

CHAARAT

Chaarat Gold

Proposal to Acquire Kumtor Gold Mine from Centerra Gold

June 2018



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Chaarat's Proposal Is Compelling and Beneficial to All Stakeholders

Transaction Structure

- Chaarat's proposed acquisition of Kumtor would form part of a three-way transaction among Chaarat, Centerra and the Kyrgyz state consortium, Kyrgyzaltyn (Centerra's largest shareholder)
- Chaarat has proposed that Chaarat and Kyrgyzaltyn acquire Kumtor from Centerra in an arrangement that will give:
 - Chaarat ownership of Kumtor's common equity, as well as management and operational control of the mine; and
 - Kyrgyzaltyn ownership of Kumtor's preferred equity and an entitlement to 50% of the free cash flow from Kumtor
- The deal is subject to the approval of the Kyrgyz government, which is focused on maximising the economic benefits for the Kyrgyz Republic

Consideration

- US\$800 mm consideration, comprising:
 - US\$400 mm cash to be paid by Chaarat; and
 - Transfer of US\$400 mm of Centerra shares held by Kyrgyzaltyn back to Centerra
- Chaarat's proposal represents a 58% premium to the implied market value of Kumtor⁽¹⁾

1. Premium based on Centerra's 2018 investor presentation. Further details are set out on slide 5.

Chaarat's Proposal Provides Significant Benefits to All Stakeholders

Benefits to Centerra Shareholders	<ul style="list-style-type: none"> • Proposal represents a 58% premium to the implied market value of Kumtor (~US\$507 mm)⁽¹⁾ • Sale of an asset that has been the primary source of negative publicity for Centerra in recent years, potentially leading to a re-rating in its share price • Rebalances portfolio toward North America • Cash consideration can be used to accelerate the development of North American growth assets • Enhances capital structure / liquidity
Benefits to Kyrgyz Government & Country	<ul style="list-style-type: none"> • 100% of the profits from Kumtor will be reinvested in-country given Chaarat's intention to use 50% of its profits to develop Tulkubash and Kyzyltash, a commitment that equates to a ~US\$600 mm investment program leading to the creation of another major mining enterprise with up to 400 koz Au production • Gives the government a direct 50% participation in Kumtor dividends (for comparison, FCF from Kumtor in the last three years was ~US\$580 mm vs. dividends to the Government from Centerra over the same period of ~US\$16 mm) • Additional revenue can be invested in the Kyrgyz economy and population as the government sees fit
Benefits to Chaarat	<ul style="list-style-type: none"> • Chaarat's long standing operational history in-country, allows the Company to leverage its best in class practises, management capabilities and operational platform to create a leading intermediate producer in partnership with the Kyrgyz Republic • Significantly increases the potential scale of Chaarat's operations and has the potential to transform the company into a leading junior/intermediate producer • Kumtor cash flows will be invested to develop its Tulkubash and Kyzyltash assets in the Kyrgyz Republic, with the potential of up to 400 koz Au production in addition to the production of Kumtor

1. Premium based on Centerra's 2018 investor presentation. Further details are set out on slide 5.

Chaarat's Proposal Provides Substantial Premium to Centerra and Its Shareholders

Proposal Represents a 58% Premium to Implied Market Value

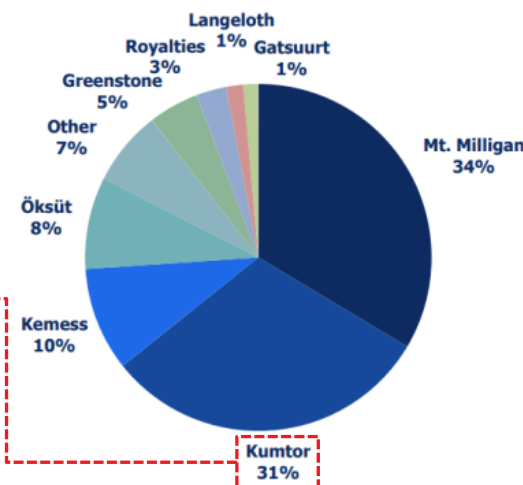
- In Centerra's May 2018 investor presentation, Centerra stated that Kumtor accounted for 31% of NAV
- Based on Centerra's market capitalisation of US\$1.6 bn⁽²⁾, this implies a market value of ~US\$507 mm for Kumtor
- Chaarat's proposal to acquire Kumtor for US\$800 mm therefore represents a 58% premium to the implied market value of Kumtor

Implied Premium Calculation

Kumtor % of Centerra NAV	%	31%
Centerra Market Capitalisation ⁽²⁾	(US\$ mm)	\$1,636
Implied Market Value of Kumtor	(US\$ mm)	\$507
Value of Chaarat's Proposal	(US\$ mm)	\$800
Implied Premium	(%)	58%

Centerra's Asset NAV Breakdown⁽¹⁾

Consensus Asset NAV



Market Commentary On The Attractiveness Of Chaarat's Proposal

"...if a deal for Kumtor could be reached for cash at a fair value it is possible that Centerra shares could rerate, as we believe Kumtor trades at a discount to NAV given the historical jurisdictional uncertainty in the Kyrgyz Republic"

- Raymond James, 16-May-2018

"Centerra Gold faced several disagreements with the Kyrgyz government and state-owned miner Kyrgyzaltyn over the profits from Kumtor in recent months"

"Experts and deputies believe that the authorities should consider Chaarat's offer"

- Mining.com, 01-May-2018

Source: Company filings

- Taken from Centerra's May 2018 Investor Presentation.
- Market capitalisation as of 28 May 2018.

Chaarat's Proposal Enables Centerra's Strategy of Shifting Away From Kumtor to Centerra's Stated Priority Jurisdictions

Comment by Centerra In Relation to the Thompson Creek Acquisition

"Enhances Centerra's current high quality producing platform with a balanced geopolitical risk profile.

- *NAV from Canada/US assets increases from 12% to 47%*
- *40% of total pro-forma gold reserves derived from Canada"*

Thompson Creek Acquisition

Overview	<ul style="list-style-type: none"> Acquisition of Thompson Creek Metals in October 2016 in a cash and share transaction worth US\$937 mm
Transaction Rationale	<ul style="list-style-type: none"> Created a more balanced geopolitical risk profile with the diversification away from the Kyrgyz Republic Potential tax synergies to be gained from the utilisation of Canadian tax benefits Stronger pro-forma balance sheet Significantly increased exposure to gold, while retaining optionality in molybdenum assets

"Diversifying political risk needed to happen...Centerra's NAV has historically been weighed towards Kumtor...in our view, this has resulted in the company trading at significantly lower valuation multiples versus its peers"

- Scotiabank, 20-Jul-16

"Half of the value of all our assets will now be domiciled in Canada. I really think we have absolutely transformed the company in a very favourable way" – Scott Perry⁽¹⁾

- Reuters, 5-Jul-16

Aurico Metals Acquisition

Overview	<ul style="list-style-type: none"> Acquisition of AuRico Metals in January 2018 in a cash transaction worth US\$218 mm
Transaction Rationale	<ul style="list-style-type: none"> Further diversify and de-risk Centerra's asset portfolio away from the Kyrgyz Republic Potential synergies between Kemess and Mount Milligan Addition of a near-term de-risked growth opportunity with over C\$1 bn of existing infrastructure Meaningful return to shareholders supported with cash flow generative royalty portfolio

"The acquisition improves the overall geopolitical risk with the addition of the Canadian assets"

- RBC, 7-Nov-17

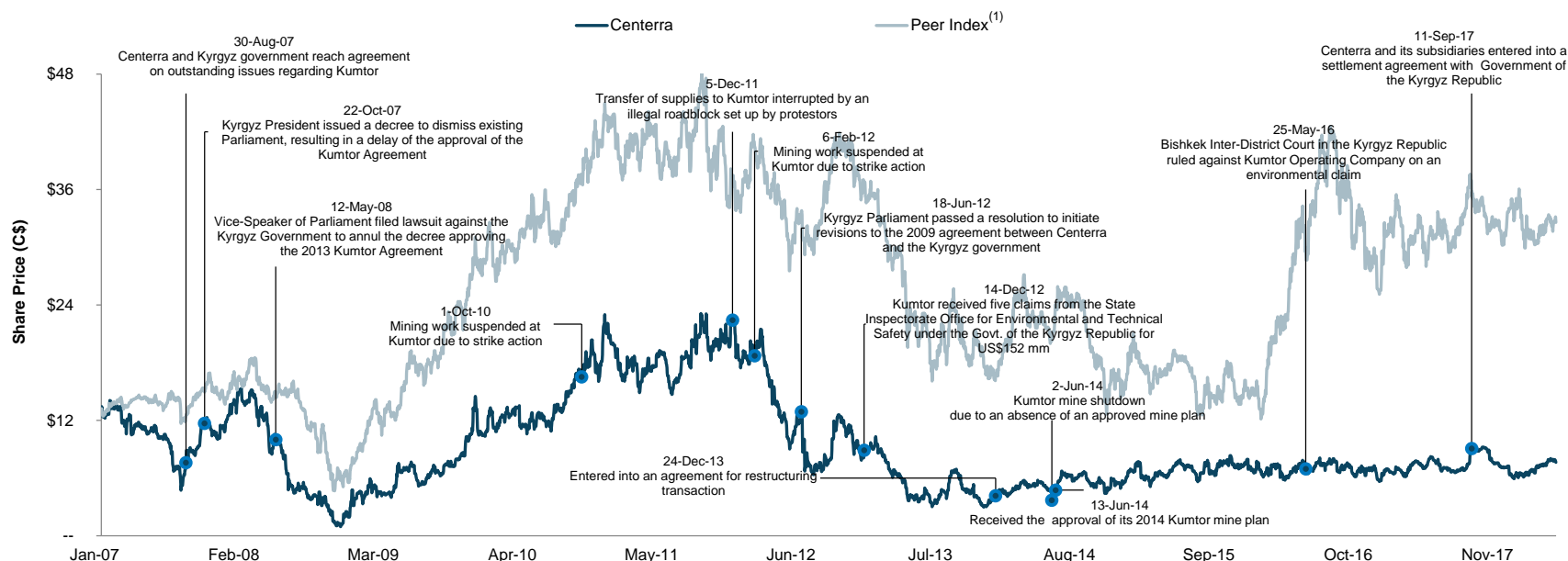
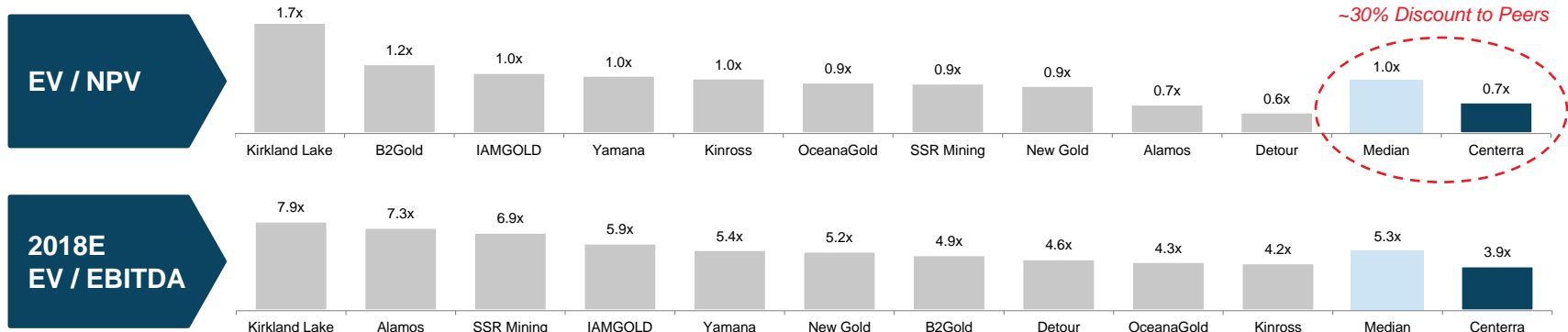
"Centerra has been shopping for assets in safer jurisdictions"⁽²⁾ "Centerra also reduces its reliance on Kumtor mine in Kyrgyzstan for cash flow, as the associated risks to such operation have proved a drag on the company's market valuation"⁽³⁾

- Mining.com, 20-Oct-16 & 7-Nov-17

Source: Centerra filings, Broker research

1. Reuters, Centerra Gold to buy Thompson Creek Metals for \$1.1 billion including debt, <https://www.reuters.com/article/us-thompson-creek-m-a-centerra-gold-idUSKCN0ZL2IF>
2. 4 Mining.com, Centerra Gold to buy AuRico Metals in \$243 mm friendly deal, <http://www.mining.com/centerra-gold-to-buy-aurico-metals-in-cdn310-million-friendly-deal/>
3. Mining.com, Done deal: Centerra Gold buys Thompson Creek for \$1.1 billion, <http://www.mining.com/done-deal-centerra-gold-buys-thompson-creek-for-1-1-billion/>

Centerra's Share Price Is Weighed Down by Its Exposure to Kumtor



Source: FactSet, broker research

1. Index is based on an equal weight of Centerra's peer set and is expressed in CAD. The same peers used in the EV/NPV and EV/2018E EBITDA charts are used in the share price chart.

Status-Quo Is Unsustainable for Centerra

- Given the international focus of Centerra's corporate strategy, long-term alignment between the Kyrgyz Republic and the company over the management, development and revenues of Kumtor is likely to remain elusive
- The strategy to diversify Kumtor specific risks through acquisitions has been complicated by Kyrgyzaltyn, which has three seats on the Company's 11-member board, which voted against the Thompson Creek takeover because the deal would dilute its holdings
- Public and political opinion in the Kyrgyz Republic is against the status quo
- The Kyrgyz government has long sought to renegotiate its 2009 agreement with Centerra to secure a bigger share of income
- Some MPs have branded the putative deal with Centerra "treacherous"⁽¹⁾. An article in Gezitter reported sharp criticism of the agreement in Parliament⁽²⁾
- Four days after the appointment of Prime Minister Sapar Isakov on September 11, 2017, he signed an agreement with Centerra, designed to end many years of disputes with the gold mining company. This is subject to approval by Parliament, which has still not ratified the agreement. Meanwhile, Isakov's government fell in April 2018, following a parliamentary vote of no confidence
- On 25 May 2018, Centerra announced a second extension to the longstop date in the Strategic Agreement with the Kyrgyz government to 22 June 2018 (originally 31 May 2018)
 - Following the meeting with the new Prime Minister on 16 May 2018, Centerra management acknowledged that no agreement had been reached, stating that they need to "bring together the position of the Kyrgyz Republic and the Board of Directors of the company"⁽³⁾

1. Azattyk "Become lawyers of Centerra" - Isakov's decision on Kumtor did not suit the deputies <https://rus.azattyk.org/a/kyrgyzstan-kumtor-isakov/29174680.html>

2. Gezitter, Kumtor" estimated at 800 million dollars, http://www.gezitter.org/economics/69733_kumtor_otse_nili_v_800_mln_dollarov/

3. Akipress.com, Prime Minister of Kyrgyzstan met a week ago with CEO of Centerra Scott Perry <https://akipress.com/news:606762>

Chaarat's Proposal Provides Substantial Benefits to the Kyrgyz Republic

- The Kyrgyz Republic will both simplify and increase its holdings in the Kumtor mine
- The Republic will benefit from a 50% share of free cash flow, in addition to the 14% revenue tax it currently receives
 - The Government's earnings from the mine will increase significantly from an estimated US\$600 mm, to an estimated US\$1.2 bn⁽¹⁾ under Chaarat over Kumtor's remaining life-of-mine
- The other 50% of the free cash flow from the mine will go to Chaarat and 100% of that income will be reinvested in the development of Chaarat's Kyrgyz mining assets, delivering further benefits to the Kyrgyz economy
 - With this reinvestment, Chaarat intends to build another world class mine like Kumtor
- Chaarat's proposal would see earnings equivalent to 10% of the Kyrgyz Republic's annual GDP remain in the country
- As shown in the table below, under Chaarat's proposal, the Kyrgyz government would have received US\$220.5 mm from Kumtor in 2017

Item	2017 Actual (US\$ mm)	Implied 2017 Under CGH Proposal (US\$ mm)
Total Free Cash Flow (before Taxes & Other Mandatory Payments)	\$314.5	\$314.5
Taxes & Other Mandatory Payments to Government	\$126.5 ⁽²⁾	\$126.5 ⁽²⁾
Net Free Cash Flow	\$188.0⁽³⁾	\$188.0⁽³⁾
50% Share of Free Cash Flow	--	\$94.0
Total Proceeds to Government	\$126.5	\$220.5
% Total Free Cash Flow (before Taxes & Other Mandatory Payments)	40.2%	70.1%

Note: Economic analysis assumes that all free cash flow generated by Kumtor at the operating level is distributed in the form of dividends on a 50/50 basis between the Kyrgyz Republic and Chaarat.

1. Includes taxes payable to the Kyrgyz government and 50% attributable free cash flow from Kumtor.

2. As per Kumtor Gold Company 2017 full year results (https://www.kumtor.kg/wp-content/uploads/2018/03/Basic_Operating_Results_2017_en.pdf)

3. 2017 Kumtor Free Cash Flow disclosed in Centerra's April 2018 Investor Presentation (page 9) (https://s3.amazonaws.com/cg-raw/cg/events_presentations/April-2018-Investor-v3.pdf)

The Kyrgyz Republic Faces a Number of Challenges Exacerbated by a Status-Quo

- The Kyrgyz Republic is 184th on the global GDP per capita list⁽¹⁾ and 32% of the population⁽²⁾ live below the national poverty line
- China currently holds 41% of the Kyrgyz Republic's external government debt⁽³⁾
- The country is also running a sizable budget deficit that means, in the short term, further government debt is unavoidable⁽⁴⁾
- Indeed, after completion of the Belt & Road Initiative (BRI), Chinese held Kyrgyz Republic debt is expected to increase to 70%⁽⁵⁾
- The Kyrgyz Republic was recently highlighted in a U.S. Center for Global Development's report expressing particular concern for eight countries which it considered to be at particular risk of debt distress within the China BRI: "While currently considered to be at a "moderate" risk of debt distress, the Kyrgyz Republic remains vulnerable to shocks resulting from a sizeable exchange rate depreciation exacerbated by the scaling up of public investments"⁽⁶⁾
- In addition, the country still lags behind other nations in Asia (such as Mongolia or Turkmenistan) in both absolute and relative terms⁽⁷⁾
 - Infrastructure investment is needed
- In 2017, Kumtor exceeded its revised production guidance and generated US\$188 mm of free cash flow, but the Kyrgyz Republic did not receive any dividends from its shareholding⁽⁸⁾

1. CIA, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>

2. Asian Development Bank, *Poverty in the Kyrgyz Republic*, <https://www.adb.org/countries/kyrgyz-republic/poverty>

3. Ministry of Finance of the Kyrgyz Republic *Structure of the state debt of the KR as of August 31, 2017* <http://www.minfin.kg/ru/novosti/novosti/struktura-gosdolga-kr-po-sostovaniyu-na-31-avgusta.html>

4. The Diplomat, *Can Central Asia's Poorest States Pay Back Their Debts to China?*, <https://thediplomat.com/2017/12/can-central-asias-poorest-states-pay-back-their-debts-to-china/>

5. The Atlas, *Eight countries threatened by Belt & Road debt*, <https://www.theatlantic.com/charts/B1KxGipdf>

6. Centre for Global Development, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

7. UNCTAD, *Investment Policy Review*, http://unctad.org/en/PublicationsLibrary/diaepcb2015d3_en.pdf

8. Resource World *Centerra Gold comments on Kumtor takeover speculation* <http://resourceworld.com/index.php/centerra-gold-comments-on-kumtor-takeover-speculation/>

Chaarat's Proposal Reflects Its Long-Standing Commitment to its Partnership with the Kyrgyz Republic

- Chaarat, via its subsidiaries, has been operating in the Kyrgyz Republic for more than 15 years, having invested more than US\$150 mm in the Kyrgyz economy to date
- As a long-standing in-country operator, Chaarat actively cooperates with the Chatkal communities, both on operational matters relating to its facilities and partnering with local people in improving infrastructure and other amenities
- Chaarat has a deep commitment to the region and is enthusiastic in its pursuit of employment and educational opportunities to people local to its Kyrgyz facilities
 - Each year, Chaarat supports and administrates projects relating to public health, education and infrastructure. Recent examples include funding for the tuition fees of students studying medicine and geology at the Kyrgyz Republic University; the design of and funding for a suspension bridge in the district; the refurbishment of schools and medical stations in Chatkal; funding for cultural events; and charity donations to local causes
- Chaarat also has an infrastructure program, encompassing hard infrastructure projects such as roads and bridges as well as healthcare facilities and other amenities.
- Chaarat is committed to meeting the expectations of good international industry practice and the recommendations set out by IFC Performance Standards on environmental and social sustainability
- Chaarat will engage in a fully transparent and public process (via proper parliamentary debate) to assess the merits of the status quo, and that of Chaarat's Proposal, which we believe to conclude in favour of Chaarat's proposal given its consideration of all stakeholders' interests

Chaarat's Proposal Allows the Company to Pursue Its Regional Strategy

- Chaarat is the only entity that has plans to build a large-scale mining infrastructure in the Kyrgyz Republic
- Chaarat's shareholders recognise that we have a long-term strategy of building and developing mining assets across the Tien Shan Gold belt, focusing on its current flagship asset, the 7-Moz high-grade Chaarat Gold Project, creating a regional champion of the Kyrgyz mining industry both in-country and overseas
 - By contrast, Centerra's strategy is to spend the cash flow generated from Kumtor to fund assets in a developed market base
- Chaarat intends to reinvest up to US\$600 mm into the Kyrgyz Republic for the benefit of the Kyrgyz economy and people
 - This comprises the Tulkubash oxide heap leach project (Phase 1) and the Kyzyltash sulphide project (Phase 2)
 - Together, Chaarat believes these projects have the potential to sustain annual production of 300-400 koz over a prolonged mine life
- A feasibility study on Tulkubash was completed in April 2018, demonstrating the potential for a low-cost operation generating US\$58.6 mm annual cashflow during steady state operations
 - Chaarat's strategic plan envisages US\$150 mm additional funding in Tulkubash over the next two years and an additional US\$500 mm in a facility to process high grade refractory ore in Kyzyltash starting in 2021

Transaction Will Be Fully Financed and has the Support of Pre-Eminent Lenders and Investors

Funding Structure and Commitments / Letters of Support

- Chaarat intends to fund its US\$400 mm of cash consideration with a combination of debt and equity
- Chaarat has obtained financial backing for the bid from major global financial institutions with debt syndicate led by the bank with US\$390 bn in assets and equity funding led by the cornerstone investor with US\$150 bn in listed companies (the names of which have been shared with Centerra)
- Given the merits of Chaarat's proposal to the Kyrgyz Republic, and the objectives of the Kyrgyz Republic in relation to the mining sector, Chaarat considers the Kyrgyz government support to be realistically achievable

Board and Management's M&A and Track Record

- Chaarat's management team and board have strong access to institutional capital markets (both private & public) and has a proven track record of executing M&A transactions
- The company's directors and senior management include mining experts and financiers with over 250 years of collective experience in exploration projects and mining operations across the world:
 - Artem Volynets (Non-Exec Director)
 - Over 20 years' experience in M&A, capital markets and senior corporate management roles
 - Executed transactions worth >US\$30 bn in the metals and mining industry, with key deals including the US\$10 bn acquisition of 25% interest in Norilsk Nickel, and the US\$20 bn three-way merger of UC Rusal, which he subsequently IPO'd on the HKSE
 - Martin Andersson (Non-Exec Chairman)
 - Co-founded Brunswick Brokerage (Moscow-based Investment Bank) which was subsequently sold to UBS, whereupon he assumed the position of Chairman of Brunswick UBS Warburg
 - Served on the Board of OAO SUEK, Russia's leading coal producer, for 7 years
 - Manages an active private investment portfolio with an interest in real estate, financial services and information technology
 - Martin Wiwen-Nilsson (Non-Exec Director)
 - Former partner of Goldman Sachs with roles managing the emerging markets, sovereign wealth fund and global commodities businesses
 - These roles included managing the capital markets businesses across the capital structure for both private and public financings

Chaarat's Proposal Provides Significant Value to Centerra Shareholders

Proposal Represents Full Value	<ul style="list-style-type: none"> • Proposal represents a 58% premium to the implied market value of Kumtor⁽¹⁾ • The positive movement in Centerra's share price immediately following announcement of Chaarat's proposal indicates the market views the proposal favourably
Potential Re-rating	<ul style="list-style-type: none"> • The sale of Kumtor will remove an asset that has been the primary source of negative publicity in recent years <ul style="list-style-type: none"> • Centerra currently trades at a ~30% discount to its peers on an EV / NPV basis and numerous brokers have attributed this discount to the geopolitical risks associated with Kumtor • The sale of Kumtor may be the catalyst for a re-rating in Centerra's shares
Optimises Portfolio and Provides Optionality	<ul style="list-style-type: none"> • Rebalances Centerra's portfolio toward North America • Cash consideration provides financial flexibility to Centerra as the proceeds may be used to <ul style="list-style-type: none"> • Accelerate the development of Kemess • Return capital to shareholders • Fund future M&A
Enhances Centerra's Capital Structure / Liquidity	<ul style="list-style-type: none"> • Removes overhang / uncertainty associated with the 27% stake held by the Kyrgyz government

1. Premium based on Centerra's 2018 investor presentation. Further details are set out on slide 5.

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