Centerra Gold Inc.

Condensed Consolidated Interim Financial Statements

For the Quarter Ended March 31, 2016
(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, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		**$ 339,767**	$ 360,613
Short-term investments		**162,035**	181,613
Amounts receivable	**4**	**3,147**	28,781
Inventories	**5**	**411,205**	347,011
Prepaid expenses	**6**	**9,503**	12,880
		925,657	930,898
Property, plant and equipment	**7**	**705,255**	693,016
Restricted cash		**13,188**	9,989
Other assets		**30,090**	26,681
		748,533	729,686
Total assets		**$ 1,674,190**	$ 1,660,584
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 61,446**	$ 75,292
Short-term debt	**8**	**74,198**	76,000
Revenue-based taxes payable		**3,167**	9,152
Taxes payable		**1,885**	1,286
Current portion of provision for reclamation		**1,062**	1,062
		141,758	162,792
Dividends payable to related party	**13**	**12,186**	9,330
Provision for reclamation		**65,419**	65,087
Deferred income tax liability		**2,899**	2,524
		80,504	76,941
Total liabilities		**$ 222,262**	$ 239,733
Shareholders' equity	**11**		
Share capital		**688,577**	668,705
Contributed surplus		**24,775**	24,153
Accumulated other comprehensive (loss) income		**(11)**	220
Retained earnings		**738,587**	727,773
		1,451,928	1,420,851
Total liabilities and Shareholders' equity		**$ 1,674,190**	$ 1,660,584

Commitments and contingencies (note 12)
Subsequent events (note 13 and 16)

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)

(Expressed in Thousands of United States Dollars, except per share amounts)	Notes		Three months ended March 31, 2016		2015
Revenue from gold sales		**$**	**73,221**	$	212,638
Cost of sales	**9**		**31,452**		113,943
Standby costs, net			**(57)**		2,704
Regional office administration			**3,341**		5,276
Earnings from mine operations			**38,485**		90,715
Revenue-based taxes			**10,251**		28,699
Other operating expenses (income)			**561**		(114)
Pre-development project costs	**10**		**1,297**		3,282
Exploration and business development			**2,041**		2,764
Corporate administration			**5,829**		9,365
Earnings from operations			**18,506**		46,719
Other (income) expenses, net			**(1,267)**		4,245
Finance costs			**1,246**		1,147
Earnings before income taxes			**18,527**		41,327
Income tax expense			**469**		650
Net earnings		**$**	**18,058**	$	40,677
Other Comprehensive Income					
Items that may be subsequently reclassified to earnings:					
Net (loss) gain on translation of foreign operation			**(231)**		14
Other comprehensive (loss) income			**(231)**		14
Total comprehensive income		**$**	**17,827**	$	40,691
Basic earnings per common share	**11**	**$**	0.08	$	0.17
Diluted earnings per common share	**11**	**$**	0.07	$	0.17

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, 2016	Three months ended March 31, 2015
Operating activities			
Net earnings		**$ 18,058**	$ 40,677
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	**7**	**20,749**	70,964
Finance costs		**1,246**	1,147
Loss on disposal of equipment		**118**	47
Compensation expense on stock options		**622**	627
Reversal of other share based compensation charge		**(1,066)**	(2,824)
Reversal of inventory impairment charge		**(12,946)**	-
Income tax expense		**469**	650
Other operating items		**504**	754
		27,754	112,042
Change in operating working capital	**15(b)**	**(18,289)**	20,083
Change in long-term inventory		**-**	(145)
Income taxes paid		**(38)**	(509)
Cash provided by operations		**9,427**	131,471
Investing activities			
Additions to property, plant and equipment	**15(a)**	**(35,405)**	(72,166)
Net redemption (purchase) of short-term investments		**19,578**	(16,248)
Purchase of interest in Greenstone Partnership		**-**	(67,423)
Decrease (increase) in restricted cash		**(319)**	-
Increase in long-term other assets		**(3,408)**	(1,037)
Cash used in investing		**(19,554)**	(156,874)
Financing activities			
Dividends paid - declared in period		**(5,024)**	(5,217)
Dividends transferred to trust account		**(2,220)**	(2,352)
Payment of interest and borrowing costs		**(3,475)**	(1,509)
Proceeds from common shares issued for options exercised		**-**	269
Cash used in financing		**(10,719)**	(8,809)
Decrease in cash during the period		**(20,846)**	(34,212)
Cash and cash equivalents at beginning of the period		**360,613**	300,514
Cash and cash equivalents at end of the period		**$ 339,767**	$ 266,302
Cash and cash equivalents consist of:			
Cash		**$ 113,562**	$ 95,846
Cash equivalents		**226,205**	170,456
		$ 339,767	$ 266,302

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	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2015	236,403,958	$ 660,554	$ 22,556	$ -	$ 715,533	$ 1,398,643
Share-based compensation expense	-	-	627	-	-	627
Shares issued on exercise of stock options	67,969	447	(178)	-	-	269
Shares issued on redemption of restricted share units	3,550	18	-	-	-	18
Dividend declared (note 11(b))	-	-	-	-	(7,569)	(7,569)
Foreign currency translation				14		14
Net earnings for the period	-	-	-	-	40,677	40,677
Balance at March 31, 2015	236,475,477	$ 661,019	$ 23,005	$ 14	$ 748,641	$ 1,432,679
Balance at January 1, 2016	**237,889,274**	**$ 668,705**	**$ 24,153**	**$ 220**	**$ 727,773**	**$ 1,420,851**
Share-based compensation expense	**-**	**-**	**622**	**-**	**-**	**622**
Shares issued on redemption of restricted share units	**3,034**	**15**	**-**	**-**	**-**	**15**
Shares issued to settle obligations	**4,117,120**	**19,857**	**-**	**-**	**-**	**19,857**
Dividend declared (note 11(b))	**-**	**-**	**-**	**-**	**(7,244)**	**(7,244)**
Foreign currency translation	**-**	**-**	**-**	**(231)**	**-**	**(231)**
Net earnings for the period	**-**	**-**	**-**	**-**	**18,058**	**18,058**
Balance at March 31, 2016	**242,009,428**	$ **688,577**	$ **24,775**	$ **(11)**	$ **738,587**	$ **1,451,928**

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

1. Nature of operations

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

2. Basis of preparation

These condensed consolidated interim financial statements ("interim 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, 2015. These financial statements do not contain all of the required annual disclosures and should be read in conjunction with the Company's December 31, 2015 annual consolidated financial statements. Certain comparative figures included in the statement of cash flows have been reclassified to comply with the basis of presentation adopted in the current year.

These interim financial statements were authorized for issuance by the Board of Directors of the Company on May 3, 2016.

3. Changes in accounting policies

Recently adopted accounting policies are as follows:

In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11"), to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply all of the principles of business combinations accounting in IFRS 3, *Business Combinations*. Prospective application of this interpretation was effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"), to clarify materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the statement of financial position, statement of income and statement of comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the Company's consolidated 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 consolidated financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Company did not adopt IFRS 9 in its financial statements for the current period, but adopted the standard on April 1, 2016. The Company has assessed the impact of adopting this standard and determined it did not have a material impact on the Company's consolidated financial statements upon adoption.

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

- Amendments to IAS 7, *Statements of Cash Flows*. 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 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

- 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 extent of the impact of adoption of the amendments has not yet been determined.

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

4. Amounts receivable

		March 31, 2016		December 31, 2015
Gold sales receivable from related party (note 13)	**$**	**177**	$	25,725
Other receivables		**2,970**		3,056
	$	**3,147**	$	28,781

5. Inventories

		March 31, 2016		December 31, 2015
Stockpiles of ore	**$**	**183,655**	$	144,758
Gold in-circuit		**29,136**		23,155
Heap leach in circuit		**-**		226
Gold doré		**29,410**		5,632
		242,201		173,771
Supplies		**169,004**		173,240
Total inventories (net of provisions)	**$**	**411,205**	$	347,011

As at March 31, 2016, the net realizable value (“NRV”) of gold inventories was greater than the carrying value, resulting in a $12.9 million reversal in NRV adjustment recorded in costs of sales (the Company had recorded $27.2 million of inventory impairment as at December 31, 2015) – see note 9.

The Company had recorded a provision for supplies obsolescence of $22.8 million as at March 31, 2016 (December 31, 2015 - $21.1 million), resulting in supplies inventory net of the provision of $169 million (December 31, 2015 - $173.2 million).

6. Prepaid expenses

		March 31, 2016		December 31, 2015
Insurance	**$**	**2,294**	$	4,261
Rent		**179**		195
Deposit for consumable supplies		**3,898**		4,657
Advances for project development		**1,463**		1,453
Other		**1,669**		2,314
	$	**9,503**	$	12,880

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

7. 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						
Balance January 1, 2016	$ 445,980	$ 289,657	$ 1,118,167	$ 455,069	$ 49,808	$ 2,358,681
Additions	192	3,627	14,089	9	31,733	49,650
Disposals	(9)	(118)	(814,029)	(10,846)	-	(825,002)
Reclassification	1,072	-	-	18,358	(19,430)	-
Balance March 31, 2016	**$ 447,235**	**$ 293,166**	**$ 318,227**	**$ 462,590**	**$ 62,111**	**$ 1,583,329**
Accumulated depreciation						
Balance January 1, 2016	$ 266,048	$ 153,224	$ 905,223	$ 341,170	$ -	$ 1,665,665
Charge for the period	2,979	(1,081)	18,388	17,007	-	37,293
Disposals	(9)	-	(814,029)	(10,846)	-	(824,884)
Balance March 31, 2016	**$ 269,018**	**$ 152,143**	**$ 109,582**	**$ 347,331**	**$ -**	**$ 878,074**
Net book value						
Balance January 1, 2016	$ 179,932	$ 136,433	$ 212,944	$ 113,899	$ 49,808	$ 693,016
Balance March 31, 2016	**$ 178,217**	**$ 141,023**	**$ 208,645**	**$ 115,259**	**$ 62,111**	**$ 705,255**

In the first quarter of 2016, the Company offset $814 million of fully depreciated capitalized stripping costs with the associated accumulated depreciation. The net impact to the PP&E balance was nil. The following is an analysis of the depreciation, depletion and amortization charge recorded in the Statements of Financial Position and Statements of Earnings:

	Three months ended March 31,	
	2016	**2015**
Amount recorded in cost of sales (note 9)	**$ 22,309**	$ 70,459
Amount recorded in corporate administration	**98**	97
Amount recorded in standby costs	**(1,658)**	408
Total included in Statements of Earnings	**20,749**	70,964
Inventories movement (note 15(b))	**12,889**	(17,853)
Amount capitalized in PP&E (note 15(a))	**3,655**	15,848
Depreciation, depletion and amortization charge for the period	**$ 37,293**	$ 68,959

8. Short-term debt

	March 31, 2016	**December 31, 2015**
Revolving credit facility	**$ 76,000**	$ 76,000
Deferred financing fee	**(1,802)**	-
Total	**$ 74,198**	$ 76,000

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

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"). As at March 31, 2016, the Company has borrowed $76 million under the EBRD Facility. The funds are due to be repaid on August 17, 2016 or, at the Company's discretion, repayment of the loaned funds may be extended until 2021. The right to draw in excess of $100 million of the EBRD Facility is subject to the satisfaction of a specified condition precedent.

EBRD Facility		**March 31, 2016**		**December 31, 2015**
Undrawn amount of the facility	**$**	**74,000**	$	74,000
Interest rate - six month LIBOR plus(1)		**3.0 %**		2.9 %

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

The terms of the EBRD Facility require the Company to pledge certain mobile equipment from the Kumtor mine as security with a net book value of $130.1 million as at March 31, 2016 (December 31, 2015 - $136.5 million), and maintain compliance with specified covenants (including financial covenants). The Company was in compliance with the covenants for the three months ended March 31, 2016.

9. Cost of sales

		Three months ended March 31, 2016		**2015**
Operating costs:				
Salaries and benefits	**$**	**13,898**	$	15,122
Consumables		**46,099**		15,258
Third party services		**665**		850
Other operating costs		**3,081**		1,830
Royalties, levies and production taxes		**96**		289
Changes in inventories - cash component		**(41,750)**		10,135
		22,089		43,484
Reversal of inventory impairment (note 5)		**(12,946)**		-
Depreciation, depletion and amortization		**22,309**		70,459
	$	**31,452**	$	113,943

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

10. Pre-development project costs

	Three months ended March 31,	
	2016	**2015**
Greenstone Gold Property	$ **1,297**	$ 1,478
Öksüt Gold Project	**-**	1,804
	$ **1,297**	$ 3,282

In the third quarter of 2015, the Board of Directors of the Company made the decision to develop the Öksüt Gold Project. In accordance with the Company's accounting policies, development costs of the project subsequent to this date are capitalized. In the three months ended March 31, 2016, the Company capitalized $3.6 million of Öksüt Gold Project development costs as "Construction in Progress", part of PP&E (note 7).

11. Shareholders' equity

In March 2016, the Company finalized the purchase of a 1% net smelter royalty related to the Öksüt production from Teck Resources Ltd. through the issuance of 546,703 common shares representing a value of $3.0 million. The Company also settled an obligation of $16.9 million relating to capital purchases at Kumtor through the issuance of an aggregate of 3,570,417 common shares in the three months ended March 31, 2016.

a. Earnings per share

	Three months ended March 31,	
	2016	**2015**
Net earnings attributable to shareholders	**$ 18,058**	$ 40,677
Adjustments to earnings:		
Impact of performance share units	**(687)**	-
Impact of restricted share units	**(82)**	(46)
Net earnings for the purposes of diluted earnings per share	**$ 17,289**	$ 40,631

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

Basic and diluted earnings per share computation:

	Three months ended March 31,			
(Thousands of units)		**2016**		**2015**
Basic weighted average number of common shares outstanding		**239,656**		236,451
Effect of stock options		**353**		164
Effect of restricted share units		**107**		240
Diluted weighted average number of common shares outstanding		**240,116**		236,855
Basic earnings per common share	**$**	**0.08**	$	0.17
Diluted earnings per common share	**$**	**0.07**	$	0.17

For the three months ended March 31, 2016 and 2015 certain potentially dilutive stock options were excluded from the calculation of diluted earnings per share due to the exercise prices being greater than the average market price of the Company's ordinary shares for the period. Potentially dilutive securities are summarized below:

	Three months ended March 31,	
(Thousands of units)	**2016**	**2015**
Stock options	**3,204**	3,623

b. Dividends

Dividends are declared and paid in Canadian dollars. The details of the dividends declared in the three months ended March 31, 2016 and 2015 are as follows:

	Three months ended March 31,			
		2016		**2015**
Dividend declared	**$**	**7,244**	$	7,569
Dividend declared (Canadian Dollars per share amount)	**$**	**0.04**	$	0.04

At March 31, 2016, accrued dividends payable to Kyrgyzaltyn JSC ("Kyrgyzaltyn") were $12.2 million (December 31, 2015 - $9.3 million) - note 13.

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

c. Stock options

Centerra's stock options transactions during the three months ended March 31, 2016 and 2015 were as follows:

	March 31, 2016			March 31, 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	**1,137,351**		**7.24**	1,512,840		6.05
Forfeited	**(76,498)**		**(16.58)**	(77,629)		(7.37)
Exercised[a]	**-**		**-**	(67,969)		(4.80)
Balance, March 31	**5,854,445**	$	**6.13**	5,235,576	$	7.65

[a] The weighted average market price of shares issued for options exercised in the three months ended March 31, 2015 was Cdn$6.70.

The Black-Scholes model was used to estimate the fair value of stock options. The following reflect the weighted average assumptions, with the exception of the number of units, used for the options issued in the three months ended March 31, 2016:

Grant Date	**Number of Options**	**Grant Price (Cdn$)**	**Expected Life**	**Share price Volatility (i)**	**Dividend Yield**	**Risk free rate**	**Fair value Price (Cdn$)**
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	3 years	68.36%	2.67%	0.55%	2.46
	1,137,351	**7.24**	**3 years**	**67.43%**	**2.67%**	**0.56%**	**2.92**

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

d. Performance Share Unit plan

Transactions under Centerra's Performance Share Unit plan during the three months ended March 31, 2016 and 2015 were as follows:

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

	March 31, 2016	**March 31, 2015**
Balance, January 1	**2,177,233**	1,813,811
Granted	**628,095**	911,004
Exercised	**(745,415)**	(392,369)
Cancelled	**(7,555)**	(77,872)
Balance, March 31	**2,052,358**	2,254,574

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

	March 31, 2016	**March 31 2015**
Share price	$ **6.03**	$ 6.36
S&P/TSX Global Gold Index	$ **209.50**	$ 180.23
Expected life (years)	**1.58**	1.59
Expected volatility- Centerra's share price	**64.4** %	71.5 %
Expected volatility- S&P/TSX Global Gold Index	**46.5** %	42.4 %
Risk-free rate of return	**1.0** %	0.9 %
Forfeiture rate	**3.1** %	3.6 %
Weighted adjustment factor	**0.9**	1.6

12. Commitments and contingencies

Commitments

(a) Contracts

As at March 31, 2016, the Company had entered into contracts to purchase capital equipment and operational supplies totalling $78.4 million (Kumtor - $53.1 million, Öksüt Project $22.1 million, Greenstone Gold Property - $2.8 million and Boroo - $0.4 million), a majority of which are expected to be settled over the next twelve months.

(b) Greenstone Partnership

As partial consideration for the Company's initial 50% partnership interest in the Greenstone Partnership, the Company 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 March 31, 2016, the Company has funded a total of Cdn$27.0 million ($20.9 million) of its commitment since the inception of the partnership.

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, 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

<u>Outstanding Matters</u>

There remain several significant outstanding matters affecting the Kumtor Project which require discussions between the Company and the Kyrgyz Republic government, including, among other things: (i) claims made by the General Prosecutor relating to a $200 million inter-corporate dividend declared and paid by Kumtor Gold Company ("KGC") to Centerra in December 2013; (ii) claims made by the Kyrgyz Republic General Prosecutor's Office ("GPO") seeking to invalidate Kumtor's land use certificate and to seize certain lands within the Kumtor concession area; and (iii) significant environmental claims made by various Kyrgyz state agencies alleging environmental offenses and other matters totalling approximately $473 million (at applicable exchange rates when the claims were commenced). Centerra believes that each of these claims is without foundation.

On April 28, 2016, the Company reported that the GPO and other state law enforcement agencies conducted a search at the Bishkek offices of KGC.

The Kyrgyz Republic government has very recently indicated to Centerra its dissatisfaction with the current arrangements governing Centerra and the Kumtor Project. The government repeated certain historical concerns and allegations regarding Centerra's and KGC's management and governance and the operations of the Kumtor Project and expressed its desire to resolve all such matters through proposals to be provided by it to Centerra.

Centerra has communicated to the Kyrgyz Republic government its openness to receive and discuss proposals to resolve such concerns in a manner that is fair to all of Centerra's shareholders. No negotiations with the Kyrgyz Republic government have to date taken place.

The Company has benefited from a close and constructive dialogue with Kyrgyz Republic authorities during the Kumtor Project operations and remains committed to working with them to resolve these issues in accordance with the 2009 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 any discussions between the Kyrgyz Republic government and Centerra will result in a mutually acceptable solution regarding the arrangements governing Centerra and the Kumtor Project or 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. 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.

Kyrgyz Permitting and Regulatory Matters

KGC is currently experiencing delays in 2016 in receiving key permits and approvals required from Kyrgyz regulatory authorities. KGC has received the industrial safety and subsoil expertises (approvals) for Kumtor's 2016 Special Mine Plan (two of the three required expertises). The remaining expertise for environmental protection is being reviewed by the Kyrgyz Republic State Agency for Environment and Protection and Forestry ("SAEPF"). In late March 2016, KGC received its waste disposal permit and was granted an extension to its maximum allowable emissions ("MAE") permit which is now valid until June 30, 2016, to allow time for further review.

On April 28, 2016, KGC received notice from SAEPF stating that SAEPF requires that KGC provide certain additional information and documents and take certain additional measures as a pre-condition to SAEPF issuing its environmental expertise on the 2016 Special Mine Plan. On the same date, KGC also received notice from State Agency for Geology and Mineral Resources ("SAGMR") stating that if KGC did not receive the environmental expertise from SAEPF by June 30, 2016, it will be required to cease mining operations at Kumtor effective July 1, 2016. Kumtor management believes that it has previously provided to SAEPF all information and documents and taken all measures required under the Kumtor project agreements and Kyrgyz Republic regulations for SAEPF to issue its environmental expertise. While it therefore disputes the SAEPF notice, KGC will continue to work with SAEPF to resolve outstanding questions and concerns in connection with the environmental expertise. No assurances can be provided that such expertise will be issued by SAEPF prior to July 1, 2016 or at all.

KGC continues to operate fully in compliance with permits as granted. The Company understands that the delay in obtaining the necessary approvals and permits relate to concerns regarding the mining of ice at Kumtor as well as the additional informational and document requests made by SAEPF which are referred to above. With regard to the mining of ice, regulatory authorities referenced the 2005 Water Code of the Kyrgyz Republic ("Water Code") and its prohibition regarding the mining of ice. The Company has repeatedly disputed the interpretation of the Water Code by the regulatory agencies based on the rights provided to Centerra and KGC under the Kumtor Project Agreements. There can be no assurances that the remaining expertise for the 2016 Special Mine Plan and the MAE permit for 2016 will be issued or issued in a timely manner.

Should Kumtor be prohibited from moving ice (as a result of the purported application of the Water Code) or if SAEPF does not provide the expertise of the 2016 Special Mine Plan or if any required permits are withdrawn or not further extended, the entire December 31, 2015 mineral reserves at Kumtor, and Kumtor's current life-of-mine plan would be at risk, leading to an early closure of the operation. Centerra believes that any disagreements with respect to the foregoing would be subject to international arbitration under the Kumtor Project Agreements.

Mongolia

Gatsuurt

Throughout the first quarter of 2016, the Company has been in discussions with the Mongolian Government to implement the previously disclosed 3% special royalty in lieu of the Government's 34% direct interest in the Gatsuurt Project. Various working groups have been established by the Mongolian Government to negotiate with Centerra and its wholly-owned subsidiary, Centerra Gold Mongolia, the definitive agreements relating to the Gatsuurt Project. Concurrent with the negotiations of such agreements, the Company expects to undertake economic and technical studies to update the existing studies on the project, which were initially completed and published in May 2006. As part of such work, the Company will undertake a program of exploration drilling, and geotechnical and additional hydrogeological drilling in preparation for eventual project development.

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

Corporate

Ontario Court Proceedings Involving the Kyrgyz Republic and Kyrgyzaltyn

There were no significant developments in the first quarter of 2016 on the Ontario court proceedings involving the Kyrgyz Republic and Kyrgyzaltyn. Centerra continues to be subject to two court orders which prevent Centerra from paying any dividends to Kyrgyzaltyn. Centerra currently holds approximately CDN $15.9 million, including CDN $0.1 million of interest, in trust for these two court proceedings. These court orders also restrict Kyrgyzaltyn's ability to certify and/or transfer 11,253,655 common shares of Centerra (3,787,879 shares are restricted in the court order involving Valeri Belokon, and 7,465,776 shares are restricted in the court order involving Entes Industrial Plant Construction & Erection Contracting Co. Inc.). There are further court dates scheduled for May and June 2016 regarding the Ontario court's ability to recognize the underlying arbitral awards against the Kyrgyz Republic and to determine the issue of whether the Kyrgyz Republic has an interest in the Centerra shares held by Kyrgyzaltyn.

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

13. Related Party Transactions

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, 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 ("Sales Agreement") between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009. In March 2016, KGC agreed to a $0.50 per ounce increase in the discount attributable to gold sales under the Sales Agreement. The breakdown of the sales transactions and expenses with Kyrgyzaltyn are as follows:

	Three months ended March 31,			
		2016		**2015**
Included in sales:				
Gross gold and silver sales to Kyrgyzaltyn	**$**	**73,694**	$	206,028
Deduct: refinery and financing charges		**(473)**		(1,038)
Net sales revenue received from Kyrgyzaltyn	**$**	**73,221**	$	204,990
Included in expenses:				
Contracting services provided by Kyrgyzaltyn	**$**	**352**	$	296
Management fees to Kyrgyzaltyn		**62**		169
Expenses paid to Kyrgyzaltyn	**$**	**414**	$	465
Dividends:				
Dividends declared to Kyrgyzaltyn	**$**	**2,337**	$	2,476
Withholding taxes		**(117)**		(124)
Net dividends declared to Kyrgyzaltyn	**$**	**2,220**	$	2,352

Related party balances

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

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

		March 31, 2016		December 31, 2015
Amounts receivable	**$**	**177**	$	25,725
Dividends payable (net of withholding taxes)	**$**	**15,316**	$	13,096
Net unrealized foreign exchange gain		**(3,130)**		(3,766)
Dividends payable (net of withholding taxes)[(a)]		**12,186**		9,330
Amount payable		**1,075**		1,039
Total related party liabilities	**$**	**13,261**	$	10,369

(a) Equivalent of Cdn $15.8 million as at March 31, 2016 (December 31, 2015 - Cdn$12.9 million).

Gold produced by the Kumtor mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the Sales Agreement. Amounts receivable from Kyrgyzaltyn arise from the sale of gold to Kyrgyzaltyn. Kyrgyzaltyn is required to pay for gold delivered within 12 days from the date of shipment. Default interest is accrued on any unpaid balance after the permitted payment period of 12 days. The obligations of Kyrgyzaltyn are partially secured by a pledge of 2,850,000 shares of Centerra owned by Kyrgyzaltyn.

As at March 31, 2016, $0.2 million was outstanding under the Sales Agreement (December 31, 2015 - $25.7 million). Subsequent to March 31, 2016, the previously outstanding balance receivable from Kyrgyzaltyn was paid in full. Kyrgyzaltyn held contractual discussions with its off-take bank in March 2016 which were completed in early April 2016. During these discussions gold shipments from Kumtor were temporarily delayed and eventually resumed in April 2016.

14. Financial instruments

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash, amounts receivable, a reclamation trust fund, short-term debt, dividends payable, revenue-based taxes payable, accounts payable and accrued liabilities.

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.

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

Classification and the fair value measurement by level of the financial assets and liabilities in the Statement of Financial Position were as follows:

March 31, 2016

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings (loss)
Financial assets (Level 1)			
Cash and cash equivalents	$ **-**	$ **-**	$ **339,767**
Short-term investments	**-**	**-**	**162,035**
Restricted cash	**-**	**-**	**13,188**
Amounts receivable	**3,147**	**-**	**-**
Reclamation trust fund	**-**	**-**	**21,912**
	$ **3,147**	$ **-**	$ **536,902**
Financial liabilities (Level 1)			
Trade creditors and accruals	$ **-**	$ **52,999**	$ **-**
Short-term debt	**-**	**74,198**	**-**
Dividend payable to related party	**-**	**12,186**	**-**
Revenue-based taxes payable	**-**	**3,167**	**-**
	$ **-**	$ **142,550**	$ **-**

December 31, 2015

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings (loss)
Financial assets (Level 1)			
Cash and cash equivalents	$ -	$ -	$ 360,613
Short-term investments	-	-	181,613
Restricted cash	-	-	9,989
Amounts receivable	28,781	-	-
Reclamation trust fund	-	-	18,909
	$ 28,781	$ -	$ 571,124
Financial liabilities (Level 1)			
Trade creditors and accruals	$ -	$ 65,765	$ -
Short-term debt	-	76,000	-
Dividend payable to related party	-	9,330	-
Revenue-based taxes payable	-	9,152	-
	$ -	$ 160,247	$ -

As at March 31, 2016 and December 31, 2015, the Company did not have any financial assets or financial liabilities that are measured under Level 2 or 3.

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

15. Supplemental disclosures

a. Investment in PP&E

	Three months ended March 31,			
		2016		**2015**
Additions to PP&E during the period (note 7)	$	**(49,650)**	$	(88,225)
Purchase of Teck royalty via share issuance (note 11)		**2,954**		-
Depreciation and amortization included in additions to PP&E (note 7)		**3,655**		15,848
(Decrease) increase in accruals included in additions to PP&E		**7,636**		211
	$	**(35,405)**	$	(72,166)

b. Changes in operating working capital

	Three months ended March 31,			
		2016		**2015**
Decrease in amounts receivable	**$**	**25,634**	$	7,977
(Increase) decrease in inventory - ore and metal[a]		**(55,483)**		26,972
Decrease (increase) in inventory - supplies[b]		**4,235**		(10,160)
Decrease in prepaid expenses		**3,376**		2,204
Increase in trade creditors and accruals		**4,138**		21,043
Decrease in revenue-based tax payable		**(5,985)**		(9,956)
Decrease (increase) in depreciation and amortization included in inventory		**12,889**		(17,853)
Increase in accruals included in additions to PP&E		**(7,636)**		(212)
Increase in other taxes payable		**543**		68
	$	**(18,289)**	$	20,083

[a]Increase in the three months ended March 31, 2016 excludes $12.9 million reversal of inventory impairment (March 31, 2015 - nil).

[b]Excludes $16.9 million of accounts payable settled via share issuance in the three months ended March 31, 2016.

16. Subsequent events

On April 5, 2016, Öksüt Madencilik Sanayi ve Ticaret A.S. ("OMAS"), a wholly-owned subsidiary of the Company, entered into a $150 million credit facility agreement with UniCredit Bank AG (the “UniCredit Facility”) expiring on December 30, 2021. The purpose of the Öksüt Facility is to assist in financing the construction of the Company’s Öksüt Project. The interest rate is LIBOR plus 2.65% to 2.95% (dependent on project completion status). The UniCredit Facility is secured by Öksüt assets and is non-recourse to the Company.

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

On May 3, 2016, the Company announced that its Board of Directors approved a quarterly dividend of Cdn$0.04 per common share. The dividend is payable June 2, 2016 to shareholders of record on May 19, 2016.

17. Segmented information

The following table reconciles segment operating profit per the reportable segment information to operating profit per the Statements of Earnings.

Three months ended March 31, 2016

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	$ 73.2	$ -	$ -	$ -	$ 73.2
Cost of sales	31.5	-	-	-	31.5
Standby costs, net	-	(0.1)	-	-	(0.1)
Regional office administration	3.3	-	-	-	3.3
Earnings from mine operations	38.4	0.1	-	-	38.5
Revenue-based taxes	10.3	-	-	-	10.3
Other operating expenses	0.5	0.1	-	-	0.6
Pre-development project costs	-	-	-	1.3	1.3
Exploration and business development	-	0.1	-	1.9	2.0
Corporate administration	-	-	-	5.8	5.8
Earnings (loss) from operations	27.6	(0.1)	-	(9.0)	18.5
Other income, net					(1.3)
Finance costs					1.2
Earnings before income tax					18.6
Income tax expense					0.5
Net earnings and comprehensive income					$ 18.1
Capital expenditure for the period	$ 41.8	$ 0.4	6.7	$ 0.8	$ 49.7
Assets	$ 983.6	$ 171.5	25.8	$ 493.3	$ 1,674.2
Total liabilities	$ 92.1	$ 30.9	1.3	$ 98.0	$ 222.3

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

Three months ended March 31, 2015

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	$ 205.0	$ 7.6	-	$ -	$ 212.6
Cost of sales	106.7	7.2	-	-	113.9
Standby costs	-	2.7	-	-	2.7
Regional office administration	4.3	1.0	-	-	5.3
Earnings (loss) from mine operations	94.0	(3.3)	-	-	90.7
Revenue-based taxes	28.7	-	-	-	28.7
Other operating expenses (income)	0.6	(0.7)	-	-	(0.1)
Pre-development project costs	-	-	1.8	1.5	3.3
Exploration and business development	-	0.2	0.1	2.5	2.8
Corporate administration	-	0.1	-	9.3	9.4
Earnings (loss) from operations	64.7	(2.9)	(1.9)	(13.3)	46.6
Other expenses, net					4.2
Finance costs					1.1
Earnings before income tax					41.3
Income tax expense					0.6
Net earnings and comprehensive income					$ 40.7
Capital expenditure for the period	$ 86.4	$ 0.1	-	$ 69.1	$ 155.6
Goodwill	$ 18.7	$ -	-	$ -	$ 18.7
Assets (excluding Goodwill)	$ 936.1	$ 176.1	4.2	$ 538.1	$ 1,654.5
Total liabilities	$ 102.5	$ 33.6	0.4	$ 104.1	$ 240.6