

Report of Management's Accountability

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

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

The integrity and reliability of Centerra's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Centerra's code of ethics, which is communicated to all management levels in the organization, requires employees to maintain high standards in their conduct of the Company's affairs. The CEO and CFO certify that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

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

The board of directors annually appoints an audit committee comprised of independent directors. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the board of directors for formal approval.

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

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

February 22, 2007

Auditors' Report

To the Shareholders of Centerra Gold Inc.

We have audited the consolidated balance sheets of Centerra Gold Inc. as at December 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 22, 2007

Original signed by:
KPMG LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

(Thousands of US\$)	Notes	2006	2005
Assets			
Current assets			
Cash		\$ 186,159	\$ 202,417
Accounts receivable		24,006	8,951
Inventories	4	83,714	76,721
Prepaid expenses		24,737	16,151
		318,616	304,240
Property, plant and equipment	5	305,366	232,114
Goodwill		154,586	154,586
Long-term receivables and other	6	6,778	8,357
Future income tax asset	10	8,901	—
		475,631	395,057
Total assets		\$ 794,247	\$ 699,297
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 62,347	\$ 32,129
Provision for reclamation	7	16,532	17,897
Future income tax liability	10	—	29
		16,532	17,926
Non-controlling interest		9,829	4,821
Shareholders' equity	13		
Share capital		522,383	522,383
Contributed surplus		30,257	29,739
Retained earnings		152,899	92,299
		705,539	644,421
Total liabilities and shareholders' equity		\$ 794,247	\$ 699,297
Commitments and contingencies (notes 7, 14, 16)			
The accompanying notes form an integral part of these consolidated financial statements			
Approved by the Board of Directors			
Original signed by:			
Ian G. Austin		Patrick M. James	
Director		Director	

Consolidated Statements of Earnings and Retained Earnings

For the Years Ended December 31

(Thousands of US\$ except per share amounts)	Notes	2006	2005	2004
Revenue from				
Gold sales		\$ 364,520	\$ 338,583	\$ 245,421
Management fees		—	—	1,642
		364,520	338,583	247,063
Expenses				
Cost of sales		236,915	186,177	109,920
Depreciation, depletion and amortization		39,662	60,790	52,785
Accretion and reclamation expense	7	(1,454)	(894)	978
Exploration and business development	8	25,702	29,931	15,000
Interest and other (income)	9	(23,362)	(4,773)	(7,582)
Administration		27,221	17,934	11,544
		304,684	289,165	182,645
Earnings from operations		59,836	49,418	64,418
Other expense		—	—	8,541
Earnings before income taxes and non-controlling interest				
		59,836	49,418	55,877
Income tax expense (recovery)	10	(5,771)	4,572	(156)
Non-controlling interest		5,007	2,412	5,398
Net earnings		60,600	42,434	50,635
Retained earnings (deficit), beginning of year		92,299	49,865	(770)
Retained earnings, end of year		\$ 152,899	\$ 92,299	\$ 49,865
Basic and diluted earnings per common share				
	13	\$ 0.28	\$ 0.20	\$ 0.30
The accompanying notes form an integral part of these consolidated financial statements				

Consolidated Statements of Cash Flows

For the Years Ended December 31

(Thousands of US\$)	2006	2005	2004
Operating activities			
Net earnings	\$ 60,600	\$ 42,434	\$ 50,635
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	39,662	60,790	52,785
Accretion and reclamation expense	(1,454)	(894)	978
Deferred charges recognized	2,266	5,397	6,979
Loss on settlement of debt	—	—	9,084
Future income tax expense (recovery)	(8,930)	2,540	(1,041)
Non-controlling interest	5,007	2,412	5,398
Other operating items	(2,141)	2,817	3,264
	95,010	115,496	128,082
Change in working capital	(14,676)	(32,096)	(39,605)
Cash provided by operations	80,334	83,400	88,477
Investing activities			
Acquisition of net business assets, net of cash acquired	—	—	(2,697)
Additions to property, plant and equipment	(96,645)	(33,574)	(11,785)
Proceeds from disposition of fixed assets	53	—	—
Pre-commissioning revenues	—	—	4,223
Redemption of shares, Cameco Ireland	—	—	22,900
Cash provided by (used in) investing	(96,592)	(33,574)	12,641
Financing activities			
Proceeds of share issue	—	—	84,746
Repayment of long-term debt	—	—	(41,509)
Advances from (to) parent company	—	—	(1,865)
Cash provided by (used in) financing	—	—	41,372
Increase (decrease) in cash during the year	(16,258)	49,826	142,490
Cash at beginning of the year	202,417	152,591	10,101
Cash at end of the year	\$ 186,159	\$ 202,417	\$ 152,591
Supplemental cash flow disclosure			
Change in working capital:			
Accounts receivable	\$ (15,055)	\$ (6,355)	\$ 3,753
Inventory - ore and metal	8,567	(7,078)	(12,696)
Inventory - supplies	(15,580)	(14,561)	(9,897)
Prepays	(8,586)	(4,208)	(4,840)
Hedges	—	—	(20,622)
Accounts payable and accrued liabilities	30,218	106	4,697
	(436)	(32,096)	(39,605)
Reduction to accrued liabilities related to property, plant and equipment, non-cash additions	(14,240)	—	—
	\$ (14,676)	\$ (32,096)	\$ (39,605)
Other cash payments:			
Interest paid	\$ 274	\$ 55	\$ 1,637
Income taxes paid	3,159	1,525	223
The accompanying notes form an integral part of these consolidated financial statements			

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

(Expressed in United States Dollars)

NOTE 1: Nature of Operations

Centerra Gold Inc. (“Centerra” or the “Company”) is engaged in the production of gold and related activities including exploration, development, mining and processing in Mongolia, the Kyrgyz Republic and the United States of America.

NOTE 2: Basis of Presentation

The consolidated financial statements of Centerra have been prepared by management in accordance with Canadian generally accepted accounting principles.

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

NOTE 3: Significant Accounting Policies

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

NOTE 4: Inventories

(Thousands of US\$)	2006	2005
Broken ore	\$ 8,892	\$ 13,930
Gold in-circuit	6,287	3,319
Gold doré	5,758	12,275
	20,937	29,524
Supplies	62,777	47,197
Total	\$ 83,714	\$ 76,721

NOTE 5: Property, Plant and Equipment

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2006 Net
Mine buildings	\$ 32,789	\$ 21,029	\$ 11,760
Plant and equipment	241,792	144,143	97,649
Mineral properties	148,603	74,753	73,850
Mobile equipment	88,214	26,930	61,284
Construction in process	60,823	—	60,823
Total	\$ 572,221	\$ 266,855	\$ 305,366

(Thousands of US\$)	Cost	Accumulated Depreciation and Depletion	2005 Net
Mine buildings	\$ 27,164	\$ 14,251	\$ 12,913
Plant and equipment	222,919	126,768	96,151
Mineral properties	143,187	63,159	80,028
Mobile equipment	49,126	18,907	30,219
Construction in process	12,803	—	12,803
Total	\$ 455,199	\$ 223,085	\$ 232,114

NOTE 6: Long-term Receivables and Other

(Thousands of US\$)	2006	2005
Reclamation trust fund (note 7)	\$ 4,676	\$ 4,363
Deferred charges	557	2,823
Other long-term receivables	1,545	1,171
Total	\$ 6,778	\$ 8,357

All gold forward sales agreements were closed in 2004. Deferred charges relating to the closing of the hedges of \$2.3 million were recognized in 2006, leaving the balance of \$0.6 million to be recognized in 2007.

NOTE 7: Asset Retirement Obligations

(Thousands of US\$)	2006	2005
Kumtor gold mine	\$ 13,992	\$ 15,633
Boroo gold mine	2,540	2,264
Total	\$ 16,532	\$ 17,897

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

The Company estimates its total future decommissioning and reclamation costs to be \$24.5 million.

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

- (i) Total undiscounted amount of the estimated cash flows is \$24.5 million.
- (ii) Expected timing of payment of the cash flows is based on the life of mine plans.

The majority of expenditures is expected to occur after 2008.

- (iii) Discount rates of 8.0% for both Kumtor and Boroo gold mines.

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

(Thousands of US\$)	2006	2005	2004
Balance, beginning of year	\$ 17,897	\$ 18,868	\$ 7,112
Additional liability assumed on restructuring (note 12)	—	—	10,778
Liabilities incurred / (settled)	89	(77)	—
Revisions in estimated cash flows	(2,589)	(2,209)	—
Accretion expense	1,135	1,315	978
Balance, end of year	\$ 16,532	\$ 17,897	\$ 18,868

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of estimated salvage values of \$14.9 million. This restricted cash is funded on the units of production method, annually in arrears, over the life of the mine and on December 31, 2006 was \$4.7 million (2005 - \$4.4 million) (note 6).

The 2006 and 2005 balances reflect the significant new reserves announced at Kumtor early in both years, resulting in a deferral in reclamation spending at the site. As a result, the present value of the obligation was reduced by \$2.6 million in 2006 and \$2.2 million in 2005, which was recorded in earnings in both years.

NOTE 8: Exploration and Business Development Costs

(Thousands of US\$)	2006	2005	2004
Exploration	\$ 22,947	\$ 25,457	\$ 15,000
Business development	2,755	4,474	—
Total	\$ 25,702	\$ 29,931	\$ 15,000

NOTE 9: Interest and Other (Income)

(Thousands of US\$)	2006	2005	2004
Interest income	\$ (9,764)	\$ (5,269)	\$ (1,546)
Proceeds on insurance claim, net of fees	(13,436)	—	—
Loss on sales of assets	525	—	—
Interest expense on long-term debt	—	55	1,146
Financing charges and other interest	1,244	—	82
Foreign exchange loss (gain)	(1,931)	441	(7,264)
Net	\$ (23,362)	\$ (4,773)	\$ (7,582)

NOTE 10: Income Taxes

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

(Thousands of US\$)	2006	2005
Future tax assets		
Property, plant and equipment	\$ 31,560	\$ 19,897
Foreign exploration and development	2,722	1,473
Inventory	2,209	—
Tax losses carried forward	17,546	12,793
Other	1,205	1,539
Future income tax assets before valuation allowance	55,242	35,702
Valuation allowance	(46,341)	(28,079)
Future income tax assets, net of valuation allowance	8,901	7,623
Future tax liabilities		
Property, plant and equipment	—	6,673
Deferred hedge losses	—	323
Inventory	—	656
Future income tax liabilities	—	7,652
Net future income tax assets (liabilities)	\$ 8,901	\$ (29)

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

(Thousands of US\$)	2006	2005	2004
Earnings before income taxes and minority interest	\$ 59,836	\$ 49,418	\$ 55,877
Combined federal and provincial tax rate	36.1%	36.1%	36.1%
Computed income tax expense	\$ 21,601	\$ 17,840	\$ 20,172
Increase (decrease) in taxes resulting from:			
Permanent differences and other	4,057	1,379	404
Valuation allowance	18,262	4,728	(4,911)
Resolution of tax uncertainties	(7,129)	—	—
Tax loss expired	—	—	1,029
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(41,284)	(19,922)	(16,855)
Changes in tax legislation	(1,765)	—	—
Large corporations and other taxes	487	547	5
Income tax expense (recovery)	\$ (5,771)	\$ 4,572	\$ (156)

Income tax expense (recovery) is comprised of:

(Thousands of US\$)	2006	2005	2004
Current income taxes	\$ 3,159	\$ 2,032	\$ 885
Future income taxes (recovery)	(8,930)	2,540	(1,041)
Net	\$ (5,771)	\$ 4,572	\$ (156)

Tax losses

At December 31, 2006, the Company and its subsidiaries have losses carried forward in the amount of \$89.4 million (2005 - \$50.1 million) available to reduce taxes in 2007 and subsequent years. Of these tax losses \$31.1 million are expected to expire in 2007, and the balance would begin to expire in 2011. Of the 2006 losses carried forward, tax benefits have not been recorded for \$64.8 million.

Tax legislation

During 2006, the corporate income tax rate in the Kyrgyz Republic was reduced from 20% to 10%.

Changes to Mongolian tax legislation enacted during 2006, including the enactment of the windfall profits tax, are not applicable to Boroo.

Resolution of tax uncertainties

During 2006, the Kyrgyz tax authorities confirmed the tax basis for certain fixed assets used in the operations of KGC. As a result, the Company was able to recognize an increase in its future tax asset in the amount of \$7.1 million, offset however, by a \$1.8 million increase in the related valuation allowance, for a net increase in the future tax asset of \$5.3 million.

NOTE 11: Joint Ventures

Centerra's joint-venture interests are comprised of:

- prior to the restructuring in June 2004, as described in note 12 (a), a 33.33% interest in the Kumtor gold mine; and
- a 62.14% participation interest in the REN property which is currently in the exploration stage and has zero book value.

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

(Thousands of US\$)	2006	2005	2004
Revenues	\$ —	\$ —	\$ 41,718
Expenses	(1,996)	(3,740)	(33,850)
Net earnings (loss)	\$ (1,996)	\$ (3,740)	\$ 7,868
Cash provided by (used in)			
Operating activities	\$ (1,996)	\$ (3,740)	\$ 14,882
Investing activities	—	—	(930)
Financing activities	—	—	(5,667)
Increase (decrease) in cash during the year	\$ (1,996)	\$ (3,740)	\$ 8,285

NOTE 12: Restructuring of Centerra

(a) Transfer of gold interests from Cameco Gold

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

Assets and liabilities totalling \$27.2 million, included in Cameco Gold's financial statements, were not contributed to Centerra as part of the reorganization. The share capital of Centerra has been adjusted to reflect these assets and liabilities, as noted below.

In addition to the transfer of assets from Cameco Gold, Cameco converted \$64.2 million of Centerra's inter-company debt and advances into equity.

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

(b) Acquisition of two-thirds interest in KGC

Pursuant to the restructuring agreement of June 2004 between Cameco Gold and Kyrgyzaltyn, Centerra acquired an additional two-thirds interest in KGC, resulting in KGC becoming a wholly-owned subsidiary. The purchase price consisted of \$11.0 million in cash, the contribution of a promissory note receivable from

Kyrgyzaltyn and common shares of Centerra. The acquisition was accounted for using the purchase method and the results of operations are included, as to 100%, in the consolidated financial statements from June 22, 2004. Previously, Cameco Gold's one-third interest was accounted for by the proportionate consolidation method.

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

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

(c) Acquisition of additional 43.8% in AGR Limited

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

Subsequent to June 30, 2004, the Company acquired the remaining ownership interests in AGR, making it a wholly-owned subsidiary and resulting in a 100% interest in the Gatsuurt exploration property in Mongolia.

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

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

(d) Exchange of KGC subordinated debt

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

(Thousands of US\$)	
Fair value of exchange amount:	
Common shares issued	\$ 34,433
Cash	13,770
	48,203
Net book value of subordinated debt acquired	(39,119)
Loss on exchange of debt	\$ 9,084

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

(e) Initial public offering

Under its initial public offering, Centerra issued 5,000,000 common shares (15,000,000 common shares post-split) to the public on June 30, 2004 for net proceeds of \$53.4 million after deducting the underwriters' fees of 5%. On July 28, 2004, the underwriters to the initial public offering of Centerra exercised their over-allotment option to acquire an additional 1,875,000 shares (5,625,000 shares post-split) for net proceeds of \$20.3 million.

NOTE 13: Shareholders' Equity**(a) Share capital**

Centerra is authorized to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value. On May 9, 2006, the Board of Directors of Centerra 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.

At December 31, 2006, only common shares had been issued as follows:

Number Issued	2006	2006
	(Number of Shares)	(Thousands of US\$)
Balance, January 1, 2003 and 2004	114,447,213	\$ 120,831
Adjustment on restructuring (note 12(a))	—	36,975
Issued to Kyrgyzaltyn (note 12(b))	56,369,151	200,783
Issued to AGR shareholders (note 12(c))	15,613,815	55,615
Issued to subordinated debt holders (note 12(d))	9,183,636	34,433
Initial public offering (note 12(e))	20,625,000	73,746
Balance, December 31, 2004, 2005 and 2006	216,238,815	\$ 522,383

(b) Earnings per share

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

The weighted average number of shares outstanding for 2004 is comprised of the shares issued under the restructuring reflected on a continuity of interest basis, plus the incremental effect of the shares issued under the transactions described in note 12.

	2006	2005	2004
Basic weighted average number of common shares outstanding (thousands)	216,239	216,237	166,812
Effect of stock options (thousands)	308	102	54
Diluted weighted average number of common shares outstanding (thousands)	216,547	216,339	166,866
Basic and diluted earnings per common share	\$ 0.28	\$ 0.20	\$ 0.30

The basic and diluted earnings per share have been adjusted to reflect the stock split described in note 13(a).

(c) Stock-based compensation

The impact of stock-based compensation is summarized as follows:

(Millions of US\$, except as indicated)	Number Outstanding Dec. 31, 2006	Expense 2006	Expense 2005	Expense 2004	Liability Dec. 31, 2006
(i) Centerra stock options	879,321	\$ 1.6	\$ 0.7	\$ 0.1	\$ 1.7
(ii) Centerra performance share units	726,733	3.9	1.3	0.2	5.4
(iii) Centerra annual performance share units	173,098	3.3	2.8	1.9	0.8
(iv) Deferred share units	142,093	1.0	0.4	0.3	1.6
(v) Cameco stock options	129,600	2.4	4.2	1.4	4.1
		\$ 12.2	\$ 9.4	\$ 3.9	\$ 13.6

Centerra Plan

(i) Stock Option

Centerra has established a stock option plan under which options to purchase common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common shares where they are listed for the five trading days prior to the date of the grant. The options issued prior to 2006 vest over five years while options issued after 2005 vest over three years. All issued options expire after eight years from the date granted. Options may be granted with a related share appreciation right. In these circumstances, the participant can either elect to receive shares by exercising the stock option or to receive payment in cash 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 18,000,000 common shares is 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.

Centerra stock option transactions during the year were as follows:

(Number of options, except as indicated)	2006	2005	2004
Beginning of year	600,549	322,581	—
Options granted	278,772	277,968	322,581
End of year	879,321	600,549	322,581
Award price for options granted in the year (\$Cdn/share)	\$ 12.78	\$ 6.71	\$ 5.17
Weighted average price on outstanding options (\$Cdn/share)	\$ 8.07	\$ 5.88	\$ 5.17

The compensation expense associated with the 2006-granted stock option series was calculated using the Black-Scholes valuation model, assuming a 6-year term, 32% volatility, a risk-free rate of return of 4.5%, and zero dividend and is being charged against net income over its vesting period (for the 2005 award, 6-year term, 34% volatility, 3.5% interest, zero dividend). The 2004 series which contains a share appreciation rights feature, was issued at an award price of \$5.17, and is accounted for under the liability method.

The resulting fair value of the options granted in 2006 was \$1.2 million (2005 - \$0.6 million, 2004 - \$0.5 million).

For 2006, \$1.6 million (2005 - \$0.7 million, 2004 - \$0.2 million) was recognized in the income statement in respect of the Centerra stock option plan.

The terms of the options outstanding as at December 31, 2006 are as follows:

Award Date	Award Price	Expiry Date	Number options outstanding	Number options vested
2004	\$ 5.17 (Cdn)	2012	322,581	129,032
2005	\$ 6.71 (Cdn)	2013	277,968	55,594
2006	\$ 12.78 (Cdn)	2014	278,772	—
			879,321	184,626

(ii) Performance share unit plan

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 for which they were granted, except those issued at the time of the IPO which vested December 31, 2006. The number of units that will vest may be higher or lower than the number of units credited to a participant. The number of units which will vest is determined based on Centerra's total return performance relative to the S&P/TSX Capped Gold Index Total Return Investment Value during the applicable period. The number of units that vest is determined by multiplying the number of units credited to the participant by the adjustment factor, which can be as high as a factor of 1.5 or potentially result in no payout.

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant. At December 31, 2006, the number of units outstanding was 726,733 (424,119 at December 31, 2005). In 2006, \$3.9 million of compensation expense was recorded on this plan (\$1.3 million in 2005 and \$0.2 million in 2004).

On January 15, 2007, the Company settled 304,794 units outstanding under the performance share units plan for a gross amount paid of \$3.6 million.

(iii) Annual performance share unit plan

Centerra has established an annual performance share unit plan for eligible employees at their mine site operations. At the start of a contract period, an eligible employee receives a number of performance share units based on the Centerra share price on that start date. This award vests in one year and on the annual anniversary date of their contract, the eligible employee is entitled to receive an amount based on the assigned number of performance share units times the five-day average Centerra share price preceding the annual anniversary date. The performance share units cannot be converted to shares and the eligible employee must complete the annual

contract period in order to receive payment. At December 31, 2006, the number of units outstanding was 173,098 with a related liability of \$1.0 million (December 31, 2005 - 392,442 units, \$2.0 million liability). In 2006, \$3.3 million of compensation expense was recorded on this plan (\$2.8 million in 2005 and \$1.9 million in 2004).

(iv) Deferred share unit plan

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 of termination of the director's Board service. A deferred share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the market. Deferred share units vest immediately. If dividends are paid, each director will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held by the director. At December 31, 2006, the number of units outstanding was 142,093 (94,011 at December 31, 2005). In 2006, approximately \$1.0 million of compensation expense was recorded on this plan (\$0.4 million in 2005 and \$0.3 million in 2004).

Cameco Plan

On January 1, 2001, prior to the establishment of the Centerra stock plan, Cameco established a stock-based compensation plan under which stock options ("options"), are converted to a cash amount, were granted to eligible employees of the Company. Options granted under the plan cannot be converted to shares and have an award price of not less than the closing price quoted on the TSX for the common shares of Cameco on the trading day prior to the date on which the option is granted. Upon redemption, the options are converted to a cash amount based on the excess of the closing price quoted on the TSX for the common shares of Cameco on the last trading date prior to the redemption date over the award price. The options vest over three years and expire eight years from the date granted.

The liability for this option plan was assumed by Centerra upon restructuring (note 13). No further grants to Centerra employees will be made under the Cameco plan. Options under this plan were last granted in 2004.

The market price of Cameco common shares as at December 31, 2006 was \$47.20 (Cdn) (December 31, 2005 was \$36.90 (Cdn) per share, stock split adjusted).

In 2006, \$2.4 million of compensation expense was recorded on this plan (\$4.2 million in 2005 and \$1.4 million in 2004).

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

(number of options, except as indicated)	2006	2005	2004
Beginning of year	232,200	344,400	459,000
Options granted	—	—	248,400
Options exercised	(91,200)	(102,600)	(144,600)
Options cancelled	(11,400)	(9,600)	(218,400)
End of year	129,600	232,200	344,400
Average award price for options granted - Cdn\$	—	—	\$ 10.52
Award price for options exercised - Cdn\$	\$ 4.81 - \$ 10.52	\$ 4.81 - \$ 10.52	\$ 4.81 - \$ 7.31

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

Award Date	Award Price (Cdn\$)	Expiry Date	2006 (Number of Options)	2005 (Number of Options)
2001	\$ 4.81	2009	1,200	3,000
2002	\$ 7.31	2010	9,600	17,400
2003	\$ 5.88	2006	—	4,800
2003	\$ 5.88	2007	5,400	3,600
2003	\$ 5.88	2008	600	3,000
2003	\$ 5.88	2011	33,000	66,000
2004	\$ 10.52	2007	1,800	5,400
2004	\$ 10.52	2008	1,200	—
2004	\$ 10.52	2012	76,800	128,400
			129,600	232,200
Weighted average price on outstanding options (Cdn\$/share)			\$ 8.83	\$ 8.65

NOTE 14: Commitments and Contingencies

Kumtor operations

During the year ended December 31, 2006, KGC entered into contracts to purchase capital equipment and operational supplies totalling \$27.1 million which are expected to be settled in the following financial year.

In December 2006, at the direct request of the Government, the Company paid disputed amounts relating to land tax (\$1.2 million) on certain non-agricultural land leased by Kumtor and high altitude premium (\$5.7 million) payable to its Kumtor mine employees. The Company has begun international arbitration with the

Government to recover the disputed amounts. The total amount in dispute for 2006 is about \$7 million.

In December 2006, an agreement was signed between Kumtor and the Government of the Kyrgyz Republic under which Kumtor agreed to loan the Government \$4.4 million. As of the end of the year \$3.0 million has been advanced. The balance will be advanced in 2007. Half of the loan (\$2.2 million) is repayable no later than 2010. The balance (\$2.2 million) will be forgiven provided that the Government does not default under its Investment Agreement with the Company. The amounts to be forgiven are expensed as advanced.

In accordance with the Investment Agreement, KGC makes contributions to a social fund set up for the benefit of residents of the Issyk-Kul region of the Republic. The annual contribution is calculated at the rate of 2% (4% after all the project loans have been repaid) of the annual net profit of KGC. These costs are expensed in the year they are incurred. Due to losses incurred at KGC in 2006, no contributions were required in the year (2005 - \$0.4 million).

In accordance with its Master Agreement and Reclamation Trust Deed, KGC has an obligation to contribute funds to the Reclamation Trust Fund. The Reclamation Trust Fund was established by KGC, a single contributor, to fund its decommissioning obligations for the Kumtor mine site. The fund is separately administered by an independent trustee (note 7).

Boroo operations

The Ministry of Finance has alleged certain tax-related violations by the Company and notified it on January 15, 2007 that the Boroo stability agreement will be terminated unless the alleged violations are cured within 120 days. The Company responded to the Minister that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. On February 13, 2007, the Company received a reply from the Minister of Finance re-iterating the allegations of violations. The potential impact of this claim is not determinable at this time. The Company has responded that in all cases it has either remedied the alleged violations or strongly disputes that a violation exists. The Company believes that this dispute will be fully resolved as part of the negotiations on the Boroo and Gatsuert agreements.

Mongolia

Pursuant to an agreement between Centerra Gold Mongolia Limited ("CGM") and Gatsuert LLC, an arm's length Mongolian company, under which CGM acquired the Gatsuert licenses, CGM agreed to transfer the principal license covering the Gatsuert property to Gatsuert LLC if CGM did not complete a feasibility study by December 31, 2005. CGM completed a feasibility study in 2005. Gatsuert LLC informed Centerra

that it did not believe that CGM complied with its obligation and filed a claim in the Mongolian national arbitration court alleging non-compliance by CGM and seeking the return of the principal license for the Gatsuurt property. CGM intends to contest the jurisdiction of the arbitration court and continues to believe that the terms of this agreement have been fully met and that the Gatsuurt LLC claim is without merit.

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

Corporate

In December 2004, the Company entered into a seven-year lease obligation for its corporate offices in Toronto, Canada. The lease, including operating costs for 2006, was approximately \$822,000 Cdn (2005 - \$647,000 Cdn) and is expected to increase to approximately \$850,000 Cdn by November 2011, the end of the lease term.

NOTE 15: Financial Instruments

Fair values of financial instruments

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

Foreign exchange risk

By virtue of its international operations, the Company incurs costs and expenses in a number of foreign currencies other than the U.S. dollar. The Company's revenue is substantially all in U.S. dollars while some costs and expenses are incurred in Canadian dollars and other foreign currencies. The primary foreign exchange risk is to changes in the value of Canadian dollar relative to the U.S. dollar.

NOTE 16: Related Party Transactions

Cameco Corporation

Cameco owned 100% of the Company until the restructuring. As at December 31, 2006, Cameco owned 52.7% of the Company's common stock. The table below summarizes 100% of the fees and services transacted between Cameco and Centerra in the respective years. For periods prior to the restructuring, the Centerra financial statements reflect one-third of charges with Kumtor, in accordance with the accounting described in note 12.

Yearly activity

(Thousands of US\$)	2006	2005	2004
Charged by Cameco:			
Senior debt guarantee fee	\$ —	\$ —	\$ 85
Credit support fee	—	—	58
Administration fee	127	779	359
	127	779	502
Charged by Centerra:			
SOX related work activity	(4,777)	—	—
Total activity	\$ (4,650)	\$ 779	\$ 502

Effective April 1, 2004, Centerra entered into an administrative services agreement with Cameco whereby Cameco agreed to provide services and expertise to the Company in return for reimbursement of all its direct and indirect costs relating to those services. In 2006, services totalling \$0.1 million were provided by Cameco under the services agreement (in 2005, \$0.8 million was incurred).

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. In 2006, approximately \$4.8 million was charged to Cameco.

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.

A net balance related to these inter-company transactions of \$3.3 million was receivable from Cameco at December 31, 2006 (\$0.8 million payable to Cameco at December 31, 2005).

Kyrgyzaltyn and the Government of the Kyrgyz Republic

Revenues from the Kumtor gold mine are subject to a management fee of \$1.50 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company. During 2006, management fee commitments to Kyrgyzaltyn are offset against the advance of \$1.0 million which was made for this purpose in November 2005.

The table below summarizes 100% of the management fees, royalties and concession payments paid by KGC to Kyrgyzaltyn or the Government of the Kyrgyz Republic and the amounts paid by Kyrgyzaltyn to KGC according to the terms of a Gold and Silver Sales Agreement. For periods prior to the restructuring, the Centerra financial statements reflect one-third of these charges in accordance with the accounting described in note 12.

Related parties in the Kyrgyz Republic

(Thousands of US\$)	2006	2005	2004
Management fees to Kyrgyzaltyn	\$ 494	\$ 747	\$ 949
Concession payments to the Kyrgyz Republic	1,318	1,992	2,531
	\$ 1,812	\$ 2,739	\$ 3,480
Gross gold and silver sales to Kyrgyzaltyn	\$ 198,906	\$ 220,242	\$ 257,739
Deduct: refinery and financing charges	(1,480)	(2,603)	(2,766)
Net sales revenue received from Kyrgyzaltyn	\$ 197,426	\$ 217,639	\$ 254,973

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

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

Other

The Company has entered into a consulting agreement with Ms. Marina Stephens, a lawyer and the spouse of President and Chief Executive Officer, Mr. Homeniuk. Pursuant to this agreement, Ms. Stephens provides certain designated legal and business advisory services related to the international operations. In return for these services, Ms. Stephens receives a sum of \$200,000 Cdn per year. The agreement also provides that Ms. Stephens will receive \$275 Cdn per hour for any additional services

she provides to the Company, as authorized by the Chairman of the Board. In 2006, Ms. Stephens received \$589,455 Cdn in aggregate (2005 - \$429,055 and 2004 - \$375,137 Cdn).

At December 31, 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 which is payable in June 2010, is interest-free giving rise to a taxable benefit to Mr. Homeniuk.

NOTE 17: Segmented Information

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

Year ended December 31, 2006 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 195.9	\$ 168.6	\$ —	\$ 364.5
Expenses				
Cost of sales	177.2	59.7	—	236.9
Depreciation, depletion and amortization	19.5	19.7	0.5	39.7
Accretion and reclamation expense	(1.6)	0.2	—	(1.4)
Exploration and business development	14.3	5.2	6.2	25.7
Interest and other	(11.5)	(2.6)	(9.3)	(23.4)
Administration	2.7	1.4	23.1	27.2
Other expense	—	—	—	—
Earnings (loss) before income taxes	(4.7)	85.0	(20.5)	59.8
Income tax expense (recovery)	(0.9)	(5.2)	0.3	(5.8)
Non-controlling interest	—	5.0	—	5.0
Net earnings (loss)	\$ (3.8)	\$ 85.2	\$ (20.8)	\$ 60.6
Assets (excluding goodwill)	\$ 332.3	\$ 233.7	\$ 73.6	\$ 639.6
Goodwill	\$ 129.7	\$ 24.9	\$ —	\$ 154.6
Capital expenditures for the year	\$ 95.0	\$ 15.1	\$ 1.1	\$ 111.2

Year ended December 31, 2005 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 213.8	\$ 124.8	\$ —	\$ 338.6
Expenses				
Cost of sales	134.6	51.6	—	186.2
Depreciation, depletion and amortization	34.1	24.1	0.4	58.6
Accretion and reclamation expense	1.1	0.2	—	1.3
Exploration and business development	14.6	8.6	6.7	29.9
Interest and other	3.9	0.6	(9.3)	(4.8)
Administration	2.8	0.8	14.4	18.0
Other expense	—	—	—	—
Earnings (loss) before income taxes	22.7	38.9	(12.2)	49.4
Income tax expense (recovery)	5.3	(1.6)	0.9	4.6
Non-controlling interest	—	2.4	—	2.4
Net earnings (loss)	\$ 17.4	\$ 38.1	\$ (13.1)	\$ 42.4
Assets (excluding goodwill)	\$ 243.0	\$ 136.6	\$ 172.1	\$ 551.7
Goodwill	\$ 129.7	\$ 24.9	\$ —	\$ 154.6
Capital expenditures for the year	\$ 21.5	\$ 11.4	\$ 0.7	\$ 33.6

Year ended December 31, 2004 (Millions of US\$)	Kyrgyz Republic	Mongolia	North America	Total
Revenue	\$ 159.2	\$ 87.9	\$ —	\$ 247.1
Expenses				
Cost of sales	81.2	28.7	—	109.9
Depreciation, depletion and amortization	30.8	21.7	0.1	52.6
Accretion and reclamation expense	1.1	0.1	—	1.2
Exploration and business development	6.0	4.4	4.6	15.0
Interest and other	7.2	0.5	(15.3)	(7.6)
Administration	1.3	2.7	7.6	11.6
Other expense	—	—	8.6	8.6
Earnings (loss) before income taxes	31.6	29.8	(5.6)	55.8
Income tax expense (recovery)	(0.3)	—	0.1	(0.2)
Non-controlling interest	—	5.4	—	5.4
Net earnings (loss)	\$ 31.9	\$ 24.4	\$ (5.7)	\$ 50.6
Assets (excluding goodwill)	\$ 239.8	\$ 132.6	\$ 132.6	\$ 505.0
Goodwill	\$ 129.7	\$ 25.8	\$ —	\$ 155.5
Capital expenditures for the year	\$ 4.7	\$ 7.1	\$ —	\$ 11.8

Geographic segmentation of revenue

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

NOTE 18: Comparative Information

Certain prior year balances have been reclassified to conform to current year presentation, including a reduction of \$6.9 million for property, plant and equipment and a corresponding reduction of \$6.9 million in future income tax liabilities for temporary differences related to property, plant and equipment.

Summary of Significant Accounting Policies

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

Consolidation principles

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

Foreign currency

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

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

Cash and cash equivalents

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

Inventories

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

Consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost, which includes expenditures incurred to acquire the inventories and bring them to their existing location and condition.

Exploration and development properties

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

Property, plant and equipment

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

After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets. Mine development costs, including the stripping of waste material, incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production are deferred and then amortized on a unit-of-production basis.

Goodwill

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

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events and circumstances indicate that such carrying amount

may no longer be recoverable. To accomplish this, the Company compares the fair value of reporting units, to which goodwill was allocated, to their carrying amounts. If the carrying amount of a reporting unit were to exceed its fair value, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess of the carrying amount over the fair value would be charged to earnings. Assumptions underlying fair value estimates are subject to risks and uncertainties.

Property and equipment impairment

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

Capitalization of interest

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

Depreciation and depletion

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

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

Future income taxes

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

Environmental protection and reclamation costs

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

Revenue recognition

Centerra records revenue on the sale of gold when title passes, delivery is effected and when the Company has reasonable assurance with respect to measurement and collectability.

Derivative financial instruments and hedging transactions

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

Stock-based compensation

Centerra has a stock option plan that is described in note 13. Options granted under the plan with share appreciation rights are accounted for using the liability method. Under this method, the options granted are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery.

Other Centerra options granted under the plan without share appreciation rights (as has been the case for 2005 and 2006), are accounted for using the fair value method, with compensation expense recognized over the vesting period.

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

For options granted under the Cameco stock option plan prior to January 1, 2003, no compensation expense was recognized when the stock options were granted. Options granted under this plan, subsequent to January 1, 2003, are accounted for under the liability method, are marked to market at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense, or, if negative, a recovery.

The consideration paid to employees on exercise of Cameco stock options is offset against the accrued obligation.

Earnings per share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share uses the treasury stock method which adjusts the weighted average number of shares for the dilutive effect of stock options.

Definitions and Notes

Mineral Reserve

A mineral reserve is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

Proven Mineral Reserve

A proven mineral reserve is the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate at the time of reporting that economic extraction is justified.

Probable Mineral Reserve

A probable mineral reserve is the economically mineable part of an indicated, and in some circumstances a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate at the time of reporting that economic extraction can be justified.

Mineral Resource

A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

Measured Mineral Reserve

A measured mineral resource is that part of a mineral resource for which quantity, grade or quality, density, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Indicated Mineral Reserve

An indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, density, shape and physical characteristics can be estimated with a

level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

Inferred Mineral Resource

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed but not verified geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

In this mineral reserves and resources statement Centerra uses a definition of classes of mineralization taking into account a maximum number of parameters of various natures. These parameters are:

- the precision of the estimate;
- the economic feasibility of the project which relates not only to grades but to the volume of the reserves, the location, the chemistry of the expected ore, the price of the product, etc; and
- the legal status of the project and its possible evolution in the very near future.

Centerra's mineral reserves include allowances for dilution, and mining and/or metallurgical recovery. No allowances have been applied to mineral resources. Stated mineral reserves and resources have been reported based on estimated quantities of mineralized material recoverable by established mining methods. This includes only deposits with mineral values in excess of cut-off grades used in normal mining operations. Centerra's mineral reserves include material in place and on stockpiles. Only mineral reserves have demonstrated economic viability.

There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgement. Results from drilling, testing and production, as well as material changes in gold prices, subsequent to the date of the estimate, may justify revision of such estimates.

Centerra's classification of mineral reserves and resources and the subcategories of each conforms to the definitions adopted by the CIM Council on August 20, 2000, which are incorporated by reference into NI 43-101, issued by the Canadian Securities Administrators. Centerra reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves. Mineral resources which are not mineral reserves do not have demonstrated economic viability.