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# EDITED TRANSCRIPT

CG.TO - Q2 2019 Centerra Gold Inc Earnings Call

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## PRESENTATION

### Operator

Greetings, and welcome to the Centerra Gold 2019 Second Quarter Results Conference Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, July 31, 2019.

I would now like to turn the conference over to Mr. John Pearson, Vice President of Investor Relations. Please go ahead.

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**John W. Pearson** - *Centerra Gold Inc. - VP of IR*

Thank you, Mary. I'd like to welcome everyone to Centerra Gold 2019 Second Quarter Conference Call. Summary slides are available on our website to accompany each of the speakers' remarks.

Today's call is open to all members of the investment community and media. Following our formal remarks, the operator will give the instructions for asking a question, and then we'll open the phone line to questions. Please note that all figures are in U.S. dollars unless otherwise noted.

Joining me on the call today is Scott Perry, President and Chief Executive Officer, who is joining us remotely. And in the room here is Gordon Reid, our Chief Operating Officer, as other members of our management team who are usually on the call are traveling and are unable to join us today.

I would like to caution everyone that certain statements made on this call may be forward-looking statements and, as such, are subject to known and unknown risks, which may cause the actual results to differ from those expressed or implied. Also, certain of the measures we will discuss today are non-GAAP measures, and I refer you to our description and definitions of non-GAAP measures in the combined news release and MD&A.

For a more detailed discussion of the material -- of material assumptions, risks and uncertainties, please refer to our news release and MD&A issued yesterday after the market closed along with the unaudited financial statements and notes and to our other filings, which can all be found on SEDAR and the company's website. And now, I will turn the call over to Scott Perry.

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Okay. Thank you, John, and good morning, everyone, and thanks for dialing into our Q2 earnings conference call.

As John mentioned, I'm actually in Kyrgyzstan right now. I've just been with our Board of Directors in Turkey, where we're visiting our Öksüt operation. As most of you all know, this is our -- it's going to be our next operating gold mine commencing production in January of next year in 2020.



We had a great tour at the operation, very pleased with what we saw, and I'll talk about this in more detail coming up, but we're now visiting our Kumtor operation here in Kyrgyzstan. So I'm very pleased to be with you on this call. I think our Q2 results were a strong set of results.

As John mentioned, I'm just referencing the accompanying slide deck that's on our website, and I'm just starting off on Slide #5. So firstly, in terms of safety, we had 2 lost-time incidents during the quarter, and Gord Reid will touch on these in more detail, but we also had some significant milestones during the quarter and subsequent to the quarter.

During the quarter, at our Kumtor operation, our contractor workforce achieved 1 year with lost time incident-free of operations, which is a fantastic milestone. And then in terms of the entire property, in approximately 15 days from today, they'll be celebrating 1 year of lost time incident-free operations across the entire property across all classes of manpower. Just another sort of milestone that really serves to demonstrate to the whole company that we can conduct our business in a zero-harm environment.

The second bullet point there, just that Mount Milligan, following the commencement of the freshet seasonal spring melt, our milling operations returned to full capacity. You can see during the quarter, we averaged just over 53,000 tonnes per calendar day. This is tracking ahead of our guidance for Q2. I'd also note that, in the month of June and in the quarter, we're actually averaging in excess of 60,000 tonnes per calendar day.

In terms of our metal production levels, in the third bullet point, it was a strong quarter in terms of gold output, just under 200,000 ounces of gold and copper production of just over 20 million pounds. Again, this is tracking well ahead of our guidance.

Where you see that resonate is in terms of our unitary costs. I'm on the fourth bullet point. In terms of our all-in sustaining cost on a byproduct basis, company-wide, our all-in sustaining cost was \$716. It's made for very profitable, high-margin production.

As a result, you can see our Q2 net earnings result was \$33.4 million or approximately \$0.11 per share. Our cash generated from operations was approximately \$91 million, and likewise, cash generated from operations before working capital was approximately \$101 million. The strong profitability and strong cash flow, we utilized a lot of that cash flow to fully repay our revolving line of corporate credit facility, so as at the end of June, the balance on this facility is 0.

At June 30, we finished the quarter in a positive net cash position. You can see our cash balance is approximately \$140 million. And in terms of our overall treasury position, we have a total liquidity of \$715 million moving forward.

Third-last bullet point. Given the strong production in Q1 and Q2, we have increased our company-wide gold production levels to count for the calendar year. Referencing the midpoint of our revised guidance, we've now increased it to 728,000 ounces, and this reflects the very strong first half contribution from Kumtor.

Likewise, given the stronger gold output, we're also lowering the company-wide all-in sustaining costs. The midpoint of that guidance has now been reduced to \$728 per ounce.

I mentioned that, at the start of this week, myself and the Board of Directors, we actually hosted all of our sort of Board meetings at Öksüt, and it gave the Board a great opportunity to tour the operation and just see how well construction is progressing. You would have seen our guidance that we're now committing to first gold pour in January of 2020, which is excellent in terms of our performance relative to the schedule.

But also, we're very pleased with just our performance against budget. We're now guiding that we'll be pouring first gold. And in terms of the total project construction costs, we now expect it to be coming in \$20 million under budget. So I think it's fantastic for the Öksüt team and for Centerra to be able to demonstrate the ability to deliver these growth projects on time and on budget.

Just the last bullet point here is just with regards to the strategic agreement that was actually signed and put in place with the government of Kyrgyzstan, and we're now looking to close that agreement. You would have noted in our disclosure that there's been a short extension of the longstop date to August 10. We, Centerra, and the government are now working towards a closing on or prior to August 10.



Just moving on to the next slide, on Slide 6, just in terms of our environmental, social, governance update. Just some of the key bullet points here. We obviously recognize that to maintain strong operations, we must uphold our commitment to responsible mining.

First and foremost is our commitment to our employees. In the second quarter, we concluded the first phase of our gender diversity initiative, which is called Leading from Within, a full module program, which commenced in November of 2018, provides the women across our company with practical tools to help them reach their fullest professional and personal potential.

Just referencing the next bullet point there. Later in the second quarter, we also conducted a company-wide employee engagement survey to allow us to measure and understand our employee engagement and satisfaction. While we are an employer of choice in the regions where we operate, we know that there is always room for improvement and that our success is tied directly to the strength of our people. As such, we'll be reviewing the survey results closely in the coming months and using it to guide policy and program development in key areas, like leadership development and gender and diversity.

During the quarter, we had no social incidents, resulting in nearly 72 months of consecutive incident-free operations. Similarly, we had no reportable environmental incidents during the quarter. I think this is a testament, of course, to our team's hard work in the robust grievance mechanisms and stakeholder engagement plans that we have implemented at each site, which is the foundation of our overall social management performance.

At Öksüt, we are pleased to report that Öksüt continues to be in full compliance with all environmental and social requirements set out by the European Bank for Reconstruction and Development and the International Financial Corporation through the Equator Principles. This is obviously key to our project finance years. Further, in May, all employee and contract security personnel completed annual training of the Voluntary Principles on Security and Human Rights across our communities and operations.

And then finally -- just referencing the last bullet point. Finally, in response to the Church of England Pensions Board request for tailings information, Centerra published its first tailings safety management disclosure. In this report, we outlined our 5-step mitigation process to ensure our tailings facilities performed as designed and that we maintain public community and environmental safety. Our aim is to update this disclosure on an annual basis. We believe that our commitment to being a responsible miner is critical to our ability to deliver financial results and achieve operational excellence.

Just moving on to the next slide, on Slide 7, just moving into some of the sort of key financial results. You can see the waterfall chart here on the top left of this slide. This is just a graphical illustration of our first half cash flow performance. You can see Kumtor and Mount Milligan have been performing very strong in the first half of this year in terms of their cash flow contributions, and then the red decrements illustrate how we've been utilizing that cash flow.

We've been aggressively paying down our debt. As I mentioned in my opening remarks, \$500 million revolving line of credit facility. We have now fully repaid that down to 0. You can see the \$35 million funding for Öksüt development as well as the remaining expenditures there in terms of funding for our development projects, exploration and G&A.

The one thing I'd note from this is it's -- I think what maybe differentiates Centerra is the amount of cash flow we're generating from our operations is more than sufficient to fund the construction at Öksüt as well as the debt repayments that we've demonstrated in the first half of this year.

The chart at the top right there is just our treasury profile. So in the middle there, you can see total liquidity of \$715 million. That allows us to put forward that our go-forward business plan is a fully funded internal business plan.

And then you can see the cash continuity profile there in the bottom left. You can see the red columns represent our sort of debt outstanding balance, and you can see we've been very aggressively reducing that throughout the periodic profile there.

Chart at the bottom right is just our positive retained earnings. Again, we're demonstrating growth in our positive retained earnings. We now have in excess of \$1.1 billion in positive retained earnings. And I think, referencing the red line chart there, which is the prevailing sort of gold price



environment, you can see that regardless of where they've been in that gold price cycle, Centerra's business model and its portfolio of assets has always been able to demonstrate profitable production, which I think speaks to the quality of the assets and their inherent high margin.

Just moving to the next slide, on Slide 8. Just some of the other sort of financial items to note. During the quarter, Centerra recorded \$340 million in revenue, which consisted of \$245 million in gold sales, \$36 million from copper concentrate sales and \$59 million from the molybdenum business unit. The 40% consolidated revenue increase compared to the prior-year period was driven by the 41% increase in ounces sold, especially noting, at Kumtor, a 69% increase in their gold ounces sold.

At Mount Milligan, there was a slight decrease in gold ounces sold based on gold grades processed during the quarter, whilst Mount Milligan had an increase in copper pounds sold by 47% with 18.7 million pounds of copper sold during the quarter. The molybdenum business unit also had an 18% increase in molybdenum sales.

Consolidated operating cash flow before changes in working capital was \$101 million, which was a 113% increase to the corresponding prior year period. The Kumtor mine generated \$106 million, and the Mount Milligan mine generated \$11 million. Bottom line, the company recorded \$33.4 million in earnings or approximately \$0.11 per share.

Just moving on to Slide 9. From a cost perspective, Centerra had another strong quarter, recording an all-in sustaining cost of \$716 per ounce. Kumtor recorded an all-in sustaining cost of \$562 per ounce, whilst Mount Milligan recorded an all-in sustaining cost of \$938 per ounce as Mount Milligan's operations ramped up during the quarter.

During the quarter, Centerra recorded \$91 million in cash provided by operations or \$0.31 per share. The operating cash flow generated during the quarter enabled Centerra to reduce its debt by approximately \$70 million, which resulted in us paying off the outstanding corporate facility in full and finishing the quarter with available liquidity of \$715 million.

With that, I'd now like to pass the call over to Gord Reid, our Chief Operating Officer, and Gordon will just walk us through some more of the operational highlights.

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**Gordon Dunlop Reid** - Centerra Gold Inc. - VP & COO

Thanks, Scott. Good morning, everyone.

On the safety front, we experienced 2 lost-time injuries in the quarter. I discussed the first lost-time injury on last quarter's call in which a contractor employee at Öksüt experienced significant internal and external injuries when he fell approximately 6 meters to the ground while working at the primary pressure construction site. The worker is currently recovering at home.

The second lost-time injury in the quarter occurred at Kemess when a worker was struck on the back of his head by a frozen piece of dirt that had fallen from a backhoe bucket. He was treated offsite and recovered at home. He is currently back to work with no follow-on effects. Our total reportable injury frequency rate for the quarter is 0.43 and year-to-date is 0.311, which compares to 0.49 for the corresponding year-to-date period in 2018.

On a positive note, and as Scott mentioned earlier, on June 20, 2019, the Kumtor contractor workforce achieved 1 full year without a lost-time injury. Well done.

I'd like to draw your attention to Slide 12. Our operations had a solid quarter with Kumtor producing 151,000 ounces of gold at an all-in sustaining cost of \$562 per ounce sold, ending the first half of the year with production of 301,000 ounces of gold at an all-in sustaining cost of \$557 per ounce sold.

We have increased our production guidance to Kumtor to 550,000 to 575,000 ounces of gold produced and lowered the guided all-in sustaining cost to \$635 to \$685 per ounce of gold sold. There has been no significant ground movement near or under the mill building since the ground

instability experienced in Q1, which resulted in a change in the mine plan for cut-back 19. We will continue implementation of active measures to strengthen the mill foundations and to further enhance its slope stability.

Our Mount Milligan operation produced 48,500 ounces of gold for the quarter and 20.4 million pounds of copper at an all-in sustaining cost of \$938 per ounce sold. For the first half of the year, Mount Milligan produced 82,000 ounces of gold and 31.8 million pounds of copper at an all-in sustaining cost of \$889 per ounce of gold sold.

Mount Milligan averaged 53,500 tonnes per calendar day in the quarter. Mill throughput was ramped up in Q2 as water became available from the spring freshet, resulting in averaging over 60,000 tonnes per calendar day in the month of June.

The water capture from the 2019 spring melt runoff was less than anticipated due to very dry spring conditions, creating a risk to the level of production in early 2020 until the 2020 spring melt occurs. This will be similar to what we've experienced in early 2019. We reaffirmed cost of production guidance at Mount Milligan for 2019.

Discussions continue with regulators, First Nations and other local communities on the long-term life-of-mine strategy to ensure Mount Milligan has sufficient process water to operate at full capacity from and after November 2021 when the current medium-term water approvals expire.

On a consolidated basis, Centerra has increased production guidance to 705,000 to 750,000 ounces of gold and lowered cost guidance to \$713 to \$743 per ounce of gold sold.

At Kemess, the water treatment plant remains on track for commissioning at the end of the year with the performance test anticipated in the spring of 2020. Work continues on evaluating potential optimizations to the technical economic analysis.

Similarly, at Greenstone, work continues on derisking the project as negotiations with local First Nations groups continue. Work also continues on evaluating optimizations to the technical economic analysis.

Moving to Slide 12. Construction at the Öksüt project in Turkey is 64% complete with first gold pour now anticipated in January 2020. The total construction cost is now expected to be completed approximately \$20 million under budget.

These are recent pictures from the Öksüt project. Mining is scheduled to begin before the end of August, subject to receipt of normal course permits and approvals.

I'll now pass the call back to Scott.

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**Scott Graeme Perry** - Centerra Gold Inc. - President, CEO & Director

Okay. Thanks, Gord. Just referencing Slide 14, we just have a couple of slides on our revised guidance. You can see the slide here on Slide 14, on the column on the left, we're just illustrating where we stand year-to-date. The column in the middle just illustrates our new revised guidance, and the column the far right was our prior guidance as at the beginning of this year.

I think the key highlights here, obviously, in terms of gold production, you can see we're increasing the guidance at Kumtor, which reflects the very strong start in the first half of this year. Likewise, in terms of our all-in sustaining costs, which is in the middle section of this slide, you can see, given the strong start in the first half of this year, Kumtor's been operating at \$557 per ounce on an all-in sustaining cost basis. So likewise, just given the increased gold output and the strong start to the year, we have favorably decreased Kumtor's all-in sustaining cost guidance.

As Gord mentioned in his remarks, Mount Milligan, up in the top section there, you can see on a year-to-date basis, it's been a strong start to the year relative to the midpoint of guidance. And so again, we're reaffirming our full year guidance for Mount Milligan, both in terms of gold output, copper output and all-in sustaining costs.

I'll just move on to the next slide, on Slide 15, still on guidance and still the same sort of illustration in terms of the columns being year-to-date actuals on the left, the middle column being our new guidance and the column on the far right being our prior guidance. Our total sustaining and growth capital overall remains at \$275 million with changes noted on this slide and detailed within our actual guidance narrative in our MD&A.

I guess one item I'd like to highlight is Öksüt. You can see in terms of our capital cost update, we're reducing the 2019 spend from \$123 million to \$100 million. This reduction is a result of the advanced stage of project construction, the deferral of certain nonessential construction activities to after commissioning as well as a reduction of \$10 million in our contingency within the 2019 budget.

Projects in the great stead have performing very well against schedule, and we're now overall projecting to be coming in \$20 million under budget at a total cost of \$200 million for the projects -- total construction costs.

I'd also like to highlight a change in the capitalized stripping, which is predominantly due to the mine plan revision during the quarter at Kumtor, whereby, we've now divided cut-back 19 into cut-back 19 East and cut-back 19 West, and we'd shifted part of the mining fleet to focus on additional waste stripping in cut-back 20, which is capitalized until the ore is subsequently released. So that's what's driving this increase in capitalized stripping. The change in depreciation in terms of our noncash cost guidance is simply a result of the higher production levels at Kumtor.

Just moving on to Slide 16. What we're illustrating here is the world industry cost curve in terms of all-in sustaining cost metric and just illustrating where Centerra's current operating assets in terms of our new revised guidance are reflected against that world industry cost curve. And you can see that, generally speaking, our assets are kind of positioned around the lower-cost quartile mark. I think that always positions the company well in terms of our ability to demonstrate profitable production and ongoing sort of earnings contribution and positive free cash flow.

We're very excited about Öksüt. As we've mentioned a number of times here, we're now expecting first production in January of 2020. As you can see on the slide here, on the far left, Öksüt as per its feasibility study, we're expecting a life-of-mine all-in sustaining cost here at \$490 per ounce. So potentially, this could be our lowest-cost asset, which is going to very favorably complement what we believe is already a low operating cost profile for Centerra.

Just moving on to Slide 17, and this is where I'll kind of wrap up. What I'd really highlight here on Slide 17 is the third and fourth bullet points. So the third bullet point is just our revised guidance for this year. We're expecting gold production of up to 750,000 ounces at an all-in sustaining cost of low -- as low as \$713 per ounce.

I think as you're seeing in our first half -- as you're seeing in our first half result, that's going to really make for a profitable year in terms of earnings. It's going to make for a good year in terms of cash flow generation as well as building out our balance sheet.

As we look forward to next year, we think our fundamentals are growing even better, if you will, because we'll have our third operating asset online in terms of Öksüt with Öksüt contributing what we believe will be high-quality low-cost production. Our fundamental is going to improve that much more in terms of profitability, gold production and cash flow generation.

With that, I'd like to sort of end our sort of formal prepared remarks, and I'd like to pass the call back to the operator, to Mary, to open it up for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question comes from the line of Fahad Tariq.

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**Fahad Tariq** - *Crédit Suisse AG, Research Division - Research Analyst*

For Kumtor, you've seen good grades in the first half of the year. How should we be thinking about grades in the back half of the year? And how much of the higher production guidance is really the result of the revised mine plan for cut-back 19?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Gord, do you want to take that question?

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**Gordon Dunlop Reid** - *Centerra Gold Inc. - VP & COO*

Thank you. The impact of the grades -- the process grade really is not driven by the change in cut-back 19, that the -- what we -- most of the processing has come out of stockpiles at the beginning of the year. So what we saw in the first half of the year was a slightly higher grade, and those grades came out of the stockpile slightly higher.

It's a bit of a science trying to blend the grade through the high grade, medium grade, low grade, and they are on the high side. So we put in a little bit higher grade than anticipated. And we did also get that positive reconciliation in the high-grade stockpile, which is now depleted.

So for, for Q3, we will be processing lower-grade material out of the stockpiles until we get into the ore in cut-back 19 West. We plan to get into that material -- the higher-grade material in Q3 -- later in Q3, which will then feed the mill for the rest of the year. And then you could look at our guidance, and that's what we anticipate to get in the second half of the year.

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Just from my perspective -- this is Scott, I know part of your question was with regards to the gold output profile in the second half of this year. The other thing I'd highlighted is, in Q3, we have our annual scheduled mill line shutdown. That'll be a 6-day shutdown. So you may appreciate that our throughput levels will be slightly slower in Q3. In terms of your modeling, I will be expecting gold output in Q4 to be larger than Q3.

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**Fahad Tariq** - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. That's helpful. So is it fair to say that cut-back 19 East versus the West that is being deferred to next year that there isn't much of a grade difference between those 2 parts of the ore?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Yes. I think in terms of -- when we recalibrated the mine plans for cut-back 19 East and West where we divided that cut-back into 2 phases, we're not seeing any material impacts in terms of our scheduled gold production levels for this year or even next year and beyond.

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**Fahad Tariq** - *Crédit Suisse AG, Research Division - Research Analyst*

Okay, that's helpful. And just one more for me on Öksüt. In the release, you mentioned deferral of certain nonessential construction activities to after commissioning. Just curious, what kinds of costs are included in this? It looks like it's about \$13 million lower CapEx as a result of this deferral.

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Gord, are you able to touch on that?



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**Gordon Dunlop Reid** - *Centerra Gold Inc. - VP & COO*

Yes. It's basically the extension of the heap leach pad. The -- yes, 1C is deferred to later. We don't need that till later in the mine life. So that's been deferred.

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**Operator**

The next question comes from the line of Dalton Baretto from Canaccord Genuity.

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**Dalton Baretto** - *Canaccord Genuity Corp., Research Division - Analyst*

Congrats on a great quarter there. I hate to touch on the one negative here, but I'm a little bit concerned about these recurring water issues at Milligan. None of your peers that operate open pit copper mines in BC seem to be experiencing these issues. So I guess, I just -- a few questions on this. Number one, what's different about Milligan that's causing these recurring issues? And number two, what options do you have over the rest of the year to kind of prevent a curtailment in Q1?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Yes, Dalton, it's Scott Perry. I'll respond to your question. Since we've taken ownership of the asset, I think, very shortly after ownership, we established that we weren't comfortable with the overall water balance inventory that we had at Mount Milligan. We've been working with the regulators over the last 2 years on this, looking to establish access to additional bodies of water, which I think we've been successful in terms of establishing such access.

The problem where we've been challenged is for the last 2 years as we've gone through the freshet out of the spring melt season, the amount of water that we've been expecting to realize has been a lot less robust than what we were originally projecting. And so it puts us in a bit of a handicapped situation, if you will, and that we have not been able to totally replenish water balance inventory to a level where we can say, okay, we've now got more than sufficient water moving forward such that we don't have to rely on water sources in terms of precipitation or other additional sources. So that's kind of a dynamic and the challenge that we've been dealing with. As we highlighted in our disclosure today with our MD&A, this season's spring melt was, again, a lot less robust than what we were expecting.

In terms of the region in BC where we're operating, the regulators, the authorities, they have classified it or categorized it that we are officially in drought conditions. If I look at our water balance inventory at the end of July and the mine site is finalizing their survey right now, we have slightly more water than what we had last year at this exact point in time. But nonetheless, with our press release, we just wanted to make sure we're being very transparent that if these, I want to say, unseasonal, very dry conditions do continue, that could impact us in terms of precipitation that we may be expecting in the second half of this year.

And is that -- under a worst-case scenario that could put -- that could create a risk in terms of our production profile for Q1 of next year. But having said all of that, July was a very wet and rainy month. So in terms of our water inflows, it was sort of in line with what we would have been expecting. We do have additional groundwater sources that we have access to, and we're continuing to establish additional sources. We have the water source from our base and underdrain towers as well as upstream runoffs.

And I think lastly, I'd just highlight that here we are in Q3 and the mill continues to run at full capacity and full productivity run rate. But nonetheless, we just want to highlight that there is a risk there. If so, we should have very dry conditions in the second half of this year. It would create a risk in terms of our Q1 production protocol.



**Dalton Baretto** - *Canaccord Genuity Corp., Research Division - Analyst*

Okay, great. So just maybe as a follow-up then. Are you -- based on what you know right now, are you -- what sort of probability would you put on a curtailment in Q1?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Dalton, it's not possible for me to answer that question because there's so many different assumptions that you'd have to take into account when you think about our water projections moving forward. We're going to make an assumption with regard to precipitation moving forward. We've got to make an assumption with regard to our -- the water that we're going to realize from our base and underdrain towers, from upstream sources, from groundwater sources. There's a lot of variables that go into this.

But I think the one risk that we really wanted to flag with this disclosure is that it's been a very dry -- very dry from a seasonality perspective. If that should continue in the second half of this year, if we should get a lot less precipitation than what we'd be typically expecting as per seasonal averages, it does create a risk in terms of the Q1 production profile. But I cannot give you a likelihood assessment.

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**Dalton Baretto** - *Canaccord Genuity Corp., Research Division - Analyst*

Okay, no problem. And then just maybe one more on Kumtor. We talked about a recovery improvement project with tower mills. Has that been sanctioned yet?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

No, I think -- when you say, we talked about that, you're referring to our disclosure? Or...

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**Dalton Baretto** - *Canaccord Genuity Corp., Research Division - Analyst*

Just in the past, it's been mentioned that we're talking about maybe putting tower mills and some more leaching capacity to improve recoveries.

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Right. Yes, so I think earlier in the year, there was a sell-side analyst and investor tour that took place at Kumtor, and I think when the guys are talking about continuous improvement opportunities in terms of the mill facility, one of the ideas -- one of the studies that the guys are looking into is in terms of potentially increasing their recovery efficiency. They're doing an evaluation as to whether or not additional leach tankage and the installation of the tower mill could -- would that positively improve our gold recovery efficiency rights. And what's the tradeoff there in terms of the capital investment versus the overall economics.

That is a study that's underway, as we speak, at Kumtor, but that study has not been finalized, and is -- we haven't even had a chance to share that with the Board. I would be hopeful that the guys will have that study finalized in time for our budget cycle, which is typically in November and December, and that's when we may have the opportunity to discuss that with the Board.

So giving you a long answer, but it has not been sanctioned.

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**Operator**

(Operator Instructions) And the next question comes from the line of Bryce Adams from CIBC.



**Bryce Adams** - CIBC Capital Markets, Research Division - Analyst

I just wanted to follow on quickly from where Dalton left on Mount Milligan. So in the month of June, Scott, you mentioned throughput was above 60,000 tonnes a day. I was just wondering how you balance that with the ongoing drought conditions and your outlook for the long-term throughput in Mount Milligan?

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**Scott Graeme Perry** - Centerra Gold Inc. - President, CEO & Director

Yes. Bryce. I understand the context of your question. What I would highlight is, here we are in the month of July, and we're operating at full capacity. In terms of our internal projections and forecasting, we expect will be operating at full capacity for the remainder of this year. You see that reflected in terms of our guidance, where we're reaffirming in our guidance for Mount Milligan.

But again, I'm going to be repetitive. I have to highlight that, if the current very dry seasonality conditions should continue, if we should see a very -- just a lack of water inflow from precipitation, we can see that it creates a risk to our 2020 Q1 production profile. Obviously, what we're very cognizant of is that we want to make sure that we're carrying more than a sufficient water balance into our Q1 period, which is the winter season. We want to make sure we've got more than sufficient water to always keep the mill operating. So that's really the risk that we play in. It's a risk to our potential production levels in Q1 of 2020.

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**Bryce Adams** - CIBC Capital Markets, Research Division - Analyst

When you talk about full capacity, that is referring to 55,000?

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**Scott Graeme Perry** - Centerra Gold Inc. - President, CEO & Director

Yes. That's per our targeted guidance for this calendar year. We always guided that as and when the spring melt season commences, we'd very quickly see ourselves ramping up to 55,000 tonnes per calendar day. And that's what I would put forward or categorize as our full capacity run rate.

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**Bryce Adams** - CIBC Capital Markets, Research Division - Analyst

And is there a thought to maintain 55,000 without going over that throughput level in order to maintain order for next year?

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**Scott Graeme Perry** - Centerra Gold Inc. - President, CEO & Director

Sorry, Bryce. Can you repeat the question?

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**Bryce Adams** - CIBC Capital Markets, Research Division - Analyst

I think you said in June, you were above the 55,000 tonnes a day. So I was just asking, is there a thought to not go over 55,000, just run the 2 mills at 55,000? And would that help maintain water levels going into Q1 next year? Or is it unrelated...?

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**Scott Graeme Perry** - Centerra Gold Inc. - President, CEO & Director

No. I'd say, our current operating strategy at Mount Milligan is we want to see the team operating the mills at the highest productivity rate that they can achieve. So it's -- by way of example, if they could repeat the performance of June in the month of July here as well as in August. We would certainly be encouraging that.



**Bryce Adams** - *CIBC Capital Markets, Research Division - Analyst*

Congrats on a good quarter.

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**Operator**

The next question comes from the line of [Robert Rumsig], Private Investor.

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**Unidentified Shareholder**

Congratulations on the strong quarter. I am slightly ignorant, but I'll ask the question any way. Is there an obvious reason why \$7 million and higher sales in the second quarter generated approximately \$17 million less net income than the first quarter?

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

So [Robert] look, I have to apologize. I'm actually in Kyrgyzstan. I don't know if you heard that in my opening remarks, and I don't have everything in front of me that I should or would normally have. So I can't respond to you right now. But if you would not mind calling us after the call, if you could call John Pearson, he'll probably be in a position to answer that question. But I apologize, Robert

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**Unidentified Shareholder**

Okay. Good luck in Kyrgyzstan.

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**Scott Graeme Perry** - *Centerra Gold Inc. - President, CEO & Director*

Thank you.

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**Operator**

There are no further questions on the phone lines.

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**John W. Pearson** - *Centerra Gold Inc. - VP of IR*

With that, I'd like to thank everyone for joining us today on the call. And thank you, Scott, for dialing in. So we'll end the call now. Thanks.

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**Operator**

That does conclude the conference call for today. We thank you for your participation, and ask that you please disconnect your lines.

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