



## NEWS RELEASE

(All figures are in United States dollars)

### **Centerra Gold Reports Second Quarter Earnings of US\$0.13 per Share**

**Toronto, Canada, July 27, 2006:** Centerra Gold Inc. (TSX: CG) today reported second quarter net earnings of \$29.0 million (\$0.13 per common share), up significantly from net earnings of \$15 million (\$0.07 per common share) in the same quarter of last year. The Company implemented a 3-for-1 share split by way of a stock dividend effective June 1, 2006 which is reflected in all current and historic per share metrics in this release. Cash provided by operations, net of working capital changes and other operating items, was \$24 million compared to \$25 million in the second quarter of 2005. Gold production, on a 100% basis, totaled 164,252 ounces at a total cash cost of \$325 per ounce in the second quarter compared to 213,225 ounces at a total cash cost of \$221 per ounce in the corresponding quarter of 2005.

For the first half of 2006, net earnings were \$47.2 million (\$0.22 per common share) and cash provided by operations amounted to \$56 million. Gold production totaled 318,063 ounces at a total cash cost of \$331 per ounce. In the comparable period of 2005, Centerra reported net earnings of \$27 million (\$0.13 per common share) and cash provided by operations of \$61 million. Gold production was 426,675 ounces at a total cash cost of \$216 per ounce.

The higher year-over-year net earnings for the quarter and the first half resulted from higher spot and realized prices partially offset by lower production at Kumtor and Boroo. A \$10 million build-up in working capital due to the timing of gold shipments and prepayment of insurance premiums reduced the cash generated in the quarter.

#### **Second Quarter Highlights**

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- Cash on hand at \$224 million; no long-term debt.
- Exploration program continues to show positive results and promise for reserve expansion at Kumtor .
- Recent changes in tax and mineral laws in Mongolia are being assessed in relation to forthcoming negotiations for a Gatsuurt Investment Contract.
- Pit wall ground movement at Kumtor in July results in reduced production outlook for 2006.

In a news release, dated July 18, 2006, the Company announced that pit wall ground movement occurred at the Kumtor mine involving a significant portion of the northeast wall. Normal operations continue in the south end of the pit and milling of low grade stock piles continues. The mining of the higher grade stockwork area below the area of the movement, which was to begin late in 2006, will be deferred due to safety concerns. Gold reserves are not expected to be affected as the wall movement lies entirely within the ultimate pit design. A new mining sequence is being developed. As noted in the Company's release production in 2006 will be impacted. The impact on production in 2007 is still being assessed.

## **Commentary**

"Our mining operations continued to perform well, producing solid earnings and cash flow and maintained the Company's strong financial position," said Len Homeniuk, President and CEO. "The drilling results of our exploration program were very encouraging in the quarter, particularly at Kumtor and REN. Unfortunately, the recent pit wall ground movement that occurred at the Kumtor mine has made it necessary to reduce our outlook for the year. Our early warning systems operated effectively and there were no injuries or significant loss of equipment. I am very impressed with the way our employees have responded to the challenge of modifying our mining plans and considering all options to mitigate the impact of the wall ground movement."

## **Financial Summary – Second Quarter**

Total production for the three months ended June 30, 2006 at Kumtor and Boroo mines was 164,252 ounces of gold. This compares to production of 153,811 ounces of gold in the first quarter of 2006 and 213,225 ounces of gold in the second quarter of 2005.

Using the Gold Institute standard, Centerra's total cash cost per ounce of gold was \$325 for the second quarter, compared to \$221 recorded in the same period of 2005. The increase reflects mainly lower head grades and lower production at the Kumtor mine. (Total cash cost is a non-GAAP measure and is discussed under "Non-GAAP Measure – Total Cash Cost" in the Management's Discussion and Analysis for the three months ended June 30, 2006, issued in conjunction with this press release.)

Net earnings totalled \$29.0 million or \$0.13 per share in the second quarter of 2006. The Company reported net earnings of \$15 million or \$0.07 per share in the second quarter of 2005.

For the three months ended June 30, 2006, cash provided by operations was \$24 million. This is essentially the same as the \$25 million reported in the same period a year ago.

Capital expenditures in the second quarter of 2006 amounted to \$24 million of which \$8 million was spent on sustaining capital projects. Centerra's cash position remained essentially unchanged at \$224 million at June 30, 2006. The Company has no long-term debt or gold hedge positions.

## Exploration Update

The Company issued a news release, dated July 26, 2006, providing an update on its exploration activities and announcing that, based on the positive results, it is increasing its spending on exploration in 2006 by \$4 million. These additional expenditures may assist in mitigating the impact of the July pit wall movement.

Exploration activities continued to produce positive results during the second quarter of 2006. At Kumtor, further drilling extended the SB Zone a further 40 metres along strike to the south. It has now been delineated over a 360 metre strike length and remains open along the strike to the south and in the down dip direction. One hole was drilled in the north end of the pit to test for the extension of the mineralization along strike to the north of the Kumtor pit but was abandoned before the target zone was intersected. It is currently being re-drilled.

The delineation drilling continued at Sarytor to determine the limits of the mineralization and infill between existing holes to allow a reserve estimation to be completed. The in-fill drill holes are confirming the continuity of the mineralization between the drill sections. The results indicate that the mineralization, although continuous, is very variable in thickness and grade along strike and down dip.

At the REN property two holes have returned significant results. One hole drilled to infill a 150-m gap between previous holes in the JB Zone, returned assays of 21.7g/tAu/4.6m and 10.2g/tAu/12m. Continuity will need to be confirmed with additional holes, which has the potential to expand the JB Zone to the north.

The second hole with significant results, was drilled to offset a 2005 intercept along the Corona dike near its projected intersection with the MBX fault on the west central side of the REN property. The hole returned assays of 18.5g/tAu/19.8m from a strongly altered zone of multiple lamprophyre dikes within decarbonatized Rodeo Creek and Popovich Formation lithologies. A wedged hole is in progress to provide a 60m offset of the intercept.

## Outlook for 2006

Production for the full year 2006 will be lower than the previous forecast as a result of the recently announced ground movement experienced at the Kumtor mine in July of 2006. The Company now expects production at Kumtor in 2006 to be about 300,000 ounces of gold at a total cash cost of about \$530 per ounce compared to the previous outlook of 410,000 to 420,000 ounces at a total cash cost of \$370 - \$380 per ounce. At Boroo, on a 100% basis, the Company continues to expect production for the full year 2006 of 270,000 to 275,000 ounces of gold with expected total cash costs of \$210 to \$215 per ounce. Overall, Centerra now expects production in 2006 of 570,000 to 575,000 ounces of gold with total cash costs expected to be \$370 to \$380 per ounce in 2006 compared to the previous expectation of 680,000 to 695,000 ounces with expected cash costs of \$305 to \$315.

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

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

For further discussion of the factors that could cause actual results to differ materially, please refer to Centerra's annual information form and annual management's discussion and analysis for the year ended December 31, 2005 available on SEDAR or at [www.sedar.com](http://www.sedar.com).

## About Centerra

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

The new drilling results for Kumtor, REN and Gatsuurt in this news release and on Centerra's website, were reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Robert S. Chapman, P. Geo., Centerra's Director, Merger & Acquisitions, who is the qualified person for the purpose of NI 43-101.

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

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

## Conference Call

Centerra invites you to join its second-quarter conference call on Friday, July 28, 2006 at 10:00 am. Eastern Daylight time. The call is open to all investors and the media. To join the call, please dial (416) 641-6709 or (1-800) 428-5596 (Canada and U.S.). Alternatively, an audio feed will be available on [www.centerragold.com](http://www.centerragold.com). A recorded version of the call will be available on [www.centerragold.com](http://www.centerragold.com) shortly after the call, and via telephone until midnight on Friday, August 4, 2006 by calling (416) 626-4100 or (1-800) 558-5253 and using passcode 21297272.

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

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

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

**Toronto, Ontario, Canada, July 27, 2006**

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

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

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

### **Consolidated Financial results**

For accounting purposes, Centerra's consolidated results for the three and six months ended June 30, 2006 reflect fully consolidated interests in the Kumtor and Boroo mines, a 62% interest in REN and

100% interest in Gatsurt. The Company implemented a 3-for-1 share split by way of a stock dividend effective June 1, 2006, which is reflected for all current and historic per share metrics contained herein.

## Highlights – Centerra

Financial Highlights	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue - \$ millions <sup>(1)</sup>	106.8	95.3	199.8	187.0
Gross profit - \$ millions <sup>(2)</sup>	39.9	29.5	70.3	52.9
Net earning - \$ millions	29.0	14.9	47.2	27.1
Cash provided by operations - \$ millions	23.9	24.5	56.0	61.3
Sales volume – ounces	169,026	225,232	340,579	445,202
Ounces poured	164,252	213,225	318,063	426,675
Average realized price - \$/oz <sup>(1)</sup>	632	423	587	420
Gold spot market price - \$/oz - average for period	610	427	591	427
Total cash cost <sup>(3)</sup> - \$/oz	325	221	331	216
Earnings per common share - \$ - basic and diluted <sup>(4)</sup>	0.13	0.07	0.22	0.13
Weighted average shares outstanding – basic - (thousands) <sup>(4)</sup>	216,239	216,239	216,239	216,239

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

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

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

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

## Second Quarter Results

### Gold Production and Revenue

Revenue increased to \$106.8 million in the second quarter of 2006 from \$95.3 million in the same quarter last year reflecting the significantly higher realized gold price, partially offset by lower production volume. Production of 164,252 ounces was lower than the 213,225 ounces reported in the second quarter of 2005 primarily as a result of lower average mill grade and delay in delivery of new trucks at Kumtor.

Centerra realized an average gold price of \$632 per ounce for the second quarter (including a recovery of \$0.6 million related to deferred hedges), a significant increase over the \$423 per ounce realized in the same quarter of 2005. This increase was due to higher spot gold prices that averaged \$610 per ounce, compared to \$427 per ounce in the prior year quarter.

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

## **Cost of sales**

Cost of sales was \$57.1 million in the quarter compared to \$48.6 million in the same period of 2005 primarily reflecting higher mining and milling costs and higher costs of consumables. On a unit basis, the total cash cost per ounce was \$325, up from \$221 in the second quarter of 2005, primarily due to higher costs and lower gold production at Kumtor.

## **Depreciation, Depletion and Amortization**

Depreciation, depletion and amortization decreased to \$9.6 million from \$16.9 million in the prior year's second quarter due to lower production and lower unit rates. On a per unit basis, depreciation and amortization for the second quarter of 2006 was \$57 per ounce sold compared to \$75 per ounce sold in the second quarter of 2005, reflecting the addition of reserves announced in the first quarter of 2006.

## **Accretion and Reclamation Expense**

Accretion and reclamation expense decreased to \$0.1 million from \$0.3 million in the prior year's second quarter.

## **Exploration & Business Development**

Exploration and business development costs in the second quarter of 2006 decreased to \$5.5 million from \$7.1 million in the second quarter of 2005 reflecting the continuation of the enhanced drilling program in support of the Company's objective to increase reserves at and around its existing mines, and lower business development expense in the quarter related to reduced activity on the Gatsurt project.

## **Interest and Other**

Interest and other expenses resulted in a net recovery of \$3.8 million in the quarter which reflected interest earned on the Company's cash and short-term investments and a favourable foreign exchange fluctuation on the Canadian dollar. The comparable amount in the second quarter of 2005 was a small net charge reflecting interest earned on the cash balance offset by an unfavourable foreign exchange fluctuation on the Canadian dollar. The Company has no outstanding interest-bearing debt.

## **Administration**

Administration costs for the second quarter 2006 were \$6.2 million compared to \$4.6 million in the same period last year. The increase primarily reflects costs related to Centerra's public company status, including costs associated with internal controls over financial reporting.

## **Income Tax Expense**

The Company recorded an income tax expense of \$2.0 million in the second quarter of 2006 and 2005.

## **Net earnings**

Net earnings for the second quarter of 2006 were \$29.0 million or \$0.13 per share compared to net earnings of \$14.9 million or \$0.07 per share for the same period in 2005. This improvement primarily reflects higher gold prices, lower depreciation related to lower production and increased reserves, a net interest recovery and lower income tax expense.

## **Liquidity and capital resources**

Cash provided by operations was \$23.9 million for the quarter compared to \$24.5 million for the prior year second quarter reflecting significantly higher net earnings offset by an increase in working capital due primarily to the timing of shipments and to the prepayment of insurance premiums.

Cash used in investing activities in the second quarter of 2006 was \$23.6 million for capital spending, compared to \$5.9 million in the same quarter of 2005. In the second quarter, \$8.2 million was spent on sustaining capital projects while \$15.4 million was spent on growth projects.

Cash on hand was \$223.7 million at the end of the quarter, including \$29 million held in Canadian funds for anticipated Canadian dollar expenditures.

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

## **Year-to-date Results**

Revenue for the first six months of 2006 was \$200 million compared to \$187 million in the same period in 2005. The average realized gold price for the first six months of 2006 was \$587 per ounce compared to \$420 per ounce in the same period in 2005. Net earnings in the first six months of 2006 were \$47.2 million (\$0.22 per share) compared to net earnings of \$27.1 million (\$0.13 per share) in the same period of 2005.

Cash flow provided by operations for the first six months of 2006 amounted to \$56.0 million from \$61.3 million in the comparable period of 2005.

## Share capital

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

## Gold hedging and off-balance sheet obligations

The deferred charges, net of deferred revenue, related to the closing of the gold hedges in 2004, will be recognized in future periods. During the second quarter of 2006, a \$0.6 million recovery was recorded in-line with the schedule for recognizing the deferred charges.

<i>\$ millions</i>	<b>Total</b>
Balance as at March 31, 2006	0.9
Amortized in Q2 2006	(0.6)
Balance as at June 30, 2006	1.5

At June 30, 2006, deferred charges on the balance sheet totaled \$1.5 million and are expected to be amortized as follows:

### Recognition of Deferred Charges (net of deferred revenue)

<i>\$ millions</i>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
2006	--	--	0.4	0.6	1.0
2007	0.5	--	--	--	0.5
Total					1.5

## Market Update

The spot market gold price closed the quarter at \$616 per ounce after reaching a high of \$730 during the period. For the three months ended June 30, 2006, the price averaged \$610 per ounce.

## Mine Operations

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

## Kumtor – 100% basis

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based producer. It has been operating since 1997 and has produced more than 5.7 million ounces. During the quarter, Kumtor unfortunately experienced one fatality. There were no environmental exceedances during the period. A pit wall ground movement occurred at the Kumtor mine site on July 13, 2006 involving a significant portion of the northeast wall. Refer to the discussion on page 12 of this document for more information.

Kumtor Operating Results	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Sales volume – ounces	101,672	148,980	209,527	300,085
Revenue - \$ millions <sup>(1)</sup>	63.7	62.1	122.9	126.4
Average realized price - \$/oz <sup>(1)</sup>	627	417	586	421
Tonnes mined - 000s	20,628	21,294	40,829	40,642
Tonnes ore mined – 000s	1,206	1,363	2,556	2,533
Tonnes milled - 000s	1,425	1,401	2,929	2,836
Average mill head grade - g/t <sup>(2)</sup>	2.87	3.70	2.61	3.69
Recovery - %	75.8	82.9	76.9	82.1
Ounces recovered	99,743	138,084	188,816	276,366
Ounces poured	99,592	137,794	188,440	279,352
Total cash costs - \$/oz <sup>(3)</sup>	402	253	413	244
Capital expenditures - \$ millions	18.1	3.6	26.9	5.7

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

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

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

## Revenue

In the second quarter of 2006, revenue was \$63.7 million compared to \$62.1 million in the same period in 2005. The increase is mainly due to a higher average realized gold price of \$627 per ounce compared to \$417 per ounce in the same period last year. This was partially offset by a lower volume of gold sold (101,672 ounces compared to the 148,980 ounces sold in the same period last year). Production was 99,592 ounces poured, compared to 137,794 ounces poured in the prior year quarter. Lower production was due primarily to ore grades averaging 2.87 g/t compared to 3.7 g/t in 2005.

Revenue for the first six months of 2006 was \$122.9 million compared to \$126.4 million in the same period of 2005, reflecting lower production from lower ore grades partially offset by the higher realized price per ounce.

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

### **Cost of sales**

The cost of sales for the second quarter and first six months of 2006 was \$43.1 million and \$83.8 million compared to \$35.9 million in the second quarter and \$75.7 million in the first six months of 2005. Higher costs were a result of maintenance on a larger fleet of mobile equipment, confirmation drilling, and higher consumable prices and consumption rates.

Total cash costs per ounce increased to \$402 and \$413 in the second quarter and first six months of 2006, respectively, compared to \$253 and \$244 in the same periods in 2005, primarily due to lower production as a result of lower average grade fed to the mill and higher costs due to the high gold price and the higher cost of consumables.

### **Exploration**

Exploration expenditures totaled \$3.7 million for the quarter and \$6.8 million year-to-date, compared to \$3.9 million and \$6.6 million in the same periods in 2005. The expenditures relate primarily to ongoing drilling in the immediate vicinity of the open pit and Sarytor Zone.

## Boroo - 100% basis

Located in Mongolia, this open pit mine was the first hard rock gold mine in Mongolia. During the second quarter of 2006, the mine had no reportable lost-time injuries and no environmental exceedances. Boroo mine operations were suspended for two days in the quarter as a precautionary measure in response to an illegal political demonstration at the mine site.

Boroo Operating Results	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Sales volume – ounces	67,354	76,252	131,052	145,117
Revenue - \$ millions <sup>(1)</sup>	43.1	33.2	76.9	60.6
Average realized price - \$/oz <sup>(1)</sup>	640	435	587	418
Tonnes mined – 000s	4,129	4,846	8,133	9,143
Tonnes ore mined – 000s	680	571	1,408	1,037
Tonnes milled – 000s	570	574	1,141	1,046
Average mill head grade-(g/t) <sup>(2)</sup>	4.13	4.18	4.00	4.54
Recovery - %	87.6	91.0	89.6	92.4
Ounces recovered	66,229	70,238	131,362	141,117
Ounces poured	64,660	75,431	129,623	147,323
Total cash cost - \$/oz <sup>(3)</sup>	207	162	211	163
Capital expenditures - \$ millions	5.3	2.4	7.1	4.7

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

(2) g/t means grams per tonne

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

## Revenue

In the second quarter of 2006, revenue increased to \$43.1 million from \$33.2 million in the same period in 2005, reflecting the higher year-over-year realized gold price offset by lower production. Production was 64,660 poured ounces, compared to 75,431 poured ounces in the prior year quarter reflecting lower recoveries from transitional ore.

Revenue for the first six months of 2006 was \$76.9 million compared to \$60.6 million in the same period of 2005, primarily reflecting the higher realized gold prices, partially offset by lower production.

The second quarter and six month, year-over-year, higher average realized price was due to higher gold spot prices.

## **Cost of sales**

The cost of sales for the second quarter and first six months of 2006 were \$14.0 million and \$27.7 million, respectively, compared to \$12.7 million and \$24.5 million respectively in the second quarter and first six months of 2005, reflecting higher mining costs and the higher cost of consumables.

Total cash costs per ounce increased to \$207 in the second quarter of 2006 compared to \$162 in the second quarter of 2005, and to \$211 for the first six months of 2006 compared to \$163 for the first six months of 2005. The increase resulted from higher cost of drill equipment rentals and the higher cost of consumables.

## **Exploration**

Exploration expenditures in the second quarter of 2006 in Mongolia totaled \$0.4 million compared to \$1.1 million spent in the second quarter of 2005. The expenditures relate primarily to ongoing drilling and exploratory work in the vicinity of the open pit at Boroo, at Gatsuurt and on some of Centerra's landholdings in Mongolia.

## **Other Financial Information - Related party transactions**

### **Cameco Corporation**

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

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco has agreed to provide services and expertise to Centerra in return for reimbursement of all of its direct and indirect costs relating to these services. Minimal services were provided by Cameco under the services agreement during the first six months of 2006.

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley Act) are shared with Cameco for 2006 to an agreed amount. During the first and second quarter of 2006, approximately \$3 million Cdn was allocated to Cameco

As a result of the above items, a net receivable balance of \$2.5 million Cdn from Cameco was outstanding at June 30, 2006 (\$1.4 million Cdn payable to Cameco at December 31, 2005).

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

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

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

<i>\$ thousands</i>	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Related Parties in the Kyrgyz Republic</b>				
Management fees to Kyrgyzaltyn	152	223	314	450
Concession payments to Kyrgyz Republic	407	596	838	1,200
<b>Total</b>	<b>559</b>	<b>819</b>	<b>1,152</b>	<b>1,650</b>
Gross gold and silver sales to Kyrgyzaltyn	64,465	64,220	124,399	129,356
Deduct: refinery and financing charges	(472)	(734)	(955)	(1,439)
Net sales revenue received from Kyrgyzaltyn	63,993	63,486	123,444	127,917

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

During the second quarter of 2006, the Company prepaid \$1.0 million to the Issyk-Kul Social Fund as an advance against future commitments. The total amount advanced to date is \$2.0 million.

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

## Other

The Company paid approximately \$245,321 Cdn in the second quarter of 2006 (approximately \$377,221 Cdn for the six months ended June 30, 2006) to Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Ms. Stephens provides legal and business advisory services related to international operations.

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

## Quarterly Results – Last Eight Quarters

Over the last eight quarters, Centerra's results reflect the positive impact of rising gold prices, partially offset by rising cash costs and reduced production due to lower grades at Kumtor beginning in the second half of 2005.

<i>\$ millions, except per share data</i>	2006		2005			2004		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	107	93	75	77	95	92	88	86
Net earnings	29	18	6	9	15	12	15	29
Earnings per share (basic & diluted)*	0.13	0.08	0.03	0.04	0.07	0.06	0.07	0.13

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

## Other Developments

### Kyrgyz Republic

Government opposition parties continue to demand constitutional reform. In view of Kumtor's importance to the Kyrgyz Republic, Centerra is cooperating with the government to develop a 3 – 10 year outlook for Kumtor that will assist the government to plan future economic development. Centerra continues to operate in the normal course in the country. The Company continues to engage in negotiation with various governmental bodies regarding tax and other matters, and with its labour force on the renewal of its collective agreement.

### Mongolia

A windfall profits tax was passed without notice by the Parliament in May 2006. The new law imposes a 68% tax when gold exceeds US\$500. The tax does not apply to the Boroo deposit, which is protected by a Stability Agreement with the Mongolian Government. In addition the Parliament approved revised mineral and tax laws on July 8, 2006. While the details of the revised mineral and tax laws are not yet available and will require analysis, the passage of these much –debated amendments eliminates uncertainty and should permit the Company to begin negotiations with the Mongolian government for a Stability Agreement (or Investment Contract, as it is named under the revised mineral laws) for its Gatsuurt deposit. The development of the project will likely be suspended until an Investment Contract is in place that guarantees the legal and tax regime applicable to the project.

## **Pit Wall Ground Movement at Kumtor**

A pit wall ground movement occurred at the Kumtor mine site on July 13, involving a significant portion of the northeast wall. The fallen rock sits above the northern floor of the Kumtor pit and makes it unsafe, at the present time, to continue mining in this area. The 2006 mine plan anticipated about 125,000 ounces of gold to be produced from this area in the mine.

The ground movement did not reduce the amount of reserves in the pit because it was within the ultimate life-of-mine pit design. The company is re-sequencing mining of the ore body and will continue to mine at full capacity. Only 2 of 8 new trucks expected in the quarter have been delivered and are in operation. These equipment delays will continue to slow the rate of mining.

The volume of the rock from the ground movement appears to be less than that experienced by a similar event in 2002. Centerra has been following the advice of geotechnical experts to lower the angle of the pit wall. Since 2002, the high wall angle has been lowered from 42 degrees to 36 degrees and the final push back which has already commenced (above the ground movement) is designed to be 34 degrees.

Mining will continue in the southern part of the pit. It makes economic sense to continue to run the mill, as well even though total cash costs are expected for the second half of the year to be in the order of magnitude of \$700 per ounce. Additional ore for the mill will come from lower grade stockpiles. Also, the company is exploring the opportunity to advance mining at the South West pit and to accelerate conversion of Sarytor from resources to reserves and development of an open pit. With the delayed access to the north-eastern stockwork zone, the company is also examining the possibility to accelerate access to the high-grade SB area of the Kumtor pit.

In a press release issued on July 18<sup>th</sup> the Company indicated that the rock slide will reduce production in 2006 and 2007. Production at Kumtor in 2006 is now expected to be about 300,000 ounces at a total cash cost of \$530 per ounce compared to 410,000 – 420,000 ounces at a total cash cost of \$370 - \$380 expected previously. The impacts in 2007 are still being assessed. Centerra is also pursuing opportunities to accelerate mine equipment deliveries to improve 2007 production.

## **Critical Accounting Estimates**

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

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

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

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

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

## **Outlook**

Production for the full year 2006 will be lower than the previous forecast as a result of the recently announced pit wall ground movement experienced at the Kumtor mine in July of 2006. The Company now expects production at Kumtor in 2006 to be about 300,000 ounces of gold at a total cash cost of about \$530 per ounce compared to the previous outlook of 410,000 to 420,000 ounces at a total cash cost of \$370 - \$380 per ounce.

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

Overall, Centerra now expects production in 2006 of 570,000 to 575,000 ounces of gold with overall total cash costs expected to be \$370 to \$380 per ounce in 2006 compared to the previous expectation of 680,000 to 695,000 ounces with expected total cash costs of \$305 to \$315.

In aggregate for the third and fourth quarters of 2006, a \$25 per ounce change in the gold spot price is anticipated to affect revenues, net earnings and cash from operations by approximately \$6.4 million, \$5.6 million and \$6.1 million, respectively.

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

<b>Production</b> <i>Ounces of gold</i>	<b>YTD 2006</b> <b>Actual</b>		<b>2006</b> <b>Forecast</b>	<b>2005</b> <b>Actual</b>
Kumtor production (Centerra share – 100%)	188,440		300,000	501,487
Boroo production (Centerra share – 95%)	123,142		256,000 – 261,000	271,497
Total production (Centerra share)	311,582		556,000 – 561,000	772,984

<b>Total Cash Cost</b> <sup>(1)</sup> <i>\$ per ounce</i>	<b>YTD 2006</b> <b>Actual</b>		<b>2006</b> <b>Forecast</b>	<b>2005</b> <b>Actual</b>
Kumtor	413		530	274
Boroo	211		210 - 215	183
Consolidated	331		370 - 380	241

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

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

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

For further discussion of the factors that could cause actual results to differ materially, please refer to Centerra's annual information form and annual management's discussion and analysis for the year ended December 31, 2005 available on SEDAR or at [www.sedar.com](http://www.sedar.com).

## Exploration and Business Development

One of Centerra's priorities in 2006 is to continue to add to its reserves and resources through its exploration program. The Company expects to spend \$25 million for exploration plus \$4 million for growth-related activities and the permitting of the Gatsuurt deposit.

Activities at Kumtor, Boroo, Gatsuurt, Mongolia 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 Boroo, drill programs will focus on testing for additional mineralization around the peripheries of the pits and also geophysical targets in the area of the pits.

### **Gatsuurt**

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

### **Mongolia**

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

### **REN**

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

## **Administration**

Annual administration expenses are expected to amount to approximately \$24 million in 2006. The forecast includes the ongoing costs of maintaining the corporate office in Toronto, Canada and the continued implementation costs of regulatory standards.

## **Corporate Income Taxes**

Corporate income taxes in the Kyrgyz Republic will be calculated and provisioned at 10% of taxable income in 2006. In 2006, the Boroo project will be in its third year of a three-year 100% income tax relief period, and for the subsequent three years will be entitled to 50% tax relief. The Mongolian parliament has recently approved a rate reduction from 30% to 25%.

## **Capital Expenditures**

The capital requirement in 2006 is estimated at \$120 million. This includes \$94 million in growth capital spending primarily attributable to the addition of larger, more productive haulage trucks and shovels as well as other support and auxiliary equipment and infrastructure in support of the increase of mine life at Kumtor. The delivery of the new fleet will be largely completed by year-end 2006. The remaining \$26 million of capital spending primarily pertains to maintenance capital at both mine sites.

## Non-GAAP Measure - Total Cash Cost

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

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

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

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

#### Second Quarter 2006

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	43.1	14.0	57.1
Adjust for:			
Refining fees & by-product credits	(0.1)	0.1	--
Non-operating costs	(0.3)	--	(0.3)
Inventory movement	(2.7)	(0.7)	(3.4)
<b>Total cash cost – 100%</b>	<b>40.0</b>	<b>13.4</b>	<b>53.4</b>
<b>Ounces poured – 100% (000s)</b>	<b>99.6</b>	<b>64.7</b>	<b>164.3</b>
<b>Total cash cost per ounce</b>	<b>401.5</b>	<b>207.3</b>	<b>325.1</b>

## Second Quarter 2005

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	35.9	12.7	48.6
Adjust for:			
Refining fees & by-product credits	0.1	(0.1)	--
Non-operating costs	0.5	0.5	1.0
Inventory movement	(1.7)	(1.1)	(2.8)
Total cash cost – 100%	34.8	12.2	46.8
Ounces poured – 100% (000)	137.8	75.4	213.2
Total cash cost per ounce	252.7	162.3	220.7

## First Six Months 2006

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	83.8	27.7	111.5
Adjust for:			
Refining fees & by-product credits	(0.1)	0.2	0.1
Non-operating costs	(1.7)	(0.1)	(1.8)
Inventory movement	(4.1)	(0.5)	(4.6)
Total cash cost – 100%	77.9	27.3	105.2
Ounces poured – 100% (000)	188.4	129.6	318.0
Total cash cost per ounce	413.4	211.1	330.9

## First Six Months 2005

\$ millions, unless otherwise specified	<b>Kyrgyz Republic (Kumtor)</b>	<b>Mongolia (Boroo)</b>	<b>Total</b>
Cost of sales, as reported	75.7	24.5	100.2
Adjust for:			
Refining fees & by-product credits	0.3	(0.2)	0.1
Non-operating costs	(0.8)	0.8	-
Inventory movement	(7.1)	(1.0)	(8.1)
Total cash cost – 100%	68.1	24.1	92.2
Ounces poured – 100% (000)	279.3	147.3	426.6
Total cash cost per ounce	243.9	163.4	216.1

**Centerra Gold Inc.**  
**Consolidated Financial Statements**  
**For the Quarter Ended June 30, 2006**  
**(Unaudited)**  
**(\$US)**

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

	June 30/06	Dec 31/05
	(Unaudited)	
<b>Assets</b>		
Current assets		
Cash	\$ 223,671	\$ 202,417
Accounts receivable	18,392	8,951
Inventories	75,551	76,721
Prepaid expenses	30,431	16,151
	<u>348,045</u>	<u>304,240</u>
Property, plant and equipment	249,583	232,114
Goodwill	154,586	154,586
Long-term receivables, investments and other	8,309	8,357
Future income tax asset		-
	<u>412,478</u>	<u>395,057</u>
<b>Total assets</b>	<u>\$ 760,523</u>	<u>\$ 699,297</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 44,606	\$ 32,129
Provision for reclamation (note 2)	16,135	17,897
Future income taxes	964	29
	<u>17,099</u>	<u>17,926</u>
Non-controlling interest	6,925	4,821
<b>Shareholders' equity</b>		
Share capital (note 3)	522,383	522,383
Contributed surplus	29,981	29,739
Retained earnings	139,529	92,299
	<u>691,893</u>	<u>644,421</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 760,523</u>	<u>\$ 699,297</u>

Contingencies (note 6)  
See accompanying notes to the consolidated financial statements.

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

(Unaudited)

(In Thousands of US\$)

	Three Months Ended		Six Months Ended	
	June 30/06	June 30/05	June 30/06	June 30/05
<b>Revenue from</b>				
Gold sales	\$ 106,823	\$ 95,280	\$ 199,790	\$ 187,010
<b>Expenses</b>				
Cost of sales	57,061	48,573	111,543	100,223
Depreciation, depletion and amortization	9,571	16,859	19,770	33,204
Accretion and reclamation expense (note 2)	137	325	(2,003)	653
Exploration and business development (note 5)	5,480	7,052	12,449	12,213
Interest and other (income)	(3,813)	248	(5,789)	(180)
Administration	6,150	4,580	12,575	8,291
	<u>74,586</u>	<u>77,637</u>	<u>148,545</u>	<u>154,404</u>
<b>Earnings before income taxes and non-controlling interest</b>	<b>32,237</b>	<b>17,643</b>	<b>51,245</b>	<b>32,606</b>
Income tax expense	2,039	2,014	1,912	4,085
Non-controlling interest	1,214	720	2,103	1,403
<b>Net earnings</b>	<b>28,984</b>	<b>14,909</b>	<b>47,230</b>	<b>27,118</b>
Retained earnings, beginning of period	110,545	62,074	92,299	49,865
<b>Retained earnings, end of period</b>	<b>139,529</b>	<b>76,983</b>	<b>139,529</b>	<b>76,983</b>
<b>Basic and diluted earnings per common share [note 4]</b>	<b>\$ 0.13</b>	<b>\$ 0.07</b>	<b>\$ 0.22</b>	<b>\$ 0.13</b>

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

(Unaudited)

(In Thousands of US\$)

	Three Months Ended		Six Months Ended	
	June 30/06	June 30/05	June 30/06	June 30/05
<b>Operating activities</b>				
Net earnings	\$28,984	\$14,909	\$47,230	\$27,118
Items not requiring (providing) cash:				
Depreciation, depletion and amortization	9,571	16,859	19,770	33,204
Accretion and reclamation expense	137	325	(2,003)	653
Deferred charges recognized	(557)	958	1,311	3,182
Future income tax expense (recovery)	1,214	1,194	935	2,969
Non-controlling interest	1,214	720	2,103	1,403
Other expense	(800)	(68)	(1,780)	285
	<u>39,763</u>	<u>34,897</u>	<u>67,566</u>	<u>68,814</u>
Change in working capital	(15,868)	(10,352)	(11,568)	(7,473)
<b>Cash provided by operations</b>	<u>23,895</u>	<u>24,545</u>	<u>55,998</u>	<u>61,341</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	(23,579)	(5,940)	(34,744)	(10,425)
<b>Cash provided by (used in) investing</b>	<u>(23,579)</u>	<u>(5,940)</u>	<u>(34,744)</u>	<u>(10,425)</u>
Increase in cash during the period	316	18,605	21,254	50,916
Cash at beginning of the period	223,355	184,902	202,417	152,591
<b>Cash at end of the period</b>	<u>\$ 223,671</u>	<u>\$ 203,507</u>	<u>\$ 223,671</u>	<u>\$ 203,507</u>

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

**1. Basis of Presentation**

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

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

**2. Asset Retirement Obligations**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>Jun 30/06</b>	<b>Jun 30/05</b>	<b>Jun 30/06</b>	<b>Jun 30/05</b>
	<small>(Thousands)</small>		<small>(Thousands)</small>	
Balance, beginning of period	\$ <b>16,040</b>	19,196	\$ <b>17,897</b>	\$ 18,868
Liabilities incurred / (settled)	<b>(42)</b>		<b>241</b>	
Revisions in estimated timing of cash flows			<b>(2,589)</b>	
Accretion expense	<b>137</b>	325	<b>586</b>	653
Balance, end of period	\$ <b>16,135</b>	\$ 19,521	\$ <b>16,135</b>	\$ 19,521

The year to date balance of \$16,135 reflects the previously announced significant new reserves at Kumtor, as well as the delay in reclamation spending at the site. Those two factors, resulted in the reduction of the present value of the obligation by \$2,588, which was recorded in earnings in the first quarter of 2006.

**3. Shareholders’ Equity**

**a) Share capital**

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

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

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

**b) Stock-based compensation**

**Stock options**

**Centerra Plan**

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

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

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

**Cameco Plan**

A total of 175,800 stock options was outstanding at June 30, 2006 at a market price of Cdn \$44.47 per share.

**Performance share units**

At June 30 2006, a total of 919,200 performance share units for employees and officers of the Company was outstanding.

**Deferred share units**

At June 30 2006, a total of 115,206 deferred share units for directors of the Company was outstanding.

**4. Earnings Per Share Amounts**

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

	Three Months Ended		Six Months Ended	
	Jun 30/06	Jun 30/05	Jun 30/06	Jun 30/05
Basic weighted average number of common shares outstanding (Thousands)	<b>216,239</b>	216,239	<b>216,239</b>	216,239
Diluted weighted average number of common shares outstanding (Thousands)	<b>216,578</b>	216,288	<b>216,558</b>	216,303
<b>Basic and diluted earnings per common share</b>	<b>\$0.13</b>	\$0.07	<b>\$0.22</b>	\$0.13

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

**5. Exploration and Business Development**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>Jun 30/06</b>	<b>Jun 30/05</b>	<b>Jun 30/06</b>	<b>Jun 30/05</b>
	<b>(Thousands)</b>		<b>(Thousands)</b>	
Exploration costs	<b>\$ 4,620</b>	\$ 6,433	<b>\$ 10,272</b>	\$ 11,594
Business development and feasibility costs	<b>860</b>	619	<b>2,177</b>	619
	<b>\$ 5,480</b>	\$ 7,052	<b>\$ 12,449</b>	\$ 12,213

**6. Contingencies**

In April 2006, the Social Fund of the Kyrgyz Republic asserted that Kumtor is liable for failing to submit required information on Social Identification Numbers of Kumtor employees for 2004 and 2005. Kumtor management is currently in negotiation with the Social Fund authorities regarding this matter and cannot assess the potential impact at this time.

**7. Subsequent Events**

On July 13 2006, a pit wall ground movement occurred at the Kumtor mine site in the Kyrgyz Republic. While there is no impact on the June 2006 financial statements, the Company now expects production of about 300,000 ounces compared to the previous forecast of 410,000 – 420,000 ounces in 2006.

**8. Related Party Transactions**

**Cameco Corporation**

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

Effective April 1, 2004 Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to Centerra in return for reimbursement for all its direct and indirect costs relating to those services. Minimal services were provided by Cameco under the services agreement during the first six months of 2006 (For 2005, \$196,000 was incurred in the second quarter and \$414,000 year to date).

Costs associated with the enhancement of internal controls at Centerra (as prescribed by the Sarbanes-Oxley act) are shared with Cameco for 2006 to a prescribed amount. During the first and second quarter of 2006, approximately \$3 million Cdn was allocated to Cameco.

As a result of the above items, a net receivable balance of \$2.5 million Cdn from Cameco was outstanding at June 30, 2006 (\$1.4 million Cdn payable to Cameco at December 31, 2005).

**Other**

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

The Company paid approximately \$245,361 Cdn in the second quarter of 2006, (\$127,000 Cdn in the second quarter of 2005) and approximately \$377,258 Cdn year to date, (\$211,000 Cdn for the six month ended June 30, 2005) to Ms Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr Homeniuk. Ms Stephens provides certain designated legal and business advisory services related to international operations.

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

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

	<b>Three Months Ended</b>	
	<b>Jun 30/06</b>	<b>Jun 30/05</b>
Management fees to Kyrgyzaltyn	\$ 152	\$ 223
Concession payments to the Kyrgyz Republic	407	596
	<b>\$ 559</b>	<b>\$ 819</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 64,465	\$ 64,220
Deduct: refinery and financing charges	(472)	(734)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 63,993</b>	<b>\$ 63,486</b>
	<b>Six Months Ended</b>	
	<b>Jun 30/06</b>	<b>Jun 30/05</b>
Management fees to Kyrgyzaltyn	\$ 314	\$ 450
Concession payments to the Kyrgyz Republic	838	1,200
	<b>\$ 1,152</b>	<b>\$ 1,650</b>
Gross gold and silver sales to Kyrgyzaltyn	\$ 124,399	\$ 129,356
Deduct: refinery and financing charges	(955)	(1,439)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 123,444</b>	<b>\$ 127,917</b>

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

During the second quarter 2006, the Company prepaid \$1.0 million to the Issyk-Kul Social Fund as an advance against future commitments. The amount advanced to date totals \$2.0 million.

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

Kyrgyzaltyn and KGC have agreed, pursuant to a Gold Payment Agreement effective December 22, 2005 as amended and most recently extended on July 20, 2006 (the “GPA”), that until the earlier of (i) November 15, 2006 and (ii) the date on which at least \$12 million of proceeds from the sale of shares of Centerra 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, KGC shipped gold to Kyrgyzaltyn on a pre-paid basis. Under the GPA Kyrgyzaltyn has agreed to sell before November 15, 2006, a sufficient number of Centerra shares to yield \$12 million of proceeds. These proceeds, which will continue to be held by Kyrgyzaltyn, will fund a gold payment facility, which facility will be used by Kyrgyzaltyn to resume the prior practice of pre-paying for gold. While the GPA is in effect the obligations of Kyrgyzaltyn to KGC are secured by a pledge of Centerra shares owned by Kyrgyzaltyn.

**9. Segmented Information**

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

**Geographic Segmentation of Revenue**

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

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

**Three months ended June 30, 2006**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 63.7	\$ 43.1	\$ -	\$ 106.8
Expenses				
Cost of sales	43.1	14.0	-	57.1
Depreciation, depletion and amortization	4.6	4.9	0.1	9.6
Accretion and reclamation expense	0.1	-	-	0.1
Exploration and business development	3.7	1.0	0.8	5.5
Interest and other	0.3	(0.4)	(3.7)	(3.8)
Administration	0.7	0.3	5.1	6.1
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>11.2</b>	<b>23.3</b>	<b>(2.3)</b>	<b>32.2</b>
Income tax expense (recovery)	1.9		0.1	2.0
Non-controlling interest		1.2	-	1.2
<b>Net earnings (loss)</b>	<b>\$ 9.3</b>	<b>\$ 22.1</b>	<b>\$ (2.4)</b>	<b>29.0</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 18.1</b>	<b>\$ 5.3</b>	<b>\$ 0.2</b>	<b>23.6</b>

**Three months ended June 30, 2005**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 62.1	\$ 33.2	\$ -	\$ 95.3
Expenses				
Cost of sales	35.9	12.7	-	48.6
Depreciation, depletion and amortization	9.9	6.9	0.1	16.9
Accretion and reclamation expense	0.3	-	-	0.3
Exploration and business development	3.9	1.4	1.7	7.0
Interest and other	1.9	0.2	(1.8)	0.3
Administration	0.7	0.4	3.5	4.6
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>9.5</b>	<b>11.6</b>	<b>(3.5)</b>	<b>17.6</b>
Income tax expense (recovery)	1.6	-	0.4	2.0
Non-controlling interest	-	0.7	-	0.7
<b>Net earnings (loss)</b>	<b>7.9</b>	<b>10.9</b>	<b>(3.9)</b>	<b>14.9</b>
<b>Capital expenditures for the quarter</b>	<b>\$ 3.5</b>	<b>\$ 2.4</b>	<b>\$ -</b>	<b>\$ 5.9</b>

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

**Six months ended June 30, 2006**

(\$ millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 122.9	\$ 76.9	\$ -	\$ 199.8
Expenses				
Cost of sales	83.8	27.7	-	111.5
Depreciation, depletion and amortization	10.2	9.3	0.2	19.7
Accretion and reclamation expense	(2.1)	0.1	-	(2.0)
Exploration and business development	6.8	3.7	2.0	12.5
Interest and other	0.8	(0.4)	(6.2)	(5.8)
Administration	1.3	0.7	10.6	12.6
<b>Earnings (loss) before income taxes and Non-controlling interest</b>	<b>22.1</b>	<b>35.8</b>	<b>(6.6)</b>	<b>51.3</b>
Income tax expense (recovery)	1.8	-	0.2	2.0
Non-controlling interest		2.1		2.1
<b>Net earnings (loss)</b>	<b>\$ 20.3</b>	<b>\$ 33.7</b>	<b>\$ (6.8)</b>	<b>47.2</b>
<b>Capital expenditures for the period</b>	<b>\$ 26.9</b>	<b>\$ 7.1</b>	<b>\$ 0.7</b>	<b>\$ 34.7</b>

**Six months ended June 30, 2005**

(millions)	<b>Kyrgyz Republic</b>	<b>Mongolia</b>	<b>North America</b>	<b>Total</b>
Revenue	\$ 126.4	\$ 60.6	\$ -	\$ 187.0
Expenses				
Cost of sales	75.7	24.5	-	100.2
Depreciation, depletion and amortization	20.5	12.5	0.2	33.2
Accretion and reclamation expense	0.6	0.1	-	0.7
Exploration and business development	6.6	3.3	2.3	12.2
Interest and other	2.8	0.1	(3.1)	(0.2)
Administration	1.5	0.9	5.9	8.3
<b>Earnings (loss) before income taxes and minority interest</b>	<b>18.7</b>	<b>19.2</b>	<b>(5.3)</b>	<b>32.6</b>
Income tax expense (recovery)	3.6	-	0.5	4.1
Non-controlling interest	-	1.4	-	1.4
<b>Net earnings (loss)</b>	<b>15.1</b>	<b>17.8</b>	<b>(5.8)</b>	<b>27.1</b>
<b>Capital expenditures for the period</b>	<b>\$ 5.7</b>	<b>\$ 4.7</b>	<b>\$ -</b>	<b>\$ 10.4</b>

**10. Comparative Information**

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