were held in May 2005, and Mr. Enkhbayar from the MPRP was elected in the first round of voting. In late-2005, the coalition cabinet dissolved, and in early-2006, the Government was reformed and is now dominated by members of the MPRP.

The Company continues its negotiations regarding its Boroo stability agreement and Gatsuurt Investment Agreement with the Mongolian Government amid strong nationalistic sentiment in the country. No agreements have yet been reached. The Ministry of Finance has alleged certain tax-related violations by the Company and notified it on January 15, 2007 that the Boroo stability agreement will be terminated unless the alleged violations are cured within 120 days. The Company responded to the Minister that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. On February 13, 2007, the Company received a reply from the Minister of Finance re-iterating the allegations of violations. The Company believes that this dispute will be resolved as part of the negotiations on the Boroo and Gatsuurt agreements.

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

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

Critical Accounting Estimates

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

Depreciation and depletion of property, plant and equipment directly involved in the mining and milling operations is primarily calculated using the unit of production method.

This method allocates the cost of an asset to each period based on current period production as a portion of total lifetime production or a portion of estimated recoverable ore reserves. Estimates of lifetime production and amounts of recoverable reserves are subject to judgment and could change significantly over time. If actual reserves prove to be significantly different than the estimates, there would be a material impact on the amounts of depreciation and depletion charged to earnings.

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

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

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

Changes in Accounting Standards

Financial Instruments

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

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

instruments designated as cash flow hedges recognized in other comprehensive income, except for the ineffective portion of the hedges which will be recognized in net income.

Section 1530 requires an entity to recognize certain unrealized gains and losses in “other comprehensive income”, the accumulated amount of which is included in shareholders’ equity, until such gains and losses are realized and then recognized in net income, and requires the introduction of a statement of comprehensive income.

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

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

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

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

Sustainable Development

Centerra believes in the principles of sustainable development. In endeavoring to achieve its strategic objectives, the Company strives to be a leading performer among its peers

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

Outlook

Production and Unit Cost – 2006 by Quarter and 2007 Forecast

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

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

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

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

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

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

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

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

Exploration and Business Development

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

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

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

Kumtor

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

Boroo

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

Mongolia

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

REN

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

Administration

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

Corporate Income Taxes

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

Capital Expenditures

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

Risk Factors

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

Volatility of Gold Prices

Centerra's revenue is largely dependent on the world market price of gold. The gold price is subject to volatile price movements over time and is affected by numerous factors beyond the Company's control. These factors include global supply and demand; central bank lending, sales and purchases; expectations for the future rate of inflation; the level of interest

rates; the strength of, and confidence in, the US dollar; market speculative activities; and global or regional political and economic events, including the performance of Asia's economies.

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

Further Ground Movements at the Kumtor Mine

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

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

Political Risk

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

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

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

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

Production Estimates May Be Inaccurate

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

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

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

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

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

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

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

Environmental, Health and Safety Risks

Centerra expends significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations and permitting requirements (for the purpose of this paragraph, "laws") drawn from a number of different jurisdictions. The Company anticipates that it will be required to continue to do so in the future as the historical trend toward stricter such laws is likely to continue. The possibility of more stringent laws exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining sites and other environmental matters, each of which could have a

material adverse effect on the Company's exploration, the cost or the viability of a particular project, future cash flows, earnings, results of operations and financial condition.

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

Decommissioning and Reclamation Costs May be Difficult to Predict Accurately

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

Reduced Liquidity and Difficulty in Obtaining Future Financing

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