



## **NEWS RELEASE**

### **Second Quarter 2004**

(All figures are in United States dollars unless otherwise specified)

## **Cash flow, earnings rise as Centerra increases production**

**Toronto, Canada, July 30, 2004:** Centerra Gold Inc. (TSX: CG) today announced strong earnings and cash flow for the three months ended June 30, 2004. Among the quarter's highlights, Centerra:

### **Highlights**

- Completed its IPO and began trading on the TSX
- Closed the Kumtor restructuring and acquired an additional 42% interest in Boroo
- Has a strong financial position with cash on hand of \$85.2 million
- Increased revenues to \$46.9 million on higher production and realized prices
- Raised its 2004 production forecasts for Kumtor and Boroo to 880,000 ounces
- Surpassed two million hours of work at Kumtor without a lost-time injury

### **Summary of the quarter**

Centerra's consolidated second quarter results reflect a proportionately consolidated one-third interest in Kumtor to June 21, 2004 and a 100% interest from then to June 30, 2004, a fully consolidated interest in Boroo, a 62% interest in the REN exploration project and a fully consolidated interest in the Gatsuurt exploration project. As of June 30, 2004, Centerra owned a 100% interest in Kumtor, a 95% interest in Boroo, a 62% interest in REN and a 100% interest in Gatsuurt.

For the three months ended June 30, 2004, Centerra's share of production at Kumtor and Boroo rose from to 122,982 ounces from 38,865 ounces in the same prior year period. For the same period total cash costs were reduced from \$256/oz to \$164/oz. of gold compared to 2003. These improvements in production and total cash costs were due to the start of commercial production at Boroo on March 1, 2004 and increased production at Kumtor resulting from a higher grade of ore.

For the three months ended June 30, 2004, Centerra revenues rose to \$46.9 million from \$13.9 million in the corresponding period a year ago. This was due to production from the Boroo mine, which was under construction during 2003, increased production at Kumtor and average realized prices that increased 14% to \$360/oz in the second quarter of 2004 from the same period in 2003.

Gross profit was \$16.9 million in the second quarter of 2004 compared to \$0.6 million for the prior year period. Net earnings were \$4.1 million (\$0.10 per share) versus a loss of \$1.7 million (\$0.05 per share) a year earlier.

“Our second quarter performance has exceeded our expectations,” said Len Homeniuk, President and CEO. “Kumtor and Boroo both continue to operate efficiently. We are on track to meet or exceed all of our financial and operating targets for the year. As well, we also had a strong safety performance from our employees and have recently achieved 500,000 man-hours at Boroo and 2 million man-hours at Kumtor with no lost-time accidents.”

“We were saddened to learn of the recent death of Kamchybek Kudaibergenov, President of Kyrgyzaltyn and their nominee to the board of Centerra,” said Mr. Homeniuk. “Mr. Kudaibergenov was an important contributor to the success of the Kumtor project and the creation of Centerra. Kyrgyzaltyn is in the process of proposing a replacement nominee to the board of Centerra.”

### **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. The two gold mines operated by the company are estimated to produce over 880,000 ounces in 2004 at a total cash cost of about US\$190 per ounce. This would rank Centerra as the largest Western-based gold producer in Central Asia and the former Soviet Union and the fifth largest North American based gold producer. Centerra is based in Toronto, Canada.

Centerra’s shares began trading on the Toronto Stock Exchange (TSX) on June 30, 2004 on the closing of its initial public and secondary offering of its common shares. The following discussion of financial condition and results of operations for the three months ended June 30, 2004 is the first quarterly report filed by Centerra after its common shares began trading on the TSX.

### **Conference call**

Centerra invites you to join its second quarter conference call on Friday, July 30, 2004 at 2:00 pm Eastern time. The call is open to all investors and the media. To join the call, please dial **(416) 405-9328** or **(800) 387-6216** (Canada and US). Alternatively, an audio feed will be available on our website ([www.centerragold.com](http://www.centerragold.com)). See the link on the home page on the day of the call. A recorded version of the call will be available on our website shortly after the call, and via telephone until midnight on Friday, August 13 by calling (416) 695-5800 or (800) 408-3053 (pass code: 3083859).

### **For more information:**

Bob Lillie, Investor Relations, 416-204-1220  
Additional information on Centerra is available on the company’s website 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 months ended June 30, 2004 should be read in conjunction with the unaudited consolidated financial statements and the notes of the Company for the six months ended June 30, 2004 (financial statements) as well as the prospectus of the Company dated June 22, 2004 and the financial statements, notes and management's discussion and analysis (Annual MD&A) contained in the prospectus (prospectus). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and, unless otherwise specified, all figures are in United States dollars. The prospectus, which contains Centerra's Annual MD&A, is available at [www.centerragold.com](http://www.centerragold.com) and [www.sedar.com](http://www.sedar.com).

### Recent developments

On July 28, 2004, the Company received net proceeds of Cdn \$27.6 million as a result of the issuance of 1,875,000 common shares from the full exercise of the over-allotment option by the underwriters of Centerra's initial public offering.

### Centerra's Share of Assets

As at the dates specified in the table below, Centerra owned the following assets (see notes 1 and 3 to the financial statements):

| Centerra share (%) | June 30, 2003 (1) | June 22, 2004 | June 30, 2004 |
|--------------------|-------------------|---------------|---------------|
| Kumtor             | 33                | 100           | 100           |
| AGR                | 56                | 56            | 100           |
| Boroo              | 53                | 53            | 95            |
| REN                | 62                | 62            | 62            |
| Gatsuurt           | 73                | 73            | 100           |

(1) For financial statement purposes, Cameco Gold Inc. (Cameco Gold) is considered the predecessor to Centerra.

## Consolidated second quarter results

Centerra's consolidated second quarter results reflect a one-third interest in Kumtor to June 22, 2004 and a 100% interest from then to June 30, 2004, a fully consolidated interest in Boroo, a 62% interest in the REN exploration project and a fully consolidated interest in the Gatsuurt exploration project.

### Highlights – Centerra

| <b>Financial Highlights</b>                       | <b>Three Months Ended June 30/04</b> | <b>Three Months Ended June 30/03</b> | <b>Six Months Ended June 30/04</b> | <b>Six Months Ended June 30/03</b> |
|---|--------------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| Sales volume (ounces)                             | 127,997                              | 40,968                               | 197,161                            | 95,095                             |
| Revenue (\$millions)                              | 46.9                                 | 13.9                                 | 72.7                               | 31.9                               |
| Gross profit (\$millions)                         | 16.9                                 | 0.6                                  | 26.5                               | 4.3                                |
| Average realized price (\$/oz)                    | 360                                  | 315                                  | 360                                | 317                                |
| Gold spot market price (\$/oz) average for period | 393                                  | 347                                  | 401                                | 349                                |
| Production (ounces)                               | 122,982                              | 38,865                               | 199,927                            | 87,582                             |
| Total cash cost (\$/oz)                           | 164                                  | 256                                  | 160                                | 226                                |
| Net earnings(loss) (\$millions)                   | 4.1                                  | (1.7)                                | 11.8                               | (0.5)                              |
| Earnings (loss) per common share(\$ ) basic       | 0.10                                 | (0.05)                               | 0.30                               | (0.01)                             |
| Weighted average shares outstanding (thousands)   | 40,321                               | 38,149                               | 39,235                             | 38,149                             |

### Gold production and revenue

Revenue increased to \$46.9 million in the second quarter of 2004 from \$13.9 million in the same prior year quarter. In the second quarter of 2004, Centerra's production of 122,982 ounces was significantly higher than the 38,865 ounces produced in the second quarter of 2003 due to two factors:

- In the second quarter of 2003, Kumtor was unable to access sections of the pit containing higher-grade ore due to the July 2002 highwall ground movement. Access to the higher-grade ore was reestablished in mid-2003 resulting in a higher-grade ore being mined and greater production in the second quarter of 2004; and
- The start of commercial production at Boroo on March 1, 2004.

These two factors had a similar impact on sales volumes and revenue.

Centerra realized an average gold price of \$360/oz for the second quarter, a significant increase over the \$315/oz realized in the same quarter in 2003. This increase was due to higher spot gold prices that averaged \$393/oz in the second quarter of 2004, compared to

\$347/oz in the prior year quarter. Centerra did not realize the entire benefit of the increase in spot gold prices as it delivered a portion of its gold production during the quarter into gold hedge contracts at below spot market prices.

Also, the Company closed a number of hedge positions and reduced the hedge position at Kumtor to nil and at Boroo to 155,000 ounces. As of July 28, 2004, Centerra's remaining hedge position at Boroo was 30,000 ounces. Centerra intends to move toward eliminating its open hedge position as favourable pricing opportunities arise.

### **Cost of sales**

Cost of sales increased from \$10.5 million in the second quarter of 2003 to \$19.4 million in the same period in 2004 due to the higher levels of production at Kumtor and the start of commercial production at Boroo. On a unit basis, the total cash costs for 2004 were \$164/oz, down from \$256/oz in 2003, due to higher production.

### **Depreciation, depletion and reclamation**

Depreciation, depletion and reclamation increased to \$10.6 million in the second quarter of 2004 from \$2.8 million in the prior year quarter due to higher production at Kumtor and the start of commercial production at Boroo. On a per unit basis, depreciation and amortization increased in 2004 to \$83/oz from \$68/oz in 2003 primarily due to the higher rate of depreciation and amortization at Boroo.

### **Exploration**

Exploration and development costs increased to \$2.4 million in the second quarter of 2004 from \$1.5 million in the prior year period as Centerra expanded its drilling program at Kumtor and continued Phase 1 of its exploration program at REN.

### **Interest and other**

Interest and other expense increased to \$1.1 million in the second quarter of 2004 from \$0.9 million in the same period in 2003 due to higher interest on the subordinated debt held by the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). Interest on this debt was calculated based on the residual cash flow of Kumtor. This residual cash flow was higher in the second quarter of 2004 resulting in an effective interest rate of 21.7% compared to 4.7% for the same prior year period. Centerra settled this debt as described in Other expense.

### **Administration**

Administration costs for the second quarter of 2004 were \$0.4 million compared to \$0.2 million in the prior year's quarter. This increase resulted from expenses related to the startup of Centerra.

## **Other expense**

In the second quarter of 2004, EBRD and IFC exchanged their \$20 million of Kumtor subordinated debt for \$13.8 million in cash and Centerra common shares valued at \$20.3 million. This exchange resulted in a loss of \$4.7 million, which has been included in Other expense. Based on the fair market value of the debt, consideration paid by Centerra was greater than the \$20 million face value of the debt as its interest component was based on the residual cash flow of Kumtor.

## **Net earnings**

Net earnings for the second quarter of 2004 were \$4.1 million compared to a loss of \$1.7 million for the same period in 2003. This improvement is primarily due to higher production and realized prices.

## **Cash Flow**

Cash flow from operations was \$31.0 million for the second quarter of 2004 compared to \$1.4 million for the prior year period. The increase resulted from higher realized gold sale prices, the higher levels of production at Kumtor and the start of commercial production at Boroo.

Cash used in investing activities in the second quarter of 2004 was \$6.3 million, down from \$24.5 million in the same period a year ago when construction of the Boroo mine was underway.

Financing activities contributed cash flow of \$51.1 million in the second quarter of 2004 compared to \$20 million in the same period in 2003. The \$20 million of cash received in the second quarter of 2003 was long-term debt to purchase mining equipment and advances from a subsidiary of Cameco Corporation (Cameco) to fund construction at Boroo. In the second quarter of 2004, \$64.4 million was generated from the issue of five million Centerra common shares for net proceeds of \$53.4 million and an \$11 million cash contribution by Cameco Gold. In addition, on the reorganization of the gold assets of Cameco, advances from a Cameco subsidiary of \$22.1 million were received and \$35.0 million on long-term debt owed to a subsidiary of Cameco was repaid.

Cash on hand was \$85.2 million on June 30, 2004. On July 28, 2004, the Company received net proceeds of Cdn \$27.6 million from the issuance of 1,875,000 common shares from the full exercise of the over-allotment option by the underwriters of Centerra's initial public offering.

## **Year-to-date results**

The year-to-date results to June 30, 2004 are consistent with the results for the second quarter of 2004 with higher production at Kumtor and the start of commercial production at Boroo leading to higher revenue and earnings compared to the period ended June 30, 2003.

Revenue for the six months ended June 30, 2004 increased to \$72.7 million from \$31.9 million in the same period in 2003. As a result of these significantly higher revenues, net earnings were \$11.8 million (\$0.30 per share) in the first half of 2004 compared to a loss of \$0.5 million (\$0.01 per share) in the comparable 2003 period. Gross profit was \$26.5 million in the 2004 period versus \$4.3 million in 2003.

Cash flow from operations for the six months ended June 30, 2004 was consistent with the results for the second quarter of 2004 with the reduced hedge positions resulting in a higher average realized price for gold and higher cash flow than in the same period in 2003.

## **Contractual obligations**

There have been no significant changes from the contractual obligations identified in the Annual MD&A included in the prospectus except as set out below:

1. The \$20 million subordinated debt owing to EBRD and IFC was exchanged for common shares of the Company and cash.
2. The Boroo power supply agreement was signed.

## **Gold hedging and off-balance sheet obligations**

Centerra's only significant off-balance sheet arrangements are gold hedging contracts. Centerra, and previously, Cameco Gold, has historically hedged price risk for future gold sales from the Kumtor and Boroo mines due to historic high debt levels and low gold prices.

Future gold production from Kumtor is completely unhedged and Centerra's intention is that it will remain unhedged. The remaining hedge position at Boroo as of June 30, 2004 of 155,000 ounces represents less than 4% of Centerra's total reserves. In accordance with Centerra's plans for its remaining hedges to be offset against production and decreased when favourable pricing opportunities arise, the hedge position as at July 28, 2004 has been reduced to 30,000 ounces, which represents less than 1% of Centerra's total reserves.

Cameco has agreed to provide various levels of credit support of up to \$140/oz of gold to the counterparties of Centerra. Based on the number of ounces of gold hedged at June 30, 2004, Cameco's maximum financial exposure under this arrangement was \$22 million, depending on the spot price of gold. At June 30, 2004, the actual exposure under these arrangements, reflecting the mark-to-market losses, was \$13 million based on a gold price of \$396/oz.

Centerra has agreed to indemnify Cameco for any payments it makes under these arrangements and, on a best efforts basis, Centerra will transfer the responsibility for providing credit support for these hedging obligations to itself from Cameco.

Timing differences between the usage and designation of hedge contracts may result in deferred revenue or deferred charges. Centerra's share of deferred revenue to be recognized over the next three years, net of deferred charges of \$8 million, totaled \$5 million at June 30, 2004.

## Mine Operations

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, Centerra owns 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. In the second quarter of 2004, Kumtor surpassed two million hours of work without a lost-time injury.

| <b>Kumtor Operating Results</b>          | <b>Three Months Ended June 30/04</b> | <b>Three Months Ended June 30/03</b> | <b>Six Months Ended June 30/04</b> | <b>Six Months Ended June 30/03</b> |
|--|--------------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| Sales volume (ounces)                    | 194,034                              | 122,905                              | 347,436                            | 285,284                            |
| Revenue (\$millions)                     | 67.9                                 | 38.7                                 | 125.2                              | 90.4                               |
| Mining volume (000 BCMs <sup>(1)</sup> ) | 7,505                                | 6,630                                | 14,794                             | 12,668                             |
| Tonnes milled (thousands)                | 1,411                                | 1,428                                | 2,825                              | 2,801                              |
| Average grade (g/t <sup>(2)</sup> )      | 4.71                                 | 3.25                                 | 4.69                               | 3.63                               |
| Recovery (%)                             | 82.5                                 | 82.0                                 | 82.4                               | 82.0                               |
| Production (ounces)                      | 178,819                              | 116,595                              | 351,822                            | 262,745                            |
| Total cash costs (\$/oz)                 | 178                                  | 256                                  | 177                                | 226                                |
| Capital expenditures (\$millions)        | 2.3                                  | 5.7                                  | 2.8                                | 7.1                                |

(1) BCMs means bank cubic metres.

(2) g/t means grams per tonne.



## **Revenue**

In the second quarter of 2004, revenue increased by 77% to \$67.9 million due to higher production and an increase in the average realized price to \$350/oz. Production was 178,819 ounces, 53% greater than the prior year quarter due primarily to higher ore grade averaging 4.71 g/t compared to 3.25 g/t in 2003. In the second quarter of 2003, Kumtor was unable to access sections of the pit containing higher-grade ore due to the July 2002 highwall ground movement. Access to the higher-grade ore was reestablished in mid-2003 resulting in a higher-grade ore being mined and greater production in the second quarter of 2004.

The mine production rate consistently averaged 80,000 BCMs per day, up from planned rate of 75,000 BCMs per day, enabling an accelerated mine sequence resulting in a higher mill feed grade. The higher average realized price was due to the reduced hedge position on production from Kumtor, providing greater exposure to higher gold spot prices.

## **Cost of sales**

In the second quarter of 2004, the cost of sales was \$27.5 million, an increase of \$1.0 million over the same period in 2003.

Total cash costs decreased to \$178/oz in the second quarter of 2004 from \$256/oz for the same quarter in 2003. In 2003, remediation of the pit after the July 2002 highwall ground movement led to lower mine and mill production and higher costs.

## **Exploration**

In the second quarter of 2004, exploration expenditures were \$1.0 million. The expenditures relate primarily to exploration around the north end of the current pit and in the Southwest and Southwest Extension zones.

## **Cash Flow**

Cash flow from operations in the second quarter of 2004 was \$11.2 million compared to \$4.1 million for the same prior year period, reflecting increased production at Kumtor and higher realized prices on sales due to the reduced hedge position.

Capital expenditures for the second quarter of 2004 were \$2.3 million.

## **Boroo - 100% basis**

The Boroo open pit gold mine is the first significant foreign investment for industrial development in Mongolia since 1979. The mine began the commissioning phase in November 2003 and was brought into commercial production on March 1, 2004.

| <b>Boroo Operating Results</b>    | <b>Three<br/>Months Ended<br/>June 30/04</b> | <b>Six<br/>Months Ended<br/>June 30/04</b> |
|-----------------------------------|--|--|
| Sales volume (ounces) (1)         | 63,319                                       | 81,349                                     |
| Revenue (\$millions)              | 23.4   | 29.3                                       |
| Tonnes milled (thousands)         | 474  | 627  |
| Mining volume (thousand BCMs)     | 1,364  | 1,839                                      |
| Average grade (g/t)               | 3.96   | 4.07                                       |
| Recovery (%)                      | 92.9%  | 93.4%                                      |
| Production (ounces) (1)           | 63,375                                       | 82,652                                     |
| Total cash cost (\$/oz)           | 135  | 134  |
| Capital expenditures (\$millions) | 2.9  | 3.0  |

(1) Does not include pre-commissioning production or sales volumes for January and February 2004.

## **Revenue**

In the second quarter of 2004, sales of 63,319 ounces of gold and an average realized gold price of \$372/oz generated revenue of \$23.4 million. Sales for the first half of 2004 were 81,349 ounces, with an average realized gold price of \$360/oz generating revenue of \$29.3 million. Production in the second quarter at Boroo was 63,375 ounces and to June 30, 2004 was 82,652 ounces, higher than expected due to grades that were greater than anticipated in the ore reserve model.

## **Cost of sales**

In the second quarter of 2004, cost of sales was \$8.0 million. Total cash costs were \$135/oz in the second quarter and \$134/oz for the first half of the year.

## **Exploration**

In the second quarter of 2004, exploration expenditures were \$0.2 million to drill test targets in the immediate mine area and \$0.2 million on exploration licenses held in Mongolia.

## **Cash Flow**

Cash on hand at June 30, 2004 was \$11.2 million. Capital expenditures for the second quarter of 2004 were \$2.9 million.

## Exploration update

During the quarter Centerra continued its exploration drilling program at Kumtor to test targets beneath the level of the current ultimate pit design, along strike extensions to the deposit and in other advanced targets in the vicinity of the Kumtor pit. Twelve holes totaling 4,541 metres in the north end of the existing pit were completed. The main mineralized horizon was extended for an additional 45 metres along strike and one deep hole also penetrated this horizon for an additional 80 metres down dip. Other holes testing the Northend target have returned mixed results and additional drilling is planned. In the Southwest and Southwest Extension zones work continued on a new resource estimate and seven holes totaling 1,723 meters were completed. The main target horizon was intersected at deeper levels by four holes spaced over a 300m strike length, extending the mineralization in the down dip direction where it remains open. The drilling programs in both areas are continuing and the drilling information is being compiled and interpreted.

In Mongolia, work continued on Centerra's exploration program as follows:

- At Boroo, 57 drill holes totaling 6,803 meters were completed. Most of the drilling consisted of infill drill holes in the north end of pit 5 and testing for additional mineralization between pits 2 and 3 and pits 3 and 5. The resource model was confirmed by the infill holes in pit 5 and encouraging results were intersected in the areas between the pits. The drilling information has been added to the drilling database and a new reserve and resource estimate for Boroo is in progress.
- In the general vicinity of the Boroo mine, 7 drill holes totaling 1,350 metres tested other geological and geophysical targets. Assay results for this drilling are expected during the third quarter of 2004.
- At Gatsuurt, preparatory work continued on the drilling program related to the pre-feasibility study on the processing of Gatsuurt oxide resources at Boroo. The drilling program commenced in July and will focus on delineating the oxide resources and completing the deep tests beneath the existing drill pattern to confirm that the mineralization continues to depth.
- In the Ulaan Bulag area, 22 wide spaced drill holes totaling 2,294 metres were completed. Partial assay results were received with the remainder expected during the third quarter of 2004.

At the REN property in Nevada, Centerra completed the Phase 1 exploration program. Nine drill holes were completed totaling 5,272 meters. The JB Zone mineralization has been delineated further to the south, where it remains open to the southwest. Preparations are in progress for a Phase 2 program that will be initiated during August pending approval of the joint venture partners. Updating the resource estimate is being deferred to Phase 2 of the exploration program as additional in-fill drilling is required.

The technical data under the heading "Exploration update" and "Outlook for 2004 – Exploration" has been prepared under the supervision of and verified by Robert S. Chapman, P. Eng., Vice President of Exploration of Centerra, a "qualified person" for the purpose of National Instrument 43-101.

## **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, costs related to the Kumtor restructuring and the initial public offering of Centerra. These advances, which are non-interest bearing and payable on demand, will be repaid in the ordinary course of business.

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

As a result of the above items, the balance owing to Cameco at June 30, 2004 was \$3.0 million.

In the second quarter of 2004, Centerra repaid \$35 million in long-term debt owed to a subsidiary of Cameco.

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

The table below summarizes the management fees, royalties and concession payments paid by the Kumtor Gold Company (KGC) to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid by Kyrgyzaltyn to KGC according to the terms of the gold and silver sale agreement as described on page 43 in the prospectus.

| <b>Related Parties in the Kyrgyz Republic</b>      | <b>Quarters Ended June 30</b> |             |
|--|-------------------------------|-------------|
|  | <b>2004</b>                   | <b>2003</b> |
|  | <b>(\$ thousands)</b>         |             |
| Management fees to Kyrgyzaltyn                     | \$338                         | \$220       |
| Royalty and concession payments to Kyrgyz Republic | 420 <sup>(1)</sup>            | 675         |
| Total  | \$758                         | \$895       |
| Gross gold and silver sales to Kyrgyzaltyn         | \$76,838                      | \$42,497    |
| Deduct: refinery and financing charges             | (777)                         | (711)       |
| Net sales revenue received from Kyrgyzaltyn        | \$76,061                      | \$41,786    |

- (1) The royalty was eliminated effective January 1, 2004 as part of the Kumtor restructuring. See pages 98 and 99 of the prospectus.

## **Change in accounting policies and estimates**

### **CICA accounting guideline 13 – hedging relationships**

Effective January 1, 2004, Cameco Gold, and subsequently Centerra, adopted the new Canadian Accounting Guideline, Hedging Relationships, which established new criteria for hedging relationships in effect on or after January 1, 2004. To qualify for hedge accounting, the hedging relationship must be appropriately documented and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high degree of correlation of changes in fair values or cash flows between the hedged item and the hedge.

The adoption of this accounting guideline had no material impact on the consolidated financial statements.

### **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. The Gold Institute is a non-profit international association of miners, refiners, bullion suppliers and manufacturers of gold products, which has developed a uniform format for reporting costs on a per ounce basis.

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.

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.

## **Outlook for 2004**

Assuming no changes in Centerra's interests, its annual results will reflect a proportionately consolidated one-third interest in Kumtor to June 21, 2004 and a 100% interest from then to December 31, 2004, a fully consolidated interest in Boroo, a 62% interest in the REN exploration project and a fully consolidated interest in the Gatsuurt exploration project. As of June 30, 2004, Centerra owned a 100% interest in Kumtor, a 95% interest in Boroo, a 62% interest in REN and a 100% interest in Gatsuurt.

### **Production**

Kumtor and Boroo are expected to produce a total of about 880,000 ounces of gold in 2004, an increase of 31% over 2003, reflecting the start of commercial production at Boroo on March 1, 2004. As a result of the acquisitions that occurred in late June 2004, Centerra's share of production in 2004 is expected to be about 627,000 ounces.

Production at Kumtor is expected to decline 3% from 2003 levels to 655,000 ounces in 2004 due to a milling plan that calls for a mix of lower grade stockpiled ore and higher grade mine ore. The resulting expected average annual feed grade in 2004 of 4.4 g/t is lower than the ore grade of 4.5 g/t in 2003. Kumtor's total cash cost is projected to be about \$200/oz in 2004 compared to \$189/oz in 2003.

Production at Boroo is expected to be 225,000 ounces of gold in 2004 (including 27,703 ounces produced prior to the start of commercial production on March 1, 2004) at a total cash cost of about \$146/oz.

### **Revenue**

Revenue is forecast to increase in 2004 over 2003 due to increases in total production and the average realized price for gold. About 95% of Centerra's forecast gold sales are unhedged for the remainder of the year. For this period, a \$10/oz change in the gold spot price would change revenue by about \$4.0 million, net earnings by about \$3.7 million and cash from operations by about \$3.6 million.

### **Exploration**

Centerra is on track to spend its projected \$10.4 million on exploration activities in 2004. Activities at Kumtor and Boroo for the second half are planned as follows:

#### **Kumtor:**

- Centerra is currently testing targets beneath the level of the current ultimate pit, along strike extensions to the deposit, and other advanced exploration targets in the vicinity of the Kumtor pit.
- The logistics of accelerating the exploration program are under review and may be implemented by the third quarter of 2004.
- A new resource estimate for the Southwest and Southwest Extension zones is expected to be completed by year's end.

**Mongolia:**

- The exploration program will focus on geochemical and geophysical surveys to identify and upgrade exploration targets along with drilling at Boroo and Gatsuurt deposits and the Argal target area.
- Work will continue on the pre-feasibility study on processing of Gatsuurt oxide resources at Boroo.
- A new reserve and resource estimate for Boroo is expected to be completed by year's end.

At REN, depending upon the results of the Phase 1 exploration program and if joint venture approval is received in August, the Phase 2 drill program will be initiated in the second half of 2004. This Phase is expected to include an update of the resource estimate, which was deferred from Phase 1. The current budget for the Phase 2 program is \$2.5 million, with Centerra's share being \$1.6 million.

**Corporate tax rate**

Exposure to corporate income taxes is still not expected to be material in 2004 due to the availability of tax loss carryforwards to offset taxable income in the Kyrgyz Republic and a three-year tax holiday on income earned in Mongolia.

**Capital expenditures**

Capital expenditures for Kumtor and Boroo are expected to be \$14.5 million in 2004. Capital expenditures at Kumtor are expected to be \$6.0 million with \$1.6 million for expansion of the tailings dam and the remainder on sustaining capital expenditures. At Boroo, it is estimated that capital expenditures will be \$8.5 million, which includes \$3.5 million for construction of an extension to the tailings dam and \$2.3 million for a permanent worker camp.

**Outlook for the third quarter**

Production at Kumtor is expected to decline marginally to about 156,000 ounces due to a lower average grade of mill feed. Accordingly, the total cash cost is expected to increase to about \$215/oz.

At Boroo, production is expected to be about 60,000 ounces for the quarter and the total cash cost to be about \$150/oz.

**Liquidity and capital resources**

Following the Kumtor restructuring and the exchange of subordinated debt held by EBRD and IFC, there is no significant indebtedness outstanding. Centerra has sufficient cash to carry out its business plan in 2004, including its growth strategy. This cash comes from the initial public offering of Centerra shares and the exercise of the over-allotment option by the underwriters, substantial operating cash flows, and existing cash reserves.

## **Share capital**

As of June 30, 2004, Centerra had 70,204,605 shares outstanding. In the second quarter of 2004, the Company issued the following shares:

- 5,000,000 shares to the public as part of the initial public offering;
- 18,789,717 shares to Kyrgyzaltyn as part of the Centerra acquisition of its two-thirds interest in KGC (7.5 million of these shares were offered to the public by Kyrgyzaltyn as part of the initial and secondary offering that closed on June 30);
- 3,061,212 shares to EBRD and IFC as part of the acquisition of their Kumtor subordinated debt;
- 5,204,605 shares to acquire an additional 43.7% interest in AGR (3,833,927 of these shares were offered to the public as part of the secondary offering that closed on June 30, 2004); and
- 38,148,971 shares to Cameco Gold and its subsidiary (176,247 shares were subsequently transferred to Len Homeniuk, President and CEO of Centerra).

At June 30, 2004, Centerra had 104,167 share options outstanding under its stock based incentive plans. If all of these options were exercised on that date, the Company would have to issue 104,167 common shares.

In connection with the initial public offering of shares of Centerra, the underwriters were granted an over-allotment option with an expiry date of July 30, 2004 to purchase up to 1,875,000 additional common shares at \$15.50 per share. On July 28, 2004, the Company received net proceeds of Cdn\$27.6 million from the exercise of the entire amount of the over-allotment option by the underwriters.

## **Caution regarding forward-looking statements**

Statements contained in this news release 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; 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 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.

- end -

**Centerra Gold Inc.**  
**Consolidated Financial Statements**  
**For the Six Months Ended June 30, 2004**  
**(Unaudited)**  
**(\$ US)**

**Centerra Gold Inc.**  
**Consolidated Balance Sheets**

(Unaudited)

(In Thousands of US\$)

|   | As at             |                   |
|---|-------------------|-------------------|
|   | June 30/04        | Dec 31/03         |
| <b>Assets</b>   |                   |                   |
| Current assets  |                   |                   |
| Cash  | \$ 85,220         | \$ 10,101         |
| Accounts receivable   | 4,527             | 6,232             |
| Inventories   | 7,245             | 1,603             |
| Supplies and prepaid expenses                                   | 39,795            | 11,441            |
| Current portion of long-term receivables, investments and other | -                 | 32,499            |
|   | <u>136,787</u>    | <u>61,876</u>     |
| Property, plant and equipment                                   | 289,570           | 142,404           |
| Long-term receivables, investments and other                    | 8,440             | 30,577            |
| Future income tax asset   | 5,619             | 926               |
|   | <u>303,629</u>    | <u>173,907</u>    |
| <b>Total assets</b>   | <u>\$ 440,416</u> | <u>\$ 235,783</u> |
| <b>Liabilities and Shareholders' Equity</b>                     |                   |                   |
| Current liabilities   |                   |                   |
| Accounts payable and accrued liabilities                        | \$ 38,726         | \$ 13,846         |
| Current portion of long-term debt                               | -                 | 38,351            |
|   | <u>38,726</u>     | <u>52,197</u>     |
| Long-term debt  | -                 | 18,140            |
| Provision for reclamation                                       | 18,335            | 7,112             |
|   | <u>57,061</u>     | <u>77,449</u>     |
| Minority interest   | 1,038             | 8,770             |
| <b>Shareholders' equity</b>                                     |                   |                   |
| Share capital [note 3]  | 341,823           | 120,831           |
| Contributed surplus   | 29,503            | 29,503            |
| Retained earnings (deficit)                                     | 10,991            | (770)             |
|   | <u>382,317</u>    | <u>149,564</u>    |
| <b>Total liabilities and shareholders' equity</b>               | <u>\$ 440,416</u> | <u>\$ 235,783</u> |

Commitments and contingencies [note 5]

Subsequent event [note 6]

See accompanying notes to the consolidated financial statements.

**Centerra Gold Inc.**  
**Consolidated Statements of Earnings and Retained Earnings (Deficit)**

(Unaudited)

(In Thousands of US\$)

|  | Three Months Ended |                    | Six Months Ended |                    |
|--|--------------------|--------------------|------------------|--------------------|
|  | June 30/04         | June 30/03         | June 30/04       | June 30/03         |
| <b>Revenue from</b>  |                    |                    |                  |                    |
| Gold sales   | \$ 46,037          | \$ 12,925          | \$ 71,015        | \$ 30,144          |
| Management fees  | 857                | 942                | 1,642            | 1,722              |
|  | <u>\$ 46,894</u>   | <u>\$ 13,867</u>   | <u>\$ 72,657</u> | <u>\$ 31,866</u>   |
| <b>Expenses</b>  |                    |                    |                  |                    |
| Cost of sales  | 19,368             | 10,482             | 30,792           | 21,281             |
| Depreciation, depletion and reclamation                          | 10,631             | 2,778              | 15,347           | 6,307              |
| Exploration  | 2,382              | 1,477              | 3,867            | 3,032              |
| Interest and other   | 1,132              | 854                | 1,641            | 1,663              |
| Administration   | 429                | 174                | 529              | 445                |
|  | <u>33,942</u>      | <u>15,765</u>      | <u>52,176</u>    | <u>32,728</u>      |
| <b>Earnings (loss) from operations</b>                           | <u>12,952</u>      | <u>(1,898)</u>     | <u>20,481</u>    | <u>(862)</u>       |
| Other expense [note 2d]  | 4,689              | 90                 | 4,147            | 90                 |
| <b>Earnings (loss) before income taxes and minority interest</b> | <u>8,263</u>       | <u>(1,988)</u>     | <u>16,334</u>    | <u>(952)</u>       |
| Income tax expense (recovery)                                    | 544                | (112)              | 546              | (110)              |
| Minority interest  | 3,636              | (140)              | 4,027            | (346)              |
| <b>Net earnings (loss)</b>                                       | <u>4,083</u>       | <u>(1,736)</u>     | <u>11,761</u>    | <u>(496)</u>       |
| Retained earnings (deficit), beginning of period                 | 6,908              | (8,594)            | (770)            | (9,834)            |
| <b>Retained earnings (deficit), end of period</b>                | <u>\$ 10,991</u>   | <u>\$ (10,330)</u> | <u>\$ 10,991</u> | <u>\$ (10,330)</u> |
| <b>Basic and diluted earnings per common share [note 7]</b>      | <u>\$ 0.10</u>     | <u>\$ (0.05)</u>   | <u>\$ 0.30</u>   | <u>\$ (0.01)</u>   |

See accompanying notes to the consolidated financial statements.

**Centerra Gold Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)  
(In Thousands of US\$)

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 30/04         | June 30/03       | June 30/04       | June 30/03       |
| <b>Operating activities</b>                              |                    |                  |                  |                  |
| Net earnings (loss)                                      | \$4,083            | (\$1,736)        | \$11,761         | (\$496)          |
| Items not requiring (providing) cash:                    |                    |                  |                  |                  |
| Depreciation, depletion and reclamation                  | 10,631             | 2,778            | 15,347           | 6,307            |
| Deferred charges recognized                              | 5,744              | 1,003            | 7,107            | 2,773            |
| Loss on settlement of debt                               | 4,690              | -                | 4,690            | -                |
| Other expense  | -                  | 90               | (541)            | 90               |
| Minority interest  | 3,636              | (140)            | 4,027            | (346)            |
| Other operating items                                    | 2,201              | (555)            | (8,106)          | 1,566            |
| <b>Cash provided by operations</b>                       | <b>30,985</b>      | <b>1,440</b>     | <b>34,285</b>    | <b>9,894</b>     |
| <b>Investing activities</b>                              |                    |                  |                  |                  |
| Acquisition of net business assets, net of cash acquired | (2,697)            | -                | (2,697)          | -                |
| Additions to property, plant and equipment               | (3,640)            | (24,463)         | (3,892)          | (32,949)         |
| Net commissioning recoveries                             | -                  | -                | 4,223            | -                |
| Redemption of shares, Cameco Ireland                     | -                  | -                | 22,900           | -                |
| <b>Cash provided by (used in) investing</b>              | <b>(6,337)</b>     | <b>(24,463)</b>  | <b>20,534</b>    | <b>(32,949)</b>  |
| <b>Financing activities</b>                              |                    |                  |                  |                  |
| Proceeds of share issue                                  | 64,417             | -                | 64,417           | -                |
| Increase in long-term debt                               | -                  | 10,000           | -                | 10,000           |
| Repayment of long-term debt                              | (35,421)           | -                | (41,509)         | -                |
| Advances from (to) parent company                        | 22,100             | 10,020           | (2,608)          | 10,688           |
| <b>Cash provided by financing</b>                        | <b>51,096</b>      | <b>20,020</b>    | <b>20,300</b>    | <b>20,688</b>    |
| Increase (decrease) in cash during the period            | 75,744             | (3,003)          | 75,119           | (2,367)          |
| Cash at beginning of the period                          | 9,476              | 20,901           | 10,101           | 20,265           |
| <b>Cash at end of the period</b>                         | <b>\$ 85,220</b>   | <b>\$ 17,898</b> | <b>\$ 85,220</b> | <b>\$ 17,898</b> |
| <b>Supplemental cash flow disclosure</b>                 |                    |                  |                  |                  |
| Interest paid  | \$ 8               | \$ 285           | \$ 1,637         | \$ 285           |
| Income taxes paid  | \$ 3               | \$ 5             | \$ 71            | \$ 117           |

See accompanying notes to the consolidated financial statements.

**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.

The consolidated financial statements have been prepared to reflect the transactions described below with respect to the transfer of assets from Cameco Gold Inc. (“Cameco Gold”, considered the predecessor company of Centerra for purposes of financial reporting), the restructuring agreement between Cameco Gold and Kyrgyzaltyn JSC (“Kyrgyzaltyn”), the acquisition of substantially all of the minority interest in AGR Limited (“AGR”), a subsidiary previously controlled by Cameco Gold through a 56% ownership interest, and the initial public offering of Centerra.

Under the terms of the restructuring agreement referred to above, Cameco Gold contributed its one-third interest in Kumtor Gold Company (“KGC”), its subordinated shareholder loan to KGC, a controlling interest in AGR, whose primary asset is a 95% interest in the Boroo gold project, its shareholder loan to AGR, a 62.14% ownership interest in the REN project in Nevada and \$11 million in cash. Kyrgyzaltyn contributed its two-thirds interest in KGC.

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

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

**2. Restructuring of Centerra**

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

Pursuant to the the restructuring agreement between Cameco Gold and Kyrgyzaltyn, the major assets contributed to Centerra by Cameco Gold included its 1/3 interest in KGC, a 56% interest in AGR, shareholder loans to KGC and AGR, a 73% interest in the Gatsuurt exploration property in Mongolia, a 62.14% interest in the REN exploration project in Nevada and \$11 million in cash.

Assets and liabilities totaling \$27,205,000, included in Cameco Gold’s financial statements, were not contributed to Centerra as part of the reorganization. The share capital of Centerra has been adjusted to reflect these assets and liabilities, as noted below.

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

In addition to the transfer of assets from Cameco Gold, Cameco Corporation converted \$64,180,000 of Centerra's inter-company debt and advances into equity.

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

**(b) Acquisition of 2/3 interest in KGC**

Pursuant to the restructuring agreement between Cameco Gold and Kyrgyzaltyn, Centerra acquired an additional 2/3 interest in KGC, resulting in KGC becoming a wholly owned subsidiary. The purchase price consisted of \$11,000,000 in cash, the contribution of a promissory note receivable and common shares of Centerra. The acquisition was accounted for using the purchase method and the results of operations are included, as to 100%, in the consolidated financial statements from June 22, 2004. Previously, Cameco Gold's one-third interest was accounted for by the proportionate consolidation method.

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

|   | (Thousands of \$US) |
|---|---------------------|
| Cash and other working capital              | \$ 32,565           |
| Property, plant and equipment               | 129,641             |
| Subordinated debt                           | (22,713)            |
| Net assets acquired                         | <u>\$ 139,493</u>   |
| Financed by:                                |                     |
| Cash  | \$ 11,000           |
| Note receivable from Kyrgyzaltan            | 4,000               |
| Settlement of shareholder subordinated loan | 43,993              |
| Common shares                               | 80,500              |
|   | <u>\$ 139,493</u>   |

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

**(c) Acquisition of additional 43.7% in AGR Ltd**

Effective June 30, 2004, Centerra acquired an additional 43.7% interest in AGR, resulting in Centerra's interest in AGR rising to 99.9%. The purchase price was satisfied through the issuance of Centerra common shares. The acquisition was accounted for as a step purchase and the results of operations are already included as it was already a consolidated subsidiary.

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

|  | (Thousands of \$US) |
|--|---------------------|
| Reduction of minority interest         | \$ 11,758           |
| Mark to market loss on hedge contracts | (5,766)             |
| Property, plant and equipment          | 23,808              |
| Net assets acquired                    | \$ 29,800           |
| Financed by:                           |                     |
| Common shares                          | \$ 29,800           |

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

Effective June 30, 2004, Centerra exchanged common shares and \$13,770,000 in cash in exchange for the subordinated debt of KGC.

|  | (Thousands of \$US) |
|--|---------------------|
| Fair value of exchange amount:               |                     |
| Common shares issued                         | \$ 20,300           |
| Cash   | 13,770              |
|  | 34,070              |
| Net book value of subordinated debt acquired | (29,380)            |
| Loss on exchange of debt                     | \$ 4,690            |

**(e) Initial Public Offering**

Under its initial public offering, Centerra issued 5,000,000 common shares to the public on June 30, 2004 for net proceeds of \$53,417,000 after deducting the underwriter's fees of 5%.



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

3. Share Capital

Centerra is authorised to issue an unlimited number of common shares with no par value.

| Number Issued                                | 2004               |
|--|--------------------|
|  | (Number of Shares) |
| Beginning of period                          | 100                |
| Issued:                                      |                    |
| Cameco Gold (note 2(a))                      | 38,148,971         |
| Kyrgyzaltyn (note 2(b))                      | 18,789,717         |
| AGR minority shareholders (note 2(c))        | 5,204,605          |
| IFC / EBRD agency lenders to KGC (note 2(d)) | 3,061,212          |
| Initial public offering (note 2(e))          | 5,000,000          |
| <b>End of period</b>                         | <b>70,204,605</b>  |

| Amount                                       | 2004                |
|--|---------------------|
|  | (Thousands of \$US) |
| Beginning of period                          | \$ -                |
| Share capital on restructuring:              |                     |
| Cameco Gold share capital                    | 120,831             |
| Centerra share capital before restructuring  | 120,831             |
| Adjustment to Cameco Gold (note 2(a))        | 36,975              |
| Common shares issued to Cameco Gold          | 157,806             |
| Kyrgyzaltan (note 2(b))                      | 80,500              |
| AGR minority shareholders (note 2(c))        | 29,800              |
| IFC / EBRD agency lenders to KGC (note 2(d)) | 20,300              |
| Initial public offering for cash (note 2(e)) | 53,417              |
| <b>End of period</b>                         | <b>\$341,823</b>    |

The adjustment to share capital related to Cameco Gold reflects the increase from Cameco Gold's historical share capital value to the carrying value of the assets and liabilities transferred from Cameco Gold to Centerra as part of the restructuring agreement.

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

**4. Stock-Based Compensation**

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

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

- (b) Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Performance share units will vest three years after December 31 of the year in which they were granted. If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant.
- (c) Centerra has established a deferred share unit plan for directors of the Company to receive all or a portion of their director's compensation as deferred share units. Deferred share units are paid in full to a director no later than December 31 in the calendar year that immediately follows the calendar year following termination of the director's Board service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each director will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held by the director.

As at June 30, 2004 a total of 104,167 stock options were outstanding, with a strike price of Cdn \$15.50 per share, and 56,250 performance share units and 9,123 deferred share units were outstanding.

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

**5. Commitments and Contingencies**

- (a) An action against Cameco Corporation, Cameco Gold, Kumtor Operating Company (“KOC”) and certain other parties commenced in a Canadian court by certain dependents of nine persons seeking damages, in the amount of Cdn \$20,700,000 (USD \$15,400,000) plus interest and costs including punitive damages in connection with the death of the said nine persons in a helicopter accident in Kyrgyzstan on October 4, 1995 is continuing. This action is being defended by the insurers of Cameco Corporation. Management is of the opinion, after review of the facts with counsel, that the outcome of this action will not have a material financial impact on Centerra’s financial position.

**6. Subsequent Event**

Centerra granted the underwriters of the initial public offering an option to purchase up to an additional 1,875,000 treasury shares. The option was exercised on July 22, 2004 and the expected proceeds to Centerra, net of the underwriter’s fee, are Cdn \$27.6 million.

**7. Per Share Amounts**

|   | <i>Three Months Ended</i> |                  | <b>Six Months Ended</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | Jun 30/04                 | <b>Jun 30/03</b> | <b>Jun 30/04</b>        | <b>Jun 30/03</b> |
| Basic earnings (loss) per share computation               |                           |                  |                         |                  |
| Net earnings (loss)                                       | \$4,083                   | \$(1,736)        | \$11,76                 | \$(496)          |
| Weighted average common shares outstanding                | 40,321                    | 38,149           | 39,2                    | 38,149           |
| <b>Basic and diluted earnings (loss) per common share</b> | <b>\$0.10</b>             | <b>\$(0.05)</b>  | <b>\$0.30</b>           | <b>\$(0.01)</b>  |

The weighted average of shares outstanding is comprised of the shares issued to Cameco Gold under the restructuring, reflected on a continuity of interests basis, plus the incremental effect of the shares issued under the transactions described in note 2.

All outstanding options as at June 30, 2004 were excluded from the fully diluted calculation, as they were not dilutive.

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

**8. Segmented Information**

Centerra has three reportable segments. The Kyrgyzstan 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.

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

**Three months ended June 30, 2004**

| (millions)                                  | <i>Kyr</i><br><i>gVZ</i><br>Republic | Mongolia        | North<br>America | Total           |
|---|--------------------------------------|-----------------|------------------|-----------------|
| Revenue                                     | \$ 23.5                              | \$ 23.4         | \$ -             | \$ 46.9         |
| Expenses                                    |                                      |                 |                  |                 |
| Products and services sold                  | 11.4                                 | 8.0             | -                | 19.4            |
| Depreciation, depletion and reclamation     | 3.7                                  | 6.9             | -                | 10.6            |
| Exploration                                 | 0.4                                  | 0.4             | 1.6              | 2.4             |
| Interest and other                          | 1.9                                  | 1.6             | (2.4)            | 1.1             |
| Administration                              | -                                    | -               | 0.4              | 0.4             |
| Loss on exchange of subordinated debt       | -                                    | -               | 4.7              | 4.7             |
| <b>Earnings (loss) before income taxes</b>  | <b>6.1</b>                           | <b>6.5</b>      | <b>(4.3)</b>     | <b>8.3</b>      |
| Income tax expense                          | 0.6                                  | -               | -                | 0.6             |
| Minority interest                           | -                                    | 3.6             | -                | 3.6             |
| <b>Net earnings (loss)</b>                  | <b>\$ 5.5</b>                        | <b>\$ 2.9</b>   | <b>\$ (4.3)</b>  | <b>\$ 4.1</b>   |
| <b>Assets</b>                               | <b>\$ 259.6</b>                      | <b>\$ 142.5</b> | <b>\$ 38.3</b>   | <b>\$ 440.4</b> |
| <b>Capital expenditures for the quarter</b> | <b>\$ 0.8</b>                        | <b>\$ 2.9</b>   | <b>\$ -</b>      | <b>\$ 3.7</b>   |

**Three months ended June 30, 2003**

| (millions)                                  | Kyrgyz<br>Republic | Mongolia        | North<br>America | Total           |
|---|--------------------|-----------------|------------------|-----------------|
| Revenue                                     | \$ 13.9            | \$ -            | \$ -             | \$ 13.9         |
| Expenses                                    |                    |                 |                  |                 |
| Products and services sold                  | 10.5               | -               | -                | 10.5            |
| Depreciation, depletion and reclamation     | 2.8                | -               | -                | 2.8             |
| Exploration                                 | 0.1                | 0.3             | 1.1              | 1.5             |
| Interest and other                          | 1.4                | 0.4             | (0.8)            | 1.0             |
| Administration                              | -                  | 0.1             | -                | 0.1             |
| <b>Earnings (loss) before income taxes</b>  | <b>(0.9)</b>       | <b>(0.8)</b>    | <b>(0.3)</b>     | <b>(2.0)</b>    |
| Income tax expense (recovery)               | -                  | -               | (0.1)            | (0.1)           |
| Minority interest                           | -                  | (0.2)           | -                | (0.2)           |
| <b>Net earnings (loss)</b>                  | <b>\$ (0.9)</b>    | <b>\$ (0.6)</b> | <b>\$ (0.2)</b>  | <b>\$ (1.7)</b> |
| <b>Assets</b>                               | <b>\$ 105.8</b>    | <b>\$ 69.3</b>  | <b>\$ 79.9</b>   | <b>\$ 255.0</b> |
| <b>Capital expenditures for the quarter</b> | <b>\$ 1.9</b>      | <b>\$ 22.4</b>  | <b>\$ 0.2</b>    | <b>\$ 24.5</b>  |

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

**Six months ended June 30, 2004**

| (millions)                                       | <b>Kyrgyz Republic</b> | <b>Mongolia</b> | <b>North America</b> | <b>Total</b>    |
|--|------------------------|-----------------|----------------------|-----------------|
| Revenue  | \$ 43.4                | \$ 29.3         | \$ -                 | \$ 72.7         |
| Expenses   |                        |                 |                      |                 |
| Products and services sold                       | 20.6                   | 10.2            | -                    | 30.8            |
| Depreciation, depletion and reclamation          | 7.0                    | 8.3             | -                    | 15.3            |
| Exploration                                      | 0.6                    | 0.6             | 2.7                  | 3.9             |
| Interest and other                               | 3.1                    | 2.4             | (4.4)                | 1.1             |
| Administration                                   | -                      | 0.1             | 0.4                  | 0.5             |
| Loss on exchange of subordinated debt            | -                      | -               | 4.7                  | 4.7             |
| <b>Earnings (loss) before income taxes</b>       | <b>12.1</b>            | <b>7.7</b>      | <b>(3.4)</b>         | <b>16.4</b>     |
| Income tax expense                               | 0.6                    | -               | -                    | 0.6             |
| Minority interest                                | -                      | 4.0             | -                    | 4.0             |
| <b>Net earnings (loss)</b>                       | <b>\$ 11.5</b>         | <b>\$ 3.7</b>   | <b>\$ (3.4)</b>      | <b>\$ 11.8</b>  |
| <b>Assets</b>                                    | <b>\$ 259.6</b>        | <b>\$ 142.5</b> | <b>\$ 38.3</b>       | <b>\$ 440.4</b> |
| <b>Capital expenditures for the year to date</b> | <b>\$ 0.9</b>          | <b>\$ 3.0</b>   | <b>\$ -</b>          | <b>\$ 3.9</b>   |

**Six months ended June 30, 2003**

| (millions)                                       | <b>Kyrgyz Republic</b> | <b>Mongolia</b> | <b>North America</b> | <b>Total</b>    |
|--|------------------------|-----------------|----------------------|-----------------|
| Revenue  | \$ 31.9                | \$ -            | \$ -                 | \$ 31.9         |
| Expenses   |                        |                 |                      |                 |
| Cost of sales                                    | 21.3                   | -               | -                    | 21.3            |
| Depreciation, depletion and reclamation          | 6.3                    | -               | -                    | 6.3             |
| Exploration                                      | 0.3                    | 0.6             | 2.1                  | 3.0             |
| Interest and other                               | 2.5                    | 0.9             | (1.6)                | 1.8             |
| Administration                                   | -                      | 0.3             | 0.1                  | 0.4             |
| <b>Earnings (loss) before income taxes</b>       | <b>1.5</b>             | <b>(1.8)</b>    | <b>(0.6)</b>         | <b>(0.9)</b>    |
| Income tax expense (recovery)                    | -                      | -               | (0.1)                | (0.1)           |
| Minority interest                                | -                      | (0.3)           | -                    | (0.3)           |
| <b>Net earnings (loss)</b>                       | <b>\$ 1.5</b>          | <b>\$ (1.5)</b> | <b>\$ (0.5)</b>      | <b>\$ (0.5)</b> |
| <b>Assets</b>                                    | <b>\$ 105.8</b>        | <b>\$ 69.3</b>  | <b>\$ 79.9</b>       | <b>\$ 255.0</b> |
| <b>Capital expenditures for the year to date</b> | <b>\$ 2.3</b>          | <b>\$ 30.3</b>  | <b>\$ 0.3</b>        | <b>\$ 32.9</b>  |

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

**Summary of Significant Accounting Policies**

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

**Consolidation principles**

The consolidated financial statements include the accounts of Centerra and its subsidiaries.

**Foreign currency translation**

The United States dollar is considered the functional currency of Centerra's gold operations. Transactions in foreign currencies are translated to United States Dollars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to United States Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of earnings.

**Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to United States Dollars at the foreign exchange rate ruling at the date of the transaction.**

**Cash**

Cash consists of balances with financial institutions and investments in money market instruments which have a remaining term to maturity of three months or less from the date of acquisition.

**Inventories**

Inventories of broken ore, in-circuit gold, and gold doré are valued at the lower of cost and net realizable value.

**Supplies**

Consumable supplies and spares are valued at the lower of cost or replacement cost.

**Investments**

Investments in associated companies over which Centerra has the ability to exercise significant influence are accounted for by the equity method. Under this method Centerra includes in earnings its share of earnings or losses of the associated company. Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value that is other than temporary.

**Centerra Gold Inc.**  
**Notes to Consolidated Financial Statements**  
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**Property, plant and equipment**

Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings. Maintenance and repair expenditures are charged to cost of production.

**Non-producing properties**

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property and the availability of financing. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets.

**Property evaluations**

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

**Capitalization of interest**

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

**Depreciation and depletion**

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

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

**Environmental protection and reclamation costs**

The fair value of the liability for an asset retirement obligation is recognized in the period incurred. The fair value is added to the carrying amount of the associated asset and depreciated over the asset's useful life. The liability is accreted over time through periodic charges to earnings and it is reduced by actual costs of decommissioning and reclamation. Centerra's



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estimates of reclamation costs could change as a result of changes in regulatory requirements and cost estimates. Expenditures relating to ongoing environmental programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings.

**Future income taxes**

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

**Revenue recognition**

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

**Derivative financial instruments and hedging transactions**

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

**Centerra Gold Inc.**  
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**Stock-based compensation**

Centerra accounts for stock-based compensation arrangements in accordance with the fair-value method of accounting.