Centerra Gold Inc.

Condensed Consolidated Interim Financial Statements

For the Quarter Ended March 31, 2014
(Unaudited)

(Expressed in thousands of United States Dollars)

Centerra Gold Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

(Expressed in Thousands of United States Dollars)	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		**$ 209,744**	$ 343,108
Short-term investments		**302,501**	158,358
Amounts receivable	**3**	**38,196**	78,707
Inventories	**4**	**310,871**	373,289
Prepaid expenses	**5**	**14,436**	29,191
		875,748	982,653
Property, plant and equipment	**6**	**607,349**	539,070
Goodwill		**129,705**	129,705
Restricted cash		**10,342**	10,731
Other assets		**28,827**	20,276
Long-term inventories	**4**	**4,150**	5,229
		780,373	705,011
Total assets		**$ 1,656,121**	$ 1,687,664
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 27,530**	$ 32,109
Short-term debt	**7**	**75,855**	75,582
Revenue-based taxes payable		**8,123**	30,742
Taxes payable		**1,050**	2,108
Current portion of provision for reclamation		**1,909**	1,194
		114,467	141,735
Dividend payable		**10,225**	10,636
Provision for reclamation		**60,017**	58,826
Deferred income tax liability		**2,821**	2,157
		73,063	71,619
Total liabilities		**187,530**	213,354
Shareholders' equity	**9**		
Share capital		**660,500**	660,486
Contributed surplus		**20,697**	20,087
Retained earnings		**787,394**	793,737
		1,468,591	1,474,310
Total liabilities and shareholders' equity		**$ 1,656,121**	$ 1,687,664

Commitments and contingencies (note 10)
The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

Centerra Gold Inc.
Condensed Consolidated Interim Statements of Earnings and Comprehensive Income
(Unaudited)

			Three Months ended March 31,		
			2014		**2013**
(Expressed in Thousands of United States Dollars) **(except per share amounts)**					
	Notes				
Revenue from Gold Sales		**$**	**148,021**	$	192,251
Cost of sales	**8**		**109,114**		91,149
Regional office administration			**5,689**		5,621
Earnings from mine operations			**33,218**		95,481
Revenue-based taxes			**18,432**		20,818
Other operating expenses			**1,895**		1,946
Exploration and business development			**2,572**		7,170
Corporate administration			**6,523**		6,743
Earnings from operations			**3,796**		58,804
Other (income) and expenses			**(210)**		1,280
Finance costs			**1,393**		1,256
Earnings before income taxes			**2,613**		56,268
Income tax expense			**552**		4,916
Net Earnings and comprehensive income		**$**	**2,061**	$	51,352
Basic earnings per common share	**9**	**$**	**0.01**	$	0.22
Diluted earnings per common share	**9**	**$**	**-**	$	0.21

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

Centerra Gold Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

(Expressed in Thousands of United States Dollars)	Notes	Three Months ended March 31, 2014	2013
Operating activities			
Net earnings		**$ 2,061**	$ 51,352
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	**6**	**66,771**	43,900
Finance costs		**1,393**	1,256
Loss on disposal of equipment		**96**	9
Share-based compensation expense		**610**	751
Change in long-term inventory		**1,079**	952
Change in provision		**-**	(67)
Income tax expense		**552**	4,916
Other operating items		**484**	(101)
		73,046	102,968
Change in operating working capital		**22,315**	(7,219)
Prepaid revenue-based taxes utilized		**7,267**	2,768
Income taxes paid		**(1,077)**	(6,479)
Cash provided by operations		**101,551**	92,038
Investing activities			
Additions to property, plant and equipment	**13**	**(72,726)**	(73,673)
Net purchase of short-term investments		**(144,143)**	(68,343)
Purchase of interest in Öksüt Gold Project- net of cash acquired		**-**	(19,742)
Decrease (increase) in restricted cash		**389**	(2,756)
Increase in long-term other assets		**(8,551)**	(217)
Proceeds from disposition of fixed assets		**3**	27
Cash used in investing		**(225,028)**	(164,704)
Financing activities			
Dividends paid		**(8,404)**	(6,349)
Payment of interest and other borrowing costs		**(1,483)**	(1,499)
Cash used in financing		**(9,887)**	(7,848)
Decrease in cash during the period		**(133,364)**	(80,514)
Cash and cash equivalents at beginning of the period		**343,108**	334,115
Cash and cash equivalents at end of the period		**$ 209,744**	$ 253,601
Cash and cash equivalents consist of:			
Cash		**$ 66,660**	$ 91,076
Cash equivalents		**143,084**	162,525
		$ 209,744	$ 253,601

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

Centerra Gold Inc.
Condensed Consolidated Interim Statements of Shareholders' Equity
(Unaudited)

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

	Number of Common Shares		Share Capital Amount		Contributed Surplus		Retained Earnings		Total
Balance at January 1, 2013	236,376,011	$	660,420	$	36,243	$	672,430	$	1,369,093
Share-based compensation expense	-		-		751		-		751
Adjustment for acquisition of 30% minority interest	-		-		(18,986)				(18,986)
Dividend declared	-		-		-		(9,218)		(9,218)
Net earnings for the period	-		-		-		51,352		51,352
Balance at March 31, 2013	236,376,011	$	660,420	$	18,008	$	714,564	$	1,392,992
Balance at January 1, 2014	**236,390,219**	**$**	**660,486**	**$**	**20,087**	**$**	**793,737**	**$**	**1,474,310**
Share-based compensation expense	**-**		**-**		**610**		**-**		**610**
Shares issued on redemption of restricted share units	**2,757**		**14**		**-**		**-**		**14**
Dividend declared	**-**		**-**		**-**		**(8,404)**		**(8,404)**
Net earnings for the period	**-**		**-**		**-**		**2,061**		**2,061**
Balance at March 31, 2014	**236,392,976**	$	**660,500**	$	**20,697**	$	**787,394**	$	**1,468,591**

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

1. General business description

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

2. Basis of Preparation and Statement of Compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), using accounting policies consistent with those used in its consolidated financial statements as at and for the year ending December 31, 2013 and reflecting the new IFRS standards adopted as at January 1, 2014. These financial statements should be read in conjunction with the Company's December 31, 2013 annual consolidated financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on May 6, 2014.

Future Changes in accounting policies

The IASB has issued IFRS 9 *Financial Instruments* ("IFRS 9") which proposes to replace IAS 39 *Financial Instruments Recognition and Measurement*. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets — amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available-for-sale and loans and receivable categories. The IASB tentatively decided at its February 2014 meeting to select an effective date of January 1, 2018 as the effective date for the mandatory application of IFRS 9. However, entities may still choose to apply IFRS 9 immediately. The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2014 but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements based on the characteristics of its financial instruments up to the date adoption.

Adoption of New Accounting Standards and Developments

Effective January 1, 2014, the Company adopted the IFRIC 21, *Levies* ("IFRIC 21"). IFRIC 21 is an interpretation of the accounting for levies imposed by governments which were accounted for under IAS 37, *Provisions, contingent liabilities and contingent assets* ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

(Expressed in thousands of United States Dollars)

3. Amounts receivable

(Thousands of U.S. Dollars)		March 31, 2014		December 31, 2013
Gold sales receivable from related party (note 11)	**$**	**33,935**	$	69,382
Gold sales receivable from third party		**-**		4,777
Other receivables		**4,261**		4,548
	$	**38,196**	$	78,707

4. Inventories

(Thousands of U.S. Dollars)		March 31, 2014		December 31, 2013
Stockpiles of ore	**$**	**97,201**	$	161,818
Gold in-circuit		**31,288**		27,212
Heap leach in circuit		**10,270**		12,860
Gold doré		**5,397**		2,699
		144,156		204,589
Supplies		**170,865**		173,929
Total Inventories (net of provisions)		**315,021**		378,518
Less: Long-term inventory (heap leach gold inventories)		**(4,150)**		(5,229)
Total Inventories-current portion	**$**	**310,871**	$	373,289

Stockpiled inventory at Kumtor was written down to net realizable value at March 31, 2014 resulting from an increase in costs and a lower gold price. The cost of inventory in excess of what the Company believes can be realized after further processing and subsequent sale of the gold was $0.5 million and is included in cost of sales.

The provision for mine supplies obsolescence was increased for the three months ended March 31, 2014 by $0.3 million ($0.2 million for the three months ended March 31, 2013) which was charged to cost of sales.

The table below summarizes inventories adjusted for the provision for obsolescence:

(Expressed in thousands of United States Dollars)

(Thousands of U.S. Dollars)		**March 31, 2014**		**December 31, 2013**
Total inventories	**$**	**319,201**	$	382,404
Less : Provisions for supplies obsolescence		**(4,180)**		(3,886)
Total Inventories (net of provisions)		**315,021**		378,518
Less: Long-term inventory (heap leach stockpiles)		**(4,150)**		(5,229)
Total Inventories-current portion	**$**	**310,871**	$	373,289

5. Prepaid expenses

(Thousands of U.S. Dollars)		**March 31, 2014**		**December 31, 2013**
Revenue-based taxes	**$**	**2,733**	$	10,000
Insurance		**3,302**		6,488
Rent		**255**		399
Deposit for consumable supplies		**7,810**		9,823
Other		**336**		2,481
	$	**14,436**	$	29,191

6. Property, plant and equipment

The following is a summary of the carrying value of property, plant and equipment:

(Thousands of U.S. Dollars)		**Buildings, Plant and equipment**		**Mobile Equipment**		**Mineral properties**		**Capitalized stripping costs**		**Construction in progress ("CIP")**		**Total**
Cost												
Balance January 1, 2014	$	392,437	$	465,361	$	196,939	$	646,536	$	51,879	$	1,753,152
Additions		51		47		1,501		88,101		10,703		100,403
Disposals		(2,036)		(7,022)		(34)		-		-		(9,092)
Reclassification		11,795		6,363		299		-		(18,457)		-
Balance March 31, 2014	**$**	**402,247**	**$**	**464,749**	**$**	**198,705**	**$**	**734,637**	**$**	**44,125**	**$**	**1,844,463**
Accumulated depreciation												
Balance January 1, 2014	$	247,110	$	269,177	$	147,648	$	550,147	$	-	$	1,214,082
Charge for the period		3,609		26,630		1,757		29		-		32,025
Disposals		(2,036)		(6,923)		(34)		-		-		(8,993)
Balance March 31, 2014	**$**	**248,683**	**$**	**288,884**	**$**	**149,371**	**$**	**550,176**	**$**	**-**	**$**	**1,237,114**
Net book Value												
Balance January 1, 2014	$	145,327	$	196,184	$	49,291	$	96,389	$	51,879	$	539,070
Balance March 31, 2014	**$**	**153,564**	**$**	**175,865**	**$**	**49,334**	**$**	**184,461**	**$**	**44,125**	**$**	**607,349**

The additions to construction in progress during the three months ended March 31, 2014 includes $7.4 million of overhauls for mobile equipment components and $2.6 million of infrastructure equipment at the Kumtor site, which are currently under construction.

(Expressed in thousands of United States Dollars)

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

	Three months ended March 31,			
(Thousands of U.S. Dollars)		**2014**		**2013**
Amount recorded in cost of sales	**$**	**66,677**	$	43,815
Amount recorded in corporate administration		**94**		85
Total included in Statements of Earnings and Comprehensive Income		**66,771**		43,900
Inventories movement		**(60,439)**		(30,639)
Amount capitalised in PP&E		**25,693**		20,860
Depreciation, depletion and amortization charge for the period	**$**	**32,025**	$	34,121

7. Short-term debt

On February 10, 2014, the Company rolled over its maturing $76 million borrowed under the $150 million revolving credit facility (the "Facility") provided by the European Bank for Reconstruction and Development ("EBRD"). The borrowed amount is due to be repaid on August 11, 2014 or, at the Company's discretion, repayment of the loaned funds may be extended until February 2015.

The terms of the Facility require the Company to pledge certain mobile equipment at Kumtor as security and maintain compliance with specified covenants including financial covenants. The Company was in compliance with the covenants for the three-month period ended March 31, 2014.

The amount of the short-term debt is presented net of deferred financing fees as shown below:

(Thousands of U.S. Dollars)		**March 31, 2014**		**December 31, 2013**
Revolving credit facility	**$**	**76,000**	$	76,000
Deferred financing fee		**(145)**		(418)
Total	**$**	**75,855**	$	75,582

(Expressed in thousands of United States Dollars)

8. Cost of sales

(Thousands of U.S. Dollars)	Three Months ended March 31, 2014	2013
Operating costs:		
Salaries and benefits	**$ 18,255**	$ 19,310
Consumables	**17,476**	22,011
Third party services	**1,061**	1,165
Other operating costs	**4,319**	3,654
Royalties, levies and production taxes	**578**	2,591
Changes in inventories	**454**	(1,619)
	42,143	47,112
Inventory obsolescence charge	**294**	222
Depreciation, depletion and amortization	**66,677**	43,815
	$ 109,114	$ 91,149

(Expressed in thousands of United States Dollars)

9. 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.

b. Earnings per Share

(Thousands of U.S. Dollars)	Three Months ended March 31, 2014	2013
Net earnings attributable to shareholders	**$ 2,061**	$ 51,352
Adjustment to earnings:		
Impact of performance share units treated as equity settled	**(890)**	(1,381)
Net earnings for the purposes of diluted earnings per share	**$ 1,171**	$ 49,971

Basic and diluted earnings per share computation:

	Three Months ended March 31, 2014	2013
Basic weighted average number of common shares outstanding (thousands)	**236,391**	236,376
Effect of stock options (thousands)	**6**	103
Effect of restricted share units (thousands)	**-**	133
Diluted weighted average number of common shares outstanding (thousands)	**236,397**	236,612
Basic earnings per common share	**$ 0.01**	$ 0.22
Diluted earnings per common share	**$ -**	$ 0.21

For the three months ended March 31, 2014 and March 31, 2013 certain potentially dilutive securities were excluded from the calculation of diluted earnings per share due to the exercise prices of certain stock options being greater than the average market price of the Company's ordinary shares for the period.

Potentially dilutive securities, including stock options summarized below were excluded in the calculation of the diluted earnings per share:

(Expressed in thousands of United States Dollars)

	Three months ended March 31,	
(Thousands of units)	**2014**	**2013**
Stock options	**-**	1,855
	-	1,855

c. Dividends

Dividends are declared in Canadian dollars and paid in Canadian dollars. At March 31, 2014, accrued dividends payable to Kyrgyzaltyn of $10.2 million, which are held in trust in relation to the court proceedings commenced by a Turkish company, Sistem Muhenkislik Insaat Sanayi Tiacaret SA., were outstanding (December 31, 2013 $10.6 million- see note 11).

The details of the dividend declared in the three months ended March 31, 2014 and 2013 are as follows:

	Three Months ended March 31,			
(Thousands of U.S. Dollars)		**2014**		**2013**
Dividend declared (Thousands of U.S Dollars)	**$**	**8,404**	$	9,218
Dividend declared (Canadian Dollar per share amount)	**$**	**0.04**	$	0.04

d. Share-Based Compensation

Annual Performance Share Unit Plan

During the three months ended March 31, 2014, the Company implemented changes to the annual performance share unit plan for eligible employees at its mine sites. The new plan, which carries the same terms as the corporate performance share unit, provides for eligible employees to be granted performance share units which now vest 50% at the end of the year after the year of grant and the remaining 50% the following year. The number of units which will vest is determined based on Centerra's share performance total return (for the sixty-one trading days volume weighted average share price, preceding the start and end of each performance period) relative to the S&P/TSX Global Gold Index Total Return Index Value during the same period. 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 are paid out may be higher or lower than the number of units originally granted to a participant. The performance share units cannot be converted to shares by the unit holder.

If dividends are paid, each participant will be allocated additional performance share units equal in value to the dividend paid on the number of common shares equal to the number of performance share units held by the participant, based on the sixty-one trading days volume weighted average share price on the date of the dividend.

In transitioning to the new plan, a special transition series of performance share units were issued to eligible employees at the Company's mine sites on January 2, 2014, vesting equally over the three years following the date of grant.

10. Commitments and Contingencies

Commitments

As at March 31, 2014, the Company had entered into contracts to purchase capital equipment and operational supplies totalling $65.8 million (Kumtor - $65.5 million and Boroo - $0.3 million) which are expected to be settled over the next twelve months.

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 March 31, 2014 cannot be predicted with certainty, it is management's opinion that, except as noted below, their resolution will not have a material adverse effect on the Company's financial statements.

Kyrgyz Republic

(a) Negotiations between Kyrgyz Republic and Centerra

On December 23, 2013 Centerra entered into a non-binding heads of agreement ("HOA") which superseded the terms of the MOU but retained most of its material terms. After making some non-material amendments, the parties re-signed the HOA on January 18, 2014.

On February 6, 2014, after their review of the HOA, the Kyrgyz Parliament adopted a resolution relating to the restructuring described in the HOA but which contains a number of recommendations that are materially inconsistent with the terms of the HOA. Among other things, the resolution calls for further audits of the Kumtor operation and for the Government and the General Prosecutor's Office to continue pursuing claims for environmental and economic damages, which the Company disputes.

On March 18, 2014, the Prime Minister of the Kyrgyz Republic resigned. Subsequently, a new coalition was formed and former First Vice Prime Minister Djoomart Otorbaev was appointed as the new prime minister.

Centerra expects to continue its discussions with the Government regarding a potential restructuring transaction to resolve all outstanding concerns relating to the Kumtor Project. However, it maintains that any agreement to resolve matters must be fair to all of

Centerra's shareholders. Any definitive agreement for a potential restructuring remains subject to required approvals in the Kyrgyz Republic, including Government and Parliament of the Kyrgyz Republic, Centerra Special Committee and Board approval, as well as compliance with all applicable legal and regulatory requirements and approvals, including an independent formal valuation and shareholder approval.

(b) Kyrgyz Permitting and Regulatory Matters

In the normal course of operations at Kumtor, KGC prepares annual mine plans for the project which are considered and approved by, among others, the State Agency for Environmental Protection and Forestry under the Government of the Kyrgyz Republic ("SAEPF") and the State Agency for Geology and Mineral Resources. In previous years, annual mine plans for the Kumtor project were approved by such authorities in the first quarter of the year to which they related (for example, the 2013 annual mine plan was approved in the first quarter of 2013).

This year, however, the Company has not yet received formal approval of the proposed 2014 annual mine plan for the Kumtor project despite working with the relevant authorities since the beginning of 2014 to satisfy their requests and concerns. In this regard, Centerra has received communications from representatives of the Kyrgyz Government, including the State Inspectorate Office for Environmental and Technical Safety ("SIETS") expressing concern about the status of such permits, the mining of ice and building of the buttress at Kumtor. SIETS has also suggested that mine operations could be suspended though no formal order or deadline to suspend mine operations has been communicated to KGC.

Centerra has responded to such letters by requesting the Government to provide KGC with all approvals which are necessary for the operation of the Kumtor project, including approval of the 2014 annual mine plan. The Company has also explained that: (i) the 2009 Restated Investment Agreement requires the relevant Government authorities to be reasonable in their consideration of such approvals; (ii) the mining of ice has been a constant feature of the Kumtor project since its inception; and (iii) that the continued mining of ice is critical to ensuring efficient and stable mine operations.

Centerra has also indicated that KGC has not received notice from any governmental authority ordering or threatening to order it to suspend operations. Furthermore, successive governments have consistently emphasized the strategic importance to the Kyrgyz Republic of continued operation of the Kumtor mine. The Restated Investment Agreement requires that any order of suspension be stayed pending the outcome of the dispute resolution provisions of the Restated Investment Agreement, unless necessary to prevent imminent harm to human health and safety or imminent material harm to the environment.

In addition, the Kyrgz Republic General Prosecutor's Office announced that it had begun an investigation into the declaration and payment of an inter-corporate dividend by KGC to

Centerra in December 2013. At the request of the General Prosecutor's Office, Centerra provided a legal analysis, including the opinion of local Kyrgyz counsel, confirming the legality of the dividend. The Company also confirmed that the dividend would have no impact on the valuation underlying the HOA.

(c) Environmental Claims

On June 7, 2013, Kumtor received four claims filed by SIETS with the Bishkek Inter-district court. The SIETS environmental claims sought to enforce the previously disclosed environmental claims issued by SIETS in December 2012, seeking compensation in the aggregate amount of $150 million in relation to (i) placement of waste rock on glaciers; (ii) unpaid use of water from Petrov Lake; (iii) unaccounted industrial and household waste; and (iv) damages caused to land resources (top soil). Each of these claims was dismissed by the Bishkek Inter-District Court and, on appeal, by the Bishkek City Court, on the basis that the arbitration clause in the Restated Investment Agreement requires that all such disputes be resolved through international arbitration. Each of these decisions has been appealed by SIETS to the Kyrgyz Republic Supreme Court.

In addition to the original four claims of SIETS discussed above, SIETS has filed the following additional claims against KOC: (i) on October 12, 2013, a claim in the amount of approximately $485,000 for damages caused to land resources due to disturbance of land at the Kumtor project (similar to the claim in (iv) above but involving a different area of the Kumtor concession); and (ii) on January 21, 2014, a claim for approximately $8.5 million for lost agricultural production and lost profits from 1994 to 2042. Kumtor has responded in writing to SIETS disputing both of these additional claims.

The previously disclosed claim commenced by SAEPF for the aggregate amount of approximately $315 million is currently subject to appeal on a preliminary motion in the Bishkek City Court.

On October 11, 2013, Centerra received a statement of claim from the Green Party of Kyrgyzstan in the Bishkek Inter-District Court which seeks damages of approximately $9 billion for alleged environmental damages arising from the Kumtor operations since 1996. The claimant, Green Party, requests that the damage be paid by Kumtor to the Issyk-Kul Nature Protection and Forestry Development Fund, a Kyrgyz state fund. The claim by the Green Party relates to allegations substantially similar to the claims raised by SIETS and SAEPF. On February 14, 2014, the Green Party withdrew their claim from the Bishkek Inter-District Court. However, the Green Party and/or certain individuals from the village of Saruu have attempted to re-file the same claim in the Jety-Oguz District Court though the court has returned their claim due to lack of jurisdiction.

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

(d) Land Use Claim

On November 11, 2013, the Company received a claim from the Kyrgyz Republic General Prosecutor's Office requesting the Inter-District Court of the Issyk-Kul Province to invalidate the Company's land use certificate and seize certain lands within Kumtor's concession area.

The Company believes that the invalidation of the land use certificate and purported seizure of land is in violation of the Kyrgyz Republic Land Code as well as the Restated Investment Agreement, which provides that the Kumtor project is guaranteed all necessary access to the Kumtor concession area, including all surface lands as are necessary or desirable for the operation of the Kumtor project.

There are several important outstanding issues affecting the Kumtor Project, which require consultation and co-operation between the Company and Kyrgyz regulatory authorities. The Company has benefited from a close and constructive dialogue with Kyrgyz authorities during project operations and remains committed to working with them to resolve these issues in accordance with the agreements governing the Kumtor project (the "Kumtor Project Agreements"), which provide for all disputes to be resolved by international arbitration, if necessary. However, there are no assurances that the Company will be able to successfully resolve any or all of the outstanding matters affecting the Kumtor Project. There are also no assurances that continued discussions between the Kyrgyz Government and Centerra will result in a mutually acceptable solution regarding the Kumtor project, that any agreed upon proposal for restructuring would receive the necessary legal and regulatory approvals under Kyrgyz law and/or Canadian law and that the Kyrgyz Republic Government and/or Parliament will not take actions that are inconsistent with the Government's obligations under the Kumtor Project Agreements, including adopting a law "denouncing" or purporting to cancel or invalidate the Kumtor Project Agreements or laws enacted in relation thereto. The inability to successfully resolve all such matters would have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Mongolia

Gatsuurt

Centerra continues to be in discussions with the Mongolian Government regarding the development of the Gatsuurt property. Centerra remains reasonably confident that the economic and development benefits resulting from its exploration and development activities will ultimately result in the Mongolian Water and Forest Law having a limited impact on the Gatsuurt project, in particular, and other of the Company's Mongolian activities, including the ATO deposit. As previously disclosed, the Mongolian Water and Forest Law prohibits mineral prospecting, exploration and mining in water basins and forestry areas in Mongolia.

During meetings with representatives of the Mongolian Government, Centerra was advised that the Mongolian Government is currently developing a list of deposits, which will include Gatsuurt, to be submitted to the Mongolian Parliament for consideration as “strategic deposits”. If the Mongolian Parliament ultimately approves this designation, it would have the effect of excluding the Gatsuurt deposit from the application of the Mongolian Water and Forest Law and would allow the Government of Mongolia to acquire up to a 34% interest in Gatsuurt. The terms of any such participation would be subject to negotiations with the Mongolian Government.

There can be no assurance, however, that the Water and Forest Law will not have a material impact on Centerra’s Mongolian operations. Unless the Water and Forest Law is repealed or amended such that the law no longer applies to the Gatsuurt project or Gatsuurt is designated by the Parliament of Mongolia as a “mineral deposit of strategic importance” that is exempt from the Water and Forest Law, mineral reserves at Gatsuurt may have to be reclassified as mineral resources or eliminated entirely and the Company may be required to write-off approximately $37 million related to the investment in Gatsuurt and approximately $39 million of costs that remain capitalized for the Boroo mill facility and other surface structures. These amounts represent the capitalized costs at March 31, 2014 associated with its investment in Gatsuurt and Boroo (where Gatsuurt ore is planned to be milled).

11. Related Party Transactions

Kyrgyzaltyn JSC

Revenues from the Kumtor gold mine are subject to a management fee of $1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn JSC (“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 Kumtor Gold Company (“KGC”), a subsidiary of the Company, to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale 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:

(Expressed in thousands of United States Dollars)

(Thousands of U.S. Dollars)		Three Months ended March 31, 2014		2013
Included in sales:				
Gross gold and silver sales to Kyrgyzaltyn	**$**	**132,254**	$	149,207
Deduct: refinery and financing charges		**(596)**		(514)
Net sales revenue received from Kyrgyzaltyn	**$**	**131,658**	$	148,693
Included in expenses:				
Contracting services provided by Kyrgyzaltyn	**$**	**258**	$	411
Management fees to Kyrgyzaltyn		**102**		92
Expenses paid to Kyrgyzaltyn	**$**	**360**	$	503
Dividend:				
Dividends declared to Kyrgyzaltyn	**$**	**2,608**	$	3,020
Withholding taxes		**(139)**		(151)
Net dividends declared to Kyrgyzaltyn		**2,469**		2,869
Net dividends transferred to restricted cash		**-**		(2,869)
Net dividends paid to Kyrgyzaltyn	**$**	**2,469**	$	-

Related party balances

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

(Thousands of U.S. Dollars)		March 31, 2014		December 31, 2013
Amounts receivable (note 3)	**$**	**33,935**	$	69,382
Dividend payable (net of withholding taxes)	**$**	**10,636**	$	11,233
Net unrealized foreign exchange gain		**(411)**		(597)
		10,225		10,636
Amount payable		**200**		157
Total related party liabilities	**$**	**10,425**	$	10,793

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 a Gold and Silver Sale Agreement. Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days.

The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn.

As at March 31, 2014, $33.9 million was outstanding under the Sales Agreement (December 31, 2013 - $69.4 million). Subsequent to March 31, 2014, the balance receivable from Kyrgyzaltyn was paid in full.

12. Fair value measurements

All financial instruments measured at fair value are categorized into one of three hierarchy levels for which the financial instruments must be grouped based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

The following table summarizes the fair value measurement by level at March 31, 2014 and December 31, 2013 for assets and liabilities measured at fair value on a recurring basis:

(Expressed in thousands of United States Dollars)

		March 31, 2014		December 31, 2013
(Thousands of U.S.Dollars)		**Level 1**		**Level 1**
Financial Assets				
Cash and cash equivalents	**$**	**209,744**	$	343,108
Short-term investments		**302,501**		158,358
Reclamation trust fund		**15,985**		13,523
	$	**528,230**	$	514,989

The company does not have any assets and liabilities that are under level 2 or level 3.

13. Supplemental cash flow disclosure

Investment in property, plant and equipment (PP&E)

		Three Months ended March 31, 2014		2013
(Thousands of U.S. Dollars)				
Additions to PP&E during the period	$	**(100,403)**	$	(103,898)
Impact of revisions to asset retirement obligation included in PP&E		**1,501**		-
Depreciation and amortization included in additions to PP&E		**25,693**		20,860
Increase in accruals included in additions to PP&E		**483**		9,365
Cash investment in PP&E	$	**(72,726)**	$	(73,673)

14. Subsequent event

On May 6, 2014, the Company announced that its Board of Directors approved a quarterly dividend of $0.04 per common share. The dividend is payable June 5, 2014 to shareholders of record on May 22, 2014.

15. Segmented Information

The following table reconciles segment operating profit per the reportable segment information to operating profit per the consolidated statements of earnings and comprehensive income.

(Expressed in thousands of United States Dollars)

Three Months ended March 31, 2014

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ **131.7**	$ **16.3**	$ **-**	$ **148.0**
Cost of sales	**95.1**	**14.0**	**-**	**109.1**
Regional office administration	**4.4**	**1.3**	**-**	**5.7**
Earnings from mine operations	**32.2**	**1.0**	**-**	**33.2**
Revenue-based taxes	**18.4**	**-**	**-**	**18.4**
Other operating expenses	**0.8**	**0.2**	**0.9**	**1.9**
Exploration and business development	**0.1**	**0.6**	**1.9**	**2.6**
Corporate administration	**0.2**	**0.1**	**6.2**	**6.5**
Earnings (loss) from operations	**12.7**	**0.1**	**(9.0)**	**3.8**
Other (income) and expenses				**(0.2)**
Finance costs				**1.4**
Earnings before income taxes				**2.6**
Income tax expense				**0.5**
Net earnings and comprehensive income				**$ 2.1**
Capital expenditure for the period	**$ 98.4**	**$ 0.4**	**$ 0.1**	**$ 98.9**
Goodwill	**$ 129.7**	**$ -**	**$ -**	**$ 129.7**
Assets (excluding Goodwill)	**$ 888.2**	**$ 174.5**	**$ 463.7**	**$ 1,526.4**
Total liabilities	**$ 67.5**	**$ 29.4**	**$ 90.6**	**$ 187.5**

Three Months ended March 31, 2013

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	$ 148.7	$ 43.6	$ -	$ 192.3
Cost of sales	66.3	24.9	-	91.2
Regional office administration	4.1	1.5	-	5.6
Earnings from mine operations	78.3	17.2	-	95.5
Revenue-based taxes	20.8	-	-	20.8
Other operating expenses	1.8	0.1	-	1.9
Exploration and business development	2.4	0.9	3.9	7.2
Corporate administration	0.1	0.1	6.5	6.7
Earnings (loss) from operations	53.2	16.1	(10.4)	58.9
Other (income) and expenses				1.3
Finance costs				1.3
Earnings before income taxes				56.3
Income tax expense				4.9
Net earnings and comprehensive income				$ 51.4
Capital expenditure for the period	$ 102.2	$ 1.3	$ 0.4	$ 103.9
Goodwill	$ 129.7	$ -	$ -	$ 129.7
Assets (excluding Goodwill)	$ 961.6	$ 197.7	$ 294.0	$ 1,453.3
Total liabilities	$ 67.3	$ 32.5	$ 90.2	$ 190.0