



February 20, 2015

BY SEDAR

Dear Sirs/Mesdames:

2014 Audited Annual Financial Statements

On February 19, 2015, Centerra Gold Inc. (“Centerra”) released its 2014 Audited Annual Financial Statements (the “Financial Statements”). Subsequent to the release of the Financial Statements, Centerra noted that the “Independent Auditors’ Report” on page 3 of the Audited Annual Financial Statements was incorrectly dated as February 19, 2007, and should have been dated February 19, 2015. A corrected version of the Financial Statements is attached hereto. Please contact Centerra’s Investor Relations Department with any questions you may have.

Yours very truly,

CENTERRA GOLD INC.

Centerra Gold Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

(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 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, which appears on page ii, 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 President and 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:
Ian Atkinson
President and Chief Executive Officer

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

February 19, 2015

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, 2014 and December 31, 2013, the consolidated statements of earnings (loss) and comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Centerra Gold Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Original Signed by:

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 19, 2015

Centerra Gold Inc.
Consolidated Statements of Financial Position

(Expressed in Thousands of United States Dollars)	Notes	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 300,514	\$ 343,108
Short-term investments		261,503	158,358
Amounts receivable	8	66,214	78,707
Inventories	9	408,050	373,289
Prepaid expenses	10	12,888	29,191
		<u>1,049,169</u>	<u>982,653</u>
Property, plant and equipment	11	524,699	539,070
Goodwill	12	18,705	129,705
Restricted cash	7	12,437	10,731
Other assets	13	23,723	20,276
Long-term inventories	9	349	5,229
		<u>579,913</u>	<u>705,011</u>
Total assets		<u>\$ 1,629,082</u>	<u>\$ 1,687,664</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	14	\$ 45,883	\$ 32,109
Short-term debt	15	76,000	75,582
Revenue-based taxes payable	16(a)	24,605	30,742
Taxes payable	16(d)	1,515	2,108
Current portion of provision	17	2,598	1,194
		<u>150,601</u>	<u>141,735</u>
Dividend payable	26	12,254	10,636
Provision	17	65,318	58,826
Deferred income tax liability	16(c)	2,266	2,157
		<u>79,838</u>	<u>71,619</u>
Shareholders' equity	24		
Share capital		660,554	660,486
Contributed surplus		22,556	20,087
Retained earnings		715,533	793,737
		<u>1,398,643</u>	<u>1,474,310</u>
Total liabilities and shareholders' equity		<u>\$ 1,629,082</u>	<u>\$ 1,687,664</u>

Commitments and contingencies (note 25)

Subsequent events (note 31)

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

Approved by the Board of Directors

Original signed by:

Stephen Lang
Chairman

Richard Connor
Director

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

For the years ended December 31,		2014	2013
(Expressed in Thousands of United States Dollars)			
(except per share amounts)			
	Notes		
Revenue from Gold Sales		\$ 763,345	\$ 944,373
Cost of sales	18	502,577	559,236
Mine standby costs		2,385	-
Regional office administration		25,189	23,746
Earnings from mine operations		233,194	361,391
Revenue based taxes	16(a)	97,243	113,532
Other operating expenses	19	9,854	8,259
Impairment of goodwill	12	111,000	-
Exploration and business development	20	15,724	29,572
Corporate administration	21	34,759	30,642
Earnings (loss) from operations		(35,386)	179,386
Other expenses, net	22	1,184	3,568
Finance costs	23	4,962	4,989
Earnings (loss) before income tax		(41,532)	170,829
Income tax expense	16(b)	2,577	13,153
Net earnings (loss) and comprehensive income (loss)		\$ (44,109)	\$ 157,676
Basic and diluted earnings (loss) per common share	24(b)		
Basic		\$ (0.19)	\$ 0.67
Diluted		\$ (0.19)	\$ 0.64

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,		2014	2013
(Expressed in Thousands of United States Dollars)	Notes		
Operating activities			
Net earnings (loss)		\$ (44,109)	\$ 157,676
Items not requiring (providing) cash:			
Depreciation, depletion and amortization	11	284,281	309,389
Finance costs	23	4,962	4,989
Loss on disposal of equipment		1,138	2,818
Compensation expense on stock options	24(d)	2,469	2,830
Impairment of goodwill	12	111,000	-
Change in provision for office closing costs		-	(613)
Income tax expense	16(b)	2,577	13,153
Other operating items		(1,565)	15
		<u>360,753</u>	<u>490,257</u>
Change in operating working capital	30(a)	4,370	(15,463)
Change in long-term inventory		4,880	4,865
Revenue-based taxes applied	16(a)	10,000	20,000
Income taxes paid		(3,608)	(15,746)
Cash provided by operations		<u>376,395</u>	<u>483,913</u>
Investing activities			
Additions to property, plant and equipment	30(b)	(276,285)	(308,682)
Net purchase of short-term investments		(103,145)	(110,374)
Purchase of interest in Öksüt Gold Project-net of cash acquired	6	-	(19,742)
Net increase in restricted cash		(1,706)	(4,644)
Decrease (increase) in other assets		(3,447)	2,222
Proceeds from disposition of fixed assets		3	205
Cash used in investing		<u>(384,580)</u>	<u>(441,015)</u>
Financing activities			
Dividends paid		(31,499)	(31,085)
Payment of interest and borrowing costs		(2,910)	(2,820)
Cash used in financing		<u>(34,409)</u>	<u>(33,905)</u>
Increase in cash during the year		(42,594)	8,993
Cash and cash equivalents at beginning of the year		343,108	334,115
Cash and cash equivalents at end of the year		<u>\$ 300,514</u>	<u>\$ 343,108</u>
Cash and cash equivalents consist of:			
Cash		\$ 85,097	\$ 57,087
Cash equivalents		215,417	286,021
		<u>\$ 300,514</u>	<u>\$ 343,108</u>

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

Centerra Gold Inc.
Consolidated Statements of Shareholders' Equity

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

	Number of Common Shares	Share Capital Amount	Contributed Surplus	Retained Earnings	Total
Balance at January 1, 2013	236,376,011	\$ 660,420	\$ 36,243	\$ 672,430	\$ 1,369,093
Share-based compensation expense	-	-	2,830	-	2,830
Adjustment for acquisition of 30% non-controlling interest	-	-	(18,986)	-	(18,986)
Shares issued on redemption of restricted share units	14,208	66	-	-	66
Dividend declared	-	-	-	(36,369)	(36,369)
Net earnings for the year	-	-	-	157,676	157,676
Balance at December 31, 2013	236,390,219	\$ 660,486	\$ 20,087	\$ 793,737	\$ 1,474,310
Share-based compensation expense	-	-	2,469	-	2,469
Shares issued on redemption of restricted share units	13,739	68	-	-	68
Dividend declared	-	-	-	(34,095)	(34,095)
Net loss for the year	-	-	-	(44,109)	(44,109)
Balance at December 31, 2014	236,403,958	\$ 660,554	\$ 22,556	\$ 715,533	\$ 1,398,643

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 December 31, 2014 and December 31, 2013

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

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 and Canada.

2. Basis of Preparation and Statement of Compliance

a. Statement of Compliance

These 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 19, 2015.

b. Basis of measurement

These financial statements were prepared under the historical cost basis, except for liabilities for cash settled share-based compensation, cash and cash equivalents which are measured at fair value and inventories which are measured at the lower of cost or net realizable value.

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

3. Summary of Significant Accounting Policies

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

a. Consolidation principles

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

Centerra's significant subsidiaries include its wholly-owned subsidiaries, Kumtor Gold Company in the Kyrgyz Republic, Boroo Gold LLC and Centerra Gold Mongolia LLC (owner of the Gatsuurt property and Altan Tsagaan Ovoo ("ATO") property) in Mongolia and Öksüt Madencilik A.S. in Turkey. Additionally, the Company has entered into an agreement to earn an interest in a joint venture exploration property located in Portugal. The Öksüt property and the Gatsuurt property are in the development phase and the ATO and Portugal properties are in the exploration phase.

b. Foreign currency

The functional currency of the Company and each of its subsidiaries is the U.S. dollar, which is also the presentation currency of the consolidated financial statements.

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 (Loss) and Comprehensive Income (Loss). Non-monetary assets and liabilities, arising from transactions denominated in foreign currencies, are translated at the historical exchange rates prevailing at each transaction date.

c. Cash and cash equivalents

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**(Expressed in thousands of United States Dollars, except where otherwise indicated)

d. Restricted Cash

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

e. Short-term investments

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

f. Inventories

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

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.

g. Property, plant and equipment

i. General

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

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

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

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

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

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 profit or loss in the year the asset is de-recognized.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

ii. Exploration, evaluation and pre-development expenditure

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

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

Pre-development assets are tested for impairment when there is an indicator of impairment.

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 amortized until they are reclassified as mine property assets following the achievement of commercial levels of production.

iv. Mine properties

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 amortized 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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

that improves access to ore in future periods is accounted for as an addition to or enhancement of an existing asset. The Company recognizes stripping activity assets when the following three criteria are met:

- it is probable that the future economic benefit associated with the stripping activity will flow to the Company;
- 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 amortized on a unit of production basis in subsequent periods over the proven and probable reserves to which they relate.

vi. Depreciation and depletion

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

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

h. Goodwill

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

i. Impairment

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

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

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

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans.

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

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

The Company’s cash flow forecasts are based on estimates of future commodity prices which are derived from the general consensus gathered from third-party financial analysts’ expectations. 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.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**(Expressed in thousands of United States Dollars, except where otherwise indicated)

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

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

j. Income taxes

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

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

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

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

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

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

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

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**(Expressed in thousands of United States Dollars, except where otherwise indicated)

k. Provisions

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

l. Asset retirement and reclamation obligations

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

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

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

m. Earnings per share

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

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

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options and restricted share units. Diluted net earnings (loss) 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 (loss) per share computation.

n. Revenue recognition

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

o. Share-based compensation

The Company has four share-based compensation plans: the Stock Option Plan, Performance Share Unit Plan, Deferred Share Unit Plan, and Restricted Share Unit Plan, which are all described in note 24.

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.

Performance Share Unit Plan

Under this plan, performance share units granted by Centerra to eligible employees that are intended to be settled in cash are accounted for under the liability method using the Monte Carlo simulated option pricing model. Under this method, the fair value of the estimated number performance share units awarded, after adjusting for forfeitures, is recognized at each reporting period based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each series granted. The cash paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation.

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Deferred Share Unit Plan

Deferred share units granted to eligible members of the Board of Directors are settled in cash and are accounted for under the liability method. 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 is recorded as a reduction of the accrued obligation.

Restricted Share Unit Plan

Restricted share units (“RSU”) granted to eligible members of the Board of Directors and designated officers and employees of Centerra 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 RSU. 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.

p. Financial Instruments

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

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.

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

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

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

Loans and receivables

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

Financial liabilities

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

The Company's trade and other payables and short-term debt are classified as other financial liabilities.

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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 of long-term assets and goodwill

The Company reviews and tests the carrying amounts of long-term assets and goodwill when an indicator of impairment is considered to exist and for goodwill on September 1 of each year. The Company considers both external and internal sources of information in assessing whether there are any indications that long-term assets and goodwill are impaired. External sources of information that the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amounts of long-term assets and goodwill. Internal sources of information that the Company considers include the manner in which long-term assets are being used or are expected to be used and indications of economic performance of the assets.

For the purposes of determining whether an impairment of assets, including goodwill, has occurred, and the amount of any impairment or its reversal, management uses key assumptions in estimating the recoverable value of a CGU which is calculated as the higher of the CGU's value-in-use and fair value less costs of disposal. Management performed its annual goodwill impairment test for the Kumtor CGU as at September 1, 2014 and calculated the fair value less cost of disposal using a discounted cash flow model which required management to estimate the future cash flows, future operating plans, gold prices and discount rates. A further assessment of goodwill impairment was performed as at December 31, 2014.

Expected gold production levels, which comprise proven and probable reserves and an estimated recoverable amount of resources, are used to estimate expected future cash flows. Management

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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.

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. Please see note 12 for additional information on the basis for management's estimates.

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. During the year ended December 31, 2014, the Company recognized an impairment charge of \$111.0 million in respect of the carrying amount of Goodwill in the Kyrgyz Republic (see note 12).

The carrying amount of goodwill in the consolidated financial statements at December 31, 2014 was \$18.7 million (2013 - \$129.7 million). The carrying amount of long-term assets (property plant and equipment, restricted cash, other assets and long-term inventories), other than goodwill at December 31, 2014 was \$561.2 million (2013 - \$575.3 million).

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

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

The recoverable quantity of ore on stockpiles is estimated based on tonnage added and removed from the stockpiles, the amount of contained gold ounces based on assay data, and the estimated recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled ore tonnage is verified by periodic surveys.

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

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

As at December 31, 2014 the carrying amount of inventories (excluding gold doré and supplies inventories) was \$228.9 million (2013 - \$201.9 million).

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iii. Asset retirement obligation

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

A change in any or a combination of the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions (see 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 amortized and accreted over the life of the mine.

The carrying amount of the asset retirement obligations as at December 31, 2014, was \$67.9 million (2013 - \$60.0 million).

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. At December 31, 2014, the total deductible temporary differences for which a deferred tax asset was not recognized amounted to \$323.8 million (2013- \$311.6 million). Most of the unrecognized amount relates to unused loss carry forwards. Deferred tax assets of \$7.8 million (2013-\$7.0 million) were recognized in the Company's statement of financial position.

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At December 31, 2014, the total taxable temporary differences for which a deferred tax liability was not recognized amounted to \$747.0 million (2013 - \$779.0 million). Most of the unrecognized amounts relate to investments in subsidiaries, which the Company controls, and are not expected to reverse for the foreseeable future. Deferred tax liabilities of \$10.1 million (2013 - \$9.1 million) were recognized in the Company's statement of financial position.

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.

Total share-based compensation cost expense recorded in the Statement of Earnings (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2014 was \$11.3 million (2013 - \$2.4 million) and carrying amount of the associated liabilities was \$9.1 million as at December 31, 2014 (2013 - \$1.6 million).

vi. Depreciation, depletion and amortization period for property plant and equipment

All mining assets (except for mobile equipment and buildings) are amortized 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 reserve 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 amortization 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

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other factors impacting mineral reserves or the expected life of the mining operation.

vii. Mineral reserve and resources estimation

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

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

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

viii. Litigation and contingency

On an ongoing basis the Company is subject to various claims and other legal disputes described in note 25, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognized where, based on the Company's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably.

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

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5. Changes in accounting policies

Recently issued but not adopted accounting guidance are as follows:

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 effective date of this standard is January 1, 2018, with earlier application permitted. The Company has not adopted IFRS 9 in its financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements based on the characteristics of its financial instruments at the date of adoption.

In 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, 2017, and permits early adoption. The Company is currently assessing the impact of adopting this standard on its 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, with earlier application permitted. The Company has not adopted the amendments to IAS 1 in its financial statements for the current period, but will continue to monitor and evaluate the impact of any required changes to its consolidated financial statements at the date of adoption.

Adoption of New Accounting Standards and Developments

Effective January 1, 2014, the Company adopted 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.

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6. Acquisition of interest in Öksüt Gold Project

On January 24, 2013 the Company acquired the remaining 30% interest that it did not own in the Öksüt Gold Project located in the Kayseri region of central Turkey. The Company paid \$20.2 million, (including transaction costs of \$0.2 million), and granted a 1% Net Smelter Return royalty on the project, subject to a maximum of \$20 million, as consideration for the 30% interest acquired. The net assets acquired included \$0.4 million of cash.

The acquisition was accounted for as an equity transaction as the Company controlled the entity before the acquisition of the additional interest.

7. Restricted cash

	2014	2013
Dividend trust accounts	\$ 12,437	\$ 10,731

Pursuant to an Ontario court order updated on June 5, 2013, a maximum of approximately Cdn\$11.3 million of Centerra dividends otherwise payable to Kyrgyzaltyn was to be held in trust for the benefit of the court proceedings commenced by a Turkish company, Sistem Muhendislik Insaat Sanayi ve Ticaret AS (“Sistem”).

On September 8, 2014, a decision of the Ontario Court of Appeal required Centerra to pay to Kyrgyzaltyn all of the amounts held in trust for the Sistem proceedings, subject to the satisfaction of certain conditions. These conditions were satisfied on September 23, 2014. However prior to receiving instructions from Kyrgyzaltyn with respect to the transfer of the funds, a subsequent order of the Ontario Superior Court of Justice on October 10, 2014 (the “Stans Order” see note 25) was made to restrict Centerra from paying such monies and future dividends to Kyrgyzaltyn.

As at December 31, 2014 the full amount required under the original court order of Cdn\$11.3 million (equivalent of \$9.7 million) together with interest earned of \$0.1 million is held in trust. In addition, dividends otherwise payable to Kyrgyzaltyn subsequent to receiving the Stans Order in the amount of Cdn\$2.9 million (equivalent of \$2.6 million) are also held in trust as of December 31, 2014.

The dividend payable and restricted cash held in trust for these court proceedings have been classified as long-term since the timing of the resolution of the court proceedings is unknown.

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8. Amounts receivable

	2014	2013
Gold sales receivable from related party (note 26)	\$ 62,143	\$ 69,382
Gold sales receivable from third party	-	4,777
Other receivables	4,071	4,548
	\$ 66,214	\$ 78,707

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

	2014	2013
Less than 1 month	\$ 63,372	\$ 75,389
1 to 3 months	-	144
Over 3 months	2,842	3,174
	\$ 66,214	\$ 78,707

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

9. Inventories

	2014	2013
Stockpiles of ore	\$ 200,751	\$ 161,818
Gold in-circuit	24,725	27,212
Heap leach in circuit	3,393	12,860
Gold doré	5,512	2,699
	234,381	204,589
Supplies	174,018	173,929
Total Inventories (net of provisions)	408,399	378,518
Less: Long-term inventory (heap leach gold inventories)	(349)	(5,229)
Total Inventories-current portion	\$ 408,050	\$ 373,289

The amount of inventories recognized as an expense during the year ended December 31, 2014, was \$500.7 million (2013- \$549.8 million) and is included in cost of sales. As at December 31, 2014, the carrying values of the inventories were below their net realizable value (2013- \$3.2 million write down was charged to cost of sales).

The provision for mine supplies obsolescence was increased for the year ended December 31, 2014 by \$1.3 million (December 31, 2013- \$0.9 million). The increase in the provision was charged to cost of sales.

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

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	2014	2013
Total inventories	\$ 413,537	\$ 382,404
Less : Provisions for supplies obsolescence	(5,138)	(3,886)
Total Inventories (net of provisions)	408,399	378,518
Less: Long-term inventory (heap leach stockpiles)	(349)	(5,229)
Total Inventories-current portion	\$ 408,050	\$ 373,289

10. Prepaid expenses

	2014	2013
Revenue based taxes	\$ -	\$ 10,000
Insurance	4,734	6,488
Rent	369	399
Deposits for consumable supplies	5,355	9,823
Other	2,430	2,481
Total	\$ 12,888	\$ 29,191

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11. Property, plant and equipment

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

	Buildings, Plant and Equipment	Mineral Properties	Capitalized Stripping Costs	Mobile Equipment	Construction In Progress ("CIP")	Total
Cost						
January 1, 2013	\$ 382,494	\$ 188,893	\$ 367,898	\$ 452,644	\$ 69,946	\$ 1,461,875
Additions	318	5,215	278,638	277	97,401	381,849
Disposals	(21,473)	(545)	-	(68,554)	-	(90,572)
Reclassification	31,098	3,376	-	80,994	(115,468)	-
Balance December 31, 2013	\$ 392,437	\$ 196,939	\$ 646,536	\$ 465,361	\$ 51,879	\$ 1,753,152
Additions	146	7,325	261,078	31	89,935	358,515
Disposals	(3,070)	-	-	(53,371)	-	(56,441)
Reclassification	18,359	4,667	-	46,197	(69,223)	-
Balance December 31, 2014	\$ 407,872	\$ 208,931	\$ 907,614	\$ 458,218	\$ 72,591	\$ 2,055,226
Accumulated depreciation						
January 1, 2013	\$ 249,414	\$ 132,565	\$ 219,154	\$ 234,819	\$ -	\$ 835,952
Charge for the year	17,277	15,236	330,993	102,173	-	465,679
Disposals	(19,581)	(153)	-	(67,815)	-	(87,549)
Balance December 31, 2013	\$ 247,110	\$ 147,648	\$ 550,147	\$ 269,177	\$ -	\$ 1,214,082
Charge for the year	17,665	9,172	245,639	99,269	-	371,745
Disposals	(2,536)	-	-	(52,764)	-	(55,300)
Balance December 31, 2014	\$ 262,239	\$ 156,820	\$ 795,786	\$ 315,682	\$ -	\$ 1,530,527
Net book Value						
Balance December 31, 2013	\$ 145,327	\$ 49,291	\$ 96,389	\$ 196,184	\$ 51,879	\$ 539,070
Balance December 31, 2014	\$ 145,633	\$ 52,111	\$ 111,828	\$ 142,536	\$ 72,591	\$ 524,699

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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 (Loss) and Comprehensive Income (Loss):

	2014	2013
Amount recorded in cost of sales (note 18)	\$ 282,603	\$ 309,037
Amount recorded in corporate administration (note 21)	372	352
Amount recorded in mine standby costs	1,306	-
Total included in Statements of Cash flows	284,281	309,389
Recorded in inventory (note 30(a))	13,717	78,503
Capitalised in property, plant and equipment (note 30(b))	73,747	77,787
Total	\$ 371,745	\$ 465,679

12. Goodwill

The Company has two CGUs, one in the Kyrgyz Republic and one in Mongolia, of which only the Kyrgyz CGU has been allocated goodwill. The carrying value of goodwill for the Kyrgyz Republic was \$18.7 million as at December 31, 2014 and \$129.7 million as at December 31, 2013.

Impairment testing:

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

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

The Company performed its annual test for goodwill impairment as at September 1, in accordance with its policy described in note 3 and assessed for impairment indicators up to December 31, 2014.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

Annual impairment test – September 1, 2014

The discounted cash flow analysis conducted as of that date concluded that the fair value less cost of disposal exceeded carrying amount of the Kyrgyz CGU as at September 1, 2014 and thus no impairment charge was recognized.

Indicators of impairment (Post September 1, 2014)

The Company completed its regular update to its reserves and resources in early 2015 and the result of this update indicated a significant reduction in reserves and resources. The reserve decrease is a result of the negative production reconciliation in 2014 and the impact from the construction of the buttress at Kumtor, development of a new resource model for the Kumtor Central Pit and design changes to the Kumtor Central Pit resulting from the new resource model and flattening of certain pit slopes. The significant decrease in reserves was the primary reason for the need to revise the Kumtor life of mine plan. The Company determined that the impact of this reserve reduction was considered an indicator of impairment.

Key assumptions used in the discounted cash flow model and for calculating the Kyrgyz CGU recoverable amount used in the December 31, 2014 test and annual tests of September 1, 2014 and 2013 were as follows:

	December 31, 2014	September 1, 2014	September 1, 2013
Gold price:			
2013	\$ -	\$ -	\$ 1,320
2014	\$ -	\$ 1,250	\$ 1,330
2015	\$ 1,225	\$ 1,254	\$ 1,349
2016	\$ 1,250	\$ 1,307	\$ 1,378
2017	\$ 1,275	\$ 1,242	\$ 1,350
2018	\$ 1,225	\$ 1,162	\$ 1,350
2019 and onwards	\$ 1,300	\$ 1,308	\$ 1,350
Discount rate	11.6%	10.3%	11.7%
Reserves - contained ounces	6.1 million	7.9 million	9.1 million
Resources -contained ounces	4.6 million	5.6 million	5.3 million
Life of mine	2026	2027	2026

Gold prices

Management estimated gold prices based on the average of the most recent market commodity price forecasts consensus from a number of recognized financial analysts.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**(Expressed in thousands of United States Dollars, except where otherwise indicated)

Resources

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

Production

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

Discount rate

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

Life of mine

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

At December 31, 2014, the Company performed a re-assessment of the recoverable amount of its Kyrgyz CGU, and production for the last four months of 2014 that incorporated the results of the 2014 year end reserve and resource update which reduced available reserves and resources by 23% and 18% respectively, as compared to the September 1, 2014 annual test. Assumptions in the discounted cash flow model were updated as of December 31, 2014 resulting in a reduction of the consensus gold prices and an increase in the risk-adjusted discount rate for the Kyrgyz Republic, a reflection of increasing country risk and higher bond yield rates, as compared to the September 1, 2014 annual test.

The recoverable amount of the Kumtor CGU using the discounted cash flow method was determined to be \$841.0 million, which was lower than the carrying value by \$111.0 million. The \$111.0 million was recognized as an impairment charge in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). The fair value is categorized as a non-recurring level 3 hierarchy in accordance with IFRS 13.

13. Other assets

		2014		2013
Reclamation trust fund (note 17)	\$	15,951	\$	13,523
Other long term receivables		1,607		1,754
Other assets		6,165		4,999
Total	\$	23,723	\$	20,276

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

14. Accounts payable and accrued liabilities

	2014	2013
Trade creditors and accruals	\$ 37,575	\$ 30,541
Liability for share-based compensation	8,308	1,568
Total	\$ 45,883	\$ 32,109

15. Short-term debt

On November 16, 2010 the Company entered into a Credit Agreement with the European Bank for Reconstruction and Development (“EBRD”) which provides for a \$150 million, three-year revolving credit facility (the “Facility”), with option to extend. On December 19, 2014 the Company extended the Facility term to February 17, 2016.

As at December 31, 2014, the Company had \$76 million outstanding under the Facility for repayment on February 11, 2015. The \$76 million drawn amount was subsequently redrawn on February 10, 2015 and is due to be repaid on August 11, 2015.

The amounts drawn on the Facility bear interest at the six-month LIBOR rate plus 2.9% (3.23% at December 31, 2014 and 3.37% at December 31, 2013). Interest is payable at the end of the term. A commitment (standby) fee is also payable on the undrawn amount of the Facility. A commitment fee of 0.75% is applied to the undrawn portion of the Facility when less than 50% of the Facility amount is drawn, or 0.50% when more than 50% of the Facility amount is drawn.

The terms of the Facility requires the Company to pledge certain mobile equipment at Kumtor, with a net book value of \$162.3 million as security and maintain compliance with specified covenants, including financial covenants. The Company was in compliance with the covenants at December 31, 2014.

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

	2014	2013
Revolver credit facility	\$ 76,000	\$ 76,000
Deferred financing fees ^(a)	-	(418)
Total	\$ 76,000	\$ 75,582

(a) Deferred financing fees were fully amortized to expense in 2014.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and December 31, 2013

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

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, 2014, the 13% revenue-based tax expense recorded by Kumtor was \$90.3 million (\$105.4 million in 2013), while the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue totaled \$6.9 million (\$8.1 million in 2013).

As at December 31, 2014, \$24.6 million of revenue-based tax is payable to the Kyrgyz Government (December 31, 2013– \$30.7 million).

On May 28, 2012, a tax advance agreement was signed by Kumtor and the Kyrgyz Government and \$30 million of future revenue-based taxes were advanced to the government. \$20 million of this interest-free advance was applied against revenue-based taxes otherwise payable during the year ended December 31, 2013. The remaining balance was applied against revenue-based taxes otherwise payable during 2014.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

b. Income Tax Expense

	2014	2013
Current tax	\$ 2,876	\$ 12,775
Deferred tax	(299)	378
Total Income Tax Expense	\$ 2,577	\$ 13,153

No entities, other than those in the Mongolian segment, recorded income tax expense during the years ended December 31, 2014 and December 31, 2013.

The provision for income tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2014	2013
Earnings (loss) before income tax	\$ (41,532)	\$ 170,829
Income tax calculated at Canadian tax rates if applicable to earnings (loss) in the respective countries	(11,006)	45,270
Income tax effects of:		
Difference between Canadian rate and rates applicable to subsidiaries in other countries ^(a)	(3,229)	(50,769)
Change in unrecognized deductible temporary differences	13,088	10,533
Impact of foreign currency movements	1,837	2,736
Non-deductible employee costs	742	1,057
Other non-deductible expenses or non-taxable items	1,145	4,326
	\$ 2,577	\$ 13,153

(a) Included in the 2014 figure is the tax impact related to the \$111.0 million Kumtor impairment charge, for which there is no income tax impact.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

c. Deferred Income Tax

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

	2014	2013
Deferred income tax assets:		
Inventory	\$ 20	\$ 651
Provisions - asset retirement obligation	7,802	6,336
Total deferred tax assets	\$ 7,822	\$ 6,987
Deferred income tax liabilities:		
Cash and cash equivalents	\$ (3,062)	\$ (2,251)
Short-term investments	(930)	(930)
Property plant and equipment	(6,096)	(5,963)
Total deferred tax liabilities	\$ (10,088)	\$ (9,144)
Net deferred tax assets/(liabilities)	\$ (2,266)	\$ (2,157)

The Company has the following positions in respect of which no deferred income tax asset has been recognized:

	Tax losses income	Tax losses capital	Exploration	Non Deductibles Reserves	Other	Total
December 31, 2014						
Expiring within one to five years	\$ 29,603	\$ -	\$ -	\$ -	\$ -	29,603
Expiring after five years	221,654	-	-	-	-	221,654
No expiry date	323	30,355	34,987	-	6,846	72,511
	\$ 251,580	\$ 30,355	\$ 34,987	\$ -	\$ 6,846	\$ 323,768
December 31, 2013						
Expiring within one to five years	\$ 27,213	\$ -	\$ -	\$ -	\$ -	27,213
Expiring after five years	210,905	-	-	-	-	210,905
No expiry date	323	34,939	33,103	-	5,133	73,498
	\$ 238,441	\$ 34,939	\$ 33,103	\$ -	\$ 5,133	\$ 311,616

At December 31, 2014, no deferred tax liabilities have been recognized in respect of the aggregate amount of \$747.0 million (2013 - \$779.0 million) of taxable temporary differences associated with investments in subsidiaries, as 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.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

d. Taxes payable

	2014	2013
Other taxes payable	\$ 1,246	\$ 1,106
Income taxes payable	269	1,002
Total taxes payable	\$ 1,515	\$ 2,108

17. Provision

Asset Retirement Obligations

	2014	2013
Kumtor gold mine	\$ 41,211	\$ 37,033
Gatsuurt project	1,802	-
Boroo gold mine	24,903	22,987
Total asset retirement obligations	67,916	60,020
Less: current portion	(2,598)	(1,194)
	\$ 65,318	\$ 58,826

Centerra's estimates of future asset retirement obligations are based on reclamation standards that meet regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The Company estimates its total undiscounted future decommissioning and reclamation costs at December 31, 2014 to be \$87.5 million (December 31, 2013 - \$79.6 million). The following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- i. Expected timing of payment of the cash flows is based on the life of mine plans.
- ii. Ongoing reclamation spending continues at Boroo, while at Kumtor and Gatsuurt reclamation is expected to start in 2026 and 2025 respectively.
- iii. Risk-free discount rates of 2.23% at Kumtor, 2.26% at Boroo and 2.23% at Gatsuurt as at December 31, 2014 (December 31, 2013 - 3.0% at Kumtor and 2.2% at Boroo).

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

The following is a reconciliation of the total discounted liability for asset retirement obligations:

	2014	2013
Balance at January 1	\$ 60,020	\$ 54,554
Liabilities paid	(1,086)	(675)
Revisions in estimated timing and amount of cash flows	7,325	5,215
Accretion expense	1,657	926
Total asset retirement obligations	67,916	60,020
Less: current portion	(2,598)	(1,194)
Balance at December 31	\$ 65,318	\$ 58,826

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation at the Kumtor gold mine, net of salvage values. This restricted cash is funded using the units of production method, annually in arrears, over the life of the mine. On December 31, 2014 this fund had a balance of \$16.0 million (December 31, 2013 - \$13.5 million).

The Company completed its regularly scheduled update to its closure costs estimates at Boroo and a new closure study at Gatsuurt in 2014, reflecting development work already completed at the Gatsuurt site. The latest update at Boroo and new estimates at Gatsuurt resulted in an increase in the reclamation provision of \$2.5 million at Boroo and an increase of \$1.8 million at Gatsuurt. Similarly, a completed revision to the closure costs at Kumtor resulted in an increase of \$3.0 million at Kumtor. The last regularly scheduled closure cost update at Kumtor was completed in 2013.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

18. Cost of sales

	2014	2013
Operating costs:		
Salaries and benefits	\$ 75,126	\$ 76,356
Consumables	133,541	130,168
Third party services	4,734	5,515
Other operating costs	16,969	18,423
Royalties, levies and production taxes	2,193	9,754
Inventory impairment (note 9)	-	3,198
Changes in inventories	(12,589)	6,785
	219,974	250,199
Depreciation, depletion and amortization (note 11)	282,603	309,037
	\$ 502,577	\$ 559,236

19. Other Operating expenses

	2014	2013
Social development contributions	\$ 5,385	\$ 6,378
Öksüt Project pre-development expenses	6,022	-
Sundry income	(1,912)	-
Gatsuurt Project care and maintenance	359	352
Kumtor underground Project closure	-	1,529
	\$ 9,854	\$ 8,259

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

20. Exploration and business development costs

	2014	2013
Exploration:		
Mine site exploration	\$ -	\$ 6,115
Advanced projects	5,489	11,092
Generative exploration and other projects	7,533	10,344
Exploration administration	1,734	1,998
Total exploration	14,756	29,549
Business development	968	23
	\$ 15,724	\$ 29,572

21. Corporate Administration

	2014	2013
Administration and office costs	\$ 5,249	\$ 6,426
Professional fees	5,168	7,322
Salaries and benefits	14,675	13,985
Share-based compensation	9,295	2,557
Depreciation and amortization (note 11)	372	352
	\$ 34,759	\$ 30,642

22. Other expenses, net

	2014	2013
Interest income	\$ (1,030)	\$ (559)
Loss on disposal of assets	1,158	2,664
Bank charges	55	61
Miscellaneous income	(1,760)	(1,251)
Foreign exchange loss	2,761	2,653
	\$ 1,184	\$ 3,568

23. Finance costs

	2014	2013
Revolving credit facility:		
Amortization of deferred financing costs	\$ 418	\$ 1,091
Interest expense	2,499	2,593
Commitment fees and other revolving credit facility costs	388	379
Accretion expense (note 17)	1,657	926
	\$ 4,962	\$ 4,989

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

24. 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 (loss) per Share

For the year ended December 31, 2014 all potentially dilutive securities were excluded from the calculation of diluted earnings (loss) per share as they would have been antidilutive as a result of the net loss recorded for the period.

For the year ended December 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.

Basic and diluted earnings (loss) per share computation:

	2014	2013
Net earnings (loss)	\$ (44,109)	\$ 157,676
Adjustment to earnings (loss):		
Impact of performance share units accounted for as equity settled	-	(5,172)
Net earnings (loss) for the purposes of diluted earnings (loss) per share	\$ (44,109)	\$ 152,504

(Thousands of common shares)

Weighted average number of common shares outstanding	236,396	236,382
Effect of potentially dilutive securities:		
Stock options	-	23
Restricted share units	-	258
Diluted weighted average number of common shares outstanding	236,396	236,663

Basic earnings (loss) per common share	\$ (0.19)	\$ 0.67
Diluted earnings (loss) per common share	\$ (0.19)	\$ 0.64

Potentially dilutive securities, including stock options and restricted share units, summarized below were excluded in the calculation of the diluted earnings (loss) per share:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

(Thousands of units)	2014	2013
Stock options	3,720	1,953
Restricted share units	239	-
	3,959	1,953

c. Dividends

Dividends are declared in Canadian dollars and paid in Canadian dollars. At December 31, 2014, accrued dividends, in United States Dollars, payable to Kyrgyzaltyn were \$12.3 million (2013 - \$10.6 million) (see note 26). The details of dividends distribution in 2014 and 2013 are as follows:

	2014	2013
Dividends declared (United States Dollars)	\$ 34,095	\$ 36,369
Dividends declared (Canadian Dollar per share amount)	\$ 0.16	\$ 0.16

d. Share-Based Compensation

The impact of Share-Based Compensation as of and for the years ended December 31, 2014 and 2013 is summarized as follows:

(Millions of U.S. dollars except as indicated)	Number outstanding Dec 31, 2014	Expense/(Income)		Liability	
		2014	2013	Dec 31, 2014	Dec 31, 2013
(i) Stock options	3,868,334	\$ 2.5	\$ 2.8	\$ -	\$ -
(ii) PSUs	1,813,811	7.2	-	7.1	-
(iii) Deferred share units	187,807	0.4	(0.7)	0.9	0.6
(iv) Restricted share units	239,336	1.2	0.3	1.1	1.0
		\$ 11.3	\$ 2.4	\$ 9.1	\$ 1.6

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

(i) Stock Options

Centerra has established a stock option plan under which options to purchase common shares may be granted to officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common shares where they are listed for the five trading days prior to the date of the grant. Options granted vest over 3 years and expire after eight years from the date granted.

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

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

	2014		2013	
	Number of Options	Weighted Average Exercise Price-Cdn\$	Number of Options	Weighted Average Exercise Price-Cdn\$
Balance, January 1	2,511,500	\$ 10.04	1,674,194	\$ 11.88
Granted	1,474,762	5.07	986,811	6.70
Forfeited	(117,928)	(7.69)	(149,505)	(8.68)
Balance, December 31	3,868,334	\$ 8.21	2,511,500	\$ 10.04

The Black-Scholes model was used to estimate the fair value of stock options. In determining the fair value of these employee stock options, the following weighted average assumptions were used for the series issued in 2014:

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

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

The terms of the options outstanding at December 31, 2014 are as follows:

Award Date	Award Price	Expiry date	Number of Options Outstanding	Number of Options Vested
19-Mar-08	\$14.29 (Cdn)	March 18, 2016	38,030	38,030
18-Feb-09	\$4.81 (Cdn)	February 17, 2017	265,560	265,560
20-Aug-10	\$14.37 (Cdn)	August 19, 2018	100,000	100,000
8-Mar-11	\$18.31 (Cdn)	March 7, 2019	295,600	295,600
15-Sep-11	\$22.28 (Cdn)	September 14, 2019	2,029	2,029
7-Mar-12	\$19.48 (Cdn)	March 6, 2020	291,661	194,438
15-Aug-12	\$7.29 (Cdn)	August 14, 2020	83,403	55,602
15-Aug-12	\$7.29 (Cdn)	August 14, 2020	435,000	435,000
20-Nov-12	\$9.31 (Cdn)	November 19, 2020	50,000	50,000
5-Mar-13	\$6.78 (Cdn)	March 4, 2021	852,078	284,026
21-May-13	\$3.96 (Cdn)	May 20, 2021	5,377	1,792
14-Aug-13	\$4.49 (Cdn)	August 13, 2021	5,740	5,740
12-Nov-13	\$3.82 (Cdn)	November 11, 2021	7,751	2,584
3-Mar-14	\$5.04 (Cdn)	March 2, 2022	1,353,250	-
18-Mar-14	\$5.62 (Cdn)	March 17, 2022	63,086	-
16-May-14	\$5.21 (Cdn)	May 15, 2022	19,769	-
			3,868,334	1,730,401

(ii) Performance share unit plan

Centerra has established a performance share unit plan for employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the open market. Performance share units granted vest 50% at the end of the year after grant and the remaining 50% the following year. The number of units which will vest is determined 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 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.

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.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**

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

During 2014, the Company implemented changes to the annual performance share unit plan for eligible employees at its mine sites. The new plan, now includes the same terms as the corporate performance share units.

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, with 50% vesting at the end of 2014 and 50% at the end of 2015.

Centerra's performance share unit plan transactions during the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Balance, January 1	609,312	603,126
Granted-regular	1,350,579	405,505
Granted-special series	76,633	-
Exercised	(181,198)	(345,682)
Cancelled	(41,515)	(53,637)
Balance, December 31	1,813,811	609,312

The Monte Carlo simulated option pricing model was used in estimating the fair value of performance share units that are not vested as at year end. The model requires the use of subjective assumptions, including expected stock-price volatility, risk-free rate of return and forfeiture rate. Historical data has been considered in setting the assumptions. In determining the fair value of these units, the principal assumptions used in applying the Monte Carlo simulated option pricing model were as follows:

	2014	2013
Share price	\$ 5.89	\$ 4.21
S&P/TSX Global Gold Index	\$ 165.72	\$ 171.48
Expected life (years)	1.09	1.40
Expected volatility- Centerra's share price	54.31 %	79.3 %
Expected volatility- S&P/TSX Global Gold Index	30.55 %	40.7 %
Risk-free rate of return	1.12 %	1.5 %
Forfeiture rate	3.84 %	4.9 %

For the units that are fully vested as at year end, the fair value of the units were determined using the calculated sixty-one trading days volume weighted average share price multiplied by the adjustment factor. In determining the fair value of the vested units, the principal assumptions used were a share price of \$5.37 and weighted adjustment factor of 1.131 (December 31, 2013-share price of \$3.83 and adjustment factor of Nil).

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2014 and December 31, 2013**(Expressed in thousands of United States Dollars, except where otherwise indicated)

The vested number of units outstanding as at December 31, 2014 are 386,466 (December 31, 2013 – 165,644). The fair value of the vested units at December 31, 2014 is \$2.0 million (December 31, 2013– Nil).

At December 31, 2014, the total number of units outstanding (vested and unvested) was 1,813,811, with a related liability of \$ 7.1 million (December 31, 2013 – 609,312, with a related liability of Nil).

(iii) Deferred share unit plan

Centerra has established a deferred share unit plan for Directors of the Company to receive all or a portion of their annual retainer as deferred share units. A similar plan was established to provide compensation in the form of deferred share units to the Company’s Vice Chair (the “Vice Chair Deferred Unit Plan”) for the duration of the Vice Chair’s tenure.

Deferred share units are paid in full to a Director and to the Vice Chair no later than December 31 of the calendar year immediately following the calendar year of termination of service. A deferred share unit represents the right to receive the cash equivalent of a common share. Deferred share units vest immediately upon grant. If dividends are paid, each Director and the Vice Chair will be allocated additional deferred share units equal in value to the dividend paid on the number of common shares equal to the number of deferred share units held. The deferred share units cannot be converted to shares by the unit holder or by the Company.

Centerra’s deferred share unit plan transactions during the year were as follows:

	2014	2013
Balance, January 1	150,207	209,690
Granted	43,482	53,549
Redeemed	(5,882)	(113,032)
Balance, December 31	187,807	150,207

At December 31, 2014, the number of units outstanding was 187,807 with a related liability of \$0.9 million (December 31, 2013 – 150,207 with a related liability of \$0.6 million). In 2014, a compensation cost of \$0.4 million was recorded for this plan (recovery of \$0.7 million in 2013).

(iv) Restricted share unit plan

Effective as of January 7, 2011, Centerra established a restricted share unit plan for non-executive Directors and designated employees of the Company to receive all or a portion of their annual retainer and salaries as restricted units.

The restricted share units vest immediately upon grant and are redeemed on a date chosen by the

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participant (subject to certain restrictions as set out in the plan). A restricted share unit represents the right to receive the cash equivalent of a common share or, at the holder's option, a common share issued from the Company's treasury. The plans reserves 1,000,000 shares for issuance. If dividends are paid, each participant will be allocated additional restricted share units equal in value to the dividend paid on the number of common shares equal to the number of restricted share units held.

Centerra's restricted share unit plan transactions during the year were as follows:

	2014	2013
Balance, January 1	252,538	112,397
Granted	166,226	203,426
Redeemed	(179,428)	(63,285)
Balance, December 31	239,336	252,538

At December 31, 2014, the number of units outstanding was 239,336 with a related liability of \$1.1 million (December 31, 2013-252,538 with a related liability of \$1.0 million). Compensation expense for the plan was \$1.2 million in 2014 (\$0.3 million for 2013).

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25. Commitments and Contingencies

Commitments

As at December 31, 2014, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$45.2 million (\$44.9 million at Kumtor and \$0.3 million at Boroo) which are expected to be settled over the next twelve months.

Leases

The Company enters into operating leases in the ordinary course of business, primarily for its various offices and facilities around the world. Payments under these leases represent contractual obligations as scheduled in each agreement. The significant operating lease payments, including operating costs, are for its corporate offices in Toronto, which amounted to \$0.9 million in 2014 (2013 - \$0.9 million). The future aggregate minimum lease payments for the non-cancellable operating lease of the Toronto Corporate office are as follows:

(Thousands of Cdn\$)	2014	2013
2014	\$ -	\$ 438
2015	478	478
2016	478	478
2017	497	-
2018	501	-
2019 to 2021	1,611	-
	\$ 3,565	\$ 1,394

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

Kyrgyz Republic

(a) Negotiations between Kyrgyz Republic and Centerra

Following discussions with representatives of the Kyrgyz Government in the second half of 2013, Centerra announced on December 24, 2013 that it had entered into a non-binding heads of agreement with the Government of the Kyrgyz Republic in connection with a potential restructuring transaction under which Kyrgyzaltyn would exchange its 32.7% equity interest in Centerra for an interest of equivalent value in a joint venture company that would own the

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Kumtor Project. The agreement was revised and re-executed on January 18, 2014 (the “HOA”). On February 6, 2014, after its review of the HOA, the Kyrgyz Parliament adopted a resolution related to the restructuring described in the HOA.

Centerra is continuing its discussions with the Government regarding a potential restructuring transaction to resolve all outstanding concerns relating to the Kumtor Project. 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 the 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.

Centerra notes that if the Kyrgyz Republic does not succeed in overturning the Stans Arbitration Award (as defined below) in the Russian courts and Kyrgyzaltyn is unsuccessful in the Sistem Appeal (as defined below), Centerra expects that Stans would likely succeed in enforcing the Stans Arbitration Award in Ontario and in seizing a sufficient number of the Centerra shares held by Kyrgyzaltyn to satisfy the Stans Arbitration Award. If Stans ultimately seizes such shares, Kyrgyzaltyn would no longer hold a sufficient number of Centerra shares to contribute to the HOA restructuring transaction such that it could receive 50% of a new Kumtor joint venture.

(b) Kyrgyz Permitting and Regulatory Matters

In the normal course of operations at Kumtor, KGC prepares annual mine plans and other documents for approval for the Kumtor project which are considered and approved by, among others, the State Agency for Environmental and Forestry under the Government of the Kyrgyz Republic (“SAEPF”) and the State Agency for Geology and Mineral Resources (“SAGMR”).

In the fourth quarter of 2014, Kumtor submitted to SAEPP, SAGMR and other relevant agencies various documents for approval, including its 2015 annual mine plan and its ecological passport, which provides for, among other things, allowable environmental emissions and discharges. Similar to 2014, Kumtor received correspondence from such agencies declining to review such documents and expressing concern regarding the mining of ice at Kumtor.

The Parliament of the Kyrgyz Republic passed a law prohibiting activities which affect glaciers in the Kyrgyz Republic. This law passed by Parliament on April 23, 2014, but was not approved by the President of the Kyrgyz Republic who returned it to Parliament for revision. Centerra understands that this matter is still being reviewed by Kyrgyz Parliament. In addition, Kyrgyz regulators have also referred to older legislation, the 2005 Law of Water (the “Water Law”), which purports to prohibit the mining of ice by Kumtor. Centerra disputes the reasons stated by the regulatory authorities and have urged the relevant agencies

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and the Kyrgyz Government to provide the approvals and permits which are necessary for the operation of the Kumtor Project, including the 2015 annual mine plan and ecological passport. Centerra believes that the stabilization and non-discrimination provisions contained in the Kumtor Agreements (the “Kumtor Project Agreements”) and the laws of the Kyrgyz Republic which implemented the Kumtor Project Agreements support the view that the Water Law and any new law which could purport to prohibit the mining of ice would not apply to Kumtor operations. Centerra believes that any disagreement in relation to the application of the Water Law to Kumtor would be subject to the international arbitration provisions of the Kumtor Project Agreements. Centerra has also explained that (i) the Kumtor Project Agreements require 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 mining operations. In addition, Centerra also notes that with respect to permits and approvals, Kumtor is entitled to maintain, have renewed and receive such licenses, consents, permissions and approvals as are from time to time necessary or convenient for the operation of the Kumtor Project.

While Centerra and KGC expect to continue discussions with the Government and the relevant Kyrgyz authorities in relation to the approval of the 2015 annual mine plan and other related approvals and permits, there can be no assurance that any such approvals and permits will be received or that a suspension of mining operations will not occur. The inability to successfully resolve matters, including obtaining all necessary approvals, and/or further actions of the Kyrgyz Republic Government and/or Parliament, could have a material impact on Centerra’s future cash flows, earnings, results of operations and financial conditions.

(c) Environmental Claims

Kumtor has received very substantial claims from various Kyrgyz Republic state agencies in relation to alleged environmental offences and other matters. In aggregate, these claims are approximately \$470.0 million at the then current exchange rates. Such claims continue to be before the Kyrgyz courts.

Kumtor 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 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. Kumtor challenges this claim and the matter is currently before the Kyrgyz courts.

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

Mongolia***Gatsuurt***

The Company announced on January 23, 2015 that the Gatsuurt project, has been designated as a mineral deposit of strategic importance by the Mongolian Parliament. This designation allows the Gatsuurt project to move forward within the application of the Water and Forest Law and also allows Mongolia to acquire up to a 34% interest in the project. The terms of such participation are subject to continued discussions between the Company and the Mongolian Government. Further development of the Gatsuurt project will be subject to, among other things, receiving Parliamentary approval of the Mongolia's state ownership as well as the all required approvals and regulatory commissioning from the Mongolian Government. On February 17, 2015, the Government's proposal on state ownership of 20% was considered by Parliament but voted down and returned to the Government for review.

Corporate***Enforcement Notice by Stans***

On October 10, 2014, Centerra was served with a temporary order (the "Stans Order") from the Ontario Superior Court of Justice in favour of Stans Energy Corp. ("Stans") which prohibits Kyrgyzaltyn from, among other things: (i) selling, disposing or exchanging 47,000,000 shares (the "Frozen Shares") of the 77,401,766 shares it holds in the capital of Centerra; (ii) obtaining share certificates in respect of such shares; or (iii) exercising its rights as a registered shareholder of Centerra in a manner that is inconsistent with or would undermine the terms of the Stans Order. The order also prohibits Centerra from, among other things, registering the transfer of the Frozen Shares, and requires Centerra to hold in trust for the proceeding under the Stans

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Application (as defined below) any amounts payable to Kyrgyzaltyn in respect of dividends or distributions that Centerra may declare or pay in the future.

Centerra was also served by Stans with a notice of application to the Ontario Superior Court of Justice (the “Stans Application”) which seeks to enforce a June 30, 2014 arbitral award (the “Stans Arbitration Award”) obtained by Stans against the Kyrgyz Republic from the arbitration tribunal of the Moscow Chamber of Commerce in the amount of approximately \$118 million. The Stans Application seeks, among other things, an order declaring that the Kyrgyz Republic has a beneficial interest in all of the shares in Centerra held by Kyrgyzaltyn and that monies, interest, dividends and other rights of Kyrgyzaltyn in the stock of Centerra may be seized in order to satisfy the Stans Arbitration Award. The Kyrgyz Republic is appealing the Stans Arbitration Award to Russian courts in Moscow. The Kyrgyz Republic is arguing that the Moscow Chamber of Commerce lacked the jurisdiction to hear the matter and accordingly, the arbitration award must be revoked.

As noted above, in a separate proceeding Kyrgyzaltyn has appealed to the Ontario Court of Appeal the decision of the Ontario Superior Court of Justice in the Sistem matter, which found that the Kyrgyz Republic had a beneficial interest in the Centerra shares held by Kyrgyzaltyn.

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26. Related Party Transactions**a. 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:

	2014	2013
<i>Included in sales:</i>		
Gross gold and silver sales to Kyrgyzaltyn	\$ 697,903	\$ 814,416
Deduct: refinery and financing charges	(3,313)	(3,472)
Net sales revenue received from Kyrgyzaltyn	\$ 694,590	\$ 810,944

Included in expenses:

Management fees to Kyrgyzaltyn	\$ 561	\$ 602
Contracting services	1,628	1,762
Expenses paid to Kyrgyzaltyn	\$ 2,189	\$ 2,364

Dividend:

	2014	2013
Dividends declared to Kyrgyzaltyn	\$ 11,164	\$ 11,915
Withholding taxes	(558)	(599)
Net dividends declared to Kyrgyzaltyn	10,606	11,316
Realized exchange difference	(9)	-
Net dividends transferred to restricted cash	(2,596)	(5,284)
Net dividends paid to Kyrgyzaltyn	\$ 8,001	\$ 6,032

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Related party balances

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

	2014	2013
Amounts receivable	\$ 62,143	\$ 69,382
Dividend payable (net of withholding taxes)	\$ 13,828	\$ 11,233
Net unrealized foreign exchange gain	(1,574)	(597)
Dividend payable (net of withholding taxes) ^(a)	12,254	10,636
Amount payable	616	157
Total related party liabilities	\$ 12,870	\$ 10,793

(a) Equivalent of Cdn \$14.2 million as at December 31, 2014 (2013 - Cdn \$11.3 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 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. Subsequent to December 31, 2014, the balance receivable from Kyrgyzaltyn was paid in full.

b. Transactions with Directors and Key Management

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

Key management personnel are defined as the executive officers of the Company including the President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President and Chief Operating Officer, Vice President Global Exploration, General Counsel and Corporate Secretary, Vice President Business Development and Vice President Human Resources.

During 2014 and 2013, remuneration to directors and key management personnel were as follows:

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Compensation of Directors

	2014	2013
Fees earned and other compensation	\$ 937	\$ 890
Share-based compensation expense (recovery)	863	(1,560)
Total expensed (recovered)	\$ 1,800	\$ (670)

Fees earned and other compensation

These amounts represent fees earned by the non-executive chairman and the non-executive directors during the financial year.

Share-based compensation

A portion of the directors' compensation is in the form of participation in the Company's share-based payment plans (Deferred Share Unit plan and Restricted Share Unit plan) according to the election of the directors.

Compensation of Key Management Personnel

Compensation of key management personnel comprised:

	2014	2013
Salaries and benefits	\$ 6,935	\$ 5,518
Share-based compensation expense	5,335	1,998
Total expensed	\$ 12,270	\$ 7,516

Salaries and benefits

These amounts 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).

27. Capital Management

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, continue the development and exploration of its mineral properties, to provide returns for shareholders and benefits for other stakeholders and to pursue and support growth opportunities. The overall objectives for managing capital remained unchanged in 2014 from the prior comparative period.

The Company manages its capital structure and makes adjustments in light of changes in its economic and operating environment and the risk characteristics of the Company's assets. For

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effective capital management, the Company implemented planning, budgeting and forecasting processes to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there is sufficient credit facility to meet its short-term business operating and financing requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents and short term investments.

At December 31, 2014, the Company expects its capital resources and projected future cash flows from operations to support its normal operating requirements on an ongoing basis, and planned development and exploration of its mineral properties and other expansionary plans. To secure additional capital to pursue these plans, the Company may attempt to raise additional funds through borrowing and/or the issuance of equity or debt.

The Company's capital structure consists of short-term debt (net of cash and cash equivalents and short-term investments) and shareholders' equity, comprising issued common shares, contributed surplus and retained earnings as shown below:

	2014	2013
Shareholders' equity	\$ 1,398,643	\$ 1,474,310
Short-term debt	76,000	76,000
	1,474,643	1,550,310
Less:		
Cash and cash equivalent	(300,514)	(343,108)
Short-term investments	(261,503)	(158,358)
Total invested capital	\$ 912,626	\$ 1,048,844

28. Financial Instruments

The Company has various financial instruments comprised of cash and cash equivalents, short-term investments, restricted cash, amounts receivables, a reclamation trust fund, short-term debt, dividends payable, revenue-based taxes payable, accounts payable and accrued liabilities.

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. Fair values of identical instruments traded in active markets are determined by reference to the last quoted prices, in the most advantageous active market for that instrument. In the absence of an active market, the Company determines fair values based on quoted prices for instruments with similar characteristics and risk profiles. Fair values of financial instruments determined using valuation models require the use of inputs. In determining those inputs, the Company looks primarily to external, readily observable market inputs, when available, include factors such as interest rate yield curves, currency rates, total gold index returns, share price and historical volatilities, as applicable.

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Cash and cash equivalents consist of cash on hand, with financial institutions, invested in term deposits, treasury bills, banker's acceptances and corporate direct credit with original maturities of three months or less. Short-term investments consist of investments in term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit with original maturities of more than three months but less than twelve months.

The fair value of amounts receivable and accounts payable approximates the carrying value due to the short-term nature of the receivables and payables.

The Company has a credit facility available with EBRD whereby borrowings bear interest at a fixed premium over the variable London Interbank Offered Rate ("LIBOR"). The fair value of borrowings under this facility approximate their carrying amount given the floating component of the interest rate.

Classification of the financial assets and liabilities in the statement of financial position were as follows:

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December 31, 2014

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings
<u>Financial Assets</u>			
Cash and cash equivalents	\$ -	\$ -	\$ 300,514
Short-term investments	-	-	261,503
Restricted cash	-	-	12,437
Amounts receivable	66,214	-	-
Reclamation trust fund	-	-	15,951
Long-term receivables	1,607	-	-
	\$ 67,821	\$ -	\$ 590,405

Financial Liabilities

Trade creditors and accruals	\$ -	\$ 37,575	\$ -
Short-term debt	-	76,000	-
Dividend payable	-	12,254	-
Revenue-based taxes payable	-	24,605	-
	\$ -	\$ 150,434	\$ -

December 31, 2013

	Loans and receivables	Other financial liabilities	Assets/liabilities at fair value through earnings
<u>Financial Assets</u>			
Cash and cash equivalents	\$ -	\$ -	\$ 343,108
Short-term investments	-	-	158,358
Restricted cash	-	-	10,731
Amounts receivable	78,707	-	-
Reclamation trust fund	-	-	13,523
Long-term receivables	1,754	-	-
	\$ 80,461	\$ -	\$ 525,720

Financial Liabilities

Trade creditors and accruals	\$ -	\$ 30,541	\$ -
Borrowings	-	76,000	-
Dividend payable	-	10,636	-
Revenue-based taxes payable	-	30,742	-
	\$ -	\$ 147,919	\$ -

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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 December 31, 2014, and December 31, 2013 for assets and liabilities measured at fair value on a recurring basis:

	December 31, 2014		December 31, 2013	
	Level 1	Level 2	Level 1	Level 2
<u>Financial Assets</u>				
Cash and cash equivalents	\$ 300,514	\$ -	\$ 343,108	\$ -
Short-term investments	261,503	-	158,358	-
Restricted cash	12,437	-	10,731	-
Reclamation trust fund	15,951	-	13,523	-
	\$ 590,405	\$ -	\$ 525,720	\$ -

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29. 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 and to approve the policy. Financial risk management is carried out by the Company's Treasury department under a policy approved by the Board of Directors. 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 the Audit Committee in undertaking its oversight of financial risk management controls and procedures, the results of which are reported to the Audit Committee.

The types of risk exposure and the way in which such exposures are managed are as follows:

a. Currency Risk

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 results of the Company's operations are subject to currency translation risk. The operating results and financial position of the Company are reported in U.S. Dollars in the Company's consolidated financial statements.

The fluctuation of the U.S. dollar in relation to other currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets.

The Company either makes purchases in foreign currencies at the prevailing spot price to fund corporate activities or enters into short-term forward contracts to purchase Canadian dollars or Euros. During the year ended December 31, 2014, total Canadian dollars and Euro purchased were \$160.3 million and Euro 23.5 million (2013 - Canadian dollars and Euro purchased were \$71.0 million and Euro 31.5 million), including executed forward contracts of Canadian dollar \$27.5 million and Euro 1.0 million (2013 - executed forward contracts of Canadian dollar \$0.5 million and Euro 4.0 million). There were no outstanding Canadian dollars forward contracts and no outstanding Euro contracts outstanding at December 31, 2014 and 2013.

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

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December 31, 2014

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	\$ 239	\$ 4,604	\$ 72,817	\$ 97	\$ 1,408	\$ 612	-
Restricted cash	-	-	12,437	-	-	-	-
Amounts receivable	199	1,500	423	28	23	2,272	-
	\$ 438	\$ 6,104	\$ 85,677	\$ 125	\$ 1,431	\$ 2,884	-
Financial Liabilities							
Accounts payable and accrued liabilities	\$ 10,055	\$ 3,162	\$ 14,486	\$ 130	\$ 319	\$ 535	100
Taxes payable	955	1,196	-	-	-	204	-
Dividend payable	-	-	12,254	-	-	-	-
	\$ 11,010	\$ 4,358	\$ 26,740	\$ 130	\$ 319	\$ 739	100

December 31, 2013

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	Russian Rubles	European Euro	Turkish Lira	Australian Dollar
Financial Assets							
Cash and cash equivalents	\$ 291	\$ 333	\$ 11,752	\$ 280	\$ 1,655	\$ 295	-
Restricted cash	-	2	10,729	-	-	-	-
Amounts receivable	275	2,876	333	87	-	2,272	-
	\$ 566	\$ 3,211	\$ 22,814	\$ 367	\$ 1,655	\$ 2,567	-
Financial Liabilities							
Accounts payable and accrued liabilities	\$ 9,778	\$ 1,813	\$ 9,191	\$ 160	\$ 615	\$ 231	52
Taxes payable	955	1,190	-	-	-	77	-
Dividend payable	-	-	10,636	-	-	-	-
	\$ 10,733	\$ 3,003	\$ 19,827	\$ 160	\$ 615	\$ 308	52

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During the year ended December 31, 2014, the Company recognized a loss of \$ 2.8 million on foreign exchange (2013 - loss of \$ 2.7 million).

Based on the above net exposures at December 31, 2014, a 10% depreciation or appreciation of the above currencies against the US dollar, with all other variables held constant would have led to additional income or loss before tax of \$5.3 million (2013 - \$3.4 million) as a result of a change in value of the financial assets and liabilities denominated in those currencies.

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 flow as a result of the change in interest rate. The Company's cash and cash equivalents and short-term investments include highly liquid investments that earn interest at market rates. As of December 31, 2014, the majority of the \$562.0 million in cash and cash equivalents and short-term investments (2013- \$501.4 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2014, a 100 basis point change in interest rates would change net annual interest income by approximately \$5.6 million (2013 - \$5.0 million).

In addition, the interest on the \$76 million short-term debt includes a variable rate component pegged to the London Interbank Offer Rate, or LIBOR. Based on the amount drawn as at December 31, 2014, a 100 basis point change in LIBOR would change net annual interest expenses by approximately \$0.8 million (2013- \$0.8 million).

Although the Company endeavours to maximize the interest income earned on excess funds, the Company's policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. 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. Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Company if a gold sales customer or counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises principally from the Company's receivables from customers and on cash and cash equivalents and short-term investments.

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. The Company's revenues are directly attributable to sales transactions with two customers. Boroo sells the gold and silver content of its doré to Bank of Mongolia. Kyrgyzaltyn JSC, a state-owned company that operates a refinery in the Kyrgyz

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Republic, is Kumtor's sole customer and is a shareholder of Centerra.

To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 of Centerra common shares it owns as security against unsettled gold shipments, in the event of default on payment (see note 26).

Based on movements of Centerra's share price and the value of individual or unsettled gold shipments over the course of 2014, 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 \$57.9 million (2013 - \$70.1 million).

The Company manages counterparty credit risk, in respect of short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions and corporate direct credit issues that can be promptly liquidated.

d. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages its liquidity risk by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and short-term investments. In addition, \$74 million of the credit facility financing remains available. The Company believes that these sources will be sufficient to cover its anticipated short and long-term cash requirements.

At December 31, 2014, the Company had cash and cash equivalents and short-term investments totaling \$562.0 million (2013 - \$501.4 million). 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, 2014

(Millions of US\$)	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due in After 5 Years
Account payable and accrued liabilities	\$ 45.9	\$ 45.9	\$ -	\$ -	\$ -
Short-term debt	76.0	76.0	-	-	-
Reclamation trust deed	27.9	2.7	8.8	5.8	10.6
Capital equipment	7.6	7.6	-	-	-
Operational supplies	37.6	37.6	-	-	-
Lease of premises (corporate offices)	3.6	0.5	1.0	1.0	1.1
Total contractual obligations	\$ 198.6	\$ 170.3	\$ 9.8	\$ 6.8	\$ 11.7

Year ended December 31, 2013

(Millions of US\$)	Total	Due in Less than One year	Due in 1 to 3 Years	Due in 4 to 5 Years	Due in After 5 Years
Account payable and accrued liabilities	\$ 32.1	\$ 32.1	\$ -	\$ -	\$ -
Short-term debt and accrued interest payable	77.0	77.0	-	-	-
Reclamation trust deed	47.8	4.2	13.5	9.1	21.0
Capital equipment	1.8	1.8	-	-	-
Operation supplies	57.6	57.6	-	-	-
Lease of premises (corporate offices)	1.4	0.4	1.0	-	-
Total contractual obligations	\$ 217.7	\$ 173.1	\$ 14.5	\$ 9.1	\$ 21.0

The Company believes it has sufficient cash and cash equivalents and liquid short-term investments to meet its current obligations.

e. Commodity Price Risk

The value of the Company's revenues and mineral resource properties is related to the price of gold, and the outlook for this mineral. Adverse changes in the price of certain raw materials can also significantly affect the Company's cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank reserves management, forward sales by producers and speculators, levels of worldwide

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production, short-term changes in supply and demand due to speculative or hedging activities, macro-economic variables, and certain other factors related specifically to gold.

The profitability of the Company's operations is highly correlated to the market price of gold. To the extent that the price of gold increases over time, the fair value of the Company's mineral assets increases and cash flows will improve; conversely, declines in the price of gold will reduce the fair value of mineral assets and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the Company's profitability and cash flows may be impacted.

The Company does not enter into any hedging arrangements to mitigate commodity price risk.

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

(Thousands of U.S. Dollars)	2014	2013
Decrease (increase) in amounts receivable	\$ 12,493	\$ (3,369)
Increase in inventory- ore and metal	(34,672)	(82,225)
Decrease (increase) in inventory- supplies	(89)	1,501
Decrease in prepaid expenses	16,303	20,126
Increase (decrease) in accounts payable and accrued liabilities	13,774	(31,831)
(Decrease) Increase in revenue-based tax payable	(6,137)	12,099
Reduction in depreciation and amortization included in inventory (note 11)	13,717	78,503
(Increase) reduction in accruals included in additions to PP&E	(1,158)	9,835
Revenue - based tax utilized	(10,000)	(20,000)
Increase (Decrease) in other taxes payable	139	(102)
	\$ 4,370	\$ (15,463)

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

(Thousands of U.S. Dollars)	2014	2013
Additions to PP&E during the year ended December 31, (note 11)	\$ (358,515)	\$ (381,849)
Impact of revisions to asset retirement obligation included in PP&E (note 17)	7,325	5,215
Depreciation and amortization included in additions to PP&E (note 11)	73,747	77,787
Increase (decrease) in accruals related to additions to PP&E	1,158	(9,835)
	\$ (276,285)	\$ (308,682)

c. Adjusted cost of sales

Earnings from mine operations includes the following expenses presented by function:

	2014	2013
Cost of sales	\$ 502,577	\$ 559,236
Impairment of goodwill (note 12)	111,000	-
Total adjusted costs of sales	\$ 613,577	\$ 559,236

31. Subsequent events***50/50 partnership with Premier Gold Mines Ltd.***

On February 5, 2015, the Company announced signing a definitive agreement to form a 50/50 partnership with Premier Gold Mines Ltd. (“Premier”) for the joint ownership and development of Premier Gold’s Trans-Canada Property including the Hardrock Gold Project located in the Geraldton-Beardmore Greenstone Belt in Ontario. Under the terms of the partnership agreement, Premier will contribute all of its interests in the Project and related assets to the Partnership and Centerra will contribute Cdn\$85 million to the Partnership and in return, each partner shall receive a 50% interest in the Partnership. Centerra has also agreed to commit up to an additional Cdn\$185.0 million to fund the project, subject to certain feasibility and project advancement criteria, and up to Cdn\$30.0 million contingent on the results of the updated mineral resource calculation.

The transaction is expected to close on or about March 6, 2015, subject to the receipt of applicable regulatory approvals and the satisfaction of customary conditions precedent.

Centerra Gold Inc.

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Dividends

On February 19, 2015, the Company announced that its Board of Directors approved a quarterly dividend of Cdn\$0.04 per common share. The dividend is payable March 19, 2015 to shareholders of record on March 5, 2015.

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 Kyrgyz Republic segment includes the operations of the Kumtor Gold project and the Mongolian segment involves the operations of the Boroo Gold project, activities related to the Gatsuert project and local exploration activities. The Corporate and other segment include the head office located in Toronto, the Öksüt Turkish project and other international exploration projects. The segments' accounting policies are the same as those described in the summary of significant accounting policies in the Company's 2014 annual financial statements except that inter-company loan interest income and expenses, which eliminate on consolidation, are presented in the individual operating segments where they are generated when determining earnings or loss from operations.

Geographic Segmentation of Revenue

The Company's only product is gold doré, produced from mines located in the Kyrgyz Republic and Mongolia. All production from the Kumtor Gold project is sold to the Kyrgyzaltyn refinery in the Kyrgyz Republic while production from the Boroo Gold project is sold to Bank of Mongolia.

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

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Year ended December 31, 2014

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	\$ 694.6	\$ 68.7	\$ -	\$ 763.3
Cost of sales	444.4	58.1	-	502.5
Mine standby costs	-	2.4	-	2.4
Regional office administration	20.1	5.1	-	25.2
Earnings from mine operations	230.1	3.1	-	233.2
Revenue based taxes	97.2	-	-	97.2
Other operating expenses	5.1	(1.3)	6.0	9.8
Impairment of goodwill	111.0	-	-	111.0
Exploration and business development	0.4	4.2	11.1	15.7
Corporate administration	0.2	0.5	34.1	34.8
Earnings (loss) from operations	16.2	(0.3)	(51.2)	(35.3)
Other expenses, net				1.2
Finance costs				5.0
Loss before income tax				(41.5)
Income tax expense				2.6
Loss and comprehensive loss				\$ (44.1)
Capital expenditure for the year	\$ 349.9	\$ 1.1	\$ 0.2	\$ 351.2
Goodwill	\$ 18.7	\$ -	\$ -	\$ 18.7
Assets (excluding Goodwill)	\$ 936.3	\$ 179.6	\$ 494.5	\$ 1,610.4
Total liabilities	\$ 92.0	\$ 34.5	\$ 103.9	\$ 230.4

Year ended December 31, 2013

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Corporate and other	Total
Revenue from Gold Sales	\$ 811.0	\$ 133.4	\$ -	\$ 944.4
Cost of sales	473.0	86.2	-	559.2
Regional office administration	18.1	5.7	-	23.8
Earnings from mine operations	319.9	41.5	-	361.4
Revenue based taxes	113.5	-	-	113.5
Other operating expenses	7.8	0.5	-	8.3
Exploration and business development	6.4	5.5	17.7	29.6
Corporate administration	0.1	0.4	30.1	30.6
Earnings (loss) from operations	192.1	35.1	(47.8)	179.4
Other expenses, net				3.6
Finance costs				5.0
Earnings before income tax				170.8
Income tax expense				13.1
Net earnings and comprehensive income				\$ 157.7
Capital expenditure for the year	\$ 367.4	\$ 8.6	\$ 0.6	\$ 376.6
Goodwill	\$ 129.7	\$ -	\$ -	\$ 129.7
Assets (excluding Goodwill)	\$ 919.0	\$ 175.3	\$ 463.7	\$ 1,558.0
Total liabilities	\$ 87.0	\$ 30.5	\$ 95.9	\$ 213.4