

Centerra Gold Inc.

Condensed Consolidated Interim Financial Statements

**For the Quarter Ended September 30, 2016
(Unaudited)**

(Expressed in thousands of United States Dollars)

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

		September 30, 2016	December 31, 2015
(Expressed in Thousands of United States Dollars)			
	Notes		
Assets			
Current assets			
Cash and cash equivalents		\$ 454,060	\$ 360,613
Short-term investments		25,055	181,613
Restricted cash – Kyrgyz Republic court order	4	121,607	-
Restricted cash - financing	4, 8	145,390	-
Amounts receivable	5	40,665	28,781
Inventories	6	480,373	347,011
Prepaid expenses	7	19,850	12,880
		<u>1,287,000</u>	<u>930,898</u>
Property, plant and equipment	9	601,222	693,016
Restricted cash		895	9,989
Other assets		33,378	26,681
		<u>635,495</u>	<u>729,686</u>
Total assets		<u>\$ 1,922,495</u>	<u>\$ 1,660,584</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 72,864	\$ 75,292
Short-term debt	10	98,024	76,000
Subscription receipt issue liability	8	149,570	-
Revenue-based taxes payable		19,013	9,152
Taxes payable		1,172	1,286
Current portion of provision for reclamation		906	1,062
		<u>341,549</u>	<u>162,792</u>
Dividends payable to related party	15	-	9,330
Provision for reclamation		66,124	65,087
Deferred income tax liability		5,647	2,524
		<u>71,771</u>	<u>76,941</u>
Total liabilities		<u>\$ 413,320</u>	<u>\$ 239,733</u>
Shareholders' equity	13		
Share capital		690,471	668,705
Contributed surplus		25,476	24,153
Accumulated other comprehensive income		(321)	220
Retained earnings		793,549	727,773
		<u>1,509,175</u>	<u>1,420,851</u>
Total liabilities and Shareholders' equity		<u>\$ 1,922,495</u>	<u>\$ 1,660,584</u>

Commitments and contingencies (note 14) and subsequent events (notes 8, 14, 10 and 18)

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

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

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2016	2015	2016	2015
(Expressed in Thousands of United States Dollars, except per share amounts)					
	Notes				
Revenue from gold sales		\$ 220,190	\$ 116,226	\$ 455,035	\$ 475,618
Cost of sales	11	97,961	76,136	247,416	271,045
Standby costs, net		(1,542)	980	(2,238)	4,802
Regional office administration		3,627	4,134	10,675	14,437
Earnings from mine operations		120,144	34,976	199,182	185,334
Revenue-based taxes		30,827	15,887	63,705	64,409
Other operating expenses		130	423	1,396	1,086
Pre-development project costs	12	2,309	3,320	7,593	11,490
Impairment of goodwill		-	18,705	-	18,705
Exploration and business development		5,840	3,120	13,029	7,990
Corporate administration		5,918	7,961	18,529	28,114
Earnings (loss) from operations		75,120	(14,440)	94,930	53,540
Other expenses (income), net		893	2,281	(843)	4,875
Finance costs		1,720	1,093	4,394	3,328
Earnings (loss) before income taxes		72,507	(17,814)	91,379	45,337
Income tax expense		5,569	278	3,469	832
Net earnings (loss)		\$ 66,938	\$ (18,092)	\$ 87,910	\$ 44,505
Other Comprehensive Income					
Items that may be subsequently reclassified to earnings:					
Net gain (loss) on translation of foreign operation		43	44	(176)	61
Loss on fair value of hedging instruments	16	(365)	-	(365)	-
Other comprehensive (loss) income		(322)	44	(541)	61
Total comprehensive income (loss)		\$ 66,616	\$ (18,048)	\$ 87,369	\$ 44,566
Basic earnings (loss) per common share	13	\$ 0.28	\$ (0.08)	\$ 0.36	\$ 0.19
Diluted earnings (loss) per common share	13	\$ 0.28	\$ (0.08)	\$ 0.35	\$ 0.19

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

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

		Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
(Expressed in Thousands of United States Dollars)					
Operating activities	Notes				
Net earnings (loss)		\$ 66,938	\$ (18,092)	\$ 87,910	\$ 44,505
Items not requiring (providing) cash:					
Depreciation, depletion and amortization	9	60,823	41,264	137,553	157,687
Finance costs		1,720	1,093	4,394	3,328
Loss on disposal of equipment		-	1,482	119	1,976
Compensation expense on stock options		561	688	1,905	1,990
Other share based compensation charge (reversal)		1,184	2,220	(365)	3,868
Inventory (reversal) impairment	6	(15,431)	-	(27,217)	-
Impairment of goodwill		-	18,705	-	18,705
Derivative loss		463	-	463	-
Income tax expense		5,569	277	3,469	832
Other operating items		313	1,478	(253)	303
		<u>122,140</u>	<u>49,115</u>	<u>207,978</u>	<u>233,194</u>
Change in operating working capital	17	14,334	(6,980)	(4,845)	54,819
Change in long-term inventory		-	-	-	349
Purchase and settlement of derivatives		(1,803)	-	(1,803)	-
Income taxes recovered (paid)		(296)	105	(283)	(340)
Cash provided by operations		<u>134,375</u>	<u>42,240</u>	<u>201,047</u>	<u>288,022</u>
Investing activities					
Additions to property, plant and equipment	17	(50,579)	(69,092)	(131,001)	(211,737)
Sale of short-term investments, net		257,094	91,921	156,558	21,880
Purchase of interest in Greenstone Gold Mines LP		-	(8,296)	-	(75,701)
Decrease (increase) in restricted cash		27	-	(272)	-
Increase in long-term other assets		(1,608)	(546)	(5,846)	(560)
Cash generated from (used in) investing		<u>204,934</u>	<u>13,987</u>	<u>19,439</u>	<u>(266,118)</u>
Financing activities					
Dividends paid - declared in period		(7,498)	(4,938)	(17,668)	(15,364)
Dividends transferred to trust account		-	(2,229)	(4,466)	(6,933)
Payment of interest and borrowing costs		(1,997)	(1,470)	(8,600)	(2,977)
Increase in short term debt	10	-	-	24,000	-
Proceeds from common shares issued for options exercised		620	58	1,302	639
Proceeds from subscription receipts issued	8	145,390	-	145,390	-
Cash generated from (used in) financing		<u>136,515</u>	<u>(8,579)</u>	<u>139,958</u>	<u>(24,635)</u>
Increase (decrease) in cash during the period		475,824	47,648	360,444	(2,731)
Cash and cash equivalents at beginning of the period		245,233	250,135	360,613	300,514
Restricted cash in respect of subscriptions receipts	8	(145,390)	-	(145,390)	-
Restricted cash in respect of court order	4	(121,607)	-	(121,607)	-
Cash and cash equivalents at end of the period		<u>\$ 454,060</u>	<u>\$ 297,783</u>	<u>\$ 454,060</u>	<u>\$ 297,783</u>
<i>Cash and cash equivalents consist of:</i>					
Cash		\$ 80,723	\$ 86,227	\$ 80,723	\$ 86,227
Cash equivalents		373,337	211,556	373,337	211,556
		<u>\$ 454,060</u>	<u>\$ 297,783</u>	<u>\$ 454,060</u>	<u>\$ 297,783</u>

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

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

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

	Number of Common Shares	Share Capital Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2015	236,403,958	\$ 660,554	\$ 22,556	\$ -	\$ 715,533	\$ 1,398,643
Share-based compensation expense	-	-	1,990	-	-	1,990
Shares issued on exercise of stock options	156,863	1,009	(370)	-	-	639
Shares issued on redemption of restricted share units	9,622	52	-	-	-	52
Dividends declared (note 13(b))	-	-	-	-	(22,297)	(22,297)
Foreign currency translation	-	-	-	61	-	61
Net earnings for the period	-	-	-	-	44,505	44,505
Balance at September 30, 2015	236,570,443	\$ 661,615	\$ 24,176	\$ 61	\$ 737,741	\$ 1,423,593
Balance at January 1, 2016	237,889,274	\$ 668,705	\$ 24,153	\$ 220	\$ 727,773	\$ 1,420,851
Share-based compensation expense	-	-	1,905	-	-	1,905
Shares issued on exercise of stock options	266,509	1,885	(582)	-	-	1,303
Shares issued on redemption of restricted share units	4,722	24	-	-	-	24
Shares issued to settle obligations	4,117,120	19,857	-	-	-	19,857
Dividends declared (note 13(b))	-	-	-	-	(22,134)	(22,134)
Foreign currency translation	-	-	-	(176)	-	(176)
Loss on derivative instruments	-	-	-	(365)	-	(365)
Net earnings for the period	-	-	-	-	87,910	87,910
Balance at September 30, 2016	242,277,625	\$ 690,471	\$ 25,476	\$ (321)	\$ 793,549	\$ 1,509,175

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

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

1. Nature of operations

Centerra Gold Inc. (“Centerra” or the “Company”) was incorporated under the Canada Business Corporations Act on November 7, 2002. Centerra’s common shares are listed on the Toronto Stock Exchange. The Company is domiciled in Canada and 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, Portugal, Mexico, Nicaragua and Canada.

On October 20, 2016, the Company announced that it had finalized the acquisition of Thompson Creek Metals Company Inc. (“Thompson Creek”), whereby Centerra acquired all of the issued and outstanding common shares of Thompson Creek. See note 18 for additional details of the transaction.

2. Basis of preparation

These condensed consolidated interim financial statements (“interim financial statements”) of the Company have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”), using accounting policies consistent with those used in its consolidated financial statements as at and for the year ending December 31, 2015. These financial statements do not contain all of the required annual disclosures and should be read in conjunction with the Company’s December 31, 2015 annual consolidated financial statements. Certain comparative figures included in the statement of cash flows have been reclassified to comply with the basis of presentation adopted in the current year.

These interim financial statements were authorized for issuance by the Board of Directors of the Company on November 7, 2016.

3. Changes in accounting policies

Recently adopted accounting policies are as follows:

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

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Recently issued but not adopted accounting guidance are as follows:

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

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

- New standard IFRS 16, *Leases* (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.
- Amendments to IAS 7, *Statements of Cash Flows* (“IAS 7”). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company is in the process of determining the impact of the amendments to IAS 7 on its consolidated financial statements.
- Amendments to IAS 12, *Income Taxes* (“IAS 12”). The amendments apply for annual periods beginning on or after January 1, 2017 with retrospective application. Early application of the amendments is permitted. The amendments clarify that the existence of a deductible temporary difference is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset and also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company is in the process of determining the impact of the amendments to IAS 7 on its consolidated financial statements.

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

4. Restricted cash

	September 30, 2016	December 31, 2015
Cash deposits held subject to court order (Kyrgyz Republic) \$	121,607	\$ -
Cash proceeds from Subscription Receipts offering	145,390	-
	\$ 266,997	\$ -

As discussed in Note 14, a Kyrgyz Republic court order purports to require cash generated from the Kumtor Project to continue to be held in Kumtor Gold Corporation (“KGC”) and restrict the distribution of such cash to Centerra as a loan, advance or dividend. The restricted cash is however available to fund Kumtor’s operation.

As discussed in Note 8, the Company completed an offering of Subscription Receipts in the period, the proceeds of which are to be used in connection with the acquisition of Thompson Creek.

5. Amounts receivable

	September 30, 2016	December 31, 2015
Gold sales receivable from related party (note 15) \$	35,427	\$ 25,725
Consumption tax receivable	2,291	1,840
Other receivables	2,947	1,216
	\$ 40,665	\$ 28,781

6. Inventories

	September 30, 2016	December 31, 2015
Stockpiles of ore \$	305,068	\$ 144,758
Gold in-circuit	21,193	23,155
Heap leach in circuit	-	226
Gold doré	2,880	5,632
	329,141	173,771
Supplies	151,232	173,240
Total inventories (net of provisions) \$	480,373	\$ 347,011

In the nine months ended September 30, 2016, the Company has recognized a reversal of \$27.2 million in net realizable value (“NRV”) charges recorded against gold inventories that was

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

recorded as at December 31, 2015 (\$15.4 million reversal in the three months ended September 30, 2016). See note 11 for additional information.

The Company recorded a provision for supplies obsolescence of \$25.6 million as at September 30, 2016 (December 31, 2015 - \$21.1 million), resulting in supplies inventory net of the provision of \$151.2 million as at September 30, 2016 (December 31, 2015 - \$173.2 million).

7. Prepaid expenses

	September 30, 2016	December 31, 2015
Insurance	\$ 5,212	\$ 4,261
OMAS credit facility financing fees (note 10)	3,266	-
Underwriters fees associated with acquisition of Thompson Creek (note 8)	4,803	-
Deposit for consumable supplies	3,910	4,657
Advances for project development	-	1,453
Other	2,659	2,509
	\$ 19,850	\$ 12,880

8. Bought deal financing

In connection with the acquisition of Thompson Creek, on July 20, 2016, the Company completed an offering under which underwriters purchased, on a bought deal basis, 26,599,500 Subscription Receipts, at a price of Cdn\$7.35 per Subscription Receipt for gross proceeds to the Company of approximately Cdn\$195.5 million (“the Offering”). Each Subscription Receipt represents the right of the holder to receive without payment of additional consideration or further action, one common share of Centerra. The funds were held by an escrow agent until the transaction was completed. On July 21, 2016, the Company entered into a foreign exchange forward contract to hedge the currency risk associated with the Offering (Note 16). Upon completion of the acquisition, the net proceeds of the Offering were used to partially fund the redemption of the secured and unsecured notes of Thompson Creek.

On July 20, 2016, the Company recorded the proceeds of the Offering, with the exception of the prepaid underwriter’s fee, as restricted cash, with a corresponding entry to subscription receipt liability. The Company’s prepayment of 50% of the underwriter’s fee from the proceeds generated (\$3.7 million) was recorded as a prepaid expense. The Company accrued \$0.2 million for interest earned from July 20, 2016 to September 30, 2016 on the funds held in escrow. As at September 30, 2016, the Company had recorded restricted cash of \$145.4 million (excluding the 50% underwriter’s fee prepayment) and a subscription receipt liability of \$149.1 million in connection with the Offering.

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

On October 20, 2016, the restricted cash was released in connection with completion of the acquisition of Thomson Creek – see note 18, the subscription receipt liability was settled and share capital of \$141.5 million, net of \$7.5 million of underwriter fees, was recorded in connection with the issuance of the Company’s common shares.

9. Property, plant and equipment

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

	Buildings, plant and equipment	Mineral properties	Capitalized stripping costs	Mobile equipment	Construction in progress	Total
Cost						
Balance January 1, 2016	\$ 445,980	\$ 289,657	\$ 1,118,167	\$ 455,069	\$ 49,808	\$ 2,358,681
Additions	578	10,636	78,416	133	77,343	167,106
Disposals/Retirements	(2,263)	(119)	(814,029)	(32,463)	-	(848,874)
Reclassification	1,545	-	-	44,355	(45,900)	-
Balance September 30, 2016	\$ 445,840	\$ 300,174	\$ 382,554	\$ 467,094	\$ 81,251	\$ 1,676,913
Accumulated depreciation						
Balance January 1, 2016	\$ 266,048	\$ 153,224	\$ 905,223	\$ 341,170	\$ -	\$ 1,665,665
Charge for the period	12,566	3,225	192,180	50,810	-	258,781
Disposals/Retirements	(2,263)	-	(814,029)	(32,463)	-	(848,755)
Balance September 30, 2016	\$ 276,351	\$ 156,449	\$ 283,374	\$ 359,517	\$ -	\$ 1,075,691
Net book value						
Balance January 1, 2016	\$ 179,932	\$ 136,433	\$ 212,944	\$ 113,899	\$ 49,808	\$ 693,016
Balance September 30, 2016	\$ 169,489	\$ 143,725	\$ 99,180	\$ 107,577	\$ 81,251	\$ 601,222

In the nine month period ended September 30, 2016, the Company offset \$814.0 million of fully depreciated capitalized stripping costs with the associated accumulated depreciation. The net impact to the PP&E balance was nil. The following is an analysis of the depreciation, depletion and amortization charge recorded in the Statements of Financial Position and Statements of Earnings (Loss):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Amount recorded in cost of sales (note 11)	\$ 60,553	\$ 40,825	\$ 138,559	\$ 156,291
Amount recorded in corporate administration	110	112	308	302
Amount recorded in standby costs	160	327	(1,314)	1,094
Total included in Statements of Earnings	60,823	41,264	137,553	157,687
Movement in inventories (note 17(b))	89,616	(33,701)	100,367	(89,502)
Amount capitalized in PP&E (note 17(a))	10,503	15,842	20,861	48,123
Depreciation, depletion and amortization charge for the period	\$ 160,942	\$ 23,405	\$ 258,781	\$ 116,308

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

10. Short-term debt

	September 30, 2016	December 31, 2015
EBRD revolving credit facility	\$ 100,000	\$ 76,000
Deferred financing fee	(1,976)	-
Total	\$ 98,024	\$ 76,000

EBRD Revolving Credit Facility

On February 12, 2016, the Company entered into a new five-year \$150 million revolving credit facility with European Bank for Reconstruction and Development (“the EBRD Facility”). The \$76 million outstanding under the previous facility was transferred to the new EBRD Facility. In the second quarter of 2016, the Company drew \$24 million to increase borrowings under the EBRD Facility to \$100.0 million.

The terms of the EBRD Facility require the Company to pledge certain mobile equipment from the Kuntor mine as security with a book value of \$117.2 million as at September 30, 2016 (December 31, 2015 - \$136.5 million), and maintain compliance with specified covenants (including financial covenants). The Company was in compliance with the covenants for the three months and nine months ended September 30, 2016.

Subsequent to September 30, 2016, EBRD waived a condition precedent to the drawing of an additional \$50 million under the facility for the purposes of funding direct and indirect costs associated with the Gatsuurt Project. The Company expects to draw the additional \$50 million under the EBRD Facility in the fourth quarter. The interest rate associated with the additional \$50 million draw will be six month LIBOR plus 5.0%. Funds drawn under the EBRD Facility are available to be re-drawn on a semi-annual basis and at the Company’s discretion, repayment of the loaned funds may be extended until 2021.

	September 30, 2016	December 31, 2015
EBRD Facility		
Undrawn amount of the facility	\$ 50,000	\$ 74,000
Interest rate - six month LIBOR plus ⁽¹⁾	3.0 %	2.9 %

(1) Interest is payable at the end of the semi-annual terms.

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**(Expressed in thousands of United States Dollars, except where otherwise indicated)

OMAS Facility

On April 5, 2016, Öksüt Madencilik Sanayi ve Ticaret A.S. ("OMAS"), a wholly-owned subsidiary of the Company, entered into a \$150 million credit facility agreement with UniCredit Bank AG (the "OMAS Facility") expiring on December 30, 2021. The purpose of the OMAS Facility is to assist in financing the construction of the Company's Öksüt Project.

Availability of the OMAS Facility is subject to customary conditions precedent, including receipt of all necessary permits approvals. If the conditions are not satisfied or waived by the deadline of November 30, 2016, or an extension is not granted by the lenders, the commitments under the OMAS Facility will be cancelled. The Company continues to work on satisfying the conditions precedents by such deadline, however some conditions, such as the receipt of the pastureland permit for the Öksüt Project, are beyond Centerra's control. There are no assurances that all conditions will be satisfied by the deadline, or that the lenders will provide any waivers or extensions.

As at September 30, 2016, \$3.3 million of OMAS Facility deferred financing fees were included in prepaid expenses (note 7) as the Company has yet to draw from the facility. The deferred financing fees are being amortized on a straight-line basis over the term of the OMAS Facility consistent with IFRS 9 (note 16). The OMAS Facility is secured by Öksüt assets and is non-recourse to the Company.

	September 30,
	2016
OMAS Facility	
Undrawn amount of the facility	\$ 150,000
Interest rate - LIBOR plus ⁽¹⁾	2.65% - 2.95%

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

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

11. Cost of sales

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Operating costs:				
Salaries and benefits	\$ 14,439	\$ 14,657	\$ 43,386	\$ 45,654
Consumables	24,676	13,838	106,455	40,172
Third party services	795	891	2,286	2,813
Other operating costs	2,713	2,588	9,071	7,225
Royalties, levies and production taxes	96	169	285	684
Changes in inventories - cash component	10,120	3,168	(25,409)	18,206
	52,839	35,311	136,074	114,754
Reversal of gold inventory impairment (note 6)	(15,431)	-	(27,217)	-
Depreciation, depletion and amortization (note 9)	60,553	40,825	138,559	156,291
	\$ 97,961	\$ 76,136	\$ 247,416	\$ 271,045

12. Pre-development project costs

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Greenstone Gold Property	\$ 2,309	\$ 2,774	\$ 7,593	\$ 7,299
Öksüt Gold Project	-	546	-	4,191
	\$ 2,309	\$ 3,320	\$ 7,593	\$ 11,490

In the three months ended September 30, 2015, the Board of Directors of the Company made the decision to move the Öksüt Gold Project into the development phase. In accordance with the Company's accounting policies, development costs of the project subsequent to this date are capitalized. In the three and nine months ended September 30, 2016, the Company capitalized \$4.7 million and \$10.0 million of Öksüt Gold Project development costs, respectively, as "Construction in Progress", part of PP&E (note 9).

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

13. Shareholders' equity**a. Earnings per share**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net earnings (loss) attributable to shareholders	\$ 66,938	\$ (18,092)	\$ 87,910	\$ 44,505
Adjustments to earnings (loss):				
Impact of performance share units	-	-	(2,200)	-
Impact of restricted share units	(60)	(25)	24	27
Net earnings (loss) for the purposes of diluted earnings per share	\$ 66,878	\$ (18,117)	\$ 85,734	\$ 44,532

Basic and diluted earnings per share computation:

(Thousands of units)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Basic weighted average number of common shares outstanding	242,222	236,556	241,313	236,507
Effect of stock options	606	-	489	290
Effect of restricted share units	108	191	120	226
Diluted weighted average number of common shares outstanding	242,936	236,747	241,922	237,023
Basic earnings (loss) per common share	\$ 0.28	\$ (0.08)	\$ 0.36	\$ 0.19
Diluted earnings (loss) per common share	\$ 0.28	\$ (0.08)	\$ 0.35	\$ 0.19

For the three and nine months ended September 30, 2016 and 2015 certain potentially dilutive stock options were excluded from the calculation of diluted earnings per share due to the exercise prices being greater than the average market price of the Company's ordinary shares for the period.

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Potentially dilutive securities are summarized below:

(Thousands of units)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Stock options	1,760	4,755	2,396	2,929

b. Dividends

Dividends are declared and paid in Canadian dollars. The details of the dividends declared in the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Dividends declared	\$ 7,498	\$ 7,167	\$ 22,134	\$ 22,297
Dividends declared (Canadian Dollars per share amount)	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

In the three months ended September 30, 2016, the previously outstanding dividend balance held in trust for Kyrgyzaltyn JSC (“Kyrgyzaltyn”) was paid in full - note 15.

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

As at September 30, 2016, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$92.5 million (Kumtor - \$36.8 million, Öksüt Project \$54.3 million, Greenstone Gold Property - \$1.1 million and Boroo - \$0.3 million). Öksüt Project commitments include \$30.2 million of contracts that will be settled over the next two to three years, while a majority of all other contracts are expected to be settled over the next twelve months.

(b) Greenstone Gold Mines LP

As partial consideration for the Company’s initial 50% partnership interest in Greenstone Gold Mines LP, the Company agreed to commit up to an additional Cdn\$185 million to fund the project, subject to certain feasibility and project advancement criteria. In the event that the project is put under care and maintenance as a result of feasibility study or project criteria not

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being met, the Company will be required to make contributions towards the costs associated with the care and maintenance of the project for a period of two years or until the Cdn\$185 million is spent (if such event occurs first), after which time the partners would fund such costs on a pro rata basis. Any such costs will form part of the Cdn\$185 million development contributions commitment of the Company, as noted above. As at September 30, 2016, the Company has funded a total of Cdn\$43.3 million (\$33.5 million) of its commitment since the inception of the partnership.

(c) Endako mine – Letter of Credit

In advance of the acquisition of Thompson Creek (note 18), on August 11, 2016, the Company was granted a standby letter of credit from the Bank of Nova Scotia to provide non-cash reclamation financial assurance for Thompson Creek's Canadian-based Endako molybdenum mine. Thompson Creek's letter of credit covering the Endako mine was set to expire on August 18, 2016. The British Columbia Ministry of Mines requires financial assurance for Cdn\$15.3 million, therefore the Company's letter of credit was set at Cdn\$11.5 million, with the Endako mine's joint venture partner posting the remaining 25%. The Company's letter of credit expires on December 16, 2016.

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 September 30, 2016 cannot be predicted with certainty, it is management's opinion that it is not, except as noted below, more likely than not that these actions will result in the outflow of resources to settle the obligation and therefore no amounts have been accrued.

Kyrgyz Republic**Notice of Arbitration**

Subsequent to the quarter-end, on October 12, 2016, the Permanent Court of Arbitration in The Hague, Netherlands appointed a sole arbitrator for the arbitration proceeding brought by Centerra against the Kyrgyz Republic and Kyrgyzaltyn earlier this year. An initial conference with the arbitrator to establish arbitration procedures is scheduled for November 30, 2016.

On May 30, 2016, Centerra delivered a notice of arbitration to the government of the Kyrgyz Republic and Kyrgyzaltyn in connection with certain ongoing disputes relating to the Kumtor Project. These include, among other things: (i) each of the claims brought by the Kyrgyz Republic State Inspectorate for Environment and Technical Safety ("SIETS") and the Kyrgyz Republic State Agency for Environment Protection and Forestry ("SAEPF") and the decisions of the Kyrgyz Republic courts related thereto; and (ii) the previously announced claims of the Kyrgyz Republic General Prosecutor's Office ("GPO") seeking to unwind a \$200 million inter-corporate dividend paid by KGC to Centerra in December 2013 and the related search of KGC's

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Bishkek office conducted on April 28, 2016. On July 12, 2016, the Company delivered an amended notice of arbitration to the Kyrgyz Republic Government and Kyrgyzaltyn to include, among other things, subsequent court decisions of the Kyrgyz Republic courts in relation to the claims of SIETS and SAEPF and actions by Kyrgyz Republic instrumentalities, including the GPO, which interfere with KGC's operations. Under Centerra's Restated Investment Agreement with the Kyrgyz Republic dated as of June 6, 2009 (the "2009 Restated Investment Agreement"), the arbitration will be determined by a single arbitrator. The arbitration will be conducted under UNCITRAL Arbitration Rules in Stockholm, Sweden, disputes arising out of the 2009 Restated Investment Agreement will be governed by the law of the State of New York, USA and the conduct and operations of the parties will be governed by the 2009 Restated Investment Agreement, the 2009 Restated Concession Agreement and the laws of the Kyrgyz Republic.

Even if the Company is successful in convincing the arbitrator to reduce the amounts claimed or overturn the claims brought by SIETS, SAEPF or other matters which the Company believes are subject to the notice of arbitration, there are no assurances that such an arbitration award would be recognized and enforced by courts in the Kyrgyz Republic, as the courts of the Kyrgyz Republic have held that certain claims brought by SIETS and SAEPF are not within the scope of the arbitration provision of the 2009 Restated Investment Agreement. Accordingly, the Company may be obligated to pay part of or the full amounts of, among others, the SIETS and SAEPF claims regardless of the action taken by the arbitrator. The Company does not have insurance or litigation reserves to cover these costs. If the Company were obligated to pay these amounts, it would have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Kyrgyz Permitting and Regulatory Matters

As at September 30, 2016 KGC has all the necessary permits and approvals in place for continuous operations at the Kumtor Project through the end of 2016.

However, the Company notes that on July 11, 2016, SAEPF again expressed concerns to KGC about approving Kumtor's Ecological Passport due to the application of the 2005 Kyrgyz Republic Water Code and would not provide the renewed Ecological Passport. The Ecological Passport identifies some of the permits and approvals required by Kumtor for its operations. KGC continues to be in discussions with SAEPF but does not believe that the absence of the Ecological Passport will have any effect on the Kumtor Project operations.

While KGC management will continue to work closely with SAEPF and the Kyrgyz State Agency for Geology and Mineral Resources to obtain all necessary permits and approvals for continued operation of the Kumtor Project beyond December 31, 2016, Centerra can provide no assurance that such permits and approvals will be granted in a timely fashion or at all. Failure to obtain the necessary permits and approvals in a timely fashion could lead to suspension of Kumtor Project operations until such permits and approvals are obtained.

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KGC continues to operate fully in compliance with permits as granted. Regarding the mining of ice, regulatory authorities referenced the 2005 Water Code of the Kyrgyz Republic (Water Code) and its prohibition regarding the mining of ice. Centerra has repeatedly disputed the interpretation of the Water Code by the regulatory agencies based on the rights provided to Centerra and KGC under the agreements governing the Kumtor Project.

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

SIETS and SAEPF Claims

As previously disclosed, the Kumtor Project is subject to a number of claims made by, among others, Kyrgyz Republic state environmental agencies. The latest such claim, originally filed on August 23, 2016 by the Chui-Bishkek-Talas Local Fund of Nature Protection and Forestry Development of SAEPF, seeks compensation for environmental pollution in the amount of 40,340,819.01 Kyrgyz soms (approximately \$0.6 million).

As previously disclosed, on May 25, 2016, the Bishkek Inter-District Court in the Kyrgyz Republic ruled against Kumtor Operating Company ("KOC"), Centerra's wholly-owned subsidiary, on two claims made by SIETS in relation to the placement of waste rock at the Kumtor waste dumps and unrecorded wastes from Kumtor's effluent and sewage treatment plants. The Inter-District Court awarded damages of 6,698,878,290 Kyrgyz soms (approximately \$99.4 million, based on an exchange rate of 67.4 Kyrgyz soms per \$1.00) and 663,839 Kyrgyz soms (approximately \$10,000), respectively. On June 1, 2016, the Inter-District Court ruled against KOC on two other claims made by SIETS in relation to alleged land damage and failure to pay for water use. The Inter-District Court awarded damages of 161,840,109 Kyrgyz soms (approximately \$2.4 million) and 188,533,730 Kyrgyz soms (approximately \$2.8 million), respectively. Centerra and KOC strongly dispute the SIETS claims and have appealed the decisions to the Bishkek City Court and will, if necessary, appeal to the Kyrgyz Republic Supreme Court.

On June 3, 2016, the Inter-District Court held a hearing in respect of the claim made by SAEPF alleging that Kumtor owes additional environmental pollution fees in the amount of approximately \$220 million. The court did not issue a decision on the merits of the claim itself. However, at the request of SAEPF, the court granted an interim order against KGC, to secure SAEPF's claim. The interim order purports to prohibit KGC from taking any actions relating to certain financial transactions including, transferring property or assets, declaring or paying dividends or making loans. The cash generated from the Kumtor Project which is held in KGC is however available to fund Kumtor's operation. The injunction is effective immediately.

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KGC's appeal of the Inter-District Court's order to Bishkek City Court was dismissed on July 19, 2016 and its subsequent appeal to the Kyrgyz Republic Supreme Court was dismissed on October 19, 2016. As a result of the appeal by KGC, the proceedings on the merits of the SAEPF claim were suspended, however, the Company now expects such hearings on the merits to resume.

2013 KGC Dividend Civil Proceeding

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

Mongolia

Gatsuurt

Throughout the first half of 2016, the Company held discussions with the Mongolian Government to implement the previously disclosed 3% special royalty in lieu of the Government's 34% direct interest in the Gatsuurt project. Various working groups were established by the Mongolian Government to negotiate with Centerra and its wholly owned subsidiary, Centerra Gold Mongolia ("CGM"), the definitive agreements relating to the Gatsuurt Project. The Company continued such discussions through the third quarter.

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

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

Corporate

Ontario Court Proceedings Involving the Kyrgyz Republic and Kyrgyzaltyn

Since 2011, there have been four applications commenced in the Ontario courts by different applicants against the Kyrgyz Republic and Kyrgyzaltyn, each seeking to enforce in Ontario international arbitral awards against the Kyrgyz Republic. None of these disputes relate directly to Centerra or the Kumtor Project. In each of these cases, the applicants have argued that the Kyrgyz Republic has an interest in the Centerra common shares held by Kyrgyzaltyn, a state controlled entity, and therefore that such applicant(s) are entitled to seize such number of common shares and/or such amount of dividends as necessary to satisfy their respective arbitral

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awards against the Kyrgyz Republic. On July 11, 2016, the Ontario Superior Court of Justice released a decision on the common issue in these four applications -- whether the Kyrgyz Republic has an exigible ownership interest in the Centerra common shares held by Kyrgyzaltyn. The Ontario Superior Court of Justice determined that the Kyrgyz Republic does not have any equitable or other right, property, interest or equity of redemption in the common shares held by Kyrgyzaltyn. As a result, on July 20, 2016, the Ontario Superior Court of Justice set aside previous injunctions which prevented Centerra from, among other things, paying any dividends to Kyrgyzaltyn. Accordingly, Centerra has now released to Kyrgyzaltyn approximately Cdn\$18.9 million which was previously held in trust for the benefit of two Ontario court proceedings.

15. Related Party Transactions**Kyrgyzaltyn**

Revenues from the Kumtor gold mine are subject to a management fee of \$1.00 per ounce based on sales volumes, payable to Kyrgyzaltyn, a shareholder of the Company and a state-owned entity of the Kyrgyz Republic.

The table below summarizes the management fees paid and accrued by KGC, a subsidiary of the Company, to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement (“Sales Agreement”) between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic. The breakdown of the sales transactions and expenses with Kyrgyzaltyn are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<i>Included in sales:</i>				
Gross gold and silver sales to Kyrgyzaltyn	\$ 221,300	\$ 114,098	\$ 457,576	\$ 462,420
Deduct: refinery and financing charges	(1,110)	(617)	(2,541)	(2,355)
Net sales revenue received from Kyrgyzaltyn	\$ 220,190	\$ 113,481	\$ 455,035	\$ 460,065
<i>Included in expenses:</i>				
Contracting services provided by Kyrgyzaltyn	\$ 285	\$ 385	\$ 984	\$ 1,049
Management fees to Kyrgyzaltyn	164	101	354	389
Expenses paid to Kyrgyzaltyn	\$ 449	\$ 486	\$ 1,338	\$ 1,438
<i>Dividends:</i>				
Dividends declared to Kyrgyzaltyn	\$ 2,396	\$ 2,346	\$ 7,097	\$ 7,298
Withholding taxes	(120)	(117)	(355)	(365)
Net dividends declared to Kyrgyzaltyn	\$ 2,276	2,229	\$ 6,742	\$ 6,933

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In the three and nine months ended September 30, 2016, the Company declared dividends, net of withholding taxes, of \$2.3 million and \$6.7 million, respectively, to Kyrgyzaltyn (three and nine months ended September 30, 2015 - \$2.2 million and \$6.9 million, respectively). As of June 30, 2016, dividends declared to Kyrgyzaltyn were held in trust as a result of Ontario court proceedings against the Kyrgyz Republic and Kyrgyzaltyn. In the quarter ended September 30, 2016, as a result of an Ontario court decision, the dividends previously held in trust were released to Kyrgyzaltyn (note 14).

Related party balances

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

	September 30, 2016	December 31, 2015
Amounts receivable	\$ 35,427	\$ 25,725
Dividends payable (net of withholding taxes)	\$ -	\$ 13,096
Net unrealized foreign exchange gain	-	(3,766)
Dividends payable (net of withholding taxes)	-	9,330
Amounts payable	1,126	1,039
Total related party liabilities	\$ 1,126	\$ 10,369

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

As at September 30, 2016, \$35.4 million was outstanding under the Sales Agreement (December 31, 2015 - \$25.7 million). Subsequent to September 30, 2016, the previously outstanding balance receivable from Kyrgyzaltyn was paid in full.

16. Financial instruments

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash, amounts receivable, derivative assets, reclamation trust fund, long-term receivables, short-term debt, dividends payable, derivative liabilities, subscription receipt liability, revenue-based taxes payable, accounts payable and accrued liabilities.

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IFRS 9 - Financial Instruments

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

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

	IAS 39	IFRS 9
Assets		
Cash and cash equivalents	Fair value through earnings (loss)	Fair value through earnings (loss)
Short-term investments	Fair value through earnings (loss)	Amortized cost
Restricted cash	Fair value through earnings (loss)	Fair value through earnings (loss)
Amounts receivable	Loans and receivables	Amortized cost
Reclamation trust fund	Fair value through earnings (loss)	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Short-term debt	Other financial liabilities	Amortized cost
Dividend payable to related party	Other financial liabilities	Amortized cost
Revenue-based taxes payable	Other financial liabilities	Amortized cost

IFRS 9 does not require restatement of comparative periods.

Derivative Instruments

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

The Company designates certain derivatives as cash flow hedging instruments ("Derivatives designated as hedging instruments"). The effective portion of changes in the fair value of these derivatives is recognized in other comprehensive income and accumulated in the hedging

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reserve. The amount accumulated in the hedging reserve is removed and included in the carrying amount of the non-financial item when recognized. Any ineffective portion of changes in the fair value of these derivatives is recognized immediately in profit or loss.

Hedges that are expected to be highly effective in achieving offsetting changes in cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. For derivatives designated as hedges, there was a minimal amount of ineffectiveness for the period ended September 30, 2016 related to changes in the credit valuation adjustment.

Occasionally, the derivative instruments the Company uses are effective in achieving our risk management objectives, but are not designated under the hedge accounting criteria (“Derivatives not designated as hedging instruments”). Changes in fair value of these derivatives are recognized immediately in profit or loss.

Summary of derivatives at September 30, 2016

	Notional Amount by Term to Maturity		Accounting Classification by Notional Amount		
	1 year	1 to 2 years	Cash flow hedge	Non-hedge	Fair value gain (loss)
Currency contract					
USD:CDN\$ contracts	\$ 125,000	\$ -	\$ -	\$ 125,000	\$ (457)
Commodity contracts					
Crude oil contracts (000s of barrels) ¹	293	210	503	-	\$ (371)
Option contracts with strike prices at (US\$/barrel - average)	\$ 61	\$ 65			

¹Fuel contracts represent crude oil options. These derivatives hedge physical diesel fuel purchases at the Kumtor mine. For the nine months ended September 30, 2016, the \$365k effective portion of the fair value loss is included in OCI, while the \$6k ineffective portion is recorded in the Statement of Earnings. The Company's option contracts expiring within one year and one to two years have an average strike price per barrel of \$61 and \$65, respectively.

Fair values of derivative instruments

	Balance Sheet classification	Fair value as at September 30, 2016	Fair value as at December 31, 2015
Derivatives designated as hedging instruments			
Commodity contracts	Other assets	\$ 1,432	\$ -
Derivatives not designated as hedging instruments			
Currency contract	Subscription receipt issue liability	\$ (457)	\$ -

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Derivative assets and liabilities	
As at January 1, 2016	\$ -
Initialization of fuel hedging program (cost of crude oil options purchased)	1,803
Cash flow hedges:	
Effective portion	(365)
Ineffective portion	(6)
As at September 30, 2016	\$ 1,432
Classification of cash flow hedges:	
Current assets - Prepaid expenses	\$ 582
Non-current assets - Other assets	850
	\$ 1,432
Fair value of non-hedge currency contract	\$ (457)
Classification of non-hedge:	
Current liabilities - Subscription receipt issue liability	\$ (457)

Cash flow hedge gains (losses) in for the period ended September 30, 2016	
Commodity contracts	
At January 1, 2016	\$ -
Effective portion of change in fair value of hedging instruments	(365)
Transfers to Inventory on recording hedged items in Inventory	-
Loss recognized in Other Comprehensive Income (Loss) ("OCI")	\$ (365)
Portion of hedge loss expected to affect earnings in next 12 months	\$ (187)

Loss recognized in other expense, net (ineffective portion)	\$ (6)
Currency contract – loss recognized in other expense, net (non-hedge)	\$ (457)

As of September 30, 2016, the Company had three counterparties to our derivative positions. On an ongoing basis, the Company monitors its exposures and ensures that the counterparties with which it holds outstanding contracts with continue to meet the credit rating requirements of the Company's risk management policy.

Commodity contracts

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

Crude oil is a component of diesel fuel purchased by the Company, such that changes in the price of Brent crude oil generally impacts diesel fuel prices. The Company established a hedging strategy to manage changes in diesel fuel prices on the cost of operations at the Kumtor mine. The diesel fuel hedging program is a 24-month rolling program. The Company targets to hedge

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up to 70% of monthly diesel purchases for the first 12 months and 50% of the 13 through 24 month exposure.

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

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

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

During the period, call options for 520 thousand barrels of crude oil were designated against forecasted fuel consumption at the Company's Kumtor mine. As at September 30, 2016, there remain call options for 520 thousand barrels of Brent crude oil designated as cash flow hedges of the Company's exposure to forecasted fuel purchases at the Kumtor mine. As at September 30, 2016, the Company had two counterparties to its crude oil derivative positions, one of which the Company holds a net asset position of \$0.5 million and the other a net asset position of \$0.9 million.

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Currency contracts

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

In the three months ended September 30, 2016, the Company entered into a foreign exchange forward contract to mitigate the currency risk associated with the Canadian funds raised through the bought deal financing associated with the acquisition of TCM (note 8). This derivative was settled subsequent to September 30, 2016, resulting in a realized loss of \$0.5 million in the fourth quarter of 2016.

The fair value of these contracts, based on an increase or a decrease of 10% of the price, would have been as follows. The entire change in fair value would be recorded in the consolidated statement of comprehensive income.

Sensitivity table

	<u>Fair value as at September 30, 2016</u>	<u>Increase of 10%</u>	<u>Decrease of 10%</u>
Brent crude oil option contracts	\$1,432	\$2,442	\$750

Fair value measurement

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

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

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

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

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

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	Amortized cost	Assets/liabilities at fair value through earnings (loss)	Assets/liabilities at fair value through OCI
Financial assets			
Cash and cash equivalents - Level 1	\$ -	\$ 575,667	\$ -
Short-term investments	25,055	-	-
Restricted cash - Level 1	-	146,285	-
Amounts receivable	40,665	-	-
Reclamation trust fund	21,952	-	-
Long-term receivables	1,110	-	-
Commodity derivative assets - Level 2	-	-	1,432
	\$ 88,782	\$ 721,952	\$ 1,432

Financial liabilities

Trade creditors and accruals	\$ 63,769	\$ -	-
Short-term debt	98,024	-	-
Revenue-based taxes payable	19,013	-	-
Subscription receipt liability - Level 1	-	149,113	-
Currency derivative liability - Level 2	-	457	-
	\$ 180,806	\$ 149,570	-

December 31, 2015

	Amortized cost	Assets/liabilities at fair value through earnings (loss)	Assets/liabilities at fair value through OCI
Financial assets			
Cash and cash equivalents - Level 1	\$ -	\$ 360,613	-
Short-term investments	181,613	-	-
Restricted cash - Level 1	-	9,989	-
Amounts receivable	28,781	-	-
Reclamation trust fund	18,909	-	-
Long-term receivables	1,510	-	-
	\$ 230,813	\$ 370,602	\$ -

Financial liabilities

Trade creditors and accruals	\$ 65,765	\$ -	-
Short-term debt	76,000	-	-
Dividend payable to related party	9,330	-	-
Revenue-based taxes payable	9,152	-	-
	\$ 160,247	\$ -	\$ -

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**

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

The fair value of derivative instruments is determined using option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The fair value of all our derivative contracts includes an adjustment for credit risk.

As at September 30, 2016 and December 31, 2015, the Company did not have any financial assets or financial liabilities that are measured under Level 3.

17. Supplemental disclosures**a. Investment in PP&E**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Additions to PP&E during the period (note 9)	\$ (63,721)	\$ (86,359)	\$ (167,106)	\$ (261,191)
Purchase of Teck royalty via share issuance	-	-	2,954	-
Depreciation and amortization included in additions to PP&E (note 9)	10,503	15,842	20,861	48,123
Increase in accruals included in additions to PP&E	2,639	1,425	12,290	1,331
	\$ (50,579)	\$ (69,092)	\$ (131,001)	\$ (211,737)

b. Changes in operating working capital

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Decrease (increase) in amounts receivable	\$ 2,119	(8,473)	(11,884)	\$ 33,623
(Increase) decrease in inventory - ore and metal ^a	(80,580)	45,467	(128,153)	102,979
Decrease (increase) in inventory - supplies	3,625	(10,875)	22,008	(5,291)
(Increase) decrease in prepaid expenses	(6,537)	(4,549)	559	(45)
Increase in trade creditors and accruals ^b	1,306	3,140	14,865	27,523
Increase (decrease) in revenue-based tax payable	8,261	682	9,861	(15,454)
Decrease (increase) in depreciation and amortization included in inventory	89,616	(33,701)	100,367	(89,502)
(Increase) decrease in accruals included in additions to PP&E	(2,639)	1,426	(12,290)	1,332
Decrease in other taxes payable	(837)	(97)	(178)	(346)
	\$ 14,334	(6,980)	(4,845)	\$ 54,819

^aIncrease in the three and nine months ended September 30, 2016 excludes reversal of inventory impairment of \$15.4 million and \$27.2 million, respectively (three and nine months ended September 30, 2015 - nil).

^bExcludes \$16.9 million of accounts payable settled via share issuance in the period ended September 30, 2016.

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

18. Subsequent events

a) Acquisition of Thompson Creek

i) *Details of the Acquisition*

On October 20, 2016, the Company completed the acquisition of Thompson Creek (“the Acquisition”). Thompson Creek is an established North American-based mining company with gold, copper and molybdenum mining, milling, processing and marketing operations in Canada and the United States (“US”).

The Acquisition was completed by acquisition of common shares, whereby one Thompson Creek share was exchanged for 0.0988 Centerra common shares. Thompson Creek preferred share units and restricted share units were exchanged for an equivalent number of Thompson Creek common shares. The common shares of Thompson Creek were then transferred to Centerra’s newly-formed wholly-owned subsidiary, Centerra B.C. Holdings Inc. (“Centerra B.C. Holdings”). Centerra then exchanged the Thompson Creek common shares for 22,327,218 Centerra common shares in accordance with the exchange ratio, representing approximately 8% of Centerra’s issued and outstanding common shares following closing. The Centerra shares issued were equivalent to \$112.3 million (including \$1.6 million relating to the settled PSUs and RSUs) using the October 19, 2016 closing common share price of Cdn\$6.60.

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

Holder of Thompson Creek’s stock options were issued 111,341 options to acquire common shares of Centerra, with terms consistent with Thompson Creek’s outstanding stock options, with the number of shares and exercise price adjusted for the exchange conversion ratio.

ii) *Stream Arrangement*

In connection with the Acquisition, the streaming arrangement with Royal Gold Inc. (“Royal Gold”) associated with the Mount Milligan mine has been amended concurrently with closing of the Acquisition. Under the terms of the amendment, Royal Gold's 52.25% gold stream at Mount Milligan has been converted to a 35% gold stream and 18.75% copper stream. Royal Gold will continue to pay US\$435 per ounce of gold delivered and will pay 15% of the spot price per metric tonne of copper delivered. In conjunction with the amendment, Royal Gold's first ranking security over 52.25% of gold produced from the Mount Milligan assets has been amended to provide for first ranking security over 35% of produced gold and 18.75% of produced copper. Royal Gold's existing security over the Mount Milligan assets remains unaffected.

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

iii) Financing

In connection with the Acquisition, as described in note 8, on July 20, 2016, the Company closed an offering under which the underwriters purchased on a bought deal basis 26,599,500 Subscription Receipts. Upon completion of the Acquisition, the net proceeds of the Offering, Cdn\$185.7 million, were used to partially fund the redemption of the Secured and Unsecured Notes of Thompson Creek. Each Subscription Receipt represents the right of the holder to receive without payment of additional consideration or further action, one common share of Centerra. As stipulated in the Subscription Receipt agreement, Subscription Receipt holders were paid \$0.8 million (C\$0.04 per subscription receipt held), in lieu of the dividend paid to common shareholders in August 2016.

Concurrently with the closing of the Acquisition, Centerra B.C. Holdings entered into a credit agreement with the Bank of Nova Scotia with an aggregate principal amount of \$325 million to finance a portion of the Acquisition and to pay certain related fees and expenses. The 5-year term facilities consists of a \$75 million senior secured revolving credit facility (the “Revolving Facility”) and a \$250 million senior secured non-revolving term credit facility (the “Term Facility”, collectively, the “Credit Facility”). The Term Facility was used to fund part of the Acquisition, while \$50 million of the Revolving Facility was used for the Acquisition. The Company plans to draw the remaining \$25 million of the Credit Facility in the fourth quarter, to be used for working capital purposes.

Centerra B.C. Holdings’ obligations under the Credit Facility are guaranteed by the assets of Thompson Creek and certain of Thompson Creek’s material subsidiaries. In addition, the Bank of Nova Scotia has been granted a security interest over substantially all of the properties and assets of Thompson Creek and its material subsidiaries, as well as the shares of Thompson Creek and Thompson Creek’s material subsidiaries.

iv) Purchase price allocation

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

Management has engaged a third party to assist in the valuation of the assets and liabilities acquired, a process which has not been completed to date. The amounts recognized for each major class of assets acquired and liabilities assumed is expected to be finalized in connection with the issuance of the Company’s December 31, 2016 Financial Statements.

Centerra Gold Inc.**Notes to the Condensed Consolidated Interim Financial Statements****(Unaudited)**(Expressed in thousands of United States Dollars, except where otherwise indicated)

v) *Share capital and share-based compensation of Centerra*

In connection with the Acquisition, the following adjustments were made to capital stock and options outstanding:

	Number of units		
	Pre-close	Acquisition	Post-close
Common shares	242,277,625	48,926,718	291,204,343
Stock options	5,476,169	111,341	5,587,510

19. Segmented information

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

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended September 30, 2016

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	\$ 220.2	\$ -	\$ -	\$ -	\$ 220.2
Cost of sales	98.0	-	-	-	98.0
Standby costs, net	-	(1.5)	-	-	(1.5)
Regional office administration	3.6	-	-	-	3.6
Earnings from mine operations	118.6	1.5	-	-	120.1
Revenue-based taxes	30.8	-	-	-	30.8
Other operating expenses	0.1	-	-	-	0.1
Pre-development project costs	-	-	-	2.3	2.3
Exploration and business development	-	0.8	-	5.0	5.8
Corporate administration	0.1	0.1	-	5.8	6.0
Earnings (loss) from operations	87.6	0.6	-	(13.1)	75.1
Other expenses, net					0.9
Finance costs					1.7
Earnings before income tax					72.5
Income tax expense					5.6
Net earnings and comprehensive income				\$	66.9
Capital expenditure for the period	\$ 54.9	\$ 1.5	\$ 4.7	\$ 2.6	\$ 63.7

Three months ended September 30, 2015

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	113.5	\$ 2.7	\$ -	\$ -	116.2
Cost of sales	72.8	3.3	-	-	76.1
Standby costs, net	-	1.0	-	-	1.0
Regional office administration	3.4	0.7	-	-	4.1
Earnings (loss) from mine operations	37.3	(2.3)	-	-	35.0
Revenue-based taxes	15.9	-	-	-	15.9
Other operating expenses	0.3	0.1	-	-	0.4
Pre-development project costs	-	-	-	3.3	3.3
Impairment of goodwill	18.7	-	-	-	18.7
Exploration and business development	-	0.3	0.1	2.7	3.1
Corporate administration	0.2	-	-	7.8	8.0
Earnings (loss) from operations	2.2	(2.7)	(0.1)	(13.8)	(14.4)
Other expenses, net					2.3
Finance costs					1.1
Loss before income tax					(17.8)
Income tax expense					0.3
Net loss				\$	(18.1)
Capital expenditure for the period	\$ 80.7	\$ 0.5	\$ 1.8	\$ 11.7	\$ 94.7

Centerra Gold Inc.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Nine months ended September 30, 2016

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	\$ 455.0	\$ -	\$ -	\$ -	\$ 455.0
Cost of sales	247.4	-	-	-	247.4
Standby costs, net	-	(2.2)	-	-	(2.2)
Regional office administration	10.6	-	-	-	10.6
Earnings from mine operations	197.0	2.2	-	-	199.2
Revenue-based taxes	63.7	-	-	-	63.7
Other operating expenses (income)	1.0	0.4	-	-	1.4
Pre-development project costs	-	-	-	7.6	7.6
Exploration and business development	-	1.4	-	11.6	13.0
Corporate administration	0.2	0.2	0.1	18.1	18.6
Earnings (loss) from operations	132.1	0.2	(0.1)	(37.3)	94.9
Other income, net					(0.9)
Finance costs					4.4
Earnings before income tax					91.4
Income tax expense					3.5
Net earnings and comprehensive income					\$ 87.9
Capital expenditure for the period	\$ 141.3	\$ 4.9	\$ 9.9	\$ 11.0	\$ 167.1
Assets	\$ 1,055.3	\$ 177.8	\$ 30.4	\$ 659.0	\$ 1,922.5
Total liabilities	\$ 114.7	\$ 34.1	\$ 3.1	\$ 261.4	\$ 413.3

Nine months ended September 30, 2015

(Millions of U.S. Dollars)	Kyrgyz Republic	Mongolia	Turkey	Corporate and other	Total
Revenue from gold sales	\$ 460.1	\$ 15.5	\$ -	\$ -	\$ 475.6
Cost of sales	255.8	15.3	-	-	271.1
Standby costs, net	-	4.8	-	-	4.8
Regional office administration	11.8	2.6	-	-	14.4
Earnings (loss) from mine operations	192.5	(7.2)	-	-	185.3
Revenue-based taxes	64.4	-	-	-	64.4
Other operating expenses (income)	1.6	(0.5)	-	-	1.1
Pre-development project costs	-	-	4.2	7.3	11.5
Impairment of goodwill	18.7	-	-	-	18.7
Exploration and business development	-	0.7	0.2	7.1	8.0
Corporate administration	0.2	0.2	-	27.7	28.1
Earnings (loss) from operations	107.6	(7.6)	(4.4)	(42.1)	53.5
Other expenses, net					4.9
Finance costs					3.3
Earnings before income tax					45.3
Income tax expense					0.8
Net earnings and comprehensive income					\$ 44.5
Capital expenditure for the period	\$ 248.8	\$ 1.1	\$ 1.8	\$ 85.2	\$ 336.9
Assets	\$ 943.4	\$ 171.3	\$ 5.4	\$ 548.3	\$ 1,668.4
Total liabilities	\$ 106.0	\$ 32.6	\$ 1.1	\$ 105.1	\$ 244.8