

Centerra Gold Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2016 and 2015

(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:
Darren J. Millman
Vice President and Chief Financial Officer

February 23, 2017

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, 2016 and December 31, 2015, the consolidated statements of earnings and other 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 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, 2016 and December 31, 2015, 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

February 23, 2017

Toronto, Canada

Centerra Gold Inc.
Consolidated Statements of Financial Position

		December 31, 2016	December 31, 2015
(Expressed in Thousands of United States Dollars)			
	Notes		
Assets			
Current assets			
Cash and cash equivalents	7	\$ 160,017	\$ 360,613
Short-term investments		74	181,613
Restricted cash	7	247,844	-
Amounts receivable	8	48,097	28,781
Inventories	9	540,753	347,011
Prepaid expenses	10	18,418	12,880
		<u>1,015,203</u>	<u>930,898</u>
Property, plant and equipment	11	1,564,891	693,016
Goodwill	6	16,070	-
Restricted cash	7	824	9,989
Reclamation deposits	17	32,035	18,909
Other assets	12	25,728	7,772
		<u>1,639,548</u>	<u>729,686</u>
Total assets		<u>\$ 2,654,751</u>	<u>\$ 1,660,584</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 130,342	\$ 75,292
Short-term debt	14	72,281	76,000
Revenue-based taxes payable	16(a)	19,202	9,152
Taxes payable	16(d)	2,302	1,286
Current portion of provision for reclamation	17	918	1,062
Other current liabilities	12	1,563	-
		<u>226,608</u>	<u>162,792</u>
Dividend payable to related party		-	9,330
Long-term debt	14	392,851	-
Provision for reclamation	17	157,498	65,087
Lease obligations	15	29,901	-
Deferred income tax liability	16(c)	1,661	2,524
Other liabilities	12	21,950	-
		<u>603,861</u>	<u>76,941</u>
Shareholders' equity	25		
Share capital		944,633	668,705
Contributed surplus		25,876	24,153
Accumulated other comprehensive (loss) income		(2,592)	220
Retained earnings		856,365	727,773
		<u>1,824,282</u>	<u>1,420,851</u>
Total liabilities and Shareholders' equity		<u>\$ 2,654,751</u>	<u>\$ 1,660,584</u>

Commitments and contingencies (note 26)

Subsequent events (note 14, 15, 26 and 29)

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 and Comprehensive Income (Loss)

For the years ended December 31,	2016	2015
(Expressed in Thousands of United States Dollars)		
(except per share amounts)		
	Notes	
Gold sales		\$ 715,772
Copper sales		\$ 623,950
Molybdenum sales		-
Tolling, calcining and other		-
Revenue		\$ 760,758
Cost of sales	18	384,459
Standby costs		259
Regional office administration		14,722
Earnings from mine operations		331,135
Revenue-based taxes	16(a)	84,633
Corporate administration	19	35,780
Exploration expenses		12,535
Thompson Creek Metals Inc. acquisition and integration expenses	6	8,413
Pre-development project costs	20	-
Other operating expenses	21	13,252
Care and maintenance expense		2,744
Business development		1,766
Impairment of goodwill		-
Earnings from operations		167,053
Other (income) expenses, net	22	49,879
Finance costs	23	(40)
Earnings before income tax		11,053
Income tax expense	16(b)	42,078
Net earnings		\$ 4,502
		\$ 41,629
Other Comprehensive Income		
Items that may be subsequently reclassified to earnings:		
Net (loss) gain on translation of foreign operation		(2,573)
Loss on derivative instruments, net of tax	29	220
Post-retirement benefit, net of tax		(387)
Other comprehensive (loss) income		148
Total comprehensive income		(2,812)
		\$ 41,849
Basic earnings per common share	25(b)	\$ 0.60
Diluted earnings per common share	25(b)	\$ 0.18

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

Centerra Gold Inc.**Consolidated Statements of Cash Flows****For the years ended December 31,****(Expressed in Thousands of United States Dollars)**

	Notes	2016	2015
Operating activities			
Net earnings		\$ 151,538	\$ 41,629
Adjustments for the following items:			
Depreciation, depletion and amortization	11	205,176	205,390
Finance costs	23	11,053	4,426
Loss on disposal of equipment		210	1,972
Compensation expense on stock options	25(d)	2,456	2,611
Other share based compensation (reversal) expense		(668)	828
Impairment of goodwill		-	18,705
Inventory (reversal of) impairment	9	(27,216)	27,216
Income tax expense	16(b)	4,502	449
Other operating items		(371)	(861)
		346,680	302,365
Changes in operating working capital	31(a)	33,029	32,532
Change in long-term inventory		-	349
Purchase and settlement of derivatives	29	(2,099)	-
Payments toward provision for reclamation	17	(613)	(1,004)
Income taxes paid		(5,553)	(676)
Cash provided by operations		371,444	333,566
Investing activities			
Additions to property, plant and equipment	31(b)	(212,832)	(243,767)
Equipment finance lease payments		(3,810)	-
Net redemption of short-term investments		181,539	79,890
Payment to Thompson Creek Metals Inc. debtholders	6	(881,018)	-
Cash received on completion of acquisition	6	98,054	-
Purchase of interest in Greenstone Partnership	11	-	(75,718)
(Increase) decrease in other non-current restricted cash		(201)	2,448
Payments for long-term reclamation deposits and other assets		(5,964)	(2,958)
Cash used in investing		(824,232)	(240,105)
Financing activities			
Dividends paid - declared in period		(18,480)	(29,389)
Dividends paid - from trust account		(4,466)	(2,936)
Proceeds from equity offering (net)	25	141,361	-
Proceeds from debt		398,363	-
Payment of interest and borrowing costs		(18,323)	(2,974)
Proceeds from common shares issued for options exercised		1,581	1,937
Cash received from (used in) financing		500,036	(33,362)
Increase in cash during the year		47,248	60,099
Cash and cash equivalents at beginning of the year		360,613	300,514
Restricted cash in respect of court order	7	(247,844)	-
Cash and cash equivalents at end of the year		\$ 160,017	\$ 360,613
<i>Cash and cash equivalents consist of:</i>			
Cash		\$ 60,995	\$ 122,581
Cash equivalents		99,022	238,032
		\$ 160,017	\$ 360,613

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 ("OCI")	Retained Earnings	Total
Balance at January 1, 2015	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	962,542	4,860	-	-	-	4,860
Foreign currency translation	-	-	-	220	-	220
Dividends declared (note 25(c))	-	-	-	-	(29,389)	(29,389)
Net earnings for the year	-	-	-	-	41,629	41,629
Balance at December 31, 2015	237,889,274	\$ 668,705	\$ 24,153	\$ 220	\$ 727,773	1,420,851
Share-based compensation expense	-	-	2,456	-	-	2,456
Shares issued on exercise of stock options	337,669	2,314	(733)	-	-	1,581
Shares issued to settle obligations	4,117,120	19,857	-	-	-	19,857
Shares issued on redemption of restricted share units	5,504	28	-	-	-	28
Shares issued to former Thompson Creek Metals Inc. shareholders	22,327,001	112,368	-	-	-	112,368
Shares issued in equity offering	26,599,500	141,361	-	-	-	141,361
Dividends declared (note 25(c))	-	-	-	-	(22,946)	(22,946)
Foreign currency translation	-	-	-	(2,573)	-	(2,573)
Loss on derivative instruments, net of tax	-	-	-	(387)	-	(387)
Post retirement benefit, net of tax	-	-	-	148	-	148
Net earnings for the year	-	-	-	-	151,538	151,538
Balance at December 31, 2016	291,276,068	\$ 944,633	\$ 25,876	\$ (2,592)	\$ 856,365	1,824,282

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 2016 and 2015

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

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 its registered office is located at 1 University Avenue, Suite 1500, Toronto, Ontario, M5J 2P1. The Company is focused on operating, developing, exploring and acquiring gold properties primarily in North America, Asia and other markets worldwide.

On October 20, 2016, the Company completed the acquisition of Thompson Creek Metals Company Inc. (“Thompson Creek” or “TCM”), whereby Centerra acquired all of the issued and outstanding common shares of Thompson Creek. See note 6 for additional details on the transaction.

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 23, 2017.

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

These financial statements are presented in United States (“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.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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

Centerra's significant subsidiaries and joint operations are as follows:

<u>Entity</u>	<u>Property - Location</u>	<u>Stage of Mine</u>	<u>Property Ownership</u>	
			<u>2016</u>	<u>2015</u>
Kumtor Gold Company ("KGC")	Kumtor Mine - Kyrgyz Republic	Operation	100%	100%
Boroo Gold LLC ("BGC")	Boroo Mine - Mongolia	Stand-by	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%	50%
Thompson Creek Metals Company Inc.	Mount Milligan Mine - Canada	Operation	100%	0%
Thompson Creek Metals Company Inc.	Endako Mine - Canada	Care and Maintenance	75%	0%
Langeloth Metallurgical Company LLC ("Langeloth")	Langeloth - United States	Molybdenum Processing Facility	100%	0%
Thompson Creek Mining Company	Thompson Creek Mine - United States	Care and Maintenance	100%	0%

As at December 31, 2016, the Company had also entered into agreements to earn interests in joint venture exploration properties located in Portugal, Canada, Mexico and Nicaragua.

Inter-company transactions between subsidiaries are eliminated on consolidation.

b. Business combinations

The Company uses the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets received and, the liabilities assumed or the equity interests issued by the Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of earnings.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

c. Foreign currency

The functional currency of the Company and its subsidiaries is the U.S. dollar ("USD"), 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 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.

d. 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 earnings (loss).

e. Restricted cash

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

f. 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

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Notes to the Consolidated Financial Statements

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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.

g. Inventories

Inventories of stockpiled ore, heap leach ore, in-circuit gold, heap leach gold in-circuit, gold and copper concentrate, gold doré and molybdenum inventory are valued at the lower of weighted average production cost and NRV. Gold and copper inventory valuation is based on contained ounces or pounds of the respective commodity. The production cost of inventories is determined on a weighted-average basis and includes direct materials, direct labour, transportation, shipping, freight and insurance costs, mine-site overhead expenses and depreciation, depletion and amortization of mining assets. Molybdenum inventory additionally includes amounts paid for molybdenum concentrate purchased from third parties, as well as costs associated with beneficiation and roasting.

Stockpiled ore is 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 unit mined and removed at the average cost per unit of the stockpiled ore. In-circuit inventories represent materials that are in the process of being converted to gold doré or concentrate. 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 the Statement of Earnings 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 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. Consumable supplies for operations in the care and maintenance stage of the mine life cycle and which are not expected to be used in the next twelve months are classified as long-term.

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h. 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 undertaken. Changes to estimated useful lives, residual values or depreciation methods resulting from such reviews 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.

As part of the purchase of Thompson Creek, the Company assumed a stream arrangement with RGLD GOLD AG ("Royal Gold"), a subsidiary of Royal Gold Inc. (described in further detail in note 6). Thompson Creek had previously recorded the upfront cash payments of \$781.5 million received under the Stream Arrangement as deferred revenue and classified it as a liability. Upon acquisition, the Company recorded the fair value of the deferred revenue as a proportionate reduction across the Mount Milligan Mine property, plant and equipment acquired (note 11).

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

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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 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:

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- it is probable that the future economic benefit associated with the stripping activity will flow to the Company;
- 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, with the exception of Langeloth, 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 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 or concentrate. Where a change in estimated recoverable gold ounces or copper pounds contained in proven and probable ore reserves is made, adjustments to depreciation are accounted for prospectively. Langeloth buildings, plant and equipment are depreciated on a straight-line basis, based on estimated useful lives which range from five to twenty years.

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 twenty 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.

i. 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. Subsequent to recording, 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

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

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.

j. 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, copper price, molybdenum price, exchange rates, 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 methods.

Where the recoverable amount is assessed using discounted cash flow methods, 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 plans take account of all relevant characteristics of the ore bodies, 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 plans are 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 commodity forward prices and by considering the average of the most recent market commodity price forecasts consensus from a number of recognized financial

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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.

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

k. Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the Statement of Earnings except to the extent that they relate 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.

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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.

l. 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, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows.

m. 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. If reclamation and restoration costs are incurred as a consequence of the production of inventory, the costs are recognized as a cost of that inventory. 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.

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n. Earnings per share

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

Diluted net earnings per share is computed by dividing the net earnings 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 per share is calculated using the 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 per share computation.

o. Revenue recognition

The Company sells its products pursuant to sales contracts entered into with its customers. Revenue associated with the sale of gold, concentrates and molybdenum products is recognized when all significant risks and rewards of ownership are transferred to the customer and the amount of revenue can be measured reliably. Typically 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. For concentrate sales, the passing of title and risk of loss are based on the terms of the sales contracts, generally upon shipment departure from the Port of Vancouver.

Revenues from the Company's concentrate sales are recorded at the time of shipment based on a provisional sales price, with adjustments made for a final sales price calculated in accordance with the terms specified in the relevant sales contract. Revenues from concentrate sales are recorded net of treatment and all refining charges and the impact of derivative contracts. Treatment and refining charges represent payments or price adjustments that are contractually negotiated, as are typical in the industry. Moreover, because a portion of the metals contained in concentrate is unrecoverable as a result of the smelting process, the Company's revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals.

The provisional prices are finalized in a specified future month (generally one to four months from the shipment date) based on quoted monthly average spot gold prices on the London Metal Exchange ("LME") or spot copper prices on the London Bullion Market Association ("LBMA"). The Company receives market prices based on prices in the specified future month, which results in mark-to-market price fluctuations recorded to revenues until the date of settlement. To the

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extent final prices are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues is recorded each reporting period reflecting estimated forward prices until the date of final pricing. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted as well.

To satisfy its obligations under the Gold and Copper Stream Arrangement (note 13), the Company purchases refined gold and LME copper warrants and arranges for delivery to Royal Gold. Revenue from and costs for refined physical gold and LME copper warrants delivered under the Gold and Copper Stream Arrangement and gains and losses related to the Company's forward commodity contracts to economically hedge the Company's exposure under the Gold and Copper Stream Arrangement are netted and recorded to revenue.

The Company's molybdenum sales contracts specify the point in the delivery process at which title transfers to the customer (shipping point or destination). Shipping and handling fees are accounted for on a gross basis under the terms of the contracts. The Company recognizes tolling and calcining revenue under contractual arrangements as the services are performed on a per-unit basis.

p. 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

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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, 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, certain executives and employees of the Company to receive all or a portion of their annual retainer or annual incentive payments as restricted share units. Restricted share units can be settled in cash or equity at the option of the holder. 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.

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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 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.

q. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

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. The amortization of debt financing fees is calculated on a amortized cost basis over the term of the instrument.

i. Financial assets recorded at fair value through earnings (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 and provisionally-priced receivables are classified as financial assets measured at fair value through earnings (loss).

ii. Amortized cost

Financial assets are recorded at amortized cost if both of the following criteria are met: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'.

The Company's short-term investments, amounts receivable (excluding provisionally-priced receivables), reclamation deposits and long-term receivables are recorded at amortized cost as they meet the required criteria. An allowance 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.

iii. Non-derivative financial liabilities

Accounts payable and accrued liabilities, provisionally payable amount due to Royal Gold, finance lease liability, debt and revenue-based taxes payable are accounted for at amortized

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cost, using the effective interest rate method. The amortization of debt issue costs is calculated using the effective interest rate method.

The Company's post-retirement benefit liability is measured at fair value through other comprehensive income (note 24).

Derivative financial instruments

The Company may hold derivative financial instruments to hedge its risk exposure to fluctuations of commodity prices, including the Company's final product (for example, gold or copper) and consumables (for example, diesel fuel) and other currencies compared to the USD. All derivative instruments not designated in a hedge relationship that qualifies for hedge accounting are classified as financial instruments at fair value through earnings (loss).

Derivative financial instruments through earnings are recorded in the Consolidated Statement of Financial Position ("Statement of Financial Position"). Changes in estimated fair value of non-hedge derivatives at each reporting date are included in the Consolidated Statement of Earnings as non-hedge derivative gains or losses, with the exception of the Royal Gold spot and forward contracts, which are included in revenue.

Hedges

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivative hedging instruments to forecasted transactions. Hedge effectiveness is assessed based on the degree to which the cash flows from the derivative contracts are expected to offset the cash flows of the underlying transaction being hedged.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value is recognized in other comprehensive income. For hedge items other than the purchase of non-financial assets, the amounts accumulated in other comprehensive income are reclassified to the consolidated statement of earnings when the underlying hedged transaction, identified at contract inception, affects profit or loss. When hedging a forecasted transaction that results in the recognition of a non-financial asset, the amounts accumulated in other comprehensive income are removed and added to the carrying amount of the non-financial asset.

Any ineffective portion of a hedge relationship is recognized immediately in the Statement of Earnings. When derivative contracts designated as cash flow hedges are terminated, expired, sold or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Any amounts recorded in other comprehensive income up until the time the contracts do not qualify for hedge accounting remain in other comprehensive income.

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Gains or losses arising subsequent to the derivative contracts not qualifying for hedge accounting are recognized in the period incurred in the Statement of Earnings. If the forecasted transaction is no longer expected to occur, then the amounts accumulated in other comprehensive income are reclassified to the Statement of Earnings immediately.

r. Finance leases

The Company is the lessee of equipment with Caterpillar Financial Services Limited (“Caterpillar” - see note 15), which was assumed as part of the Thompson Creek Acquisition (note 6).

The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Once ready for their intended use, the assets are depreciated over the lower of their related lease terms or their estimated productive lives.

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.

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

Significant judgement is required in assessing indicators of impairment. For long-term assets, including development properties the Company completes an evaluation at each reporting period of potential impairment indicators. The Company considers both external and internal sources of information in assessing whether there are any indications that long-term assets may be impaired.

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External sources of information that the Company considers include changes in the market, economic, political and legal environment in which the Company operates that are not within its control and could 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, analyses of economic performance of the assets and assessment of factors that may impact continuing progress toward development.

For the Mongolia CGU, management considers the likelihood of its ability to negotiate definitive agreements with the Mongolian Government on terms that are commercially economic. The inability to successfully negotiate the definitive agreements would result in a write-down of the carrying amount of the assets within the Mongolia CGU.

If an impairment trigger is identified, for the purposes of determining 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, copper and molybdenum prices, and production levels, which comprise proven and probable reserves and an estimated recoverable amount of resources if deemed appropriate, 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.

ii. Materials inventory

Management makes estimates of recoverable quantities of gold and copper in stockpiled ore, ore in-process and molybdenum work-in-process to determine the average costs of finished goods sold during the period and the value of inventories in the Statements of Financial Position. NRV tests are performed at each reporting period based on the estimated future sales price of the gold doré, gold and copper concentrate, molybdenum and other products based on prevailing market prices, less estimated costs to complete production and bring the materials 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 and copper pounds based on assay data, and the estimated recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled ore tonnage is verified by periodic surveys.

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Although the quantities of recoverable metal are reconciled by comparing the grades of ore to the quantities 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 based on environmental disturbances as at the reporting date.

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.

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. See note 16 for additional information on the basis for recognizing deferred tax assets.

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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 property, plant and equipment to be 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.

vii. Mineral reserve and resources estimation

The Company estimates its mineral 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 mineral 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 mineral

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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 mineral reserves and may, ultimately, result in the mineral reserves being revised.

Estimates of mineral reserves and mineral 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

viii. Revenue recognition

For concentrate sales, revenue is recognized when title and risk of loss pass and when collectability is reasonably assured. The passing of title and risk of loss are based on terms of the sales contracts, generally upon shipment of product. Revenues and the corresponding accounts receivable from the Company's concentrate sales are recorded based on a provisional sales price, with an adjustment made for a final sales price calculated in accordance with the terms specified in the relevant sales contract.

Under the long-established structure of sales agreements prevalent in the industry, metals contained in concentrate are generally provisionally priced at the time of shipment. The provisional prices are finalized in a specified future month (generally one to four months from the shipment date) based on quoted monthly average spot copper prices on the LME or the LBMA. The Company receives forward market prices based on prices in the specified future month, which results in mark-to-market price fluctuations recorded to revenues until the date of settlement. At times, the Company enters hedging arrangements to limit our exposure to such pricing fluctuations.

ix. Derivative financial instruments

Judgment is required to determine if an effective hedging relationship exists throughout the financial reporting period for derivative financial instruments classified as either a fair value or cash flow hedge. As at December 31, 2016, the Company determined that the Kumtor mine diesel hedging program continued to qualify for hedge accounting.

Management assesses the relationships on an ongoing basis to determine if hedge accounting is appropriate. The Company monitors on a regular basis its hedge position for its risk exposure to fluctuations in commodity prices, including prices for gold, copper and oil. For derivative contracts, valuations are based on forward rates considering the market price, rate of interest and

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volatility, and take into account the credit risk of the financial instrument. Refer to note 29 for sensitivity analyses based on changes in commodity prices.

x. 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.

5. Changes in accounting policies

Recently adopted accounting policies are as follows:

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 adopted IFRS 9 on a prospective basis in its Financial Statements on April 1, 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial statements, but did result in additional disclosure in the 2016 Financial Statements.

Recently issued but not adopted accounting guidance are as follows:

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 Financial Statements, with an intent to finalize in 2017.

In January 2016, the IASB issued a new standard and a number of amendments:

- New standard 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

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recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its Financial Statements.

- Amendments to IAS 7, *Statements of Cash Flows* (“IAS 7”). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company has assessed the impact of adopting these amendments and intends to satisfy the new requirements by disclosing a reconciliation between the opening and closing balances for liabilities arising from financing activities commencing in 2017.
- Amendments to IAS 12, *Income Taxes* (“IAS 12”). The amendments apply for annual periods beginning on or after January 1, 2017 with retrospective application. Early application of the amendments is permitted. The amendments clarify that the existence of a deductible temporary difference is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset and also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company has assessed the impact of adopting these amendments and determined it will not have a material impact on the Company’s Financial Statements.

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* (“IFRS 2”), clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018 with prospective application. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company is in the process of determining the impact of IFRS 2 on its Financial Statements.

In December 2016, IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”) was issued by the IASB. IFRIC 22 clarifies the date that should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. The Company is in the process of determining the impact of IFRIC 22 on its Financial Statements.

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6. Acquisition of Thompson Creek

i) Details of the Acquisition

On October 20, 2016, the Company completed the acquisition of 100% of the outstanding shares of Thompson Creek (“the Acquisition”). Thompson Creek was a North American-based mining company with gold, copper and molybdenum mining, milling, processing and marketing operations in Canada and the US.

The Acquisition was completed by way of a Plan of Arrangement under the Business Corporations Act (British Columbia), whereby all of the issued and outstanding Thompson Creek common shares were acquired by Centerra in exchange for 0.0988 Centerra common shares for each Thompson Creek common share (22,327,001 Centerra common shares - (note 25(a)). The common shares of Thompson Creek were then transferred to Centerra’s newly-formed wholly-owned subsidiary, Centerra B.C. Holdings Inc. (“Centerra B.C. Holdings”).

In connection with the closing of the Acquisition, Centerra redeemed, at their call prices, inclusive of early settlement premiums, plus accrued and unpaid interest, or satisfied and discharged, all of Thompson Creek’s outstanding Senior Secured Notes due in 2017 and Unsecured Notes due in 2018 and 2019, representing \$326.1 million (100%), \$349.7 million (101.84%) and \$205.2 million (106.25%), respectively.

Holders of Thompson Creek’s stock options were issued 111,341 replacement options to acquire common shares of Centerra, with the number of shares and exercise price adjusted for the exchange conversion ratio (note 25(d)).

ii) Stream Arrangement

In connection with the Acquisition, the streaming arrangement with Royal Gold associated with the Mount Milligan Mine was amended concurrently with closing of the Acquisition. Under the terms of the amendment, Royal Gold’s 52.25% gold stream, based on ounces of produced gold, and first ranking security at Mount Milligan has been converted to a 35% gold stream and 18.75% copper stream, based on copper produced, with a consistent change to the first ranking security. Royal Gold will continue to pay US\$435 per ounce of gold delivered and will pay 15% of the spot price per metric tonne of copper delivered. Royal Gold also continues to have a security interest over all of the Mount Milligan Mine assets.

iii) Financing

In connection with the Acquisition, as described in note 25, on July 20, 2016, the Company closed an offering under which the underwriters purchased 26,599,500 Subscription Receipts (“the Offering”) on a bought deal basis. Upon completion of the Acquisition, the net proceeds of the Offering, Cdn\$185.7 million, were used to partially fund the redemption of the Secured and

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Unsecured Notes of Thompson Creek and each Subscription Receipt holder received without payment of additional consideration or further action, one common share of Centerra. As stipulated in the Subscription Receipt agreement, Subscription Receipt holders were paid \$0.8 million (Cdn\$0.04 per subscription receipt held), in lieu of the dividend paid to common shareholders in August 2016 (note 25(c)). Upon closing of the Acquisition, 26,599,500 Centerra common shares were issued to settle the issued Subscription Receipts (note 25(a)).

Concurrently with the closing of the Acquisition, Centerra B.C. Holdings entered into a credit agreement with a lending syndicate, as lead arranger and administrative agent, providing for a \$250 million senior secured non-revolving term credit facility and a \$75 million senior secured revolving term credit facility to finance a portion of the Acquisition and to pay certain related fees and expenses (note 14).

iv) Purchase price allocation

The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, *Business Combinations* (“IFRS 3”), and as such has accounted for it in accordance with this standard, with Centerra being the accounting acquirer on the acquisition date of October 20, 2016.

The Company engaged an external third party valuator to assist in the determination of the fair value of the acquired assets and liabilities. A discounted cash flow model was used to estimate the fair values of the producing properties, where expected future cash flows were based on estimates of future production and commodity prices, operating costs and forecast capital expenditures based on the respective life of mine plan as at the acquisition date.

The following table summarizes the preliminary fair value of the identified assets acquired and liabilities assumed from Thompson Creek, based on the calculated fair value estimates.

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	October 20, 2016
<u>Total consideration</u>	
Cash paid to debtholders	\$ 881,018
Common share issuance (exchange for Thompson Creek shares)	112,368
Capital leases assumed	33,712
	\$ 1,027,098
<u>Assets acquired</u>	
Current assets	
Cash and cash equivalents	\$ 98,054
Amounts receivable	29,577
Inventories	119,454
Prepaid expenses and other assets	6,687
	\$ 253,772
Non current assets	
Reclamation deposits and restricted cash	\$ 10,084
Property, plant and equipment	905,575
Other assets	13,951
	\$ 929,610
Total assets	\$ 1,183,382
<u>Liabilities assumed</u>	
Accounts payable and accrued liabilities	\$ 60,347
Asset retirement obligations	81,766
Other liabilities	30,241
Total liabilities	\$ 172,354
Net assets acquired	1,011,028
Goodwill	\$ 16,070

The goodwill generated from the Acquisition was allocated to the North American Gold Copper CGU.

The Company's consolidated financial statements include \$74.4 million in revenues and net earnings of \$11.6 million from the Centerra B.C. Holdings group of companies for the period from October 20, 2016 to December 31, 2016. If the transaction had been completed on January 1, 2016, Centerra B.C. Holdings would have contributed additional revenues of \$343.4 million, for the period of January 1, 2016 to October 19, 2016. Consolidated revenues including pre-merger Thompson Creek would be \$1,104.1 million for the year ended December 31, 2016.

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Centerra B.C. Holdings had a loss of \$55.5 million from January 1, 2016 to October 19, 2016 (inclusive of restructuring, transaction costs and interest expense), and including this amount would have decreased net earnings for the year ended December 31, 2016 to \$96.1 million.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

Transaction costs of \$6 million relating to the arrangement have been expensed in the Statement of Earnings accordance with IFRS 3. In addition, due diligence costs and integration costs of \$3.3 million and \$2.6 million, respectively, were incurred in connection with the Acquisition:

	2016
Due diligence costs	\$ 3,346
Transaction costs	6,046
Integration costs	2,623
	\$ 12,015

7. Cash and Restricted cash

	2016	2015
<u>Current</u>		
Cash deposits held subject to court order (a)	\$ 247,844	\$ -
<u>Non-current</u>		
Öksüt Project (b)	550	623
Dividend trust account	-	9,366
Other	274	-
	824	9,989
Total	\$ 248,668	\$ 9,989

(a) As discussed in note 26, a Kyrgyz Republic court order requires cash generated from the Kumtor Project to continue to be held in KGC and among other things restrict the distribution of such cash to Centerra and any other Centerra group entities as a loan, advance or dividend. The restricted cash is however available to fund Kumtor's operation.

(b) In 2015, OMAS signed an agreement with a supplier to provide electrical power to the Öksüt Project. As part of the agreement, OMAS was required to deposit \$0.6 million, in equivalent Turkish Liras, in a restricted bank account, which the supplier has the right to claim in the event of a breach of contract by OMAS. The decrease in the December 31, 2016 balance represents movement in the underlying local currency exchange rate.

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The cash and cash equivalents balance at December 31, 2016 of \$160 million includes \$99.8 million held in Centerra Gold Inc., \$51.6 million held in Centerra B.C Holdings, the subsidiary that owns all of the former Thompson Creek assets, and the remaining \$8.6 million in other Company subsidiaries. Under the terms of the Centerra B.C. Holdings Credit Facility, the Company is required to prepay a portion of the loan in an amount equal to any amounts paid to Centerra as a dividend. Included in the funds held in Centerra Gold Inc. is \$50 million that can only be used for Mongolian purposes.

8. Amounts receivable

	2016	2015
Gold sales receivable from related party (note 27)	\$ 11,611	\$ 25,725
Gold and copper concentrate sales receivable from third party	9,704	-
Molybdenum sales receivable from third party	14,439	-
Provisionally priced sales receivable from third party	4,148	-
Consumption tax receivable	4,854	1,840
Other receivables	3,475	1,216
Total amounts receivable	48,231	28,781
Less: Provision for credit losses	(134)	-
Total amounts receivable (net of provision)	\$ 48,097	\$ 28,781

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

	2016	2015
Less than one month	\$ 32,195	\$ 26,481
One to three months	4,874	860
Three to six months	10,516	302
Over six months	646	1,138
Total amounts receivable	\$ 48,231	\$ 28,781
Less: Provision for credit losses	(134)	-
Total amounts receivable (net of provision)	\$ 48,097	\$ 28,781

As at December 31, 2016, provisionally priced amounts receivable from gold and copper concentrate sales of \$2.7 million and \$1.4 million were included within less than one month and one to three months, respectively. These sales are provisionally priced and settle at prices determined at a future date pursuant to various off-take agreements (note 3(o)). No provision for credit losses has been made for gold and copper concentrate sales.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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9. Inventories

	2016	2015
Stockpiles of ore	\$ 252,357	\$ 144,758
Gold in-circuit	20,304	23,155
Heap leach in circuit	-	226
Gold doré	7,710	5,632
Copper and gold concentrate	29,113	-
Molybdenum inventory	28,923	-
	338,407	173,771
Supplies	204,092	173,240
Total inventories (net of provisions)	\$ 542,499	\$ 347,011
Less: Long-term supplies inventory (note 12)	(1,746)	-
Total inventories - current portion	\$ 540,753	\$ 347,011

Copper and gold concentrate and molybdenum inventories relate to operations acquired as part of the Thompson Creek Acquisition (note 6). The amount of inventories recognized as an expense during the year ended December 31, 2016 was \$414.9 million (year ended December 31, 2015 - \$356.5 million) and is included in cost of sales. In the twelve months ended December 31, 2016, the Company has recognized a reversal of \$27.2 million in NRV charges recorded against gold inventories at Kumtor that was recorded as at December 31, 2015. See note 18 for additional information.

Molybdenum inventory of \$28.9 million as at December 31, 2016 included work-in-process inventory of \$16.3 million and finished goods inventory of \$12.6 million

The Company recorded a provision for supplies obsolescence of \$26.6 million as at December 31, 2016 (December 31, 2015 - \$21.1 million), resulting in supplies inventory net of the provision of \$204.1 million as at December 31, 2016 (December 31, 2015 - \$173.2 million).

10. Prepaid expenses

	2016	2015
Insurance	\$ 6,593	\$ 4,261
OMAS credit facility financing fees (note 14)	4,203	-
Deposits for consumable supplies	5,119	4,657
Advances for project development	-	1,453
Other	2,503	2,509
Total	\$ 18,418	\$ 12,880

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11. Property, plant and equipment

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

	Buildings, Plant and Equipment	Mineral Properties	Capitalized Stripping Costs	Mobile Equipment	Construction In Progress	Total
Cost						
January 1, 2015	\$ 407,872	\$ 208,931	\$ 907,614	\$ 458,218	\$ 72,591	\$ 2,055,226
Additions	687	14,958	210,553	57	72,150	298,405
Acquisition of interest in Greenstone Partnership	65	75,653	-	-	-	75,718
Disposals	(14,544)	(11,652)	-	(44,272)	(200)	(70,668)
Reclassification	51,900	1,767	-	41,066	(94,733)	-
Balance December 31, 2015	\$ 445,980	\$ 289,657	\$ 1,118,167	\$ 455,069	\$ 49,808	\$ 2,358,681
Acquisition of Thompson Creek (note 6)	598,072	205,019	-	74,221	28,263	905,575
Additions	740	21,039	136,690	164	101,390	260,023
Disposals	(2,355)	(146)	-	(1,803)	-	(4,304)
Fully depreciated assets	(80)	-	(1,073,133)	(42,974)	-	(1,116,187)
Reclassification	41,554	1,680	-	53,261	(96,495)	-
Balance December 31, 2016	\$ 1,083,911	\$ 517,249	\$ 181,724	\$ 537,938	\$ 82,966	\$ 2,403,788
Accumulated depreciation						
January 1, 2015	\$ 262,239	\$ 156,820	\$ 795,786	\$ 315,682	\$ -	\$ 1,530,527
Charge for the year	16,661	8,052	109,437	69,684	-	203,834
Disposals	(12,852)	(11,648)	-	(44,196)	-	(68,696)
Balance December 31, 2015	\$ 266,048	\$ 153,224	\$ 905,223	\$ 341,170	\$ -	\$ 1,665,665
Charge for the year	25,153	5,791	194,507	68,061	-	293,512
Disposals	(2,312)	-	-	(1,781)	-	(4,093)
Fully depreciated assets	(80)	-	(1,073,133)	(42,974)	-	(1,116,187)
Balance December 31, 2016	\$ 288,809	\$ 159,015	\$ 26,597	\$ 364,476	\$ -	\$ 838,897
Net book value						
Balance December 31, 2015	\$ 179,932	\$ 136,433	\$ 212,944	\$ 113,899	\$ 49,808	\$ 693,016
Balance December 31, 2016	\$ 795,102	\$ 358,234	\$ 155,127	\$ 173,462	\$ 82,966	\$ 1,564,891

During the year ended December 31, 2016, the Company offset \$1,116 million of fully depreciated capitalized stripping costs and mobile equipment with the associated accumulated depreciation. The net impact to the PP&E balance was nil.

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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:

	2016	2015
Amount recorded in cost of sales (note 18)	\$ 205,912	\$ 203,598
Amount recorded in corporate administration (note 19)	409	454
Amount recorded in standby costs	(1,175)	1,338
Amount recorded in care & maintenance costs	30	-
Total included in Statement of Earnings	205,176	205,390
Inventories movement (note 31(a))	52,076	(52,693)
Amount capitalized in PP&E (note 31(b))	36,260	51,137
Depreciation, depletion and amortization charge for the year	\$ 293,512	\$ 203,834

12. Other assets and Other liabilities

	2016	2015
Other assets:		
Long-term deposits and receivables (a)	\$ 6,326	\$ 1,509
Long-term supplies inventory (note 9) (b)	1,746	-
Prepayment for capital spares (c)	7,959	-
Derivative assets (note 29)	904	-
Prepayments for property, plant and equipment (d)	4,299	1,704
Other assets	4,494	4,559
Total other assets	\$ 25,728	\$ 7,772
Other liabilities:		
Deferred vendor payables (e)	\$ 14,291	\$ -
Post-retirement benefits (note 24)	3,541	-
Derivative liabilities (note 29)	1,512	-
Liabilities for unrecognized tax benefits	4,109	-
Other liabilities	60	-
Total other liabilities	23,513	-
Current portion of other liabilities	(1,563)	-
Non-current portion of other liabilities	\$ 21,950	\$ -

- a) Includes \$2.6 million (December 31, 2015 - nil) security deposit for the Company's leased assets (note 15), \$2.5 million (December 31, 2015 - nil) of fees recoverable, \$0.7 million (December 31, 2015 - \$1.5 million) consumption tax receivable and \$0.5 million (December 31, 2015 - nil) of cash collateral for a bond with a utility company.

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- b) Long-term inventories represent materials and supplies for the Endako Mine which is currently in care and maintenance.
- c) Prepayment for capital spares represents capitalized Component Operating Cost Program (“COCP”) payments. Under the COCP, the Company is required to make regular payments for ongoing repair and replacement of material equipment components of assets held under finance leases (note 15). The portion of payments attributable to the replacement of equipment components that extend the useful life of the equipment has been capitalized.
- d) Prepayments for property, plant and equipment represents vendor advances of \$2.4 million and \$1.9 million (December 31, 2015 – nil and \$1.7 million, respectively) for fixed asset purchases for the Öksüt Project and Kumtor Mine, respectively.
- e) Deferred vendor payable represents amounts due to BC Hydro and Power Authority. In February 2016, a deferred energy program was announced to provide relief to mining operations located in British Columbia, Canada. Under the program, mines would be able to defer up to 75 per cent of their electricity bills for up to 24 months, with repayment over five years. Repayment for deferred energy costs is dependent on average monthly copper prices and the average monthly Cdn\$/USD exchange rate. If the average monthly copper price converted to Canadian dollars exceeds C\$3.40/pound, then a portion of the deferred energy liability will be due and payable in the subsequent month.

13. Accounts payable and accrued liabilities

	2016	2015
Trade creditors and accruals	\$ 92,715	\$ 65,765
Amount due to Royal Gold (a)	29,170	-
Liability for share-based compensation (note 25)	8,457	9,527
Total	\$ 130,342	\$ 75,292

- (a) A subsidiary of Royal Gold holds a streaming interest in the production at Mount Milligan Mine, as described in note 6. As a result, when a trade receivable is recorded in relation to a third party customer gold and copper concentrate delivery, a corresponding liability to Royal Gold is generated.

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14. Debt

	2016	2015
<u>Centerra B.C. Holdings Credit Facility</u>		
Term Facility	\$ 250,000	\$ -
Revolving Facility	74,363	-
Less: deferred financing fees	(6,528)	-
	317,835	-
Less: current portion (net of deferred financing fees)	(47,943)	-
	269,892	-
<u>EBRD Facility</u>		
EBRD revolving credit facility	150,000	76,000
Less: deferred financing fees	(2,703)	-
	147,297	76,000
Less: current portion (net of deferred financing fees)	(24,338)	(76,000)
	122,959	-
Short-term debt	72,281	76,000
Long-term debt	392,851	-
Total	\$ 465,132	\$ 76,000

Centerra B.C. Holdings Credit Facility

In connection with the Acquisition, as described in note 6, Centerra B.C. Holdings, entered into a credit agreement with a lending syndicate with an aggregate principal amount of \$325 million to finance a portion of the Acquisition and to pay certain related fees and expenses.

Finance fees for the facility are deferred and amortized over the term of the facility. The five-year term facility consists of a \$75 million senior secured revolving credit facility (the "Revolving Facility") and a \$250 million senior secured non-revolving term credit facility (the "Term Facility", collectively, the "Credit Facility"). The Term Facility was used to fund part of the Acquisition, while \$49.4 million of the Revolving Facility was used for the Acquisition. The principal amount of the Term Facility is to be repaid in \$12.5 million quarterly increments commencing March 31, 2017, while the Revolving Facility is to be repaid at the end of the five-year term. Centerra B.C. Holdings must make a matching pre-payment on the Term Facility when declaring a dividend to Centerra Gold Inc. In the fourth quarter of 2016, the Company drew an additional \$25 million of the Revolving Facility, to be used for working capital purposes. The terms of the Credit Facility require compliance with specified covenants (including financial covenants – commencing in the first quarter of 2017). In January 2017, the covenants for 2017 were amended to reflect the planned 2017 production profile.

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Centerra B.C. Holdings' obligations under the Credit Facility are guaranteed by its material subsidiaries and secured by the material assets acquired, which includes the Mount Milligan mine, the Endako mine, the Langeloth facility and certain material subsidiaries.

	2016
<u>Centerra B.C. Holdings Credit Facility</u>	
Undrawn amount (millions)	\$ 0.6
Term Facility - Interest rate - three month LIBOR plus ⁽¹⁾	3.75%
Revolving Facility - Interest rate - three month LIBOR plus ⁽¹⁾	3.75%

(1) The interest rate applied is dependent on a covenant calculation and is paid and re-assessed quarterly. The margin interest rate ranges from 2.75% to 3.75%. Accrued interest is included in the Statement of Financial Position as part of 'Accounts payable and accrued liabilities'.

EBRD Revolving Credit Facility

On February 12, 2016, the Company entered into a new five-year \$150 million revolving credit facility with European Bank for Reconstruction and Development ("the EBRD Facility"). In connection with the fourth quarter second tranche withdrawal, EBRD waived a condition precedent to the drawing of an additional \$50 million under the facility for the purposes of funding direct and indirect costs associated with the Gatsurt Project.

The terms of the EBRD Facility require the Company to pledge certain mobile equipment from the Kumtor mine as security with a book value of \$110.7 million as at December 31, 2016 (December 31, 2015 - \$136.5 million), and maintain compliance with specified covenants (including financial covenants). In February 2017, EBRD agreed to amend the collateral coverage ratio associated with the EBRD Facility in consideration of the KGC interim order. The Company was in compliance with the covenants for the year ended December 31, 2016.

Funds drawn under the EBRD Facility are available to be re-drawn on a semi-annual basis and at the Company's discretion, repayment of the loaned funds may be extended until 2021. In connection with the amendment to the collateral coverage ratio the Company was required to repay \$25 million of the EBRD Facility in 2017, which were paid in February 2017, and therefore \$25 million has been classified as a current debt obligation and the remaining \$125 million as non-current debt obligation as at December 31, 2016.

	2016	2015
<u>EBRD Facility</u>		
Undrawn amount of the facility	\$ -	\$ 74,000
Interest rate - six month LIBOR plus ⁽¹⁾ :		
First tranche - \$100 million	3.0%	2.9%
Second tranche - \$50 million	5.0%	N/A

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

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OMAS Facility

On April 5, 2016, OMAS a wholly-owned subsidiary of the Company, entered into the \$150 million OMAS Facility expiring on December 30, 2021. The purpose of the OMAS Facility is to assist in financing the construction of the Company's Öksüt Project.

Availability of the OMAS Facility is subject to customary conditions precedent, including receipt of all necessary permits and approvals. If the conditions are not satisfied or waived by the deadline of June 30, 2017 or an additional extension is not granted by the lenders, the commitments under the OMAS Facility will be cancelled. The Company continues to work on satisfying the conditions precedents by such deadline, however some conditions, such as the receipt of the pastureland permit for the Öksüt Project, are beyond Centerra's control. There are no assurances that all conditions will be satisfied by the deadline, or that the lenders will provide any waivers or extensions.

As at December 31, 2016, \$4.2 million of OMAS Facility deferred financing fees were included in prepaid expenses (note 10) as the Company has yet to draw from the facility. The deferred financing fees are being amortized over the term of the OMAS Facility consistent with IFRS 9 (note 29). The OMAS Facility is secured by Öksüt assets and is non-recourse to the Company.

2016**OMAS Facility**

Undrawn amount of the facility	\$ 150,000
Interest rate - LIBOR plus ⁽¹⁾	2.65% - 2.95%

⁽¹⁾ The interest rate applied is dependent on the timing of the completion of the Öksüt Project construction.

15. Leases

	2016	2015
Equipment Facility leases	\$ 29,901	\$ -
	\$ 29,901	\$ -

As part of the Acquisition (note 6), on October 20, 2016, the Company assumed Thompson Creek's capital equipment lease obligations of \$33.7 million owed to Caterpillar in relation to the mobile fleet equipment for the Mount Milligan Mine.

On December 22, 2016, the Company entered into a refinance commitment to consolidate and refinance the Company's finance leases whereby the Company would purchase the assets held under finance leases through a loan ("Promissory Note") provided by Caterpillar. The Promissory Note was subsequently signed on January 25, 2017. The Promissory Note is repayable on February 28, 2018. Interest on the Promissory Note is at three-month LIBOR + 4.93% paid quarterly in arrears. The refinancing of the finance leases defers payments of \$22.7

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million previously due in 2017. The Promissory Note is secured by assets previously held under finance leases and contains certain non-financial covenants. The terms of the finance leases outstanding as at December 31, 2016 are not considered to be substantially different under the Promissory Note.

See note 30 for future lease payments under finance leases as at December 31, 2016.

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, 2016, the 13% revenue-based tax expense recorded by Kumtor was \$89.4 million (year ended December 31, 2015 - \$78.6 million), while the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue totalled \$6.9 million (year ended December 31, 2015 - \$6 million).

As at December 31, 2016, \$19.2 million of revenue-based tax was payable to the Kyrgyz Government (December 31, 2015 – \$9.2 million).

b. Income tax expense

		2016		2015
Current tax	\$	5,365	\$	191
Deferred tax		(863)		258
Total Income tax expense	\$	4,502	\$	449

No entities, other than those in Mongolia, Netherlands, Canada and the United States recorded an income tax expense during the years ended December 31, 2016 and December 31, 2015.

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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:

	2016	2015
Earnings before income tax	\$ 156,040	\$ 42,078
Income tax expense calculated at Canadian tax rates if applicable to earnings in other countries.	41,350	11,151
Income tax effects of:		
Difference between Canadian tax rate and rates applicable to subsidiaries in other countries	(51,641)	(30,872)
Change in unrecognized deductible temporary differences	(757)	(3,195)
Impact of foreign currency movements	10,066	1,768
Non-deductible employee costs	3,033	692
Mongolian withholding tax on dividends	3,250	-
BC mining tax	633	-
Other non-deductible expenses or non-taxable items	(1,432)	20,905
	\$ 4,502	\$ 449

c. Deferred income tax

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

	2016	2015
Deferred income tax assets:		
Provisions - asset retirement obligation and other	\$ 5,681	\$ 8,508
Total deferred tax assets	\$ 5,681	\$ 8,508
Deferred income tax liabilities:		
Property plant and equipment	\$ (7,493)	\$ (6,342)
Cash and cash equivalents	-	(3,760)
Short-term investments	-	(930)
Other	151	-
Total deferred tax liabilities	\$ (7,342)	\$ (11,032)
Net deferred tax liabilities	\$ (1,661)	\$ (2,524)

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

	Tax losses income ^(a)	Tax losses capital	Exploration	Asset retirement obligation	Property, plant and equipment ^(b)	Tax credits	Other	Total
December 31, 2016								
Expiring within one year	\$ 4,064	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	4,064
Expiring within one to five years	14,399	-	-	-	-	-	-	14,399
Expiring after five years	679,739	-	-	-	-	-	-	679,739
No expiry date	-	38,527	101,747	50,252	181,256	86,457	64,526	522,765
	\$ 698,202	\$ 38,527	\$ 101,747	\$ 50,252	\$ 181,256	\$ 86,457	\$ 64,526	\$ 1,220,967
December 31, 2015								
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
	\$ 151,396	\$ 28,446	\$ 48,547	\$ -	\$ -	\$ -	\$ 7,765	\$ 236,154

(a) The utilization of United States net operating loss carryforwards of \$72.9 million will be limited in any year as a result of the change in ownership.

(b) The PP&E deferred income tax assets includes resources expenditures for operating mines.

The Company also has a deferred mining tax asset for BC mining tax of \$74.4 million that is not recognized.

At December 31, 2016, no deferred tax liabilities have been recognized in respect of the aggregate amount of \$1,133 million (December 31, 2015 - \$820 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.

d. Taxes payable and receivable

	2016	2015
Other taxes payable	\$ 1,199	\$ 1,286
Income taxes payable	1,103	-
Total taxes payable	2,302	1,286
Income taxes receivable ^(a)	(709)	-
Total taxes payable and receivable	\$ 1,593	\$ 1,286

(a) Income taxes receivables are included within amounts receivable (note 8).

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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17. Provision for reclamation

	2016	2015
Kumtor gold mine	\$ 51,593	\$ 40,861
Boroo gold mine	23,044	23,520
Mount Milligan mine	24,211	-
Thompson Creek mine	31,744	-
Endako mine	26,046	-
Gatsuurt Project	1,778	1,768
Total provision for reclamation	158,416	66,149
Less: current portion	(918)	(1,062)
	\$ 157,498	\$ 65,087

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 to be \$221.9 million at December 31, 2016, including \$122.9 million assumed from the sites related to the Acquisition – Note 6 (December 31, 2015 - \$84.2 million):

Undiscounted costs (millions)	Total	Kumtor	Boroo	Gatsuurt	Mount Milligan	Endako	Thompson Creek
December 31, 2016	\$221.9	\$65.7	\$31.0	\$2.3	\$40.9	\$36.1	\$45.9
December 31, 2015	\$84.2	\$52.5	\$29.4	\$2.3	N/A	N/A	N/A

The carrying amount of the asset retirement obligations and the expected timing of payment of the cash flows are based on the life of mine plans with the following key assumptions:

	Kumtor	Boroo	Gatsuurt	Mount Milligan	Endako	Thompson Creek
Start date	2026	Ongoing	2027	2038	2028	2031
Risk-free discount rate (2016)	2.45%	2.59%	2.48%	2.30%	1.84%	2.62%
Risk-free discount rate (2015)	2.31%	2.35%	2.31%	N/A	N/A	N/A

In the year ended December 31, 2016, the Company updated the Kumtor conceptual closure plan, leading to an increase in the undiscounted costs associated with reclamation of \$13.2 million, primarily as a result of design updates and inclusion of a requirement to regrade all waste dumps.

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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. Mount Milligan, Endako and Thompson Creek completed their regularly scheduled updates to their closure costs estimates in December 2016.

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

	2016	2015
Balance at January 1	\$ 66,149	\$ 67,916
Obligations assumed as a result of the Acquisition (note 6)	81,766	-
Liabilities paid	(613)	(1,004)
Change in estimates ^(a)	9,238	(2,285)
Accretion expense (note 23)	1,876	1,522
Total provision for reclamation	158,416	66,149
Less: current portion	(918)	(1,062)
Balance at December 31	\$ 157,498	\$ 65,087

^(a)In the year ended December 31, 2016, the discounted change in estimates includes: increases in Kumtor of \$9.8 million and a decrease in Boroo and Thompson Creek of \$0.5 million and \$0.1 million, respectively.

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, 2016, this fund had a balance of \$22.0 million (December 31, 2015 - \$18.9 million).

The Company is required by US federal and state laws and Canadian provincial laws to provide financial assurance sufficient to allow a third party to implement approved closure and reclamation plans at Mount Milligan, Endako and Thompson Creek mine if the Company is unable to do so. These laws are complex and vary from jurisdiction to jurisdiction. The laws govern the determination of the scope, cost of the closure, reclamation obligation and the amount and forms of financial assurance. As of December 31, 2016, the Company has provided the appropriate regulatory authorities in the US and Canada with \$73.4 million in reclamation bonds for mine closure obligations, partially secured by a cash deposit.

December 31, 2016 - Reclamation bonds	Total	Mount Milligan	Endako	Thompson Creek
Total (millions)	\$73.4	\$22.5	\$8.6	\$42.3
Cash collateral (millions)	\$10.0	Nil	Nil	\$10.0

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

	2016	2015
Kumtor reclamation trust fund	\$ 21,953	\$ 18,909
Thompson Creek Mine	10,000	-
Other	82	-
Total	\$ 32,035	\$ 18,909

18. Cost of sales

	2016	2015
Operating costs:		
Salaries and benefits	\$ 67,584	\$ 59,435
Consumables and maintenance charges	146,440	93,856
Third party services	7,742	3,761
Other operating costs	10,489	10,160
Royalties, levies and production taxes	378	874
By-product sales ^(a)	(3,680)	-
Changes in inventories	3,093	(15,223)
	232,046	152,863
Supplies inventory obsolescence charge (note 9)	3,900	1,729
Inventory impairment (note 9)	(27,216)	27,216
Provision for reclamation adjustment	-	(947)
Depreciation, depletion and amortization (note 11)	205,912	203,598
	\$ 414,642	\$ 384,459

^(a) 2016 by-product sales includes \$2.2 million of silver sales.

19. Corporate administration

	2016	2015
Administration and office costs	\$ 4,850	\$ 3,457
Professional fees	4,330	7,710
Salaries and benefits	13,718	13,131
Share-based compensation	4,276	11,028
Depreciation and amortization (note 11)	409	454
	\$ 27,583	\$ 35,780

As part of the Acquisition, the Company assumed Thompson Creek's corporate office in Denver, Colorado, which contributed \$1.7 million to corporate administration costs for the period from October 20, 2016 to December 31, 2016.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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20. Pre-development project costs

	2016		2015	
Greenstone Gold Property	\$	10,687	\$	9,310
Öksüt Project		-		3,942
	\$	10,687	\$	13,252

On July 28, 2015, the Board of Directors of the Company made the decision to advance the Öksüt Project and commit to additional costs, including long lead time items. In accordance with the Company's accounting policies, costs incurred subsequent to this date, associated with the development of the Öksüt Project, are capitalized. In the year ended December 31, 2016, the Company capitalized Öksüt Project development costs of \$11.8 million (2015 - \$5.4 million) as Construction in Progress, part of PP&E (note 11).

21. Other operating expenses

	2016		2015	
Social development contributions	\$	1,075	\$	2,549
Gatsuurt Project care and maintenance		580		138
Selling and marketing (a)		1,089		-
Sundry income		-		(818)
	\$	2,744	\$	1,869

a) Selling and marketing costs primarily comprised of freight charges associated with the Mount Milligan Mine and Langeloth processing facility.

22. Other (income) expenses, net

	2016		2015	
Interest income	\$	(2,490)	\$	(1,428)
Foreign exchange loss		1,087		6,073
Provision for credit losses (note 8)		134		-
Change in fair value of non-hedge financial instruments		524		-
Ineffective portion of hedging financial instruments		4		-
Miscellaneous expense (income)		701		(1,270)
	\$	(40)	\$	3,375

Centerra Gold Inc.
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23. Finance costs

	2016	2015
<u>EBRD Facility:</u>		
Interest expense	\$ 3,993	\$ 2,463
Financing costs amortized	424	66
Commitment fees	272	375
<u>Centerra B.C. Holdings Credit Facility:</u>		
Interest expense	3,124	-
Financing costs amortized	439	-
Commitment fees	11	-
<u>OMAS Facility:</u>		
Financing costs amortized	457	-
Accretion expense (note 17)	1,876	1,522
Other financing fees	457	-
	\$ 11,053	\$ 4,426

24. Employee benefits

Defined Contribution Pension Plans

Centerra, as a result of the acquisition of Thompson Creek, is required to maintain defined contribution pension plans. The Thrift Plan (the "Plan") is a defined contribution pension plan and covers all eligible employees employed in the US. The Plan is subject to the provisions of the US Employee Retirement Income Security Act of 1974, as amended, and Section 401(k) of the US Internal Revenue Code. The assets of the Plan are held and the related investment transactions are executed by the Plan's trustee. Administrative fees, including accounting and attorney fees, are paid by the Company on behalf of the Plan. The Company contributed approximately \$0.2 million, from October 20, 2016 to December 31, 2016. The Company may make additional contributions to the Plan at its sole discretion; however, there are no further obligation relating to benefits under this Plan.

As part of the Acquisition, the Company also assumed a Registered Pension Plan (the "Pension Plan") covering all of the former Thompson Creek's Canadian employees. The assets of the Pension Plan are held and the related investment transactions are executed by the Pension Plan's trustee. Administrative fees, including any accounting and legal fees, are paid by the Company on behalf of the Pension Plan. All participating locations of the Pension Plan contributed Cdn\$0.2 million from October 20, 2016 to December 31, 2016. The Company has no further obligation relating to pension benefits under this Pension Plan.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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Post-retirement benefits

Under the union agreement at the Langeloth Facility, the Company is required to provide post-retirement medical benefits for certain retired former employees and their dependents by making the monthly medical insurance premium payments on their behalf. Substantially all service requirements are met at the time of retirement, as specified in the union agreement. The benefit ceases when the eligible retired employee reaches 65 years of age. The Company does not have any obligation related to eligible retired unionized employees beyond the monthly medical insurance premiums. Prior service costs, actuarial gains and losses and transition obligations are amortized over the average life expectancy of the plan's participants.

The liability for this obligation of \$3.5 million was included in other liabilities of the Company's Statement of Financial Position as of December 31, 2016.

The assumptions used to determine the benefit obligations as of December 31, 2016 included a discount rate of 4.0%. The health care cost trend assumed that average cost of coverage was 7.0% for 2016, reduced by 0.25% annually from 2018 to 2021 and from there being reduced by 0.5% to an ultimate trend of 4.5% in 2025 and beyond. The assumed health care cost trend rates can have a significant effect on the amounts reported for post-retirement medical benefits. The effect of a one percent change in the health care cost trend rate used to calculate periodic post-retirement medical costs and the related benefit obligation would be insignificant to this benefit obligation.

The expected post-retirement medical benefits provided below were based on actuarial assumptions:

Expected benefit payments:	
2017	\$ 66
2018	76
2019	128
2020	177
2021	215
2022-2026	<u>1,504</u>
	<u>\$ 2,166</u>

Centerra Gold Inc.
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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.

	<u>Number of common shares</u>	<u>Amount</u>
Balance at January 1, 2015	236,403,958	\$ 660,554
Shares issued on exercise of stock options	461,697	2,951
Shares issued on redemption of restricted share units	61,077	340
Purchase of Öksüt royalty	962,542	4,860
Balance at December 31, 2015	237,889,274	\$ 668,705
Shares issued on exercise of stock options	337,669	2,314
Shares issued on redemption of restricted share units	5,504	28
Shares issued to settle obligations	4,117,120	19,857
Shares issued to former Thompson Creek shareholders	22,327,001	112,368
Shares issued in equity offering	26,599,500	149,082
Equity offering issuance costs	-	(7,721)
Balance at December 31, 2016	291,276,068	\$ 944,633

The Acquisition was completed by the exchange of common shares, whereby one Thompson Creek share was exchanged for 0.0988 Centerra common shares (note 6), for a total of 22,327,001 shares of the Company. The value of the Centerra shares issued was \$112.4 million (including \$1.6 million relating to the settlement of performance share units and restricted share units) using the October 19, 2016 closing common share price of Cdn\$6.60.

Additionally, in connection with the Acquisition, on July 20, 2016, the Company closed an offering under which the underwriters purchased on a bought deal basis 26,599,500 Subscription Receipts, which were redeemed for common shares upon the close of the Acquisition on October 19, 2016. Proceeds from the Centerra shares issued were \$141.4 million, net of issuance costs of \$7.7 million.

Centerra Gold Inc.
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b. Earnings per share

Basic and diluted earnings per share computation:

	2016	2015
Net earnings attributable to shareholders	\$ 151,538	\$ 41,629
Adjustment to earnings:		
Impact of performance share units accounted for as equity-settled	(553)	-
Impact of restricted share units treated as equity-settled	(207)	-
Net earnings for the purposes of diluted earnings per share	\$ 150,778	\$ 41,629
<hr/> (Thousands of common shares)		
Basic weighted average number of common shares	251,458	236,592
Effect of potentially dilutive securities:		
Stock options	494	359
Restricted share units	127	-
Diluted weighted average number of common shares	252,079	236,951
<hr/>		
Basic earnings per common share	\$ 0.60	\$ 0.18
Diluted earnings per common share	\$ 0.60	\$ 0.18

For the years ended December 31, 2016 and 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 price being greater than the average market price of the Company's ordinary shares for the period.

Potentially dilutive securities are summarized below:

(Thousands of units)	2016	2015
Stock options	2,023	1,924
Restricted share units	-	218
	2,023	2,142

c. Dividends

Dividends are declared and paid in Canadian dollars.

In the year ended December 31, 2016, the Company's Board of Directors approved three quarterly dividend payments of Cdn\$0.04 per common share, paid to common shareholders in

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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March 2016, May 2016 and August 2016. As described in note 30(d), no further dividends have been declared or paid by the Company.

As stipulated in the Subscription Receipt agreement, Subscription Receipt holders were paid \$0.8 million (Cdn\$0.04 per subscription receipt held), in lieu of the dividend paid to common shareholders in August 2016 (note 6).

The details of dividends declared in 2016 and 2015 are as follows:

	2016	2015
Dividends declared (U.S. dollars)	\$ 22,946	\$ 29,389
Dividends declared (Canadian Dollars per share amount)	\$ 0.12	\$ 0.16

d. Share-based compensation

The impact of share-based compensation as of and for the years ended December 31, 2016 and 2015 is summarized as follows:

	Number outstanding Dec 31, 2016	(Millions of U.S. dollars except as indicated)			
		Expense		Liability	
		2016	2015	Dec 31, 2016	Dec 31, 2015
(i) Stock options	5,363,755	\$ 2.5	\$ 2.6	\$ -	\$ -
(ii) Performance share units	1,652,792	1.5	8.9	6.8	8.0
(iii) Deferred share units	216,542	-	0.1	1.0	1.0
(iv) Restricted share units	147,064	0.6	0.8	0.7	0.5
		\$ 4.6	\$ 12.4	\$ 8.5	\$ 9.5

(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.

Centerra Gold Inc.

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

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

	2016		2015	
	Number of Options	Weighted Average Exercise Price (Cdn\$)	Number of Options	Weighted Average Exercise Price (Cdn\$)
Balance, January 1	4,793,592	\$ 7.75	3,868,334	\$ 8.21
Granted	1,281,329	9.15	1,572,592	6.10
Forfeited	(373,497)	(10.03)	(185,639)	(9.03)
Exercised ^(a)	(337,669)	(6.10)	(461,695)	(5.47)
Balance, December 31	5,363,755	\$ 8.03	4,793,592	\$ 7.75

^(a) The weighted average market price of shares issued for options exercised in the year ended December 31, 2016 was Cdn\$7.52 (year ended December 31, 2015 - 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, 2016 and 2015:

Grant date	Number of options	Grant price (Cdn\$)	Expected life	Share price volatility ^(b)	Dividend yield	Risk free rate	Fair value price (Cdn\$)
March 7, 2016	1,066,307	7.32	3 years	67.37%	2.67%	0.56%	2.95
March 30, 2016	71,044	5.99	1 year	68.36%	2.67%	0.55%	2.46
May 31, 2016	3,256	6.86	3 years	67.69%	2.33%	0.65%	2.71
October 20, 2016 ^(a)	111,341	29.38	2.1 years	59.75%	2.39%	0.55%	0.22
November 16, 2016	29,381	6.84	3 years	62.65%	2.33%	0.74%	2.54
	1,281,329	9.15	2.8 years	66.66%	2.64%	0.56%	2.68

Grant date	Number of options	Grant price (Cdn\$)	Expected life	Share price volatility (b)	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

^(a) Options granted to former Thompson Creek option holders, grant price conversation ratio of 0.0988 to 1 and maintaining the underlying time period of the original option (note 6). Figures above are average of the series (grant price range - Cdn\$3.75 and Cdn\$119.18 per share).

^(b) 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.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2016 and 2015**

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As at December 31, 2016, there were 5,363,755 options outstanding to acquire common shares with exercise prices ranging from Cdn\$3.75 to Cdn\$119.18 per share, and expiry dates ranging between 2017 and 2024. There were 3,049,042 options vested as at December 31, 2016.

(ii) Performance Share Unit plan

Centerra's Performance Share Unit plan transactions during the years ended December 31, 2016 and 2015 were as follows:

Number of units	2016	2015
Balance, January 1	2,177,233	1,813,811
Granted	663,799	1,018,943
Exercised	(871,887)	(491,619)
Cancelled	(316,353)	(163,902)
Balance, December 31	1,652,792	2,177,233

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

	2016	2015
Share price (Canadian dollars)	\$ 6.29	\$ 6.53
S&P/TSX Global Gold Index	\$ 224.13	\$ 148.44
Expected life (years)	1.31	0.86
Expected volatility- Centerra's share price	57.7 %	36.0 %
Expected volatility- S&P/TSX Global Gold Index	46.4 %	27.9 %
Risk-free rate of return	1.2 %	0.6 %
Forfeiture rate	5.7 %	5.5 %
Weighted adjustment factor	2.0	2.0

The vested number of units outstanding as at December 31, 2016 are 762,613 (December 31, 2015 – 745,415). The December 31, 2016 performance share unit liability balance of \$6.8 million includes \$5.4 million attributable to the vested units (December 31, 2015 – liability of \$8.0 million, of which \$7.0 million was vested).

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(iii) Deferred Share Unit plan

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

Number of units	2016	2015
Balance, January 1	205,645	187,807
Granted	10,897	17,838
Balance, December 31	216,542	205,645

At December 31, 2016, the number of units outstanding had a related liability of \$1.0 million (December 31, 2015 – \$1.0 million). In 2016, no compensation cost was recorded for this plan (compensation cost in year ended December 31, 2015 - \$0.1 million).

(iv) Restricted Share Unit plan

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

Number of units	2016	2015
Balance, January 1	107,291	239,336
Granted	166,690	145,123
Redeemed	(126,917)	(277,168)
Balance, December 31	147,064	107,291

At December 31, 2016, the number of units outstanding had a related liability of \$0.7 million (December 31, 2015 - \$0.5 million). Compensation expense for the plan was \$0.6 million in the year ended December 31, 2016 (year ended December 31, 2015 - \$0.8 million).

26. Commitments and contingencies

Commitments

(a) Contracts

As at December 31, 2016, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$90.6 million (Öksüt Project \$50.3 million, Kumtor - \$34.5 million, Mount Milligan - \$4.3 million, Greenstone Gold Property - \$1.1 million, and other - \$0.4 million). Öksüt Project commitments include \$36.1 million of contracts that will be settled over the next two to three years, while a majority of all other contracts are expected to be settled over the next twelve months. The cost to cancel Öksüt Project commitments is approximately \$7.9 million.

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(b) Concentrate sales agreements

As of December 31, 2016, the Company is party to three multi-year concentrate sales agreements for the sale of concentrate produced at Mount Milligan Mine. Pursuant to these agreements, the Company has agreed to sell an aggregate of the copper and gold concentrate produced at Mount Milligan Mine of approximately 100,000 tonnes in 2017, 90,000 tonnes in 2018 and 40,000 tonnes in 2019. Pricing under these concentrate sales agreements will be determined by reference to specified published reference prices during the applicable quotation periods. Payment for the concentrate will be based on the price for the agreed copper and gold content of the parcels delivered, less smelting and refining charges and certain other deductions, if applicable. The copper smelting and refining charges will be negotiated in good faith and agreed by the parties for each contract year based on terms generally acknowledged as industry benchmark terms. The gold refining charges are as specified in the agreements. The remaining concentrate produced at the Mount Milligan Mine will be sold under short-term contracts or on a spot basis.

(c) Greenstone Partnership

As partial consideration for the Company's initial 50% partnership interest in Greenstone Gold Mines LP, the Company agreed to commit up to an additional Cdn\$185 million to fund the project, subject to certain feasibility and project advancement criteria. 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, 2016, the Company has funded a total of Cdn\$51.3 million (\$39.4 million) of its commitment since the inception of the partnership.

(d) Molybdenum purchases and sales

In the normal course of operations, the Company enters into agreements for the purchase of molybdenum. As of December 31, 2016, the Company had commitments to purchase approximately 11.0 million pounds of molybdenum as unroasted molybdenum concentrate in 2017 primarily priced at the time of purchase at a set discount to the market price for roasted molybdenum concentrate.

In the normal course of operations, the Company enters into certain molybdenum sales contracts pursuant to which it sells future production at fixed prices. As of December 31, 2016, the Company had commitments to sell approximately 56,000 pounds of molybdenum oxide annually from 2017 to 2019 at an average price of \$12.73 per pound.

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(e) 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 and storage facilities in North America, which amounted to \$1.1 million in the year ended December 31, 2016 (year ended December 31, 2015 - \$0.8 million). The future aggregate minimum lease payments for the non-cancellable operating lease of the Toronto and Denver offices are as follows:

	2016	2015
2016	\$ -	\$ 479
2017	1,747	497
2018	924	501
2019	575	537
2020 to 2021	800	1,074
	\$ 4,046	\$ 3,088

Note that the lease commitment excludes \$0.8 million of sublease rental income the Company anticipates collecting over the next two years.

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, 2016 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

Arbitration

As previously disclosed, Centerra commenced an arbitration proceeding against the Kyrgyz Republic and Kyrgyzaltyn on July 12, 2016, in relation with certain ongoing disputes relating to the Kumtor Project.

Subsequent to year-end on January 12, 2017, Centerra filed with the Permanent Court of Arbitration ("PCA") a request for partial award, or in the alternative, interim measures, against the Kyrgyz Republic. The Company is seeking an award ordering that the Kyrgyz Republic withdraw or stay its claims relating to previously disclosed environmental, dividend and land use

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claims, and related decisions and court orders. Centerra has requested that the matter be heard on a compressed time frame.

Under Centerra's Restated Investment Agreement with the Kyrgyz Republic dated as of June 6, 2009 (the "2009 Restated Investment Agreement"), the arbitration will be determined by a single arbitrator and conducted under UNCITRAL Arbitration Rules in Stockholm, Sweden. Disputes arising out of the 2009 Restated Investment Agreement will be governed by the law of the State of New York, USA and the conduct and operations of the parties will be governed by the 2009 Restated Investment Agreement, the 2009 Restated Concession Agreement and the laws of the Kyrgyz Republic.

Even if the Company receives an arbitral award in our favour against the Kyrgyz Republic and/or Kyrgyzaltyn, there are no assurances that it will be recognized or enforced in the Kyrgyz Republic. Accordingly, the Company may be obligated to pay part of or the full amounts of, among others, the SIETS and SAEPF claims regardless of the action taken by the arbitrator. The Company does not have insurance or litigation reserves to cover these costs. If the Company were obligated to pay these amounts, it would have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Kyrgyz Permitting and Regulatory Matters

As at December 31, 2016, KGC has all key permits and approvals in place for mining operations at the Kumtor Project in 2017. Kumtor routinely discharges water from its tailings facility starting in the spring 2017 and expects to apply for and receive, in the ordinary course, the required discharge permit prior to such time. The withdrawal of any required permit could lead to a suspension of Kumtor operations.

SIETS and SAEPF Claims

The Kumtor Project is subject to a number of claims made by, among others, Kyrgyz Republic state environmental agencies. A claim was filed on August 23, 2016 by the Chui-Bishkek-Talas Local Fund of Nature Protection and Forestry Development of SAEPF, seeking compensation for environmental pollution in the amount of 40,340,819 Kyrgyz soms (approximately \$0.6 million).

On May 25, 2016, the Bishkek Inter-District Court in the Kyrgyz Republic ruled against Kumtor Operating Company ("KOC"), Centerra's wholly-owned subsidiary, on two claims made by SIETS in relation to the placement of waste rock at the Kumtor waste dumps and unrecorded wastes from Kumtor's effluent and sewage treatment plants. The Inter-District Court awarded damages of 6,698,878,290 Kyrgyz soms (approximately US\$96.5 million, based on an exchange rate of 69.43 Kyrgyz soms per US\$1.00) and 663,839 Kyrgyz soms (approximately US\$9,500), respectively. On June 1, 2016, the Inter-District Court ruled against KOC on two other claims made by SIETS in relation to alleged land damage and failure to pay for water use. The Inter-

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District Court awarded damages of 161,840,109 Kyrgyz soms (approximately US\$2.3 million) and 188,533,730 Kyrgyz soms (approximately US\$2.7 million), respectively. Centerra and KOC strongly dispute the SIETS claims and have appealed the decisions to the Bishkek City Court and will, if necessary, appeal to the Kyrgyz Republic Supreme Court.

On June 3, 2016, the Inter-District Court held a hearing in respect of the claim made by SAEPF alleging that Kumtor owes additional environmental pollution fees in the amount of approximately US\$220 million. The court did not issue a decision on the merits of the claim itself. However, at the request of SAEPF, the court granted the Kyrgyz Republic an interim court order which prohibits KGC from taking any actions relating to certain financial transactions including, transferring property or assets, declaring or paying dividends, pledging assets or making loans. The injunction was effective immediately. KGC's appeal of the Inter-District Court's order to Bishkek City Court was dismissed on July 19, 2016, and its subsequent appeal to the Kyrgyz Republic Supreme Court was dismissed on October 19, 2016. As a result of the appeal by KGC, the proceedings on the merits of the SAEPF claim were suspended, however, the Company now expects such hearings on the merits to resume.

The Kyrgyz Republic court order dated June 3, 2016 purports to: (i) require cash generated from the Kumtor Project to continue to be held in KGC; and (ii) prevent distribution of such cash to Centerra. As at December 31, 2016, KGC's cash balance was approximately \$248 million (note 7). The cash generated from the Kumtor Project is available to fund Kumtor's operation.

2013 KGC Dividend Civil Proceeding

On June 3, 2016, the Inter-District Court renewed a claim previously commenced by the GPO seeking to unwind the \$200 million dividend paid by KGC to Centerra in December 2013 (the "2013 Dividend"). Centerra believes that the claim is without merit.

Mongolia

Gatsuurt

Since 2016, the Company has been in discussions with the Mongolian Government to implement a 3% special royalty in lieu of the Government's 34% direct interest in the Gatsuurt Project. Various working groups were established by the Mongolian Government to negotiate with Centerra and its wholly owned subsidiary, Centerra Gold Mongolia ("CGM"), the definitive agreements relating to the Gatsuurt Project. The Company expects to continue such negotiation in 2017.

Concurrent with the negotiations of such agreements, the Company is undertaking economic and technical studies to update the existing studies on the project, which were initially completed and published in May 2006.

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There are no assurances that Centerra will be able to negotiate definitive agreements with the Mongolian Government on terms that are commercially economic or that such economic and technical studies will have positive results. The inability to successfully negotiate the definitive agreements and/or adverse results of the additional economic and technical studies being conducted would result in a write down of the approximately \$48 million related to the investment in the Gatsurt Project and approximately \$53 million of remaining capitalized costs for the Boroo mill facility, other surface structures and equipment parts.

Corporate

Ontario Court Proceedings Involving the Kyrgyz Republic and Kyrgyzaltyn

Since 2011, there have been four applications commenced in the Ontario courts 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 Centerra common shares held by Kyrgyzaltyn, a state controlled entity, and therefore that such applicant(s) are entitled to seize such number of common shares and/or such amount of dividends as necessary to satisfy their respective arbitral awards against the Kyrgyz Republic. On July 11, 2016, the Ontario Superior Court of Justice released a decision on the common issue in these four applications - whether the Kyrgyz Republic has an exigible ownership interest in the Centerra common shares held by Kyrgyzaltyn. The Ontario Superior Court of Justice determined that the Kyrgyz Republic does not have any equitable or other right, property, interest or equity of redemption in the common shares held by Kyrgyzaltyn. As a result, on July 20, 2016, the Ontario Superior Court of Justice set aside previous injunctions which prevented Centerra from, among other things, paying any dividends to Kyrgyzaltyn. Accordingly, Centerra released to Kyrgyzaltyn approximately Cdn\$18.9 million which was previously held in trust for the benefit of two Ontario court proceedings.

Three of the applicants appealed the decision to the Ontario Court of Appeal which heard the case on December 4, 2016. The court issued its decision on January 3, 2017 which upheld the trial judge's decision.

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

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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:

	2016	2015
<i>Included in sales:</i>		
Gross gold and silver sales to Kyrgyzaltyn	\$ 691,630	\$ 607,832
Deduct: refinery and financing charges	(3,825)	(3,310)
Net sales revenue received from Kyrgyzaltyn	\$ 687,805	\$ 604,522
<i>Included in expenses:</i>		
Contracting services provided to Kyrgyzaltyn	\$ 1,543	\$ 1,396
Management fees payable to Kyrgyzaltyn	546	521
Expenses paid to Kyrgyzaltyn	\$ 2,089	\$ 1,917
<i>Dividends:</i>		
	2016	2015
Dividends declared to Kyrgyzaltyn (as shareholder)	\$ 7,097	\$ 9,616
Withholding taxes	(355)	(481)
Net dividends declared to Kyrgyzaltyn	\$ 6,742	\$ 9,135

Related party balances

The assets and liabilities of the Company include the following amounts receivable from and payable to Kyrgyzaltyn:

	2016	2015
Amounts receivable ^(a)	\$ 11,611	\$ 25,725
Dividend payable (net of withholding taxes)	\$ -	\$ 13,096
Net unrealized foreign exchange gain	-	(3,766)
Dividend payable (net of withholding taxes)	-	9,330
Amount payable	1,218	1,039
Total related party liabilities	\$ 1,218	\$ 10,369

^(a) Subsequent to December 31, 2016, the balance receivable from Kyrgyzaltyn was paid in full.

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

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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.

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, and Vice President Business Development & Exploration.

During the years ended December 31, 2016 and 2015, remuneration to directors and key management personnel were as follows:

Compensation of directors

	2016	2015
Fees earned and other compensation	\$ 861	\$ 938
Share-based compensation	619	(510)
Total expense	\$ 1,480	\$ 428

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 each of the directors.

Compensation of key management personnel

	2016	2015
Salaries and benefits	\$ 5,064	\$ 6,800
Share-based compensation	2,114	7,202
Total expense	\$ 7,178	\$ 14,002

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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, pursue and support growth opportunities (see the Acquisition – note 6), continue the development and exploration of its mineral properties, satisfying debt repayment requirements and other obligations, and to provide returns for shareholders and benefits for other stakeholders.

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, as evidence through funds raised via debt and equity offerings in connection with the Acquisition (note 6). 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 access to sufficient funds 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, 2016, the Company expects its capital resources and projected future cash flows from operations to support its normal operating requirements on an ongoing basis. Refer to the liquidity risk section of note 30 for further discussion of the availability of funds to the Company.

The Company's capital structure consists of short-term and long-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:

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	2016	2015
Shareholders' equity	\$ 1,824,282	\$ 1,420,851
Long-term debt	392,851	-
Short-term debt	72,281	76,000
	2,289,414	1,496,851
Less:		
Restricted cash (note 7)	(248,668)	(9,989)
Cash and cash equivalents	(160,017)	(360,613)
Short-term investments	(74)	(181,613)
Total invested capital	\$ 1,880,655	\$ 944,636

29. Financial Instruments

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash, amounts receivable (including embedded derivatives), derivative assets and liabilities, reclamation deposits, long-term receivables, accounts payable and accrued liabilities, debt, dividends payable and revenue-based taxes payable.

Financial Instruments

The Company has early adopted all of the requirements of IFRS 9, with a date of initial application of April 1, 2016. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in debt or credit quality since initial recognition.

The adoption of the expected credit loss impairment model did not impact the Company's existing financial statements, with the exception of additional disclosure. The Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39:

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	IAS 39	IFRS 9
Assets		
Cash and cash equivalents	Fair value through earnings (loss)	Fair value through earnings (loss)
Short-term investments	Fair value through earnings (loss)	Amortized cost
Restricted cash	Fair value through earnings (loss)	Fair value through earnings (loss)
Amounts receivable	Loans and receivables	Amortized cost
Derivative asset	Fair value through OCI	Fair value through OCI
Provisionally-priced receivables	Fair value through earnings (loss)	Fair value through earnings (loss)
Reclamation deposits	Fair value through earnings (loss)	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Liabilities		
Trade creditors and accruals	Other financial liabilities	Amortized cost
Amount due to Royal Gold	Fair value through earnings (loss)	Fair value through earnings (loss)
Finance lease liability	Other financial liabilities	Amortized cost
Debt	Other financial liabilities	Amortized cost
Derivative liability	Fair value through OCI	Fair value through OCI
Dividend payable to related party	Other financial liabilities	Amortized cost
Revenue-based taxes payable	Other financial liabilities	Amortized cost

IFRS 9 does not require restatement of comparative periods.

Derivative Instruments

The Company uses derivatives as part of its risk management program to mitigate exposures to various market risks including, commodity prices, currency exchange rates and the cost of consumables.

The Company designates certain derivatives as cash flow hedging instruments (“Derivatives designated as hedging instruments”). The effective portion of changes in the fair value of these derivatives is recognized in other comprehensive income (loss) and accumulated in the hedging reserve. The amount accumulated in the hedging reserve is removed and included in the carrying amount of the non-financial item when recognized. Any ineffective portion of changes in the fair value of these derivatives is recognized immediately in the Statement of Earnings.

Hedges that are expected to be highly effective in achieving offsetting changes in cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company uses a selection of derivative instruments that are effective in achieving our risk management objectives, but are not designated under the hedge accounting criteria (“Derivatives

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not designated as hedging instruments”). Changes in fair value of these derivatives are recognized immediately in the Statement of Earnings.

As of December 31, 2016, the Company had four counterparties to our derivative positions. On an ongoing basis, the Company monitors its exposures and ensures that the counterparties with which it holds outstanding contracts with continue to meet the credit rating requirements of the Company’s risk management policy.

Gold and copper contracts

The Company must satisfy its obligation the under Gold and Copper Stream Arrangement by delivering gold and copper to Royal Gold after receiving payment from third-party purchasers, including offtakers and traders, which purchase concentrate from the Mount Milligan Mine ("MTM Customers"). The Company delivers physical gold and copper warrants to Royal Gold based on a percentage of the gold ounces and copper pounds included in each final sale of concentrate to MTM Customers within two days of receiving a final payment. If the final payment from an MTM Customer is not received within five months of the provisional payment date, then the Company will deliver an estimated amount of gold ounces and copper warrants based on information that is available from the MTM Customer at that time.

The Company receives payment from MTM Customers in cash, thus requiring the purchase of physical gold and copper warrants in order to satisfy the obligation to pay Royal Gold. In order to hedge its gold price risk that arises when physical purchase and concentrate sales pricing periods do not match, hereafter referred to as the “Gold Stream Risk”, the Company has entered into certain forward gold purchase and sales contracts pursuant to which it purchases gold at an average price during a quotational period and sells gold at a spot price. These contracts are treated as “Derivatives not designated as hedging instruments”. The Company records its forward commodity contracts at fair value using a market approach based on observable quoted market prices and contracted prices. In January 2017, the Company entered similar contracts to hedge its copper price risk that arises as a result of the Company purchasing and delivering copper warrants to Royal Gold.

From October 20, 2016 to December 31, 2016, the Company entered spot and forward contracts for 42,000 ounces of gold, with forward contracts for 35,000 ounces of gold outstanding at December 31, 2016. As at December 31, 2016, the Company had two counterparties to its gold derivative positions, one of which the Company holds a liability position of \$1.5 million and the other a net position of nil.

Consumables contracts

For the risk relating to the consumption of diesel fuel, the Company believes that derivatives are an appropriate way of managing the price risk of the cost of diesel fuel.

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Crude oil is a component of diesel fuel purchased by the Company, such that changes in the price of Brent crude oil generally impacts diesel fuel prices. The Company established a hedging strategy to manage changes in diesel fuel prices on the cost of operations at the Kumtor Mine. The diesel fuel hedging program is a 24-month rolling program. The Company targets to hedge up to 70% of monthly diesel purchases for the first 12 months and 50% of the 13 through 24 month exposure.

The Company has designated call options and collars as cash flow hedges for the crude oil component of its highly probable forecasted diesel fuel purchases. These derivatives meet the hedge effectiveness criteria and are designated in a hedge accounting relationship as a result of the following factors:

- Economic relationship exists between the hedged item and hedging instrument, as notional amounts match and both the hedged item and hedging instrument fair values move in response to the same risk (crude oil). A comprehensive qualitative and quantitative analysis was performed in order to conclude that crude oil is a separately identifiable and reliably measurable risk component of the diesel purchases for the Kumtor mine. In considering the economic relationship qualitatively, the Company considered the Russian oil market and the approach to purchasing diesel oil for the Kumtor mine. Quantitatively, the Company performed historical correlation analysis between prices of diesel purchased at Kumtor and Brent crude oil prices.
- The hedge ratio is 1.0 for this hedging relationship, as the hedged item is the specific crude oil risk component of the diesel purchases and matches the hedging instrument.
- Credit risk is not dominant in the fair value of the hedging instrument.

The Company has identified two sources of potential ineffectiveness; 1) the timing of cash flow differences between the diesel fuel purchases and the related derivative and 2) the inclusion of credit risk in the fair value of the derivative not replicated in the hedged item. The Company expects the impact of these sources of hedge ineffectiveness to be minimal. The timing of hedge settlements and purchases of diesel fuel are closely aligned, as they are expected to occur within 30 days of each other. As noted above, credit risk is not a material component of the fair value of the Company's hedging instruments, as all counterparties are reputable banking institutions and are highly rated.

During the year, call options for 608,000 barrels of crude oil were designated against forecasted fuel consumption at the Company's Kumtor mine. As at December 31, 2016, there remain call options for 535,000 barrels of Brent crude oil designated as cash flow hedges of the Company's exposure to forecasted fuel purchases at the Kumtor mine. As at December 31, 2016, the Company had two counterparties to its crude oil derivative positions, one of which the Company holds a net asset position of \$0.6 million and the other a net asset position of \$1.1 million.

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Provisionally-Priced Contracts

Certain copper-gold and molybdenum sales contracts provide for provisional pricing. These sales contain an embedded derivative related to the provisional-pricing mechanism. As at December 31, 2016, the Company's embedded derivatives trade receivable had a value of \$4.1 million, representing 6.5 million pounds of copper and 61,693 ounces of gold.

Currency contracts

Non-hedge currency contracts are used to mitigate the variability of non-US dollar denominated exposures that do not meet the strict hedge effectiveness criteria.

In the year ended December 31, 2016, the Company entered into a foreign exchange forward contract to mitigate the currency risk associated with the Canadian funds raised through the bought deal financing associated with the acquisition of TCM (note 6). This derivative was settled in the fourth quarter of 2016, resulting in a realized loss of \$0.6 million.

Cash flow hedge gains (losses) for the year ended December 31, 2016

Consumable contracts

Effective portion of change in fair value of hedging instruments	(428)
Transfers to Inventory on recording hedged items in Inventory	41
Loss recognized in OCI	\$ (387)

Portion of hedge loss expected to affect earnings in next 12 months	\$ (218)
---------------------------------------------------------------------	-----------------

Amount of gain (loss) transferred from OCI to inventory (effective portion)	\$ 41
Loss recognized in Other expense, net (ineffective portion)	\$ (4)

Non-hedge derivatives for the year ended December 31, 2016

Revenue (loss)

Commodity contracts - realized	(2,181)
Commodity contracts - unrealized	170
Total loss included in revenue	\$ (2,011)

Other expense (income)

Commodity contracts	(52)
Consumables contracts	(16)
Currency contract	592
Total loss included in Other expense, net	\$ 524

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Derivative assets and liabilities

As at January 1, 2016	\$	-
Cost of crude oil options purchased		2,099
Cash flow hedges:		
Effective portion		(441)
Ineffective portion		(4)
As at December 31, 2016	\$	<u>1,654</u>
Classification of cash flow hedges:		
Current assets - Prepaid expenses	\$	750
Non-current assets - Other assets (note 12)		904
	\$	<u>1,654</u>

Classification of non-hedge:

Current liabilities - Commodity contracts (Royal Gold) **\$ 1,512**

The fair value of these contracts, based on an increase or a decrease of 10% of the price of the hedged item, would have been as shown in the sensitivity table below. The entire change in fair value would be recorded in the Statement of Earnings.

Sensitivity table

	<u>Fair value as at</u> <u>December 31, 2016</u>	<u>Increase of</u> <u>10%</u>	<u>Decrease of</u> <u>10%</u>
Brent crude oil option contracts	\$ 1,654	\$ 3,128	\$ 758
Commodity contracts (Royal Gold)	\$ (1,512)	\$ 1,715	\$ (4,738)

Fair values of derivative instruments

	Balance Sheet Classification	Fair Value as at December 31, 2016
Derivatives designated as hedging instruments		
Consumables contracts	Other assets	\$ 1,654
Derivatives not designated as hedging instruments		
Commodity contracts	Other liabilities	\$ (1,512)

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Summary of derivatives at December 31,

	Notional Amount by Term to Maturity		Accounting Classification by Notional Amount		Fair value gain (loss)
	1 year	1 to 2 years	Cash flow hedge	Non- hedge	
Commodity contracts					
Forward contracts	\$ 40,103	\$ -	\$ -	\$ 40,103	\$ (1,512)
Consumable contracts					
Crude oil contracts (000s of barrels) ¹	305	230	535	-	\$ (391)
Option contracts with strike prices at (US\$/barrel - average)	\$ 63	\$ 65			

¹Fuel contracts represent crude oil options. These derivatives hedge physical diesel fuel purchases at the Kumtor mine. For the year ended December 31, 2016, the \$0.4 million effective portion of the fair value loss is included in OCI. The Company's option contracts expiring within one year and one to two years have an average strike price per barrel of \$63 and \$65, respectively.

Fair value measurement

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, which 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, 2016

	Amortized cost	Assets/liabilities at fair value through earnings (loss)	Assets/liabilities at fair value through OCI
<u>Financial assets</u>			
Cash and cash equivalents - Level 1	\$ -	\$ 160,017	-
Short-term investments	74	-	-
Restricted cash - Level 1	-	248,668	-
Amounts receivable	43,949	-	-
Provisionally-priced receivables - Level 2	-	4,148	-
Reclamation deposits	32,035	-	-
Long-term receivables	6,326	-	-
Consumable derivative assets - Level 2	-	-	1,654
	\$ 82,384	\$ 412,833	\$ 1,654
<u>Financial liabilities</u>			
Trade creditors and accruals	\$ 92,715	\$ -	-
Amount due to Royal Gold - Level 1	-	29,170	-
Finance lease liability	29,901	-	-
Debt	465,132	-	-
Revenue-based taxes payable	19,202	-	-
Commodity derivative liability - Level 2	-	-	1,512
	\$ 606,950	\$ 29,170	\$ 1,512

December 31, 2015

<u>Financial assets</u>			
Cash and cash equivalents - Level 1	\$ -	\$ 360,613	-
Short-term investments	181,613	-	-
Restricted cash - Level 1	-	9,989	-
Amounts receivable	28,781	-	-
Reclamation trust fund	18,909	-	-
Long-term receivables	1,509	-	-
	\$ 230,812	\$ 370,602	-
<u>Financial liabilities</u>			
Trade creditors and accruals	\$ 65,765	\$ -	-
Debt	76,000	-	-
Dividend payable to related party	9,330	-	-
Revenue-based taxes payable	9,152	-	-
	\$ 160,247	\$ -	-

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The book value of short-term investments, amounts receivable, reclamation deposits, long-term receivables, trade creditors and accruals, finance lease liability, debt and revenue-based taxes payable approximate their relative fair value.

The fair value of diesel derivative instruments, classified within Level 2, is determined using option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The fair value of the Company's derivative contracts includes an adjustment for credit risk.

Forward commodity contracts and provisionally priced contracts, are classified within Level 2 because they are valued using a market-based-approach, other than observable quoted prices included within Level 1, other inputs from published market prices and contracted prices and terms.

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

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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, 2016, total Canadian dollars and Euros purchased were Cdn\$130.0 million and €22.2 million (year ended December 31, 2015 - Cdn\$133.5 million and €20.6 million), including executed forward contracts of Cdn\$11.5 million and €0.5 million (year ended December 31, 2015 - Cdn\$5.6 million and €4.4 million).

The exposure of the Company's monetary assets and liabilities to currency risk is as follows:

December 31, 2016

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	European Euro	Turkish Lira	Other
Financial Assets						
Cash and cash equivalents	\$ -	\$ 1,581	\$ 16,605	\$ 91	\$ 52	\$ 212
Short term investments	-	-	74	-	-	-
Restricted cash	442	-	639	697	550	-
Amounts receivable	192	485	4,108	-	1,835	5
Reclamation deposits	-	-	83	-	-	-
Other assets	-	750	2,635	-	-	-
	\$ 634	\$ 2,816	\$ 24,144	\$ 788	\$ 2,437	\$ 217
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 8,063	\$ 364	\$ 38,175	\$ 476	\$ 98	\$ 112
Taxes payable	929	54	233	1,050	23	13
Other liabilities	-	-	14,291	-	-	-
	\$ 8,992	\$ 418	\$ 52,699	\$ 1,526	\$ 121	\$ 125

December 31, 2015

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	European Euro	Turkish Lira	Other
Financial Assets						
Cash and cash equivalents	\$ 222	\$ 4,639	\$ 11,774	\$ 598	\$ 347	\$ 67
Restricted cash	-	-	9,366	-	623	-
Amounts receivable	212	1,869	1,102	208	1,015	6
	\$ 434	\$ 6,508	\$ 22,242	\$ 806	\$ 1,985	\$ 73
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 7,804	\$ 456	\$ 18,098	\$ -	\$ 87	\$ 107
Taxes payable	757	29	-	-	727	-
Dividend payable to related party	-	-	9,325	-	-	-
	\$ 8,561	\$ 485	\$ 27,423	\$ -	\$ 814	\$ 107

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Based on the above net exposures at December 31, 2016, 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 \$3.3 million (December 31, 2015 - \$0.5 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, 2016, the majority of the \$408.8 million in cash and cash equivalents, short-term investments and current and non-current restricted cash (December 31, 2015 - \$552.2 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2016, a 100 basis point change in interest rates would result in a \$4.1 million adjustment to interest income (December 31, 2015 - \$5.5 million).

Additionally, the interest on the \$465.1 million of debt includes a variable rate component referenced to LIBOR (December 31, 2015 - \$76 million). Based on the amount drawn as at December 31, 2016, a 100 basis point change in LIBOR would result in a \$1.1 million adjustment to interest expenses (December 31, 2015 - \$0.8 million).

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 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. Kyrgyzaltyn is the sole customer of gold doré from the Kumtor mine and is a shareholder of Centerra. Gold and copper concentrate from Mount Milligan are sold to five multi-national off-takers with limited credit risk.

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).

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Based on movements in Centerra's share price and the value of individual or unsettled gold shipments over the course of 2016, 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 \$24.0 million (year ended December 31, 2015 - \$23.5 million).

Mount Milligan and Langeloth manage their credit risk from accounts receivable through their collection activities. Mount Milligan's collection risk is further reduced by the nature of the concentrate sales contracts, as they are structured for the Company to collect 90% of the provisional sales price upon shipment. As of December 31, 2016, Mount Milligan trade receivables included one multi-national customer with a balance owing of \$11.6 million (84% of the mine's trade receivables). In accordance with IFRS 9, Langeloth's receivables are provided for based on lifetime expected credit losses, which are established by considering historical credit loss experience with each customer.

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. As at December 31, 2016, the Company's short-term investments are maintained with Canadian Schedule I banks with a minimum of an A1/P1 rating.

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 finances its operations through a combination of operating cash flows, short and long-term debt and, from to time, through the issuance of its equity. The Company primarily uses funds generated from operating activities to fund operational expenses, sustaining and development capital spending, and interest and principal payments on its loans and borrowings. The Company continuously monitors and reviews its actual and forecasted cash flows and manages liquidity risk by maintaining adequate cash and cash equivalents, by utilizing debt and by monitoring developments in the capital markets.

Centerra's Kyrgyz Republic operating subsidiary, KGC, is subject to an interim order of the Bishkek Inter-District Court in the Kyrgyz Republic prohibiting KGC from taking any actions relating to certain financial transactions, including transferring property or assets, declaring or paying dividends or making loans to Centerra. While such order does not prohibit KGC from continuing to use its cash resources to operate the Kumtor Mine, cash generated from the Kumtor Project continues to be held in KGC and is not being distributed to Centerra. The interim order purports to secure KGC's potential liability for a claim brought by the Kyrgyz Republic State Agency for Environmental Protection and Forestry. Centerra has included the dispute in the ongoing international arbitration proceeding against the Kyrgyz Republic (see note 26). As at December 31, 2016, the cash balance of KGC was \$247.8 million and is expected to continue to increase over time. As a result of the interim order, the Company is dependent on the Company's

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unrestricted cash balance and cash generated from the Mount Milligan Mine to meet its obligations when due.

In light of the continued inability of the Company to access cash generated by the Kumtor Project, including as a result of the denial by the Kyrgyz Republic Supreme Court of KGC's appeal of the interim order, the Company has suspended the payment of dividends.

As at December 31, 2016 cash, cash equivalents and short-term investments were \$160.1 million (excluding cash restricted as a result of a court order in the Kyrgyz Republic) compared to \$542.2 million at December 31, 2015. The cash balance includes the \$50 million second tranche of the EBRD Facility which is intended to be used solely for the Gatsuurt Project and related corporate overhead. The Company does not expect to expend all of the additional funds until it has signed a definitive investment agreement relating to the Gatsuurt Project with the Government of Mongolia. In February 2017, the Company repaid \$25 million of the second tranche. The remaining \$25 million was made available under the EBRD Facility on the condition that the funds are to be re-paid if an investment agreement relating to the Gatsuurt Project has not been concluded with the Government of Mongolia by February 2018.

The Company believes its cash on hand, cash from the Company's existing credit facilities, and cash flow from the Company's Mount Milligan operations will be sufficient to fund its anticipated operating cash requirements through to the end of 2017, although there can be no assurance of this. Absent access to cash held by KGC, the Company expects that it will be required to raise financing in order to fund construction and development expenditures on its development properties or to defer such expenditures.

A maturity analysis of the Company's financial liabilities, contractual obligations, other fixed operating and capital commitments is set out below:

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Year ended December 31, 2016

(Millions of U.S. Dollars)	Total	Due In	Due In	Due In	Due
		Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Accounts payable and accrued liabilities	\$ 130.3	\$ 130.3	\$ -	\$ -	\$ -
Debt	474.4	75.0	100.0	299.4	-
Reclamation trust deed	32.2	4.2	12.2	9.4	6.4
Capital equipment	4.7	4.7	-	-	-
Operational supplies	34.5	34.5	-	-	-
Project development	51.4	15.3	36.1	-	-
Deferred vendor payables ^(a)	14.3	-	-	-	14.3
Equipment Promissory Note (principal + interest)	31.7	1.3	30.4	-	-
Lease of premises	4.4	1.7	1.1	0.8	0.8
Derivative liability	1.5	1.5	-	-	-
Total contractual obligations	\$ 779.4	\$ 268.5	\$ 179.8	\$ 309.6	\$ 21.5

Year ended December 31, 2015

(Millions of U.S. Dollars)	Total	Due In	Due In	Due In	Due
		Less Than One Year	One to Three Years	Four to Five Years	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	-	-	-
Operation 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
Total contractual obligations	\$ 246.2	\$ 220.4	\$ 10.4	\$ 7.0	\$ 8.4

^(a) Deferred vendor payable represents amounts due to BC Hydro and Power Authority. Repayment for deferred energy costs is dependent on average monthly copper prices and the average monthly Cdn\$/USD exchange rate. If the average copper price for the month exceeds C\$3.40/pound, then a portion of the deferred energy liability is due and payable in the subsequent month. As at December 31, 2016, the copper forward curve did not exceed C\$3.40/pound, therefore the amount due is not scheduled to be paid until the end of the five year deferred term, although an increase in the copper price in the future may lead to an earlier repayment of this liability.

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e. Commodity price risk

The profitability of the Company's operations and mineral resource properties relates primarily to the market price and outlook of gold and copper. Adverse changes in the price of certain raw materials can also significantly affect the Company's cash flows.

Gold and copper prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial, residential and retail demand, 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, geopolitical events and certain other factors related specifically to gold (including central bank reserves management).

Provisional pricing mechanisms embedded within the Company's Mount Milligan sales contracts have the character of a commodity derivative and are carried at fair value as part of amounts receivables. As at December 31, 2016, the Company's trade receivable balance included three provisionally priced shipments (\$4.1 million). A 10% change in the forward copper and gold prices used to fair value this provision would have a \$6.0 million impact on the receivable and related revenue recorded at December 31, 2016. Additionally, as a result of the Royal Gold stream, when a gold and copper concentrate receivable is recorded, a corresponding provisionally priced liability to Royal Gold is generated. As at December 31, 2016, \$29.2 million is owed to Royal Gold. A 10% change in the forward copper and gold prices used to fair value this provision would have a \$4.4 million impact on the payable recorded at December 31, 2016.

To the extent that the price of gold and copper increase 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.

The Company enters into hedging arrangements to mitigate commodity price risk (see note 29).

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31. Supplemental disclosure**a. Changes in operating working capital**

	2016	2015
Decrease in amounts receivable	\$ 10,971	\$ 37,433
(Increase) decrease in inventory - ore and metal ^(a)	(63,350)	33,045
Decrease in inventory - supplies	16,278	778
(Increase) decrease in prepaid expenses	(688)	8
Increase in trade creditors and accruals ^(b)	8,005	28,921
Increase (decrease) in revenue-based tax payable	10,050	(15,453)
Increase (decrease) in depreciation and amortization included in inventory (note 11)	52,076	(52,693)
(Increase) decrease in accruals included in additions to PP&E	(1,261)	237
Increase in other taxes payable	948	256
	\$ 33,029	\$ 32,532

^(a)Increase in the year ended December 31, 2016 excludes reversal of inventory impairment of \$27.2 million (year ended December 31, 2015 - excludes inventory impairment of \$27.2 million).

^(b)Excludes \$16.9 million of accounts payable settled via share issuance in the year ended December 31, 2016.

b. Investment in PP&E

	2016	2015
Additions to PP&E during the year (note 11)	\$ (260,023)	\$ (298,405)
Greenstone Gold Property translation adjustment	(2,523)	220
Purchase of Teck royalty via share issuance	2,955	-
Impact of revisions to asset retirement obligation included in PP&E (note 17)	9,238	(1,338)
Depreciation and amortization included in additions to PP&E (note 11)	36,260	51,137
Purchase of Öksüt royalty via share issuance (note 25(a))	-	4,860
(Decrease) Increase in accruals related to additions to PP&E	1,261	(241)
	\$ (212,832)	\$ (243,767)

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32. 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 Company manages its reportable operating segments by a combination of geographic location and products. 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 North America Gold-Copper segment includes the operations of the Mount Milligan Mine. The North America Molybdenum segment includes the operations of the Langeloth processing facility and care and maintenance activities of Endako and Thompson Creek Mine. The Corporate and other segment include the head office located in Toronto, the corporate office located in Denver, Colorado, the Greenstone Gold Property and other international exploration projects. The segments' accounting policies are consistent with those described in note 3.

Segment Revenues and Results

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, 2016

(Millions of U.S. Dollars)	North America						Total
	Kyrgyz Republic	Mongolia	Turkey	Gold-Copper	Molybdenum	Corporate and other	
Gold sales	\$ 686.4	\$ -	\$ -	\$ 29.4	\$ -	\$ -	715.8
Copper sales	-	-	-	26.0	-	-	26.0
Molybdenum sales	-	-	-	-	16.8	-	16.8
Tolling, calcining and other	-	-	-	-	2.2	-	2.2
Revenue	686.4	-	-	55.4	19.0	-	760.8
Cost of sales	350.4	-	-	44.7	19.6	-	414.7
Standby costs	-	0.3	-	-	-	-	0.3
Regional office administration	14.5	-	-	0.2	-	-	14.7
Earnings (loss) from mine operations	321.5	(0.3)	-	10.5	(0.6)	-	331.1
Revenue-based taxes	96.3	-	-	-	-	-	96.3
Other operating expenses	1.2	0.4	-	0.9	0.2	-	2.7
Care and maintenance	-	-	-	-	1.8	-	1.8
Pre-development project costs	-	-	-	-	-	10.7	10.7
Exploration expenses	-	1.8	-	0.1	-	10.6	12.5
Business development	-	-	-	-	-	0.5	0.5
TCM acquisition and integration costs	-	-	-	-	-	12.0	12.0
Corporate administration	0.2	0.2	0.1	-	-	27.1	27.6
Earnings (loss) from operations	223.8	(2.7)	(0.1)	9.5	(2.6)	(60.9)	167.0
Finance costs	-	-	-	-	-	-	11.0
Earnings before income tax							156.0
Income tax expense	-	-	-	-	-	-	4.5
Net earnings and comprehensive income							\$ 151.5
Capital expenditure for the year	\$ 222.3	\$ 6.8	\$ 12.0	\$ 6.5	\$ 0.3	\$ 12.1	\$ 260.0
Capital additions from acquisition of Thompson Creek (note 6)	\$ -	\$ -	\$ -	\$ 764.9	\$ 126.1	\$ 14.6	\$ 905.6
Goodwill	\$ -	\$ -	\$ -	\$ 16.1	\$ -	\$ -	\$ 16.1
Total assets (excluding goodwill)	\$ 1,148.2	\$ 112.0	\$ 30.2	\$ 912.4	\$ 200.2	\$ 235.7	\$ 2,638.7
Total liabilities	\$ 116.9	\$ 31.3	\$ 0.9	\$ 118.7	\$ 66.4	\$ 496.3	\$ 830.5

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Year ended December 31, 2015

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	North America		Corporate and other	Total
				Gold-Copper	Molybdenum		
Gold sales	\$ 604.6	\$ 19.4	\$ -	\$ -	\$ -	\$ -	\$ 624.0
Revenue	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
Earnings (loss) from mine operations	220.9	(6.2)	-	-	-	-	214.7
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 expenses	-	0.8	0.2	-	-	7.4	8.4
Business development	-	-	-	-	-	2.2	2.2
Corporate administration	0.3	0.3	-	-	-	35.2	35.8
Earnings (loss) from operations	115.1	(7.0)	(4.1)	-	-	(54.2)	49.8
Other expenses, net							3.4
Finance costs							4.4
Earnings before income tax							42.0
Income tax expense							0.4
Net earnings and comprehensive income							\$ 41.6
Capital expenditure for the year	\$ 275.2	\$ 1.6	6.1	\$ -	\$ -	\$ 87.7	\$ 370.6
Total assets	\$ 949.1	\$ 171.6	14.7	\$ -	\$ -	\$ 525.2	\$ 1,660.6
Total liabilities	\$ 103.0	\$ 31.2	3.6	\$ -	\$ -	\$ 101.9	\$ 239.7

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Geographical Information

The following table details the Company's revenue by location of customer and information about the Company's non-current assets by location of assets.

	Revenue		Non-current assets	
	Year ended December 31,		As at December 31,	
	2016	2015	2016	2015
Asia (excluding Mongolia)	\$ 742.4	\$ 604.6	\$ 471.8	\$ 532.2
United States	16.6	-	122.1	-
Canada	-	-	921.2	102.3
Mongolia	-	19.4	93.4	86.4
Turkey	-	-	21.1	6.9
Other	1.8	-	9.9	1.9
Total	\$ 760.8	\$ 624.0	\$ 1,639.5	\$ 729.7

Customer information

For the year ended December 31, 2016, sales of gold doré from the Kumtor Gold Project to the Kyrgyzaltyn refinery in the Kyrgyz Republic accounted for 90% (2015 – 97%) of the Company's total sales revenue.