

centerra**GOLD**



**Cautionary Note**

**Regarding Forward-looking Statements**

Information contained in this annual report which are not statements of historical facts, and the documents incorporated by reference herein, may be “forward-looking information” for the purposes of Canadian securities laws. These forward-looking statements relate to, among other things, the Company’s expectations for 2016 gold production, costs, exploration, capital and corporate administration expenditures; the Company’s pipeline of exploration and development properties and their potential, including expectations for exploration, development; estimates of production and costs at Kumtor and consolidated production and costs; expectations regarding the Gatsuurt Project, the entering into a deposit development agreement, expected royalty rates, and planned processing methods and estimated recoveries; expectations regarding further progress on the Öksüt Project, including the schedule for construction; and expectations on completing the feasibility study for the Greenstone Gold Property, Hardrock Project. Such forward-looking information involves 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 information. For a detailed discussion of such risks and other factors, see the Management’s Discussion and Analysis (MD&A) included in this Annual Report and the Company’s most recent Annual Information Form which is available on SEDAR.

Although Centerra believes that the assumptions inherent in these forward-looking statements are reasonable, the reader should not place undue reliance on these statements. Forward-looking information is as of March 30, 2016. For a detailed discussion of the key assumptions and risk factors, please refer to the MD&A included in this Annual Report. Centerra disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. Inferred mineral resources have a greater amount of uncertainty as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be upgraded to a higher category. There is no certainty that mineral resources of any category can be upgraded to mineral reserves through continued exploration. Reserves and Resources are as of December 31, 2015. Please refer to page 13 of the MD&A included in this Annual Report. Except as otherwise noted herein, Gordon Reid, Professional Engineer and Centerra’s Vice President and Chief Operating Officer, has reviewed and approved the scientific and technical information contained in this Annual Report. Mr. Reid is a Qualified Person within the meaning of NI 43-101. For more information, please refer to the Company’s MD&A included in this Annual Report and the Company’s most recent Annual Information Form which is available on SEDAR.

*All dollar amounts are expressed in U.S. dollars in this report, except as otherwise indicated.*

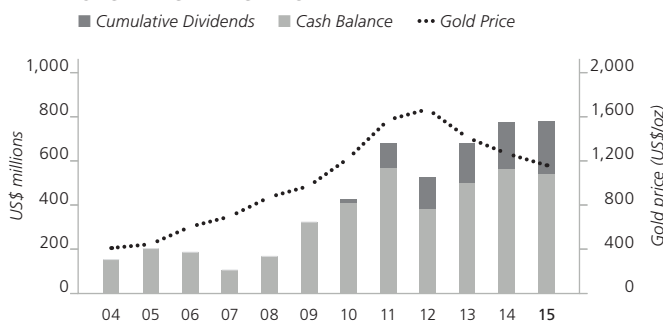


**CORPORATE PROFILE**

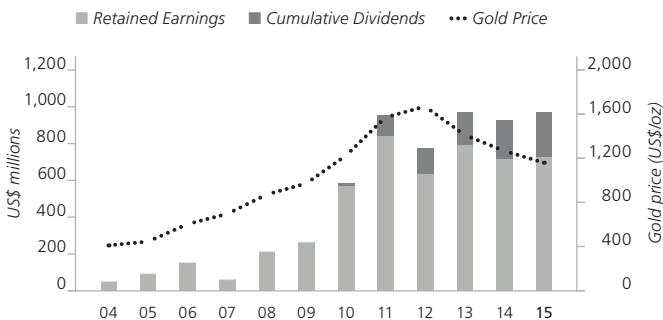
Centerra is a Canadian-based gold mining company engaged in operating, developing, acquiring and exploring gold properties in Asia, North America and other markets worldwide. The Company is the largest Western-based gold producer in Central Asia with two operating gold mines, one located in the Kyrgyz Republic and one in Mongolia. In 2015, Centerra produced 536,920 ounces of gold from its two operations.

Centerra’s objectives are to build shareholder value by maximizing the potential of its current properties, expand its portfolio of gold mining operations, add additional exploration properties and continue to increase its reserves and resources. Centerra’s shares trade on the Toronto Stock Exchange (TSX) under the symbol CG. The Company is headquartered in Toronto, Ontario, Canada.

**CASH RESERVES PROFILE**



**RETAINED EARNINGS PROFILE**



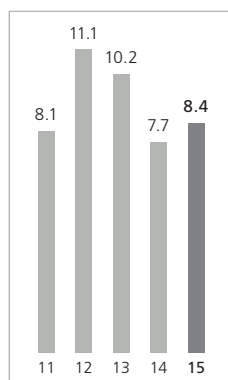
## FINANCIAL AND OPERATING HIGHLIGHTS

SELECTED ANNUAL INFORMATION <i>(\$ millions except as noted)</i>	2015	2014	2013
Revenue	\$ 624	\$ 763	\$ 944
Earnings from mine operations	\$ 215	\$ 233	\$ 361
Revenue-based taxes	\$ 85	\$ 97	\$ 114
Impairment of goodwill	\$ 19	\$ 111	–
Exploration and business development	\$ 11	\$ 16	\$ 30
Corporate administration	\$ 36	\$ 35	\$ 31
Earnings (loss) from operations	\$ 50	\$ (35)	\$ 179
Net earnings (loss)	\$ 42	\$ (44)	\$ 158
Earnings (loss) per share – \$ per share (basic)	\$ 0.18	\$ (0.19)	\$ 0.67
Cash provided by operations	\$ 334	\$ 376	\$ 484
Cash flow per share – \$ per share	\$ 1.41	\$ 1.59	\$ 2.05
Cash, cash equivalents and short-term investments	\$ 542	\$ 562	\$ 502
Total assets	\$ 1,661	\$ 1,629	\$ 1,688
Ounces produced	536,920	620,821	690,720
Ounces sold	536,842	615,234	696,818
Adjusted operating costs – \$ per oz sold <sup>(1)</sup>	\$ 354	\$ 409	\$ 402
All-in sustaining costs – \$ per oz sold <sup>(1)</sup>	\$ 814	\$ 852	\$ 818
All-in costs – \$ per oz sold <sup>(1)</sup>	\$ 921	\$ 955	\$ 920
Average realized gold price – \$ per oz sold <sup>(1)</sup>	\$ 1,162	\$ 1,241	\$ 1,355

*(1) Adjusted operating costs per ounce sold, all-in sustaining costs per ounce sold, all-in costs per ounce sold, and average realized gold price per ounce sold, are non-GAAP measures and are discussed under "Non-GAAP Measures" in the Management's Discussion and Analysis accompanying this Annual Report.*

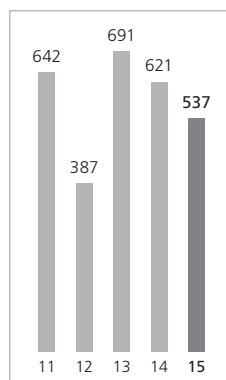
### RESERVES

*(as at December 31)  
(millions of contained ounces of gold)*



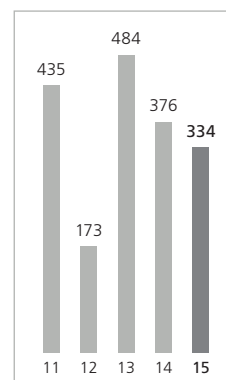
### GOLD PRODUCTION

*(thousands of ounces)*



### CASH FLOW FROM OPERATIONS

*(\$ millions)*



A LEADING NORTH AMERICAN-BASED GOLD PRODUCER, HEADQUARTERED IN TORONTO, CANADA, WITH OVER 20 YEARS OF EXPERIENCE IN CENTRAL ASIA. CENTERRA OPERATES TWO GOLD MINES, ONE IN THE KYRGYZ REPUBLIC AND ONE IN MONGOLIA AND HAS PROMISING DEVELOPMENT PROPERTIES IN TURKEY, MONGOLIA AND CANADA, AND EXPLORATION INTERESTS IN CANADA, MEXICO, MONGOLIA, NICARAGUA, PORTUGAL AND TURKEY.

centerra**GOLD**



## CEO'S MESSAGE

I **APPLAUD OUR EMPLOYEES** for their continued commitment to maintaining the high safety, health and environmental standards at our mines and for achieving the production goals of the Company. Regrettably however, I have to report that early this year in January, a mill employee at the Kumtor Mine was fatally injured. We are all deeply saddened by this event and extend our deepest condolences to the individual's family, friends and colleagues. As with all significant incidents, we have conducted an investigation and have made improvements in the workplace to help in the future to avoid such incidents.

With this tragic event we've made a firm recommitment to safety and are rolling out a new company-wide safety leadership program. We recognize that we need to do better and we will be looking to create leaders in safety at every level in the organization, so that an event like this won't be repeated. Most importantly, we need to make sure we are safeguarding our biggest asset, which is our people.

In 2015, we favourably exceeded our gold production and unit cost guidance for the year, producing 536,920 ounces at all-in sustaining costs of \$814 per ounce sold<sup>1</sup>. The lower costs in 2015 reflect Kumtor favourably exceeding its cost guidance with all-in sustaining costs<sup>1</sup> of \$731 per ounce

<sup>1</sup> Non-GAAP measure, see discussion under "Non-GAAP Measures".

sold for the year. During the year Kumtor successfully implemented various cost reduction initiatives including optimizing the workforce, completing improvements to the mill to increase availability and throughput and improved blending techniques to achieve optimum grade profiles and recovery rates. Additionally, we saw a significant reduction in costs for diesel, as well as labour and other consumables resulting largely from favourable movements in the world price of oil as well as local currencies. During the year Kumtor once again generated significant cash flow of \$158.4 million which is net of capital expenditures and tax payments.

We also reported a number of other possible developments whereby: we announced the positive feasibility study results and the planned development of our Öksüt Project in Turkey, we formed a 50/50 partnership with Premier Gold Mines for the development of the Greenstone Gold Property, including the Hardrock Gold Project, which is located in the Geraldton-Beardmore Greenstone belt in Ontario, Canada, and our Gatsurt Project in Mongolia was designated as a mineral deposit of strategic importance and we agreed with the Mongolian Government on the ownership structure which was subsequently approved by Parliament.

We now have three advanced development projects that can deliver strong production growth at low cost over the

## CENTERRA: AN INTERNATIONALLY DIVERSIFIED PORTFOLIO

■ Operations   ● Development   ◆ Partnerships   ▼ Exploration/Joint Ventures



next two to five years and provide us operational and geographic diversification. We can fund all three of the projects ourselves from our profitable production profile as well as our existing balance sheet and if required, through external project financing.

On the financial front in 2015, Centerra reported net earnings of \$42 million or \$0.18 per share (basic), which includes an inventory impairment of \$27.2 million or \$0.11 per share at the Kumtor Mine and an \$18.7 million or \$0.08 per share non-cash impairment charge of Kumtor goodwill. We generated approximately \$334 million in cash flow from operations or \$1.41 per share. At the end of the year the Company was in a good financial position with \$542 million of cash, cash equivalents and short-term investments, as well as \$74 million undrawn on our \$150 million credit facility. Subsequent to year-end, we entered into a new five-year \$150 million revolving credit facility with the European Bank for Reconstruction and Development, which replaced the existing revolving credit facility that was due to mature in February 2016, and \$76 million was subsequently redrawn. The Company also invested approximately \$76 million in the Greenstone acquisition, \$11 million in exploration and business development and \$33 million in our properties. We remain unhedged, allowing us to fully participate in the upside of any increase in the gold price. In addition, we maintained our quarterly dividend at 4 cents (Canadian \$) per share.

At the Öksüt Project in late 2015 we secured the Environmental Impact Assessment approval from the Turkish regulatory authorities, followed by our business opening permit from the local authorities and have applied for our land use permits. Work on the detailed engineering and procurement of contractors and equipment is well underway, so that once we get the necessary permits in place, our project development team can commence construction activities in 2016.

Currently, we are working with the Mongolian Government to finalize the deposit development, investment and community support agreements for the Gatsuert Project. We look forward to advancing Gatsuert and expect to update the existing technical and economic studies on the project and to undertake a program of exploration drilling and additional technical and hydrogeological drilling in 2016 in support of the eventual project's development.

On the Greenstone Gold Property, during 2015, work continued on the feasibility study for the Hardrock Project, including detailed engineering on the processing facility, tailings facility and critical site infrastructure. A new resource model that incorporated all available drill hole and assay data and technical input from a third party audit was completed and will be the basis for the feasibility study. The Greenstone Partnership is expected to complete the feasibility study in the first half of 2016, at which time

## 2015 HIGHLIGHTS

- Exceeded full year gold production and unit cost guidance.
- Reserves increased 9% to 8.4 million contained ounces of gold (112.5 Mt at 2.3 g/t gold) at year-end.
- All-in sustaining costs per ounce sold<sup>1</sup> at the consolidated level were \$814 for the full year, which excludes revenue-based tax in the Kyrgyz Republic and income tax.
- Cash provided by operations totaled \$333.6 million for the year.
- Kumtor generated \$158.4 million in cash after all capital expenditures and taxes in 2015, achieving all-in sustaining costs<sup>1</sup> of \$731 per ounce sold for the year.
- Cash and cash equivalents and short-term investments total \$542.2 million at December 31, 2015.
- Formed a 50/50 partnership for the joint ownership and development of the Greenstone Gold Property.
- Received the environmental impact assessment (“EIA”) approval and the GSM (Business Opening and Operation) permit for the Öksüt Project and applied for the land use permits.
- Purchased the 1% net smelter royalty (NSR) on Öksüt Project from Stratex International Plc for \$4.9 million.

### Subsequent to year-end:

- The Mongolian Parliament approved the state ownership interest in the Gatsuurt Project in Mongolia.
- Entered into a new five-year \$150 million revolving credit facility with the European Bank for Reconstruction and Development and \$76 million was subsequently redrawn.
- Acquired the Teck royalty on the Öksüt Project for \$3.0 million.

*(1) Non-GAAP measure, see discussion under “Non-GAAP Measures” in the MD&A.*

the mineral reserve and resource inventory will be disclosed for Greenstone. When complete, the Company expects to file a NI 43-101 technical report including a statement of reserves and resources.

Looking forward in 2016, our gold production is estimated to be in the range of 480,000 to 530,000 ounces with all of the production coming from Kumtor. The 2016 forecast assumes no mining activities at Boroo and Gatsuurt, and no gold production from the Gatsuurt Project.

Our all-in sustaining costs on a consolidated basis for 2016 are expected to be in the range of \$877 to \$968 per ounce sold. “All-in sustaining costs” is a non-GAAP measure and includes our sustaining capital and corporate costs on a consolidated basis, but excludes growth capital and taxes. It is more fully described in “Non-GAAP Measures” in the accompanying Management’s Discussion and Analysis.

In 2016, we will continue to invest in our operating properties. Total capital expenditures excluding capitalized stripping are estimated to be \$269 million, which includes \$85 million of sustaining capital and \$184 million of growth capital with the majority of it

(\$157 million) to be spent at the Öksüt property, subject to the timely receipt of permits. The cash component of capitalized stripping costs related to the development of the open pit at Kumtor is expected to be \$122 million. We will continue our commitment to exploration, with an exploration budget of \$11 million in 2016. Exploration and business development activities will focus on Asia, Canada, Mexico, Mongolia, Nicaragua, Portugal, Turkey, and expand into new regions to meet the long-term growth targets of Centerra.

We look forward to another strong year of profitable production at Kumtor, development of the Öksüt Project in Turkey, advancing the Gatsuurt Project in Mongolia, moving the Greenstone Gold Project forward, expanding our exploration program into new regions and lastly, looking for new accretive profitable growth opportunities through acquisitions.



Scott G. Perry  
Chief Executive Officer

**Centerra Gold Inc.**  
**Management’s Discussion and Analysis (“MD&A”)**  
**For the Fiscal Year Ended December 31, 2015**

The following discussion has been prepared as of February 24, 2016, and is intended to provide a review of the financial position and results of operations of Centerra Gold Inc. (“Centerra” or the “Company”) for the three and twelve months ended December 31, 2015 in comparison with the corresponding periods ended December 31, 2014. This discussion should be read in conjunction with the Company’s audited financial statements and the notes thereto for the year ended December 31, 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”). In addition, this discussion contains forward-looking information regarding Centerra’s business and operations. Such forward-looking statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements. See “Risk Factors” and “Caution Regarding Forward-Looking Information” in this discussion. All dollar amounts are expressed in United States dollars (“USD”), except as otherwise indicated. Additional information about Centerra, including the Company’s most recently filed Annual Information Form, is available at [www.centerragold.com](http://www.centerragold.com) and on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

**All references in this document denoted with <sup>NG</sup>, indicate a non-GAAP term which is discussed under “Non-GAAP Measures” on pages 50 to 55.**

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## **Financial Highlights**

- Produced 536,920 ounces of gold in 2015, including 520,694 ounces at the Kumtor mine and 16,226 ounces at the Boroo mine, which exceeded the Company's original production guidance of 480,000 to 535,000 ounces.
- All-in sustaining costs per ounce sold<sup>NG</sup> for the year of \$814, excluding revenue-based tax in the Kyrgyz Republic and income tax in Mongolia, was lower than the original guidance of \$898 to \$1,003 per ounce sold.
- All-in costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax in the Kyrgyz Republic and income tax in Mongolia, were \$921 for the year, which was lower than the original guidance of \$1,003 to \$1,121 per ounce sold.
- Cash provided by operations in the year totalled \$333.6 million.
- Earnings per share for 2015 of \$0.18/share (after impairment charges of \$0.19/share, including an inventory impairment charge of \$27.2 million at December 31, 2015 (\$0.11/share) and a write-down of the remaining Kyrgyz goodwill of \$18.7 million (\$0.08/share)).
- In 2015, the Company implemented cost lowering initiatives at the Kumtor mine, including optimization of the workforce at the mine and improvements to the mill including the blending process, and increased availability and throughput.
- Subsequent to year-end, on February 12, 2016, the Company entered into a new five year \$150 million revolving credit facility with the European Bank for Reconstruction and Development ("EBRD"), replacing the credit facility that was due to mature in that month (see "Other Corporate Developments – Credit Facilities").

## **Developments in 2015**

The following is a summary of recent events affecting the Company. For further information, see "Other Corporate Developments".

### **Kumtor Operations**

- The Kyrgyz Republic Parliament passed a resolution on June 29, 2015 to ensure the continued operation of the Kumtor mine and to carry out an examination of the updated Kumtor technical life of mine plan, presented in the Kumtor Technical Report dated March 20, 2015, and its impact on the Kyrgyz Republic.
- On December 22, 2015, Centerra received notice from the Kyrgyz Republic Prime Minister, Mr. T.A. Sariyev, notifying Centerra of the government's intention to withdraw from further negotiations regarding the implementation of the non-binding heads of agreement dated January 18, 2014 (the "HOA"). The HOA contemplated a restructuring of the Kumtor Project under which Kyrgyzaltyn JSC ("Kyrgyzaltyn") would receive a 50% interest in a joint venture company that would own the Kumtor Project in exchange for its 32.7% interest in Centerra. Despite the withdrawal, the Government expressed their desire to begin new consultation with Centerra regarding the further efficient implementation of the Kumtor Project.

- In December 2015, Kumtor submitted the 2016 Annual Mine Plan to the State Agency for Environmental Protection and Forestry for environmental expertise (“SAEPF”) and to the State Agency for Geology and Mineral Resources (“SAGMR”) for industrial safety and subsoil expertise. The industrial safety expertise was issued on December 30, 2015, the subsoil and environmental expertise remains outstanding. In accordance with Kyrgyz laws, SAEPF and SAGMR have three months to carry out their respective reviews.
- On January 24, 2016, an employee fatality occurred at the Kumtor mill. An internal investigation was started and the Kyrgyz police and relevant regulatory authorities were contacted. Kumtor management is cooperating with the Kyrgyz regulatory authorities to determine the cause of the accident.

### **Boroo Operations**

- Secondary leaching operations at the Boroo heap leach facility ceased in December 2015 and the facility is transitioning into closure, while the heap leach pad is rinsed.

### **Gatsuurt Project**

- Throughout 2015, the Company continued to engage in discussions with the Mongolian Government regarding the development of the Gatsuurt Project and the level of Mongolian state interest therein. In mid-October, the Company and the Government agreed with the government to a 3% special royalty in place of the Government acquiring a 34% ownership interest in the project.
- On February 4, 2016, the Mongolian Parliament approved the level of Mongolia state ownership in the project at 34%. Under the Minerals Law, the Government can now implement the previously agreed upon special royalty in place of a 34% state ownership in the project. The Company expects to proceed with negotiating definitive agreements and to carry out additional exploration, technical and hydrogeological drilling in support of the eventual project development.

### **Öksüt Project**

- The Company announced on July 28, 2015 the positive feasibility study results and the planned development of the 100% owned Öksüt Project, followed by the filing of a Technical Report on September 3, 2015. The report details include an eight year mine life, production of 895,000 ounces of gold with an all-in cash cost (including taxes)<sup>NG</sup> of \$777 per ounce. The Technical Report is available on SEDAR and on the Company’s website.
- The Environmental Impact Assessment (“EIA”) process for the Öksüt Project was completed with formal approval obtained from the Turkish regulatory authorities on November 9, 2015.
- Receipt of permits was contingent on the approval of the EIA, and applications for all required permits were submitted following approval of the EIA. The business opening permit was approved on December 28, 2015, and subsequently applications for the land usage permits were submitted.

- In December 2015, the Company purchased from Stratex International PLC (“Stratex”) the 1% net smelter royalty it held on Öksüt production with an issue of Centerra common shares valued at \$4.9 million.

### **Greenstone Gold Property**

- In March 2015, the Company formed a 50/50 partnership with Premier Gold Mines Hardrock Inc., a subsidiary of Premier Gold Mines Limited (“Premier”). The purpose of the partnership is the development of the Greenstone Gold Property, including the Hardrock Gold Project located in the Geraldton-Beardmore Greenstone belt in Ontario, Canada.
- As contemplated by the implementation agreement between Centerra and Premier on the Greenstone Gold Property, an updated resource calculation was completed during the third quarter of 2015 and based on these results, the Company paid to the partnership an amount of Cdn\$11 million (\$8.3 million). The contribution was subsequently distributed to Premier as a capital distribution from the partnership.

### **Corporate**

- The Company appointed Scott Perry as Chief Executive Officer (“CEO”) effective November 1, 2015, and replaced Ian Atkinson on Centerra’s board, who retired at the end of 2015. Additionally, Centerra announced the appointment of Frank Herbert as President effective November 1, 2015. Mr. Herbert has been General Counsel and Corporate Secretary of Centerra Gold since 2004. Lastly, Jeff Parr, the Company’s current Vice President and Chief Financial Officer (“CFO”), informed the Board of Directors of his intention to retire effective March 31, 2016, following which the Company announced that Darren Millman, Vice President, Finance and Treasurer will be promoted to Vice President and Chief Financial Officer (“CFO”) effective April 1, 2016.
- On September 8, 2015, the original court order issued in February 2015 in the proceedings commenced by Valerie Belokon (“Belokon”) against the Kyrgyz Republic and Kyrgyzaltyn was amended to limit the security being set aside for the Belokon proceeding. Amounts held in trust in excess of Cdn\$10 million (the cap set by the Ontario courts) were released to Kyrgyzaltyn in September 2015.
- On October 15, 2015, Centerra received an Ontario court order in favour of Entes Industrial Plants Construction & Erection Contracting Co. Inc. (“Entes”), which has an arbitral award against the Kyrgyz Republic for \$22.7 million. The injunction prohibits Kyrgyzaltyn from selling or transferring 7,465,776 shares of Centerra held by it and requires Centerra to pay any dividends declared on Centerra shares held by Kyrgyzaltyn into trust for the benefit of the Entes enforcement application. The order does not set a limit on the amount of dividends to be held in trust.

## Centerra's Business

Centerra is a gold mining company focused on operating, developing, exploring and acquiring gold properties in Asia, North America and other markets worldwide. Centerra is a leading Canadian-based gold producer and is the largest Western-based gold producer in Central Asia. Centerra's principal operation is located in the Kyrgyz Republic and is subject to political and regulatory risks. See "Other Corporate Developments" and "Risk Factors" for further details. The Company is headquartered in Toronto, Ontario, Canada.

Centerra's common shares are listed for trading on the Toronto Stock Exchange under the symbol CG. As of February 24, 2016, being the date of this MD&A, there are 239,392,308 common shares issued and outstanding and options to acquire 4,793,592 common shares outstanding under its stock option plan.

As of December 31, 2015, Centerra's significant subsidiaries are as follows:

Entity	Property - Location	Stage of Mine	Ownership
Kumtor Gold Company ("KGC")	Kumtor Mine - Kyrgyz Republic	Operation	100%
Boroo Gold LLC ("BGC")	Boroo Mine - Mongolia	Care & Maintenance	100%
Centerra Gold Mongolia LLC ("CGM")	Gatsuurt Project - Mongolia	Development	100%
	Altan Tsagaan Ovoo ("ATO") Property - Mongolia	Exploration	100%
Öksüt Madencilik A.S.	Öksüt Project - Turkey	Development	100%
Greenstone Gold Mines LP ("Greenstone Partnership")	Greenstone Gold Property - Canada	Pre-development	50%

Substantially all of Centerra's revenues are derived from the sale of gold. The Company's revenues are derived from gold production from its mines and gold prices realized from the sale of these ounces. Gold doré production from the Kumtor mine is purchased by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic while gold doré produced by the Boroo mine is sold to the Bank of Mongolia.

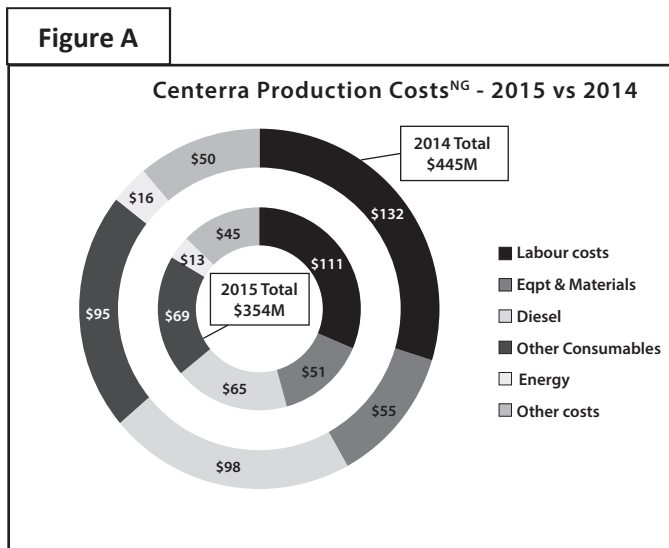
The average spot price for gold in 2015 based on the London PM fix was \$1,160 per ounce, a decrease of 8% over the average in 2014. The average realized price<sup>NG</sup> of gold received by Centerra in 2015 was \$1,162 per ounce, a 6% decrease when compared to the average price realized<sup>NG</sup> in 2014.

The Company's costs are comprised primarily of the cost of producing gold from the Kumtor mine, project development at Öksüt and the Greenstone Gold Property, closure and holding costs of the Boroo mine (majority of the Boroo infrastructure is on care and maintenance pending finalization of the Gatsuurt Project agreements with the Government), exploration expenses

relating to its own projects and its earn-in projects, administrative costs from offices worldwide and depreciation, depletion and amortization (“DD&A”).

There are many operating variables that affect the cost of producing an ounce of gold. In the mine, costs are influenced by the ore grade and the stripping ratio. The stripping ratio is the ratio of the tonnage of waste material which must be removed per tonne of ore mined. Ore grade refers to the amount of gold contained in a tonne of ore. The significant costs of mining include labour, diesel fuel and equipment maintenance.

At the mill, costs are impacted by the ore grade and the metallurgical characteristics of the ore, which can impact gold recovery. For example, a higher grade ore would typically result in a lower unit production cost. The significant costs of milling are reagents, consumables, mill maintenance and energy.



Mining and milling costs are also affected by the cost of labour, which depends mostly on the availability of qualified personnel in the regions where the operations are located, the wages in those markets, and the number of people required. Mining and milling activities involve the use of many materials. The varying costs of acquiring these materials and the amount used in the processing of the ore also influence the cash costs of mining and milling. The non-cash costs (namely DD&A) are influenced by the amount of capital costs related to the

mine’s acquisition, development and ongoing capital requirements and the estimated useful lives of capital items.

As shown above in Figure A, the Company’s 2015 production costs were 20% lower than 2014 (\$354.0 million in 2015 compared to \$445.0 million in 2014). The reduction reflects the impact of lower input prices (mainly for commodities like diesel) and the favourable movements in exchange rates, as well as the varying levels of production in both years including the cessation of milling operations at Boroo. These impacts on costs are discussed in the operational sections of this MD&A.

Over the life of each mine, another significant cost that must be planned for is the closure, reclamation and decommissioning of each operating site. In accordance with standard practices for Western-based mining companies, Centerra carries out remediation and reclamation work during the operating period of the mine, where feasible, in order to reduce the final decommissioning costs. Nevertheless, the majority of rehabilitation work can only be performed following the completion of mining operations. Centerra’s practice is to record the estimated final decommissioning costs based on conceptual closure plans, and to accrue these costs

according to the principles of IFRS. In addition, Kumtor has established a reclamation trust fund to pay for these costs (net of forecast salvage value of assets) from the revenues generated over the life of mine. At Boroo, 50% of the upcoming year's annual environmental budget is deposited by Boroo into a government account and such funds are recovered by Boroo when the annual environmental commitments are completed.

The Company reports the results of its operations in U.S. dollars, however not all of its costs are incurred in U.S. dollars. As such, the movement in exchange rates between currencies the Company incurs costs in and the U.S. dollar also impact reported costs of the Company.

## **Economic Indicators**

### ***Gold Industry***

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

In 2016, global gold production is anticipated to slow with the cancellation of planned and existing projects starting to impact global supply. The current gold price will continue to place pressure on gold producers to reduce the cost of production with potential higher cost producers reducing some mine production further. There are also no new significant gold mines planned to be in commercial production in the near term.

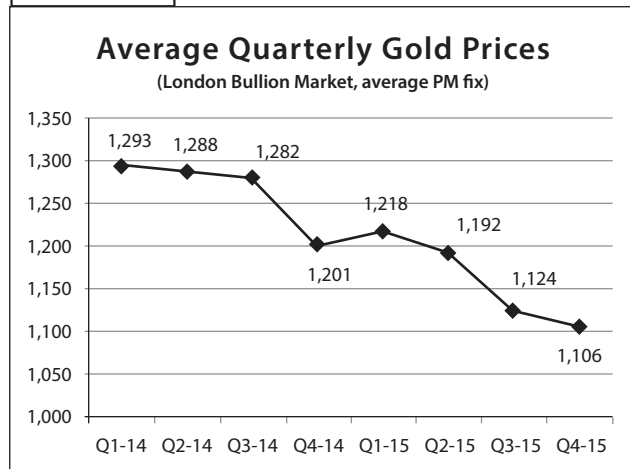
In addition to the supply factors impacting the industry as described above, external factors also impact the gold price. The strength of the U.S. economy in 2015 played a large part in the gold prices hitting five-year lows. The U.S. dollar significantly strengthened against most currencies and, as gold is traded primarily in U.S. dollars, this negatively impacted the gold price in 2015. Expectations of a U.S. interest rate increase, persistently weak oil prices and decelerating economic performance in China are also thought to be factors for gold's recent downward trend.

The Company believes that although such pressures on gold will continue, prospects for 2016 look more positive. The role of gold as a hedge against inflation is expected to support continued demand for the metal as should the growing appetite by central banks and developing Asian nations seeking a more reliable store of value as compared with other investments. The Company believes that sales by Exchange Traded Funds ("ETFs") of gold over the past several years have been completed and that such ETFs will shift to a buy-and-hold strategy in the coming years. Nearly two-thirds of all gold bullion purchases currently originate in China and India and although economic growth has been slowing, the rising incomes and growing middle class in both of these jurisdictions should support growing gold purchases.

### Gold Price

The average quarterly gold spot price fell during the fourth quarter of 2015 from a low of US\$1,172/oz in the first three quarters to US\$1,049/oz, a 10.5% decrease. The average gold spot price for the year was \$1,160 per ounce, a decrease of 8.4% over the average in 2014.

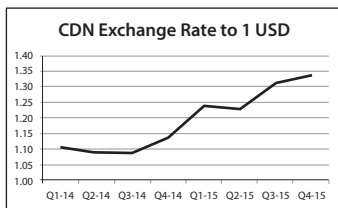
**Figure B**



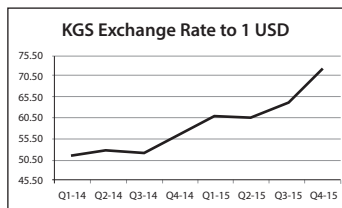
### Exchange Rates

**Figure C**

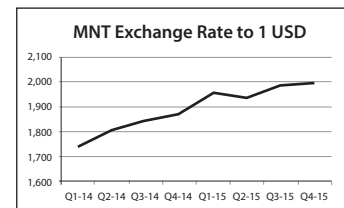
#### Canadian dollar



#### Kyrgyz Som



#### Mongolian Tugrik



Global currencies were under downward pressure against the U.S. dollar in 2015, influenced by several macro-economic factors. In 2015, global currencies and gold prices were negatively affected by an improved U.S. economy which provided strength to the U.S. dollar, while weak fuel and commodity prices dragged down investment sentiment. This was coupled with a slowdown in economic activity in China which hit worldwide markets hard and stalled much of the developed economies in Europe, Canada and Asia.

The strength of the U.S. dollar in 2015 was driven by the recovery of the U.S. economy and the expectation of rising U.S. interest rates which occurred with the U.S. Federal Reserve's announcement at the end of the year. This was further emphasized by the stalled economies in the Eurozone, Canada and Japan which considered cuts to interest rates and instituting quantitative easing programs to stimulate their economies.

The Eurozone slowdown, when combined with an apparent slowing of activity in China resulted in downward pressure on commodities in general. This combination of lower commodity prices, lower global demand and China's economic slowdown, all served to put strong downward pressure on emerging market currencies.

Oil prices continued to fall in 2015 as OPEC (Organization of the Petroleum Exporting Countries) increased their production levels, thereby pushing back against rapidly expanding supply originating mainly in North America from fracking and oil sands activity, and in the process creating an imbalance with oil supply outpacing demand.

The significant decline in world oil prices during 2015 had a significantly negative effect on the oil-producing Russian economy, magnified by economic sanctions. The political tensions in Russia continued to play a destabilizing role in the markets in 2015. This increased economic pressure and significant downturn in the oil markets had negative effects on neighboring Russian countries including the Kyrgyz Republic.

### ***Canadian Dollar***

The lower commodity prices, especially for oil, weighed heavily on the Canadian dollar and the Canadian economy in 2015, given the country's status as an oil producing, commodity-rich nation. In response to a struggling economy, Canadian interest rates were cut twice in 2015 to 0.50% resulting in accelerated currency devaluation.

### ***Mongolian Tugrik***

Mongolia has continued to experience reduced levels of foreign direct investment and subsequent lower demand for local currency. The other factors include reduced commodity prices with reduced coal and copper revenue along with slowing economies in China and Russia which are key trading partners for Mongolia. In 2016, Mongolia anticipates an increase in foreign direct investment with a large scale copper project obtaining financing in late 2015, however, the reduction in economic growth in surrounding countries could offset any positive direct investments in country along with continued government spending to stimulate the economy.

### ***Kyrgyz Som***

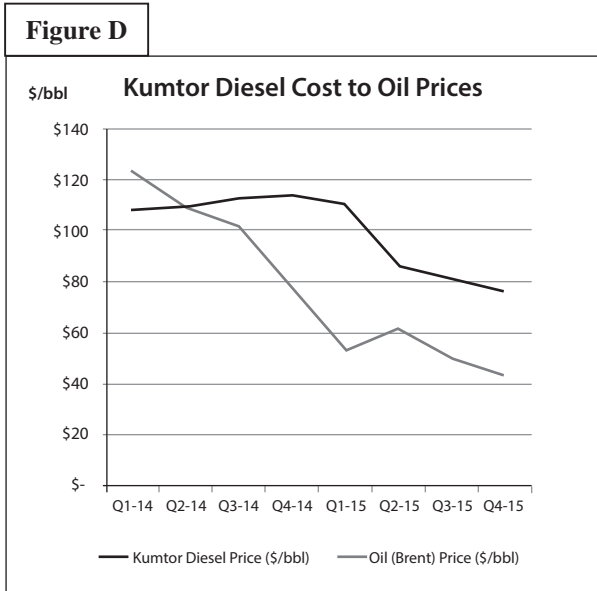
The devaluation of the Kyrgyz Som in 2015 against the U.S. dollar was mitigated somewhat by actions taken by the National Bank of Kyrgyzstan to support its currency. These actions are thought to have masked weaknesses already present in the economy resulting from lower remittances inflows from Kyrgyz expats and lower commodity exports of Kyrgyz goods due to economic slowdowns in Kyrgyzstan's main export destinations. In 2016, the Kyrgyz Som may come under increasing downward pressures due to softening of the key export markets for the Kyrgyz goods.

### ***Diesel Prices***

Fuel costs represent a significant cost component for Centerra's mining operations and in 2015 Kumtor enjoyed significantly lower fuel costs at its operations. The reduced prices on fuel purchases were a result of declining crude oil prices.



Brent crude oil prices averaged \$52/bbl in 2015, compared to \$99/bbl in 2014. This was a result of sustained excess of global crude oil supply over global demand. The oil supply was affected by increased oil production in 2015 by both OPEC and non-OPEC producers including Iraq, Saudi Arabia, the United States, and Russia. The global consumption of petroleum and other liquid fuels was affected by a deceleration of economic growth in China and other emerging economies, and a weak economic recovery in the European Union.



Falling prices for the diesel fuel used by Kumtor favorably affected Kumtor’s cost profile in 2015. Purchase prices for diesel fuel for Kumtor were down 23% in 2015 compared with 2014, averaging \$0.56/L for the year. Kumtor sources its fuel from Russia either directly or through Kyrgyz distributors and while the average Brent crude oil price in 2015 declined 53% compared to 2014, reductions in diesel prices from the Russian suppliers tended to lag declines in crude oil prices. In addition, Kumtor’s diesel prices include added costs for other factors such as seasonal premiums for winterizing of diesel fuel and transportation costs from the Russian refineries.

According to U.S. Energy Information Administration’s outlook for 2016, world crude oil prices will average \$38/bbl for Brent crude. Kumtor forecasts to source its Russian diesel at an average price of \$0.55/L in 2016. The diesel fuel price assumptions were made when the price of oil was approximately \$50 per barrel. Diesel fuel sourced for Kumtor from Russian suppliers only loosely correlates with world oil prices.

## Liquidity

Financial liquidity provides the Company with the ability to fund future operating activities and investments. Centerra generated \$333.6 million in cash from operations in 2015 and has a balance of cash and short-term investments of \$542.2 million at December 31, 2015 which includes \$76 million drawn from its revolving line of credit with EBRD. The Company’s financial risk management policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company manages counterparty credit risk, in respect of cash and short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker’s acceptances with highly-rated financial institutions, and corporate direct credit of highly-rated, highly-liquid issuers.

Volatility in the global financial markets continues to constrain the ability of many companies to access financing from capital markets. It is expected that all planned capital and operating expenditures of the Company for 2016 can be funded out of cash, short-term investment and amounts currently available under the Company's credit facilities. See "Caution Regarding Forward-Looking Information".

On February 12, 2016, the Company entered into a new \$150 million revolving credit facility with EBRD of which \$50 million is subject to the satisfaction of a specified condition precedent. The \$76 million drawn amount under the previous EBRD Facility was subsequently redrawn under the new EBRD Facility on February 17, 2016 and is due to be repaid on August 17, 2016 or, at the Company's discretion, repayment of the loaned funds may be extended until 2021. See "Other Corporate Developments – Credit Facilities.

## **Growth Strategy**

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

- developing the wholly-owned Gatsuurt and Öksüt projects and the 50% owned Greenstone Gold Property;
- developing new reserves at or near its existing projects;
- advancing late-stage exploration properties, including earn-in properties where the Company's interests are earned by funding the costs of exploration drilling and feasibility studies; and
- pursuing selective acquisitions in other markets worldwide.

Centerra's growth strategy could be impacted by the risk factors described on page 57.

## Reserves and Resources

On February 9, 2016, the Company released the results of the updated reserve and resource estimates for the Kumtor mine and re-iterated reserve and resource estimates for the Company's other projects, all as of December 31, 2015. For additional details, please see the news release "*Centerra Gold 2015 Year-End Reserve and Resource Update*" filed on SEDAR and the Company's website on February 9, 2016.

### Highlights:

#### Reserves

- Centerra's proven and probable reserves at December 31, 2015 increased 9% or 666,000 ounces (net of 2015 processing) to 8.4 million ounces of contained gold (112.5 Mt at 2.3 g/t gold) from 7.7 million contained ounces a year earlier.
- At the Kumtor mine, proven and probable gold reserves decreased by 495,000 contained ounces, after accounting for processing of 659,000 contained ounces in 2015. A new resource model was developed for 2015 year-end reserve estimation and to incorporate additional in-fill drilling that has been completed during the year. As a result, 164,000 contained ounces were added.

#### Resources

- As of December 31, 2015, Centerra's measured and indicated resources decreased by 1.5 million contained ounces to an estimated total of 4.2 million ounces of contained gold compared to the December 31, 2014 estimate. As a result of the positive feasibility study for the Öksüt Project, the measured and indicated resources on both the Keltepe and Güneytepe deposits were upgraded to an estimated probable reserve of 26.1 million tonnes at 1.4 g/t gold containing 1.2 million ounces of gold at a cut-off grade of 0.3 g/t gold.
- At Kumtor measured and indicated open pit resources decreased by 240,000 contained ounces of gold, to an estimated total of 2.6 million contained ounces of gold (29.6 Mt at 2.7 g/t gold) at December 31, 2015. Changes are attributable to the development of the new resource model, as discussed above, resulting in the lower grade and fewer ounces.
- As of December 31, 2015, Centerra's inferred resource estimate totals 2.6 million contained ounces of gold (24.5 Mt at 3.3 g/t gold) an increase of 133,000 contained ounces of gold over the December 31, 2014 estimate.

<b>Gold (000s attributable oz contained)</b>	<b>2015</b>	<b>2014</b>	<b>% Change</b>
Total proven and probable mineral reserves	<b>8,405</b>	7,739	9%
Total measured and indicated mineral resources <sup>(1)</sup>	<b>4,204</b>	5,725	(27%)
Total inferred resources <sup>(1)(2)</sup>	<b>2,573</b>	2,440	5%

<sup>(1)</sup>Includes ATO open pit resources, which are estimated based on a Net Smelter Return ("NSR") cut-off grade of \$6.50 NSR per tonne for oxide mineralization and \$25.50 NSR per tonne for sulphide mineralization.

<sup>(2)</sup>Inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined economically. It cannot be assumed that all or part of the inferred resources will ever be converted to a higher category.

Material assumptions used to determine reserves and resources are as follows:

	<b>2015</b>	<b>2014</b>
<b><u>Weighted average gold prices</u></b>		
Gold reserves (\$/oz)	<b>\$ 1,200</b>	\$ 1,300
Gold resources (\$/oz)	<b>\$ 1,450</b>	\$ 1,450
<b><u>Foreign exchange rates</u></b>		
1 USD : Cdn\$	<b>1.34</b>	1.1
1 USD : Kyrgyz som	<b>65</b>	58
1 USD : Mongolian tugriks	<b>1,900</b>	1,815
1 USD : Euro	<b>0.95</b>	0.77
<b>Diesel fuel price assumption at Kumtor (per litre)</b>	<b>\$ 0.55</b>	\$ 0.70

Greenstone Gold Mines expects to complete a feasibility study for the Greenstone Gold Mine's Hardrock Deposit by the middle of 2016. Greenstone mineral resources have not been included in the Company's 2015 year-end reserve and resource summary since the feasibility study is expected mid-year 2016, at which time the mineral reserve and resource inventory will be disclosed for Greenstone.

## Consolidated Financial and Operational Highlights

The consolidated financial statements of Centerra are prepared in accordance with IFRS, as issued by the International Accounting Standards Board and have been measured and expressed in United States dollars. Some of the information discussed below are non-GAAP measures. See “Non-GAAP Measures”.

(\$ millions, except as noted)	Year ended December 31, <sup>(7)</sup>		
	2015	2014	2013
<b>Financial Highlights</b>			
Revenue	\$ 624.0	\$ 763.3	\$ 944.4
Cost of sales	384.5	502.5	559.2
Standby costs	5.7	2.4	-
Regional office administration	19.1	25.2	23.8
<b>Earnings from mine operations</b>	<b>214.7</b>	<b>233.2</b>	<b>361.4</b>
Revenue-based taxes	84.6	97.2	113.5
Other operating expenses	1.9	3.8	8.3
Pre-development project costs	13.2	6.0	-
Impairment of goodwill	18.7	111.0	-
Exploration and business development <sup>(1)</sup>	10.6	15.7	29.6
Corporate administration	35.8	34.8	30.6
<b>Earnings (loss) from operations</b>	<b>49.9</b>	<b>(35.3)</b>	<b>179.4</b>
Other expenses	3.4	1.2	3.6
Finance costs	4.4	5.0	5.0
<b>Earnings (loss) before income taxes</b>	<b>42.1</b>	<b>(41.5)</b>	<b>170.8</b>
Income tax expense	0.4	2.6	13.1
<b>Net earnings (loss)</b>	<b>\$ 41.6</b>	<b>\$ (44.1)</b>	<b>\$ 157.7</b>
Earnings (loss) per common share - \$ basic <sup>(2)</sup>	\$ 0.18	\$ (0.19)	\$ 0.67
Earnings (loss) per common share - \$ diluted <sup>(2)</sup>	\$ 0.18	\$ (0.19)	\$ 0.64
Weighted average common shares outstanding - basic (thousands)	236,592	236,396	236,382
Weighted average common shares outstanding - diluted (thousands)	236,951	236,396	236,663
Total assets	\$ 1,660.6	\$ 1,629.1	\$ 1,687.7
Long-term provision for reclamation, dividends payable and deferred income taxes	76.9	79.8	71.6
Cash provided by operations	333.6	376.4	483.9
Average realized gold price - \$/oz <sup>(4)</sup>	1,162	1,241	1,355
Average gold spot price - \$/oz <sup>(3)</sup>	1,160	1,266	1,411
Capital expenditures <sup>(5)</sup>	\$ 370.5	\$ 351.2	\$ 376.6
<b>Operating Highlights</b>			
Gold produced – ounces poured	536,920	620,821	690,720
Gold sold – ounces sold	536,842	615,234	696,818
Operating costs (on a sales basis) <sup>(6)</sup>	\$ 163.4	\$ 219.9	\$ 250.2
Adjusted operating costs <sup>(4)</sup>	\$ 189.8	\$ 251.8	\$ 279.8
All-in Sustaining Costs <sup>(4)</sup>	\$ 437.0	\$ 524.4	\$ 570.0
All-in Costs <sup>(4)</sup>	\$ 494.1	\$ 587.4	\$ 641.4
All-in Costs - including taxes <sup>(4)</sup>	\$ 578.9	\$ 687.5	\$ 767.7
<b>Unit Costs</b>			
Cost of sales - \$/oz sold <sup>(4)</sup>	\$ 716	\$ 817	\$ 803
<b>Adjusted operating costs - \$/oz sold<sup>(4)</sup></b>	<b>\$ 354</b>	<b>\$ 409</b>	<b>\$ 401</b>
<b>All-in sustaining costs – \$/oz sold<sup>(4)</sup></b>	<b>\$ 814</b>	<b>\$ 852</b>	<b>\$ 818</b>
<b>All-in costs – \$/oz sold<sup>(4)</sup></b>	<b>\$ 921</b>	<b>\$ 955</b>	<b>\$ 920</b>
<b>All-in costs (including taxes) – \$/oz sold<sup>(4)</sup></b>	<b>\$ 1,079</b>	<b>\$ 1,119</b>	<b>\$ 1,102</b>

- (1) Includes business development of \$2.2 million for the year ended December 31, 2015 (\$1.0 million for the year ended December 31, 2014).
- (2) As at December 31, 2015, the Company had 237,889,274 common shares issued and outstanding.
- (3) Average for the period as reported by the London Bullion Market Association (U.S. dollar Gold P.M. Fix Rate).
- (4) Adjusted operating costs, all-in sustaining costs, all-in costs and all-in costs - including taxes (\$ millions and per ounce sold) as well as average realized gold price per ounce and cost of sales per ounce sold are non-GAAP measures and are discussed under "Non-GAAP Measures".
- (5) Includes capitalized stripping of \$210.6 million in the year ended December 31, 2015 (\$261.1 million in the year ended December 31, 2014) and \$75.7 million relating to implementation of the Greenstone Partnership.
- (6) Operating costs (on a sales basis) are comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes reclamation costs and depreciation, depletion and amortization. Operating costs (on a sales basis) represents the cash component of cost of sales associated with the ounces sold in the period.
- (7) Results may not add due to rounding.

## Results of Operations

### Year ended December 31, 2015 compared to 2014

The Company recorded earnings of \$41.6 million in 2015, compared to a net loss of \$44.1 million in 2014. The Company was able to achieve \$41.6 million in earnings in 2015 through the continued focus on cost reduction, notwithstanding a 14% reduction in ounces produced, a decrease in revenue of 18% and an inventory impairment charge of \$27.2 million compared to the prior year.

The earnings in 2015 and the loss in 2014 were impacted by a non-cash impairment charge on goodwill in the Kyrgyz CGU of \$18.7 million and \$111 million, respectively. Excluding the goodwill impairment charges, earnings in 2015 would be \$60.3 million and \$66.9 million in 2014. The decrease in 2015 can be attributed to fewer ounces sold and produced, lower realized gold prices, and an increase in pre-development project costs, partially offset by lower operating costs and lower exploration spending.

#### ***Production:***

Gold production for 2015 totalled 536,920 ounces compared to 620,821 ounces in 2014, which reflects lower production at both operations. Kumtor's gold production was 46,999 ounces lower than the prior year due primarily to processing lower grades in 2015 as compared to 2014. Boroo's gold production was 36,902 ounces lower than the prior year due to the cessation of milling operations in December 2014, with ounces poured in 2015 limited to those recovered from the mine's secondary leaching operation.

The consolidated gold production for 2015 exceeded the Company's most recent guidance of 505,000 to 535,000 ounces.

### ***Safety and Environment:***

Centerra had ten reportable injuries in 2015, four lost time injuries and six medical aid injuries. There were no reportable releases to the environment during the year. On January 24, 2016, an employee fatality occurred at the Kumtor mill.

### ***Financial Performance:***

In the year ended December 31, 2015, the Company recorded revenues of \$624.0 million, compared to \$763.3 million in the year ended December 31, 2014. Lower revenue in 2015 resulted primarily from 13% fewer ounces sold and a 6% lower average realized gold price<sup>NG</sup> (\$1,162 per ounce compared to \$1,241 per ounce in 2014). Sales volumes were 536,842 ounces compared to 615,234 ounces in 2014. The lower revenue resulted in a 13% decrease in revenue based taxes in the Kyrgyz Republic in 2015.

In the year ended December 31, 2015, cost of sales were \$384.5 million, a decrease of 24% from \$502.5 million in 2014 and included an inventory impairment charge of \$27.2 million recorded at the end of 2015. The largest component of cost of sales, DD&A, was \$221.1 million, which includes \$18.4 million of non-cash inventory impairment, in the year ended December 31, 2015, compared to \$282.6 million in 2014. The decrease reflects lower capitalized stripping charges per ounce from cut-back 17 ore processed in 2015, compared to higher charges for cut-back 15 ore that was processed in the comparative period.

The decrease in the cash component of cost of sales can be primarily attributed to successful cost lowering initiatives at the Kumtor mine and the fact that ounces processed in 2015 were relatively lower cost than ounces processed in 2014. The processed ounces from cut-back 17 in 2015 had mining costs per tonne 7% lower compared to tonnes processed in the comparative period. The lower mining costs are primarily the result of lower diesel costs, due to lower global fuel prices, and favourable exchange movements leading to various cost decreases including lower labour costs. The decrease in cost was also impacted by a 7% reduction in ounces sold in 2015.

Standby costs incurred at Boroo to maintain the mill and operation on care and maintenance totalled \$5.7 million in the year ended December 31, 2015 (\$2.4 million in the year ended December 31, 2014). This largely consisted of labour costs to maintain equipment in a ready state and administration costs. The Boroo mill will be kept on standby awaiting the finalization of agreements and permits with the Mongolian Government regarding the development of the Gatsurt Project.

Goodwill for the Kyrgyz CGU was impaired by \$18.7 million as a result of the annual goodwill impairment test carried out as at September 1, 2015, which brought the goodwill balance to zero. The goodwill test was based on the current Kumtor life of mine plan and was heavily impacted by lower gold prices, as spot gold prices continued to decrease in the first eight months of 2015. At December 31, 2014, the Company determined that the impact of a reserve reduction at the Kumtor mine was an indicator of impairment, which resulted in an impairment test and subsequent goodwill write-down of \$111.0 million.

Pre-development project costs increased by \$7.3 million to \$13.3 million in 2015 compared to 2014. The increase in 2015 represents the commencement of spending at the Company's Greenstone Gold Property. The increase was partially offset by lower expensed costs at the Öksüt Project as the Company began capitalization of Öksüt project costs on August 1, 2015 following the Board of Director's decision to move the project to development.

Exploration expenditures in the year ended December 31, 2015 totalled \$8.4 million compared to \$14.7 million in 2014. The decrease in 2015 reflects the Company's increased focus on project development and reduced spending on the Company's exploration projects in Turkey and Mongolia.

Other expenses of \$3.4 million were incurred in the year ended December 31, 2015, including a \$1.7 million write-off of infrastructure at Kumtor related to the waste rock dump movement and a \$6.1 million foreign exchange loss. The foreign exchange loss can be primarily attributed to the weakening of the Canadian dollar ("CDN"). The Company's corporate office, located in Canada, occasionally transacts in Canadian dollars rather than the U.S. dollars. The Canadian dollar devalued to 1.3839 CDN/USD as at December 31, 2015, from 1.1621 CDN/USD at December 31, 2014, resulting in a loss on foreign exchange for the year of \$5.4 million. Devaluation from 1.0648 CDN/USD as at December 31, 2013 resulted in a loss of \$1.7 million in the year-ended December 31, 2014. These expenses for 2015 were partially offset by the settlement of an insurance claim at Kumtor of \$2.7 million. Other expense of \$1.2 million recorded in 2014, was primarily attributable to losses on disposals of assets.

Corporate administration costs, which primarily consist of professional fees, salaries and benefits, and other administrative costs, were mostly unchanged from 2014 at \$35.8 million. Spending on professional fees increased by \$2.5 million in 2015, driven primarily by higher consulting fees, including consulting relating to the formation of the Greenstone Partnership, and unforeseen legal fees. Additionally, there was an increase in share-based compensation of approximately \$1.7 million reflecting the appreciation in the Company's share price during 2015. These increases were offset by a decrease in salaries and benefits of \$1.5 million and other administration and office costs of \$1.8 million, which can be partly associated with the weakening of the Canadian dollar.

The reduction in income tax expense of \$2.2 million in 2015 was due to a taxable loss at Boroo, as the mill ended the processing of stockpiled ore in late 2014.

### ***Operating Costs:***

Operating costs (on a sales basis) decreased to \$163.4 million in 2015 from \$220.0 million in 2014. The decrease was due to processing lower cost ounces at Kumtor, which reflects a reduction in costs for diesel, labour and other consumables as well as favourable movements in the local currency as compared to 2014, magnified by the reduction in ounces sold during the year. The decrease can also be attributed to operating costs at Boroo being significantly lower in 2015 as milling activities ceased in late 2014. Site support costs at Boroo in 2015 were lower reflecting reduced personnel levels.



Centerra's all-in sustaining costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax and income tax, for 2015 decreased to \$814 from \$852 in the comparative period of 2014, reflecting lower operating costs.

Centerra's all-in costs per ounce sold<sup>NG</sup> in 2015 was \$921 compared to \$955 in the comparative year, and includes all cash costs related to gold production, excluding revenue-based tax and income tax. The decrease reflects the lower operating costs (described above), lower spending on growth capital<sup>NG</sup> at Kumtor and lower exploration costs, partially offset by additional spending in 2015 for pre-development activities at the Greenstone Gold Property and Öksüt Project.

All-in sustaining costs per ounce sold<sup>NG</sup> for 2015 of \$814 was lower than the Company's most recent guidance range of \$827 to \$875, as a result of lower sustaining capital<sup>NG</sup> costs at Kumtor and lower corporate administration costs. Kumtor's sustaining capital<sup>NG</sup> costs included lower than forecasted costs for component replacements of various pieces of mine equipment, while corporate administration costs were lower than forecasted as the weakening of the Canadian dollar was greater than anticipated.

All-in costs per ounce sold<sup>NG</sup> of \$921 for 2015 was lower than the Company's most recent guidance range of \$950 to \$1,004 due to a decrease in sustaining capital<sup>NG</sup> costs discussed above, lower growth capital<sup>NG</sup> costs at Kumtor, as a result of the timing of the completion of a construction project, and lower exploration and development costs, also as a result of timing. All-in sustaining costs per ounce sold<sup>NG</sup> and all-in costs per ounce sold<sup>NG</sup> were further reduced by the fact that 2015 gold sales of 536,840 ounces exceeded the most recent guidance range of 505,000 to 535,000 ounces.

## Cash generation and capital management

### Cashflow

(\$ millions, except as noted)	Year ended December 31,		
	2015	2014	% Change
<b>Cash provided by operating activities</b>	<b>333.6</b>	376.4	(11%)
Cash used in investing activities:			
-Capital additions (cash)	(243.8)	(276.3)	(12%)
-Short-term investment net redeemed (net purchased)	79.9	(103.1)	(177%)
-Purchase of interest in Greenstone Partnership	(75.7)	-	100%
-other investing items	(0.5)	(5.2)	(90%)
<b>Cash used in investing activities</b>	<b>(240.1)</b>	(384.6)	(38%)
<b>Cash used in financing activities</b>	<b>(33.4)</b>	(34.4)	(3%)
<b>Increase (decrease) in cash</b>	<b>60.1</b>	(42.6)	(241%)

**Cash provided by operations** decreased to \$333.6 million in 2015 from \$376.4 million in 2014, primarily from lower earnings partially offset by lower levels of working capital.

**Cash used in investing activities** totalled \$240.1 million in 2015, with \$243.8 million spent on capital additions and \$75.7 million in cash contributions to the Greenstone Gold Property. The

outflow of cash from investing activities was partially offset by a net redemption of \$79.9 million of short-term investments. In 2014, cash outflows from investing activities included spending on capital additions of \$276.3 million, mainly at Kumtor, and the net purchase of short-term investments of \$103.1 million.

*Cash used in financing activities* in the year ended December 31, 2015 was \$33.4 million, compared to \$34.4 million in 2014, which primarily consist of the payment of dividends in both years. In 2015, as a result of a court decision issued in September 2015 relating to the Belokon case against the Kyrgyz Republic, the Company released dividends previously declared and held in trust under previous court orders (see “Other Corporate Developments”).

Cash, cash equivalents and short-term investments at December 31, 2015 decreased to \$542.2 million from \$562.0 million at December 31, 2014. Both of these amounts include \$76 million drawn on the revolving credit facility with EBRD.

## **Capital Management**

The Company’s primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, continue the development and exploration of its projects, to provide returns for shareholders and benefits for other stakeholders and to pursue and support growth opportunities. The overall objectives for managing capital remained unchanged in 2015 from the prior comparative period.

The Company’s Öksüt Project saw significant advancements during 2015. To continue the development of the Öksüt Project, Gatsuurt Project and the advancement of the Greenstone Partnership, a top priority of the Company is to expand its available credit and attempt to secure additional project financing, either through borrowing and/or the issuance of equity or debt. On February 12, 2016, a new five year \$150 million revolving credit facility was established with EBRD, replacing the previous credit facility that was due to mature in February 2016. Projected future cash flows from operations are expected to continue to support the Company’s normal operating requirements and exploration of its mineral properties.

Management is aware that market conditions, driven primarily by metal prices, may limit the Company’s ability to raise additional funds. The Company is also required to maintain a number of financial covenants as part of its credit facility with EBRD, which may limit the Company’s ability to access future funding. These factors, and others, are considered when shaping the Company’s capital management strategy.

## Capital Expenditure (spent and accrued)

Unaudited (\$ millions)		Year ended December 31,		
		2015	2014	% Change
Kumtor	Sustaining capital <sup>NG</sup>	50.5	48.7	4%
	Capitalized stripping	210.6	261.1	(19%)
	Growth capital <sup>NG</sup>	14.2	40.1	(65%)
	Total	275.3	349.9	(21%)
Boroo and Gatsuurt	Sustaining capital <sup>NG</sup>	0.1	0.3	(67%)
	Growth capital <sup>NG</sup>	1.5	0.8	88%
	Total	1.6	1.1	45%
Other	Sustaining capital <sup>NG</sup>	0.5	0.2	150%
	Öksüt Project development	6.1	-	100%
	Greenstone Gold Property capital <sup>(1)</sup>	11.3	-	100%
	Greenstone Partnership acquisition	75.7	-	100%
	Total	93.6	0.2	100%
Consolidated	Sustaining capital <sup>NG</sup>	51.1	49.2	4%
	Capitalized stripping	210.6	261.1	(19%)
	Growth capital <sup>NG</sup>	15.7	40.9	(62%)
	Öksüt Project development	6.1	-	100%
	Greenstone Gold Property capital <sup>(1)</sup>	11.3	-	100%
	Greenstone Partnership acquisition	75.7	-	100%
<b>Total capital expenditures</b>		<b>370.5</b>	<b>351.2</b>	<b>5%</b>

<sup>(1)</sup>In accordance with the Company's accounting policy, the 50% share paid on behalf of Premier in the project is capitalized as part of mineral properties in Property, Plant & Equipment.

Higher capital expenditures in the year ended December 31, 2015 resulted primarily from additional spending on development projects, offset by lower capitalized stripping and lower growth capital<sup>NG</sup> spent at Kumtor. Development project spending included acquiring the Company's 50% interest in the Greenstone Gold Property and commencement of spending on the project, in addition to spending on the Öksüt Project, which commenced development in the third quarter of 2015.

### ***Credit and Liquidity:***

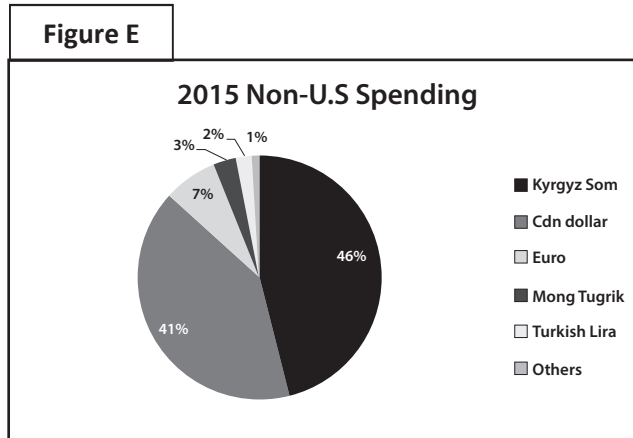
The Company has borrowed \$76 million under its \$150 million revolving credit facility (the "Facility") provided by EBRD. The borrowed amount was due to be repaid in February 2016. On February 12, 2016, the Company entered into a new five year \$150 million revolving credit facility with EBRD and subsequently re-drew the \$76 million on February 17, 2016.

As at December 31, 2015, the Company was in compliance with its financial covenant requirements under the existing EBRD revolving credit facility.

### ***Foreign Exchange:***

The Company receives its revenues through the sale of gold in U.S. dollars. The Company has operations in the Kyrgyz Republic, Turkey, Mongolia, and Canada (where its corporate head office is also located). During 2015, the Company incurred combined costs (including capital)

totalling roughly \$685 million. Approximately \$390 million of this (57%) was in currencies other than the U.S. dollar (Figure E). The percentage of Centerra’s non-U.S. dollar costs, by currency was, on average, as follows:



In 2015, the average value of the currencies of the Turkish Lira, Canadian dollar, Kyrgyz Som, Euro, Australian dollars, Mongolian Tugrik, British Pound, Chinese Yuan and the Russian Ruble depreciated against the U.S. dollar by approximately 17%, 10% , 9%, 9%, 9%, 4%, 2%, 1% and 1% respectively, from their value at December 31, 2014. The net impact of these movements in 2015, after taking into account currencies held at the beginning of the year, was to decrease annual

costs by \$31 million (decrease of \$25 million in 2014).

***Hedging and Off-Balance Sheet Arrangements:***

The Company had no hedges in place as of December 31, 2015. Centerra currently anticipates that its future gold production will remain unhedged.

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

# Results of Operating Segments

## Kumtor Mine

The Kumtor open pit mine, located in the Kyrgyz Republic, is the largest gold mine in Central Asia operated by a Western-based gold producer. It has been in production since 1997 and has produced over 10.4 million ounces of gold to December 31, 2015.

### Kumtor Operating Results

(\$ millions, except as noted)	Year ended December 31,		
	2015	2014	% Change
Revenue	604.5	694.6	(13%)
Cost of sales-cash	151.1	174.4	(13%)
Cost of sales-non-cash	216.8	270.0	(20%)
Cost of sales-total	367.9	444.4	(17%)
Cost of sales - \$/oz sold <sup>(1)</sup>	707	792	(11%)
Tonnes mined - 000s	169,527	191,723	(12%)
Tonnes ore mined – 000s	6,583	8,640	(24%)
Average mining grade - g/t	2.25	3.37	(33%)
Tonnes milled - 000s	5,729	5,840	(2%)
Average mill head grade - g/t	3.57	3.90	(8%)
Recovery - %	78.8%	78.0%	1%
Mining costs - total (\$/t mined material)	1.24	1.34	(7%)
Milling costs (\$/t milled material)	11.17	12.04	(7%)
Gold produced – ounces	520,694	567,693	(8%)
Gold sold – ounces	520,517	561,154	(7%)
Average realized gold price - \$/oz <sup>(1)</sup>	1,161	1,238	(6%)
Capital expenditures (sustaining) <sup>(1)</sup>	50.5	48.7	4%
Capital expenditures (growth) <sup>(1)</sup>	14.2	40.1	(65%)
Capital expenditures (stripping)	210.6	261.1	(19%)
Capital expenditures (total)	275.3	349.9	(21%)
Operating costs (on a sales basis) <sup>(2)</sup>	151.1	174.4	(13%)
Adjusted operating costs <sup>(1)</sup>	169.5	199.9	(15%)
All-in Sustaining Costs <sup>(1)</sup>	380.3	437.1	(13%)
All-in Costs <sup>(1)</sup>	394.5	477.1	(17%)
All-in Costs - including taxes <sup>(1)</sup>	479.1	574.3	(17%)
Adjusted operating costs - \$/oz sold <sup>(1)</sup>	326	356	(8%)
All-in sustaining costs – \$/oz sold <sup>(1)</sup>	731	779	(6%)
All-in costs – \$/oz sold <sup>(1)</sup>	758	851	(11%)
All-in costs (including taxes) – \$/oz sold <sup>(1)</sup>	921	1,024	(10%)

<sup>(1)</sup> Adjusted operating costs, all-in sustaining costs, all-in costs and all-in costs (including taxes) (in each case, on an aggregate or per ounce sold basis), as well as average realized gold price per ounce sold, cost of sales per ounce sold and capital expenditures (sustaining and growth) are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(2)</sup> Operating costs (on a sales basis) is comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes (except at Kumtor where revenue-based taxes are excluded), but excludes reclamation costs and depreciation, depletion and amortization.

***Production:***

During 2015, Kumtor focused predominately on the development and mining of cut-back 17. Cut-back 17 required greater waste movement in order to access the ore body in comparison with cut-back 16, which the Company completed developing in 2014. The Company completed waste stripping of cut-back 17 in the first nine months of 2015, reaching the ore body in the fourth quarter. The Company expects to intersect higher grade SB Zone ore in cut-back 17 in the third quarter of 2016, which will provide the majority of the feed to the mill through to the end of the year. In 2015, the mill processed ore from cut-back 16 stockpiles until early October when it reached ore in cut-back 17. For the balance of the year, Kumtor continued to mine and stockpile ore from cut-back 17 and processed a blend of the stockpiles and ore directly from the pit.

The total waste and ore mined in 2015 was 169.5 million tonnes compared to 191.7 million tonnes in 2014, representing a decrease of 12%. The decrease can be attributed to increased average haulage cycle time and distance, an increase in the frequency of significant weather events that resulted in lost production hours, and decreased haul truck availability.

Kumtor produced 520,694 ounces of gold in 2015 compared to 567,693 ounces of gold in 2014. The decrease in ounces was due to processing lower grade stockpiled material mined from cut-back 16 and available lower grade ore mined from cut-back 17 in 2015, with the exception of a high grade ore sliver from cut-back 17 mined in October and November 2015 and processed in the fourth quarter. In contrast, during 2014 Kumtor mined the higher grade zones from cut-back 16 as the Company mined the lower benches of the pit, resulting in more ounces mined. The Company mined 6.6 million tonnes of ore at 2.25 g/t in 2015 compared to 8.6 million tonnes of ore at 3.37 g/t in the comparative year.

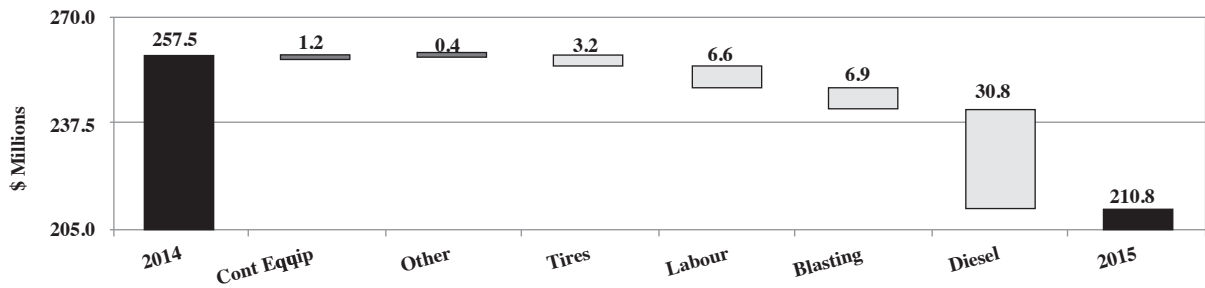
During 2015, Kumtor's head grade was 3.57 g/t with a recovery of 78.8%, compared with 3.90 g/t and a recovery of 78.0% in 2014. Total tonnes processed were approximately 5.7 million for 2015, 2% lower than 2014 as a result of a longer scheduled first quarter mill shutdown.

***Operating costs and All-in Measures:***

Operating costs (on a sales basis), excluding capitalized stripping, decreased by \$23.3 million predominately due to processing fewer and lower cost ounces, which reflect a reduction in costs for diesel, labour and other consumables as well as favourable movements in the local currency as compared to 2014.

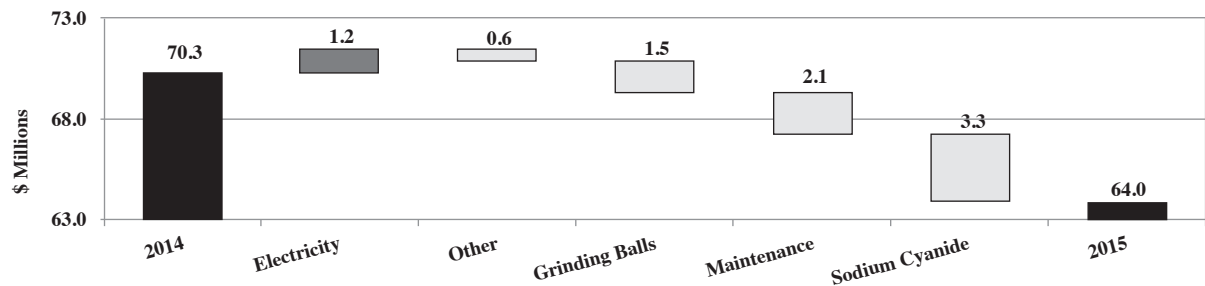
The movements in the major components of operating costs (mining, milling and site support) in 2015 compared to 2014 are explained as follows:

### Mining Costs, including capitalized stripping (2015 compared to 2014):



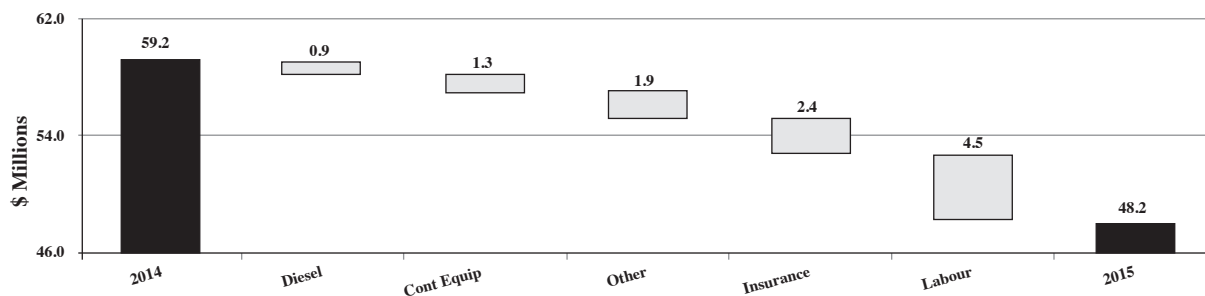
Mining costs, including capitalized stripping, totalled \$210.8 million in 2015, which was \$46.7 million lower than the comparative period. Decreased costs for the year include lower diesel costs (\$30.8 million) due to lower global fuel prices, lower blasting costs (\$6.9 million) due to lower tonnages mined and the implementation of an improved wider drill pattern on waste material, lower labour costs (\$6.6 million) due to favourable exchange movement on local salaries and lower tire costs (\$3.2 million) due to improved tire life and lower purchase price. The lower costs were partially offset by an increase in contractor equipment service costs (\$1.2 million), mainly due to additional equipment required for operations.

### Milling Costs (2015 compared to 2014):



Milling costs of \$64.0 million in 2015 compared to \$70.3 million in 2014. Milling costs in 2015 were lower than the comparative period due to lower cyanide costs (\$3.3 million) as a result of decreased cyanide prices, lower maintenance costs (\$2.1 million) and lower grinding balls costs (\$1.5 million) mainly due to lower global steel costs. The decrease in milling costs was partially offset by higher electricity costs, as a result of an increase in the price by the electricity provider.

## Site Support Costs (2015 compared to 2014):



Site support costs for 2015 totalled \$48.2 million compared to \$59.2 million in the comparative year. The decrease is primarily attributable to lower labour costs (\$4.5 million) due to a favourable exchange movement on local salaries and reduced employee support staff, a decrease in insurance premiums (\$2.4 million), lower contractor costs (\$1.3 million) relating to on-site container transportation and lower diesel costs (\$0.9 million) due to lower global fuel prices.

### ***Other Cost movements:***

DD&A associated with sales decreased to \$216.8 million in 2015, including \$18.4 million of non-cash inventory impairment, from \$270.0 million in 2014, reflecting lower capitalized stripping charges per ounce from cut-back 17 ore, compared to cut-back 15 that were processed in the comparative period. This decrease was magnified by the 40,637 or 7% decrease in ounces sold in 2015 compared to 2014.

At December 31, 2015, Kumtor conducted its quarterly inventory valuation test against the estimated net realizable value and as result recorded an inventory impairment of \$27.2 million. The inventory impairment represents the excess of the inventoried cost, including cost of the low grade material stockpiled from cut-back 17, over the amount the Company expects to realize after further processing and subsequent sale of the gold. The main reason for the impairment is that lower grade ore was released in the fourth quarter of 2015 from cut-back 17 with insufficient volumes to cover the associated mining costs thereby resulting in an impairment. It is forecasted that cut-back 17 will intersect the higher grade SB Zone ore in the third quarter of 2016, which will provide the majority of the feed to the mill until the end of the year (see the “Outlook” section for further details). When considering cut-back 17 as a whole and using current gold prices and operating costs, no inventory impairment is expected to be recorded.

All-in sustaining costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax, was \$731 for 2015 compared to \$779 in 2014, representing a decrease of 6%. The decrease results primarily from the reduced operating costs for mining, milling and site support discussed above.

All-in costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax, for 2015 was \$758 compared to \$851 in 2014, representing a decrease of 11%. The decrease is due to the lower all-in sustaining costs<sup>NG</sup> and a reduction in growth capital<sup>NG</sup> spending. Relocation of camp facilities at the Kumtor mine, which commenced in 2014 and resulted in higher growth capital<sup>NG</sup> in the prior year, was completed in June 2015.



## **Mongolia (Boroo Mine and Gatsuurt Project)**

### ***Boroo Mine***

The Boroo gold mine, located in Mongolia, was the first hard rock gold mine in Mongolia. It has produced approximately 1.9 million ounces of gold since it began operation in 2004. Mining activities at Boroo were completed in September of 2012, although the mill continued to process stockpiled ore until December 7, 2014. Crushing and stacking of heap leach ore was completed in 2013 and primary leaching was completed in July 2014. Boroo carried out secondary heap leach processing activities through 2015, completing such activities at the end of 2015. The Boroo heap leach facility is currently transitioning to closure.

The mill was placed on care and maintenance in late December 2014 and shutdown activities at the mill were completed at the end of February 2015. The Company currently intends to keep the mill on standby awaiting the finalization of agreements and permits for the Gatsuurt Project. See “Other Corporate Developments – Mongolia” and “Caution Regarding Forward-Looking Information”.

### ***Gatsuurt Project***

The Gatsuurt Project was designated as a mineral deposit of strategic importance by the Mongolian Parliament in January 2015. The Company has continued to engage in discussions with the Mongolian Government regarding the development of the Gatsuurt Project and potential ownership by the Government. In mid-October 2015, the Company and the Government agreed to a 3% special royalty in place of the Government acquiring a 34% ownership interest in the project, subject to Parliamentary approval. On February 4, 2016, the Mongolian Parliament approved the level of Mongolia state ownership in the project at 34%. Under the Minerals Law, this allows the Government to substitute the state ownership with the special royalty. In this regard, the Government can now implement the previously agreed upon 3% special royalty in place of a 34% state ownership interest in Gatsuurt. The Company expects to proceed with negotiating definitive agreements and to carry out additional exploration, technical and hydrogeological drilling in support of eventual project development. See “Other Corporate Developments – Mongolia”.

## Overview of Operating Results

### Boroo Operating Results

(\$ millions, except as noted)	Year ended December 31,		
	2015	2014	% Change
Revenue	19.4	68.7	(72%)
Cost of sales-cash	12.3	45.5	(73%)
Cost of sales-non-cash	4.3	12.6	(66%)
Cost of sales-total	16.6	58.1	(71%)
Cost of sales - \$/oz sold <sup>(1)</sup>	1,016	1,076	(6%)
Tonnes milled - 000s	-	2,083	(100%)
Average mill head grade - g/t	-	0.66	(100%)
Recovery - %	-	61.2%	(100%)
Milling costs (\$/t milled material)	-	10.03	(100%)
Gold produced – ounces <sup>(3)</sup>	16,226	53,128	(69%)
Gold sold – ounces	16,325	54,080	(70%)
Average realized gold price - \$/oz <sup>(1)</sup>	1,190	1,271	(6%)
Capital expenditures (sustaining) <sup>(1)</sup>	0.1	0.3	(67%)
Operating costs (on a sales basis) <sup>(2)</sup>	12.3	45.4	(73%)
Adjusted operating costs <sup>(1)</sup>	20.1	51.8	(61%)
All-in Sustaining Costs <sup>(1)</sup>	20.8	52.6	(60%)
All-in Costs <sup>(1)</sup>	20.8	52.6	(60%)
All-in Costs - including taxes <sup>(1)</sup>	21.0	55.4	(62%)
Adjusted operating costs - \$/oz sold <sup>(1)</sup>	1,242	959	30%
All-in sustaining costs – \$/oz sold <sup>(1)</sup>	1,287	973	32%
All-in costs – \$/oz sold <sup>(1)</sup>	1,287	973	32%
All-in costs (including taxes) – \$/oz sold <sup>(1)</sup>	1,298	1,025	27%

<sup>(1)</sup> Adjusted operating costs, all-in sustaining costs, all-in costs and all-in costs (including taxes) (in each case, on an aggregate or per ounce sold basis), as well as average realized gold price per ounce sold, cost of sales per ounce sold and capital expenditures (sustaining and growth) are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(2)</sup> Operating costs (on a sales basis) is comprised of mine operating costs such as mining, processing, regional office administration, royalties and production taxes, but excludes reclamation costs and depreciation, depletion and amortization.

<sup>(3)</sup> Gold produced in the year-ended December 31, 2015 includes 3,595 ounces from the cleaning of circuits at the mill.

### Production:

Boroo produced 16,226 ounces of gold in 2015 compared to 53,128 in 2014. The decrease in gold production was the result of no milling activity in 2015, as Boroo processed the last of its stockpiled ore in December 2014. The Company recovered 3,595 ounces from the cleaning of the gold circuit in the first quarter of 2015, with the remaining 12,631 ounces of ore poured from the heap leach operation. Ounces poured from the heap leach operation decreased by 52% in 2015, due to the secondary leaching of lower grade ore averaging 0.36 g/t in 2015. In 2014, leaching resulted in 26,443 ounces poured averaging 0.52 g/t.

### **Operating costs and All-in Measures:**

Operating costs (on a sales basis) decreased by \$33.1 million to \$12.3 million in 2015, as a result of limited activity at the project with the completion of milling operations at the end of 2014 and secondary leaching being the primary driver of operating results in 2015.

All-in sustaining costs per ounce sold<sup>NG</sup> and all-in costs per ounce sold<sup>NG</sup>, which exclude income tax, increased in 2015 to \$1,287 from \$973 in 2014. The increase is primarily due to a 70% decrease in ounces sold, partially offset by limited capital spending in 2015.

### **Overall Fourth Quarter Results - 2015 compared to 2014**

<i>Unaudited (\$ millions, except as noted)</i>	<b>Three months ended December 31,<sup>(3)</sup></b>			
<b>Financial Highlights</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>% Change</b>
Revenue	\$ 148.3	\$ 360.1	\$ (211.8)	(59%)
Cost of sales	113.4	183.5	(70.1)	(38%)
Standby costs	0.9	2.2	(1.3)	100%
Regional office administration	4.6	7.6	(3.0)	(39%)
<b>Earnings from mine operations</b>	<b>29.4</b>	<b>166.8</b>	<b>(137.4)</b>	<b>(82%)</b>
Revenue-based taxes	20.2	48.5	(28.3)	(58%)
Other operating expenses (income)	0.8	(0.5)	1.3	(260%)
Pre-development project costs	1.8	2.4	(0.6)	(25%)
Impairment of goodwill	-	111.0	(111.0)	(100%)
Exploration and business development	2.6	4.1	(1.5)	(37%)
Corporate administration	7.7	10.4	(2.7)	(26%)
<b>Loss from operations</b>	<b>(3.7)</b>	<b>(9.1)</b>	<b>5.4</b>	<b>(59%)</b>
Other (income) expenses	(1.5)	2.3	(3.8)	(165%)
Finance costs	1.1	1.1	-	0%
<b>Loss before income taxes</b>	<b>(3.3)</b>	<b>(12.5)</b>	<b>9.2</b>	<b>(74%)</b>
Income tax recovery	(0.4)	(1.3)	0.9	(69%)
<b>Net loss</b>	<b>\$ (2.9)</b>	<b>\$ (11.3)</b>	<b>\$ 8.4</b>	<b>(74%)</b>
Loss per common share - \$ basic	\$ (0.01)	\$ (0.05)	\$ 0.04	(80%)
Loss per common share - \$ diluted	\$ (0.01)	\$ (0.05)	\$ 0.04	(80%)
Cash provided by operations	\$ 47.5	\$ 217.0	\$ (169.5)	(78%)
Average realized gold price - \$/oz <sup>(2)</sup>	1,098	1,199	(101)	(8%)
Average gold spot price - \$/oz <sup>(1)</sup>	1,106	1,204	(98)	(8%)
Capital expenditures	\$ 33.6	\$ 57.7	\$ (24.1)	(42%)
<b>Operating Highlights</b>				
Gold produced – ounces poured	133,664	301,235	(167,571)	(56%)
Gold sold – ounces sold	135,064	300,369	(165,305)	(55%)
Cost of sales - \$/oz sold <sup>(2)</sup>	\$ 840	\$ 611	\$ 229	37%
<b>Adjusted operating costs - \$/oz sold<sup>(2)</sup></b>	<b>\$ 405</b>	<b>\$ 276</b>	<b>\$ 129</b>	<b>47%</b>
<b>All-in sustaining costs – \$/oz sold<sup>(2)</sup></b>	<b>\$ 617</b>	<b>\$ 439</b>	<b>\$ 178</b>	<b>40%</b>
<b>All-in costs – \$/oz sold<sup>(2)</sup></b>	<b>\$ 722</b>	<b>\$ 501</b>	<b>\$ 221</b>	<b>44%</b>
<b>All-in costs (including taxes) – \$/oz sold<sup>(2)</sup></b>	<b>\$ 872</b>	<b>\$ 661</b>	<b>\$ 211</b>	<b>32%</b>

<sup>(1)</sup> Average for the period as reported by the London Bullion Market Association (U.S. dollar Gold P.M. Fix Rate).

<sup>(2)</sup> All-in sustaining costs per ounce sold, all-in costs per ounce sold, all-in costs (including taxes) per ounce sold, as well as average realized price per ounce sold and cost of sales per ounce sold, are non-GAAP measures and are discussed under “Non-GAAP Measures”.

<sup>(3)</sup> Results may not add or compute due to rounding.

Net loss in the fourth quarter of 2015 was \$2.9 million (\$0.01 per common share - basic), compared to a net loss of \$11.3 million in the same period of 2014 (including a non-cash impairment charge against goodwill for the Kyrgyz CGU of \$111 million). The following provides an overview of the major items impacting the fourth quarter in 2015 as compared to 2014:

- Gold production for the fourth quarter of 2015 decreased 56% to 133,664 ounces poured. In the fourth quarter of 2015, the Kumtor mill processed lower grade ore from stockpiles and ore released from the pit (cut-back 17), while the Company mined and processed high grade ore from the bottom of cut-back 16 during the comparative period. During the fourth quarter of 2015, Kumtor's head grade was 3.42 g/t with a recovery of 79.9%, compared with 7.40 g/t and a recovery of 82.2% for the same quarter in 2014. Boroo recorded lower production in the fourth quarter of 2015 as it was limited to ounces recovered from secondary heap leaching compared to the lower feed grades processed through the mill in the fourth quarter of 2014.
- Revenues in the fourth quarter of 2015 decreased 59% to \$148.3 million, as a result of 55% fewer ounces sold and a 8% lower average realized gold price<sup>NG</sup>. The lower ounces sold are a reflection of the lower production in the fourth quarter at both operations.
- Cost of sales for the fourth quarter of 2015 decreased 38% to \$113.4 million compared to the same quarter of 2014. The decrease reflects fewer ounces sold at both operations, partially offset by an inventory impairment charge of \$27.2 million recorded December 31, 2015 at Kumtor (no inventory impairment was recorded in the fourth quarter of 2014).
- Regional administration and corporate administration costs decreased 39% and 27% in the fourth quarter of 2015, respectively, compared to the same period of 2014. The decrease primarily reflects company-wide cost cutting measures initiated in 2015 in addition to the weakening of currencies in relation to the U.S. dollar. Lastly, share-based compensation was lower as the Company's share price decreased in the fourth quarter of 2015 by 13%, while it increased by 20% in the comparative quarter of 2014.
- Cash provided by operations was \$47.5 million in the fourth quarter of 2015 compared to \$217.0 million in the same period of 2014. The decrease is primarily driven by lower earnings in the fourth quarter of 2015.
- Cash provided by investing activities in the fourth quarter of 2015 totalled \$21.1 million, compared to \$79.5 million of cash used in investing activities in the same quarter of 2014. The fourth quarter of 2015 reflects 42% less capital purchased and \$58.0 million in net redemptions in short-term investment as opposed to \$25.8 million in net purchases in the fourth quarter of 2014.
- Capital expenditures (spent and accrued) in the fourth quarter of 2015 were \$33.6 million as compared to \$57.7 million in the same period of 2014. Sustaining capital<sup>NG</sup> in the fourth quarter of 2015 of \$11.7 million compared to \$13.4 million in 2014, reflected a decrease in equipment overhauls at Kumtor in 2015. Growth capital<sup>NG</sup> of \$9.7 million in the fourth quarter of 2015 compares to \$11.8 million in the same quarter of 2014. The change reflects a \$9.1 million decrease in spending at Kumtor, partially offset by \$6.7 million of spending on the Greenstone Gold Property and Öksüt Project. Capitalized stripping in the fourth quarter of 2015 was \$12.2 million compared to \$32.5 million in the fourth quarter of 2014. In the fourth quarter of 2015, the mining fleet at Kumtor focused on ore production from

cut-back 17, with limited waste stripping from cut-back 18. In the comparable period of 2014, the mining fleet focused on the waste stripping in cut-back 17.

- All-in sustaining costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax and income tax, in the fourth quarter of 2015, increased to \$617 compared to \$439 in the same period of 2014. The increase resulted from fewer gold ounces sold, partially offset by the reduction in operating costs.
- All-in costs per ounce sold<sup>NG</sup>, which excludes revenue-based tax and income tax, were \$722 in the fourth quarter of 2015 compared to \$501 in the same quarter of 2014. The increase reflects fewer ounces sold, partially offset by lower spending on capital expenditures.

## **Project Development**

### **Öksüt Project:**

At the Öksüt Project in Turkey, the Company spent \$10.0 million during the year ended December 31, 2015 (\$6.0 million in the year ended December 31, 2014) on development activities to progress the EIA, required by Turkish authorities, complete the feasibility study and begin detailed engineering.

In November 2015, the Company received approval of its EIA from the Turkish regulatory authorities, followed by approval of the business opening permit from local authorities in December 2015. Applications have been submitted for the land usage permits, after approval of which other required permits will be submitted. There are no assurances that the formal approval of the land use permits and other permits will be obtained by the Company in the anticipated time frame, or at all.

Subject to timely receipt of permits, the Company expects to begin development of the Öksüt Project in the second quarter of 2016 with first gold production anticipated in the third quarter of 2017. On September 3, 2015 a Technical Report for the Öksüt Project was filed on SEDAR.

In December 2015, the Company finalized a buyback of a 1% net smelter royalty related to the Öksüt production from Stratex through the issuance of 962,542 common shares of the Company, representing a value of \$4.9 million. The Company had initially negotiated the royalty as part of the purchase from Stratex of the final 30% interest in the Öksüt Project in December 2012 and finalized the agreement in January 2013.

### **Greenstone Gold Property:**

On March 9, 2015 the Company formed a 50/50 partnership with Premier Gold Mines Hardrock Inc., a subsidiary of Premier Gold Mines Limited (“Premier”). The purpose of the partnership is the development of the Greenstone Gold Property, including the Hardrock Gold Project located in the Geraldton-Beardmore Greenstone belt in Ontario, Canada. Effective July 20, 2015, the partnership name was changed from TCP Limited Partnership to Greenstone Partnership.

The Company made an initial cash contribution to the Greenstone Partnership in the amount of \$67.4 million (Cdn\$85 million) for its 50% limited partnership interest. Premier contributed all property, assets and rights it held in respect of the Greenstone Gold Property and the right to capital distributions (as discussed below), in consideration for its 50% interest in the partnership. In accordance with their contractual arrangements with the Company, the Greenstone Partnership subsequently distributed Cdn\$85 million to Premier as a capital distribution.

As part of the implementation agreement, an additional contribution of up to Cdn\$30 million was payable to the Greenstone Partnership by the Company contingent on the results of an updated mineral resources study. Upon completion of this resource update in September 2015, the Company contributed \$8.3 million (Cdn\$11 million) to the Greenstone Partnership. Consistent with the initial contribution and implementation agreement, the Greenstone Partnership subsequently distributed Cdn\$11 million to Premier.

The Company also agreed to commit up to an additional Cdn\$185 million to fund the Greenstone Gold Property, subject to certain feasibility study results and project advancement criteria, after which both partners will contribute on a 50/50 basis. The Company and Premier have formed a joint board of directors to oversee future exploration, development and operations by the partnership.

In 2015, the Company spent \$17.3 million on project development activities. During the year, work continued on the feasibility study for the Hardrock Project, including detailed engineering on the processing facility, tailings facility and critical site infrastructure. A new resource model that incorporates all available drill hole and assay data and technical input from a third party audit was completed and will be the basis for the feasibility study. The Greenstone Partnership is expected to complete the feasibility study in the first half of 2016.

In the fourth quarter of 2015, progress was made on completing the draft Environmental Assessment (“EA”) and building a stronger relationship with the local communities. Subsequently, on February 1, 2016, the draft EA was submitted to the provincial and federal regulators for their initial review and comment.

## **Balance Sheet**

### ***Inventory***

Total inventory at December 31, 2015 was \$347.0 million (\$408.4 million at December 31, 2014) including gold inventory of \$173.8 million (\$234.4 million in 2014) and supplies inventory of \$173.2 million (\$174.0 million in 2014). The decrease can be primarily attributable to the Company processing ore from stockpiles as it focused on waste removal in cut-back 17 in 2015. In the fourth quarter of 2014, the inventory balance included a significant amount of stockpiled ore from cut-back 16.

### ***Property, Plant and Equipment***

The aggregate book value of property, plant and equipment at December 31, 2015 was \$693.0 million, which compares to \$524.7 million at the end of 2014 and is allocated as follows: Kyrgyz Republic \$511.6 million (2014 - \$437.1 million), Greenstone Gold \$87.2 million, including \$75.7 million from the formation of the Greenstone Partnership (2014 - nil), Mongolia \$82.5 million (2014 - \$86.8 million), the Öksüt Project \$11.0 million, including \$4.9 million relating to the purchase of the Stratex royalty agreement (2014 - \$0.2 million) and other corporate entities \$0.7 million (2014 - \$0.6 million). The increase in 2015 of \$168.3 million is attributed to the formation of the Greenstone Partnership, spending at the Öksüt Project and an increase in stripping costs capitalized at Kumtor.

### ***Goodwill***

In connection with the annual goodwill impairment test carried out at September 1, 2015, the goodwill for the Kyrgyz CGU was impaired by \$18.7 million. As a result, there is no goodwill remaining. The impairment resulted from lower gold prices, as prices decreased in the first eight months of 2015.

### ***Asset Retirement Obligations***

The total future asset retirement obligations were estimated by management based on the estimated costs to reclaim the mine sites and facilities and the estimated timing of the costs to be incurred in future periods.

The Company has estimated the net present value of the total asset retirement obligations to be \$66.1 million as at December 31, 2015 (December 31, 2014 - \$67.9 million). These payments are expected to commence over the next 1 to 11 years. The Company used a risk-free rate of 2.31% at Kumtor and Gatsuert, and 2.35% at Boroo to calculate the present value of the obligations.

The Company's future undiscounted decommissioning and reclamation costs have been estimated to be \$83.6 million at December 31, 2015 before salvage value.

### ***Share capital and share options***

As of February 24, 2016, Centerra had 239,392,308 common shares outstanding and options to acquire 4,793,592 common shares outstanding under its stock option plan with exercise prices ranging between Cdn\$3.82 and Cdn\$22.28 per share, with expiry dates ranging between 2016 and 2023.

In December 2015, the Company completed the purchase of a 1% net smelter royalty related to the Öksüt production from Stratex through the issuance of 962,542 common shares, representing a value of \$4.9 million.

## Contractual Obligations

The following table summarizes Centerra's contractual obligations as of December 31, 2015, including payments due over the next five years and thereafter:

<i>\$ millions</i>	Total	Due in Less than One Year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due After 5 Years
<b>Kumtor</b>					
Reclamation trust deed <sup>(1)</sup>	\$ 25.4	\$ 3.0	\$ 8.3	\$ 6.1	\$ 8.0
Capital equipment <sup>(2)</sup>	13.5	13.5	-	-	-
Operational supplies	39.5	39.5	-	-	-
Lease of premises	0.2	0.2	-	-	-
<b>Boroo</b>					
Lease of premises	0.4	-	0.3	0.1	-
<b>Öksüt and Greenstone</b>					
Project development	13.5	12.3	1.2	-	-
<b>Corporate</b>					
Loan repayment (principal only)	76.0	76.0	-	-	-
Lease of premises <sup>(3)</sup>	2.2	0.3	0.7	0.8	0.4
<b>Total contractual obligations <sup>(4)</sup></b>	<b>\$ 170.7</b>	<b>\$ 144.8</b>	<b>\$ 10.5</b>	<b>\$ 7.0</b>	<b>\$ 8.4</b>

<sup>(1)</sup> Centerra's future decommissioning and reclamation costs for the Kumtor mine are estimated to be \$44.3 million to be incurred beyond 2026. The estimated future cost of closure, reclamation and decommissioning of the project are used as the basis for calculating the amount remaining to be deposited in the Reclamation Trust Fund (\$25.4 million). This restricted cash is funded by sales revenue, annually in arrears and on December 31, 2015 the balance in the fund was \$18.9 million (2014 - \$16.0 million), with the remaining \$25.4 million to be funded over the life of the mine.

<sup>(2)</sup> Agreements as at December 31, 2015 to purchase capital equipment.

<sup>(3)</sup> Lease of corporate office premises expiring in November 2021.

<sup>(4)</sup> Excludes trade payables and accrued liabilities.

## Other Financial Information- Related Party Transactions

### Kyrgyzaltyn JSC

#### Management fee and contracting services

Revenues from the Kumtor gold mine are subject to a management fee of \$1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company and a state-owned entity of the Kyrgyz Republic, through KGC, a subsidiary of the Company. For the year-ended December 31, 2015, the Company paid Kyrgyzaltyn management fees of \$0.5 million (year ended December 31, 2014 - \$0.6 million). In addition, the Company sourced contracting services from Kyrgyzaltyn of \$1.4 million (year ended December 31, 2014 - \$1.6 million). At December 31, 2015, excluding dividends payable discussed below, the amount payable to Kyrgyzaltyn was \$1.0 million (December 31, 2014 - \$0.6 million).



## Gold sales

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the terms of the Restated Gold and Silver Sales Agreement (“Sales Agreement”) between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009.

In the year ended December 31, 2015, gold and silver sales to Kyrgyzaltyn, net of refinery and financing charges were \$604.5 million (\$694.6 million in the year ended December 31, 2014). As at December 31, 2015, \$25.7 million was outstanding under the Sales Agreement (December 31, 2014 - \$62.1 million). Subsequent to December 31, 2015, the balance receivable from Kyrgyzaltyn was paid in full.

## Dividends

In the year-ended December 31, 2015, the Company declared dividends, net of withholding taxes, of \$9.1 million to Kyrgyzaltyn (year ended December 31, 2014 - \$10.6 million). These funds were initially held in trust as a result of court proceedings against the Government of the Kyrgyz Republic. In September 2015, as a result of the court decision, Centerra released to Kyrgyzaltyn \$10.1 million, representing dividends held in trust of Cdn\$13.1 million, plus interest accrued of Cdn\$0.3 million. This payment included the normal quarterly dividend declared in the third quarter of 2015 and the release of prior dividends held in trust by court order. As a result of a subsequently issued court decision received in October 2015, the Company again started to hold dividends declared to Kyrgyzaltyn in trust. This order does not set a cap for the dividends to be held in trust, and accordingly all future dividends will be held in trust going forward. See “Other Corporate Developments” for additional information. In the year ended December 31, 2014, the Company paid dividends of \$8.0 million to Kyrgyzaltyn. Dividends payable to Kyrgyzaltyn at December 31, 2015, net of unrealized foreign exchange were \$9.3 million (December 31, 2014 - \$12.3 million).

## Transactions with directors and key management

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings were in the form of payments for services rendered in their capacity as director (director fees, including share-based payments) and as employees of the Company (salaries, benefits and share-based payments).

Key management personnel are defined as the executive officers of the Company including the CEO, President, Vice President and Chief Financial Officer, Vice President and Chief Operating Officer (“COO”), Vice President Exploration, Vice President Business Development and Vice President Human Resources.

In the year ended December 31, 2015, compensation of directors was \$0.4 million, including shared-based compensation credit of \$0.5 million (December 31, 2014, \$1.8 million, including share-based compensation expense of \$0.9 million). Compensation of key management

personnel in 2015 was \$14.0 million, including shared-based compensation of \$7.2 million, (December 31, 2014, \$12.3 million, including share-based compensation of \$5.3 million).

Disclosure regarding related party transactions is included in Note 27 of the Company's December 31, 2015 Annual Financial Statements.

### Quarterly Results – Previous Eight Quarters

Over the last eight quarters, Centerra's results reflect the impact of an overall decline in gold prices and decreasing input costs, such as diesel, labour and consumables, which have seen a continued decrease through 2014 and 2015. The weakening of currencies as compared to the U.S. dollar has also had a positive impact on foreign-denominated costs in the latter part of 2014 and in 2015. The quarterly production profile for 2015 is more consistent across each quarter, as processing was mainly from stockpiles, while the production profile in 2014 was concentrated at the end of the year. In early 2014, production and sales were impacted by the accelerated ice movement at Kumtor which necessitated the construction of a buttress to mitigate the impact, resulting in a reduction of reserves, a change in the mine plan and delay in the release of gold ore from the pit. Following the update to the reserves at the end of 2014, the Company recorded, in the fourth quarter of 2014, an impairment charge to the goodwill amount it carried on its Kyrgyz CGU of \$111.0 million. At the subsequent annual goodwill impairment test on September 1, 2015, the Company impaired the remaining goodwill balance for its Kyrgyz CGU of \$18.7 million, reflecting continued weakness in gold prices. Non-cash costs have also progressively increased since 2014. Depreciation at Kumtor increased due to its expanded mining fleet and the increased amortization of capitalized stripping resulting from increased stripping as the pit gets larger. The quarterly financial results for the last eight quarters are shown below:

\$ million, except per share data Quarterly data unaudited	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	148	116	147	213	360	136	119	148
Net earnings (loss)	(3)	(18)	22	41	(11)	(3)	(32)	2
Basic earnings (loss) per share	(0.01)	(0.08)	0.09	0.17	(0.05)	(0.01)	(0.13)	0.01
Diluted earnings (loss) per share	(0.01)	(0.08)	0.09	0.17	(0.05)	(0.02)	(0.13)	-

### Other Corporate Developments

The following is a summary of corporate developments with respect to matters affecting the Company and its subsidiaries. Readers are cautioned that there are a number of legal and regulatory matters that are currently affecting the Company and that the following is only a brief summary of such matters. For a more complete discussion of these matters, see the Company's most recently filed Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com). The following summary also contains forward-looking statements and readers are referred to "Caution Regarding Forward-looking Information".

## **Credit Facilities**

### EBRD Facility

At December 31, 2015, the Company had \$76 million outstanding under the EBRD Facility for repayment in February 2016. On February 12, 2016, the Company entered into a new five-year \$150 million revolving credit facility with EBRD. The interest rate is LIBOR plus 3%. The \$76 million drawn amount under the previous EBRD Facility was subsequently redrawn under the new EBRD Facility on February 17, 2016 and is due to be repaid on August 17, 2016 or, at the Company's discretion, repayment of the loaned funds may be extended until 2021. The right to draw in excess of \$100 million of the new EBRD Facility is subject to the satisfaction of a specified condition precedent. There can be no assurance that this condition precedent will be satisfied.

## **Kyrgyz Republic**

### Negotiations between Kyrgyz Republic and Centerra

On December 22, 2015, the Company announced that it had received notice from the Kyrgyz Republic Prime Minister notifying Centerra of the Kyrgyz Republic Government's intention to withdraw from further negotiations regarding the implementation of the Heads of Agreement on the Kumtor Project Restructuring dated January 18, 2014 (the "HOA"). As previously disclosed, the HOA contemplated a restructuring of the Kumtor Project under which Kyrgyzaltyn would receive a 50% interest in a joint venture company that would own the ownership of the Kumtor Project in exchange for its share interest in Centerra. The Prime Minister also stated that "the government of the Kyrgyz Republic is still deeply interested in ensuring uninterrupted operations of the Kumtor mine and achieving mutual agreements which would allow further efficient implementation of the Kumtor Project in accordance with the best world practices, standards and requirements of the mining industry transparency initiative".

Centerra will continue to engage constructively and in good faith with the Kyrgyz Republic Government to resolve all outstanding matters affecting the Kumtor Project, including, among other things: (i) claims made by the General Prosecutor relating to a \$200 million inter-corporate dividend declared and paid by KGC to Centerra in December 2013; (ii) claims made by the General Prosecutor seeking to invalidate Kumtor's land use certificate and to seize certain lands within the Kumtor concession area; and (iii) significant environmental claims made by various Kyrgyz state agencies alleging environmental offenses and other matters totalling approximately \$473 million (at applicable exchange rates when the claims were commenced). Centerra believes that each of these claims is without foundation.

While Centerra has a long record of resolving matters with the Kyrgyz Republic Government, there are no assurances that continued discussions between the Kyrgyz Republic Government and Centerra will result in a mutually acceptable solution regarding the Kumtor Project, that any agreed upon proposal would receive the necessary approvals under Kyrgyz and Canadian laws or that the Kyrgyz Republic Government and/or Parliament will not take actions that are

inconsistent with the government's obligations under the agreements governing the Kumtor Project.

### Kyrgyz Permitting and Regulatory Matters

In December 2015, KGC submitted its 2016 annual mine plan to the Kyrgyz Republic State Agency for Environment and Protection and Forestry ("SAEPF") for environmental expertise and the Kyrgyz Republic State Agency for Geology and Mineral Resources ("SAGMR") for industrial safety and subsoil expertise. The industrial safety expertise was issued on December 30, 2015. KGC has also received extension of its permits for maximum allowable emissions and toxic waste disposal until March 31, 2016. The Company expects that the relevant Kyrgyz Republic government agencies will consider the renewal of such permits in connection with their review of the 2016 annual mine plan.

However, there remain several other outstanding permits and approvals required from Kyrgyz regulatory authorities including the Ecological Passport and the life-of-mine technical plan (which outlines mining plans for the Kumtor life-of-mine). We understand that the regulatory authorities reviewing such permits and approvals have expressed concerns regarding potential conflicts with the Kyrgyz Republic Water Code. Centerra and KGC do not believe that the Water Code is applicable to the Kumtor Project. As previously disclosed, this was also a concern in SAEPF's review of the 2015 annual mine plan.

Kumtor will continue to work with the applicable Kyrgyz regulatory authorities to obtain the necessary permits and approvals, however there can be no assurances that such permits and approvals will be issued or issued in a timely manner.

Should Kumtor be prohibited from moving ice (as a result of the purported application of the Water Code), the entire December 31, 2015 mineral reserves at Kumtor, and Kumtor's current life of mine plan would be at risk, leading to an early closure of the operation. Centerra believes that any disagreement in relation to the application of the Water Code to Kumtor would be subject to international arbitration under the 2009 agreements governing the Kumtor Project.

### Green Party Claim

On December 25, 2015, KGC received a claim filed by the Green Party of Kyrgyzstan (the "Green Party") with a Kyrgyz court which alleges environmental and glacier pollution and seeks damages of approximately \$5.8 billion. The Company understands that the court has rejected the claim on procedural grounds. The Company believes that this claim is without merit and, in any event, is subject to the international arbitration provision of the Restated Investment Agreement. The claimant, Green Party, requests that the damages be paid by Kumtor to the Issyk-Kul Nature Preservation Local Fund, a Kyrgyz state fund. The claim by the Green Party relates to allegations substantially similar to the claims raised by Kyrgyz regulatory authorities which are currently before the courts, each of which the Company believes are without foundation. The claim is also substantially similar to another claim made by the Green Party in 2013 which was subsequently withdrawn by the Green Party.

## Japarov Criminal Proceeding

As previously disclosed, the Kyrgyz Republic General Prosecutor has brought criminal proceedings against Mr. D. Japarov, who was a member of the KGC board of directors (as a nominee of Kyrgyzaltyn) in December 2013, when the KGC board of directors recommended to KGC's shareholder the declaration and payment of a \$200 million inter-corporate dividend to Centerra. Mr. Japarov was also Chairman of the management board of Kyrgyzaltyn at that time.

On December 11, 2015, the Pervomayski District Court found Mr. Japarov guilty of using his regulatory or managerial authorities against the interests of Kyrgyzaltyn and the Kyrgyz Republic. However, due to the time he had already served in detention prior to and during his trial, he was released from detention without serving additional time.

As previously disclosed, the Company believes that the dividend that was subject of the criminal proceedings against Mr. Japarov was declared and paid in compliance with all Kyrgyz Republic laws and was a routine intercorporate matter between Centerra and its direct, wholly-owned subsidiary.

## **Mongolia**

### Gatsuurt – Development

Following the designation of the Company's Gatsuurt Project as a mineral deposit of strategic importance by the Mongolian Parliament in January 2015, the Company has been in discussions with the Government of Mongolia and its working groups to determine the economic terms of the future development of the Gatsuurt Project. In mid-October, the Company and the Government agreed to a 3% special royalty in place of the Government acquiring a 34% ownership interest in the project.

As disclosed on February 4, 2016, the Mongolian Parliament passed a resolution setting the state ownership interest in the Gatsuurt Project at 34% and authorizing the Mongolian Government to complete negotiations with Centerra on the terms of such ownership. Under the Minerals Law, the Government can now implement the previously agreed upon special royalty in place of a 34% state ownership in the project. The Company expects to proceed with negotiating definitive agreements (including a deposit development agreement and an investment agreement) with the Mongolian Government. Concurrent with the negotiations of such agreements, the Company will undertake economic and technical studies to update the existing studies on the project, which were initially completed and published in May 2006. As part of such work, the Company will undertake a program of exploration drilling, and geotechnical and additional hydrogeological drilling in preparation for eventual project development.

There are no assurances that Centerra will be able to negotiate definitive agreements with the Mongolian Government (in a timely fashion or at all) or that such economic and technical studies and drilling programs will have positive results. The inability to successfully resolve all such matters could have a material impact on the Company's future cash flows, earnings, results of operations and financial condition.

## Gatsuurt – Illegal Mining

A significant number of artisanal (illegal) miners continue to enter the Gatsuurt license area and engage in artisanal mining. The numbers have fluctuated but the Company understands from reports that the numbers have reached up to 200-300 artisanal miners at a single time. Centerra's first priority is the health and safety of its employees and of artisanal miners themselves. The types of activities carried out by artisanal miners at Gatsuurt can be dangerous to human health, safety as well as the environment. The Company has advised appropriate Mongolian federal and aimag (local) governments, relevant state bodies and police of the issues relating to the activities of artisanal miners and has requested their assistance to clear the Gatsuurt site from artisanal miners and restrict their access to the area. Centerra does not support any violence or excessive use of force in encounters between Mongolian authorities and artisanal miners and has made this explicitly clear to the Mongolian authorities. As there are no ongoing operations at the Gatsuurt Project at this time, there is no current conflict with Centerra or its local personnel. However, this is a matter of concern and the Company continues to work with Mongolian authorities to resolve the situation in a peaceful manner.

## **Corporate**

### Ontario Court Proceedings Involving the Kyrgyz Republic and Kyrgyzaltyn

Starting in 2011, there have been four Ontario applications commenced by different applicants against the Kyrgyz Republic and Kyrgyzaltyn, each seeking to enforce in Ontario international arbitral awards against the Kyrgyz Republic. None of these disputes relate directly to Centerra or the Kumtor Project. In each of these cases, the applicants have argued that the Kyrgyz Republic has an interest in the shares of Centerra held by Kyrgyzaltyn, a state controlled entity, and therefore that the applicant is entitled to seize such number of Centerra shares and/or such amount of dividends as necessary to satisfy their respective arbitral awards against the Kyrgyz Republic. The four applicants and the amount of their arbitral awards are as follows: (i) Sistem Mühendislik İnşaat Ve Ticaret Anonim Sirketi ("Sistem") commenced its claim in Ontario in March 2011 to enforce an arbitral award in the amount of approximately \$9 million; (ii) Stans Energy Corp. ("Stans") commenced its claim in Ontario in October 2014 to enforce its arbitral award for approximately \$118 million; (iii) Belokon commenced a claim in Ontario in February 2015 to enforce the arbitral award for approximately \$16.5 million; and (iv) Entes commenced its claim in October 2015 to enforce an arbitral award for approximately \$22.7 million.

In the Sistem case, on June 19, 2015 the Ontario Court of Appeal made a finding that the Kyrgyz Republic was not properly served in the previous proceedings and, accordingly, it allowed Kyrgyzaltyn's appeal and cancelled a previous court's decision which determined that the Kyrgyz Republic had an equitable interest in the shares of Centerra held by Kyrgyzaltyn. The Court of Appeal determined that a new hearing may be held following proper service of Sistem's Amended Notice of Application to the Kyrgyz Republic. Sistem sought leave to appeal the decision to the Supreme Court of Canada, which the Company understands was denied on February 11, 2016.

On June 10, 2015, the Ontario Superior Court of Justice Divisional Court issued its decision on an appeal brought by Kyrgyzaltyn in the Stans case. The effect of this decision was to cancel a previously issued court order (injunction) which (among other things) restricted Kyrgyzaltyn's ability to deal with 47 million Centerra shares and prevented the payment of dividends on all Centerra shares held by Kyrgyzaltyn. The court made its decision based on, among other things, the existence of new evidence put forward by Kyrgyzaltyn, and in particular the Moscow State Court decision dated April 29, 2015 (and the short form reasons for that decision dated May 15, 2015) which determined that the Moscow Chamber of Commerce and Industry ("MCCI"), the arbitral body which granted the Stans' arbitral award for \$118 million, did not have jurisdiction to make an award. The decision of the MCCI was subsequently confirmed by the Russian Supreme Court on January 11, 2016.

In the Belokon proceedings, the original court order issued in February 2015 which restricted certain shares and the payment of dividends was amended on September 8, 2015. The amended order now restricts Kyrgyzaltyn's ability to transfer and to exercise its rights as a registered shareholder over 3,787,879 shares (formerly 6,500,240 shares), and limits the amount of dividends to be held in trust for the Belokon proceeding to Cdn\$10 million. Accordingly, all amounts held in trust in excess of Cdn\$10 million were released to Kyrgyzaltyn in September 2015.

On October 15, 2015, Centerra received an Ontario court order in favour of Entes, which has an arbitral award against the Kyrgyz Republic for \$22.7 million. The injunction (i) prohibits Kyrgyzaltyn from, among other things, selling or transferring 7,465,776 shares of Centerra held by it (over and above the 3,787,879 shares already restricted in the Belokon proceedings); and (ii) requires Centerra to pay any dividends declared on Centerra shares held by Kyrgyzaltyn into trust for the benefit of the Entes enforcement application. The order was continued on October 27, 2015 and remains in place until further order of the Court; it does not set a limit on the amount of dividends to be held in trust. The Company is currently holding \$2.1 million in trust for the Entes proceeding and will continue to do so until further order of the court.

## **Critical Accounting Estimates**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of the Company's accounting policies, which are described in note 3 of the consolidated financial statements, the reported amounts of assets and liabilities and disclosure of commitments and contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

Management's estimates and underlying assumptions are reviewed on an ongoing basis. Any changes or revisions to estimates and underlying assumptions are recognized in the period in which the estimates are revised and in any future periods affected. Changes to these critical accounting estimates could have a material impact on the consolidated financial statements.

The key sources of estimation uncertainty and judgments used in the preparation of the consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are outlined in detail in note 4 of the December 31, 2015 financial statements.

## Changes in Accounting Policies

### Recently issued but not adopted accounting guidance are as follows:

In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* (“IFRS 11”), to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply all of the principles of business combinations accounting in IFRS 3, *Business Combinations*. Prospective application of this interpretation is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company has assessed the impact of adopting these amendments and determined it will not have a material impact on the Company’s consolidated financial statements upon adoption.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements.

IFRS 9, *Financial Instruments* (“IFRS 9”) was issued by the IASB in July 2014. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Company has not adopted IFRS 9 in its financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements based on the characteristics of its financial instruments at the date of adoption.

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* (“IAS 1”), to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the statement of financial position, statement of income and statement of comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2016, with earlier application permitted. The Company will adopt the required amendments to IAS 1 in its consolidated financial statements for the year ended December 31, 2016.

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.



## **Disclosure Controls and Procedures and Internal Control Over Financial Reporting (“ICFR”)**

As of December 31, 2015, Centerra adheres to COSO's revised 2013 Internal Control Framework for the design of its internal controls over financial reporting.

The evaluation of disclosure controls and procedures and internal controls over financial reporting under COSO's 2013 Internal Control Framework was carried out under the supervision of and with the participation of management, including Centerra's CEO and CFO. Based on these evaluations, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures and internal control over financial reporting were effective throughout 2015.

### **2016 Outlook**

#### **2016 Gold Production**

Centerra's 2016 gold production is expected to be between 480,000 to 530,000 ounces. All of Centerra's 2016 production is expected to come from the Kumtor mine and is consistent with the 2016 production outlined in the life-of-mine plan set out in the Kumtor NI 43-101 technical report dated March 20, 2015, filed on SEDAR.

The Boroo mine will continue with closure activities mainly focusing on reclamation work at the Boroo property. Any revenue from Boroo gold production from rinsing the heap leach pad will be offset against mine closure costs. The 2016 production forecast assumes no gold production from Boroo or Gatsuert.

#### **2016 All-in Unit Costs<sup>NG</sup>**

Centerra's 2016 all-in sustaining costs per ounce sold<sup>NG</sup> and all-in costs (excluding Öksüt and Greenstone growth projects) per ounce sold<sup>NG</sup> are forecast as follows:

	<b>Kumtor</b>	<b>Consolidated</b>
<b>Ounces sold forecast</b>	480,000-530,000	480,000-530,000
<b>US \$ / gold ounces sold</b>		
Operating Costs	400 – 442	400 – 442
Changes in inventories	(8) – (9)	(8) – (9)
<b>Operating Costs (on a sales basis)</b>	<b>\$392 – 433</b>	<b>\$392 – 433</b>
Regional office administration	29 – 32	29 – 32
Social Development costs	4 – 5	4 – 5
Refining costs and by-product credits	1	1
<b>Sub-Total (Adjusted Operating Costs)<sup>(1)</sup></b>	<b>\$426 – 471</b>	<b>\$426 – 471</b>
Corporate general & administrative costs	-	56 – 62
Accretion expense	3	4
Capitalized stripping costs – cash	230 – 254	230 – 254
Capital expenditures (sustaining) <sup>(1)</sup>	158 – 174	161 – 177
<b>All-in Sustaining Costs<sup>(1)</sup></b>	<b>\$817 – 902</b>	<b>\$877 – 968</b>
Capital expenditures (growth) <sup>(1)</sup>	49 – 54	49 – 54
Boroo closure costs <sup>(2)</sup>	-	14 – 16
Other costs <sup>(3)</sup>	-	25 – 28
<b>All-in Costs (excluding growth projects)<sup>(1)</sup></b>	<b>\$866 – 956</b>	<b>\$965 – 1,066</b>
Revenue-based tax and income taxes <sup>(4)</sup>	157	157
<b>All-in Costs (excluding growth projects and including taxes)<sup>(1), (4)</sup></b>	<b>\$1,023 – 1,113</b>	<b>\$1,122 – 1,223</b>

- (1) Adjusted operating costs per ounce sold, all-in sustaining costs per ounce sold, all-in costs (excluding growth projects) per ounce sold, all-in costs (excluding growth projects and including taxes) per ounce sold, as well as capital expenditures (sustaining and growth) are non-GAAP measures and are discussed under “Non-GAAP Measures”.
- (2) Boroo costs include maintaining the Boroo mill on care and maintenance and ongoing closure costs net of gold sales.
- (3) Other costs per ounce sold include global exploration expenses, business development expenses and project development costs not related to current operations.
- (4) Includes revenue-based tax that reflects a forecast gold price assumption of \$1,125 per ounce sold.

## 2016 Exploration Expenditures

Planned exploration expenditures for 2016 total \$11 million, which is \$2.6 million higher than the 2015 exploration spending. The 2016 exploration plan includes \$1.0 million for further exploration work on the Öksüt property, and \$10 million to fund other ongoing projects (excluding Greenstone) and generative exploration programs. See also Greenstone Gold Property.

## 2016 Capital Expenditures

Centerra’s projected capital expenditures for 2016, excluding capitalized stripping, are estimated to be \$269 million, including \$85 million of sustaining capital<sup>NG</sup> and \$184 million of growth capital<sup>NG</sup>.

Projected capital expenditures (excluding capitalized stripping) include:

<b>Projects</b>	<b>2016 Sustaining Capital<sup>NG</sup></b> (millions of dollars)	<b>2016 Growth Capital<sup>NG</sup></b> (millions of dollars)
Kumtor	\$84	\$26
Öksüt Project	-	\$157
Greenstone Gold Property	-	1*
Other (Boroo, Gatsuurt and Corporate)	1	-
<b>Consolidated Total</b>	<b>\$85</b>	<b>\$184</b>

\* Excludes \$4.9 million representing capitalized amount for Premier's 50% share of the development expenditures related to the Greenstone Gold Property and funded by Centerra.

### ***Kumtor***

At Kumtor, 2016 total capital expenditures, excluding capitalized stripping, are forecast to be \$110 million. Spending on sustaining capital<sup>NG</sup> of \$84 million relates primarily to major overhauls and replacements of certain heavy duty mine equipment (\$69 million), construction to raise the tailings dam (\$6 million) and other items (\$9 million).

Growth capital<sup>NG</sup> investment at Kumtor for 2016 is forecast at \$26 million and includes the relocation of certain infrastructure at Kumtor relating to the ongoing Kumtor pit expansion (\$17 million), dewatering projects (\$6 million) and other items (\$3 million).

The cash component of capitalized stripping costs related to the development of the open pit is expected to be \$122 million of the \$162 million total capitalized stripping in 2016.

### ***Mongolia (Boroo and Gatsuurt)***

At Boroo, 2016 sustaining capital<sup>NG</sup> expenditures are expected to be minimal and no growth capital<sup>NG</sup> is forecast for Boroo. In February 2016, the Mongolian Parliament passed a resolution approving the state ownership interest in the Gatsuurt Project. The Company expects to proceed with negotiating definitive agreements and carry out additional exploration drilling to expand the Gatsuurt resource base as well as geo-technical and hydrogeological drilling in support of the eventual project development.

### ***Öksüt Project***

Subject to the timely receipt of permits, the Company expects to spend \$157 million for capital construction at the Öksüt property in 2016. The total planned spending of \$157 million includes mine construction costs of \$134 million, capitalized project support and administration costs of \$19 million, and other capitalized costs of \$4 million.

### ***Greenstone Gold Property***

Centerra's guidance for 2016 expenditures in connection with the Greenstone Gold Property is approximately \$10.8 million (Cdn\$14.5 million) and represents costs forecast to be spent on the completion of the feasibility study for the Hardrock Project. The Greenstone Partnership is expected to complete the feasibility study in the first half of 2016. At that time, Centerra will re-estimate costs for the balance of the year.

The 2016 guidance includes work for technical studies, environmental and social impact assessment, project support (\$7.6 million), exploration (\$2.2 million) as well as some capital expenditures for the project (\$1 million). The forecast spending for 2016 will be fully funded by Centerra with 50% of spending accounted for as pre-development project spending or exploration and expensed through Centerra's income statement. The remaining 50% of spending will be capitalized on Centerra's balance sheet and be accounted for as an acquisition cost of the Greenstone Gold Property (\$4.9 million) in addition to \$1 million to be spent on capital items.

### **2016 Corporate Administration and Community Investment**

Corporate and administration expense for 2016 is forecast to be \$31 million, which includes \$30 million for corporate and administration costs, and \$1 million for business development activities.

Total planned community investments for 2015 are forecast at \$3 million. This budget includes donations and sustainable development projects in the various communities in which Centerra operates.

### **2016 Depreciation, Depletion and Amortization**

Consolidated depreciation, depletion and amortization expense included in costs of sales expense for 2016 is forecasted to be between \$194 million and \$208 million at Kumtor.

<i>(In millions)</i>	<b>2016 DD&amp;A Forecast (Unaudited)</b>	<b>2015 DD&amp;A Actual</b>
<b>Kumtor</b>		
Mine equipment	\$ 70	\$ 66
Less DD&A capitalized to stripping costs <sup>(1)</sup>	(40)	(51)
Capital stripping costs amortized	185 - 205	109
Other mining assets	7	3
Mill assets	10	8
Administration assets and other	14	13
Inventory adjustment (non-cash depreciation)	(52) - (58)	69
<b>Subtotal for Kumtor</b>	<b>\$ 194 – 208</b>	<b>\$ 217</b>
<b>Boroo</b>		
Mine and mill assets <sup>(2)</sup>	N/A	\$ 1
Administration assets and other	N/A	2
Inventory adjustment (non-cash depreciation)	N/A	1
<b>Subtotal for Boroo</b>	<b>N/A</b>	<b>\$ 4</b>
Subtotal for Other	-	-
<b>Consolidated Total</b>	<b>\$ 194 – 208</b>	<b>\$ 221</b>

(1) Use of the Company's mining fleet for stripping activities results in a portion of the depreciation related to the mine fleet to be allocated to capitalized stripping costs. In 2015, \$51 million of depreciation costs was allocated to capitalized stripping costs.

(2) All 2016 DD&A expense at Boroo will be charged to the Boroo closure costs.

### ***Kumtor***

At Kumtor, depreciation, depletion and amortization expense included in costs of sales expense for 2015 was \$217 million which is \$1 million above the guidance for 2015 of \$204 million to \$216 million disclosed in the 2015 Outlook section of the Company's 2014 MD&A filed on SEDAR on February 27, 2015 due to higher amortization of the capitalized stripping costs.

The forecast for 2016 DD&A to be expensed as part of costs of sales is between \$194 million and \$208 million. The amortization of capitalized stripping costs is the largest component of depreciation expense in 2016 forecasted to be between \$185 million to \$205 million. Capitalized stripping costs include mining operating costs such as labour, diesel and maintenance costs, as well as the depreciation expense for the mine equipment used in the stripping campaign. The capitalized stripping costs are amortized over the ounces contained in the ore body exposed by the stripping campaign.

The mine equipment assets are depreciated on a straight-line basis over their estimated useful lives. The total mine equipment depreciation for 2016 is forecasted at \$70 million reflecting increased depreciation on replacement of mining equipment. The depreciation related to mine equipment engaged in a stripping campaign and capitalized as stripping costs is forecasted to be \$40 million in 2016.

## 2016 Taxes

Pursuant to the Restated Investment Agreement, Kumtor's operations are not subject to corporate income taxes. The agreement assesses tax at 13% on gross revenue (plus 1% for the Issyk-Kul Oblast Development Fund).

## Sensitivities

Centerra's revenues, earnings and cash flows for 2016 are sensitive to changes in certain key inputs or currencies. The Company has estimated the impact of any such changes on revenues, net earnings and cash from operations.

	Change	Impact on (\$ millions)			
		Costs	Revenues	Cash flow	Earnings before income tax
Gold Price	\$50/oz	3.4 - 3.6	24.0 - 26.5	20.7 - 22.8	20.7 - 22.8
Diesel Fuel	10%	1.7	-	4.4	1.7
Kyrgyz som <sup>(1)</sup>	1 som	0.9	-	1.4	0.9
Canadian dollar <sup>(1)</sup>	10 cents	2.8	-	2.8	2.8

(1) appreciation of currency against the U.S. dollar will result in higher costs and lower cash flow and earnings, depreciation of currency against the U.S. dollar results in decreased costs and increased cash flow and earnings

## Material Assumptions and Risks

Material assumptions or factors used to forecast production and costs for 2016 include the following:

- a gold price of \$1,125 per ounce,
- exchange rates:
  - \$1USD:\$1.34 Cdn
  - \$1USD:65.0 Kyrgyz som
  - \$1USD:0.95 Euro
- diesel fuel price assumption:
  - \$0.55/litre at Kumtor

The assumed diesel price of \$0.55/litre at Kumtor assumes that no Russian export duty will be paid on the fuel exports from Russia to the Kyrgyz Republic. Diesel fuel is sourced from Russian suppliers and only loosely correlates with world oil prices. The diesel fuel price assumptions were made when the price of oil was approximately \$50 per barrel.

Other material assumptions were used in forecasting production and costs for 2016. These material assumptions include the following:

- That any discussions between the Government of the Kyrgyz Republic and Centerra regarding the resolution of all outstanding matters affecting the Kumtor mine are satisfactory to Centerra, fair to all of Centerra's shareholders, and that any such resolution will receive all necessary legal and regulatory approvals under Kyrgyz law and/or Canadian law.

- All mine plans and related permits and authorizations at Kumtor receive timely approval from all relevant governmental agencies.
- The buttress constructed at the bottom of the Davidov glacier continues to function as planned.
- The pit walls at Kumtor remain stable.
- The resource block model at Kumtor reconciles as expected against production.
- Any recurrence of political or civil unrest in the Kyrgyz Republic will not impact operations, including movement of people, supplies and gold shipments to and from the Kumtor mine and/or power to the mine site.
- Any actions taken by the Kyrgyz Republic Parliament and Government do not have a material impact on operations or financial results. This includes any action being taken by the Parliament or Government to cancel the agreements governing the Kumtor Project Agreements (the “Kumtor Project”), or taking any actions which are not consistent with the rights of Centerra and KGC under the Kumtor Project Agreements.
- The previously disclosed environmental claims received from the Kyrgyz regulatory authorities in the aggregate amount of approximately \$476 million (at the then current exchange rates), the new Green Party claim and the claims of the Kyrgyz Republic’s General Prosecutor’s Office purporting to invalidate land use rights and/or seize land at Kumtor and to unwind the \$200 million inter-company dividend declared and paid by KGC to Centerra in December 2013, and any further claims, whether environmental allegations or otherwise, are resolved without material impact on Centerra’s operations or financial results.
- The accession of the Kyrgyz Republic into the Eurasian Economic Union and/or any sanctions imposed on Russian entities do not have a negative effect on the costs or availability of inputs or equipment to the Kumtor Project.
- The movement in the Central Valley Waste Dump at Kumtor, initially referred to in the Annual Information Form for the year ended December 31, 2013, does not accelerate and will be managed to ensure continued safe operations, without impact to gold production.
- Grades and recoveries at Kumtor will remain consistent with the 2016 production plan to achieve the forecast gold production.
- The Company is able to manage the risks associated with the increased height of the pit walls at Kumtor.
- The dewatering program at Kumtor continues to produce the expected results and the water management system works as planned.
- The Kumtor mill continues to operate as expected.
- Exchange rates, prices of key consumables, costs of power, water usage fees, and any other cost assumptions at all operations and projects of the Company are not significantly higher than prices assumed in planning.
- No unplanned delays in or interruption of scheduled production from our mines, including due to civil unrest, natural phenomena, regulatory or political disputes, equipment breakdown or other developmental and operational risks.

The Company cannot give any assurances in this regard.

Production, cost and capital forecasts for 2016 are forward-looking information and are based on key assumptions and subject to material risk factors that could cause actual results to differ materially and which are discussed herein under the headings “Material Assumptions & Risks” and “Cautionary Note Regarding Forward-Looking Information” and under the heading “Risk Factors” in this MD&A.

## **Non-GAAP Measures**

This MD&A contains the following non-GAAP financial measures: all-in sustaining costs, all-in costs, all-in costs (excluding growth projects), all-in costs including taxes and adjusted operating costs in dollars (millions) and per ounce sold, as well as cost of sales per ounce sold, capital expenditures (sustaining), capital expenditures (growth), growth projects and average realized gold price. These financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers, even as compared to other issuers who may also be applying the World Gold Council (“WGC”) guidelines, which can be found at <http://www.gold.org>.

Management believes that the use of these non-GAAP measures will assist analysts, investors and other stakeholders of the Company in understanding the costs associated with producing gold, understanding the economics of gold mining, assessing our operating performance, our ability to generate free cash flow from current operations and to generate free cash flow on an overall Company basis, and for planning and forecasting of future periods. However, the measures do have limitations as analytical tools as they may be influenced by the point in the life cycle of a specific mine and the level of additional exploration or expenditures a company has to make to fully develop its properties. Accordingly, these non-GAAP measures should not be considered in isolation, or as a substitute for, analysis of our results as reported under GAAP.

### ***Definitions***

The following is a description of the non-GAAP measures used in this MD&A. The definitions are consistent with the WGC’s Guidance Note on these non-GAAP measures:

- *Production costs* represent operating costs associated with the mining, milling and site administration activities at the Company’s operating sites, excluding costs unrelated to production such as mine standby and corporate social responsibility.
- *Operating costs* (on a sales basis) include mine operating costs such as mining, processing, site support, royalties and operating taxes (except at Kumtor where revenue-based taxes are excluded), but exclude depreciation, depletion and amortization (DD&A), reclamation costs, financing costs, capital development and exploration.
- *Adjusted operating costs per ounce sold* include operating costs (on a sales basis), regional office administration, mine standby costs, community and social development costs related to current operations, refining fees and by-product credits.
- *All-in sustaining costs per ounce sold* include adjusted operating costs, the cash component of capitalized stripping costs, corporate general and administrative expenses, accretion expenses, and sustaining capital. The measure incorporates costs related to sustaining production.



- *All-in costs per ounce sold* include all-in sustaining costs and additional costs for growth capital, global exploration expenses, business development costs, project development costs and social development costs not related to current operations.
- *All-in cost per ounce sold* exclude the following:
  - Working capital (except for adjustments to inventory on a sales basis).
  - All financing charges (including capitalized interest).
  - Costs related to business combinations, asset acquisitions and asset disposals.
  - Other non-operating income and expenses, including interest income, bank charges, and foreign exchange gains and losses.
- *All-in costs per ounce sold (excluding growth projects)* measure comprises all-in costs per ounce sold as described above and excluded the Company's growth projects.
- *All-in costs including taxes per ounce sold* measure includes revenue-based taxes at Kumtor and income taxes at Boroo.
- *Capital expenditure (Sustaining)* is a capital expenditure necessary to maintain existing levels of production. The sustaining capital expenditures maintain the existing mine fleet, mill and other facilities so that they function at levels consistent from year to year.
- *Capital expenditure (Growth)* is capital expended to expand the business or operations by increasing productive capacity beyond current levels of performance.
- *Growth projects* are defined as projects that are beyond the exploration stage but are pre-operational. For 2015, growth projects include Öksüt, Gatsuurt and the Greenstone Gold Property.
- *Cost of sales per ounce sold* is calculated by dividing cost of sales by gold ounces sold.
- *Average realized gold price* is calculated by dividing revenue derived from gold sales by the number of ounces sold.

**Adjusted Operating Cost, All-in Sustaining Costs and All-in Costs (including and excluding taxes) are non-GAAP measures and can be reconciled as follows:**

**(1) By operation**

**Kumtor**

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended December 31, <sup>(1)</sup>		Three months ended December 31, <sup>(1)</sup>	
	2015	2014	2015	2014
Cost of sales, as reported	\$ 367.9	\$ 444.4	\$ 112.1	\$ 171.5
Less: Non-cash component	216.8	270.0	65.2	108.5
Cost of sales, cash component	\$ 151.1	\$ 174.4	\$ 46.9	\$ 63.0
Adjust for:				
Regional office administration	15.7	20.1	3.9	6.0
Refining fees	3.3	3.3	1.0	1.7
By-product credits	(2.8)	(3.0)	(0.9)	(1.5)
Community costs related to current operations	2.2	5.1	0.7	1.2
<b>Adjusted Operating Costs</b>	<b>\$ 169.5</b>	<b>\$ 199.9</b>	<b>\$ 51.6</b>	<b>\$ 70.4</b>
Accretion expense	0.9	1.2	0.2	0.3
Capitalized stripping and ice unload	159.4	187.3	9.1	24.9
Capital expenditures (sustaining)	50.5	48.7	11.8	13.4
<b>All-in Sustaining Costs</b>	<b>\$ 380.3</b>	<b>\$ 437.1</b>	<b>\$ 72.7</b>	<b>\$ 109.0</b>
Capital expenditures (growth)	14.2	40.1	2.5	11.5
Exploration	-	(0.1)	-	-
<b>All-in Costs</b>	<b>\$ 394.5</b>	<b>\$ 477.1</b>	<b>\$ 75.2</b>	<b>\$ 120.5</b>
Revenue-based taxes and income taxes	84.6	97.2	20.2	48.5
<b>All-in Costs (including taxes)</b>	<b>\$ 479.1</b>	<b>\$ 574.3</b>	<b>\$ 95.4</b>	<b>\$ 169.0</b>
Ounces sold (000)	520.5	561	131.5	289
<b>Adjusted Operating Costs per ounce sold</b>	<b>\$ 326</b>	<b>\$ 356</b>	<b>\$ 392</b>	<b>\$ 244</b>
<b>All-in Sustaining Costs per ounce sold</b>	<b>\$ 731</b>	<b>\$ 779</b>	<b>\$ 553</b>	<b>\$ 378</b>
<b>All-in Costs per ounce sold</b>	<b>\$ 758</b>	<b>\$ 851</b>	<b>\$ 572</b>	<b>\$ 418</b>
<b>All-in Costs (including taxes) per ounce sold</b>	<b>\$ 921</b>	<b>\$ 1,024</b>	<b>\$ 725</b>	<b>\$ 585</b>

(1) Result may not add due to rounding

## **Boroo**

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended December 31, <sup>(1)</sup>		Three months ended December 31, <sup>(1)</sup>	
	2015	2014	2015	2014
Cost of sales, as reported	\$ 16.6	\$ 58.1	\$ 1.3	\$ 11.9
Less: Non-cash component	4.3	12.7	(0.4)	2.1
Cost of sales, cash component	\$ 12.3	\$ 45.4	\$ 1.7	\$ 9.8
Adjust for:				
Regional office administration	3.3	5.1	0.7	1.6
Standby costs	4.3	1.1	0.6	0.9
Refining fees	-	0.1	-	-
By-product credits	(0.1)	(0.2)	-	-
Community costs related to current operations	0.3	0.3	0.1	0.1
<b>Adjusted Operating Costs</b>	<b>\$ 20.1</b>	<b>\$ 51.8</b>	<b>\$ 3.1</b>	<b>\$ 12.4</b>
Accretion expense	0.6	0.5	0.2	0.1
Capital expenditures (sustaining)	0.1	0.3	-	-
<b>All-in Sustaining Costs</b>	<b>\$ 20.8</b>	<b>\$ 52.6</b>	<b>\$ 3.3</b>	<b>\$ 12.5</b>
<b>All-in Costs</b>	<b>\$ 20.8</b>	<b>\$ 52.6</b>	<b>\$ 3.3</b>	<b>\$ 12.5</b>
Income taxes	0.2	2.8	-	(0.5)
<b>All-in Costs (including taxes)</b>	<b>\$ 21.0</b>	<b>\$ 55.4</b>	<b>\$ 3.3</b>	<b>\$ 12.0</b>
Ounces sold (000)	16.3	54.1	3.5	11.5
<b>Adjusted Operating Costs per ounce sold</b>	<b>\$ 1,242</b>	<b>\$ 959</b>	<b>\$ 904</b>	<b>\$ 1,072</b>
<b>All-in Sustaining Costs per ounce sold</b>	<b>\$ 1,287</b>	<b>\$ 973</b>	<b>\$ 949</b>	<b>\$ 1,083</b>
<b>All-in Costs per ounce sold</b>	<b>\$ 1,287</b>	<b>\$ 973</b>	<b>\$ 949</b>	<b>\$ 1,083</b>
<b>All-in Costs (including taxes) per ounce sold</b>	<b>\$ 1,298</b>	<b>\$ 1,025</b>	<b>\$ 950</b>	<b>\$ 1,043</b>

(1) Result may not add due to rounding

## 2) Consolidated

### Centerra

<i>(unaudited)</i> (\$ millions, unless otherwise specified)	Year ended December 31, <sup>(1)</sup>		Three months ended December 31, <sup>(1)</sup>	
	2015	2014	2015	2014
Cost of sales, as reported	\$ 384.5	\$ 502.5	\$ 113.4	\$ 183.5
Less: Non-cash component	221.1	282.6	64.8	110.6
Cost of sales, cash component	\$ 163.4	\$ 219.9	\$ 48.6	\$ 72.9
Adjust for:				
Regional office administration	19.1	25.2	4.6	7.6
Standby costs	4.3	1.1	0.6	0.9
Refining fees	3.3	3.4	1.0	1.7
By-product credits	(2.8)	(3.2)	(0.9)	(1.5)
Community costs related to current operations	2.5	5.4	0.7	1.3
<b>Adjusted Operating Costs</b>	<b>\$ 189.8</b>	<b>\$ 251.8</b>	<b>\$ 54.6</b>	<b>\$ 82.9</b>
Corporate general administrative costs	35.3	34.4	7.5	10.4
Accretion expense	1.5	1.7	0.4	0.4
Capitalized stripping and ice unload	159.4	187.3	9.1	24.9
Capital expenditures (sustaining)	51.0	49.2	11.5	13.4
<b>All-in Sustaining Costs</b>	<b>\$ 437.0</b>	<b>\$ 524.4</b>	<b>\$ 83.1</b>	<b>\$ 132.0</b>
Capital expenditures (growth)	15.7	40.9	3.0	11.8
Exploration and business development	10.6	15.7	2.6	4.1
Other project costs not related to current operations	30.8	6.4	8.7	2.5
<b>All-in Costs</b>	<b>\$ 494.1</b>	<b>\$ 587.4</b>	<b>\$ 97.4</b>	<b>\$ 150.4</b>
Revenue-based taxes and income taxes	84.8	100.1	20.2	48.0
<b>All-in Costs (including taxes)</b>	<b>\$ 578.9</b>	<b>\$ 687.5</b>	<b>\$ 117.6</b>	<b>\$ 198.4</b>
Ounces sold (000)	536.8	615.2	135.1	300.4
<b>Adjusted Operating Costs per ounce sold</b>	<b>\$ 354</b>	<b>\$ 409</b>	<b>\$ 405</b>	<b>\$ 276</b>
<b>All-in Sustaining Costs per ounce sold</b>	<b>\$ 814</b>	<b>\$ 852</b>	<b>\$ 617</b>	<b>\$ 439</b>
<b>All-in Costs per ounce sold</b>	<b>\$ 921</b>	<b>\$ 955</b>	<b>\$ 722</b>	<b>\$ 501</b>
<b>All-in Costs (including taxes) per ounce sold</b>	<b>\$ 1,079</b>	<b>\$ 1,119</b>	<b>\$ 872</b>	<b>\$ 661</b>

(1) Result may not add due to rounding

**Sustaining capital, growth capital and capitalized stripping presented in the All-in measures can be reconciled as follows:**

<b>Year ended December 31,</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
(\$ millions) <i>(Unaudited)</i>				
<b>2015</b>				
Capitalized stripping –cash	159.4	-	-	159.4
Sustaining capital - cash	50.5	0.1	0.5	51.1
Growth capital - cash	14.2	-	1.5	15.7
Greenstone Gold Property pre-development capital cash	-	-	11.3	11.3
Öksüt project development capital - cash	-	-	6.1	6.1
Net decrease in accruals included in additions to PP&E	0.2	-	-	0.2
<b>Total - Additions to PP&amp;E</b>	<b>224.3</b>	<b>0.1</b>	<b>19.4</b>	<b>243.8 <sup>(1)</sup></b>
<b>2014</b>				
Capitalized stripping – cash	187.3	-	-	187.3
Sustaining capital – cash	48.7	0.3	0.2	49.2
Growth capital - cash	40.1	-	0.8	40.9
Net increase in accruals included in additions to PP&E	(1.2)	-	-	(1.2)
<b>Total - Additions to PP&amp;E</b>	<b>274.9</b>	<b>0.3</b>	<b>1.0</b>	<b>276.2 <sup>(1)</sup></b>

<b>Three months ended December 31,</b>	<b>Kumtor</b>	<b>Boroo</b>	<b>All other</b>	<b>Consolidated</b>
(\$ millions) <i>(Unaudited)</i>				
<b>2015</b>				
Capitalized stripping –cash	9.1	-	-	9.1
Sustaining capital - cash	11.8	-	-	11.8
Growth capital - cash	2.5	-	0.5	3.0
Greenstone Gold Property pre-development capital cash	-	-	2.6	2.6
Öksüt project development capital - cash	-	-	3.9	3.9
Net decrease in accruals included in additions to PP&E	1.6	-	-	1.6
<b>Total - Additions to PP&amp;E</b>	<b>25.0</b>	<b>-</b>	<b>7.0</b>	<b>32.0 <sup>(1)</sup></b>
<b>2014</b>				
Capitalized stripping – cash	24.9	-	-	24.9
Sustaining capital – cash	13.4	-	-	13.4
Growth capital - cash	11.5	-	0.2	11.7
Net decrease in accruals included in additions to PP&E	3.0	-	-	3.0
<b>Total - Additions to PP&amp;E</b>	<b>52.8</b>	<b>-</b>	<b>0.2</b>	<b>53.0 <sup>(1)</sup></b>

<sup>(1)</sup> As reported in the Company's Consolidated Statement of Cash Flows as "Investing Activities - Additions to property, plant & equipment".

## Qualified Person & QA/QC

The scientific and technical information in this MD&A, including the production estimates were prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and National Instrument 43-101 – Standards of Disclosure for Mineral Projects and were prepared, reviewed, verified and compiled by Centerra's geological and mining staff under the supervision of Mr. Gordon Reid, Professional Engineer and Centerra's Vice-President and Chief Operating Officer, who is the qualified person for the purpose of NI 43-101. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the exploration drilling programs are done consistent with industry standards and independent certified assay labs are used.

The Kumtor deposit is described in Centerra's most recently filed Annual Information Form and a technical report dated March 20, 2015, which are both filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report is prepared in accordance with NI 43-101 and describes the exploration history, geology and style of gold mineralization at the Kumtor deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Kumtor site are described in the technical report.

The Boroo deposit is described in Centerra's most recently filed Annual Information Form and a technical report dated December 17, 2009 prepared in accordance with NI 43-101, both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Boroo deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Boroo site are the same as, or similar to, those described in the technical report.

The Gatsuurt deposit is described in Centerra's most recently filed Annual Information Form and a technical report dated May 9, 2006 prepared in accordance with NI 43-101. The technical report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Gatsuurt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Gatsuurt Project are the same as, or similar to, those described in the technical report.

The Öksüt deposit is described in a technical report dated September 3, 2015 prepared in accordance with NI 43-101. The technical report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Öksüt deposit. Sample preparation, analytical techniques, laboratories used and quality assurance-quality control protocols used during the drilling programs at the Öksüt Project are the same as, or similar to, those described in the technical report.

The Hardrock deposit is described in a technical report dated March 20, 2015 prepared in accordance with NI 43-101. The technical report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The technical report describes the exploration history, geology and style of gold mineralization at the Hardrock deposit. Sample preparation, analytical techniques, laboratories used and quality

assurance-quality control protocols used during the drilling programs at the Hardrock Project are the same as, or similar to, those described in the technical report.

## **Risk Factors**

Below are the risk factors that Centerra believes can have a material effect on the profitability, future cash flow, earnings, results of operations, stated reserves and financial condition of the Company. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected, the trading price of Centerra's common shares could decline and all or part of any investment may be lost. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, results of operations, or cash flows.

You should note that the following is not, however, a complete list of the potential risks we face. Additional risks and uncertainties not currently known to us, or that are currently deemed immaterial, may also materially and adversely affect our business operations, prospects, financial condition, results of operations, or cash flows.

## **STRATEGIC**

### ***Country, Political & Regulatory***

#### **Centerra's principal operations and mineral resources are located in the Kyrgyz Republic, Mongolia and Turkey and are subject to country risk**

Mining operations and gold exploration activities are affected in varying degrees by political stability and government regulations relating to foreign investment, social unrest, corporate activity, and the mining business in the countries in which we operate, explore and develop properties. Operations may also be affected in varying degrees by terrorism, military conflict or repression, crime, extreme fluctuations in currency rates and high inflation. The relevant governments have entered into contracts with us or granted permits, licenses or concessions that enable us to conduct operations or exploration and development activities. Notwithstanding these arrangements, our ability to conduct operations or exploration and development activities is subject to obtaining and/or renewing permits or concessions, changes in laws or government regulations or shifts in political attitudes beyond our control. As disclosed elsewhere in this document, the Company has experienced, and continues to experience disputes with Kyrgyz regulatory authorities regarding land use rights, annual mine plan approvals and environmental permits.

All current gold production and our principal mineral reserves and resources are derived from assets located in the Kyrgyz Republic, Mongolia, and Turkey, countries that have experienced political difficulties in recent years including, in the case of the Kyrgyz Republic, civil unrest in April 2010 that resulted in the ouster of the incumbent President, in Mongolia, the resignation of the Prime Minister and Government in 2014 and a history of fractious governing coalitions comprised of many political parties. There continues to be a risk of future political instability in these jurisdictions.

We do not currently carry political risk insurance covering our investments in any of the countries where the Company operates. From time to time, we assess the costs and benefits of obtaining and maintaining such insurance. There can be no assurance that, if we chose to obtain it, political risk insurance would be available to us, or that particular losses we may suffer with respect to our foreign investments will be covered by any insurance that we may obtain in the future. Any such losses could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Resource nationalism could adversely impact Centerra's business**

Companies in the mining and metals sector continue to be targeted to raise government revenue, particularly as governments struggle with deficits and concerns over the effects of depressed economies. Governments are continually assessing the fiscal terms of the economic rent for mining companies to exploit resources in their countries. Numerous countries, including the Kyrgyz Republic and Mongolia, have in the past introduced changes to their respective mining regimes that reflect increased government control or participation in the mining sector, including, but not limited to, changes of laws or governmental regulations affecting foreign ownership, mandatory government participation, taxation and royalties, labour mine safety, exchange rates, exchange controls, permitting and licensing of exploration, development and production, land use restrictions, annual fees to maintain mineral properties in good standing, price controls, export controls, export and import duties, restrictions on repatriation of income or return of capital, environmental protection, as well as requirements for employment of local staff or contractors, and contributions to infrastructure and social support systems. Our operations may be affected in varying degrees by such laws and government regulations.

There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may change to discourage foreign investment; renationalization of mining industries may occur; or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that our assets will not be subject to nationalization, expropriation or confiscation, whether legitimate or not, by any authority or body. While there are often provisions for compensation and reimbursement of losses to investors under such circumstances, there is no assurance that such provisions would effectively restore the value of our original investment or that such restoration would occur within a reasonable timeframe. There also can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. Furthermore, there can be no assurance that the agreements we have with the governments of these countries will prove to be enforceable or provide adequate protection against any or all of the risks described above.

As discussed in our public disclosure, the Kumtor Project has in recent years been threatened with proposed Parliamentary decrees which would have the effect of nationalization, including decrees which instructed the Kyrgyz Republic Government to take certain actions with respect to the Kumtor Project, including, unilaterally terminating the project agreements governing the Kumtor project (the "Kumtor Project Agreements"), invalidating the legislation which provides for the tax regime set out in the Kumtor Project Agreements, confiscating land plots granting



surface rights in relation to the Kumtor Project and authorizing measures to have Kumtor Operating Company pay fines and other charges for purported violations of environmental, mining and geological and subsoil legislation. Many of these matters are still being argued before the Kyrgyz Republic courts on procedural matters and the Company continues to challenge the actions of the Government whilst reserving its rights to international arbitration which is expressly provided in the Kumtor Project Agreements.

### **Changes in, or more aggressive enforcement of, laws, regulations and government practices could adversely impact Centerra's business**

Mining operations and exploration activities are subject to extensive laws and regulations, both in the countries where mining operations and exploration and development activities are conducted and in the mining company's home jurisdiction. These relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, suppliers and contractors, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response, social responsibilities and sustainability, and other matters.

Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays, access to land, water, and power, and other effects associated with these laws and regulations may impact our decision as to whether to continue to operate existing mines, ore processing and other facilities or whether to proceed with exploration or development of properties. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations.

If the laws and regulations relating to our operations were to change, or the enforcement of such laws and regulations were to become more rigorous, we could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on our financial position and our ability to achieve operating and development targets. Changes to laws and regulations may also impact the value of our reserves.

### **Community activism may influence laws and regulations, result in increased contributory demands, or in business interruption**

Slow economic development in the countries in which the Company operates has resulted in an increase in community activism and expectations by local governments for resource companies to increase their contributions to local communities. Such activism and expectations have been intensified as a result of the commodity price boom during the 2008 to 2012 period which also increased the perception that resource companies have been taking an unfairly rich benefit from the countries' natural resources, while causing significant environmental damage. For example, Kumtor has experienced a number of roadblocks in the past resulting from the discontent of various community groups. Similarly, in Mongolia, community groups and NGOs have vigorously campaigned against foreign mining companies. The Mongolian Forest and Water Law, for example, was a response to heightened civil concern about the environmental impact of mining enterprises. Heightened global concern for the environment and water in particular, as a

result of both climate change impacts as well as following certain significant industrial accidents, has led to increased scrutiny of mining operations and a review of legislation aimed at environmental protection. There can be no assurance that the Company's operations will not be disrupted by civil action or be subject to restrictions or imposed demands that will impact future cash flows, earnings, results of operation, financial condition, and reputation.

**The Kyrgyz Government and Parliament may take actions in connection with the State Commission Report and the Parliament Decree adopted on February 21, 2013**

A State Commission was formed by the Kyrgyz Government in July 2012 for the purpose of reviewing the report of a Parliamentary Commission on Kumtor which was issued in June 2012 and which made a number of assertions regarding the operation of the Kumtor Project, including non-compliance with Kyrgyz environmental and other laws. The State Commission was also given the responsibility of inspecting and reviewing Kumtor's compliance with Kyrgyz operational and environmental laws and community standards.

The State Commission issued its own report in late December 2012 (the State Commission Report). The State Commission Report included numerous allegations in regards to prior transactions relating to the Kumtor project and its management. Reference is made to the Company's annual information form for the year ended December 31, 2012 which provides a detailed description of the State Commission Report findings.

As recommended by the State Commission Report, the Kyrgyz Government formed a working group in 2013 to, among other things, open negotiations with Centerra and Kumtor on the Kumtor Project. Following many months of negotiations with the Kyrgyz Government, a non-binding heads of agreement was entered into on December 24, 2013 and revised and re-executed on January 18, 2014. While Centerra, Kumtor and the Government of the Kyrgyz Republic and Kyrgyzaltyn were negotiating, the Government and Parliament continued to issue various decrees and take other actions recommended by the State Commission Report, including purporting to revoke Kumtor's land use rights and commencing claims against Kumtor for significant alleged environmental damages and fines, all of which are currently being argued in the Kyrgyz court system on procedural matters. As disclosed elsewhere in this document, the Government of the Kyrgyz Republic announced in December 2015 that it was withdrawing from the heads of agreement. However, the Prime Minister also stated that "the government of the Kyrgyz Republic is still deeply interested in ensuring uninterrupted operations of the Kumtor mine and achieving mutual agreements which would allow further efficient implementation of the Kumtor Project in accordance with the best world practices, standards and requirements of the mining industry transparency initiative". Despite this, the court actions commenced by Kyrgyz regulatory authorities are still in process, and there are no assurances that the Government may not attempt to implement other recommendations found in the State Commission Report.

While we believe that the findings of the Parliamentary Commission Report and the State Commission Report are without merit and that the Kumtor Project Agreements between us and the Kyrgyz Republic are legal, valid and enforceable obligations, there can be no assurance that we will be able to successfully resolve any or all of these matters currently affecting the Kumtor Project. There can also be no assurances that the Kyrgyz Republic Government and/or

Parliament will not take further actions that are inconsistent with the Kyrgyz Republic's obligations under the Kumtor Project Agreements or cancel government decrees, orders or licenses under which Kumtor currently operates. Any such actions could have a material adverse impact on our future cash flows, earnings, results of operations and financial condition.

**The purported cancellation of Kumtor's land use rights could adversely impact the Kumtor operations**

On July 5, 2012 the Kyrgyz Government purported to cancel Government Decree #168, which provided Kumtor with land use rights over the surface of the Kumtor concession area for the duration of the Restated Concession Agreement. A related land use certificate issued by the local land office was also cancelled. This action was contemplated in Government Resolution 2117-V, which was adopted in late June 2012 after the Kyrgyz Republic Parliament received the Parliamentary Commission report.

In the third quarter of 2012, we requested the issuance of a new land use certificate pursuant to the Restated Investment Agreement dated June 6, 2009 between us and the Kyrgyz Republic. Under the Restated Investment Agreement, the Kumtor Project is guaranteed all necessary access to the Kumtor concession area, including all surface lands as is necessary or desirable for the operation of the Kumtor Project. The Restated Investment Agreement also provides that the Kyrgyz Government shall use its best efforts to reserve or cancel any action that conflicts with our rights under that agreement.

Further, in November 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor's Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company's land use certificate and seize certain lands within the Kumtor concession area. As of the date of this disclosure, this matter remains before the Kyrgyz courts.

Although we believe, based on advice from Kyrgyz legal counsel, that the purported cancellation of Kumtor's land rights, invalidation of its land use certificate and seizure of lands are in violation of the Kyrgyz Republic Land Code and the Restated Investment Agreement, there can be no assurance that cancellation of Kumtor's land rights will not be upheld and enforced by the Kyrgyz Government. If Kumtor's land rights are cancelled, it could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

**The expected royalty payment for the Gatsuert Project may increase significantly beyond the control of the Company.**

The royalty structure on mineral projects in Mongolia has fluctuated in recent years. In November 2010, the Mongolian Parliament passed amendments to the Minerals Law of Mongolia that modified the existing royalty structure on mineral projects. Pursuant to the amended royalty structure, the royalty rate is no longer a fixed percentage but is graduated and dependent upon the commodity price in U.S. dollars. In the case of gold, there is a basic 5% royalty fee that applies while gold is less than \$900 per ounce. For any increase of \$100 to the price of gold, there is a corresponding 1% increase to the royalty fee. Accordingly, at \$900 per ounce, the royalty fee increases to 6%, at \$1,000 per ounce, the royalty increases to 7%, at \$1,100 per ounce, the royalty increases to 8%, and at \$1,200, the royalty increases to 9%. The highest royalty fee rate is 10% when the price of gold is \$1,300 per ounce and above. The graduated royalty became effective as of January 1, 2011 for all mining projects in Mongolia.

In January 2014 the Mongolian Parliament further amended the royalty regime (on a temporary basis) to provide for a two-tiered royalty structure, to be effective until January 1, 2019. For producers selling gold to the Bank of Mongolia, Mongolia's central bank ("BoM"), or other commercial banks authorized by the BoM, the basic royalty fee is reduced to 2.5% and the incremental royalty rate is annulled. The Company started selling gold produced at the Boroo Project in 2014 to the BoM. Gold production has now ceased for Boroo. Going forward, there are no assurances that the BoM will purchase gold produced from the Gatsuurt project. If the BoM does not wish to purchase such gold, and in any event, from January 1, 2019 onwards, the Company would be subject to the regular graduated royalty scheme which would increase the royalty from 2.5% to a rate between 5-10% depending on the price of gold. Such increase could have a significant material adverse effect on Centerra's future cash flows, earnings, results of operations, stated mineral reserves and financial conditions.

**If the environmental laws and regulations relating to the Company's operations were to change, or the enforcement of such laws and regulations were to become more rigorous, the Company could be required to incur significant capital and operating expenditures**

We are subject to environmental regulation in connection with our exploration, development and operation activities in each of the jurisdictions in which we operate. The financial and operational effects of our environmental protection requirements relate primarily to our operations in the Kyrgyz Republic, where we operate the Kumtor Project; in Mongolia, where we operated the Boroo Project (currently under care and maintenance with planned reclamation activities occurring), and have a 100% interest in the Gatsuurt, ATO and Ulaan Bulag exploration and development properties; in Turkey, where we have 100% interest in the Öksüt exploration and development property; and in Canada where we have a 50% interest in the Greenstone Gold Property. Local regulatory regimes in these jurisdictions may be influenced by increased local community concern in respect of the environmental footprint of mining operations as well as concerns over the management of water resources, and the mine closure plans.

If the environmental laws and regulations relating to our operations were to change, or the enforcement of such laws and regulations were to become more rigorous, we could be required to incur significant capital and operating expenditures to comply, which could have a material adverse effect on our future cash flows, earnings, results of operations and financial condition, our ability to develop projects further, and increase our reserves and resources.

**Centerra may not be able to successfully negotiate a deposit development agreement, community development agreement, and/or an investment agreement for Gatsuurt**

There can be no assurance that we will be able to successfully negotiate with the Government of Mongolia a mutually acceptable deposit development agreement, community development agreement, and/or an investment agreement, in all cases for the development and operation of the Gatsuurt Project. The Company is in discussions with the Government of Mongolia regarding these potential agreements. Furthermore, even if these agreements are successfully concluded with the Government of Mongolia for the Gatsuurt Project, there are no assurances that the Government will not later seek to re-negotiate its terms and conditions.

## **The Companies planned activities are dependent upon receipt of permits and licenses**

A number of approvals, licenses and permits are required for various aspects of exploration, mine development, and operations. The Company is uncertain if all necessary permits will be maintained or obtained on acceptable terms or in a timely manner. Future changes in applicable laws and regulations or changes in their enforcement or regulatory interpretation could negatively impact current or planned exploration, development and/or mining activities. Any failure to comply with applicable laws and regulations or failure to obtain or maintain permits, even if inadvertent, could result in the interruption of production, exploration or development, or material fines, penalties or other liabilities. It remains uncertain if the Company's existing permits may be affected in the future or if the Company will have difficulties in obtaining all necessary permits that it requires for its proposed or existing mining activities.

Mining operations at Kumtor are subject to various permits and licenses, some of which are obtained on an annual basis or for a fixed term. As noted elsewhere in this document, we have experienced delays in obtaining necessary permits and approvals for the Kumtor annual mine plans and certain environmental permits, including the maximum allowable discharge permit, the permit for waste and the Ecological Passport. We continue to work closely with Kyrgyz regulatory agencies in order to resolve all matters, and to ensure that we receive the permits and licenses within the time frame provided under Kyrgyz laws.

Mine development activities at Gatsuurt and Öksüt are subject to Centerra obtaining from the Government of Mongolia and the Government of Turkey (respectively) the necessary permits and commissions. There are no assurances that such Governments will grant the required permits and commissions to us in a timely manner or at all, and on terms acceptable to us.

The Company has in place plans to obtain all necessary permits and licenses for all of its operations and projects. The Company is confident in its ability to make such applications but there are no guarantees that the relevant Government regulatory authorities will respond in a timely manner. The Company's inability to obtain such permits and licenses in order to continue operations at the Kumtor project and to develop and operate the Gatsuurt Project and/or the Öksüt project could have an adverse effect on future cash flows, earnings, results of operations and financial condition.

### ***Legal and Other***

#### **Current and future litigation may impact the revenue and profits of the Company**

We may be subject to claims based on allegations of negligence, breach of statutory duty, public nuisance or private nuisance or otherwise in connection with our operations or investigations relating thereto. While we are presently unable to quantify our potential liability under any of the above categories of damage, such liability may be material to us and may materially adversely affect our ability to continue operations.

#### **Centerra's properties may be subject to defects in title**

We have investigated our rights to explore and exploit all of our material properties, and, except as described below, to the best of its knowledge, those rights are in good standing. However, no

assurance can be given that such rights will not be revoked or significantly altered to our detriment. There can also be no assurance that our rights will not be challenged or impugned by third parties, including local governments.

On July 5, 2012, the Kyrgyz Government cancelled Government Decree #168, which provided Kumtor with land use (surface) rights over the Kumtor Concession Area for the duration of the Restated Concession Agreement. At the same time, the related land use certificate issued by the local land office was also cancelled. In addition, in November 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor's Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company's land use certificate and seize certain lands within the Kumtor concession area. Based on advice from Kyrgyz legal counsel, we believe that the purported cancellation of our land use rights, invalidation of the land use certificate and seizure of lands are in violation of the Kyrgyz Republic Land Code, because the Land Code provides that land rights can only be terminated by court decision and on the listed grounds set out in the Land Code. To the extent that the land use rights are considered invalid (which we do not accept), we would seek to enforce our rights under the Restated Investment Agreement to obtain the reissuance of its land use rights, which are guaranteed pursuant to the Restated Investment Agreement.

On December 6, 2006, Gatsuurt LLC commenced arbitration before the Mongolian National Arbitration Court (MNAC) alleging non-compliance by our subsidiary, CGM, with its obligation to complete a feasibility study on the Gatsuurt property by December 31, 2005 and seeking the return of the license. We believed that Gatsuurt LLC's position was without merit. CGM challenged the MNAC's jurisdiction and the independence and impartiality of the Gatsuurt LLC nominee to the arbitration panel. We later reached an agreement with Gatsuurt LLC to terminate arbitration proceedings. Further to that agreement CGM paid \$1.5 million to Gatsuurt LLC. On signing of a definitive agreement, but subject to CGM having entered into an investment agreement with the Government of Mongolia in respect of the development of the Gatsuurt project, CGM will make a further non-refundable payment to Gatsuurt LLC in the amount of \$1.5 million. Final settlement with Gatsuurt LLC is subject to the negotiation and signing of a definitive settlement agreement.

Although we are not currently aware of any existing title uncertainties with respect to any of our properties except as discussed in the preceding paragraphs, there is no assurance that such uncertainties will not result in future losses or additional expenditures, which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra may be unable to enforce its legal rights in certain circumstances**

In the event of a dispute arising at our foreign operations, we may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. We may also be hindered or prevented from enforcing our rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

The dispute resolution provisions of: (i) the Restated Investment Agreement for the Kumtor Project and (ii) the Boroo Stability Agreement (now expired) stipulate that any dispute between the parties thereto is to be submitted to international arbitration. However, there can be no

assurance that a particular governmental entity or instrumentality will either comply with the provisions of these or any other agreements or voluntarily submit to arbitration. Our inability to enforce our rights could have an adverse effect on its future cash flows, earnings, results of operations and financial condition.

### **Centerra's largest shareholder is a state-owned entity of the Kyrgyz Government**

Our largest shareholder is Kyrgyzaltyn, which is a state-owned entity. Kyrgyzaltyn owns approximately 32% of the common shares of Centerra. Pursuant to the terms of the Restated Investment Agreement, Kyrgyzaltyn has two nominees on our board of directors. There can be no assurance that the Kyrgyz Government, through its ownership and control of Kyrgyzaltyn, will not use its influence to materially change the direction of the Company. This concentration of ownership may have the effect of delaying or preventing a change in control of Centerra, which may deprive our shareholders of a control premium that might otherwise be offered in connection with such a change of control. We are aware that Kyrgyzaltyn has in the past received inquiries regarding the potential acquisition of some or all of its common shares in the Company and the sale by Kyrgyzaltyn of its shareholdings to a third party could result in a new purchasing shareholder obtaining a considerable interest in the Company. Should Kyrgyzaltyn sell some or all of its interest in Centerra, there can be no assurance that an offer would be made to the other shareholders of Centerra or that the interests of such a shareholder would be consistent with the plans of the Company or that such a sale would not decrease the value of the common shares.

### **Artisanal mining is occurring and may continue to occur on the Gatsuurt property**

Artisanal mining is widespread in Mongolia and a significant number of artisanal miners have entered into the Gatsuurt property. We are unable to continuously monitor the full extent of the artisanal miners on the Gatsuurt property however we understand that the numbers have reached up to 200-300 artisanal miners at a single time. In addition to potential health and safety concerns for our employee and of the artisanal miners, the presence of artisanal miners could also lead to project delays and disputes regarding the development or operation of commercial gold deposits, including disputes with Mongolian governmental authorities regarding reporting of reserves and mine production. The illegal activities of these miners could also cause environmental damage (including environmental damage from the use of mercury by these miners) or other damage to our property, equipment, personal injury or death, or conflict with local communities. The Company has advised appropriate Mongolian federal and aimag (local) governments, relevant state bodies and police of the issues relating to the activities of artisanal miners and have requested their assistance to clear the Gatsuurt site. We do not support any violence or excessive use of force in encounters between Mongolian authorities and artisanal miners and have made this explicitly clear to Mongolian authorities. We will continue to work with relevant authorities in Mongolia, but to the extent that there are adverse consequences from the presence of these artisanal miners, we could potentially be held responsible and this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## **Centerra's directors may have conflicts of interest**

Certain of our directors also serve as directors and/or officers of other companies involved in natural resource exploration, development and production and consequently there exists the possibility for such directors to be in a position of conflict.

## **Centerra is subject to Anti-Corruption Legislation**

Centerra is subject to Canada's *Corruption of Foreign Public Officials Act* (the "Anti-Corruption Legislation"), which prohibits Centerra or any officer, director, employee or agent of Centerra or any shareholder of Centerra acting on its behalf from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The Anti-Corruption Legislation also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. Centerra's international activities create the risk of unauthorized payments or offers of payments by Centerra's employees, consultants or agents, even though they may not always be subject to Centerra's control. Centerra discourages these practices by its employees and agents. However, Centerra's existing safeguards and any future improvements may prove to be less than effective, and Centerra's employees, consultants and agents may engage in conduct for which Centerra might be held responsible. Any failure by us to adopt appropriate compliance procedures and ensure that Centerra's employees and agents comply with the Anti-Corruption Legislation and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on Centerra's ability to conduct business in certain foreign jurisdictions, which may have a material adverse impact on Centerra and its share price.

## ***Concentration of Assets***

While the Company has undergone asset diversification in the past several years with its Öksüt Property in Turkey and its 50% interest in the Greenstone Gold Property in Canada, its sole producing asset and one of its key development projects (Gatsuurt) are located in emerging countries of Central Asia. This represents a concentration risk for the Company. Further, certain countries in the region that neighbour the Company's countries of interest have experienced rising geopolitical risk, and there can be no assurance that such geopolitical risk will not ultimately impact the countries in which we operate, explore and develop projects.

## ***Strategy and Planning***

### **Centerra's future exploration and development activities may not be successful**

Exploration for and development of gold properties involve significant financial risks and may be subject to political risks that even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an orebody may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish mineral reserves by drilling, constructing mining and processing facilities at a site, connecting to a reliable infrastructure, developing metallurgical processes and extracting gold from ore. We cannot ensure that our current exploration and development programs will result in profitable commercial mining operations or replacement of



current production at existing mining operations with new mineral reserves. Also, substantial expenses may be incurred on exploration projects that are subsequently abandoned due to poor exploration results or the inability to define mineral reserves that can be mined economically.

Our ability to sustain or increase present levels of gold production is dependent on the successful acquisition or discovery and development of new orebodies and/or expansion of existing mining operations. The economic feasibility of development projects is based upon many factors, including the accuracy of mineral reserve estimates; metallurgical recoveries; capital and operating costs; government regulations relating to prices, taxes, royalties, land tenure, land use, water consumption, importing and exporting, environmental protection; and gold prices, which are highly volatile. Development projects are also subject to the successful completion of socio-environmental impact assessments, feasibility studies, issuance of necessary governmental permits and availability of adequate financing.

Development projects have no operating history upon which to base estimates of future cash flow. Estimates of proven and probable mineral reserves and cash operating costs are, to a large extent, based upon detailed geological and engineering analysis. We also conduct feasibility studies that derive estimates of capital and operating costs based upon many factors, including access to required infrastructure, power and water, anticipated tonnage and grades of ore to be mined and processed; the configuration of the orebody; ground and mining conditions; expected recovery rates of the gold from the ore; and anticipated environmental and regulatory compliance costs.

It is possible that actual costs and economic returns of current and new mining operations may differ materially from our best estimates. It is not unusual for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated. These uncertainties could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's mineral reserves may not be replaced**

The Kumtor Project is currently our only source of gold production. Based on the current life-of-mine plan, Kumtor will be depleted by 2023, with milling operations concluding in 2026.

If our existing mineral reserves (including mineral reserves at the Gatsuurt deposit in Mongolia and the Öksüt Project in Turkey) are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at Kumtor or through the acquisition or development of an additional producing mine, this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition, including as a result of requirements to expend funds for reclamation and decommissioning. Although we are actively engaged in programs to increase mineral reserves, there can be no assurance that these programs will be successful.

### **Centerra may experience difficulties with its partners**

Centerra is in a 50/50 partnership for the Greenstone Gold Mines property, located in Ontario, Canada, which includes the Hardrock deposit. The partnership is currently engaged in project development activities regarding the Hardrock deposit. We also have a number of partners for

exploration properties located world-wide, and may enter into additional exploration agreements in the future. We are subject to the risks normally associated with any partnership arrangements. These risks include disagreement with a partner on how to explore, develop, operate and finance a project and possible litigation between us and a partner regarding matters in the agreement. This may be particularly the case when we are not the operator on the property. These matters may have an adverse effect on our ability to pursue the projects subject to the partner, which could affect its future cash flows, earnings, results of operations and financial condition.

### **Centerra's mineral reserve and resource estimates may be imprecise**

Mineral reserve and resource figures are estimates and no assurances can be given that the indicated levels of gold will be produced or economically extracted, or that we will receive the price assumed in determining our mineral reserves. These estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates and the assumptions such estimates rely on made at a given time may significantly change when new information becomes available or conditions change. While we believe that the mineral reserve and resource estimates included are well established and reflect management's best estimates, by their nature mineral reserve and resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences that may ultimately prove unreliable.

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

No assurances can be given that any mineral resource estimate will ultimately be reclassified as proven or probable mineral reserves.

If our mineral reserve or resource figures are inaccurate or are reduced in the future, this could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's production and cost estimates may be inaccurate**

We prepare estimates of future production and future production costs for particular operations. No assurance can be given that production and cost estimates will be achieved. These production and cost estimates are based on, among other things, the following factors: the accuracy of mineral reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; metallurgical recoveries of metals from ore equipment and mechanical availability; labour availability; access to the mine, facilities and infrastructure; sufficient materials and supplies on hand; and the accuracy of estimated rates and costs of mining and processing, including environmental management costs, the cost of human and physical resources required to carry out our activities, as well as the stability of the local taxation / royalty

regime. Failure to achieve production or cost estimates, or increases in costs, could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

Our estimates on production and costs are, where applicable, based on historical costs and productivity experience. Despite this, actual production and costs may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the ore reserves, such as the need for sequential development of orebodies and the processing of new or different ore grades; risks and hazards associated with mining; natural phenomena, such as inclement weather conditions, floods, earthquakes, ice or ground movements, pit wall failures and cave-ins; equipment failures; unexpected labour shortages or strikes, and civil action; and insufficient modelling robustness. Costs of production may also be affected by a variety of factors, including: changing waste-to-ore ratios, ore grade metallurgy, labour costs, costs of supplies and services (such as, for example, fuel and power), general inflationary pressures and currency exchange rates. Failure to achieve production estimates or production cost estimates could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### *Natural Phenomena*

#### **Centerra may experience further ground movements at the Kumtor Project**

From time to time, Kumtor has experienced ground movement in various parts of the Central pit, which has, in some cases, led to an employee casualty, considerable short falls in the annual gold production, changes in mining sequences, increased expenditure on depressurization and dewatering programs, the movement of existing infrastructure and/or the redesign and construction of new infrastructure, reduced slope angles of the Central Pit, and changes in waste rock dump designs.

Although extensive efforts are employed by Centerra to prevent and anticipate further ground movement, there is no guarantee that sudden unexpected ground movements will not recur. A future ground movement could result in a significant interruption of operations. We may also experience a loss of mineral reserves or a material increase in costs, if it is necessary to redesign the open pit or waste rock dumps as a result of a ground movement. The consequences of a ground movement will depend upon the magnitude, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of mineral reserves or materially higher costs of operation, this would have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

#### **Centerra will experience further ice movement at the Kumtor Project**

Continued movement of ice from the South East Ice Wall into the Kumtor Central pit above the high grade SB Zone section requires the mining of ice and waste to maintain our planned production of ore.

During 2012, a substantial acceleration of ice movement, which was exacerbated by a 10-day illegal strike which occurred in early February 2012, required us to revise our mine plan to maintain safe access to the Kumtor Central pit. Under the new mine plan, mining of cut-back

12B, where ore for the second quarter of 2012 was to be released, was stopped to permit pre-stripping of ice and waste in the southwest portion of the pit (cut-back 14B) and unloading of ice and waste material from the High Movement Area to provide access to the southeast section of the Kumtor Central pit. The changes to the mine plan and the delayed release of ore from cut-back 12B resulted in a seven week shutdown of the Kumtor mill and required us to revise our 2012 production and cost guidance.

In February 2014, increased movement of the South arm of the Davydov glacier required the construction of a buttress to ensure continued safe mining in the open pit.

Although we are employing extensive efforts to manage further waste and ice movements, there is no guarantee that such efforts will be successful or that further waste and ice movements will not adversely affect operations at the Kumtor Project. Future movements could result in a significant interruption of operations, impede access to ore deposits, or require redeployment of mobile equipment away from mining of ore. We may also experience a loss of mineral reserves or a material increase in costs if it is necessary to redesign the open pit and surrounding infrastructure as a result of waste and ice movements. The consequences of further ice movement into the Kumtor Central pit will depend upon the extent, location and timing of any such movement. If mining operations are interrupted to a significant magnitude or the mine experiences a significant loss of mineral reserves or materially higher costs of operation, this would have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's operations and projects in the Kyrgyz Republic, Mongolia and Turkey are located in areas of seismic activity**

The areas surrounding our Kumtor, Boroo and Öksüt projects are seismically active. While the risks of seismic activity were taken into account when determining the design criteria for our operations, there can be no assurance that our operations will not be adversely affected by this kind of activity, all of which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### ***Competition***

### **Centerra's future prospects may suffer due to increased competition for mineral acquisition opportunities**

Significant and increasing competition exists for mineral acquisition opportunities throughout the world, particularly for opportunities in jurisdictions considered politically safer. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, we may be unable to acquire rights to exploit additional attractive mining properties on terms we consider acceptable. Accordingly, there can be no assurance that we will acquire any interest in additional operations that would yield mineral reserves or result in commercial mining operations. Our inability to acquire such interests could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Even if we do acquire such interests, the resulting business arrangements may not ultimately prove beneficial to our business.

## FINANCIAL

### *Commodity Market*

#### **Centerra's business is sensitive to the volatility of gold prices**

The Company's revenue is largely dependent on the world market price of gold. Gold prices are subject to volatile movements over time and are affected by numerous factors beyond our control. These factors include: global supply and demand; central bank lending, sales and purchases; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including the performance of Asia's economies.

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

#### **Centerra's operations are sensitive to fuel price volatility**

The Company is also exposed to price volatility in respect of key inputs, the most significant of which is fuel. Increases in global fuel prices can materially increase operating costs, erode operating margins and project investment returns, and potentially reduce viable reserves. Conversely, a significant and sustained decline in world oil prices may offset other costs and improve returns.

### *Currency Volatility*

#### **Currency fluctuations**

Our earnings and cash flow may also be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Kyrgyz som, the Mongolian tugrik, the Turkish lira, the Canadian dollar and the Euro. Our consolidated financial statements are expressed in U.S. dollars. Our sales of gold are denominated in U.S. dollars, while production costs and corporate administration costs are, in part, denominated in Kyrgyz soms, Mongolian tugriks, Turkish lira, Canadian dollars, Euros and other currencies. Fluctuations in exchange rates between the U.S. dollar and other currencies may give rise to foreign exchange currency exposures, both favourable and unfavourable, which may materially impact Centerra's future financial results. Although from time to time we enter into short-term forward contracts to purchase Canadian dollars and Euros, we do not utilize a hedging program to limit the adverse effects of foreign exchange rate fluctuations in other currencies. In the case of the Kyrgyz som and the Mongolian tugrik, we cannot hedge currency exchange risk because such currencies are not freely traded.

## *Economy, Credit and Liquidity*

### **Global financial conditions**

The financial crisis which began in the latter part of 2007 has resulted in global financial conditions which are characterized by continued high volatility, and financial institutions are still recovering from significant losses. Access to public financing and bank credit has been negatively impacted by the liquidity crisis as financial institutions saw their balance sheet impaired. Notwithstanding some improvement in the financial health of major financial institutions, continued concern over the pace of sustainable economic recovery in both developed and key developing nations has kept liquidity conditions constrained. Further, the significant decrease in the price of metals during 2013 along with sustained depressed prices over 2015 has affected investor interest in the sector. Global financial conditions may affect our ability to obtain equity or debt financing in the future on favourable terms. Additionally, these factors, as well as other related factors, may cause decreases in our asset values that may be other than temporary, which may result in impairment losses. These factors may also increase our exposure to financial counterparty risk. If such increased levels of volatility and market turmoil continue, or if more extensive disruptions of the global financial markets occur, our operations could be adversely impacted and the trading price of our common shares may be adversely affected.

### **Centerra may experience reduced liquidity and difficulty in obtaining future financing**

The further development and exploration of mineral properties in which we hold or acquire interests may depend upon our ability to obtain financing through earn-in arrangements, debt financing, equity financing or other means. While we recently successfully re-negotiated a five-year \$150 million revolving credit facility with the EBRD (of which \$50 million is subject to further conditions precedent for drawdown), there is no assurance that Centerra will be successful in obtaining any additional financing if required in the future.

The Company's principal operations are located in Central Asia and other markets worldwide, some of which are developing areas that may have experienced past economic and political difficulties and may be perceived as unstable. This perceived increased country or political risk may make it more difficult for us to obtain debt financing. Failure to obtain additional financing on a timely basis may cause us to postpone development plans, forfeit rights in our properties or partners or reduce or terminate our operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Restrictive covenants in Centerra's revolving credit facility may prevent the Company from pursuing business activities**

Pursuant to our Credit Facility with EBRD, we must maintain certain financial ratios and satisfy other non-financial maintenance covenants. Centerra and our material subsidiaries are also subject to other restrictive and affirmative covenants in respect of our respective operations. Compliance with these covenants and financial ratios may impair our ability to finance our future operations or capital needs or to take advantage of other favourable business opportunities. Our ability to comply with these covenants and financial ratios will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with

any of these covenants or financial ratios will result in a default under the Credit Agreement and may result in the acceleration of any indebtedness under the Credit Agreement. In the event of a default and we are unable to repay any amounts then outstanding, the lender, EBRD may be entitled to take possession of the collateral securing the Credit Facility, including certain mobile equipment used in the operations at Kumtor, to the extent required to repay those borrowings.

### ***Counterparty***

#### **Short-term investment risks**

We may, from time to time, invest excess cash balances in short-term instruments. Recent market conditions affecting certain types of short-term investments of some North American and European issuers and certain financial institutions have resulted in heightened risk in holding some of these investments. There can be no guarantee that further market disruptions affecting various short-term investments or the potential failure of financial institutions will not have a negative effect on the liquidity of our investments.

### ***Concentration Risk***

#### **As a holding company, Centerra's ability to make payments depends on the cash flows of its subsidiaries**

We are a holding company that conducts substantially all of its operations through subsidiaries, many of which are incorporated outside North America. We have no direct operations and no significant assets other than the shares of our subsidiaries. Therefore, we are dependent on the cash flows of our subsidiaries to meet our obligations, including payment of principal and interest on any debt we incur. The ability of our subsidiaries to provide the parent company with payments may be constrained by the following factors: (i) the cash flows generated by operations, investment activities and financing activities; (ii) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which they operate and in Canada; and (iii) the introduction of exchange controls and repatriation restrictions or the availability of hard currency to be repatriated. As at December 31, 2015, a significant majority of the company's cash flows were generated by its operations in the Kyrgyz Republic. In the past, the Kumtor Government has challenged the legality of certain regular-course inter-company dividends paid from KGC to its wholly owned parent company, Centerra. Such dispute relating to a dividend paid in 2013 is currently still before the Kyrgyz courts. The Company continues to refute the Government's allegations.

If we are unable to receive sufficient cash from our subsidiaries, we may be required to refinance our indebtedness, raise funds in a public or private equity or debt offering or sell some or all of our assets. We can provide no assurances that an offering of our debt or equity or a refinancing of our debt can or will be completed on satisfactory terms or that it would be sufficient to enable us to make payment with respect to our debt. The foregoing events could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## **OPERATIONAL**

### ***Health, Safety and Environment***

#### **Centerra is subject to environmental, health and safety risks**

We expend significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, “laws”) drawn from a number of different jurisdictions. We believe we are in material compliance with these laws. The historical trend that we observe is toward stricter laws, and we expect this trend to continue. The possibility of more stringent laws or more rigorous enforcement of existing laws exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining sites, restriction of areas where exploration, development and mining activities may take place, consumption and treatment of water, and other environmental matters, each of which could have a material adverse effect on our exploration activities, operations and the cost or the viability of a particular project.

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

#### **Centerra’s workforce may be exposed to widespread pandemic**

Centerra’s operations are located in areas relatively remote from local towns and villages and represent a concentration of personnel working and residing in close proximity to one another. Further, the sites receive frequent visitors from all over the world, and a number of employees travel frequently abroad. Should an employee or visitor become infected with a serious illness that has the potential to spread rapidly, this could place Centerra’s workforce at risk. The 2014 outbreak of the Ebola virus in several African countries is one example of such an illness. We take every precaution to strictly follow industrial hygiene and occupational health guidelines, and medical services are in place along with pandemic management protocols. There can be no assurance that this virus or another infectious illness will not impact Centerra personnel and ultimately its operations.

#### **The Kumtor Project is subject to significant claims of environmental damage**

Starting from December 2012, we received various claims from Kyrgyz regulatory authorities alleging significant environmental damages at the Kumtor Project which the Company refutes. Currently, four of these claims are before the Kyrgyz courts and allege damages of approximately \$473 million (at the relevant exchange rates at the time of such claims). From time to time, Kumtor also receives other claims from regulatory agencies for damages which are later withdrawn or for which court claims are not commenced. In December 2015, the Company received a claim filed by the Green Party of Kyrgyzstan filed with the Bishkek Inter-District Court which seeks damages of approximately \$5.8 billion for alleged environmental damages arising from the Kumtor operations since 1996. We understand that the court rejected the claim



on procedural grounds. In any event, the Company believes that the claim is without merit. The claim by the Green Party relates to allegations substantially similar to the other outstanding court claims for environmental damage commenced by Kyrgyz regulatory authorities, and is substantially similar to a similar claim commenced by the Green Party in 2013 which was subsequently withdrawn.

While we believe that the allegations contained in these claims are exaggerated or without foundation and are subject to the Release Agreement between Centerra and the Kyrgyz Republic dated June 6, 2009, there can be no assurance that the claims of environmental damage from such regulatory authorities or the Green Party of Kyrgyzstan will not be upheld and enforced. If such claims should be upheld and enforced against us, it could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. In addition, additional claims for alleged environmental violations may be forthcoming.

### **Centerra's operations use cyanide**

The Kumtor operations employ sodium cyanide, which is a hazardous material, to extract gold from ore. The Öksüt and Gatsuurt projects, if they proceed to production, will also use gold processing technology in which cyanide is used. There is inherent risk of unintended discharge of hazardous materials in the operation of leach pads.

If any spills or discharges of sodium cyanide were to occur (at site or during transport), we could become subject to liability for remediation costs, which could be significant and may not be insured against. In addition, production could be delayed or halted to allow for remediation, resulting in a reduction or loss of cash flow. Finally, increased sensitivity in respect to the use of cyanide and the potential and perceived environmental impacts of cyanide use in mining operations could exacerbate potential reputational damage to the company in the event of a cyanide release. While we take appropriate steps to prevent discharges and accidental releases of sodium cyanide and other hazardous materials into the ground water, surface water and the downstream environment, there is inherent risk in the operation of gold processing facilities and there can be no assurance that a release of hazardous materials will not occur.

### **There is currently a capacity shortfall of the tailings management facility at Kumtor**

The Kumtor tailings dam design is currently approved by the Kyrgyz authorities to elevation 3,670.5 metres. The dam crest is presently at elevation 3,667 metres. The dam crest is regularly raised, and Kumtor is required to apply and obtain permits from the Government from time to time to address the interim raising and construction activities. The existing facility will reach its permitted capacity (1.5 metre freeboard at a dam elevation of 3,670.5 metres) in 2020. The remaining approved capacity of the tailings management facility is insufficient to store all of the 45 million cubic metres of tailings (68.6 million tonnes of ore) to be processed in the current life-of-mine plan. To accommodate the shortfall, the Company intends to raise the existing tailings dam by approximately seven metres to a crest elevation of 3,677.5 metres, which requires approvals from relevant Kyrgyz authorities. If permitting of this option cannot be obtained, additional capital expenditures beyond those in the current capital budget for the new life-of-mine plan would have to be incurred.

While we have obtained the necessary permits and authorizations in the past in connection with tailings dam raises, there are no assurances that such permits and authorizations can be obtained

in the future or obtained in the timeframe required by us. If all necessary permits and authorizations are not obtained, delays in, or interruptions or cessation of our production from the Kumtor Project may occur, which may have an adverse impact on our future cash flows, earnings, results of operations or financial condition.

We may also be subject to liability or sustain losses in relation to certain risks and hazards against which we cannot insure or for which we may elect not to insure. The occurrence of operational risks and/or a shortfall or lack of insurance coverage could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra faces substantial decommissioning and reclamation costs**

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

### ***Asset Management***

#### **Centerra may experience mechanical breakdowns**

Our gold production operations at Kumtor use expensive, large mining and processing equipment that requires a long time to procure, build and install. Although we conduct extensive preventive maintenance programs, there can be no assurance that we will not experience mechanical breakdowns of mining and processing equipment.

In the past, we have experienced such mechanical breakdowns, which have resulted in unplanned mill shutdowns and reduced mill capacity. In addition, obtaining replacement components for the equipment can take considerable time which may also impact production.

Any extended breakdown in mining or processing equipment could have an adverse impact on our future cash flows, earnings, results of operations and financial conditions.

### ***Human Resources***

#### **Both the Kumtor Project and the Boroo Project are unionized and may be subject to labour disturbances**

Non-management employees at Kumtor and Boroo (including those in head office) are unionized and subject to collective agreements. At Kumtor, a 2-year collective bargaining agreement was approved and ratified in January 2015. At Boroo, which is currently being placed in care and maintenance, the current collective bargaining agreement is in effect until June 30, 2016. There can be no assurance that, when such agreements expire, there will not be any delays in the renewal process, that negotiations will not prove difficult or that Centerra will be able to renegotiate the collective agreement on satisfactory terms, or at all. The renewal of the collective agreement could result in higher on-going labor costs, which could have a material

adverse impact on Centerra's future cash flows, earnings, results of operations and financial condition.

Centerra could be subject to labour unrest or other labour disturbances including strikes as a result of any failure of negotiations which could, while ongoing, have a material adverse impact on Centerra, including the achievement of any annual production guidelines and costs estimates. On February 6, 2012, unionized employees at the Kumtor Project began a 10-day illegal strike, during which operations at the mine were suspended. The illegal work stoppage related to a dispute regarding social fund deductions, which resulted in higher labour costs, of approximately \$2 million (for 2012). Existing collective agreements may not prevent a strike or work stoppage, and any such work stoppage could have a material adverse impact on us.

### **Centerra's success depends on its ability to attract and retain qualified personnel**

Recruiting and retaining qualified personnel is critical to our success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As our business activity grows, it will require additional key financial, administrative and mining personnel as well as additional operations staff. The Restated Concession Agreement relating to the Kumtor operations also requires two thirds of all administrative or technical personnel to be citizens of the Kyrgyz Republic. However, it has been necessary to engage expatriate workers for our operations in Mongolia and the Kyrgyz Republic because of the shortage locally of trained personnel. Although we believe that we will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If we are not successful in attracting and training qualified personnel, the efficiency of our operations could be affected, which could have an adverse impact on our future cash flows, earnings, results of operations and financial condition. Further, the closure of Boroo operations in 2015, combined with ongoing delays in receiving necessary approvals to develop the Gatsuurt deposit and prolong operations in Mongolia has resulted in personnel departures. There is no assurance that we will be able to re-hire required personnel, should Gatsuurt proceed to development. This risk is heightened by the increased presence of new companies in the country seeking qualified personnel. Further, the increased risk associated with potential reduced company control over its Kyrgyz operation with increased control therein by the Kyrgyz Government may have an adverse effect on employee morale potentially leading to the departure of some employees.

### ***Supply Chain***

#### **Centerra's properties are located in remote locations and require a long lead time for equipment and supplies**

We operate in remote locations and depend on an uninterrupted flow of materials, supplies and services to those locations. In addition, Kumtor uses expensive and large equipment that requires a long time to procure, build and install. Access to the Kumtor Project has been restricted on several occasions by illegal roadblocks. Should the Gatsuurt deposit receive the necessary approvals for development and operation, existing milling equipment may need to be purchased to replace ageing equipment at the Boroo mill. Any interruptions to the procurement of equipment, or the flow of materials, supplies and services to our properties could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Centerra's operations may be impacted by supply chain disruptions**

Our operations depend on uninterrupted supply of key consumables, equipment and components. Our Kyrgyz operations are limited with respect to alternative suppliers of fuel, and any disruption at supplier facilities could result in curtailment or suspension of operations. In addition, major equipment and components and certain key consumables are imported. Recent and potential future economic sanctions imposed on Russia by the U.S. and European Union in 2014, may impact delivery of goods and services to the Kumtor operation. The accession of the Kyrgyz Republic to the Eurasian Economic Union may also impact Kumtor supply chains. Any disruption in the transportation of or restriction in the flow of these goods or the imposition of customs clearance requirements may result in production delays.

### ***Information Technology Systems***

#### **Centerra's critical operating systems may be compromised**

Cyber threats have evolved in severity, frequency and sophistication in recent years, and target entities are no longer primarily from the financial or retail sectors. Individuals engaging in cybercrime may target corruption of systems or data, or theft of sensitive data. While we invest in robust security systems to detect and block inappropriate or illegal access to its key systems, including SCADA operating systems at our operations, and regularly review policies, procedures and protocols to ensure data and system integrity, there can be no assurance that a critical system is not inadvertently or intentionally breached and compromised. This may result in business interruption losses, equipment damage, or loss of critical or sensitive information.

### ***Insurance***

#### **Centerra may not be adequately insured for certain risks**

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

We may also be subject to liability or sustain losses in relation to certain risks and hazards against which the Company cannot insure or for which it may elect not to insure. The occurrence of operational risks and/or a shortfall or lack of insurance coverage could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

## Caution Regarding Forward-Looking Information

Information contained in this MD&A which are not statements of historical facts, and the documents incorporated by reference herein, may be “forward-looking information” for the purposes of Canadian securities laws. Such forward-looking information involves 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 information. The words “believe”, “expect”, “anticipate”, “contemplate”, “plan”, “intends”, “continue”, “budget”, “estimate”, “may”, “will”, “schedule”, “understand” and similar expressions identify forward-looking information. These forward-looking statements relate to, among other things: the Company’s expectations regarding the release of, and related timing of, low grade and high grade ore from cut-back 17 at the Kumtor Project; expectations regarding future inventory impairments for cut-back 17 at the Kumtor Project; general economic outlook in 2016; the Company’s plans to continue working with Kyrgyz regulatory authorities for the timely receipt of all required permits for the Kumtor Project; the Company’s ability to fund all planned capital and operating expenditures of the Company for 2016 from operating cash flow for 2016; plans to keep the Boroo mill on standby awaiting the finalization of agreements and permits with the Mongolian government for the development of the Gatsuurt Project; the Company’s plans and timing to submit permit applications for the Öksüt Project and the successful receipt thereof; the timing of developing the Gatsuurt Project and first gold pour; the timing for completing a feasibility study for the Hardrock Project (of the Greenstone Property); current plans to continue holding in trust any dividends declared for Kyrgyzaltyn, in accordance with current court orders; Centerra’s plans to continue engaging constructively and in good faith with the Kyrgyz Republic Government regarding outstanding matters affecting the Kumtor Project; the Company’s understanding regarding further consideration by the Kyrgyz Republic Parliamentary of the proposed amendments to the Kyrgyz Water Code; the Company’s expectations regarding negotiating a definitive development agreement with the Mongolian Government on the Gatsuurt Project and obtaining all necessary approvals and permits for the development of the Gatsuurt Project; the intention of third parties, such as Sistem, Stans, or Belokon and Entes to initiate or continue legal proceedings; the peaceful resolution by Mongolian authorities of the presence of artisanal miners at the Gatsuurt property; and statements found under the heading, “2016 Outlook”, including forecast 2016 production and unit cost estimates, the Company’s plans in 2016 for exploration expenditures, capital expenditures at its properties, corporate administrative and community investment expenditures, and DD&A expenses for 2016.

Forward-looking information is necessarily based upon a number of estimates and assumptions that, while considered reasonable by Centerra, are inherently subject to significant political, business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking information. Factors that could cause actual results or events to differ materially from current expectations include, among other things: (A) strategic, legal, planning and other risks, including: political risks associated with the Company’s operations in the Kyrgyz Republic, Mongolia and Turkey; resource nationalism including the management of external stakeholder expectations; the impact of changes in, or to the more aggressive enforcement of, laws, regulations and government practices in the jurisdictions in which the Company operates

including any unjustified civil or criminal action against the Company, its affiliates or its current or former employees; the impact of any actions taken by the Kyrgyz Republic Government and Parliament relating to the Kumtor Project Agreements which are inconsistent with the rights of Centerra and KGC under the Kumtor Project Agreements; any impact on the purported cancellation of Kumtor's land use rights at the Kumtor Project pursuant to a court claim commenced by the Kyrgyz Republic General Prosecutor's Office; the risks related to other outstanding litigation affecting the Company's operations in the Kyrgyz Republic and elsewhere; the impact of the delay by relevant government agencies to provide required approvals and permits, including the delay currently being experienced at the Kumtor Project over the Kumtor 2016 life of mine plan and ecological passport; the terms pursuant to which the Mongolian Government will participate in, or to take a special royalty rate in, the Gatsurt Project; the impact of changes to, the increased enforcement of, environmental laws and regulations relating to the Company's operations; the impact of any sanctions imposed by Canada, the United States or other jurisdictions against various Russian individuals and entities; the ability of the Company to negotiate a successful development agreement for the Gatsurt Project; potential defects of title in the Company's properties that are not known as of the date hereof; the inability of the Company and its subsidiaries to enforce their legal rights in certain circumstances; the presence of a significant shareholder that is a state-owned company of the Kyrgyz Republic; risks related to anti-corruption legislation; risks related to the concentration of assets in Central Asia; Centerra's future exploration and development activities not being successful; Centerra not being able to replace mineral reserves; difficulties with Centerra's joint venture partners; and aboriginal claims and consultative issues relating to the Company's 50% interest in the Greenstone Gold Property; potential risks related to kidnapping or acts of terrorism; (B) risks relating to financial matters, including: sensitivity of the Company's business to the volatility of gold prices, the imprecision of the Company's mineral reserves and resources estimates and the assumptions they rely on, the accuracy of the Company's production and cost estimates, the impact of restrictive covenants in the Company's revolving credit facility which may, among other things, restrict the Company from pursuing certain business activities, the Company's ability to obtain future financing, the impact of global financial conditions, the impact of currency fluctuations, the effect of market conditions on the Company's short-term investments, the Company's ability to make payments including any payments of principal and interest on the Company's debt facilities depends on the cash flow of its subsidiaries; and (C) risks related to operational matters and geotechnical issues, including: movement of the Davidov Glacier and the waste and ice movement at the Kumtor Project and the Company's continued ability to successfully manage such matters, including the continued performance of the buttress; the occurrence of further ground movements at the Kumtor Project and mechanical availability; the success of the Company's future exploration and development activities, including the financial and political risks inherent in carrying out exploration activities; inherent risks associated with the use of sodium cyanide in the mining operations; the adequacy of the Company's insurance to mitigate operational risks; mechanical breakdowns; the Company's ability to obtain the necessary permits and authorizations to (among other things) raise the tailings dam at the Kumtor Project to the required height; the Company's ability to replace its mineral reserves; the occurrence of any labour unrest or disturbance and the ability of the Company to successfully re-negotiate collective agreements when required; the risk that Centerra's workforce may be exposed to widespread epidemic; seismic activity in the vicinity of the Company's operations; long lead times required for equipment and supplies given the remote location of some of the

Company's operating properties; reliance on a limited number of suppliers for certain consumables, equipment and components; illegal mining on the Company's Mongolian properties; the Company's ability to accurately predict decommissioning and reclamation costs; the Company's ability to attract and retain qualified personnel; competition for mineral acquisition opportunities; and risks associated with the conduct of joint ventures/partnerships, including the Greenstone Gold Partnership; the Company's ability to manage its projects effectively and to mitigate the potential lack of availability of contractors, budget and timing overruns and project resources. See section titled "Risk Factors" above and in the Company's most recently filed Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com).

Furthermore, market price fluctuations in gold, as well as increased capital or production costs or reduced recovery rates may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. Economic and technological factors which may change over time always influence the evaluation of reserves or resources. Centerra has not adjusted mineral resource figures in consideration of these risks and, therefore, Centerra can give no assurances that any mineral resource estimate will ultimately be reclassified as proven and probable reserves.

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

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially, from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained herein or incorporated by reference. Accordingly, all such factors should be considered carefully when making decisions with respect to Centerra, and prospective investors should not place undue reliance on forward looking information. Forward-looking information is as of February 24, 2016. Centerra assumes no obligation to update or revise forward looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

**Centerra Gold Inc.**

**Consolidated Financial Statements**

**For the Years Ended December 31, 2015 and 2014**

**(Expressed in thousands of United States Dollars)**



## Report of Management's Accountability

The Consolidated Financial Statements have been prepared by the management of the Company. Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the Consolidated Financial Statements involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 3 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and checks to see if the controls are operating as designed. The system of internal controls includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal controls on financial reporting and disclosure controls have been documented, evaluated and tested in a manner consistent with National Instrument 52-109.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the Company's shareholders. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. KPMG LLP's report outlines the scope of their examination and their opinion.

The Company's Directors, through its Audit Committee, are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors, and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting.

The Company's Chief Executive Officer and the Company's Vice President and Chief Financial Officer have evaluated the design and operating effectiveness of related disclosure controls and procedures and internal controls over financial reporting based on criteria established in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Original signed by:*  
Scott G. Perry  
*Chief Executive Officer*

*Original signed by:*  
Jeffrey S. Parr  
*Vice President and Chief Financial Officer*

February 24, 2016

## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders of Centerra Gold Inc.**

We have audited the accompanying consolidated financial statements of Centerra Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of earnings (loss) and comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Centerra Gold Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Original Signed by:**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 24, 2016

**Centerra Gold Inc.**  
**Consolidated Statements of Financial Position**

<b>(Expressed in Thousands of United States Dollars)</b>	<b>Notes</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 360,613	\$ 300,514
Short-term investments		181,613	261,503
Amounts receivable	8	28,781	66,214
Inventories	9	347,011	408,050
Prepaid expenses	10	12,880	12,888
		<u>930,898</u>	<u>1,049,169</u>
Property, plant and equipment	11	693,016	524,699
Goodwill	12	-	18,705
Restricted cash	7	9,989	12,437
Other assets	13	26,681	24,072
		<u>729,686</u>	<u>579,913</u>
<b>Total assets</b>		<u>\$ 1,660,584</u>	<u>\$ 1,629,082</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	14	\$ 75,292	\$ 45,883
Short-term debt	15	76,000	76,000
Revenue-based taxes payable	16(a)	9,152	24,605
Taxes payable	16(d)	1,286	1,515
Current portion of provision for reclamation	17	1,062	2,598
		<u>162,792</u>	<u>150,601</u>
Dividend payable to related party	27(a)	9,330	12,254
Provision for reclamation	17	65,087	65,318
Deferred income tax liability	16(c)	2,524	2,266
		<u>76,941</u>	<u>79,838</u>
<b>Shareholders' equity</b>	25		
Share capital		668,705	660,554
Contributed surplus		24,153	22,556
Accumulated other comprehensive income		220	-
Retained earnings		727,773	715,533
		<u>1,420,851</u>	<u>1,398,643</u>
<b>Total liabilities and Shareholders' equity</b>		<u>\$ 1,660,584</u>	<u>\$ 1,629,082</u>

Commitments and contingencies (note 26)

Subsequent events (note 15 and 32)

The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board of Directors

Original signed by:

Stephen Lang  
Chairman

Richard Connor  
Director

**Centerra Gold Inc.**  
**Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)**

<b>For the years ended December 31,</b>		<b>2015</b>	<b>2014</b>
<b>(Expressed in Thousands of United States Dollars)</b>			
<b>(except per share amounts)</b>			
	<b>Notes</b>		
<b>Revenue from gold sales</b>		<b>\$ 623,950</b>	<b>\$ 763,345</b>
Cost of sales	<b>18</b>	<b>384,459</b>	502,577
Standby costs		<b>5,684</b>	2,385
Regional office administration		<b>19,068</b>	25,189
<b>Earnings from mine operations</b>		<b>214,739</b>	<b>233,194</b>
Revenue-based taxes	<b>16(a)</b>	<b>84,633</b>	97,243
Other operating expenses	<b>19</b>	<b>1,870</b>	3,832
Pre-development project costs	<b>20</b>	<b>13,252</b>	6,022
Impairment of goodwill	<b>12</b>	<b>18,705</b>	111,000
Exploration and business development	<b>21</b>	<b>10,619</b>	15,724
Corporate administration	<b>22</b>	<b>35,781</b>	34,759
<b>Earnings (loss) from operations</b>		<b>49,879</b>	<b>(35,386)</b>
Other expenses, net	<b>23</b>	<b>3,375</b>	1,184
Finance costs	<b>24</b>	<b>4,426</b>	4,962
<b>Earnings (loss) before income tax</b>		<b>42,078</b>	<b>(41,532)</b>
Income tax expense	<b>16(b)</b>	<b>449</b>	2,577
<b>Net earnings (loss)</b>		<b>\$ 41,629</b>	<b>\$ (44,109)</b>
<b>Other Comprehensive Income (Loss)</b>			
<b>Items that may be subsequently reclassified to earnings:</b>			
Net gain on translation of foreign operation		<b>220</b>	-
<b>Other comprehensive income</b>		<b>220</b>	-
<b>Total comprehensive income (loss)</b>		<b>\$ 41,849</b>	<b>\$ (44,109)</b>
<b>Basic earnings (loss) per common share</b>	25(b)	<b>\$ 0.18</b>	<b>\$ (0.19)</b>
<b>Diluted earnings (loss) per common share</b>	25(b)	<b>\$ 0.18</b>	<b>\$ (0.19)</b>

The accompanying notes form an integral part of these consolidated financial statements.

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

<b>For the years ended December 31,</b>		<b>2015</b>	<b>2014</b>
<b>(Expressed in Thousands of United States Dollars)</b>	<b>Notes</b>		
<b>Operating activities</b>			
Net earnings (loss)		\$ 41,629	\$ (44,109)
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	11	205,390	284,281
Finance costs	24	4,426	4,962
Loss on disposal of equipment		1,972	1,138
Compensation expense on stock options	25(d)	2,611	2,469
Other share based compensation expense		828	7,539
Impairment of goodwill	12	18,705	111,000
Impairment of inventory	9	27,216	-
Income tax expense	16(b)	449	2,577
Other operating items		(861)	(548)
		<u>302,365</u>	<u>369,309</u>
Change in operating working capital	31(a)	32,532	(3,101)
Change in long-term inventory		349	4,880
Prepaid revenue-based taxes utilized	16(a)	-	10,000
Payments toward provision for reclamation	17	(1,004)	(1,085)
Income taxes paid		(676)	(3,608)
<b>Cash provided by operations</b>		<u><b>333,566</b></u>	<u><b>376,395</b></u>
<b>Investing activities</b>			
Additions to property, plant and equipment	31(b)	(243,767)	(276,282)
Net redemption (purchase) of short-term investments		79,890	(103,145)
Purchase of interest in Greenstone Partnership	11	(75,718)	-
Decrease (increase) in restricted cash		2,448	(1,706)
Increase in long-term other assets		(2,958)	(3,447)
<b>Cash used in investing</b>		<u><b>(240,105)</b></u>	<u><b>(384,580)</b></u>
<b>Financing activities</b>			
Dividends paid - declared in period		(29,389)	(31,499)
Dividends paid - from trust account		(2,936)	-
Payment of interest and borrowing costs		(2,974)	(2,910)
Proceeds from common shares issued for options exercised		1,937	-
<b>Cash used in financing</b>		<u><b>(33,362)</b></u>	<u><b>(34,409)</b></u>
Increase (decrease) in cash during the year		<u><b>60,099</b></u>	<u><b>(42,594)</b></u>
Cash and cash equivalents at beginning of the year		<u><b>300,514</b></u>	<u><b>343,108</b></u>
<b>Cash and cash equivalents at end of the year</b>		<u><b>\$ 360,613</b></u>	<u><b>\$ 300,514</b></u>
<b>Cash and cash equivalents consist of:</b>			
Cash		\$ 122,581	\$ 85,097
Cash equivalents		<u>238,032</u>	<u>215,417</u>
		<u><b>\$ 360,613</b></u>	<u><b>\$ 300,514</b></u>

The accompanying notes form an integral part of these consolidated financial statements.

**Centerra Gold Inc.**  
**Consolidated Statements of Shareholders' Equity**

(Expressed in Thousands of United States Dollars, except share information)

	Number of Common Shares	Share Capital Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
<b>Balance at January 1, 2014</b>	236,390,219	\$ 660,486	\$ 20,087	\$ -	\$ 793,737	\$ 1,474,310
Share-based compensation expense	-	-	2,469	-	-	2,469
Shares issued on redemption of restricted share units	13,739	68	-	-	-	68
Dividends declared (note 25(c))	-	-	-	-	(34,095)	(34,095)
Net loss for the year	-	-	-	-	(44,109)	(44,109)
<b>Balance at December 31, 2014</b>	236,403,958	\$ 660,554	\$ 22,556	\$ -	\$ 715,533	\$ 1,398,643
Share-based compensation expense	-	-	2,611	-	-	2,611
Shares issued on exercise of stock options	461,697	2,951	(1,014)	-	-	1,937
Shares issued on redemption of restricted share units	61,077	340	-	-	-	340
Purchase of Öksüt royalty (note 25(a))	962,542	4,860	-	-	-	4,860
Dividends declared (note 25(c))	-	-	-	-	(29,389)	(29,389)
Foreign currency translation	-	-	-	220	-	220
Net earnings for the year	-	-	-	-	41,629	41,629
<b>Balance at December 31, 2015</b>	237,889,274	\$ 668,705	\$ 24,153	\$ 220	\$ 727,773	\$ 1,420,851

The accompanying notes form an integral part of these consolidated financial statements.

**Centerra Gold Inc.**

**Notes to the Consolidated Financial Statements**

**For the years ended 2015 and 2014**

(Expressed in thousands of United States Dollars, except where otherwise indicated)

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**1. Nature of operations**

Centerra Gold Inc. (“Centerra” or the “Company”) was incorporated under the *Canada Business Corporations Act* on November 7, 2002. Centerra’s common shares are listed on the Toronto Stock Exchange. The Company is domiciled in Canada and the registered office is located at 1 University Avenue, Suite 1500, Toronto, Ontario, M5J 2P1. The Company is engaged in the production of gold and related activities including exploration, development, mining and processing primarily in the Kyrgyz Republic, Mongolia, Turkey and Canada.

**2. Basis of presentation**

The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

These financial statements were authorized for issuance by the Board of Directors of the Company on February 24, 2016.

These consolidated financial statements have been prepared under the historical cost basis, except for cash and cash equivalents, short-term investments, reclamation trust fund and restricted cash (measured at fair value), inventories (measured at the lower of cost or net realizable value (“NRV”)) and liabilities for cash settled share-based compensation (measured at fair value).

These financial statements are presented in U.S. dollars with all amounts rounded to the nearest thousand, except for share and per share data, or as otherwise noted.

**3. Summary of significant accounting policies**

The significant accounting policies summarized below have been applied consistently to all periods presented in these consolidated financial statements.

***a. Consolidation principles***

These consolidated financial statements include the accounts of Centerra and its subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases.

Inter-company transactions between subsidiaries are eliminated on consolidation.

**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

(Expressed in thousands of United States Dollars, except where otherwise indicated)

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Centerra's significant subsidiaries are as follows:

<u>Entity</u>	<u>Property - Location</u>	<u>Stage of Mine</u>	<u>2015</u>	<u>2014</u>
Kumtor Gold Company ("KGC")	Kumtor Mine - Kyrgyz Republic	Operation	100%	100%
Boroo Gold LLC ("BGC")	Boroo Mine - Mongolia	Care and Maintenance	100%	100%
Centerra Gold Mongolia LLC	Gatsuurt Project - Mongolia	Development	100%	100%
Centerra Gold Mongolia LLC	Altan Tsagaan Ovoo ("ATO") Property - Mongolia	Exploration	100%	100%
Öksüt Madencilik A.S. ("OMAS")	Öksüt Project - Turkey	Development	100%	100%
Greenstone Gold Mines LP ("Greenstone Partnership")	Greenstone Gold Property - Canada	Pre-development	50%	0%

As at December 31, 2015, the Company has also entered into agreements to earn an interest in joint venture exploration properties located in Portugal, Canada, United States of America, Mexico and Nicaragua.

***b. Foreign currency***

The functional currency of the Company and its subsidiaries is the U.S. dollar, which is also the presentation currency of the consolidated financial statements. The functional and reporting currency of the Greenstone Partnership is the Canadian dollar ("Cdn\$"), which results in translation gains (losses) being recorded as part of Other Comprehensive Income in the Statements of Earnings (Loss) and Comprehensive Income (Loss) ("Statements of Earnings").

Foreign currency transactions are translated into the entity's functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statements of Earnings. Non-monetary assets and liabilities, arising from transactions denominated in foreign currencies, are translated at the historical exchange rates prevailing at each transaction date.

***c. Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of 90 days or less. Cash and cash equivalents are classified as financial instruments carried at fair value through profit or loss.



**Centerra Gold Inc.**

**Notes to the Consolidated Financial Statements**

**For the years ended 2015 and 2014**

(Expressed in thousands of United States Dollars, except where otherwise indicated)

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*d. Restricted cash*

Cash which is subject to legal or contractual restrictions on its use is classified separately as restricted cash.

*e. Short-term investments*

Short-term investments consist of marketable securities with original maturities of more than 90 days but no longer than 12 months, from the date of purchase. Short-term investments consist mostly of U.S. federal, Canadian federal and provincial government treasury bills and notes, agency notes, foreign sovereign issues, term deposits, bankers' acceptances, bearer deposit notes, and highly-rated, highly-liquid corporate direct credit. Short-term investments are classified as financial instruments carried at fair value through profit or loss.

*f. Inventories*

Inventories of stockpiled ore, heap leach ore, in-circuit gold, heap leach gold in-circuit and gold doré are valued at the lower of average production cost and NRV, based on contained ounces of gold. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, mine-site overhead expenses and depreciation, depletion and amortization of mining assets.

Stockpiled and heap leach ore are ore that has been extracted from the mine and is available for further processing. Costs are added to the cost of stockpiles based on the current mining cost per ounce mined and removed at the average cost per ounce of the stockpiled ore. Costs are added to the costs of ore on the heap leach pads based on average cost per ounce of stockpiled ore plus additional costs incurred to place ore on the heap leach pad. Costs of ore on the heap leach pads are transferred to in-circuit inventories as ounces are recovered based on the average cost per recoverable ounce of gold on the leach pad. Ore in stockpiles and heap leach ore not expected to be processed in the next twelve months are classified as long-term.

In-circuit inventories represent materials that are in the process of being converted to gold doré. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to NRV are accounted for on a prospective basis.

When inventories are sold, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. Any write-down of inventories to NRV or reversals of previous write-downs are recognized in income in the period that the write-down or reversal occurs. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to sell.

Consumable supplies and spare parts are valued at the lower of weighted-average cost and NRV, which approximates replacement cost. Replacement cost includes expenditures incurred to

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acquire the inventories and bring them to their existing location and condition. Any provision for obsolescence is determined by reference to specific stock items identified as obsolete. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

***g. Property, plant and equipment***

*i. General*

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Major overhaul expenditures and the cost of replacement of a component of plant and mobile equipment are capitalized and depreciated over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of mobile equipment are charged to the cost of production.

Directly attributable costs, including capitalized borrowing costs, incurred for major capital projects and site preparation are capitalized until the asset is in a location and condition necessary for operation as intended by management. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Management annually reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment and also when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

An item of property, plant and equipment is de-recognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between any proceeds received and the carrying amount of the asset) is included in the Statements of Earnings in the year the asset is de-recognized.

*ii. Exploration, evaluation and pre-development expenditure*

All exploration and evaluation expenditures of the Company within an area of interest are expensed until management and board of directors concludes that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable. In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource is considered. Once a project has been established as commercially viable and technically feasible, and

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approval is received from the Board of Directors, further expenditures are capitalized as development costs.

Exploration and evaluation assets acquired are initially recognized at fair value as exploration rights within tangible assets.

*iii. Development properties (underground and open pit)*

A property, either open pit or underground, is classified as a development property when a mine plan has been prepared and a decision is made to commercially develop the property. Development expenditures are accumulated separately for each area of interest for which economically recoverable mineral reserves and resources have been identified.

All expenditures incurred prior to the commencement of commercial levels of production from each development property are capitalized. In addition, capitalized costs are assessed for impairment when there is an indicator of impairment.

Development properties are not depleted until they are reclassified as mine property assets following the achievement of commercial levels of production.

*iv. Mine properties*

All direct costs related to the acquisition of mineral property interests are capitalized at the date of acquisition.

After a mine property has been brought into commercial production, costs of any additional mining, in-pit drilling and related work on that property are expensed as incurred. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production, including the stripping of waste material, are capitalized and then depleted on a unit-of-production basis.

*v. Deferred stripping costs*

Stripping costs incurred in the production phase of a mining operation are accounted for as production costs and are included in the costs of inventory produced. Stripping activity that improves access to ore in future periods is accounted for as an addition to or enhancement of an existing asset. The Company recognizes stripping activity assets when the following three criteria are met:

- it is probable that the future economic benefit associated with the stripping activity will flow to the Company;

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- the Company can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably by the Company.

Stripping activity assets are depleted on a unit-of-production basis in subsequent periods over the proven and probable reserves to which they relate.

*vi. Depreciation and depletion*

Buildings, plant and equipment used in production and mineral properties are depreciated or depleted using the unit-of-production method over proven and probable ore reserves, or if their estimated useful lives are shorter, on a straight-line basis over the useful lives of the particular assets. Under this process, depreciation commences when the ore is extracted from the ground. The depreciation charge is allocated to inventory throughout the production process from the point at which ore is extracted from the pit until the ore is processed into its final form, gold doré. Where a change in estimated recoverable gold ounces contained in proven and probable ore reserves is made, adjustments to depreciation are accounted for prospectively.

Mobile equipment and other assets, such as offsite roads, buildings, office furniture and equipment are depreciated using the straight-line method based on estimated useful lives which range from two years to seven years, but do not exceed the related estimated mine life based on proven and probable ore reserves.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are depreciated separately but are grouped for disclosure purposes as property, plant and equipment.

***h. Goodwill***

Goodwill represents the difference between the sum of the cost of a business acquisition and the fair value of the identifiable net assets acquired. Subsequently, goodwill is measured at cost less accumulated impairment losses and is not amortized.

Goodwill, upon acquisition, is allocated to the cash-generating units (“CGU”) expected to benefit from the related business combination. A CGU, in accordance with IAS 36, *Impairment of Assets*, is identified as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets.

The Company evaluates, on at least an annual basis, the carrying amount of a CGU to which goodwill is allocated, for potential impairment.

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*i. Impairment*

Long term assets, including goodwill, are reviewed for impairment if there is any indication that the carrying amount may be impaired. In addition, goodwill is tested for impairment annually on September 1. Impairment is assessed for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or groups of assets, in which case, the individual assets are grouped together into CGUs for impairment testing purposes.

To accomplish this impairment testing, the Company compares the recoverable amount (which is the greater of value-in-use and fair value less costs of disposal (“FVLCD”) of the CGU) to its carrying amount. If the carrying amount of a CGU exceeds its recoverable amount, the Company first applies the difference to reduce goodwill and then any further excess is applied to the CGU’s other long-lived assets. Assumptions, such as gold price, discount rate, and expenditures underlying the estimate of recoverable value are subject to risks and uncertainties.

The best evidence of FVLCD is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCD is based on the best information available to reflect the amount the Company could receive for the CGU in an arm’s length transaction, which the Company typically estimates using discounted cash flow techniques. Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans.

Expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction.

The mine plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company’s cash flow forecasts are based on estimates of future commodity prices which are derived through the analysis of gold forward prices and by considering the average of the most recent market commodity price forecasts consensus from a number of recognized financial analysts. These assessments can differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent a real after tax discount rate based on the Company’s estimated weighted-average cost of capital adjusted for the risks specific to the CGU. The Company’s weighted-average cost of capital is used as a starting point for determining the discount rates, with appropriate adjustments for the risk profile of the countries in which the individual CGUs operate.

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For value-in-use, recent cost levels are considered together with expected changes in costs that are compatible with the current condition of the business. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, sustaining capital expenditure, closure, restoration and environmental clean-up.

An impairment loss is recognized for any excess of carrying amount over the recoverable amount.

***j. Income taxes***

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in the Statement of Earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the group Company, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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***k. Provisions***

Provisions are recorded when a legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the amount required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of cash flows estimated to settle the present obligation.

***l. Asset retirement and reclamation obligations***

Asset retirement and reclamation costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated asset retirement and reclamation costs are provided in the accounting period when the obligation arising from the related disturbance occurs based on the net present value of estimated future costs.

Provision for asset retirement and reclamation costs recognized is estimated based on the risk-adjusted costs required to settle present obligations, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows.

Asset retirement and reclamation obligations relating to operating mines and development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties. Changes to the obligations which may arise as a result of changes in discount rates and timing or amounts of the costs to be incurred are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the amount capitalized, in which case the capitalized costs are reduced to nil and the remaining adjustment is included in production costs in the Statements of Earnings. Asset retirement and reclamation obligations related to inactive and closed mines are included in production costs in the Statements of Earnings on initial recognition and subsequently when remeasured.

***m. Earnings per share***

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) applicable to common shares, after adjusting for the effect of performance share units as though they were accounted for as an equity instrument, by the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents such as stock options and restricted share units. Diluted net earnings (loss) per share is calculated using the

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treasury method, where the exercise of stock options and restricted share units are assumed to be at the beginning of the period, the proceeds from the exercise of stock options and restricted share units and the amount of compensation expense measured but not yet recognized in income are assumed to be used to purchase common shares of the Company at the average market price during the period. The incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings (loss) per share computation.

***n. Revenue recognition***

Revenue associated with the sale of gold is recognized when all significant risks and rewards of ownership are transferred to the customer and the amount of revenue can be measured reliably. Usually the transfer of risks and rewards associated with ownership occurs when the customer has taken delivery and the consideration is received, or to be received.

***o. Share-based compensation***

The Company has four share-based compensation plans: the Stock Option plan, Performance Share Unit plan, Deferred Share Unit plan, and Restricted Share Unit plan.

*i. Stock Option plan*

Stock options are equity-settled share-based compensation awards. The fair value of stock options at the grant date is estimated using the Black-Scholes option pricing model. Compensation expense is recognized over the stock option vesting period based on the number of units estimated to vest. This expense is recognized as share-based compensation expense with a corresponding increase in contributed surplus. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to common shares.

*ii. Performance Share Unit plan*

Units under Centerra's Performance Share Unit plan, performance share units can be granted to 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 open market. Performance share units are accounted for under the liability method using the Monte Carlo simulated option pricing model and vest 50% at the end of the year after grant and the remaining 50% the following year. Under this method, a portion of the fair value of the performance share units is recognized at each reporting period based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each series granted. The cash paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation. The Monte Carlo simulated option pricing model requires the use of subjective assumptions,



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including expected stock-price volatility, risk-free rate of return and forfeiture rate. Historical data is considered in setting the assumptions.

The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0 to 2.0. Therefore, the number of units that will vest and be paid out may be higher or lower than the number of units originally granted to a participant. The adjustment factor is based on Centerra's total return performance (based on the preceding sixty-one trading days volume weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The fair value of the fully vested units is determined using the sixty-one trading days volume weighted average share price.

*iii. Deferred Share Unit plan*

Centerra has a Deferred Share Unit plan for directors of the Company to receive all or a portion of their annual retainer as deferred share units. Deferred share units are settled in cash and are accounted for under the liability method. The deferred share units cannot be converted to shares by the unit holder or by the Company. The deferred share units vest immediately upon granting. A liability is recorded at grant date equal to the fair value of the deferred share units. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid to eligible members of the Board of Directors on exercise of these deferred share units, being no later than December 31 of the calendar year immediately following the calendar year of termination of service, is recorded as a reduction of the accrued obligation.

*iv. Restricted Share Unit plan*

Centerra has a Restricted Share Unit plan for non-executive directors and designated employees of the Company to receive all or a portion of their annual retainer and salaries as restricted share units. Restricted share units can be settled in cash or equity at the option of the holder (the plan reserves 1,000,000 shares for issuance). The restricted share units vest immediately upon grant and are redeemed on a date chosen by the participant (subject to certain restrictions as set out in the plan). The units granted are accounted for under the liability method whereby a liability is recorded at grant date equal to the fair value of the restricted share unit. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid or common shares issued on exercise of these restricted share units is recorded as a reduction of the accrued obligation.

When dividends are paid, each Performance Share Unit plan, Deferred Share Unit plan, and Restricted Share Unit plan participant is allocated additional units equal in value to the dividend paid per common share equal to the number of units held by the participant. For performance

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share units, the number of units issued is based on the sixty-one trading days volume weighted average share price on the date of the dividend.

**p. Financial instruments**

*Financial assets*

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. Where, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for-sale category.

*i. Financial assets recorded at fair value through profit or loss*

Financial assets are classified at fair value if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in the Statement of Earnings.

The Company's cash and cash equivalents, restricted cash, reclamation trust fund and short-term investments are classified as financial assets measured at fair value through profit or loss.

*ii. Loans and receivables*

The Company's amounts receivable and long-term receivables are classified as loans and receivables. A provision is recorded when the estimated recoverable amount of the loan or receivable is lower than the carrying amount. The carrying values of amounts receivable and long-term receivables approximate their fair values.

*Financial liabilities*

All financial liabilities are initially recognized at their fair value and designated upon inception as either financial liabilities measured at fair value through profit or loss or other financial liabilities.

*i. Financial liabilities at fair value through profit or loss*

Financial liabilities classified as fair value through profit or loss include financial liabilities designated as held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss financial liability. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in the Statements of Earnings.

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The Company's liability for share-based compensation is classified as financial liabilities at fair value through profit or loss.

From time to time, the Company may utilize forward foreign exchange contracts to economically hedge certain anticipated cash flows. Furthermore, the Company may enter into "good until cancelled" contracts to sell gold at a specific price; these are short-term contracts that are normally closed before the end of the reporting date. These contracts are classified and accounted for as instruments held-for-trading because they have not been designated as hedges for accounting purpose. The contracts are recorded at fair value at the reporting date with the resulting gain or loss recognized in the Statements of Earnings.

*ii. Other financial liabilities*

Borrowings and other financial liabilities, excluding derivative liabilities, are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Borrowings and other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the Consolidated Statement of Financial Position ("Statement of Financial Position").

The Company's trade creditors and accruals, dividend payable, revenue-based taxes payable and short-term debt are classified as other financial liabilities.

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

**4. Critical Accounting Estimates and Judgments**

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of the Company's accounting policies, which are described in note 3, the reported amounts of assets and liabilities and disclosure of commitments and contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

Management's estimates and underlying assumptions are reviewed on an ongoing basis. Any changes or revisions to estimates and underlying assumptions are recognized in the period in which the estimates are revised and in any future periods affected.

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The key sources of estimation uncertainty and judgments used in the preparation of these consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are discussed below:

**i. Impairment of long-term assets and goodwill**

The Company considers both external and internal sources of information in assessing whether there are any indications that long-term assets and goodwill are impaired. External sources of information that the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amounts of long-term assets and goodwill. Internal sources of information that the Company considers include the manner in which long-term assets are being used or are expected to be used and indications of economic performance of the assets.

For the purposes of determining whether an impairment of assets, including goodwill, has occurred, and the amount of any impairment or its reversal, management uses key assumptions in estimating the recoverable value of a CGU which is calculated as the higher of the CGU's value-in-use and FVLCD.

Expected gold production levels, which comprise proven and probable reserves and an estimated recoverable amount of resources, are used to estimate expected future cash flows. Management also estimates future operating and capital costs based on the most recently approved life of mine plan. The discount rate applied is reviewed for each assessment. Changes in these estimates which decrease the estimated recoverable amount of the CGU could affect the carrying amounts of assets and result in an impairment charge.

While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the recoverable amount of the CGU. See note 12 for additional information on the basis for management's estimates.

**ii. Inventories of stockpiled ore, in-circuit and gold doré**

Management makes estimates of recoverable quantities of gold in stockpiled ore, ore stacked on heap leach pads and in process to determine the average costs of finished goods sold during the period and the value of inventories in Statements of Financial Position. NRV tests are performed at each reporting period based on the estimated future sales price of the gold doré, based on prevailing gold prices, less estimated costs to complete production and bring the gold to selling condition.

The recoverable quantity of ore on stockpiles is estimated based on tonnage added and removed from the stockpiles, the amount of contained gold ounces based on assay data, and the estimated

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recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled ore tonnage is verified by periodic surveys.

Estimates of the recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads based on tonnage added to the leach pads, the grade of ore placed on the leach pads based on assay data and a recovery percentage based on metallurgical testing and ore type.

Although the quantities of recoverable metal are reconciled by comparing the grades of ore to the quantities of gold actually recovered, the nature of the process inherently limits the ability to precisely monitor recoverability levels. As a result, the metallurgical reconciliation process is constantly monitored and engineering estimates are refined based on actual results over time.

**iii. Asset retirement obligations**

Amounts recorded for asset retirement obligations and the related accretion expense require the use of estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mine site, as well as the timing of the reclamation activities and estimated discount rate. The Company assesses and revises its asset retirement obligations on an annual basis or when new material information becomes available. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation costs.

A change in any or a combination of the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions (note 17). Changes to the estimated future reclamation costs for operating sites are recognized in the Statement of Financial Position by adjusting both the retirement asset and provision, and will impact earnings as these amounts are depleted and accreted over the life of the mine.

**iv. Deferred income taxes**

The Company operates in a number of tax jurisdictions and is therefore required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, the Company considers factors such as tax rates in the different jurisdictions, non-deductible expenses, changes in tax law, and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effects of these temporary differences are recorded as deferred tax assets or liabilities in the financial statements.

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The Company does not recognize deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates, adjustments are made in future periods in these estimates, and changes in the amount of the deferred tax assets recognized may be required, which could materially impact the financial position and the income for the period.

**v. Share-based compensation**

Cash-settled share-based payments are measured at fair value at each reporting period, while equity-settled share-based payments are measured at grant date. The fair value determined using the Black-Scholes option pricing model or Monte Carlo simulation model, is based on significant assumptions such as volatility, expected life, expected dividends, risk-free interest rate and expected forfeiture rates. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability of the instruments and employees' performance.

A change in any or a combination of the key assumptions used to determine the fair value of the issued share-based compensation at grant date and at the reporting date, could have a material impact on the share-based compensation expense and the carrying value of the share-based compensation liabilities.

**vi. Depreciation, depletion and amortization of property plant and equipment**

All mining assets (except for mobile equipment) are depleted using the units-of-production method where the mine operating plan calls for production from well-defined ore reserves over proven and probable reserves. For mobile and other equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life based on proven and probable ore reserves as the useful lives of these assets are considered to be limited to the life of the relevant mine.

The calculation of the units-of-production rate of depleted could be impacted to the extent that actual production in the future is different from current forecast production based on proven and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Changes to these estimates, which can be significant, could be caused by a variety of factors, including future production differing from current forecasts, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and other factors impacting mineral reserves or the expected life of the mining operation.

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**vii. Mineral reserve and resources estimation**

The Company estimates its ore reserves and mineral resources based on information compiled by qualified persons as defined in accordance with the National Instrument 43-101, *Standards of Disclosure for Mineral Projects*. The estimation of ore reserves requires judgment to interpret available geological data, select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates, production costs, recovery rates and discount rates and, in some instances, the renewal of mining licenses. There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation and may change significantly when new information becomes available. New geological data as well as changes in the above assumptions may change the economic status of reserves and may, ultimately, result in the reserves being revised.

Estimates of mineral reserves and resources impact the following items in the financial statements:

- Useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the mine
- Depreciation and depletion of assets using the units-of-production method
- Estimate of recoverable value of CGUs
- Estimated timing of reclamation activities
- Expected future economic benefit of expenditures, including stripping and development activities

**vii. Litigation and contingency**

On an ongoing basis the Company is subject to various claims and other legal disputes described in note 26, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognized where, based on the Company's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably.

By their nature, these contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment of the potential outcome of future events. Disclosure of other contingent liabilities is made unless the possibility that a loss may occur is considered remote.

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## 5. Changes in accounting policies

### Recently issued but not adopted accounting guidance are as follows:

In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* (“IFRS 11”), to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply all of the principles of business combinations accounting in IFRS 3, *Business Combinations*. Prospective application of this interpretation is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company has assessed the impact of adopting these amendments and determined it will not have a material impact on the Company’s consolidated financial statements upon adoption.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements.

IFRS 9, *Financial Instruments* (“IFRS 9”) was issued by the IASB in July 2014. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Company has not adopted IFRS 9 in its financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements based on the characteristics of its financial instruments at the date of adoption.

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* (“IAS 1”), to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the statement of financial position, statement of income and statement of comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2016, with earlier application permitted. The Company will adopt the required amendments to IAS 1 in its consolidated financial statements for the year ended December 31, 2016.

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.



**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

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**6. Formation of 50/50 partnership with Premier Gold Mines Ltd.**

On March 9, 2015 the Company formed a 50/50 partnership with Premier Gold Mines Hardrock Inc., a subsidiary of Premier Gold Mines Limited (“Premier”). The purpose of the partnership is the development of the Greenstone Gold Property, including the Hardrock Gold Project located in the Geraldton-Beardmore Greenstone belt in Ontario, Canada. Effective July 20, 2015, the name of the partnership was changed from TCP Limited Partnership Corporation to Greenstone Partnership.

The Company made an initial cash contribution to the Greenstone Partnership in the amount of \$67.4 million (Cdn\$85 million) for its 50% limited partner interest. Premier contributed all property, assets and rights it held in respect of the Greenstone Gold Property and the right to capital distributions (as described below), in consideration for its 50% interest in the partnership. In accordance with their contractual arrangements with the Company, Greenstone Partnership subsequently distributed Cdn\$85 million to Premier as a capital distribution.

As part of the implementation agreement, an additional contribution of up to Cdn\$30 million was payable to the Greenstone Partnership by the Company, contingent on the results of an updated mineral resources study. Upon completion of this mineral resources study in September 2015, the Company contributed \$8.3 million (Cdn\$11 million) to the Greenstone Partnership. Consistent with the initial contribution and implementation agreement, the Greenstone Partnership subsequently distributed the Cdn\$11 million to Premier.

The Company also agreed to commit up to an additional Cdn\$185 million to fund the Greenstone Project, subject to certain feasibility study results and project advancement criteria, after which both partners will contribute on a 50/50 basis. The Company and Premier have formed a joint board of directors to oversee future exploration, development and operations by the partnership.

As the Company and Premier have rights to the assets and obligations for the liabilities of the Greenstone Partnership, the partnership was determined to be a joint operation under IFRS 11. The Company has recorded in its Statements of Financial Position and Statements of Earnings its interest in the assets, liabilities, revenues and expenses of the partnership in accordance with the Company’s rights and obligations prescribed by the terms of the implementation agreement. For the year ended December 31, 2015 the Company recognized, in accordance with its accounting policy, its 50% interest and the 50% share paid on behalf of Premier in the project spending totalling \$17.3 million. Transaction costs of \$1.4 million associated with the acquisition were reflected as business development expenses in the Statement of Earnings for the year ended December 31, 2015 (note 21).

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**7. Restricted cash**

		<b>2015</b>		<b>2014</b>
Dividend trust account (a)	\$	<b>9,366</b>	\$	12,437
Öksüt Project (b)		<b>623</b>		-
Total	\$	<b>9,989</b>	\$	12,437

- (a) The Company's dividend trust account relates to dividends payable to Kyrgyzaltyn JSC ("Kyrgyzaltyn"), a state-owned company that operates a refinery in the Kyrgyz Republic, which are held in trust as a result of various court proceedings (note 26 – "Corporate").

As a result of a court decision in September 2015, Centerra released Cdn\$13.4 million to Kyrgyzaltyn (equivalent of \$10.1 million), representing dividends held in trust and interest earned on these funds of Cdn\$0.3 million. In October 2015, Centerra received an Ontario court order resulting from an action taken against the Kyrgyz Republic, which once again restricted Centerra from paying future dividends to Kyrgyzaltyn (note 26 - the "Enforcement Notice by Entes"). The order does not set a cap for the dividends to be held in trust, and accordingly all future dividends will be held in trust going forward.

As at December 31, 2015, dividends held in trust totalled \$9.4 million (Cdn\$13.0 million). This balance included \$0.1 million of interest earned on the funds while in the trust account. At December 31, 2014, dividends held in trust totalled \$12.4 million (Cdn\$14.2 million), including \$0.1 million of interest.

- (b) In 2015, OMAS signed an agreement with a supplier to provide electrical power to the Öksüt Project. As part of the agreement, the Company was required to deposit \$0.6 million in a restricted bank account, which the supplier has the right to claim in the event of a breach of contract by OMAS.

**8. Amounts receivable**

		<b>2015</b>		<b>2014</b>
Gold sales receivable from related party (note 27)	\$	<b>25,725</b>	\$	62,143
Other receivables		<b>3,056</b>		4,071
	\$	<b>28,781</b>	\$	66,214

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The aging of the gross amounts receivable at each reporting date was as follows:

	<b>2015</b>	<b>2014</b>
Less than one month	\$ 26,481	\$ 63,372
One to three months	860	-
Three to six months	302	1,044
Over six months	1,138	1,798
	<b>\$ 28,781</b>	<b>\$ 66,214</b>

The Company has not recorded any allowance for credit losses for the periods presented.

**9. Inventories**

	<b>2015</b>	<b>2014</b>
Stockpiles of ore	\$ 144,758	\$ 200,751
Gold in-circuit	23,155	24,725
Heap leach in circuit	226	3,393
Gold doré	5,632	5,512
	<b>173,771</b>	234,381
Supplies	173,240	174,018
Total Inventories (net of provisions)	<b>347,011</b>	408,399
Less: Long-term inventory (heap leach gold inventories - note 13)	-	(349)
Total Inventories-current portion	<b>\$ 347,011</b>	<b>\$ 408,050</b>

The amount of inventories recognized as an expense during the year ended December 31, 2015, was \$356.5 million (year ended December 31, 2014 - \$500.7 million) and is included in cost of sales. As at December 31, 2015, the net realizable value of gold inventories (stockpiles) was below carrying value, resulting in a \$27.2 million write-down of inventory (December 31, 2014 – no write-down was charged to cost of sales).

The provision for mine supplies obsolescence was increased at December 31, 2015 by \$1.7 million totalling \$6.9 million (December 31, 2014 – increase of \$1.3 million, totalling \$5.1 million). The increase in the provision was charged to cost of sales, as disclosed in note 18. The table below summarizes inventories adjusted for the provision for obsolescence:

	<b>2015</b>	<b>2014</b>
Total Inventories	\$ 353,878	\$ 413,537
Less: Provisions for supplies obsolescence	(6,867)	(5,138)
Total Inventories (net of provisions)	<b>347,011</b>	408,399
Less: Long-term inventory (heap leach stockpiles)	-	(349)
Total Inventories - current portion	<b>\$ 347,011</b>	<b>\$ 408,050</b>

**Centerra Gold Inc.**

**Notes to the Consolidated Financial Statements**

**For the years ended 2015 and 2014**

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**10. Prepaid expenses**

	<b>2015</b>	<b>2014</b>
Insurance	\$ 4,261	\$ 4,734
Rent	195	369
Deposits for consumable supplies	4,657	5,355
Advances for project development	1,453	-
Other	2,314	2,430
<b>Total</b>	<b>\$ 12,880</b>	<b>\$ 12,888</b>

**11. Property, plant and equipment**

The following is a summary of the carrying value of property, plant and equipment (“PP&E”):

	<b>Buildings, Plant and Equipment</b>	<b>Mineral Properties</b>	<b>Capitalized Stripping Costs</b>	<b>Mobile Equipment</b>	<b>Construction In Progress</b>	<b>Total</b>
<b>Cost</b>						
January 1, 2014	\$ 392,437	\$ 196,939	\$ 646,536	\$ 465,361	\$ 51,879	\$ 1,753,152
Additions	146	7,325	261,078	31	89,935	358,515
Disposals	(3,070)	-	-	(53,371)	-	(56,441)
Reclassification	18,359	4,667	-	46,197	(69,223)	-
<b>Balance December 31, 2014</b>	<b>\$ 407,872</b>	<b>\$ 208,931</b>	<b>\$ 907,614</b>	<b>\$ 458,218</b>	<b>\$ 72,591</b>	<b>\$ 2,055,226</b>
Additions	687	14,958	210,553	57	72,150	298,405
Acquisition of interest in Greenstone Partnership (note 6)	65	75,653	-	-	-	75,718
Disposals	(14,544)	(11,652)	-	(44,272)	(200)	(70,668)
Reclassification	51,900	1,767	-	41,066	(94,733)	-
<b>Balance December 31, 2015</b>	<b>\$ 445,980</b>	<b>\$ 289,657</b>	<b>\$ 1,118,167</b>	<b>\$ 455,069</b>	<b>\$ 49,808</b>	<b>\$ 2,358,681</b>
<b>Accumulated depreciation</b>						
January 1, 2014	\$ 247,110	\$ 147,648	\$ 550,147	\$ 269,177	\$ -	\$ 1,214,082
Charge for the year	17,665	9,172	245,639	99,269	-	371,745
Disposals	(2,536)	-	-	(52,764)	-	(55,300)
<b>Balance December 31, 2014</b>	<b>\$ 262,239</b>	<b>\$ 156,820</b>	<b>\$ 795,786</b>	<b>\$ 315,682</b>	<b>\$ -</b>	<b>\$ 1,530,527</b>
Charge for the year	16,661	8,052	109,437	69,684	-	203,834
Disposals	(12,852)	(11,648)	-	(44,196)	-	(68,696)
<b>Balance December 31, 2015</b>	<b>\$ 266,048</b>	<b>\$ 153,224</b>	<b>\$ 905,223</b>	<b>\$ 341,170</b>	<b>\$ -</b>	<b>\$ 1,665,665</b>
<b>Net book value</b>						
Balance December 31, 2014	\$ 145,633	\$ 52,111	\$ 111,828	\$ 142,536	\$ 72,591	\$ 524,699
<b>Balance December 31, 2015</b>	<b>\$ 179,932</b>	<b>\$ 136,433</b>	<b>\$ 212,944</b>	<b>\$ 113,899</b>	<b>\$ 49,808</b>	<b>\$ 693,016</b>

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The following is an analysis of the depreciation, depletion and amortization charge recorded in the Statements of Financial Position and Statements of Earnings:

	<b>2015</b>	<b>2014</b>
Amount recorded in cost of sales (note 18)	\$ 203,598	\$ 282,603
Amount recorded in corporate administration (note 22)	454	372
Amount recorded in standby costs	1,338	1,306
Total included in Statement of Earnings	205,390	284,281
Inventories movement (note 31(a))	(52,693)	13,717
Amount capitalized in PP&E	51,137	73,747
Depreciation, depletion and amortization charge for the year	\$ 203,834	\$ 371,745

**12. Goodwill**

The Company has two CGUs, one in the Kyrgyz Republic and one in Mongolia, of which only the Kyrgyz Republic CGU has been allocated goodwill. The carrying value of goodwill for the Kyrgyz Republic, prior to the September 1, 2015 impairment test (discussed below), was \$18.7 million. In the third quarter of 2015, an impairment charge of \$18.7 million was recognized in the Statements of Earnings.

***Impairment testing:***

The net asset value (“NAV”) of the Kyrgyz Republic CGU is determined based on a discounted cash flow analysis and the recoverable amount is determined using a market multiple of the NAV as public gold companies typically trade at a market capitalization that is based on a multiple of their underlying NAV.

As an industry participant would consider future resources, including any expansion projects over the life-of-mine (“LOM”) in determining fair value, the Company has also included the fair value of known resources in the recoverable value, based on an estimated amount per ounce of resources that an arm’s length party would be willing to pay based on comparable market transactions. As part of the Company’s annual reserve estimation process, each CGU updates its LOM plan, which optimizes the production of its proven and probable reserves. The resulting valuation model includes the cash flows management expects to generate over the mine’s life, using various business and economic assumptions.

In accordance with its accounting policy (note 3), the Company reviews and tests the carrying amounts of goodwill on September 1 of each year and when an indicator of impairment is considered to exist.

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***Impairment test – December 31, 2014***

At December 31, 2014, the Company determined that the reserve reduction at the Kumtor mine was an indicator of impairment, which resulted in an impairment test and subsequent goodwill write-down of \$111.0 million

***Impairment test – September 1, 2015***

The annual discounted cash flow analysis conducted on September 1, 2015 concluded that the recoverable amount of the Kyrgyz Republic CGU using the latest LOM model was \$815.0 million, which was lower than the carrying value of \$833.7 million. This resulted in an impairment charge of \$18.7 million.

Key assumptions used in the discounted cash flow model and for calculating the Kyrgyz Republic CGU recoverable amount used in the annual tests on September 1, 2015 and 2014 and the December 31, 2014 test were as follows:

	<b>September 1, 2015</b>	<b>December 31, 2014</b>	<b>September 1, 2014</b>
Gold price:			
2014	\$ -	\$ -	\$ 1,250(a)
2015	\$ <b>1,150(a)</b>	\$ 1,225	\$ 1,254
2016	\$ <b>1,172</b>	\$ 1,250	\$ 1,307
2017	\$ <b>1,180</b>	\$ 1,275	\$ 1,242
2018	\$ <b>1,191</b>	\$ 1,225	\$ 1,162
2019	\$ <b>1,206</b>	\$ 1,300	\$ 1,308
2020	\$ <b>1,230</b>	\$ 1,300	\$ 1,308
2021 and onwards	\$ <b>1,242</b>	\$ 1,300	\$ 1,308
Discount rate	<b>11.9%</b>	11.6%	10.3%
Reserves - contained ounces	<b>5.6 million</b>	6.1 million	7.9 million
Resources -contained ounces	<b>4.6 million</b>	4.6 million	5.6 million
Life of mine	<b>2026</b>	2026	2027

(a) From September 1 onwards

***Gold prices***

Management estimated gold prices through the analysis of gold forward prices and by considering the average of the most recent market commodity price forecasts consensus from a number of recognized financial analysts.

***Resources***

For the impairment tests, a fair value of \$25 per ounce was included for contained ounces of resources based on comparable historic market transactions.

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(Expressed in thousands of United States Dollars, except where otherwise indicated)

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***Production***

Management determined its planned production profile and total life of mine production based on its development activity and its mine and processing plans for each period the impairment test was performed.

***Discount rate***

A real after tax discount rate was based on the Company's estimated weighted-average cost of capital adjusted for the risks associated with the Kyrgyz Republic CGU cash flow.

***Life of mine***

The life of mine represents the final year of processing of reserves as is contemplated in the life of mine plan.

The FVLCD determined from the discounted cash flow analysis is categorized as a non-recurring level 3 hierarchy in accordance with IFRS 13, *Fair Value Measurement*.

**13. Other assets**

	<b>2015</b>	<b>2014</b>
Reclamation trust fund (note 17)	\$ 18,909	\$ 15,951
Long term receivables	1,509	1,607
Long term inventories (note 9)	-	349
Other assets	6,263	6,165
Total	\$ 26,681	\$ 24,072

**14. Accounts payable and accrued liabilities**

	<b>2015</b>	<b>2014</b>
Trade creditors and accruals	\$ 65,765	\$ 36,844
Liability for share-based compensation	9,527	9,039
Total	\$ 75,292	\$ 45,883

**15. Short-term debt**

In 2010, the Company entered into a credit agreement with the European Bank for Reconstruction and Development ("EBRD") which provides for a \$150 million revolving credit facility (the "EBRD Facility").

As at December 31, 2015, the Company had \$76 million outstanding under the EBRD Facility for repayment in February 2016. On February 12, 2016, the Company entered into a new five-year \$150 million revolving credit facility with EBRD. The interest rate is LIBOR plus 3%. The \$76 million drawn amount under the previous EBRD Facility was subsequently redrawn under

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the new EBRD Facility on February 17, 2016 and is due to be repaid on August 17, 2016 or, at the Company's discretion, repayment of the loaned funds may be extended until 2021. The right to draw in excess of \$100 million of the new EBRD Facility is subject to the satisfaction of a specified condition precedent.

The terms of the credit facility requires the Company to pledge certain assets as security and maintain compliance with specified covenants, including financial covenants. As at December 31, 2015 and 2014, the Company was in compliance with these financial covenant requirements.

The undrawn amount and terms of the outstanding credit facilities as at December 31, 2015 and 2014 were the following:

<b>EBRD Facility</b>	<b>2015</b>	<b>2014</b>
Undrawn amount of the facility	\$ 74,000	\$ 74,000
Interest rate - six month LIBOR plus <sup>(1)</sup>	2.9 %	2.9 %
Commitment (standby) fee <sup>(2)</sup>	0.5 %	0.5 %
Net book value of pledged mobile equipment	\$ 136,502	\$ 162,300

(1) Interest is payable at the end of the term.

(2) When less than 50% of the EBRD Facility amount is drawn, 0.75% is applied to the undrawn portion of the EBRD Facility, when more than 50% is drawn the fee is 0.50%.

**16. Taxes****a. Revenue based taxes - Kumtor**

Kumtor pays taxes on revenue, at a rate of 13% of gross revenue, with an additional contribution of 1% of gross revenue payable to the Issyk-Kul Oblast Development Fund.

During the year ended December 31, 2015, the 13% revenue-based tax expense recorded by Kumtor was \$78.6 million (year ended December 31, 2014 - \$90.3 million), while the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue totalled \$6 million (year ended December 31, 2014 - \$6.9 million). As at December 31, 2015, \$9.2 million of revenue-based tax was payable to the Kyrgyz Government (December 31, 2014 - \$24.6 million).

During the year ended December 31, 2014, the remaining \$10 million principal amount outstanding under an interest-free advance to the Kyrgyz Government as part of a tax advance agreement with Kumtor was applied against revenue-based taxes payable during 2014. In May 2012, a tax advance agreement was signed by Kumtor and the Kyrgyz Republic and \$30 million of future revenue-based taxes were advanced to the Government.



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**b. Income tax expense**

	<b>2015</b>	<b>2014</b>
Current tax	\$ 191	\$ 2,876
Deferred tax	258	(299)
<b>Total Income Tax Expense</b>	<b>\$ 449</b>	<b>\$ 2,577</b>

No entities, other than those in the Mongolian segment, recorded an income tax expense during the years ended December 31, 2015 and December 31, 2014.

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's weighted average tax rate applicable to profits of the consolidated entities is provided below:

	<b>2015</b>	<b>2014</b>
Earnings (loss) before income tax	\$ 42,078	\$ (41,532)
Income tax expense (recovery) calculated at Canadian tax rates if applicable to earnings (loss) in the respective countries	11,151	(11,006)
Income tax effects of:		
Difference between Canadian tax rate and rates applicable to subsidiaries in other countries <sup>(a)</sup>	(30,872)	(3,229)
Change in unrecognized deductible temporary differences	(3,195)	13,088
Impact of foreign currency movements	1,768	1,837
Non-deductible employee costs	692	742
Other non-deductible expenses or non-taxable items	20,905	1,145
	<b>\$ 449</b>	<b>\$ 2,577</b>

(a) The balance for the year ended December 31, 2015 reflects no tax impact on the \$18.7 million Kumtor goodwill impairment charge (year ended December 31, 2014 - \$111.0 million) and \$27.2 million Kumtor inventory impairment charge (year ended December 31, 2014 - nil).

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**c. Deferred income tax**

The following are significant components of deferred income tax assets and liabilities:

	2015	2014
Deferred income tax assets:		
Provisions - asset retirement obligation and other	\$ 8,508	\$ 7,822
<b>Total deferred tax assets</b>	<b>\$ 8,508</b>	<b>\$ 7,822</b>
Deferred income tax liabilities:		
Cash and cash equivalents	\$ (3,760)	\$ (3,062)
Short-term investments	(930)	(930)
Property plant and equipment	(6,342)	(6,096)
<b>Total deferred tax liabilities</b>	<b>\$ (11,032)</b>	<b>\$ (10,088)</b>
<b>Net deferred tax liabilities</b>	<b>\$ (2,524)</b>	<b>\$ (2,266)</b>

The Company has not recognized the following deferred income tax assets:

	Tax losses income	Tax losses capital	Exploration	Non Deductible Reserves	Other	Total
<b>December 31, 2015</b>						
Expiring within one to five years	\$ 18,409	\$ -	\$ -	\$ -	\$ -	\$ 18,409
Expiring after five years	132,691	-	-	-	-	132,691
No expiry date	296	28,446	48,547	-	7,765	85,054
	<b>\$ 151,396</b>	<b>\$ 28,446</b>	<b>\$ 48,547</b>	<b>\$ -</b>	<b>\$ 7,765</b>	<b>\$ 236,154</b>
<b>December 31, 2014</b>						
Expiring within one to five years	\$ 29,603	\$ -	\$ -	\$ -	\$ -	\$ 29,603
Expiring after five years	221,654	-	-	-	-	221,654
No expiry date	323	30,355	34,987	-	6,846	72,511
	<b>\$ 251,580</b>	<b>\$ 30,355</b>	<b>\$ 34,987</b>	<b>\$ -</b>	<b>\$ 6,846</b>	<b>\$ 323,768</b>

At December 31, 2015, no deferred tax liabilities have been recognized in respect of the aggregate amount of \$820 million (2014 - \$747.0 million) of taxable temporary differences associated with investments in subsidiaries. The Company controls the timing and circumstances of the reversal of these differences, and the differences are not anticipated to reverse in the foreseeable future.

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**d. Taxes payable**

	<b>2015</b>		<b>2014</b>
Other taxes payable	\$ 1,502	\$	1,246
Income taxes (receivable) payable	(216)		269
Total taxes payable	\$ 1,286	\$	1,515

**17. Provision for reclamation**

	<b>2015</b>		<b>2014</b>
Kumtor gold mine	\$ 40,861	\$	41,211
Boroo gold mine	23,519		24,903
Gatsuurt Project	1,769		1,802
Total provision for reclamation	66,149		67,916
Less: current portion	(1,062)		(2,598)
	\$ 65,087	\$	65,318

Centerra's estimates of future asset retirement obligations are based on standards that meet reclamation regulatory requirements. The Company estimates its total undiscounted future decommissioning and reclamation costs at December 31, 2015 to be \$84.2 million (December 31, 2014 - \$87.5 million). The carrying amount of the asset retirement obligations is based on the following key assumptions:

- Expected timing of payment of the cash flows is based on the life of mine plans;
- Ongoing reclamation spending continues at Boroo, while at Gatsuurt and Kumtor reclamation is expected to start in 2025 and 2026, respectively;
- Risk-free discount rates of 2.31% at Kumtor, 2.35% at Boroo and 2.31% at Gatsuurt as at December 31, 2015 (December 31, 2014 – 2.23% at Kumtor, 2.26% at Boroo, and 2.23% at Gatsuurt).

As at December 31, 2015, revisions in the estimated timing and risk-free discount rates resulted in a decrease in the reclamation provisions of \$1.3 million, \$0.9 million and \$0.1 million at Kumtor, Boroo and Gatsuurt, respectively.

The Company is scheduled to update the Kumtor conceptual closure plan in 2016. The last regularly scheduled update to the closure cost update was completed in 2013. The Company completed its regularly scheduled update to its closure costs estimates at Boroo and Gatsuurt in 2014, which included development work already completed at the Gatsuurt site.

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The following is a reconciliation of the provision for reclamation liability balance:

	<b>2015</b>	<b>2014</b>
Balance at January 1	\$ 67,916	\$ 60,020
Liabilities paid	(1,004)	(1,085)
Change in estimates <sup>a</sup>	(2,285)	7,324
Accretion expense (note 24)	1,522	1,657
Total provision for reclamation	<b>66,149</b>	67,916
Less: current portion	(1,062)	(2,598)
Balance at December 31	<b>\$ 65,087</b>	\$ 65,318

<sup>a</sup>In the year ended December 31, 2015, \$0.9 million relating to the change in estimates of the reclamation liability was recognized directly in the Statement of Earnings (December 31, 2014 - nil).

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation, net of salvage values, at the Kumtor gold mine. This restricted cash is funded based on the estimated yearly production, annually in arrears, over the life of the mine. On December 31, 2015, this fund had a balance of \$18.9 million (December 31, 2014 - \$16.0 million) – note 13.

**18. Cost of sales**

	<b>2015</b>	<b>2014</b>
Operating costs:		
Salaries and benefits	\$ 59,435	\$ 75,126
Consumables	93,856	133,541
Third party services	3,761	4,734
Other operating costs	10,160	16,969
Royalties, levies and production taxes	874	2,193
Changes in inventories	(15,223)	(13,843)
	<b>152,863</b>	218,720
Supplies inventory obsolescence charge (note 9)	1,729	1,254
Inventory impairment (note 9)	27,216	-
Provision for reclamation adjustment (note 17)	(947)	-
Depreciation, depletion and amortization	203,598	282,603
	<b>\$ 384,459</b>	\$ 502,577

**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

(Expressed in thousands of United States Dollars, except where otherwise indicated)

**19. Other operating expenses**

	<b>2015</b>	<b>2014</b>
Social development contributions	\$ 2,549	\$ 5,385
Sundry income (a)	(818)	(1,912)
Gatsuurt Project care and maintenance	139	359
	<b>\$ 1,870</b>	<b>\$ 3,832</b>

- a) In late 2014, the Company was engaged by a third party to process its ore in the Boroo mill. This processing arrangement was completed in January 2015 and the Company received \$0.8 million as final payment on the contract (\$1.9 million was received in 2014). The funds received under this contract represent the Company's share of the net proceeds from the sale of gold bullion and the recovery of processing costs.

**20. Pre-development project costs**

	<b>2015</b>	<b>2014</b>
Greenstone Gold Property (note 6)	\$ 9,310	-
Öksüt Gold Project	3,942	6,022
	<b>\$ 13,252</b>	<b>\$ 6,022</b>

On July 28, 2015, the Board of Directors of the Company made the decision to develop the Öksüt Gold Project. In accordance with the Company's accounting policies, costs incurred subsequent to this date, associated with the development of the project, are capitalized. In the year ended December 31, 2015, the Company capitalized Öksüt Gold Project development costs of \$5.4 million as "Construction in Progress", part of PP&E (note 11).

**21. Exploration and business development**

	<b>2015</b>	<b>2014</b>
Exploration:		
Advanced projects	\$ 629	\$ 5,489
Generative exploration and other projects	5,590	7,533
Exploration administration	2,193	1,734
Total exploration	8,412	14,756
Business development	2,207	968
	<b>\$ 10,619</b>	<b>\$ 15,724</b>

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**22. Corporate administration**

	<b>2015</b>		<b>2014</b>
Administration and office costs	\$ 3,458	\$	5,249
Professional fees	7,710		5,168
Salaries and benefits	13,131		14,675
Share-based compensation	11,028		9,295
Depreciation and amortization	454		372
	\$ 35,781	\$	34,759

**23. Other expenses, net**

	<b>2015</b>		<b>2014</b>
Interest income	\$ (1,428)	\$	(1,030)
Loss on disposal of assets	1,905		1,158
Bank charges	38		55
Foreign exchange loss	6,073		2,761
Miscellaneous income (a)	(3,213)		(1,760)
	\$ 3,375	\$	1,184

(a) Miscellaneous income in 2015 includes proceeds of \$2.7 million from an insurance claim at Kumtor (\$1.8 million in year ended December 31, 2014).

**24. Finance costs**

	<b>2015</b>		<b>2014</b>
Revolving credit facility:			
Financing costs	\$ 66	\$	418
Interest expense	2,463		2,499
Commitment fees and other revolving credit facility costs	375		388
Accretion expense (note 17)	1,522		1,657
	\$ 4,426	\$	4,962

**25. 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.

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In December 2015, the Company finalized the purchase of a 1% net smelter royalty related to the Öksüt production from Stratex International PLC (“Stratex”) through the issuance of 962,542 shares, representing a value of \$4.9 million. The Company had initially granted the royalty as part of the purchase from Stratex of the final 30% interest in the Öksüt Project in December 2012 and finalized the agreement in January 2013.

**b. Earnings (loss) per share**

Basic and diluted earnings (loss) per share computation:

	<b>2015</b>	<b>2014</b>
Net earnings (loss) for the purposes of diluted earnings (loss) per share	\$ <b>41,629</b>	\$ (44,109)
<hr/> (Thousands of common shares)		
Basic weighted average number of common shares outstanding	<b>236,592</b>	236,396
Effect of potentially dilutive securities:		
Stock options	<b>359</b>	-
Diluted weighted average number of common shares outstanding	<b>236,951</b>	236,396
<hr/>		
Basic earnings (loss) per common share	\$ <b>0.18</b>	\$ (0.19)
Diluted earnings (loss) per common share	\$ <b>0.18</b>	\$ (0.19)

For the year ended December 31, 2015, certain potentially dilutive securities, including stock options and restricted share units, were excluded from the calculation of diluted earnings per share due to the exercise prices being greater than the average market price of the Company’s ordinary shares for the period. For the year ended December 31, 2014, all potentially dilutive securities were excluded from the calculation of loss per share as they would have been anti-dilutive as a result of the net loss recorded for the year.

Potentially dilutive securities are summarized below:

(Thousands of units)	<b>2015</b>	<b>2014</b>
Stock options	<b>1,924</b>	3,720
Restricted share units	<b>218</b>	239
	<b>2,142</b>	3,959

**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

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**c. Dividends**

Dividends are declared and paid in Canadian dollars. At December 31, 2015, accrued dividends, in United States Dollars, payable to Kyrgyzaltyn were \$9.3 million (December 31, 2014 - \$12.3 million) (note 27). The details of dividends declared in 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Dividends declared (U.S. dollars)	\$ <b>29,389</b>	\$ 34,095
Dividends declared (Cdn\$ per share amount)	\$ <b>0.16</b>	\$ 0.16

**d. Share-based compensation**

The impact of share-based compensation as of and for the years ended December 31, 2015 and 2014 is summarized as follows:

(Millions of U.S. dollars except as indicated)	Number outstanding <b>Dec 31, 2015</b>	Expense/(Income)		Liability	
		<b>2015</b>	<b>2014</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
(i) Stock options	<b>4,793,592</b>	\$ <b>2.6</b>	\$ 2.5	\$ -	\$ -
(ii) Performance share units	<b>2,177,233</b>	<b>8.9</b>	7.2	<b>8.0</b>	7.1
(iii) Deferred share units	<b>205,645</b>	<b>0.1</b>	0.4	<b>1.0</b>	0.9
(iv) Restricted share units	<b>107,291</b>	<b>0.8</b>	1.2	<b>0.5</b>	1.1
		\$ <b>12.4</b>	\$ 11.3	\$ <b>9.5</b>	\$ 9.1

**(i) Stock options**

Under the Company's Stock Option plan, options to purchase common shares of the Company may be granted to officers and employees. The exercise price of options granted under this plan is not less than the weighted average common share price for the five trading days prior to the date of grant. Options granted vest over three years and expire after eight years from the date granted.

A maximum of 18,000,000 common shares are available for issuance upon the exercise of options granted under the plan. Certain restrictions on grants apply, including that the maximum number of shares that may be granted to any individual within a 12-month period cannot exceed 5% of the outstanding common shares.



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(Expressed in thousands of United States Dollars, except where otherwise indicated)

**(ii) Stock options**

Under the Company's Stock Option plan, options to purchase common shares of the Company may be granted to officers and employees. The exercise price of options granted under this plan is not less than the weighted average common share price for the five trading days prior to the date of grant. Options granted vest over three years and expire after eight years from the date granted.

A maximum of 18,000,000 common shares are available for issuance upon the exercise of options granted under the plan. Certain restrictions on grants apply, including that the maximum number of shares that may be granted to any individual within a 12-month period cannot exceed 5% of the outstanding common shares.

Centerra's stock options transactions during the year were as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price (Cdn\$)	Number of Options	Weighted Average Exercise Price (Cdn\$)
Balance, January 1	3,868,334	\$ 8.21	2,511,500	\$ 10.04
Granted	1,572,592	6.10	1,474,762	5.07
Forfeited	(185,639)	(9.03)	(117,928)	(7.69)
Exercised <sup>a</sup>	(461,695)	(5.47)	-	-
Balance, December 31	4,793,592	\$ 7.75	3,868,334	\$ 8.21

<sup>a</sup> The weighted average market price of shares issued for options exercised in the year-ended December 31, 2015 was Cdn\$7.53.

The Black-Scholes model was used to estimate the fair value of stock options. The following assumptions were used for the options issued in the years ended December 31, 2015 and 2014:

Grant Date	Number of Options	Grant Price (Cdn\$)	Expected Life	Share price Volatility (i)	Dividend Yield	Risk free rate	Fair value Price (Cdn\$)
March 3, 2015	1,462,840	6.05	3 years	73.69%	2.51%	0.59%	2.47
March 5, 2015	50,000	6.03	1 year	73.46%	2.51%	0.62%	2.14
May 12, 2015	7,131	6.73	3 years	72.90%	2.18%	0.83%	2.34
November 6, 2015	52,621	7.33	3 years	67.67%	2.20%	0.76%	2.74
	1,572,592	6.10	3 years	73.48%	2.50%	0.60%	2.47

**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

(Expressed in thousands of United States Dollars, except where otherwise indicated)

Grant date	Number of Options	Grant Price (Cdn\$)	Expected Life	Share Price Volatility (i)	Dividend Yield	Risk free rate	Fair value Price (Cdn\$)
March 3, 2014	1,391,907	5.04	3 years	72.89%	2.88%	1.25%	2.21
March 17, 2014	63,086	5.62	3 years	72.93%	2.88%	1.29%	2.14
May 16, 2014	19,769	5.21	3 years	72.61%	2.37%	1.23%	2.09
	1,474,762	5.07	3 years	72.89%	2.87	1.25	2.21

(i) Expected volatility is measured as the annualized daily standard deviation of share price returns, based on the historical movement in the price of the Company's common shares.

The terms of the options outstanding at December 31, 2015 are as follows:

Award Date	Award Price (Cdn\$)	Expiry Date	Number of Options Outstanding	Number of Options Vested
18-Mar-08	\$14.29	18-Mar-16	<b>38,030</b>	<b>38,030</b>
17-Feb-09	\$4.81	17-Feb-17	<b>146,490</b>	<b>146,490</b>
19-Aug-10	\$14.37	19-Aug-18	<b>100,000</b>	<b>100,000</b>
7-Mar-11	\$18.31	7-Mar-19	<b>257,634</b>	<b>257,634</b>
14-Sep-11	\$22.28	14-Sep-19	<b>2,028</b>	<b>2,028</b>
6-Mar-12	\$19.48	6-Mar-20	<b>284,396</b>	<b>284,396</b>
14-Aug-12	\$7.29	14-Aug-20	<b>83,403</b>	<b>83,403</b>
14-Aug-12	\$7.29	14-Aug-20	<b>420,000</b>	<b>420,000</b>
19-Nov-12	\$9.31	19-Nov-20	<b>50,000</b>	<b>50,000</b>
4-Mar-13	\$6.78	4-Mar-21	<b>751,098</b>	<b>476,346</b>
11-Nov-13	\$3.82	11-Nov-21	<b>7,752</b>	<b>5,168</b>
5-Mar-14	\$5.04	5-Mar-22	<b>1,182,448</b>	<b>312,643</b>
16-May-14	\$5.21	16-May-22	<b>19,769</b>	<b>6,589</b>
3-Mar-15	\$6.05	3-Mar-23	<b>1,340,793</b>	-
5-Mar-15	\$6.03	5-Mar-23	<b>50,000</b>	<b>50,000</b>
12-May-15	\$6.73	12-May-23	<b>7,130</b>	-
6-Nov-15	\$7.33	6-Nov-23	<b>52,621</b>	-
			<b>4,793,592</b>	<b>2,232,727</b>

**(ii) Performance Share Unit plan**

Centerra's Performance Share Unit plan transactions during the years ended December 31, 2015 and 2014 were as follows:

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	<b>2015</b>	<b>2014</b>
Balance, January 1	<b>1,813,811</b>	609,312
Granted - regular	<b>1,018,943</b>	1,350,579
Granted - special series	-	76,633
Exercised	<b>(491,619)</b>	(181,198)
Cancelled	<b>(163,902)</b>	(41,515)
Balance, December 31	<b>2,177,233</b>	1,813,811

In determining the fair value of these units, the principal assumptions used in applying the Monte Carlo simulated option pricing model were as follows:

	<b>2015</b>	<b>2014</b>
Share price	\$ <b>6.53</b>	\$ 5.89
S&P/TSX Global Gold Index	\$ <b>148.44</b>	\$ 165.72
Expected life (years)	<b>0.86</b>	1.09
Expected volatility- Centerra's share price	<b>36.0 %</b>	54.3 %
Expected volatility- S&P/TSX Global Gold Index	<b>27.9 %</b>	30.5 %
Risk-free rate of return	<b>0.6 %</b>	1.1 %
Forfeiture rate	<b>5.5 %</b>	3.8 %
Weighted adjustment factor	<b>2.0</b>	1.1

The vested number of units outstanding as at December 31, 2015 are 745,415 (December 31, 2014 – 386,466). The fair value of the vested units at December 31, 2015 is \$7.0 million (December 31, 2014 – \$2.0 million).

**(iii) Deferred Share Unit plan**

Centerra's Deferred Share Unit plan transactions during the year were as follows:

	<b>2015</b>	<b>2014</b>
Balance, January 1	<b>187,807</b>	150,207
Granted	<b>17,838</b>	43,482
Redeemed	-	(5,882)
Balance, December 31	<b>205,645</b>	187,807

At December 31, 2015, the number of units outstanding had a related liability of \$1.0 million (December 31, 2014 – \$0.9 million). In 2015, a compensation cost of \$0.1 million was recorded for this plan (year ended December 31, 2014 - \$0.4 million).

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**(iv) Restricted Share Unit plan**

Centerra's Restricted Share Unit plan transactions during the year were as follows:

	<b>2015</b>	<b>2014</b>
Balance, January 1	<b>239,336</b>	252,538
Granted	<b>145,123</b>	166,226
Redeemed	<b>(277,168)</b>	(179,428)
Balance, December 31	<b>107,291</b>	239,336

At December 31, 2015, the number of units outstanding had a related liability of \$0.5 million (December 31, 2014 \$1.1 million). Compensation expense for the plan was \$0.8 million in the year ended December 31, 2015 (year ended December 31, 2014 - \$1.2 million).

**26. Commitments and contingencies****Commitments****(a) Contracts**

As at December 31, 2015, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$67.2 million (Kumtor - \$53.0 million, Öksüt Project \$10.5 million, Greenstone Gold Property - \$3.3 million and Boroo - \$0.4 million), a majority of which are expected to be settled over the next twelve months.

**(b) Greenstone Partnership**

As partial consideration for the Company's initial 50% partnership interest in the Greenstone Partnership, the Company has agreed to commit up to an additional Cdn\$185 million to fund the project, subject to certain feasibility and project advancement criteria (see note 6). In the event that the project is put under care and maintenance as a result of feasibility study or project criteria not being met, the Company will be required to make contributions towards the costs associated with the care and maintenance of the project for a period of two years or until the Cdn\$185 million is spent (if such event occurs first), after which time the partners would fund such costs on a pro rata basis. Any such costs will form part of the Cdn\$185 million development contributions commitment of the Company, as noted above. As at December 31, 2015, the Company has funded a total of Cdn\$22.0 million (\$17.3 million) of its commitment since the inception of the partnership.

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**(c) Leases**

The Company enters into operating leases in the ordinary course of business, primarily for its various offices and facilities around the world. Payments under these leases represent contractual obligations as scheduled in each agreement. The significant operating lease payments, including operating costs, are for its corporate offices in Toronto, which amounted to \$0.8 million in the year ended December 31, 2015 (year ended December 31, 2014 - \$0.9 million). The future aggregate minimum lease payments for the non-cancellable operating lease of the Toronto Corporate office are as follows:

(Thousands of Cdn\$)		<b>2015</b>		<b>2014</b>
2015	\$	-	\$	478
2016		<b>479</b>		478
2017		<b>497</b>		497
2018		<b>501</b>		501
2019 to 2021		<b>1,611</b>		1,611
	\$	<b>3,088</b>	\$	3,565

**Contingencies**

Various legal and tax matters are outstanding from time to time due to the nature of the Company's operations. While the final outcome with respect to actions outstanding or pending at December 31, 2015 cannot be predicted with certainty, it is management's opinion that it is not, except as noted below, more likely than not that these actions will result in the outflow of resources to settle the obligation; therefore no amounts have been accrued.

**Kyrgyz Republic****(a) Negotiations between Kyrgyz Republic and Centerra**

On December 22, 2015, the Company announced that it had received notice from the Kyrgyz Republic Prime Minister notifying Centerra of the Kyrgyz Republic Government's intention to withdraw from further negotiations regarding the implementation of the non-binding heads of agreement dated January 18, 2014 (the "HOA"). The HOA contemplated a restructuring of the ownership of the Kumtor Project under which Kyrgyzaltyn would receive a 50% interest in a joint venture company that would own the Kumtor Project in exchange for its share interest in Centerra.

While Centerra has a long record of resolving matters with the Kyrgyz Republic Government, there are no assurances that continued discussions between the Kyrgyz Republic Government and Centerra will result in a mutually acceptable solution regarding the Kumtor project, that any

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agreed upon proposal would receive the necessary approvals under Kyrgyz and Canadian laws or that the Kyrgyz Republic Government and/or parliament will not take actions that are inconsistent with the government's obligations under the agreements governing the Kumtor Project.

***(b) Kyrgyz Permitting and Regulatory Matters***

In December 2015, KGC submitted its 2016 annual mine plan to the Kyrgyz Republic State Agency for Environmental and Forestry under the Government of the Kyrgyz Republic ("SAEPF") and the State Agency for Geology and Mineral Resources ("SAGMR") for approval. KGC has also received extension of its permits for maximum allowable emissions and toxic waste disposal until March 31, 2016.

There remain several other outstanding permits and approvals required from Kyrgyz regulatory authorities including the Ecological Passport and the life-of-mine technical plan (which outlines mining plans for the Kumtor life-of-mine). The regulatory authorities reviewing such permits and approvals have expressed concerns regarding potential conflicts with the Kyrgyz Republic Water Code. Centerra and KGC do not believe that the Water Code is applicable to the Kumtor Project.

Kumtor will continue to work with the applicable Kyrgyz regulatory authorities to obtain the necessary permits and approvals, however there can be no assurances that such permits and approvals will be issued or issued in a timely manner.

Should Kumtor be prohibited from moving ice (as a result of the purported application of the Water Code), the entire December 31, 2015 mineral reserves at Kumtor, and Kumtor's current life of mine plan would be at risk, leading to an early closure of the operation. Centerra believes that any disagreement in relation to the application of the Water Code to Kumtor would be subject to international arbitration under the 2009 agreements governing the Kumtor Project.

***(c) Land Use and Environmental Claims***

Centerra will continue to engage constructively and in good faith with the Kyrgyz Republic Government to resolve all outstanding matters affecting the Kumtor Project, including: (i) claims made by the General Prosecutor seeking to invalidate Kumtor's land use certificate and to seize certain lands within the Kumtor concession area; and (ii) significant environmental claims made by various Kyrgyz state agencies alleging environmental offenses and other matters totalling approximately \$473 million (at applicable exchange rates when the claims were commenced).

Regarding the land use claims, the Company has benefited from a close and constructive dialogue with Kyrgyz authorities during project operations and remains committed to working with them to resolve these issues in accordance with the Kumtor Project Agreements, which provide for all disputes to be resolved by international arbitration, if necessary. However, there

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are no assurances that the Company will be able to successfully resolve any or all of the outstanding matters affecting the Kumtor Project. The inability to successfully resolve all such matters would have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

KGC believes the environmental claims are exaggerated and without merit. The Kumtor Project has been the subject of systematic audits and investigations over the years by Kyrgyz and international experts, including by an independent internationally recognized expert who carried out a due diligence review of Kumtor's performance on environmental matters at the request of Centerra's Safety, Health and Environmental Committee of the Board of Directors.

**Mongolia*****Gatsuurt***

Following the designation of the Company's Gatsuurt project as a mineral deposit of strategic importance by the Mongolian Parliament in January 2015, the Company was in discussions with the Government of Mongolia and its working groups to determine the economic terms of the future development of the Gatsuurt Project. In mid-October 2015, the Company and the Government agreed to a 3% special royalty in place of the Government acquiring a 34% ownership interest in the project.

As disclosed on February 4, 2016, the Mongolian Parliament passed a resolution setting the state ownership interest in the Gatsuurt Project at 34% and authorizing the Mongolian Government to complete negotiations with Centerra on the terms of such ownership. Under the Minerals Law, the Government can now implement the previously agreed upon special royalty in place of a 34% state ownership in the project.

There are no assurances that Centerra will be able to negotiate definitive agreements with the Mongolian Government (in a timely fashion or at all) or that such economic and technical studies and drilling programs will have positive results. The inability to successfully resolve all such matters could have a material impact on the Company's future cash flows, earnings, results of operations and financial condition.

**Corporate*****(a) Enforcement Notice by Stans***

On October 10, 2014, the Company was served with a temporary order (the "Stans Order") from the Ontario Superior Court of Justice in favour of Stans Energy Corp. ("Stans") which prohibited Kyrgyzaltyn from, among other things: (i) selling, disposing or exchanging 47,000,000 shares (the "Frozen Shares") of the 77,401,766 shares it held of the Company; (ii) obtaining share certificates in respect of such shares; or (iii) exercising its rights as a registered shareholder of

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the Company in a manner that was inconsistent with or would undermine the terms of the Stans Order. The order also prohibited the Company from, among other things, registering the transfer of the Frozen Shares, and required the Company to hold in trust for the proceeding under the Stans Application any amounts payable to Kyrgyzaltyn in respect of dividends or distributions that the Company may declare or pay in the future.

On June 10, 2015, the Ontario Superior Court of Justice Divisional Court issued its decision on an appeal brought by Kyrgyzaltyn in the Stans case. The effect of this decision was to cancel a previously issued court order (injunction).

***(b) Enforcement Notice by Belokon***

In February 25, 2015, the Company was served with a temporary order, which was subsequently extended on March 5, 2015 (the “Belokon Order”), from the Ontario Superior Court of Justice in favour of Valeri Belokon (“Belokon”). The original court order, which restricted certain shares and the payment of dividends, was amended on September 8, 2015. The amended order now restricts Kyrgyzaltyn’s ability to transfer and to exercise its rights as a registered shareholder over 3,787,879 shares (formerly 6,500,240 shares), and caps the amount of dividends to be held in trust for the Belokon proceeding to Cdn\$10 million. Accordingly, all amounts held in trust in excess of Cdn\$10 million were released to Kyrgyzaltyn in September 2015.

***(c) Enforcement Notice by Entes***

On October 15, 2015, Centerra received an Ontario court order in favour of Entes Industrial Plants Construction & Erection Contracting Co. Inc. (“Entes”) who has an arbitral award against the Kyrgyz Republic for \$22.7 million. The injunction (i) prohibits Kyrgyzaltyn from, among other things, selling or transferring 7,465,776 shares of Centerra held by it (over and above the 3,787,879 shares already restricted in the Belokon proceedings); and (ii) requires Centerra to pay any dividends declared on Centerra shares held by Kyrgyzaltyn into trust for the benefit of the Entes enforcement application. The order was continued on October 27, 2015 and remains in place until further order of the Court; it does not set a limit on the amount of dividends to be held in trust. The Company is currently holding \$2.1 million in trust for the Entes proceeding and will continue to do so until further order of the court.



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**27. Related party transactions****a. Kyrgyzaltyn**

Revenues from the Kumtor gold mine are subject to a management fee of \$1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company and a state-owned entity of the Kyrgyz Republic.

The table below summarizes the management fees paid and accrued by KGC to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement (“Sales Agreement”) between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009. The breakdown of the sales transactions and expenses with Kyrgyzaltyn are as follows:

	<b>2015</b>	<b>2014</b>
<b><i>Included in sales:</i></b>		
Gross gold and silver sales to Kyrgyzaltyn	\$ <b>607,832</b>	\$ 697,903
Deduct: refinery and financing charges	<b>(3,310)</b>	(3,313)
Net sales revenue received from Kyrgyzaltyn	<b>\$ 604,522</b>	\$ 694,590
<b><i>Included in expenses:</i></b>		
Contracting services provided to Kyrgyzaltyn	\$ <b>1,396</b>	\$ 1,628
Management fees to Kyrgyzaltyn	<b>521</b>	561
Expenses paid to Kyrgyzaltyn	<b>\$ 1,917</b>	\$ 2,189
<b><i>Dividends:</i></b>		
	<b>2015</b>	<b>2014</b>
Dividends declared to Kyrgyzaltyn	\$ <b>9,616</b>	\$ 11,164
Withholding taxes	<b>(481)</b>	(558)
Net dividends declared to Kyrgyzaltyn	<b>\$ 9,135</b>	\$ 10,606

As a result of the court decision in the Belokon proceedings in September 2015 (note 26), Centerra released to Kyrgyzaltyn \$10.1 million (Cdn \$13.4 million), representing dividends held in trust of Cdn\$13.1 million, plus interest accrued of Cdn\$0.3 million. In the year ended December 31, 2014, the Company paid dividends of \$8.0 million to Kyrgyzaltyn.

**Centerra Gold Inc.****Notes to the Consolidated Financial Statements****For the years ended 2015 and 2014**

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***Related party balances***

The assets and liabilities of the Company include the following amounts receivable from and payable to Kyrgyzaltyn:

	<b>2015</b>	<b>2014</b>
Amounts receivable	\$ <b>25,725</b>	\$ 62,143
Dividend payable (net of withholding taxes)	\$ <b>13,096</b>	\$ 13,828
Net unrealized foreign exchange gain	<b>(3,766)</b>	(1,574)
Dividend payable (net of withholding taxes) <sup>(a)</sup>	<b>9,330</b>	12,254
Amount payable	<b>1,039</b>	616
Total related party liabilities	\$ <b>10,369</b>	\$ 12,870

(a) Equivalent of Cdn\$12.9 million as at December 31, 2015 (December 31, 2014 - Cdn\$14.2 million).

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the Sales Agreement. Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn.

As at December 31, 2015, \$25.7 million was outstanding under the Sales Agreement (December 31, 2014 - \$62.1 million). Subsequent to December 31, 2015, the balance receivable from Kyrgyzaltyn was paid in full.

**b. Transactions with directors and key management**

The Company transacts with key individuals from management and with its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings were in the form of payments for services rendered in their capacity as director (director fees, including share-based payments) and as employees of the Company (salaries, benefits and share-based payments).

Key management personnel are defined as the executive officers of the Company including the Chief Executive Officer, President, Vice President and Chief Financial Officer, Vice President and Chief Operating Officer, Vice President Exploration, Vice President Business Development and Vice President Human Resources.

During the years ended December 31, 2015 and 2014, remuneration to directors and key management personnel were as follows:

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**Compensation of directors**

	<b>2015</b>	<b>2014</b>
Fees earned and other compensation	\$ 938	\$ 937
Share-based compensation	(510)	863
Total expense	\$ 428	\$ 1,800

*Fees earned and other compensation*

Represent fees earned by the non-executive chairman and the non-executive directors during the financial year.

*Share-based compensation*

A portion of the directors' compensation is in the form of participation in the Company's share-based payment plans (Deferred Share Unit plan and Restricted Share Unit plan) according to the election of the directors.

**Compensation of key management personnel**

Compensation of key management personnel comprised:

	<b>2015</b>	<b>2014</b>
Salaries and benefits	\$ 6,800	\$ 6,935
Share-based compensation	7,202	5,335
Total expense	\$ 14,002	\$ 12,270

*Salaries and benefits*

Represent salary, supplementary executive retirement plan contributions, and benefits earned during the year, plus cash bonuses awarded for the year.

*Share-based compensation*

A portion of the senior management's compensation is in the form of participation in the Company's share-based payment plans (Stock Option plan and Performance Share Unit plan).

**28. Capital Management**

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, continue the development and exploration of its mineral properties, to provide returns for shareholders and benefits for other stakeholders and to pursue and support growth opportunities. The overall objectives for managing capital remained unchanged in 2015 from the prior comparative period.

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The Company manages its capital structure and makes adjustments in light of changes in its economic and operating environment and the risk characteristics of the Company's assets. For effective capital management, the Company implemented planning, budgeting and forecasting processes to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there is sufficient credit facility to meet its short-term business operating and financing requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents and short term investments.

At December 31, 2015, the Company expects its capital resources and projected future cash flows from operations to support its normal operating requirements on an ongoing basis, and planned development and exploration of its mineral properties and other expansionary plans. To secure additional capital to pursue these plans, the Company may attempt to raise additional funds through borrowing and/or the issuance of equity or debt.

The Company's capital structure consists of short-term debt (net of cash and cash equivalents and short-term investments) and shareholders' equity, comprising issued common shares, contributed surplus and retained earnings as shown below:

	<b>2015</b>	<b>2014</b>
Shareholders' equity	\$ 1,420,851	\$ 1,398,643
Short-term debt	<b>76,000</b>	76,000
	<b>1,496,851</b>	1,474,643
Less:		
Cash and cash equivalent	<b>(360,613)</b>	(300,514)
Short-term investments	<b>(181,613)</b>	(261,503)
Total invested capital	\$ <b>954,625</b>	\$ 912,626

**29. Financial Instruments**

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash, amounts receivable, a reclamation trust fund, short-term debt, dividends payable, revenue-based taxes payable, accounts payable and accrued liabilities.

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. Fair values of identical instruments traded in active markets are determined by reference to the last quoted prices, in the most advantageous active market for that instrument. In the absence of an active market, the Company determines fair values based on quoted prices for instruments with similar characteristics and risk profiles. Fair values of financial instruments determined using valuation models require the use of inputs. In determining those inputs, the Company looks primarily to external, readily observable market inputs, when available, include

**Centerra Gold Inc.**

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factors such as interest rate yield curves, currency rates, total gold index returns, share price and historical volatilities, as applicable.

Cash and cash equivalents and restricted cash consist of cash on hand, with financial institutions, invested in term deposits, treasury bills, banker's acceptances and corporate direct credit with original maturities of three months or less. Short-term investments consist of investments in term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit with original maturities of more than three months but less than twelve months. The reclamation trust fund consists of cash and investments, managed by a trustee, maintained within a trust account.

The fair value of amounts receivable, trade creditors and accruals and revenue-based taxes payable approximate the carrying value due to the short-term nature of the receivables and payables.

The Company has a credit facility available with EBRD whereby borrowings bear interest at a fixed premium over the variable London Interbank Offered Rate ("LIBOR"). The fair value of borrowings under this facility approximate their carrying amount given the floating component of the interest rate.

All financial instruments measured at fair value are categorized into one of three hierarchy levels for which the financial instruments must be grouped based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

Classification and the fair value measurement by level of the financial assets and liabilities in the Statement of Financial Position were as follows:

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**December 31, 2015**

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings (loss)
<b>Financial Assets (Level 1)</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 360,613
Short-term investments	-	-	181,613
Restricted cash	-	-	9,989
Amounts receivable	28,781	-	-
Reclamation trust fund	-	-	18,909
	\$ 28,781	\$ -	\$ 571,124
<b>Financial Liabilities (Level 1)</b>			
Trade creditors and accruals	\$ -	\$ 65,765	\$ -
Short-term debt	-	76,000	-
Dividend payable to related party	-	9,330	-
Revenue-based taxes payable	-	9,152	-
	\$ -	\$ 160,247	\$ -

**December 31, 2014**

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings (loss)
<b>Financial Assets (Level 1)</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 300,514
Short-term investments	-	-	261,503
Restricted cash	-	-	12,437
Amounts receivable	66,214	-	-
Reclamation trust fund	-	-	15,951
Long-term receivables	1,607	-	-
	\$ 67,821	\$ -	\$ 590,405
<b>Financial Liabilities (Level 1)</b>			
Trade creditors and accruals	\$ -	\$ 36,844	\$ -
Short-term debt	-	76,000	-
Dividend payable to related party	-	12,254	-
Revenue-based taxes payable	-	24,605	-
	\$ -	\$ 149,703	\$ -

As at December 31, 2015 and 2014, the Company did not have any assets or liabilities that are measured under level 2 or 3.

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**30. Financial Risk Exposure and Risk Management**

The Company is exposed in varying degrees to certain financial risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Company assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The Board of Directors has a responsibility to ensure that an adequate financial risk management policy is established. Financial risk management is carried out by the Company's treasury department in accordance with the Board of Directors approved policy. The treasury department identifies and evaluates financial risks, establishes controls and procedures to ensure financial risks are mitigated in accordance with the approved policy and programs, and risk management activities comply thereto.

The Company's Audit Committee oversees management's compliance with the Company's financial risk management policy, approves financial risk management programs, and receives and reviews reports on management compliance with the policy and programs. The internal audit department assists in undertaking its oversight of financial risk management controls and procedures, the results of which are reported to the Audit Committee.

The Company is exposed to the following types of risk and manages them as follows:

**a. Currency risk**

The Company's operations are located in various geographic locations, exposing the Company to potential foreign exchange risk in its financial position and cash flows. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars in the Company's consolidated financial statements. The fluctuation of the U.S. dollar in relation to other currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets.

To mitigate this risk, the Company makes purchases in foreign currencies at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase foreign currencies. During the year ended December 31, 2015, total Canadian dollars and Euros purchased were Cdn\$133.5 million and €20.6 million (year ended December 31, 2014 - Cdn\$160.3 million and €23.5 million), including executed forward contracts of Cdn\$5.6 million and €4.4 million (year ended December 31, 2014 - Cdn\$27.5 million and €1.0 million). There were no outstanding Canadian dollar forward contracts and no outstanding Euro contracts outstanding at December 31, 2015 and 2014.

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The exposure of the Company's monetary assets and liabilities to currency risk is as follows:

**December 31, 2015**

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar	
<b>Financial Assets</b>								
Cash and cash equivalents	\$ 222	\$ 4,639	\$ 11,774	\$ 67	\$ 598	\$ 347	\$ -	-
Restricted cash	-	-	9,366	-	-	623	-	-
Amounts receivable	212	1,869	1,102	6	208	1,015	-	-
	<b>\$ 434</b>	<b>\$ 6,508</b>	<b>\$ 22,242</b>	<b>\$ 73</b>	<b>\$ 806</b>	<b>\$ 1,985</b>	<b>\$ -</b>	<b>-</b>
<b>Financial Liabilities</b>								
Accounts payable and accrued liabilities	\$ 7,804	\$ 456	\$ 18,098	\$ 26	\$ -	\$ 87	\$ 81	81
Taxes payable	757	29	-	-	-	727	-	-
Dividend payable to related party	-	-	9,325	-	-	-	-	-
	<b>\$ 8,561</b>	<b>\$ 485</b>	<b>\$ 27,423</b>	<b>\$ 26</b>	<b>\$ -</b>	<b>\$ 814</b>	<b>\$ 81</b>	<b>81</b>

**December 31, 2014**

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar	
<b>Financial Assets</b>								
Cash and cash equivalents	\$ 239	\$ 4,604	\$ 72,817	\$ 97	\$ 1,408	\$ 612	\$ -	-
Restricted cash	-	-	12,437	-	-	-	-	-
Amounts receivable	199	1,500	423	28	23	2,272	-	-
	<b>\$ 438</b>	<b>\$ 6,104</b>	<b>\$ 85,677</b>	<b>\$ 125</b>	<b>\$ 1,431</b>	<b>\$ 2,884</b>	<b>\$ -</b>	<b>-</b>
<b>Financial Liabilities</b>								
Accounts payable and accrued liabilities	\$ 10,055	\$ 3,162	\$ 14,486	\$ 130	\$ 319	\$ 535	\$ 100	100
Taxes payable	955	1,196	-	-	-	204	-	-
Dividend payable to related party	-	-	12,254	-	-	-	-	-
	<b>\$ 11,010</b>	<b>\$ 4,358</b>	<b>\$ 26,740</b>	<b>\$ 130</b>	<b>\$ 319</b>	<b>\$ 739</b>	<b>\$ 100</b>	<b>100</b>

Based on the above net exposures at December 31, 2015, a 10% devaluation or appreciation of the above currencies against the U.S. dollar, with all other variables held constant would have led to additional income or loss before tax of \$0.5 million (December 31, 2014 - \$5.3 million).

**b. Interest rate risk**

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to risk of changes in cash flows. The Company's cash and cash equivalents and short-term investments include highly liquid investments that earn interest at market rates. As at December 31, 2015, the



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majority of the \$542.2 million in cash and cash equivalents and short-term investments (December 31, 2014 - \$562 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2015, a 100 basis point change in interest rates would result in a \$5.4 million adjustment to interest income (December 31, 2014 - \$5.6 million).

Additionally, the interest on the \$76 million short-term debt includes a variable rate component pegged to the LIBOR. Based on the amount drawn as at December 31, 2015, a 100 basis point change in LIBOR would result in a \$0.8 million adjustment to interest expenses (December 31, 2014 - \$0.8 million).

Although the Company strives to maximize the interest income earned on excess funds, the Company focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis and take advantage of opportunities to expand its property portfolio. The Company's policy limits the investing of excess funds to liquid term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit having a single "A" rating or greater.

**c. Credit risk**

Credit risk is the risk of a financial loss to the Company if a gold sales customer or counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises principally from the Company's receivables from customers and on cash and cash equivalents and short-term investments.

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with two customers. Boroo sells the gold and silver content of its doré to the Bank of Mongolia. Kyrgyzaltyn is Kumtor's sole customer and is a shareholder of Centerra.

To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 Centerra common shares it owns as security against unsettled gold shipments, in the event of default on payment (note 27).

Based on movements of Centerra's share price and the value of individual or unsettled gold shipments over the course of 2015, the maximum exposure during the year, reflecting the shortfall in the value of the security as compared to the value of any unsettled shipments, was approximately \$23.5 million (year ended December 31, 2014 - \$57.9 million).

The Company manages counterparty credit risk, in respect of short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions and corporate direct credit issues that can be promptly liquidated.

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**d. Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and short-term investments. In addition, \$74 million of the credit facility financing remains available. The Company believes that these sources will be sufficient to cover its anticipated short and long-term cash requirements.

At December 31, 2015, the Company had cash and cash equivalents and short-term investments totalling \$542.2 million (December 31, 2014 - \$562 million). A maturity analysis of the Company's financial liabilities, contractual obligations, other fixed operating and capital commitments is set out below:

**Year ended December 31, 2015**

(Millions of U.S. Dollars)	Total	Due In Less Than One Year	Due In One to Three Years	Due In Four to Five Years	Due After Five Years
Accounts payable and accrued liabilities	\$ 75.3	\$ 75.3	\$ -	\$ -	\$ -
Short-term debt	76.0	76.0	-	-	-
Reclamation trust deed	25.4	3.0	8.3	6.1	8.0
Capital equipment	13.5	13.5	-	-	-
Operational supplies	39.5	39.5	-	-	-
Project development	13.8	12.6	1.2	-	-
Lease of premises	2.7	0.5	0.9	0.9	0.4
<b>Total contractual obligations</b>	<b>\$ 246.2</b>	<b>\$ 220.4</b>	<b>\$ 10.4</b>	<b>\$ 7.0</b>	<b>\$ 8.4</b>

**Year ended December 31, 2014**

(Millions of U.S. Dollars)	Total	Due In Less Than One Year	Due In One to Three Years	Due In Four to Five Years	Due After Five Years
Accounts payable and accrued liabilities	\$ 45.9	\$ 45.9	\$ -	\$ -	\$ -
Short-term debt	76.0	76.0	-	-	-
Reclamation trust deed	27.9	2.7	8.8	5.8	10.6
Capital equipment	7.6	7.6	-	-	-
Operation supplies	37.6	37.6	-	-	-
Lease of premises	3.6	0.5	1.0	1.0	1.1
<b>Total contractual obligations</b>	<b>\$ 198.6</b>	<b>\$ 170.3</b>	<b>\$ 9.8</b>	<b>\$ 6.8</b>	<b>\$ 11.7</b>

The Company believes it has sufficient cash and cash equivalents and liquid short-term investments to meet its current obligations.

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**e. Commodity price risk**

The profitability of the Company's operations and mineral resource properties relates to the market price and outlook of gold. Adverse changes in the price of certain raw materials can also significantly affect the Company's cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank reserves management, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative or hedging activities, macro-economic variables, and certain other factors related specifically to gold.

To the extent that the price of gold increases over time, the fair value of the Company's mineral assets increases and cash flows will improve; conversely, declines in the price of gold will reduce the fair value of mineral assets and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the Company's profitability and cash flows may be impacted. As at December 31, 2015, the Company has not entered into any hedging arrangements to mitigate commodity price risk.

**31. Supplemental disclosure****a. Changes in operating working capital**

(Thousands of U.S. Dollars)	2015	2014
Decrease in amounts receivable	\$ 37,433	\$ 12,493
Decrease (increase) in inventory - ore and metal <sup>a</sup>	33,045	(34,672)
Decrease (increase) in inventory - supplies	778	(89)
Decrease in prepaid expenses	8	16,303
Increase in trade creditors and accruals	28,921	6,303
Decrease in revenue-based tax payable	(15,453)	(6,137)
(Increase) decrease in depreciation and amortization included in inventory	(52,693)	13,717
Decrease (increase) in accruals included in additions to PP&E	237	(1,158)
Revenue-based tax utilized	-	(10,000)
Increase in other taxes payable	256	139
	\$ 32,532	\$ (3,101)

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**b. Investment in PP&E**

(Thousands of U.S. Dollars)	2015	2014
Additions to PP&E during the year (note 11)	\$ (298,405)	\$ (358,515)
Greenstone Gold Property translation adjustment	220	-
Impact of revisions to asset retirement obligation included in PP&E (note 17)	(1,338)	7,325
Depreciation and amortization included in additions to PP&E (note 11)	51,137	73,747
Purchase of Öksüt royalty via share issuance (note 25(b))	4,860	-
(Decrease) Increase in accruals related to additions to PP&E	(241)	1,161
	\$ (243,767)	\$ (276,282)

**c. Adjusted cost of sales**

Earnings from mine operations includes the following expenses presented by function:

	2015	2014
Cost of sales	\$ 384,459	\$ 502,577
Impairment of goodwill (note 12)	18,705	111,000
Total adjusted costs of sales	\$ 403,164	\$ 613,577

**32. Subsequent events**

On February 4, 2016, the Mongolian Parliament passed a resolution setting the state ownership interest in the Gatsuert Project at 34% and authorizing the Mongolian Government to complete negotiations with Centerra on the terms of such ownership.

On February 12, 2016, the Company entered into the \$150 million EBRD Facility (note 15).

On February 24, 2016, the Company announced that its Board of Directors approved a quarterly dividend of Cdn\$0.04 per common share. The dividend is payable March 24, 2016 to shareholders of record on March 10, 2016.

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**33. Segmented Information**

In accordance with IFRS 8, *Operating Segments*, the Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM. Information presented in the table below is shown at the level at which it is reviewed by the CODM in his decision making process.

The Kyrgyz Republic segment includes the operations of the Kumtor Gold Project. The Mongolian segment involves the operations of the Boroo Gold Project, activities related to the Gatsuurt Project and local exploration activities. The Turkish segment includes the development of the Öksüt Project. The Corporate and other segment include the head office located in Toronto, the Greenstone Gold Property and other international exploration projects. The segments' accounting policies are consistent with those described in note 3, with the exception of inter-company loan interest income and expenses, which are eliminated on consolidation and are presented in the individual operating segments where they are generated.

**Geographic Segmentation of Revenue**

The Company's only product is gold doré, produced from mines located in the Kyrgyz Republic and Mongolia. 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 Bank of Mongolia.

The following table reconciles segment operating profit per the reportable segment information to operating profit per the Statements of Earnings.

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**Year ended December 31, 2015**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
<b>Revenue from gold sales</b>	\$ 604.6	\$ 19.4	\$ -	\$ -	\$ 624.0
Cost of sales	367.9	16.6	-	-	384.5
Standby costs	-	5.7	-	-	5.7
Regional office administration	15.8	3.3	-	-	19.1
<b>Earnings (loss) from mine operations</b>	<b>220.9</b>	<b>(6.2)</b>	<b>-</b>	<b>-</b>	<b>214.7</b>
Revenue-based taxes	84.6	-	-	-	84.6
Other operating expenses	2.2	(0.3)	-	-	1.9
Pre-development project costs	-	-	3.9	9.4	13.3
Impairment of goodwill	18.7	-	-	-	18.7
Exploration and business development	-	0.8	0.2	9.6	10.6
Corporate administration	0.3	0.3	-	35.2	35.8
<b>Earnings (loss) from operations</b>	<b>115.1</b>	<b>(7.0)</b>	<b>(4.1)</b>	<b>(54.2)</b>	<b>49.8</b>
Other expenses, net					3.4
Finance costs					4.4
<b>Earnings before income tax</b>					<b>42.0</b>
Income tax expense					0.4
<b>Net earnings and comprehensive income</b>					<b>\$ 41.6</b>
<b>Capital expenditure for the year</b>	<b>\$ 275.2</b>	<b>\$ 1.6</b>	<b>6.1</b>	<b>\$ 87.7</b>	<b>\$ 370.6</b>
<b>Assets</b>	<b>\$ 949.1</b>	<b>\$ 171.6</b>	<b>14.7</b>	<b>\$ 525.2</b>	<b>\$ 1,660.6</b>
<b>Total liabilities</b>	<b>\$ 103.0</b>	<b>\$ 31.2</b>	<b>3.6</b>	<b>\$ 101.9</b>	<b>\$ 239.7</b>

**Year ended December 31, 2014**

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
<b>Revenue from Gold Sales</b>	\$ 694.6	\$ 68.7	-	-	\$ 763.3
Cost of sales	444.4	58.1	-	-	502.5
Standby costs	-	2.4	-	-	2.4
Regional office administration	20.1	5.1	-	-	25.2
<b>Earnings from mine operations</b>	<b>230.1</b>	<b>3.1</b>	<b>-</b>	<b>-</b>	<b>233.2</b>
Revenue-based taxes	97.2	-	-	-	97.2
Other operating expenses	5.1	(1.3)	-	-	3.8
Pre-development project costs	-	-	6.0	-	6.0
Impairment of goodwill	111.0	-	-	-	111.0
Exploration and business development	0.4	4.2	2.5	8.6	15.7
Corporate administration	0.2	0.5	-	34.1	34.8
<b>Earnings (loss) from operations</b>	<b>16.2</b>	<b>(0.3)</b>	<b>(8.5)</b>	<b>(42.7)</b>	<b>(35.3)</b>
Other expenses, net					1.2
Finance costs					5.0
<b>Loss before income tax</b>					<b>(41.5)</b>
Income tax expense					2.6
<b>Loss and comprehensive loss</b>					<b>\$ (44.1)</b>
<b>Capital expenditure for the year</b>	<b>\$ 349.9</b>	<b>\$ 1.1</b>	<b>-</b>	<b>\$ 0.2</b>	<b>\$ 351.2</b>
<b>Goodwill</b>	<b>\$ 18.7</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 18.7</b>
<b>Assets (excluding Goodwill)</b>	<b>\$ 936.3</b>	<b>\$ 179.6</b>	<b>2.5</b>	<b>\$ 492.0</b>	<b>\$ 1,610.4</b>
<b>Total liabilities</b>	<b>\$ 92.0</b>	<b>\$ 34.5</b>	<b>0.7</b>	<b>\$ 103.2</b>	<b>\$ 230.4</b>

## CORPORATE INFORMATION

### DIRECTORS

Stephen A. Lang, *Chair*  
 Richard W. Connor  
 Raphael A. Girard  
 Emil Orozbaev<sup>1</sup>  
 Michael S. Parrett  
 Scott G. Perry  
 Sheryl K. Pressler  
 Terry V. Rogers, *Lead Director*  
 Kalinur Sadyrov<sup>1</sup>  
 Kylychbek Shakirov  
 Bruce V. Walter, *Vice-Chair*

(1) Effective March 9, 2016, Mr. Orozbaev and Dr. Sadyrov resigned from the board and the resulting vacancies were filled by the board by the appointment of Mr. Eduard Kubatov and Mr. Bektur Sagynov.

### TRANSFER AGENT

For information on common share holdings, lost share certificates and address changes, contact:

**CST Trust Company**  
 P.O. Box 700, Station B  
 Montreal, QC  
 H3B 3K3

North America phone toll free:  
 1.800.387.0825 or  
 416.682.3860  
 Fax: 1.888.249.6189  
 Email: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

### AUDITORS

**KPMG LLP**  
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 Bay Adelaide Centre  
 333 Bay Street  
 Suite 4600  
 Toronto, Ontario  
 Canada M5H 2S5

### STOCK EXCHANGE LISTING

Toronto Stock Exchange  
 Symbol: CG

### OFFICERS AND MANAGEMENT

Scott G. Perry  
*Chief Executive Officer*  
 Frank H. Herbert  
*President*  
 Jeffrey S. Parr<sup>1</sup>  
*Vice President and Chief Financial Officer*  
 Gordon D. Reid  
*Vice President and Chief Operating Officer*  
 Dennis C. Kwong  
*Vice President, Business Development and Exploration*  
 Anthony J. Meade  
*Vice President, Human Resources and Administration*

(1) Mr. Parr is retiring effective March 31, 2016 and Mr. Millman will assume the Chief Financial Officer role effective April 1, 2016.

John W. Pearson  
*Vice President, Investor Relations*  
 Darren J. Millman<sup>1</sup>  
*Vice President, Finance and Treasurer*  
 Kevin D'Souza  
*Vice President, Sustainability and Environment*  
 Peter W. Woodhouse  
*Vice President, Projects*

John M. Kazakoff  
*President, Boroo Gold Company*  
 Daniel R. Desjardins  
*President, Kumtor Gold Company*  
 Michael M. Fischer  
*General Manager, Öksüt Madencilik A.S.*

### INVESTOR RELATIONS CONTACT

John W. Pearson  
*Vice President, Investor Relations*  
[investor@centerragold.com](mailto:investor@centerragold.com)

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 Chingeltei Duureg  
 Ulaanbaatar, Mongolia 15160

**Kumtor Gold Company**  
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### Öksüt Madencilik A.S.

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 Hollanda Caddesi No. 3/5  
 Cankaya, Ankara, Turkey 06550

### EXPLORATION OFFICES

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 Chingeltei Duureg  
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