

Centerra Gold Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in thousands of United States Dollars)

Report of Management's Accountability

The Consolidated Financial Statements have been prepared by the management of the Company. Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the Consolidated Financial Statements involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 3 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and checks to see if the controls are operating as designed. The system of internal controls includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition internal controls on financial reporting and disclosure controls have been documented, evaluated and tested in a manner consistent with National Instrument 52-109.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the Company's shareholders. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. KPMG LLP's report outlines the scope of their examination and their opinion.

The Company's Board of 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:
Scott G. Perry
President and Chief Executive Officer
February 22, 2019

Original signed by:
Darren J. Millman
Vice President and Chief Financial Officer



KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Centerra Gold Inc.

Opinion

We have audited the consolidated financial statements of Centerra Gold Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings and comprehensive income for the years ended December 31, 2018 and December 31, 2017
- the consolidated statements of shareholders' equity for the years ended December 31, 2018 and December 31, 2017
- the consolidated statements of cash flows for the years ended December 31, 2018 and December 31, 2017
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at the end of December 31, 2018 and December 31, 2017, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- Information, other than the financial statements and the auditors' report thereon, included in the Management Discussion and Analysis document.
- Information, other than the financial statements and the auditors' report thereon, included in the Annual Information Form.
- Information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in Centerra's document noted above as at the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are/is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.



KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Derek Peters.

Toronto, Canada

February 22, 2019

Centerra Gold Inc.
Consolidated Statements of Financial Position

		December 31, 2018	December 31, 2017
(Expressed in thousands of United States Dollars)			
Assets			
Current assets			
Cash and cash equivalents		\$ 151,705	\$ 415,891
Amounts receivable	8	59,558	63,902
Inventories	9	596,911	506,208
Prepaid expenses and other current assets	10	24,734	23,970
Current portion of derivative assets	27	1,081	1,963
		<u>833,989</u>	1,011,934
Property, plant and equipment	11	1,886,046	1,674,444
Goodwill		16,070	16,070
Restricted cash	14	27,505	687
Reclamation deposits	16	30,841	26,525
Derivative assets	27	-	545
Other assets	12	32,260	41,970
		<u>1,992,722</u>	1,760,241
Total assets		<u>\$ 2,826,711</u>	<u>\$ 2,772,175</u>
Liabilities and Shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 173,783	\$ 181,829
Provision for Kyrgyz Republic settlement	21	53,000	53,000
Short-term debt	14	5,000	80,522
Current portion of lease obligations		797	-
Revenue-based taxes payable		954	15,953
Taxes payable		878	2,592
Current portion of provision for reclamation	16	197	832
Current portion of derivative liabilities	27	101	16,057
Other current liabilities	12	67	7,021
		<u>234,777</u>	357,806
Long-term debt	14	179,266	211,611
Provision for reclamation	16	212,248	166,174
Lease obligations		4,229	-
Deferred income tax liability	15	44,524	-
Derivative liabilities	27	-	7,273
Other liabilities	12	3,636	3,882
		<u>443,903</u>	388,940
Shareholders' equity			
Share capital	23	949,328	948,121
Contributed surplus		27,364	25,781
Accumulated other comprehensive loss		(2,088)	(14,371)
Retained earnings		1,173,427	1,065,898
		<u>2,148,031</u>	2,025,429
Total liabilities and Shareholders' equity		<u>\$ 2,826,711</u>	<u>\$ 2,772,175</u>

Commitments and contingencies (note 24)

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

Approved by the Board of Directors

Original signed by:

Stephen Lang

Richard Connor

Centerra Gold Inc.
Consolidated Statements of Earnings and Comprehensive Income
For the years ended December 31,
2018
2017
(Expressed in thousands of United States Dollars)
(except per share amounts)

	Notes			
Gold sales	17	\$	833,554	\$ 928,099
Copper sales	17		89,494	125,938
Molybdenum sales			197,117	136,760
Tolling, calcining and other			9,171	8,231
Revenue			1,129,336	1,199,028
Cost of sales	18		761,367	682,094
Standby costs	18		10,849	-
Regional office administration			13,766	18,212
Earnings from mine operations			343,354	498,722
Revenue-based taxes	15		92,988	96,729
Other operating expenses	20		13,127	12,852
Care and maintenance expense			29,344	13,024
Reclamation expense	16		40,355	176
Pre-development project costs			12,425	4,794
Exploration expenses and business development			22,351	10,707
Business combination acquisition and integration expenses	6		4,515	3,915
Corporate administration	19		29,636	37,612
Kyrgyz Republic settlement			-	60,000
Earnings from operations			98,613	258,913
Gain on sale of Royalty Portfolio	6		(27,993)	-
Other income, net			(2,449)	(3,135)
Finance costs	22		30,232	30,039
Earnings before income tax			98,823	232,009
Income tax recovery	15		(14,647)	(19,790)
Net earnings from continuing operations		\$	113,470	\$ 251,799
Net loss from discontinued operations	7		(5,941)	(42,266)
Net earnings		\$	107,529	\$ 209,533
Other Comprehensive Income				
Items that may be subsequently reclassified to earnings:				
Net (loss) gain on translation of foreign operation			(3,133)	2,405
Net unrealized gain (loss) on derivative instruments, net of tax	27		14,938	(14,143)
Post-retirement benefit, net of tax			478	(41)
Other comprehensive income (loss)			12,283	(11,779)
Total comprehensive income		\$	119,812	\$ 197,754
Basic earnings per share - Continuing operations	23	\$	0.39	\$ 0.86
Diluted earnings per share - Continuing operations	23	\$	0.38	\$ 0.86
Basic earnings per share	23	\$	0.37	\$ 0.72
Diluted earnings per share	23	\$	0.36	\$ 0.72

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,

		2018	2017
(Expressed in thousands of United States Dollars)	Notes		
Operating activities			
Net earnings from continuing operations		\$ 113,470	\$ 251,799
Adjustments for the following items:			
Depreciation, depletion and amortization	11	200,802	198,615
Finance costs	22	30,232	30,039
Loss on disposal of equipment		2,652	954
Compensation expense on stock options		1,714	1,019
Other share based compensation expense		2,082	6,476
Gain on disposition of Royalty Portfolio	6	(27,993)	-
Income tax recovery		(14,647)	(19,790)
Reclamation expense	16	40,355	176
Kyrgyz Republic settlement	21	-	60,000
Other		3,794	266
		<u>352,461</u>	<u>529,554</u>
Change in operating working capital	29(a)	(120,173)	(13,492)
Purchase and settlement of derivatives		(5,650)	(4,135)
Income taxes paid		(5,371)	(3,124)
Cash provided by continuing operations		<u>221,267</u>	<u>508,803</u>
Cash used in discontinued operations	7	(3,775)	(7,907)
Net cash provided by operations		<u>217,492</u>	<u>500,896</u>
Investing activities			
Additions to property, plant and equipment	29(b)	(271,830)	(264,870)
Prepayment for property, plant and equipment		(14,043)	(10,589)
Lease payments - Capital equipment		(665)	-
Acquisition of AuRico Metals Inc., net of cash acquired	6	(226,800)	-
(Increase) decrease in restricted cash		(26,818)	247,981
(Increase) decrease in reclamation deposits and other assets		(4,177)	8,809
Proceeds from the sale of the Royalty Portfolio	6	155,450	-
Proceeds from the sale of the Mongolian segment	7	35,000	-
Proceeds from disposition of fixed assets		1,766	226
Cash used in investing from continuing operations		<u>(352,117)</u>	<u>(18,443)</u>
Cash provided by investing from discontinued operations		-	7,816
Net cash used in investing		<u>(352,117)</u>	<u>(10,627)</u>
Financing activities			
Debt drawdown	29(c)	395,737	-
Debt repayment	29(c)	(501,069)	(208,363)
Payment of interest and borrowing costs	29(c)	(25,230)	(28,303)
Proceeds from common shares issued		1,001	2,197
Cash used in financing		<u>(129,561)</u>	<u>(234,469)</u>
(Decrease) increase in cash during the year		(264,186)	255,800
Cash and cash equivalents at beginning of the year		415,891	160,091
Cash and cash equivalents at end of the year		<u>\$ 151,705</u>	<u>\$ 415,891</u>
Cash and cash equivalents consist of:			
Cash		\$ 151,705	\$ 372,753
Cash equivalents		-	43,138
		<u>\$ 151,705</u>	<u>\$ 415,891</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	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2017	291,276,068	\$ 944,633	\$ 25,876	\$ (2,592)	\$ 856,365	\$ 1,824,282
Share-based compensation expense	-	-	1,020	-	-	1,020
Shares issued on exercise of stock options	480,008	3,313	(1,115)	-	-	2,198
Shares issued on redemption of restricted share units	26,770	175	-	-	-	175
Foreign currency translation	-	-	-	2,405	-	2,405
Net unrealized loss on derivative instruments, net of tax (note 27)	-	-	-	(14,143)	-	(14,143)
Post retirement benefits, net of tax	-	-	-	(41)	-	(41)
Net earnings for the year	-	-	-	-	209,533	209,533
Balance at December 31, 2017	291,782,846	\$ 948,121	\$ 25,781	\$ (14,371)	\$ 1,065,898	\$ 2,025,429
Share-based compensation expense	-	-	1,714	-	-	1,714
Shares issued on exercise of stock options	63,860	445	(131)	-	-	314
Shares issued under the employee share purchase plan	137,610	686	-	-	-	686
Shares issued on redemption of restricted share units	15,633	76	-	-	-	76
Foreign currency translation	-	-	-	(3,133)	-	(3,133)
Net unrealized gain on derivative instruments, net of tax (note 27)	-	-	-	14,938	-	14,938
Post retirement benefits, net of tax	-	-	-	478	-	478
Net earnings for the year	-	-	-	-	107,529	107,529
Balance at December 31, 2018	291,999,949	\$ 949,328	\$ 27,364	\$ (2,088)	\$ 1,173,427	\$ 2,148,031

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 2018 and 2017**

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

1. Nature of operations

Centerra Gold Inc. (“Centerra” or the “Company”) was incorporated under the *Canada Business Corporations Act* on November 7, 2002. Centerra’s common shares are listed on the Toronto Stock Exchange. The Company is domiciled in Canada and its registered office is located at 1 University Avenue, Suite 1500, Toronto, Ontario, M5J 2P1. The Company is primarily focused on operating, developing, exploring and acquiring gold and copper properties in North America, Asia and other markets worldwide.

2. Basis of presentation

The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These financial statements were authorized for issuance by the Board of Directors of the Company on February 22, 2019.

These consolidated financial statements have been prepared under the historical cost basis, except for provisionally priced amounts receivable, derivative instruments, liabilities for cash settled share-based compensation and post-retirement benefit liability (measured at fair value) and inventories (measured at the lower of cost or net realizable value (“NRV”)).

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

3. Summary of significant accounting policies

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

a. Consolidation principles

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

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

<u>Entity</u>	<u>Property - Location</u>	<u>Current status</u>	<u>Ownership</u>	
			<u>2018</u>	<u>2017</u>
Kumtor Gold Company ("KGC")	Kumtor Mine - Kyrgyz Republic	Operation	100%	100%
Thompson Creek Metals Company Inc.	Mount Milligan Mine - Canada	Operation	100%	100%
Langeloth Metallurgical Company LLC ("Langeloth") Molybdenum Processing Facility	Langeloth - United States	Operation	100%	100%
Öksüt Madencilik A.S. ("OMAS")	Öksüt Project - Turkey	Development	100%	100%
Greenstone Gold Mines LP ("Greenstone Partnership")	Greenstone Gold Property - Canada	Pre-development	50%	50%
AuRico Metals Inc. (Note 6)	Kemess Project - Canada ("Kemess")	Pre-development	100%	0%
Thompson Creek Mining Company	Thompson Creek Mine - United States	Care and Maintenance	100%	100%
Thompson Creek Metals Company Inc.	Endako Mine - Canada	Care and Maintenance	75%	75%

As at December 31, 2018, the Company had also entered into agreements to earn interests in joint venture exploration properties located in Canada, Finland and Mexico. In addition, the Company has exploration properties in Canada, Turkey and the United States and has strategic alliance agreements with partners to evaluate potential gold opportunities in West Africa and Sweden.

Inter-company transactions between subsidiaries are eliminated on consolidation.

b. Business combinations

The Company uses the acquisition method of accounting for business combinations. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill.

Acquisition-related costs are expensed as incurred. Assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date.

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

c. Foreign currency

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

also the presentation currency of the consolidated financial statements. The functional and reporting currency of the Greenstone Partnership is the Canadian dollar (“Cdn\$”), which results in translation gains (losses) being recorded as part of Other Comprehensive Income in the Consolidated Statements of Earnings and Comprehensive Income (“Statements of Earnings”).

Foreign currency transactions are translated into an entity’s functional currency using the exchange rate prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statements of Earnings. Non-monetary assets and liabilities, arising from transactions denominated in foreign currencies, are translated at the historical exchange rates prevailing at each transaction date.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of 90 days or less. Cash and cash equivalents are classified as financial instruments carried at amortized cost.

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, 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. Restricted cash and restricted short-term investments

Cash and short-term investments which are subject to legal or contractual restrictions on their use are classified separately as restricted cash and restricted short-term investments.

g. Inventories

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

Stockpiled ore is ore that has been extracted from the mine and is available for further processing. Costs are added to the cost of stockpiles based on the current mining cost per unit mined and removed at the average cost per unit of the stockpiled ore. In-circuit inventories represent materials that are in the process of being converted to gold doré or concentrate. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to NRV are accounted for on a prospective basis.

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

Consumable supplies and spare parts are valued at the lower of weighted average cost and NRV, which approximates replacement cost. Replacement cost includes expenditures incurred to acquire the inventories and bring them to their existing location and condition. Any provision for obsolescence is determined by reference to specific stock items identified as obsolete. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal. Consumable supplies for operations in the care and maintenance stage of the mine life cycle and which are not expected to be used in the next twelve months are classified as long-term.

h. Property, plant and equipment

i. General

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

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

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

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

accounted for prospectively.

An item of property, plant and equipment is de-recognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between any proceeds received and the carrying amount of the asset) is included in the Statements of Earnings in the year the asset is de-recognized.

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 conclude 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, and approval is received from the Board of Directors, further expenditures are capitalized as development costs.

Exploration and evaluation assets acquired are initially recognized at cost as exploration rights within property, plant and equipment.

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.

All expenditures incurred from the time the development decision is made until the commencement of commercial levels of production from each development property are capitalized. In addition, capitalized costs are assessed for impairment when there is an indicator of impairment.

Development properties are not depleted until they are reclassified as mine property assets following the achievement of commercial levels of production.

iv. Mine properties

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

After a mine property has been brought into commercial production, costs of any additional mining, in-pit drilling and related work on that property are expensed as incurred. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production, including the stripping of waste

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

material, are capitalized and then depleted on a unit-of-production basis.

v. Deferred stripping costs

Stripping costs incurred in the production phase of a mining operation are accounted for as production costs and are included in the costs of inventory produced. Stripping activity that improves access to ore in future periods is accounted for as an addition to or enhancement of an existing asset. The Company recognizes stripping activity assets when the following three criteria are met:

- it is probable that the future economic benefit associated with the stripping activity will flow to the Company;
- the Company can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably by the Company.

Stripping activity assets are depleted on a unit-of-production basis in subsequent periods over the proven and probable reserves to which they relate.

vi. Depreciation and depletion

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

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

Where an item of property, plant and equipment comprises major components with different useful lives, the components are depreciated separately but are grouped for disclosure purposes as property, plant and equipment.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

i. Goodwill

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

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

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

j. Impairment

Long term assets, including goodwill, are reviewed for impairment if an event occurs which leads to an indication that the carrying amount may be impaired. In addition, goodwill is tested for impairment annually on September 1.

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

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

k. Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the Statements of Earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

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 Company, at the end of the reporting period, intends 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.

l. Provisions

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

m. Asset retirement and reclamation obligations

Asset retirement and reclamation costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated asset retirement and reclamation costs are provided in the accounting period when the obligation arising

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

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 may arise as a result of the translation of obligations which are considered monetary assets or changes in discount rates and timing or amounts of the costs to be incurred. These changes are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the amount capitalized, in which case the capitalized costs are reduced to nil and the remaining adjustment is included as a reduction in profit or loss in the Statements of Earnings.

If reclamation and restoration costs are incurred as a consequence of the production of inventory, the costs are recognized as a cost of that inventory. Asset retirement and reclamation obligations related to inactive and closed mines are included in profit or loss in the Statements of Earnings on initial recognition and subsequently when re-measured.

n. Earnings per share

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

Diluted earnings per share is computed by dividing the net earnings applicable to common shares, after adjusting for the effect of performance share units as though they were accounted for as an equity instrument, by the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents such as stock options and restricted share units. Diluted earnings per share is calculated using the treasury method, where the exercise of stock options and restricted share units are assumed to be at the beginning of the period, the proceeds from the exercise of stock options and restricted share units and the amount of compensation expense measured but not yet recognized in profit or loss are assumed to be used to purchase common shares of the Company at the average market price during the period. The incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings per share computation.

Equity instruments that could potentially be dilutive in the future, but do not currently have a dilutive effect are excluded from the calculation of diluted earnings per share.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

o. Revenue recognition

The Company sells its products pursuant to sales contracts entered into with its customers. Revenue associated with the sale of gold, concentrates and molybdenum products is recognized when control is transferred to the customer. Typically, the transfer of control occurs when the customer has taken delivery and the consideration is received, or to be received. For concentrate sales, revenue is recognized when control is transferred, which is based on the terms of the sales contracts, generally upon the loading of the ocean vessel or based on negotiated terms which allows for the transfer of control to happen earlier in the sale process.

Revenues from the Company's concentrate sales are based on a provisional forward sales price, which is subject to adjustments for the final price. Revenues from concentrate sales are recorded net of treatment and refining charges and the impact of derivative contracts accounted for as hedges of the contained metal. Treatment and refining charges represent payments or price adjustments that are contractually negotiated, as are typical in the industry. Moreover, because a portion of the metals contained in concentrate is unrecoverable as a result of the smelting process, the Company's revenues from concentrate sales are also recorded net of allowances for the quantity and value of these unrecoverable metals. Gains and losses related to the Company's forward commodity contracts to economically hedge the Company's commodity price exposure under the Gold and Copper Stream Arrangement are recorded to revenue.

The provisional prices are finalized in a specified future month (generally one to four months from the date of title transfer) based on spot copper prices on the London Metal Exchange ("LME") or spot gold prices on the London Bullion Market Association ("LBMA"). The Company receives market prices based on prices in the specified future month, which results in mark-to-market price fluctuations on the related receivable. To the extent final prices are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues is recorded each reporting period reflecting the estimated forward prices at the date of final pricing. For changes in metal quantities upon receipt of final assay, the provisional sales quantities are adjusted as well. Any such adjustments generally are not material to the transaction price.

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

p. Share-based compensation

The Company has five share-based compensation plans: the Stock Option plan, Performance Share Unit Plan, Deferred Share Unit Plan, Restricted Share Unit Plan and Employee Share Purchase Plan.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

i. Stock Option plan

Stock options are equity-settled share-based compensation awards. The fair value of stock options at the grant date is estimated using the Black-Scholes option pricing model. Compensation expense is recognized over the stock option vesting period based on the number of units estimated to vest. This expense is recognized as share-based compensation expense with a corresponding increase in contributed surplus. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to common shares.

ii. Performance Share Unit Plan

Under Centerra's Performance Share Unit Plan, performance share units can be granted to employees and officers of the Company. A performance share unit represents the right to receive the cash equivalent of a common share or, at the Company's option, a common share purchased on the open market. Performance share units are accounted for under the liability method using the Monte Carlo simulation option pricing model and vest 50% at the end of the year after grant and the remaining 50% the following year. Under this method, a portion of the fair value of the performance share units is recognized at each reporting period based on the pro-rated number of days the eligible employees are employed by the Company compared to the vesting period of each series granted. The cash paid to employees on exercise of these performance share units is recorded as a reduction of the accrued obligation. The Monte Carlo simulation option pricing model requires the use of subjective assumptions, including expected stock-price volatility, risk-free rate of return and forfeiture rate. Historical data is considered in setting the assumptions.

The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0 to 2.0. Therefore, the number of units that will vest and be paid out may be higher or lower than the number of units originally granted to a participant. The adjustment factor is based on Centerra's total return performance (based on the preceding sixty-one trading days volume weighted average share price) relative to the S&P/TSX Global Gold Index Total Return Index Value during the applicable period. The fair value of the fully vested units is determined using the sixty-one trading days volume weighted average share price. For performance share units granted in 2019 and subsequently, the total return performance and fair value will be calculated based on a five trading day volume weighted average share price.

iii. Deferred Share Unit Plan

Centerra has a Deferred Share Unit Plan for directors of the Company to receive all or a portion of their annual retainer as deferred share units. Deferred share units are settled in cash and are accounted for under the liability method. The deferred share units cannot be converted to shares by the unit holder or by the Company. The deferred share units vest immediately upon granting,

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

and are automatically redeemed following departure from the board. A liability is recorded at grant date equal to the fair value of the deferred share units. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid to eligible members of the Board of Directors on exercise of these deferred share units, being no later than December 31 of the calendar year immediately following the calendar year of termination of service, is recorded as a reduction of the accrued obligation.

iv. Restricted Share Unit Plan

Centerra has a Restricted Share Unit Plan for non-executive directors, certain executives and employees of the Company to receive all or a portion of their annual retainer or annual incentive payments as restricted share units. Restricted share units can be settled in cash or equity at the option of the holder. Effective in 2017, certain executives and other employees may elect to receive a portion of their annual incentive payments for that year as restricted share units. The election is to be made prior to the end of the first quarter of any fiscal year (or for U.S. persons, prior to the commencement of the fiscal year). The Company will match 50% of the restricted share units granted to such individuals and all such restricted share units granted to executives and other employees vest over a two year period (“Executive RSUs”). Restricted share units which are not Executive RSUs 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 restricted share units granted are accounted for under the liability method whereby a liability is recorded at grant date equal to the fair value of the restricted share unit. The liability is adjusted to fair value at each reporting period and any resulting adjustment to the accrued obligation is recognized as an expense or, if negative, a recovery. The cash paid or common shares issued on exercise of these restricted share units is recorded as a reduction of the accrued obligation.

v. Employee Share Purchase Plan

Centerra has an Employee Share Purchase Plan (“ESPP”) for employees of the Company, which was introduced in 2017. Under the ESPP, employees may elect to purchase the Company’s shares through a payroll deduction. Each year, employees may contribute up to 10% of their base salary and the Company will match 25% of the contribution. Such contributions are then used to acquire Centerra shares on a quarterly basis. Shares purchased have no vesting requirement and may be issued from treasury or acquired on the open market. The Company records an expense equal to the match provided.

When dividends are paid, participants under each of the Performance Share Unit Plan, Deferred Share Unit Plan, and Restricted Share Unit Plan are allocated additional units equal in value to the dividend paid per common share equal to the number of units held by the participant. For performance share units, the number of units issued is based on the sixty-one trading day volume

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

weighted average share price (or for performance share units issued in 2019 and thereafter, a five trading day volume weighted average share price) on the date of the dividend.

q. Financial instruments

Financial instruments

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

Transaction costs associated with financial instruments carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability. The amortization of debt financing fees is calculated on an amortized cost basis over the term of the instrument.

i. Financial assets recorded at fair value through profit or loss

Financial assets are classified at fair value if they are acquired for the purpose of selling them in the near term. Gains or losses on these items are recognized in the Statements of Earnings. The Company's provisionally-priced receivables are also classified as financial assets measured at fair value through profit or loss.

ii. Financial assets carried at amortized cost

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

The Company's cash and cash equivalents, short-term investments, restricted short-term investments, amounts receivable (excluding provisionally-priced receivables), taxes receivable and long-term receivables are recorded at amortized cost as they meet the required criteria. An allowance is recorded when the estimated recoverable amount of the receivable is lower than the carrying amount. The carrying values of amounts receivable and long-term receivables approximate their fair values.

iii. Financial liabilities carried at amortized cost

Accounts payable and accrued liabilities, lease obligations, debt and revenue-based taxes payable are accounted for at amortized cost. The amortization of debt issuance costs is calculated using the effective interest method.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

The Company's post-retirement benefit liability are measured at fair value through other comprehensive income. Provisionally-priced payables to Royal Gold are measured at fair value through profit or loss.

iv. Derivative financial instruments

The Company may hold derivative financial instruments to manage its risk exposure to fluctuations of commodity prices, including the Company's products (for example, gold or copper) and consumables (for example, diesel fuel) and fluctuations in other currencies compared to the USD.

Hedges

The Company applies hedge accounting to derivative instruments which hedge a portion of the gold and copper components of its future concentrate sales at its Mount Milligan operation ("Strategic gold and copper contracts"). The Company also applies hedge accounting to derivative instruments which hedge a portion of its estimated future diesel fuel purchases at its Kumtor operations ("Fuel hedge contracts").

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

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value is recognized in other comprehensive income. The amounts accumulated in other comprehensive income are reclassified to revenue (Strategic gold and copper contracts) or to the cost of the purchased fuel (Fuel hedge contracts) in the Statements of Earnings when the underlying hedged transaction, identified at contract inception, is recognized in revenue or cost of fuel purchased.

Any ineffective portion of a hedge relationship is recognized immediately in the Statements of Earnings as other income, net. When derivative contracts designated as cash flow hedges are terminated, expired, settled or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Any amounts recorded in other comprehensive income up until the time the contracts do not qualify for hedge accounting remain in other comprehensive income until the underlying hedged transaction is recognized in revenue at which time such amounts are reclassified to revenue (Strategic gold and copper contracts) or to the cost of the purchased fuel (Fuel hedge contracts). If the forecasted transaction is no longer expected to occur, then the amounts accumulated in other comprehensive income are reclassified to the Statements of Earnings as other income or expense immediately.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

Gains or losses arising subsequent to the derivative contracts not qualifying for hedge accounting are recognized in the period in which they arise in the Statements of Earnings as other income, net.

Non-hedges

All derivative instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit or loss.

Changes in fair value of non-hedge derivatives at each reporting date are included in the Statements of Earnings as non-hedge derivative gains or losses, with the exception of spot and forward contracts associated with the Royal Gold deliverables, which are included in revenue.

r. Finance leases

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

s. Discontinued Operations

A disposal group qualifies as a discontinued operation if it is a component of the Company that either has been disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statements of Earnings.

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

Management's estimates and underlying assumptions are reviewed on an ongoing basis. Any changes or revisions to estimates and underlying assumptions are recognized in the period in which the estimates are revised and in any future periods affected. The key sources of estimation uncertainty and judgments used in the preparation of these consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are discussed below:

i. Impairment

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

External sources of information that the Company considers include changes in the market, economic, political and legal environment in which the Company operates that are not within its control and could affect the recoverable amounts of long-term assets and goodwill. Internal sources of information that the Company considers include the manner in which long-term assets are being used or are expected to be used, analyses of economic performance of the assets and assessment of factors that may impact continuing progress toward development.

For CGU's where value cannot be obtained from an active market: expected gold, copper and molybdenum prices, and production levels, which comprise proven and probable reserves and an estimated recoverable amount of resources if deemed appropriate, are used to estimate expected future cash flows. Management also estimates future operating and capital costs based on the most recently approved life of mine plan. The discount rate applied is reviewed for each assessment. Changes in these estimates which decrease the estimated recoverable amount of the CGU could affect the carrying amounts of assets and result in an impairment charge.

While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the recoverable amount of the CGU.

ii. Materials inventory

Management makes estimates of recoverable quantities of gold and copper in stockpiled ore, ore in-process and molybdenum work-in-process to determine the average costs of finished goods sold during the period and the value of inventories in the Statements of Financial Position. NRV tests are performed at each reporting period based on the estimated future sales price of the gold doré, gold and copper concentrate, molybdenum and other products based on prevailing market prices, less estimated costs to complete production and bring the materials to selling condition.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

The recoverable quantity of ore on stockpiles is estimated based on tonnage added and removed from the stockpiles, the amount of contained gold ounces and copper pounds based on assay data, and the estimated recovery percentage based on the historical recoveries obtained in the expected processing method. Stockpiled ore tonnage is verified by periodic surveys. Although the quantities of recoverable metal are reconciled by comparing the grades of ore to the quantities actually recovered, the nature of the process inherently limits the ability to precisely monitor recoverability levels. As a result, the metallurgical reconciliation process is constantly monitored and engineering estimates are refined based on actual results over time.

iii. Asset retirement obligations

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

A change in any or a combination of the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. Changes to the estimated future reclamation costs for operating sites are recognized in the Statements of Financial Position by adjusting both the retirement asset and provision, and will impact earnings as these amounts are depleted and accreted over the life of the mine.

iv. Deferred income taxes

The Company operates in a number of tax jurisdictions and is therefore required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. In calculating the income taxes, the Company considers factors such as tax rates in the different jurisdictions, non-deductible expenses, changes in tax law and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effects of these temporary differences are recorded as deferred tax assets or liabilities in the financial statements.

The Company does not recognize deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates, adjustments are made in subsequent periods.

v. Depreciation, depletion and amortization of property plant and equipment

All mining assets (except for mobile equipment) are depleted using the units-of-production method where the mine operating plan calls for production from well-defined ore reserves over proven and probable reserves. For mobile and other equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life based on proven and probable ore reserves as the useful lives of these assets are considered to be limited to the life of the relevant mine.

The calculation of the units-of-production rate of property, plant and equipment to be depleted could be impacted to the extent that actual production in the future is different from current forecast production based on proven and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Changes to these estimates, which can be significant, could be caused by a variety of factors, including future production differing from current forecasts, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and other factors impacting mineral reserves or the expected life of the mining operation.

vi. Mineral reserve and resources estimation

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

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

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

vii. Derivative financial instruments

Judgment is required to determine if an effective hedging relationship exists throughout the financial reporting period for derivative financial instruments classified as either a fair value or cash flow hedge.

Management assesses the relationships on an ongoing basis to determine if hedge accounting is appropriate. The Company monitors on a regular basis its hedge position for its risk exposure to fluctuations in commodity prices, including prices for gold, copper and fuel. For derivative contracts, valuations are based on forward rates considering the market price, rate of interest and volatility, and take into account the credit risk of the financial instrument. Refer to note 27 for a sensitivity analyses based on changes in commodity prices.

viii. Litigation and contingency

On an ongoing basis, the Company is subject to various claims and other legal disputes as described in notes 21 and 24, the outcomes of which cannot be assessed with a high degree of certainty. A provision 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 provisions and contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such provisions and contingencies inherently involves the exercise of significant judgment of the potential outcome of future events. Disclosure of other contingent liabilities is made unless the possibility that a loss may occur is considered remote.

5. Changes in accounting policies**Recently adopted accounting policies are as follows:**

As of January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") that establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company reviewed its revenue streams and contracts with customers using the five-step analysis prescribed under IFRS 15 and concluded that there were no material changes to the amount or timing of revenue recognized.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

The Company adopted IFRS 15 using the modified retrospective approach and was not required to recognize any transition adjustments.

Recently issued but not adopted accounting guidance are as follows:

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”). IFRS 16 revises the definition of leases and requires companies to bring most leases on-balance sheet, recognizing new assets and liabilities. The objective of this change is to increase the transparency and comparability of a company’s financial statements. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company will apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Company will recognize lease assets and liabilities for leases that meet the definition of a lease under IFRS 16, primarily for leases of warehouse facilities and administrative buildings. Previously, the Company recognized lease expenses related to these leases on a straight-line basis over the term of the lease. Under IFRS 16, the Company will recognize a depreciation charge and interest expense for the lease assets and liabilities, respectively.

The Company estimates it will recognize additional lease liabilities and corresponding assets of approximately \$21 million on January 1, 2019 as a result of the adoption of IFRS 16. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the maximum leverage threshold loan covenant described in Note 14.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”). IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, and permits early adoption. It is expected that the adoption of IFRIC 23 will not have a material impact on the Company’s financial statements.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

6. AuRico Metals Inc

a. Acquisition

On January 8, 2018, the Company completed the acquisition of 100% of the outstanding shares of AuRico Metals Inc. (“AuRico”) (“the AuRico Acquisition”). AuRico was a North American-based company with a wholly-owned interest in a feasibility stage underground gold-copper project in British Columbia, Canada, known as the Kemess Underground property, as well as the Kemess East property. At the time of the AuRico Acquisition, AuRico owned a royalty portfolio that included a 1.5% net smelter return (“NSR”) royalty on the operating Young-Davidson gold mine in Ontario and a 2.0% NSR royalty on the operating Fosterville mine in Australia (collectively “the Royalty Portfolio”).

The AuRico Acquisition was completed by way of a Plan of Arrangement under the Business Corporations Act (Ontario), whereby the Company acquired all of the issued and outstanding AuRico common shares for Cdn\$1.80 per share in cash consideration, representing an aggregate transaction value of approximately \$247 million (Cdn\$307 million).

The Company determined that the AuRico 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 an acquisition date of January 8, 2018. The Company engaged an external third-party valuator to assist in the determination of the fair value of the acquired assets and liabilities.

The following table summarizes the preliminary fair value of the identified assets acquired and liabilities assumed from AuRico:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	January 8, 2018
<u>Total consideration</u>	
Cash paid to shareholders	\$ 246,961
<u>Assets acquired</u>	
Current assets	
Cash and cash equivalents	\$ 20,161
Marketable investments	2,254
Amounts receivable	4,005
Inventories	3,000
Prepaid expenses and other assets	379
	\$ 29,799
Non-current assets	
Property, plant and equipment	\$ 171,264
Intangible assets (Royalties)	129,224
Total assets	\$ 330,287
<u>Liabilities assumed</u>	
Accounts payable and accrued liabilities	\$ 5,955
Asset retirement obligations	13,795
Deferred tax liability	63,576
Total liabilities	\$ 83,326
Net assets acquired	\$ 246,961

The purchase price allocation was based on a preliminary assessment of fair values that were estimated at the acquisition date pending confirmation or completion of the valuation process. The valuation has been finalized, resulting in no adjustments to the preliminary purchase price allocation.

Transaction costs, due diligence costs and integration costs of the AuRico Acquisition were as follows:

	2018
Due diligence costs	\$ 2,042
Integration costs	2,473
	\$ 4,515

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

b. Disposition of Royalty Portfolio

On June 27, 2018 the Company announced completion of the sale of its Royalty Portfolio and other royalties to Triple Flag Mining Finance Bermuda Ltd (“Triple Flag”) for an up-front cash payment of \$155.5 million with an effective date of April 1, 2018, subject to customary working capital adjustments. A pre-tax gain on disposal of approximately \$28 million was recognized in the Statements of Earnings for the year ended December 31, 2018.

The sale of the Royalty Portfolio and other royalties was part of a larger transaction between the Company and Triple Flag. The sale also included a stream on 100% of the silver production at the Kemess Underground and Kemess East properties in consideration for a series of payments totaling \$45 million to be received during construction of the mine. The first payment is due on the public announcement by the Company that its board of directors has approved a construction decision with respect to the Kemess Underground project.

7. Discontinued operations

On September 25, 2018, the Company entered into a definitive agreement to sell its Mongolian business unit, including Boroo Gold LLC and Centerra Gold Mongolia LLC (including the gold project at Gatsuurt). The sale closed on October 11, 2018 for net cash proceeds of \$35 million.

As the Mongolian business unit was a component of the Company, clearly distinguished operationally and for financial reporting purposes from the rest of the Company, the disposal group was considered a discontinued operation. Results of the discontinued operation have been presented in the Statements of Earnings, and comparative periods have been recast accordingly.

The following table summarizes the net assets disposed of:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	October 11, 2018
Assets	
Current assets	
Cash and cash equivalents	\$ 1,279
Amounts receivable	9,697
Inventories	6,958
Prepaid expenses and other assets	2,592
	\$ 20,526
Non-current assets	
Property, plant and equipment	\$ 39,983
Assets disposed of	\$ 60,509
Liabilities	
Accounts payable and accrued liabilities	\$ 1,403
Asset retirement obligations	22,062
Other liabilities	2,044
Liabilities disposed of	\$ 25,509

Loss from discontinued operations

	2018	2017
Other operating expenses	\$ 14	\$ 16
Care and maintenance expense	4,777	7,294
Exploration expenses	315	735
Corporate administration	198	306
Asset impairment	10,022	41,983
Loss from operations	\$ 15,326	\$ 50,334
Finance costs	440	523
Gain on disposal of ATO Project	(9,919)	(9,795)
Other expense (income), net	94	(385)
Loss before income tax	\$ 5,941	\$ 40,677
Income tax expense	-	1,589
Net loss from discontinued operations	\$ 5,941	\$ 42,266

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

8. Amounts receivable

		2018		2017
Gold sales receivable from related party (note 25)	\$	234	\$	20
Gold and copper concentrate sales receivable		7,667		13,650
Molybdenum sales receivable		22,963		22,999
Provisionally priced gold and copper concentrate sales receivable		17,799		20,890
Consumption tax receivable		7,847		3,817
Other receivables		3,048		2,526
Total amounts receivable	\$	59,558	\$	63,902

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

		2018		2017
Less than one month	\$	36,716	\$	33,113
One to three months		15,666		12,230
Three to six months		7,133		17,636
Over six months		43		923
Total amounts receivable	\$	59,558	\$	63,902

As at December 31, 2018, provisionally priced amounts receivable from gold and copper concentrate sales of \$7.9 million, \$7.2 million and \$2.7 million were included within less than one month, one to three months and from three to six months, respectively (December 31, 2017 - \$11.4 million, \$5.5 million and \$4.0 million were included within less than one month, one to three months and from three to six months, respectively). These sales are provisionally priced and settle at prices determined at a future date pursuant to various off-take agreements.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

9. Inventories

	2018	2017
Stockpiles of ore (a)	\$ 265,488	\$ 212,114
Gold in-circuit	20,136	23,595
Gold doré	16,524	15,023
Copper and gold concentrate	21,907	6,745
Molybdenum inventory	65,201	41,427
	389,256	298,904
Supplies (net of provision)	209,396	209,032
Total inventories (net of provisions)	\$ 598,652	\$ 507,936
Less: Long-term supplies inventory (note 12)	(1,741)	(1,728)
Total inventories - current portion	\$ 596,911	\$ 506,208

(a) As at December 31, 2018, the amount of ore not scheduled for processing within the next 12 months, but available on-demand, is \$181.3 million (December 31, 2017 – \$111.8 million).

The Company has recorded a provision for supplies obsolescence of \$21.4 million as at December 31, 2018 (December 31, 2017 - \$29.6 million).

Molybdenum inventory of \$65.2 million as at December 31, 2018 (December 31, 2017 - \$41.4 million) included work-in-process inventory of \$32.9 million (December 31, 2017 - \$21.4 million) and finished goods inventory of \$32.3 million (December 31, 2017 - \$20.0 million).

10. Prepaid expenses and other current assets

	2018	2017
Insurance	\$ 6,783	\$ 6,193
OMAS credit facility financing fees	-	4,770
Deposits for consumable supplies	13,470	5,330
Other	4,481	7,677
Total	\$ 24,734	\$ 23,970

Centerra Gold Inc.
Notes to the Consolidated Financial Statements
For the years ended 2018 and 2017

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

11. Property, plant and equipment

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

	Buildings, Plant and Equipment	Mineral Properties	Capitalized Stripping Costs	Mobile Equipment	Construction In Progress	Total
Cost and impairment						
January 1, 2017	\$ 1,083,911	\$ 517,249	\$ 181,724	\$ 537,938	\$ 82,966	\$ 2,403,788
Additions	386	12,645	200,223	1,596	119,296	334,146
Disposals	(868)	(2,003)	-	(7,271)	-	(10,142)
Impairment	(25,000)	(1,952)	-	-	(14,348)	(41,300)
Fully depreciated assets	(3,591)	-	(34,375)	(38,300)	-	(76,266)
Reclassification	24,107	2,350	-	55,890	(82,347)	-
Balance December 31, 2017	\$ 1,078,945	\$ 528,289	\$ 347,572	\$ 549,853	\$ 105,567	\$ 2,610,226
Acquisition of AuRico (note 6)	56,814	113,454	-	1,082	-	171,350
Additions	1,257	15,815	138,774	7,216	181,281	344,343
Disposal	(13,501)	-	-	(4,010)	-	(17,511)
Impairment	-	-	-	-	(8,385)	(8,385)
Disposal of Mongolian business unit (note 7)	(89,254)	(81,432)	-	(14,474)	(23,172)	(208,332)
Fully depreciated assets	(15,338)	-	-	(49,942)	-	(65,280)
Reclassification	49,958	1,544	-	69,439	(120,941)	-
Balance December 31, 2018	\$ 1,068,881	\$ 577,670	\$ 486,346	\$ 559,164	\$ 134,350	\$ 2,826,411
Accumulated depreciation						
January 1, 2017	\$ 288,809	\$ 159,015	\$ 26,597	\$ 364,476	\$ -	\$ 838,897
Charge for the period	52,524	12,409	46,489	70,692	-	182,114
Disposals	(1,386)	(1,882)	-	(5,695)	-	(8,963)
Fully depreciated assets	(3,591)	-	(34,375)	(38,300)	-	(76,266)
Balance December 31, 2017	\$ 336,356	\$ 169,542	\$ 38,711	\$ 391,173	\$ -	\$ 935,782
Charge for the period	61,390	13,951	104,904	71,030	-	251,275
Disposals	(9,280)	-	-	(3,783)	-	(13,063)
Disposal of Mongolian business unit (note 7)	(73,941)	(80,241)	-	(14,167)	-	(168,349)
Fully depreciated assets	(15,338)	-	-	(49,942)	-	(65,280)
Reclassification	(18,203)	8	-	18,195	-	-
Balance December 31, 2018	\$ 280,984	\$ 103,260	\$ 143,615	\$ 412,506	\$ -	\$ 940,365
Net book value						
Balance December 31, 2017	\$ 742,589	\$ 358,747	\$ 308,861	\$ 158,680	\$ 105,567	\$ 1,674,444
Balance December 31, 2018	\$ 787,897	\$ 474,410	\$ 342,731	\$ 146,658	\$ 134,350	\$ 1,886,046

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

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

	2018	2017
Amount recorded in cost of sales (note 18)	\$ 196,904	\$ 195,036
Amount recorded in corporate administration (note 19)	390	248
Amount recorded in care and maintenance expense	3,508	3,331
Total included in continuing operations	200,802	198,615
Amount recorded in discontinued operations (note 7)	1,067	2,087
Inventories movement (note 29(a))	14,302	(69,644)
Amount capitalized in PP&E (note 29(b))	35,104	51,056
Depreciation, depletion and amortization charge for the year	\$ 251,275	\$ 182,114

12. Other assets and Other liabilities

	2018	2017
Other assets:		
Alternative Minimum Tax receivable (a)	\$ 22,808	\$ 21,302
Long term deposits and receivables	-	2,649
Long term inventories (note 9)	1,741	1,728
Prepayments for property, plant and equipment (b)	7,549	16,088
Other assets	162	203
Total other assets	\$ 32,260	\$ 41,970
Other liabilities:		
Deferred vendor payables	\$ -	\$ 6,930
Post-retirement benefits	3,636	3,880
Other liabilities	67	93
Total other liabilities	3,703	10,903
Current portion of other liabilities	(67)	(7,021)
Non-current portion of other liabilities	\$ 3,636	\$ 3,882

- a) In 2017, the Company accrued a \$21.3 million tax benefit due to the enactment of the U.S Tax Cuts and Jobs Act on December 22, 2017. Amongst the more impactful provisions to the Company, the Alternative Minimum Tax ("AMT") was repealed and the \$22.8 million of AMT paid in prior years (less a 6.6% sequestration rate) was expected to be refunded over the course of 2019 to 2022. As at December 21, 2018, the AMT receivable was increased to \$22.8 million as a result of the U.S. Office of Management and Budget ruling that the AMT credits are not subject to sequestration.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

- b) Prepayments for property, plant and equipment represents vendor advances of \$6.5 million (December 31, 2017 - \$4.5 million) and \$1.0 million (December 31, 2017 - \$2.4 million) for fixed asset purchases for the Öksüt Project and Kumtor Mine, respectively. In 2017, prepayments of \$9.2 million were for fixed asset purchases at the Mount Milligan Mine.

13. Accounts payable and accrued liabilities

	2018	2017
Trade creditors and accruals	\$ 121,973	\$ 122,101
Amount due to Royal Gold (a)	42,885	50,650
Liability for share-based compensation (note 23)	8,925	9,078
Total	\$ 173,783	\$ 181,829

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

Centerra Gold Inc.
Notes to the Consolidated Financial Statements
For the years ended 2018 and 2017

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

14. Debt

	Centerra B.C. Holdings Revolving Credit		EBRD Facility	AuRico Acquisition Facility	Corporate Revolving Facility	OMAS Facility	CAT Note	Total
Principal								
Balance December 31, 2017	\$	190,000	\$ 76,000	\$ -	\$ -	\$ -	\$ 31,986	\$ 297,986
Transfer		(190,000)	-	-	190,000	-	-	-
Drawdown		-	-	125,000	221,069	49,668	-	395,737
Settlement		-	(76,000)	(125,000)	(300,069)	-	-	(501,069)
Balance December 31, 2018	\$	-	\$ -	\$ -	\$ 111,000	\$ 49,668	\$ 31,986	\$ 192,654

Deferred costs

Balance December 31, 2017	\$	(4,241)	\$ (1,612)	\$ -	\$ -	\$ -	\$ -	\$ (5,853)
Additions		-	-	-	(2,785)	(7,295)	-	(10,080)
Amortization		4,241	1,612	-	638	1,054	-	7,545
Balance December 31, 2018	\$	-	\$ -	\$ -	\$ (2,147)	\$ (6,241)	\$ -	\$ (8,388)

	Centerra B.C. Holdings Revolving Credit Facility		EBRD Facility	AuRico Acquisition Facility	Corporate Revolving Facility	OMAS Facility	CAT Note	Total
Net debt								
Short-term debt	\$	48,536	\$ -	\$ -	\$ -	\$ -	\$ 31,986	\$ 80,522
Long-term debt		137,223	74,388	-	-	-	-	211,611
Balance December 31, 2017	\$	185,759	\$ 74,388	\$ -	\$ -	\$ -	\$ 31,986	\$ 292,133
Short-term debt	\$	-	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 5,000
Long-term debt		-	-	-	108,853	43,427	26,986	179,266
Balance December 31, 2018	\$	-	\$ -	\$ -	\$ 108,853	\$ 43,427	\$ 31,986	\$ 184,266

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Centerra B.C. Holdings Credit Facility

In 2016, as part of the Thompson Creek Metals Company Inc (“TCM”) acquisition (“TCM Acquisition”), Centerra B.C. Holdings Inc., a wholly-owned subsidiary of the Company, secured financing from a lending syndicate in the aggregate amount of \$325 million (the “Centerra B.C. Facility”), consisting of a \$250 million non-revolving term facility and a \$75 million senior secured revolving credit facility.

On February 1, 2018, the Centerra B.C. Facility was replaced with a new Corporate Facility, as noted below. As a result, the Centerra B.C. Facility was deemed to be extinguished and all associated unamortized capitalized deferred financing fees totaling \$4.2 million were expensed.

EBRD Revolving Credit Facility

In 2016, the Company entered into a five-year \$150 million revolving credit facility with European Bank for Reconstruction and Development (the “EBRD Facility”).

On January 29, 2018, in connection with the establishment of the Corporate Facility, the EBRD Facility was repaid in full and subsequently cancelled. All associated unamortized capitalized deferred financing fees totaling \$1.6 million were expensed.

AuRico Acquisition Facility

The AuRico Acquisition (note 6) was funded, in part, by a \$125 million acquisition facility (“AuRico Acquisition Facility”) entered into on January 8, 2018. The AuRico Acquisition Facility was subsequently repaid and cancelled on February 1, 2018, when the Company entered into the Corporate Facility, as noted below. All associated financing fees were expensed and reflected in the Statements of Earnings.

Corporate Facility

On February 1, 2018, the Company entered into a \$500 million four-year senior secured revolving credit facility (the “Corporate Facility”) with a lending syndicate led by the Bank of Nova Scotia and National Bank of Canada. Finance fees for the Corporate Facility are deferred and amortized over the term of the facility.

Funds drawn under the Corporate Facility are available to be re-drawn on a quarterly basis, at the Company’s discretion, and repayment of the loaned funds may be extended until February 2022.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

The Corporate Facility is for general corporate purposes, including working capital, investments, acquisitions and capital expenditures. The Company's obligations under the Corporate Facility are guaranteed by its subsidiaries which own the Mount Milligan Mine, the Endako mine, the Langeloth metallurgical facility, the Kemess Underground property and the Kemess East property. In addition, the Company is expected to maintain compliance with specified covenants (including financial covenants). As of December 31, 2018, the Company was in compliance with its covenants.

**December 31,
2018**

Corporate Facility

Undrawn amount of the facility **\$389 million**

Interest rate - LIBOR plus (a) **2.25% - 3.75%**

- (a) The interest rate margin applied is dependent on an indebtedness ratio calculation and is re-assessed quarterly. The interest rate margin ranges from 2.25% to 3.75%. Accrued interest is included in the Consolidated Statements of Financial Position as part of 'Accounts payable and accrued liabilities'.

OMAS Facility

In 2016, Öksüt Madencilik Sanayi vi Ticaret A.S. ("OMAS"), a wholly-owned subsidiary of the Company, entered into a \$150 million five-year project financing facility with UniCredit Bank AG and European Bank for Reconstruction and Development (the "OMAS Facility"). In April 2018, the OMAS Facility was amended ("April 2018 amendment"), extending the expiry of the facility from December 30, 2021 to March 31, 2024. The purpose of the OMAS Facility is to assist in financing the construction of the Company's Öksüt Project.

As part of an April 2018 amendment to the OMAS Facility, OMAS agreed to apply all excess cash flow towards debt prepayment until the Öksüt Project's mining license is extended beyond its current expiry date of January 16, 2023. In addition, the Company has provided a limited guarantee of a portion of OMAS' obligations under the OMAS Facility and has agreed to comply with certain covenants which are consistent with the covenants under the Corporate Facility. The guarantee will be callable if the Öksüt mining license is not extended beyond January 16, 2023. The guarantee provided by Centerra will be limited to the OMAS Facility balance outstanding as at January 16, 2023.

As a condition of the OMAS Facility, the Company has deposited \$25 million into a restricted account, including \$15 million which is restricted until the Öksüt Project mining lease is extended and \$10 million which is restricted during the construction phase.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	December 31, 2018	December 31, 2017
<u>OMAS Facility</u>		
Undrawn amount of the facility	\$100.3 million	\$150 million
Interest rate - LIBOR plus (a)	2.65% - 2.95%	
(a) The interest rate margin applied is dependent on the timing of the completion of the Öksüt Project construction.		

Caterpillar Promissory Note

As part of the TCM acquisition, the Company assumed TCM's capital equipment lease obligations owed to Caterpillar Financial Services Limited ("Caterpillar"). The Company re-financed the leases in 2017, whereby the Company would purchase the assets held under finance leases through a loan repayable to Caterpillar (the "CAT Note").

Interest on the CAT Note is at three-month LIBOR + 4.93% paid quarterly in arrears. The CAT Note is secured by assets previously held under the finance leases and the Company has agreed to certain non-financial covenants.

In 2018, an amendment was signed extending the CAT Note until March 25, 2020 with an initial principal repayment of \$5 million which was paid on January 25, 2019 at which time the interest rate was reset to LIBOR + 3.50%.

The Company has reclassified the 2017 comparative amount to conform with the 2018 presentation.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

15. 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, 2018, the 13% revenue-based tax expense recorded by Kumtor was \$86.3 million (December 31, 2017 - \$89.8 million), while the Issyk-Kul Oblast Development Fund contribution of 1% of gross revenue totalled \$6.6 million (December 31, 2017 - \$6.9 million).

b. Income tax (recovery) expense

		2018	2017
Current tax	\$	4,406	\$ (16,543)
Deferred tax		(19,053)	(1,658)
Total income tax recovery	\$	(14,647)	\$ (18,201)
Income tax recovery from continuing operations	\$	(14,647)	\$ (19,790)
Income tax expense from discontinued operations		-	1,589
Total income tax recovery	\$	(14,647)	\$ (18,201)

Income tax expense (recovery) differs from the amount that would arise from applying the Canadian federal and provincial statutory income tax rates to earnings before income tax as follows:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	2018	2017
Earnings before income tax from continuing operations	\$ 98,823	\$ 232,009
Loss before income tax from discontinued operations	(5,941)	(40,677)
Net earnings before income tax	\$ 92,882	\$ 191,332
Income tax expense calculated at the combined Canadian and provincial statutory income tax rate of 26.5%	24,614	50,703
Increase (decrease) due to:		
Difference between Canadian and foreign tax rates	(46,237)	(58,318)
Change in unrecognized deductible temporary differences	(1,792)	(639)
Impact of foreign currency movements	(384)	7,439
Non-deductible costs	6,144	(545)
British Columbia ("B.C.") mining tax	4,445	4,694
Impact of tax legislation/rate change	(1,505)	(21,302)
Other	68	(233)
	\$ (14,647)	\$ (18,201)
Income tax recovery from continuing operations	(14,647)	(19,790)
Income tax from discontinued operations	-	1,589
Total income tax recovery	\$ (14,647)	\$ (18,201)

c. Deferred income tax

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

	2018	2017
Deferred income tax assets:		
Provisions - asset retirement obligations and other	\$ 11,247	\$ -
Non-capital losses	11,575	6,966
Total deferred tax assets	\$ 22,822	\$ 6,966
Deferred income tax liabilities:		
Property, plant and equipment	\$ 67,346	\$ 6,966
Total deferred tax liabilities	\$ 67,346	\$ 6,966
Net deferred tax liabilities	\$ (44,524)	\$ -

The Company has not recognized deferred tax assets in respect to the following deductible temporary differences:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	2018	2017
Non-capital losses (expiring 2019 – 2038)	\$ 563,716	\$ 755,520
Net operating losses restricted due to changes in ownership	78,997	74,680
Property, plant and equipment	267,439	216,382
Capital losses	125,542	58,279
Asset retirement obligations and other provisions	113,670	77,003
Other	20,258	68,344
Total	\$ 1,169,622	\$ 1,250,208

The Company has also not recognized deferred tax assets with respect to British Columbia mining tax for deductible temporary differences of \$562.8 million (December 31, 2017 - \$679.4 million) or mining tax credits of \$18.1 million (December 31, 2017 - \$17.2 million).

16. Provision for reclamation

	2018	2017
Kumtor gold Mine	\$ 51,477	\$ 53,565
Boroo gold Mine (a)	-	21,644
Mount Milligan Mine	23,068	28,148
Thompson Creek Mine (b)	84,700	35,618
Endako Mine	20,925	26,714
Kemess Project	31,075	-
Other	1,200	1,317
Total provision for reclamation	212,445	167,006
Less: current portion	(197)	(832)
	\$ 212,248	\$ 166,174

- (a) The reclamation obligation associated with these operations in Mongolia were disposed of on October 11, 2018 (note 7)
- (b) During 2018 following an update to long-term plans for the molybdenum business and as a result of an independent assessment performed on the reclamation provision, the Company recognized an additional reclamation provision for future water treatment requirements at the Thompson Creek Mine. The underlying water treatment reclamation provision is over a 100-year period with the initial water treatment plant capital expenditure of \$6.2 million anticipated to be incurred in year 44, with average operating expenditures of between \$0.3 and \$1.4 million per year thereafter.

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	Kumtor	Kemess	Mount Milligan	Endako	Thompson Creek
Start date	2026	Ongoing	2038	2033	2033
Risk-free discount rate (2018)	2.74%	2.02%	2.17%	2.02%	2.83%
Risk-free discount rate (2017)	2.38%	n/a	2.23%	2.1%	2.5%

The Company completed its regularly scheduled update to its closure costs estimates at Mount Milligan, Endako, Kemess and Thompson Creek Mine in December 2018.

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

	2018	2017
Balance at January 1	\$ 167,006	\$ 158,416
Obligations assumed (note 6)	13,795	-
Obligations disposed of (note 7)	(22,062)	-
Liabilities paid	(1,338)	(432)
Change in estimates recognized as asset (a)	10,805	5,153
Change in estimates recognized in continuing operations (a)	40,355	176
Accretion expense from continuing operations (note 22)	3,444	3,170
Accretion expense from discontinued operations (note 7)	440	523
Total provision for reclamation	212,445	167,006
Less: current portion	(197)	(832)
Balance at December 31	\$ 212,248	\$ 166,174

(a) In the year ended December 31, 2018, the discounted change in estimates includes: increases in Thompson Creek Mine, Kemess and other properties of \$48.2 million, \$18.7 million and \$1.2 million, respectively, and decreases in Kumtor, Mount Milligan Mine and Endako Mine of \$3.4 million, \$5.7 million and \$6.3 million, respectively.

In 1998, a Reclamation Trust Fund was established to cover the future costs of reclamation, net of salvage values, at the Kumtor gold mine. On December 31, 2018, this fund had a balance of \$30.8 million (December 31, 2017 - \$26.4 million).

The Company is required by U.S. federal and state laws and Canadian provincial laws to provide financial assurance sufficient to allow a third party to implement approved closure and reclamation plans at Mount Milligan, Endako and Thompson Creek Mine if the Company is unable to do so. These laws are complex and vary from jurisdiction to jurisdiction. The laws govern the determination of the scope, cost of the closure, reclamation obligation and the amount and forms of financial assurance. As of December 31, 2018, the Company has provided the appropriate regulatory authorities in the U.S. and Canada with \$105.0 million (December 31, 2017 - \$81.0

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

million) in reclamation bonds for mine closure obligations. The Company expects to increase the amount of the reclamation bond required for the Thompson Creek Mine in 2019.

Reclamation bonds (a)	Total	Mount Milligan	Endako	Kemess	Langeloth	Thompson Creek
December 31, 2018	\$105.0	\$31.8	\$8.4	\$28.7	\$0.1	\$36.0
December 31, 2017	\$81.0	\$28.5	\$9.2	\$0	\$0	\$43.3

(a) Reclamation bonds provided as cash collateral for the year ended December 31, 2018 were Nil (2017: Nil)

The following is a reconciliation of the reclamation deposits asset amount:

	2018	2017
Kumtor reclamation trust fund	\$ 30,758	\$ 26,436
Other	83	89
Total	\$ 30,841	\$ 26,525

17. Gold and Copper sales

For the year ended December 31, 2018, the Company's gold concentrate sales included pricing and quantity adjustment losses of \$2.0 million (2017: \$7.1 million gain) and the Company's copper concentrate sales included pricing and quantity adjustment losses of \$10.0 million (2017: \$4.4 million gain).

18. Cost of sales

	2018	2017
Operating costs:		
Salaries and benefits	\$ 121,028	\$ 113,086
Consumables and maintenance charges	272,922	218,989
Third-party services	29,083	29,915
Other operating costs	35,730	42,036
Royalties, levies and production taxes	11,098	13,251
By-product sales (a)	(21,147)	(19,042)
Changes in inventories	109,794	85,675
	558,508	483,910
Supplies inventory obsolescence charge	5,955	3,148
Depreciation, depletion and amortization (note 11)	196,904	195,036
	\$ 761,367	\$ 682,094

(a) By-product sales includes silver, rhenium and sulfuric acid sales.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

As a result of the temporary suspension of mill processing operations at the Mount Milligan Mine, \$10.9 million of operating costs incurred in the year ended December 31, 2018 were classified as standby costs.

19. Corporate administration

		2018		2017
Administration and office costs	\$	3,290	\$	5,617
Professional fees		6,957		9,324
Salaries and benefits		15,514		15,612
Share-based compensation		3,485		6,811
Depreciation and amortization		390		248
	\$	29,636	\$	37,612

20. Other operating expenses

		2018		2017
Social development contributions	\$	2,603	\$	1,036
Selling and marketing (a)		7,279		6,901
Nature Development Fund contributions (note 21)		2,700		2,700
Mill optimization studies - Mount Milligan Mine		545		2,215
	\$	13,127	\$	12,852

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

21. Kyrgyz Republic Settlement

On September 11, 2017, the Company reached a comprehensive settlement agreement (“Strategic Agreement”) with the Government of the Kyrgyz Republic to resolve all of the outstanding matters affecting the Kumtor Project. The Company’s financial obligations as a result of signing the Strategic Agreement are as follows:

- a \$50 million lump sum payment to a new Kyrgyz Republic government-administered Nature Development Fund established for the purpose of financing environmental conservation projects and nature preservation in the Kyrgyz Republic and lump sum payments in the aggregate amount of \$10 million (\$7 million prior to closing plus \$3 million within 12 months of closing) to a new, Kyrgyz Republic government-administered Cancer Care Fund established for the purpose of funding cancer treatment, research, support and outreach in the Kyrgyz Republic (the “Lump Sum Payments”).
- \$2.7 million on-going annual payments to the Nature Development Fund.

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

- a minimum of \$6 million in annual contributions to Kumtor's reclamation trust fund (note 16) until the fund reaches \$69 million.

On October 18, 2017, the Company paid \$7 million in relation to the Lump Sum Payments and as at December 31, 2018, the provision remaining was \$53 million.

The closing of the Strategic Agreement is subject to the satisfaction of certain conditions precedent and the deadline for closing has been extended by mutual agreement of the parties to May 31, 2019.

Kyrgyz Republic Legal Proceedings

The Strategic Agreement provided a pathway to the resolution of substantially all outstanding matters affecting the Kumtor Project. Among other things, the Strategic Agreement will settle matters relating to decisions of the Bishkek Inter-District Court in the Kyrgyz Republic which ruled against Kumtor Operating Company, Centerra's wholly-owned subsidiary, on claims made by the State Inspectorate Office for Environmental and Technical Safety of the Kyrgyz Republic. Such court decisions were appealed by the Company and proceedings have been postponed pending the closing of the Strategic Agreement. The court decisions awarded damages in relation to claims which were still outstanding as at December 31, 2018 for:

- i. The placement of waste rock at the Kumtor waste dumps (6,698,878,290 Kyrgyz soms or approximately \$96.2 million);
- ii. Unrecorded wastes from Kumtor's effluent and sewage treatment plants (663,839 Kyrgyz soms or approximately \$9,500);
- iii. Alleged land damage (161,840,109 Kyrgyz soms or approximately \$2.3 million);
- iv. Failure to pay for water use (188,533,730 Kyrgyz soms or approximately \$2.7 million).

In connection with the Strategic Agreement, the arbitration previously commenced by the Company against the Government of the Kyrgyz Republic and Kyrgyzaltyn has been suspended until May 31, 2019. Upon closing of the Strategic Agreement provides that the above noted Kyrgyz Republic proceedings and the arbitration proceeding will be terminated and the parties will release each other from further liability in respect such claims.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

22. Finance costs

		2018		2017
Interest expense	\$	15,750	\$	22,415
Deferred financing costs amortized		6,525		4,274
Commitment fees		1,441		180
Accretion of provision for reclamation		3,444		3,170
Other financing fees		3,072		-
	\$	30,232	\$	30,039

23. Shareholders' equity**a. Share capital**

Centerra is authorized to issue an unlimited number of common shares, class A non-voting shares and preference shares with no par value.

	<u>Number of common shares</u>		<u>Amount</u>
Balance at January 1, 2017	291,276,068	\$	944,633
Shares issued on exercise of stock options	480,008		3,313
Shares issued on redemption of restricted share units	26,770		175
Balance at December 31, 2017	291,782,846	\$	948,121
Shares issued on exercise of stock options	63,860		445
Shares issued on redemption of restricted share units	15,633		76
Shares issued under the employee share purchase plan	137,610		686
Balance at December 31, 2018	291,999,949	\$	949,328

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

b. Earnings per share

Basic and diluted earnings per share computation:

		2018	2017
Net earnings - continuing operations	\$	113,470	\$ 251,799
Net loss - discontinued operations (note 7)		(5,941)	(42,266)
Net earnings	\$	107,529	\$ 209,533
<hr/>			
Basic earnings per common share - continuing operations	\$	0.39	\$ 0.86
Basic loss per common share - discontinued operations		(0.02)	(0.15)
Basic earnings per common share	\$	0.37	\$ 0.72
<hr/>			
Diluted earnings per common share - continuing operations	\$	0.38	\$ 0.86
Diluted loss per common share - discontinued operations		(0.02)	(0.14)
Diluted earnings per common share	\$	0.36	\$ 0.72
<hr/>			
(Thousands of common shares)			
Basic weighted average number of common shares outstanding		291,895	291,409
Effect of potentially dilutive securities:			
Stock options		174	638
Restricted share units		608	175
Diluted weighted average number of common shares outstanding		292,677	292,222

For the years ended December 31, 2018 and 2017, certain potentially anti-dilutive securities, including 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 common shares for the period.

Anti-dilutive securities, excluded from the calculation, are summarized below:

(Thousands of units)	2018	2017
Stock options	4,002	1,030

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

c. Share-based compensation

The impact of share-based compensation as of and for the years ended December 31, 2018 and 2017 is summarized as follows:

	Number outstanding Dec 31, 2018	(Millions of U.S. dollars except as indicated)			
		Expense (Reversal)		Liability	
		2018	2017	Dec 31, 2018	Dec 31, 2017
(i) Stock options	6,090,810	\$ 1.7	\$ 1.0	\$ -	-
(ii) Performance share units	2,008,200	2.0	4.8	4.8	6.2
Deferred share units	225,861	-	0.3	0.9	1.3
(iii) Restricted share units	753,599	(0.3)	1.0	3.2	1.6
		\$ 3.4	\$ 7.1	\$ 8.9	\$ 9.1

(i) Stock options

Under the Company's Stock Option plan, options to purchase common shares of the Company may be granted to officers and employees. The exercise price of options granted under this plan is not less than the weighted average common share price for the five trading days prior to the date of grant. Options granted vest over three years and expire after eight years from the date granted.

Centerra's stock options transactions during the year ended December 31, 2018 and 2017 were as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price (Cdn\$)	Number of Options	Weighted Average Exercise Price (Cdn\$)
Balance, January 1	4,817,452	\$ 7.81	5,363,755	\$ 8.03
Granted	1,429,773	6.77	77,374	7.56
Forfeited	(11,534)	(9.33)	(143,669)	(23.18)
Exercised (a)	(144,881)	(6.36)	(480,008)	(5.67)
Balance, December 31	6,090,810	\$ 7.56	4,817,452	\$ 7.81

(a) The weighted average market price of shares issued for options exercised in the year ended December 31, 2018 was Cdn\$7.48 (year ended December 31, 2017 - Cdn\$9.01).

The Black-Scholes model was used to estimate the fair value of stock options granted. The following assumptions were used for the options granted in the years ended December 31 2018, and 2017:

Centerra Gold Inc.
Notes to the Consolidated Financial Statements
For the years ended 2018 and 2017

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

Grant date	Number of options	Grant price (Cdn\$)	Expected life	Share price volatility ^(a)	Dividend yield	Risk free rate	Fair value price (Cdn\$)
March 6, 2018	1,419,856	6.77	3.3 years	52.54%	0.00%	1.90%	2.62
March 6, 2018	9,917	6.75	3.3 years	52.27%	0.00%	1.95%	2.43

Grant date	Number of options	Grant price (Cdn\$)	Expected life	Share price volatility ^(a)	Dividend yield	Risk free rate	Fair value price (Cdn\$)
November 16, 2017	77,374	7.56	3.3 years	54.91%	0.00%	1.56%	2.95

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

As at December 31, 2018, there were 6,090,810 options outstanding to acquire common shares with exercise prices ranging from Cdn\$3.82 to Cdn\$22.28 per share, and expiry dates ranging between 2019 and 2026. There were 4,329,194 options vested as at December 31, 2018.

(ii) Performance Share Unit plan

Centerra's Performance Share Unit plan transactions during the year ended December 31, 2018 and 2017 were as follows:

Number of units	2018	2017
Balance, January 1	2,222,380	1,652,792
Granted	730,436	1,562,859
Exercised	(831,384)	(820,794)
Cancelled	(113,232)	(172,477)
Balance, December 31	2,008,200	2,222,380

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

	2018	2017
Share price (Canadian dollars)	\$ 5.82	\$ 6.44
S&P/TSX Global Gold Index	\$ 185.25	\$ 227.16
Expected life (years)	1.07	1.41
Expected volatility- Centerra's share price	39.9 %	42.0 %
Expected volatility- S&P/TSX Global Gold Index	25.4 %	31.0 %
Risk-free rate of return	2.30 %	1.93 %
Forfeiture rate	4.40 %	4.16 %
Weighted adjustment factor	0.63	0.72

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

The vested number of units outstanding as at December 31, 2018 are 785,128 (December 31, 2017 – 765,299). The December 31, 2018 Performance Share Unit liability balance of \$4.8 million includes \$1.9 million attributable to vested units (December 31, 2017 – liability of \$6.2 million, of which \$3.6 million was vested).

(iii) Restricted Share Unit plan

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

Number of units	2018	2017
Balance, January 1	289,648	147,064
Granted	575,686	288,530
Redeemed	(111,735)	(145,946)
Balance, December 31	753,599	289,648

At December 31, 2018, the number of units outstanding had a related liability of \$3.2 million (December 31, 2017 - \$1.6 million). Compensation recovery for the plan was \$0.3 million for the year ended December 31, 2018 (2017 - \$1.0 million expense).

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

As at December 31, 2018, the Company had entered into contracts to purchase capital equipment and operational supplies totalling \$157.3 million (Öksüt Project \$80.6 million, Kumtor - \$54.6 million, Mount Milligan - \$13.8 million, Greenstone Gold Property - \$0.1 million and Kemess - \$8.2 million). Öksüt Project commitments include \$10.6 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 Partnership

As consideration for the Company's initial 50% partnership interest in Greenstone Gold Mines LP, the Company agreed to commit up to an additional Cdn\$185 million to fund the project, subject to certain feasibility and project advancement criteria. In the event that the project is put under care and maintenance as a result of feasibility study or project criteria not being met, the Company will be required to make contributions towards the costs associated with the care and maintenance of the project for a period of two years or until the Cdn\$185 million is spent (if such event occurs first), after which time the partners would fund such costs on a pro rata basis. Any such costs will form part of the Cdn\$185 million development contributions commitment of the Company. As at

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

December 31, 2018, the Company has funded a total of Cdn\$92.8 million (\$71.3 million) of its commitment since the inception of the partnership.

(c) Molybdenum purchases

In the normal course of operations, the Company enters into agreements for the purchase of molybdenum. As of December 31, 2018, the Company had commitments to purchase approximately 17.5 million pounds of molybdenum as unroasted molybdenum concentrate from 2019 to 2020 primarily priced at the time of purchase at a set discount to the market price for roasted molybdenum concentrate.

(d) Leases

The Company enters into operating leases in the ordinary course of business, primarily for its various offices and facilities around the world. Payments under these leases represent contractual obligations as scheduled in each agreement. The significant operating lease payments, including operating costs, are for its corporate offices and warehouse facilities in North America, which amounted to \$3.2 million in the year ended December 31, 2018, (year ended December 31, 2017 - \$2.5 million). The future aggregate minimum lease payments for the non-cancellable operating lease are as follows:

	2018	2017
2018	-	788
2019	761	531
2020	596	506
2021	417	-
2022 to 2028	1,797	1,428
	\$ 3,571	\$ 3,253

Contingencies

Various legal, tax and environmental 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, 2018 cannot be predicted with certainty, it is management's opinion that it is not, except as noted below, more likely than not that these actions will result in the outflow of resources to settle the obligation; therefore no amounts have been accrued.

Endako Mine

In 2018, the Company initiated a review of its long-term water treatment options at the Endako Mine, as a result of ongoing discussions concerning mine reclamation obligations among regulatory and industry bodies in British Columbia. These discussions are ongoing but may result

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

in amended regulations in 2019. As a result, the Company expects to update its technical studies and environmental studies for the Endako Mine in 2019, the result of which may require an increase to Endako's asset retirement obligation.

25. Related party transactions**a. Kyrgyzaltyn**

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

The table below summarizes the management fees paid and accrued by KGC to Kyrgyzaltyn and the amounts paid and accrued by Kyrgyzaltyn to KGC according to the terms of a Restated Gold and Silver Sale Agreement ("Sales Agreement") between KGC, Kyrgyzaltyn and the Government of the Kyrgyz Republic dated June 6, 2009.

The breakdown of the sales transactions and expenses with Kyrgyzaltyn are as follows:

	2018		2017	
<i>Sales:</i>				
Gross gold and silver sales to Kyrgyzaltyn	\$	669,012	\$	695,288
Deduct: refinery and financing charges		(4,809)		(4,364)
Net sales revenue received from Kyrgyzaltyn	\$	664,203	\$	690,924
<i>Expenses:</i>				
Contracting services provided by Kyrgyzaltyn	\$	1,352	\$	1,250
Management fees payable to Kyrgyzaltyn		530		550
Expenses paid to Kyrgyzaltyn	\$	1,882	\$	1,800

Related party balances

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

	2018		2017	
Amounts receivable (a)	\$	234	\$	20
Amount payable	\$	1,199	\$	1,160

(a) Subsequent to December 31, 2018, the balance receivable from Kyrgyzaltyn was paid in full.

Gold produced by the Kumtor Mine is purchased at the mine site by Kyrgyzaltyn for processing at its refinery in the Kyrgyz Republic pursuant to the Sales Agreement. Amounts receivable from

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

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.

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 directors (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 and General Counsel and Vice President Business Development & Exploration.

During the years ended December 31, 2018 and 2017, remuneration to directors and key management personnel were as follows:

Compensation of directors

		2018		2017
Fees earned and other compensation	\$	1,246	\$	1,047
Share-based compensation		945		1,138
Total expense	\$	2,191	\$	2,185

Fees earned and other compensation

Represent fees earned by the non-executive chairman and the non-executive directors during the financial year.

Share-based compensation

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Compensation of key management personnel

Compensation of key management personnel includes:

		2018		2017
Salaries and benefits	\$	4,191	\$	5,460
Share-based compensation		1,278		2,599
Total expense	\$	5,469	\$	8,059

Salaries and benefits

Represent salary, supplementary executive retirement plan contributions, and benefits earned during the year, plus cash bonuses awarded for the year.

Share-based compensation

A portion of the senior management's compensation is in the form of participation in the Company's share-based payment plans (Stock Option plan, Restricted Share Unit plan and Performance Share Unit plan).

26. Capital management

The Company's primary objective with respect to its capital management is to provide returns for shareholders by ensuring that it has sufficient cash resources to maintain its ongoing operations, pursue and support growth opportunities, continue the development and exploration of its mineral properties and satisfy debt repayment requirements and other obligations.

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

At December 31, 2018, the Company expects its capital resources and projected future cash flows from operations to support its normal operating requirements on an ongoing basis.

The Company's capital structure consists of short-term and long-term debt (net of cash and cash equivalents, restricted cash and restricted short-term investments), lease obligations, and

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

shareholders' equity, comprising issued common shares, contributed surplus, accumulated other comprehensive income ("AOCI"), and retained earnings as shown below:

	2018	2017
Shareholders' equity	\$ 2,148,031	\$ 2,025,429
Long-term debt	179,266	211,611
Short-term debt	5,000	80,522
Lease obligations	4,229	-
	2,336,526	2,317,562
Less:		
Restricted cash and restricted short-term investments	(27,505)	(687)
Cash and cash equivalents	(151,705)	(415,891)
Total invested capital	\$ 2,157,316	\$ 1,900,984

27. Financial Instruments

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash and short-term investments, amounts receivable (including embedded derivatives), derivative instruments, long-term receivables, tax receivables, accounts payable and accrued liabilities (including amounts due to Royal Gold), debt, and revenue-based taxes payable.

Derivative Instruments

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

The Company designates the Strategic gold and copper contracts and Fuel hedge contracts as cash flow hedging instruments. The effective portion of changes in the fair value of these derivatives is recognized in other comprehensive income and accumulated in other comprehensive income ("OCI"). Any ineffective portion of changes in the fair value of these derivatives is recognized immediately in the Statements of Earnings. Amounts previously recognized in other comprehensive income and accumulated in OCI are reclassified to the Statements of Earnings in the periods when the hedged item is recognized in earnings. These amounts are included within the same line of the Statements of Earnings as the hedged item.

The Company also uses a selection of derivative instruments that are effective in achieving its risk management objectives, but are not designated under the hedge accounting criteria ("Royal Gold deliverables") and ("FX contracts"). Changes in fair value of these derivatives are recognized immediately in the Statements of Earnings.

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

As of December 31, 2018, the Company had eight counterparties (December 31, 2017 – nine) to its derivative positions. On an ongoing basis, the Company monitors its exposures and ensures that the counterparties with which it holds outstanding contracts continue to meet the credit rating requirements of the Company's financial risk management policy.

Strategic gold, copper and fuel hedge contracts

The Company's hedging strategy for which hedge accounting is applied consists of the following:

Strategic gold and copper contracts

The Company established a hedging strategy to manage cash flow streams by protecting against declining copper or gold prices.

Fuel hedge contracts

In 2016, the Company established a diesel fuel price hedging strategy using derivative instruments to manage the risk associated with changes in diesel fuel prices to the cost of operations at the Kuntor Mine. The Company hedges its exposure with crude oil futures contracts, as the price of diesel fuel closely correlates to the price of crude oil.

The Strategic gold and copper contract positions and Fuel hedge contract positions outstanding as at December 31, 2018 are summarized as follows:

					As at December 31, 2018
Contract	Instrument	Unit	Average strike price	Type	Total position(a)
<i>Strategic gold and copper and Fuel hedge contracts</i>					
Fuel	Crude oil options	Barrels	\$63.00	Fixed	72,000
Fuel	Zero-cost collars	Barrels	\$46/\$59	Fixed	23,000
Copper	Zero-cost collars	Pounds	\$2.50/\$3.28	Fixed	12.6 million
Gold	Zero-cost collars	Ounces	\$1,250/\$1,368	Fixed	36,799

(a) Positions to be settled in 2019

The following table is an analysis of the Strategic gold and copper contracts and Fuel hedge contracts recorded in the Statements of Earnings:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

	2018	2017
<u>Strategic gold, copper and fuel hedge contracts</u>		
Cash flow hedges - effective portion of changes in fair value	\$ 24,558	\$ (25,356)
Cash flow hedges - reclassified to Statements of Earnings	(9,620)	11,213
Net unrealized gain (loss) included in AOCI, net of tax (a)	\$ 14,938	\$ (14,143)
Cash flow hedges - reclassified from AOCI	\$ 9,620	(11,213)
Gain (loss) recognized on derivatives (b)	(3,817)	(2,120)
Total gain (loss) included in Statements of Earnings	\$ 5,803	\$ (13,333)

(a) Includes tax for the year ended December 31, 2018 and 2017 of nil.

(b) Represents the change in fair value of certain gold and copper derivative instruments which were early settled or reclassified to the Statements of Earnings since they no longer qualify for hedge accounting.

Royal Gold deliverables

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

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

FX contracts

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

The Royal Gold deliverables and FX contracts outstanding as at December 31, 2018 are summarized as follows:

					As at December 31, 2018
Contract	Instrument	Unit	Average strike price	Type	Total position (b)
<i>Royal Gold deliverables</i>					
Gold	Forward contracts	Ounces	(a)	Float	30,360
Copper	Forward contracts	Pounds	(a)	Float	2.5 million

(a) Royal Gold hedging program with a market price determined on closing of the contract

(b) Positions to be settled in 2019

The following table is an analysis of the Royal Gold deliverables and FX contracts recorded in the Statements of Earnings:

	2018	2017
<u>Royal Gold deliverables and FX contracts</u>		
Total (loss) gain on gold and copper derivatives included in revenue	\$ (1,522)	\$ 4,063
Total (loss) gain on FX contracts included in other income, net	\$ (2,122)	\$ 1,562

Provisionally-priced contracts

Certain copper-gold concentrate sales contracts provide for provisional pricing. These sales contain an embedded derivative related to the provisional pricing mechanism and are marked to market at the end of each reporting period. As at December 31, 2018, the Company's trade receivables with embedded derivatives had a fair value of \$21.5 million (December 31, 2017 - \$20.9 million), representing 23.3 million pounds of copper and 77,032 ounces of gold (December 31, 2017 - 17.6 million pounds of copper and 78,578 ounces of gold).

The following table is a sensitivity analysis of the impact on the Statements of Earnings of an increase or a decrease of 10% of the price of the derivative instrument:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Sensitivity table

	<u>Fair value as at</u> <u>December 31, 2018</u>	<u>Increase of</u> <u>10%</u>	<u>Decrease of</u> <u>10%</u>
Fuel contracts	\$ 102	\$ 192	\$ (129)
Gold (Strategic)	49	(1,554)	3,552
Copper (Strategic)	296	-	817
Gold and Copper (Royal Gold Deliverables)	532	5,113	(4,048)

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 Statements of Financial Position were as follows:

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

December 31, 2018

	Amortized cost	At fair value through earnings	At fair value through OCI
<u>Financial assets</u>			
Cash and cash equivalents	\$ 151,705	\$ -	\$ -
Restricted cash	27,505	-	-
Amounts receivable	41,759	-	-
Provisionally-priced receivables - Level 2	-	17,799	-
Taxes receivable	21,302	-	-
Derivative assets - Level 2	-	1,081	-
	\$ 242,271	\$ 18,880	\$ -
<u>Financial liabilities</u>			
Trade creditors and accruals	\$ 121,973	\$ -	\$ -
Lease obligations	5,026	-	-
Debt	184,266	-	-
Derivative liabilities - Level 2	-	101	-
	\$ 311,265	\$ 101	\$ -

December 31, 2017

	Amortized cost	At fair value through earnings	At fair value through OCI
<u>Financial assets</u>			
Cash and cash equivalents	\$ 415,891	\$ -	\$ -
Restricted cash	687	-	-
Amounts receivable	43,012	-	-
Provisionally-priced receivables - Level 2	-	20,890	-
Taxes receivable	21,302	-	-
Long-term receivables	2,649	-	-
Derivative assets - Level 2	-	1,055	1,453
	\$ 483,541	\$ 21,945	\$ 1,453
<u>Financial liabilities</u>			
Trade creditors and accruals	\$ 122,101	\$ -	\$ -
Amount due to Royal Gold - Level 2	-	50,650	-
Lease obligations	31,986	-	-
Debt	260,147	-	-
Revenue-based taxes payable	15,953	-	-
Derivative liabilities - Level 2	-	187	23,143
	\$ 430,187	\$ 50,837	\$ 23,143

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

The recorded value of restricted short-term investments, amounts receivable, taxes receivable, long-term receivables, accounts payable and accrued liabilities, lease obligation, debt and revenue-based taxes payable approximate their relative fair values.

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

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

28. Financial risk exposure and risk management

The Company is exposed in varying degrees to certain financial risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Company assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The Board of Directors has a responsibility to ensure that an adequate financial risk management policy is established. Financial risk management is carried out by the Company's treasury department in accordance with the Board of Directors' approved policy. The treasury department identifies and evaluates financial risks, establishes controls and procedures to ensure financial risks are mitigated in accordance with the approved policy and programs, and that risk management activities comply thereto.

The Company's Audit Committee oversees management's compliance with the Company's financial risk management policy, approves financial risk management programs, and receives and reviews reports on management compliance with the policy and programs. The internal audit department assists in undertaking its oversight of financial risk management controls and procedures, the results of which are reported to the Audit Committee.

The Company is exposed to the following types of risk and manages them as follows:

a. Currency risk

The Company's operations are located in various geographic locations, exposing the Company to potential foreign exchange risk in its financial position and cash flows. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars in the Company's consolidated financial

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

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.

To mitigate this risk, the Company makes purchases in foreign currencies at the prevailing spot price to fund corporate activities or enters into short-term forward contracts or zero-cost collar contracts to purchase foreign currencies. During the year ended December 31, 2018, total Canadian dollars and Euros purchased were Cdn\$541 million and €19 million, respectively, (year ended December 31, 2017 - Cdn\$521.0 million and €23.9 million), including executed forward contracts of nil (year ended December 31, 2017 - Cdn\$56.6 million) and exercised zero-cost collar contracts of Cdn\$67 million (year ended December 31, 2017 - Cdn\$14.0).

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

December 31, 2018

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	European Euro	Turkish Lira	Other
Financial Assets						
Cash and cash equivalents	\$ 1,650	\$ -	\$ 7,381	\$ 306	\$ 603	14
Restricted cash	-	-	383	-	1,920	-
Amounts receivable	260	-	2,143	1	5,944	25
Other assets	-	-	(41)	-	49	-
	\$ 1,910	\$ -	\$ 9,866	\$ 307	\$ 8,516	39
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 7,943	\$ -	\$ 61,227	\$ 1,204	\$ 578	132
Taxes payable	4	-	890	-	(23)	8
Other liabilities	47	-	11	-	-	-
	\$ 7,994	\$ -	\$ 62,128	\$ 1,204	\$ 555	140

December 31, 2017

	Kyrgyz Som	Mongolian Tugrik	Canadian Dollar	European Euro	Turkish Lira	Other
Financial Assets						
Cash and cash equivalents	\$ 295	\$ 204	\$ 155,734	\$ 1,289	\$ 63	22
Restricted cash	-	-	301	-	-	-
Amounts receivable	152	288	2,355	2	2,080	33
Other assets	-	-	73	-	16	-
	\$ 447	\$ 492	\$ 158,463	\$ 1,291	\$ 2,159	55
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 12,426	\$ 421	\$ 47,846	\$ 1,298	\$ 330	657
Taxes payable	6	72	1,376	1,050	79	9
Other liabilities	91	-	6,932	-	-	-
	\$ 12,523	\$ 493	\$ 56,154	\$ 2,348	\$ 409	666

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Based on the above net exposures at December 31, 2018, a 10% devaluation or appreciation of the above currencies against the U.S. dollar, with all other variables held constant would have led to additional income or loss before tax of 5.1 million (December 31, 2017 - \$9.0 million).

b. Interest rate risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to risk of changes in cash flows. The Company's cash and cash equivalents include highly liquid investments that earn interest at market rates. As at December 31, 2018, the majority of the \$179.2 million in cash and cash equivalents and current and non-current restricted cash and short-term investments (December 31, 2017 - \$416.6 million) were comprised of interest-bearing assets. Based on amounts as at December 31, 2018, a 100 basis point change in interest rates would result in a \$1.8 million adjustment to interest income (December 31, 2017 - \$4.2 million).

Additionally, the interest rates on \$188.5 million of debt and lease obligations include a variable rate component referenced to LIBOR (December 31, 2017 - \$292.1 million). Based on the amount drawn as at December 31, 2018, a 100 basis point change in LIBOR would result in a \$2.0 million adjustment to interest expenses (December 31, 2017 - \$3.0 million).

The Company's policy limits the investment of excess funds to liquid term deposits, treasury bills, banker's acceptances, bearer's deposit notes and corporate direct credit having a single "A" rating or greater.

c. Credit risk

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

The Company's exposure to credit risk, in respect of gold sales, is influenced mainly by the individual characteristics of each customer. Kyrgyzaltyn is the sole customer of gold doré from the Kumtor Mine and is a shareholder of Centerra. Gold and copper concentrate from Mount Milligan are sold to four multi-national off-takers with limited credit risk.

To partially mitigate exposure to potential credit risk related to Kumtor sales, the Company has an agreement in place whereby Kyrgyzaltyn has pledged 2,850,000 Centerra common shares it owns as security against unsettled gold shipments, in the event of default on payment (note 25).

Based on movements in Centerra's share price and the value of individual or unsettled gold

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

shipments over the course of 2018, 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 \$109.7 million (year ended December 31, 2017 - \$86.6 million).

Mount Milligan and Langeloth manage their credit risk from accounts receivable through their collection activities. Mount Milligan's collection risk is further reduced by the nature of the concentrate sales contracts, as they are structured for the Company to collect 90% of the provisional sales price upon shipment. As of December 31, 2018, Mount Milligan's trade receivables included three multi-national customers with a combined balance owing of \$25.5 million, representing 100% of the mine's trade receivables (December 31, 2017 - two multi-national customer with a balance owing of \$25.0 million representing 73% of the mine's trade receivables). In accordance with IFRS 9, Langeloth's receivables are provided for based on lifetime expected credit losses, which are established by considering historical credit loss experience with each customer.

The Company manages counterparty credit risk, in respect of short-term investments, by maintaining bank accounts with highly-rated U.S. and Canadian banks and investing only in highly-rated Canadian and U.S. Government bills, term deposits or banker's acceptances with highly-rated financial institutions and corporate direct credit issues that can be promptly liquidated. As at December 31, 2018, the Company's short-term investments are maintained with Canadian Schedule I banks with a minimum of an A1/P1 rating.

d. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company finances its operations through a combination of operating cash flows, short and long-term debt and, from to time, through the issuance of equity. The Company primarily uses funds generated from operating activities to fund operational expenses, sustaining and development capital spending, and interest and principal payments on its loans and borrowings. The Company continuously monitors and reviews its actual and forecasted cash flows and manages liquidity risk by maintaining adequate cash and cash equivalents, by utilizing debt and by monitoring developments in the capital markets.

As at December 31, 2018, cash and cash equivalents were \$151.7 million compared to \$415.9 million at December 31, 2017. In addition, the Company has \$489.3 million in undrawn borrowing facilities available at December 31, 2018.

The Company believes its cash on hand, available cash from the Company's existing credit facilities, and cash flow from the Company's operations will be sufficient to fund its anticipated operating cash requirements and development expenditures through to the end of 2019.

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

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Year ended December 31, 2018

(Millions of U.S. Dollars)	Total	Due In Less Than One Year	Due In One to Three Years	Due In Four to Five Years	Due After Five Years
Accounts payable and accrued liabilities	\$ 173.8	\$ 173.8	\$ -	\$ -	-
Debt	192.7	5.0	27.0	111.0	49.7
Reclamation trust fund	38.2	6.0	18.0	12.0	2.2
Capital equipment	0.7	0.7	-	-	-
Operational supplies	67.6	67.6	-	-	-
Project development	88.9	78.3	10.6	-	-
Equipment leases (principal and interest)	5.6	3.9	1.5	0.2	-
Lease of premises	3.6	0.8	1.0	0.9	0.9
Derivative liability	0.1	0.1	-	-	-
Total contractual obligations	\$ 571.2	\$ 336.2	\$ 58.1	\$ 124.1	\$ 52.8

Year ended December 31, 2017

(Millions of U.S. Dollars)	Total	Due In Less Than One Year	Due In One to Three Years	Due In Four to Five Years	Due After Five Years
Accounts payable and accrued liabilities	\$ 181.8	\$ 181.8	\$ -	\$ -	-
Debt	266.0	50.0	100.0	116.0	-
Reclamation trust fund	42.6	6.0	18.0	12.0	6.6
Capital equipment	4.4	4.4	-	-	-
Operational supplies	48.4	48.4	-	-	-
Project development	49.9	22.0	27.9	-	-
Deferred vendor payables	6.9	6.9	-	-	-
Equipment Promissory Note (principal and interest)	34.1	34.1	-	-	-
Lease of premises	3.2	0.8	1.0	0.7	0.7
Derivative liability	23.3	16.0	7.3	-	-
Total contractual obligations	\$ 660.6	\$ 370.4	\$ 154.2	\$ 128.7	\$ 7.3

Centerra Gold Inc.

Notes to the Consolidated Financial Statements

For the years ended 2018 and 2017

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

e. Commodity price risk

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

Gold and copper prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial, residential and retail demand, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative or hedging activities, macro-economic variables, geopolitical events and certain other factors related specifically to gold (including central bank reserves management).

Provisional pricing mechanisms embedded within the Company's Mount Milligan sales contracts have the character of a commodity derivative and are carried at fair value as part of accounts receivable. As at December 31, 2018, the Company's trade receivable balance included six provisionally priced shipments with a combined carrying value of \$17.8 million (December 31, 2017 – four provisionally priced shipments with a combined carrying value of \$20.9 million). A 10% change in the forward copper and gold prices used to fair value this receivable would have a \$5.7 million impact on the receivable and related revenue recorded at December 31, 2018 (December 31, 2017 - \$14.8 million). Additionally, as a result of the Royal Gold stream, when a gold and copper concentrate receivable is recorded, a corresponding provisionally priced liability to Royal Gold is generated. As at December 31, 2018, \$42.9 million is owed to Royal Gold (December 31, 2017 - \$50.7 million). A 10% change in the forward copper and gold prices used to fair value this liability would have a \$6.0 million impact on the payable and related revenue recorded at December 31, 2018 (December 31, 2017 - \$6.9 million).

To the extent that the price of gold and copper increase over time, the fair value of the Company's mineral assets increases and cash flows will improve; conversely, declines in the price of gold will reduce the fair value of mineral assets and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the Company's profitability and cash flows may be impacted.

The Company enters into hedging arrangements to mitigate commodity price risk (see note 27).

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

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

	2018	2017
Decrease (increase) in amounts receivable	\$ 5,882	\$ (14,600)
(Increase) decrease in inventory - ore and metals	(90,353)	39,504
Increase in inventory - supplies	(5,607)	(7,078)
Increase in prepaid expenses	(9,326)	(2,451)
(Decrease) increase in trade creditors and accruals	(15,814)	45,266
Decrease in revenue-based tax payable	(14,999)	(3,249)
Increase (decrease) in depreciation and amortization included in inventory (note 11)	14,302	(69,644)
Increase in accruals included in additions to PP&E	(3,503)	(340)
Decrease in other taxes payable	(755)	(900)
Change in operating working capital of continuing operations	\$ (120,173)	\$ (13,492)
Change in operating working capital of discontinued operations	1,076	1,604
Net changes in operating working capital of continuing operations	\$ (119,097)	\$ (11,888)

b. Investment in PP&E

	2018	2017
Additions to PP&E during the period (note 11)	\$ (344,343)	\$ (334,146)
Greenstone Gold Property translation adjustment	(3,140)	2,530
Capitalized parts	18,616	6,769
Impact of revisions to asset retirement obligation included in PP&E	10,805	5,153
Depreciation and amortization included in additions to PP&E (note 11)	35,104	51,056
Capitalization of OMAS financing costs	1,958	1,444
Leased assets	5,690	-
Increase in accruals related to additions to PP&E	3,480	340
Additions to PP&E recognized as discontinued operations	-	1,984
	\$ (271,830)	\$ (264,870)

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

c) Changes in liabilities arising from financing activities

	Debt^(a)	Interest payable^(b)
Balance at January 1, 2018	292,133	1,551
Changes due to:		
Debt repayments and interest payments	(501,069)	(20,756)
Debt drawdowns	395,737	-
Financing costs incurred	(4,474)	-
Financing costs reclassified from prepaid expense	(5,640)	-
Amortization of deferred financing costs	6,525	-
Interest expense	-	15,750
Capitalized financing costs and other (c)	1,054	4,048
Balance at December 31, 2018	184,266	593
Balance at January 1, 2017	497,118	4,783
Changes due to:		
Debt repayments and interest payments	(208,363)	(27,407)
Financing costs deferred	(896)	-
Amortization of deferred financing costs	4,274	-
Interest expense	-	22,415
Capitalized financing costs and other (c)	-	1,760
Balance at December 31, 2017	292,133	1,551

(a) Includes short term debt (\$5,000) and long term debt (\$179,266). Refer to note 14.

(b) Included within "Accounts payable and accrued liabilities".

(c) Includes costs associated with the OMAS Facility which have been capitalized and other financing costs recognized in the Statements of Earnings.

30. Segmented Information

In accordance with IFRS 8, *Operating Segments*, the Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the CODM. Information presented in the table below is shown at the level at which it is reviewed by the CODM in his decision making process.

The Company manages its reportable operating segments by a combination of geographic location and products. The Kyrgyz Republic segment includes the operations of the Kumtor Gold Project. The Turkish segment represents the development of the Öksüt Project. The North America Gold-

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Copper segment represents the operations of the Mount Milligan Mine. The North America Molybdenum segment includes the operations of the Langeloth processing facility and care and maintenance activities of the Endako and Thompson Creek Mines. The Corporate and other segment include the head office located in Toronto, the corporate office located in Denver, Colorado, the Greenstone Gold Property, the Kemess Project and other international exploration projects. The segments' accounting policies are consistent with those described in note 3.

Segment Revenues and Results

The following table reconciles segment operating profit to the consolidated operating profit in the Statements of Earnings:

Centerra Gold Inc.
Notes to the Consolidated Financial Statements
For the years ended 2018 and 2017

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

Year ended December 31, 2018

(Millions of U.S. Dollars)	Kyrgyz Republic	Turkey	North America		Corporate and other	Total
			Gold-Copper	Molybdenum		
Gold sales	\$ 660.1	-	173.4	-	-	833.5
Copper sales	-	-	89.5	-	-	89.5
Molybdenum sales	-	-	-	197.1	-	197.1
Tolling, calcining and other	-	-	-	9.2	-	9.2
Revenue	660.1	-	262.9	206.3	-	1,129.3
Cost of sales	350.8	-	213.7	196.9	-	761.4
Standby costs	-	-	10.8	-	-	10.8
Regional office administration	13.8	-	-	-	-	13.8
Earnings from mine operations	295.5	-	38.4	9.4	-	343.3
Revenue-based taxes	93.0	-	-	-	-	93.0
Other operating expenses	5.3	-	5.5	2.2	0.1	13.1
Care and maintenance	-	-	14.5	14.6	0.2	29.3
Reclamation expense	-	-	-	40.4	-	40.4
Pre-development project costs	-	-	2.6	-	9.8	12.4
Exploration expenses and business development	6.1	-	3.5	-	12.8	22.4
Business combination acquisition and integration	-	-	-	-	4.5	4.5
Corporate administration	0.1	0.1	-	-	29.4	29.6
Earnings (loss) from operations	191.0	(0.1)	12.3	(47.8)	(56.8)	98.6
Gain on sale of royalty assets	-	-	-	-	-	(28.0)
Other income, net	-	-	-	-	-	(2.4)
Finance costs	-	-	-	-	-	30.2
Earnings before income tax						98.8
Income tax expense	-	-	-	-	-	(14.6)
Net earnings from continuing operations	-	-	-	-	-	113.4
Net (loss) from discontinued operations	-	-	-	-	-	(5.9)
Net earnings						107.5
Capital expenditures for the period	\$ 195.8	47.2	39.5	\$ 2.3	59.5	344.3
Goodwill	\$ -	-	16.1	\$ -	-	16.1
Total assets (excluding goodwill)	\$ 1,077.9	192.4	1,136.1	\$ 247.0	157.2	2,810.6
Total liabilities	\$ 162.3	48.6	246.7	\$ 116.9	104.2	678.7

Centerra Gold Inc.
Notes to the Consolidated Financial Statements
For the years ended 2018 and 2017

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

Year ended December 31, 2017

(Millions of U.S. Dollars)	Kyrgyz Republic	Turkey	North America		Corporate and other	Total
			Gold-Copper	Molybdenum		
Gold sales	685.2	-	242.9	\$ -	-	928.1
Copper sales	-	-	125.9	-	-	125.9
Molybdenum sales	-	-	-	136.8	-	136.8
Tolling, calcining and other	-	-	-	8.2	-	8.2
Revenue	685.2	-	368.8	145.0	-	1,199.0
Cost of sales	291.7	-	253.6	136.8	-	682.1
Regional office administration	18.2	-	-	-	-	18.2
Earnings from mine operations	375.3	-	115.2	8.2	-	498.7
Revenue-based taxes	96.7	-	-	-	-	96.7
Other operating expenses	3.7	-	6.9	2.3	-	12.9
Care and maintenance	-	-	-	13.1	-	13.1
Reclamation expense	-	-	-	0.1	-	0.1
Pre-development project costs	-	-	-	-	4.8	4.8
Exploration expenses and business development	-	-	0.3	-	10.4	10.7
Acquisition and integration expenses	-	-	-	-	3.9	3.9
Corporate administration	0.3	0.2	-	-	37.1	37.6
Kyrgyz Republic settlement	60.0	-	-	-	-	60.0
Earnings (loss) from operations	214.6	(0.2)	108.0	(7.3)	(56.2)	258.9
Other income, net						(3.1)
Finance costs						30.0
Earnings before income tax						232.0
Income tax expense						(19.8)
Net earnings from continuing operations				-		251.8
Net (loss) from discontinued operations				-		(42.3)
Net earnings						209.5
Capital expenditure for the year	279.7	9.0	33.2	\$ 4.0	8.2	334.1
Goodwill	-	-	16.1	\$ -	-	16.1
Total assets (excluding goodwill)	1,106.4	47.5	933.7	\$ 227.7	440.8	2,756.1
Total liabilities	187.0	0.6	171.6	\$ 76.3	311.2	746.7

Centerra Gold Inc.**Notes to the Consolidated Financial Statements****For the years ended 2018 and 2017**

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

Geographical Information

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

(Millions of U.S. Dollars)	Revenue			Non-current assets	
	Year ended December 31,			As at December 31,	
	2018	2017		2018	2017
Kyrgyz Republic	\$ 660.1	\$ 685.2	\$	616.3	\$ 621.9
South Korea	166.0	284.8		-	-
United States	179.0	123.9		107.9	112.1
Japan	59.8	59.3		-	-
China	45.3	32.1		-	-
Canada	3.6	3.6		1,136.8	937.9
Netherlands	14.7	-		-	-
Turkey	-	-		92.5	31.8
Other	0.8	10.1		39.2	56.5
Total	\$ 1,129.3	\$ 1,199.0	\$	1,992.7	\$ 1,760.2

Customer information

The following table presents sales to individual customers exceeding 10% of annual sales for the years ended December 31, 2018 and 2017. The following three customers represent 75% (2017 – 77%) of the Company's sales revenue:

(Millions of U.S. Dollars)					
Customer Reporting segment			2018		2017
1	Kyrgyz Republic	\$	660.1	\$	685.2
2	Asia - Gold-Copper		77.3		118.3
3	Asia - Gold-Copper		109.6		115.5
Total sales to customers exceeding 10% of annual sales		\$	847.0	\$	919.0