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CG.TO - Q3 2019 Centerra Gold Inc Earnings Call

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## PRESENTATION

**Operator**

Greetings, and welcome to the Centerra Gold 2019 Third Quarter Results Conference Call and webcast. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, October 30, 2019. I would now like to turn the conference over to John Pearson, Vice President, Investor Relations. Please go ahead.

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

Thank you, Kelly. I'd like to welcome everyone to Centerra Gold 2019 Third Quarter Conference Call. Summary slides are available on the Centerra Gold's website, which will accompany each speaker's remarks. Today's call is open to all members of the investment community and media, and following the formal remarks, the operator will give the instructions for asking a question and then we will open those phone lines 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; Darren Millman, Chief Financial Officer; and Yousef Rehman, our General Counsel. Gord Reid, our Chief Operating Officer, isn't able to join us today, but Scott will address any operational questions. I'd like to caution everyone that certain statements made on this call today may be forward-looking statements, and as such, are subject to known and unknown risks, which may cause actual results to differ from those expressed or implied. Also, certain measures we will discuss today are non-GAAP measures, and I refer you to our description of non-GAAP measures in the combined news release and MD&A. For a more detailed discussion of the material assumptions, risks and uncertainties, please refer to our news release and MD&A issued this morning before the market opened, along with our unaudited financial statements and notes, and our other filings which all can be found on SEDAR and the company's website. So now I will turn the call over to Scott

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

Thank you, John, and good morning, everyone. Thank you for joining our call. I'm just referencing Slide 5 of the accompanying presentation deck that John mentioned is available on our website.

So some of the key highlights during the quarter, and as always, we would like to start up with safety. During the Q3 period, we had a number of safety milestones at Centerra, you can see some of those listed here. At the Öksüt property and the Mount Milligan property, we achieved 1 million hours of lost time incident-free operations. At Kumtor, a very significant milestone was we achieved one year of lost time incident-free operations and that includes all of our employees and contractors. And then lastly, at Endako, we've now achieved 6 years without a lost time injury. These are significant milestones and I want to commend all our employees and management -- all of our employees and management and we continue to demonstrate with milestones like these that we can operate in an environmental of zero-harm.

One of the key catalysts during the quarter was that we've closed a strategic agreement with the government of Kyrgyzstan, this is a all-encompassing dispute resolution agreement that really paved the way for a much improved operating environment moving forward. This is a significant catalyst and we are pleased to have closed this and you would've seen that we have now, with the settlement payments and what have you, that's been reflected in our financial statement as well as our accounting.

With regards to Öksüt, Öksüt continues to advance very well, as you can see here in the third bullet point, we're now at 79% completion. We estimate that we need to be at 85% completion in the first gold pour, and we continue to reaffirm guidance that we're expecting our first gold production in January of 2020. This is a very important asset to Centerra in terms of that growth strategy moving forward as we make our way into 2020. It will be our third operating asset. We expect it to be a lower-cost quartile asset but it's going to very favorably complement what is already an existing low-cost profile at Centerra.

In terms of the operational results, the fourth bullet point here, a very strong quarter. We produced 206,000 ounces of gold and 21.2 million pounds of copper, both operations generating stronger metal output than the previous Q2 period. Given that strong productivity level, you can see in the following bullet point, corresponded with a -- corresponding in a low all-in sustaining cost, our cost of production from -- in terms of the all-in sustaining cost metric during the quarter was $666 per ounce. This obviously made for a very high margin. Obviously, this copper production, you see is resonating in some of our accounting earnings and free cash flow results.

Next bullet point is with regard to Mount Milligan. You would've seen in our financial statements that we have reduced the carrying value of Mount Milligan to USD 523 million following an impairment charge of $231 million. Just a little bit of color here. During the quarter, we're now in our sort of annual budgeting and life-of-mine planning cycle and during the quarter we've visited all our sites as part of that planning process.

On a positive note, I want to note that the preliminary budgets for 2020 validated management's expectations that Centerra is well positioned to move into a high free cash flow generation period with all of our operations expected to produce meaningful cash flow. And I think we've demonstrated that today at both Mount Milligan and Kumtor where, collectively, both operations have generated adjusted free cash flow of USD 249 million for the year-to-date period. However, as part of that budget planning process, at the Mount Milligan mine, the preliminary budget while still generating meaningful cash flow in 2020, it does indicate that the unitary cost to operate the mine will continue at similar levels that we've experienced here in 2019.

Under accounting standards, this new information triggered an impairment assessment to be performed on the Mount Milligan mine. The financial assessment performed by our finance team resulted in the recording of an impairment of USD 231 million, reducing the carrying value of the Mount Milligan property to USD 523 million. Darren Millman, our Chief Financial Officer, he will get into a bit more detail once we've moved into the financial highlights. You can see in terms of the earnings results here on Slide 5, we reported a net loss following that impairment adjustment of USD 165 million, if we -- in terms of our adjusted earnings, whereby we are adjusting out the impairment as well as the -- an aspect of the Kyrgyz Republic settlement, you can see we're reporting adjusted earnings of USD 75 million or $0.26 per share.

In terms of the cash flow performance of the company, you can see that illustrated here in the 2 bullet points. On a company-wide basis, we reported an adjusted free cash flow of $10 million, which includes $42 million of adjusted free cash flow from Kumtor and a positive $31 million of positive free cash flow from Mount Milligan during the quarter.

As a result, in terms of that treasury position in our balance sheet, you can see here in the second to the last bullet point, we reported cash reserves of USD 81 million and total liquidity up USD 655 million.

I guess it's important to note that this is a strong liquidity position, so when you take this into account with the copper production that we're expecting from our 3 operations as we move into 2020, we are seeing some tariff noise that indicate this is a fully funded internal business plan. Just on the last bullet point, just given the very strong operating momentum that we have been continuing to see over the year-to-date period at

Kumtor, we've actually increased our gold production guidance by 3% on the midpoint, and you can see we're now guiding for gold production of 748,000 ounces in terms of the midpoint of the increased range.

Just moving over to the next slide, on Slide 6. Just in terms of some of the key financial highlights. You can see that the chart here on the top left, the typical sort of waterfall chart where we're just looking to graphically illustrate our company-wide cash flow statement, you can see the first green increment here. This is the positive free cash flow on an adjusted basis that we have generated from Kumtor and Mount Milligan for the year-to-date period. It's significant, USD 249 million, and then as you look at the red decrement to the right, you can see how that cash flow has been deployed within the business.

So what's on the key items to note is in the year-to-date period we've paid down $90 million worth of debt on our revolving line of credit facility. This facility has been paid down to 0. So it remains entirely available to the company moving forward and that's what really underpins that strong liquidity from a balance sheet perspective.

As I mentioned earlier, during the quarter, we closed the strategic agreement with the government of Kyrgyzstan, and in terms of the payment associated with that agreement, it was a $63 million outgoing payment during the quarter. And just lastly, you can see in terms of offset, this is our project in Turkey, which we are continuing to advance to first gold pour in January. Just in terms of the some of the capital cost funding requirement, that represented USD 58 million during the quarter.

I've spoken to liquidity in the top right here just in terms of this -- the ring chart. And so we've got the entire corporate credit facility available to the company as well as the cash reserves in our construction facility on the offshore project in Turkey. In the center there is the total liquidity of USD 655 million. In the bottom left is what you might call a debt continuity chart, and you can see in terms of the gross debt outstanding which is illustrated by the red column chart, the remaining balance of materiality is really the drawn balance on the offset construction facility.

Just lastly, in the bottom right is our positive retained earnings profile. In terms of the column chart here, the segment illustrated in blue, I think we're continuing to demonstrate that year-over-year, notwithstanding here the prevailing gold price environment and where we may be in that cycle, we continue to generate positive after-tax earnings and I think this really reflects the quality of the asset base and the low-cost profile or the high margin there, too.

So just moving on to the next slide, on Slide 7. Just a environmental, social, governance update for the quarter. You can see some of the bullet points here on the left. I've spoken to some of the key safety milestones. We've had very good momentum this year, very good track record in terms of safety. In terms of our all injury frequency rate, we're at -- in the year-to-date period we're at 0.28, which corresponds with 0.47 in the prior year corresponding period and you can see that illustrated in the chart on the bottom right-hand corner.

On the third bullet point here just in terms of our social license and ensuring continuous business operations. We've now had a -- we've been continuously operating, if you will, for a consecutive 75-month period. So it's been an excellent result for the company. The fourth bullet point just in terms of being responsible miners and environmental stewards, again, we had an no reportable environmental incidents during the quarter.

At OMAS, which is our offsite project in Turkey, during the project we completed an audit which demonstrated full compliance with the European Bank for Reconstruction and Development as well as the International Finance Corporation's Equator Principles. So that was a clean audit and we were pleased to see that.

Second to the last bullet point here, some of you may be aware that the World Gold Council recently rolled out or introduced their Responsible Gold Mining Principles. Centerra is a member of the World gold Council and a signatory to the Responsible Gold Mining Principles. We actually put forward -- we actually had Kumtor to be the pilot project, these Responsible Gold Mining Principles and we completed a soft audit during the quarter and we were pleased to see that there was no major gaps on noncompliance as identified.

And then just lastly, during the quarter, we commenced a environmental, social, governance issues assessment, which is a key part of that 2020 sustainability strategy and reporting process. And really the objective of this was to help us identify and prioritize the most important environmental, social, governance issues that Centerra will be focusing on moving forward.

So moving on to Slide 8. It's on Öksüt, our construction project in Turkey. My earlier remarks, we as a management team are very excited to transition into 2020 because that will be an increasingly showcasing of portfolio of 3 lower-cost quartile, profitable, positive free cash flow operations. I think Öksüt is going to be a key component of that strategy moving forward and key in terms of our diversification, and what we're really pleased about is to see the progress that we've been demonstrating this year. The project is very well-positioned to be delivered under budget and on time in terms of first gold production which we've reaffirmed today, we're expecting in January of 2020.

I can see some of the key infrastructure installations here. One of the key things I'll highlight, probably the middle image of Pad A in the top where open-pit mining is well under way as of today. We've now mined just up to 600,000 tons of ore, which we've stockpiled and is available and ready for crushing and processing as and when we get ready to shortly commission the -- hot commission, the infrastructure. With that, that's sort of some introductory remarks, and I'm now going to pass the call over to Darren Millman, our Chief Financial Officer

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**Darren J. Millman** - *Centerra Gold Inc. - VP & CFO*

Thanks, Scott and good morning, everyone. For those on the call, I'll be speaking to Slide 10. During the quarter, Centerra recorded $388 million in revenue. This consisted of $297 million in gold sales, $41 million from copper concentrate sales, and $50 million from our molybdenum business units. The 50% consolidated revenue increase compared to the prior year period were driven by 34% more ounces sold. 160,000 ounces were sold at Kumtor, a 34% increase. And at Mount Milligan, there was 55,935 ounces of gold sold, a 19% increase and 21.9 million pounds of copper sold, representing a 61% increase compared to the prior period.

This increase is driven by 34% in more tonnes processed during the quarter with 19% higher copperhead grades processed offset by 35% decrease in gold head grades processed. The key to these strong financial numbers were the consistent operational performance at Mount Milligan during the quarter with mill throughput averaging in excess of 55,000 tonnes per calendar day and in excess of 60,000 tonnes per operating day. The molybdenum business unit also had a 12% increase in molybdenum sales.

Consolidated cash provided by operations was $31.9 million, adjusted consolidated cash provided by our operating cash flow was $95 million, a 152% increase in comparison to the prior year after adjusting for the Kyrgyz Republic settlement payment.

During the quarter, Kumtor generated $74 million in adjusted cash flow from operations with the Mount Milligan generating $37 million cash. A net loss of $165 million was recorded in the quarter. This includes the $231 million payment recorded and an additional $10 million cost recorded associated with the Kyrgyz Republic settlement. Adjusting for the impairment and the additional Kyrgyz Republic settlement, the adjusted earnings for the period was $75 million or $0.26 per share.

So a little bit more detail around the impairment. As mentioned by Scott, the preliminary budget were presented in late September for the Mount Milligan team. We've indicated cost will continue at current levels in the near term, specifically relating to water sourcing, mill maintenance and labor. The budgeting process looked initially at the periods 2020 to 2022, also suggesting lower gold recoveries were expected based on recent data analysis.

To be clear, there's not a cost escalation from current levels, simply indicating existing cost levels will continue at similar levels.

The impairment analysis was a financial analysis required under the accounting standards. It was not a detailed technical analysis, and we used the best available information to us, relying on the existing cost data and limited technical information. The assessment in effect has removed marginal ounces from the life-of-mine plant under this financial analysis. By applying different cost assumptions, in this case at current levels and financial assumptions, we delivered a fair value range in which we recorded our impairment charge. In addition to cost inputs, this assessment is based on key financial assumptions. The company used a gold price of $1,350 in the short-term and $1,300 in the long term. Our copper price range of $2.60 to $2.80 per pound in the short-term and long-term to $3 per pound. A discount rate of 8% and a NAV multiple of 1.13 after taking into account the underlying -- the fact that we've done a financial analysis at this point in time, as opposed to a technical analysis. A change in any of these assumptions will have a material impact on the value prescribed to the Mount Milligan Mine.

As this is a financial analysis as opposed to a technical analysis, we concluded these pricing conventions were appropriate and at similar levels to the 2018 published reserves used by Centerra. The final outcome was to decrease the carrying value in the financial statements from $753 million to $523 million, a 30% writedown in value. As a result of this assessment, the company has begun a comprehensive technical review of the Mount Milligan Mine with the objective of publishing an updated 43-101 technical report in the coming months, which will include ongoing studies to optimize the economics of the mine and incorporate the results of the drilling program undertaken in 2019. Based upon the work performed in connection with the impairment test, the company's expectation is that the Mount Milligan's mineral reserves and resources will be materially reduced. To be clear, the model used for impairment test is not a 43-101 technical report and it does not include the associated detailed engineering, rather it's made in the best estimate at this point in time for this specific purpose.

Just moving over to Slide 11. On a more positive note, we have favorably revised Kumtor sales guidance up to 610,000 ounces of gold sold and on our consolidated level, we are now guiding to a range of 745,000 to 785,000 ounces of gold to be sold for the year.

We are reaffirming Mount Milligan production guidance with up to 175,000 ounces of gold targeted to be produced and sold while we increased gold production as guided at Kumtor up to 590,000 ounces of gold. Centerra year-to-date has produced 588,802 ounces of gold, 452,000 ounces at Kumtor and 137,000 ounces of gold at Mount Milligan.

In Q4 2019, both mines have scheduled maintenance planned which we have incorporated into our guidance numbers. From a cost perspective, Centerra has had another strong quarter, reporting an all-in sustaining cost of $660 (sic) [$666] per ounce. Kumtor recording an all-in sustaining cost of $626 per ounce whilst Mount Milligan recording an all-in sustaining of $557 per ounce. As mentioned earlier, during the quarter, Mount Milligan throughput averaged in excess of 55,000 tons per calendar day, and in excess of 60,000 tons per operating day. During the quarter, Centerra recorded $32 million cash provided by operations or $0.11 per share, and adjusting for the $63 million settlement payment, adjusted cash provided by operations was $95 million or $0.32 per share.

During the quarter, the company was able to use cash reserves and cash flow from the Kumtor and Mount Milligan Mines to pay the Kumtor's settlement with no increase in debt reported on the quarter. With that, I'll pass it back to Scott.

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

Okay. Thank you, Darren. Let's kind of move on to Slide 13, just want to touch on our guidance for the full year. On this slide, on Slide 13, I'll be largely speaking to production and all-in sustaining costs. One of the favorable highlights that I mentioned was the increase in production guidance at Kumtor. You can see that illustrated in the second row in the table. As we mentioned, we've now increased our guidance at Kumtor by approximately 3% on the midpoint. We're now guiding for production as high as 590,000 ounces for the calendar year 2019.

This obviously reflects that the very strong operating momentum we have seen at Kumtor, and we're obviously expecting that to continue.

In terms of all-in sustaining cost guidance, which is in the middle section of this table, we're just reaffirming that the company-wide guidance of $713 to $743 per ounce continues to be our expected outlook for the full year.

Now let's just move on to Slide 14, just in terms of our capital expenditure guidance. You can see here, on a company-wide basis, we've reduced our growth capital guidance by $15 million. This is illustrated in the middle section of the table. We're now guiding for growth capital of USD 160 million, which is primarily attributable to lower capital expenditures offset. What that entails is that we've identified certain construction activity that won't be required this year in terms of positioning operation for those gold prices. Some of those capital items, they're going to carry over into 2020. Another key items I'd highlight is the Capitalized stripping guidance at Kumtor. You can see we reduced that by USD 15 million, and this decrease is associated with just rethinking and rephasing in terms of the mine operations.

Just moving onto my last slide on slide 15. Just to kind of wrap up our presentation and prepared remarks, if you will, what we are illustrating here is the world industry cost curve in terms of the all-in sustaining cost metric and I think this is something that does differentiate Centerra. When you look at Centerra Gold on a company-wide basis, I think it shows we are a lower-cost producer. We do have a high-margin. As illustrated on this chart, the company's portfolio is a lower cost quartile portfolio. I think this what's going to position the company well in terms of the ongoing profitability and positive free cash flow generation, and as I've mentioned a number of times, what we're really excited about is Öksüt which is our project in Turkey, down in the far left, we're getting to pour our first gold production here in January. This is positioned to potentially be our lowest cost producing asset. It's going very favorably underpin a growing, diversifying portfolio as we make our way into 2020 where we're expecting meaningful cash flow generation from Centerra's asset base moving forward. With that, operator, I look to pass the call over to you and we can move into the question-and-answer session, please.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question comes from Fahad Tariq with Crédit Suisse.

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

On the Mount Milligan impairment, can you talk a bit about -- maybe just put aside unit cost side for a second. Can you talk about the throughput and why there's expectations for lower mill throughput? Because it sounds like, at least for the past few quarters, water availability was getting better, throughput was trending higher, Q3 above 55,000 tons per day. Just trying to get a sense of what is different between the trend we're seeing now in throughput versus what you're -- what's being described in the short to medium term as maybe lower or challenged throughput?

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

Okay, thank you for your question. For the last 6 months, I think we've been -- we've demonstrated that we've been operating the Mount Milligan mill facility at approximately 55,000 tons per day or better. And if you were to go back to last year, that's kind of what we were guiding, that we would like the investment community and analyst community to be assuming for Mount Milligan on a go-forward basis. And the rationale for that was in the past, we have not been able to demonstrate that we can operate the mill consistently at 60,000 tons per calendar day. And so what we have always been putting forward in the guidance is 55,000 tons per calendar day and with continuous improvement and the passing of time, we will look to ratchet it up but that's not a focus or an objective for 2019.

So if you look at Q2 or Q3, Q3 was a very good quarter in terms of mill throughput productivity, we just averaged under 56,000 tons per calendar day. On an operating day basis, we were operating at 60,000 tons per day. But the reality is if we look at our budgeting process, and what we're expecting for next year, we are expecting a similar level of mill productivity in terms of what we saw here in the Q3 period. And the reality is when you look at our past, life-of-mine expectations, that level of mill productivity is lower than what we have been expecting previously and you can imagine that, together with the higher unitary cost that we're seeing here on a short to medium term basis, that's what really resulted in us conducting that impairment assessment.

**Operator**

Our next question comes from Dalton Baretto with Canaccord Genuity.

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

So back on Milligan here, no surprise. It sounds like you were expecting unit cost to come down and recoveries to go up. So what's changed, going forward?

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

I think the big focus at Mount Milligan this year has been on throughput. We've added a lot of resources in terms of addressing that, particularly in terms of human resources, in terms of the mill itself, in terms of the maintenance, there's been a big focus on mechanical availability. And in terms of that objective, it's been successful. We have now demonstrated that we're largely achieving the mechanical availabilities that we were hoping to achieve and obviously, you see that in terms of the throughput productivity results that we've been operating at here over the last 2 quarters. And we are consistently demonstrating that we can operate the mill now in excess of 55,000 tons per calendar day. So in terms of adding those resources, it's been successful but obviously, when you add those resources, that comes with higher cost. And the focus for us moving forward now is looking to optimize the unitary cost at Mount Milligan and as Darren and I mentioned in our opening remarks, we are in a budget planning process right now and when we look at what the indicative budget is for next year, we're not expecting to see a reduction in those current unitary cost moving forward here on a short-term medium-term basis. And again, that being the case, that causes to reflect on what is the life-of-mine profile versus our previous life-of-mine expectation.

I've spoken about human resources here, there's also ancillary increases in cost, in terms of our water sourcing costs but that would be 2 of the key items that we are seeing that are driving those high unitary costs. Again, I want to just reiterate, as Darren mentioned, we're not expecting an escalation in the current cost structure, but the current cost structure, moving forward that is higher than what we have previously expecting in terms of our life-of-mine expectations. Mine continues to be profitable and we demonstrated that here in Q3 with the low all-in sustaining cost of $557 per ounce, the mine did generate $31.3 million of positive free cash flow, but in reality, that level of profitability and sort of cash flow generation, that is lower than what we were expecting on a life-of-mine basis.

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

Understood. And then if I can just touch on something Darren mentioned in his prepared remarks. So this statement you have made around a material decrease in reserves and resources, that's based on the impairment test that you did. As you guys actually reengineer the life-of-mine plan and optimize, could we see a reasonable probability that the actual reduction could be far better than what the impairment test suggests?

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

I think maybe I should take that question, Dalton. Darren did reiterate a number of times that this is -- we have not prepared a comprehensive technical life-of-mine assessment as in our 43-101, that is something that is currently underway. And one of the key things to know as Darren mentioned is that as part of doing that comprehensive technical study, we will be looking to incorporate a lot of the drilling program, that's been carried out in terms of the investment that we've been making here this year at Mount Milligan. So we'll be looking to incorporate that. Also we also will be looking to incorporate a number of opportunities in terms of value-add opportunities, looking at optimizing the mine plan as best as possible, none of those items that I just mentioned have actually been reflected in the accounting impairment evaluation that's featured in these financial statements.

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

Right. So should -- it could actually come in a bit better?

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

I can't answer that. All I can say is that there is a number of value-add opportunities that we'll be looking to incorporate as well as we are looking to incorporate this year's drilling program.

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

Okay, great and maybe I can just throw 1 on Kumtor there. You're mill head grades, year-to-date, are conservatively above what you're implying so far. How long do you expect that to continue? Can you talk a little bit about the stockpiles that are making up that difference? And when do you expect that to reverse?

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

Yes, that's definitely been a contributing factor to the strong production that you've seen at Kumtor this year. And we saw that last year as well whereby the head grade or the grade we're presenting to the mill, it has been reconciling favorably to the underlying block model, which in essence, is obviously the reserve. We've seen that take place for the last 9 months. But it's hard for me to represent to you that that's going -- that's indicative of the go-forward. I can't make that representation, but there has been a lot of positive grade reconciliation. And where we see that is typically on the higher grade or the medium-grade ore classification that we are presenting to the mill. As we mentioned now in our MD&A and our write-up, we're into the higher grade ore associated with cut-back 19, essentially 1 month earlier than what we were originally projecting and that's obviously what's underpinning the strong production that you're seeing at Kumtor.

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**Operator**

Our next question comes from Bryce Adams with CIBC.

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

Scott and team, just on the water update from Mount Milligan, if we go back to Q2, the water was flagged as a potential risk for one ball mill coming offline in Q1, it looks like it's corrected here with the Q3 reporting. What's changed relative to Q2? Is that just simply the rainier period in July and August? And if so, can you talk to how much rain was received compared to the usual run rate?

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

Yes, thanks for the question, Bryce. Yes, as we mentioned in our MD&A and our disclosure, the month of July and August has been -- it's been very wet and rainy month. And we've actually received a lot more precipitation or rainfall than what we were originally expecting in our water projection model from some 3 months ago. It's ironically -- it's actually continuing here in the month of October. Month to date, the guys are estimating that we have received 3x as much rainfall as what we would historically expect from a seasonality perspective. So that's been a very welcome boon for us. That's really helped us out. Right now, we're carrying around 1.2 million, 1.3 million -- sorry, let me rephrase that we are carrying up to 1.3 cubic -- sorry, 1.3 million cubic meters of water in terms of our water that's on surface. And the significance of that is that this time last year, we had less than half of that amount of water inventory. So just that alone puts us in quite a robust position moving forward. But I think the other thing we spoke about is we've had a lot of success with our groundwater drilling program. That program has been successful, and we have identified a number of sort of groundwater resources or underground water aquifers that we're going to look to tap into and commission. They have very good flow rates and we're actually in sort of a very advanced stages right now of permitting those groundwater sources, and then looking to making sure that the infrastructure in place and looking to commission those, and we're hopeful that we have those commissioned here in Q4.

So the heavier rainfall, together with the success on the groundwater sources, this obviously puts us in a much better position in terms of our water inventory that we will be carrying into Q1 of 2020. And I think in terms of management's best estimate, we think now that our previous disclosure, where we were flagging, that there could be production risk in Q1, we're not seeing that anymore. And that's reflective as well in terms of our budget and planning process that's underway right now, Mount Milligan obviously, we spoke to it earlier. They're preparing their budgets for next year. There's only one budget scenario that we are currently working on, and that is Mount Milligan operating at full capacity, which again is the targeted 55,000 tons per calendar day for the entire calendar year.

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

Got it. Sounds like a bit of good news that's unfortunately been overshadowed by the impairment.

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

Correct.

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

On the impairment, lower-than-expected gold recoveries has been mentioned a couple of times. So 67% for the quarter, 66% Q2, 70% Q1. Can I ask what was the expectation? How much lower is this than what your expectation was?

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

I don't have the numbers in front of me, but from memory, I think, it's approximately 200 basis points. So 2% but I'd like to validate that with you after the call. But again, as part of this assessment that we're doing on the carrying value of Mount Milligan, one of the things we did do is we looked at a sort of a recovery regression analysis. And as you can appreciate, as different ore classifications or different mythologies in terms of the reserves and resources at Mount Milligan, and each different mythology has different metallurgical characteristics. And together with that recovery regression analysis, we had to make progression moving forward at the life-of-mine period. And I think as myself and Darren have spoken to, by and large, when we were doing that carrying value assessment, we pretty much took our current unitary cost structure as well as our current experience with the gold recovery efficiency rate and that's largely what we've modeled moving forward.

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

But Darren mentioned that 2020 to 2022 period modeling lower recoveries in that period was one of the drivers for the impairment. So the expected recoveries for those 3 years would be in line with the current results, 66%, 67%, you would carry those for the next 3 years?

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

I can't -- we can't get that specific, Bryce, because again, it depends on what is the composition of the mill fee in terms of the different mythologies, but generally speaking, we've run a recovery regression analysis curve, looking at our past experience with recovery efficiency rates. And that's what we are modeling on a go-forward basis, but obviously, what we're noting here is that overall level of gold recovery is lower than our previous expectations.

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

Okay, and so the recoveries will vary with the ore types and would it be linked to the head grade as well? How those 2 move together?

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

There is a correlation there as well, yes.

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

There is a chapter in impairment section called Beyond Life of Mine where you've included value for ounces that are not currently resources outside of the mineable plant. How material are those ounces to the overall test in the valuation?

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

Just trying to think about the definition of material, but I would say, they definitely play a role in terms of contributing to the underlying carrying value that we've assessed, but I would put forward that the predominant or the inordinate amount of the $530 million carrying value is associated with the reserves that we are modeling in our life-of-mine profile moving forward. So they play a contributing role but not a role of significance, if you will.

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

Okay, so if I'm just going off the top of my head here, they could contribute sort of 10% to 15% of the evaluation. Would that be fair?

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

I can't answer that, sorry.

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

For those ounces, would they be subject to the NAV multiplier as well? Or would they go through at a 1x multiple?

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

No. They are subject to the NAV multiplier as well.

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**Operator**

(Operator Instructions) Our next question comes from John Tumazos with John Tumazos Very Independent Research.

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**John Charles Tumazos** - *John Tumazos Very Independent Research, LLC - President and CEO*

If you proceeded with either the Kemess Underground Mine or the Hardrock Project in Ontario, how much would your portions of the CapEx be? And what years would the spending likely start? That's the first question. Second question is a conceptual one. I don't care when I look at your company so much about Kyrgyzstan or Mount Milligan, as I do the Turkish mine, the Kemess Project, the possibility of restarting the moly division one year when the moly price goes up big like it happens sometimes or the Hardrock Project. Do you think that perhaps the market is dwelling too much on the current and not the future?

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

Okay, thank you for question. With regards to the capital expenditure estimates, if you get a chance, just pull down our Investor Relations presentation deck that we usually use on our sort of ordinary routine marketing. But in terms of Kemess, as per the most recent sort of feasibility study, the capital construction cost of the project was approximately USD 450 million or CAD 600 million. With regards to Greenstone, the life -- total capital construction cost is USD 968 million. But it's important to note that that is an equal joint venture between ourselves and Premier Gold. Generally speaking, our share of that $968 million would be half of that. In terms of when, we as a company, we as a management, together with our Board of Directors, that's something that we're still strategizing and deliberating on, there's a number of optimization opportunities at both of these respective assets. So I don't see us making a construction decision in the imminent short term, if you will. But obviously, there are clear opportunities in terms of our ongoing sort of organic growth considerations as well as ongoing sort of diversification opportunities for the company.

Right now, what we're really focused on is executing on Turkey. We've been laser focused on that for the last 18 months, and as you would have heard from in my representations, we think that project is similar proceeding and advancing very well. And we expect that project to be under budget and delivered on time in terms of we're expecting first gold productions here in a little less than 3 months. So it's going to make for a fantastic 2020 in terms of showcasing a more diversified, growing portfolio. In terms of the market's focus on current versus future, I'm just not in a position to answer that. Obviously, with today's results, I think it's a great set of results operationally. You can see both mines are performing very strong in terms of generating more production than what they did in the prior quarter. And they did at a lower cost, both mines were profitable. Again, we generated positive free cash flow on an adjusted basis. I think operationally, it was a very good quarter, but obviously, there's reduction in the carrying value at Mount Milligan. That was something that was not expected and I think you can see the machinations that we're having in terms of today's results.

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**Operator**

Our next question comes from Brian MacArthur with Raymond James.

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**Brian MacArthur** - *Raymond James Ltd., Research Division - MD & Head of Mining Research*

So I want to go back to Bryce's point again, just -- so if I understand this correctly, you've got 1.13 multiplier on your NAV, so really the NAV you have for the assets now is like whatever, $462 million, not $523 million. Is that correct?

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

That -- your math would be correct, yes.

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**Brian MacArthur** - *Raymond James Ltd., Research Division - MD & Head of Mining Research*

So was there multiplier on the value before you wrote this down as well? What I'm getting -- I'm kind of more interested -- I'm not so interested in multiples. I'm trying to figure out the actual, real delta and value that you're implying. Was there a 1.13 on that previous value as well? There was one and there is like a bigger delta here?

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

No, the previous valuation which was underpinned by our purchase price accounting when we did the Thompson Creek acquisition back in October 2016, we were utilizing a multiple of 1. I'm just looking at Darren now, our CFO, I believe there would have been a disclosure on that back in most likely Q4 2016 financial statement. Correct?

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**Darren J. Millman** - *Centerra Gold Inc. - VP & CFO*

Yes.

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**Brian MacArthur** - *Raymond James Ltd., Research Division - MD & Head of Mining Research*

And would there have been, like as Bryce brought up, the extra ounces that aren't in the NAV, was there another value there for ounces that weren't in the NAV in that $752? Or is that over and above as well?

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

No, I think there was some additional value for resources that were not being modeled in the life-of-mine plan back then. But Brian, please take -- pull up those financial statements and just have a look at that disclosure. I don't have that in front of me right now. So largely going from memory but there should be some good disclosure on that.

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**Brian MacArthur** - *Raymond James Ltd., Research Division - MD & Head of Mining Research*

Yes. No. And I'm not trying to press you. And I totally understand this is not a technical study. I'm just trying to figure what the real delta is from where we were -- where we are now from where we were before. Maybe I'll ask another question, too. Because you talk about one of the reasons costs have changed as the water costs. So going forward, we have water for the next 3 years, I assume, we assume in the forecast going forward, we have similar water costs going post 2021 now and we're making all these new financial forecasts?

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

Yes, once you move past what we deem to be the medium term, we do see a decrease in water sourcing costs, yes.

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**Brian MacArthur** - *Raymond James Ltd., Research Division - MD & Head of Mining Research*

And maybe just a final question on this, and it's all kind of trying to just get to the -- and I realize it's still preliminary. You talked about the timing on Kemess and Greenstone, John's question, maybe being pushed back a little bit. Is that just -- is any of that related to the fact that maybe less free -- I mean you're obviously still going to have a very good cash flow in the next 2 years, but obviously, it's maybe less than what you thought before. Is that coming in to your thinking on the delays of that? Or is there anything changed in the development of those projects?

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

No, absolutely not. That's not what is influencing the timing, if you will, about when you may look to make a construction decision on either of those organic growth opportunities. I'm glad you highlighted it, Brian. Mount Milligan continues to generate positive free cash flow. I think in the year-to-date period we have generated $50 million of positive free cash flow. Combined with Kumtor, we generated around $249 million of positive free cash flow. So from a liquidity perspective, we think we are on a very strong position. The reality, when it comes to potential timing of Greenstone and Kemess being considered for moving those projects forward, what we as a management team and our Board of Directors, we've been just laser eye focused on Turkey. We think it's incredibly important that we deliver that project on time, on budget. As it is now, we're now -- we're guiding that we're going to deliver it under budget. But we want to ensure that we establish that credibility, that the broader Centerra management team can deliver these projects on time, on budget. I think it's important to establish that credibility and that confidence, if you will, which should hopefully translate into the evaluation around Kemess or Greenstone or any other organic growth opportunities within Centerra. So that really is the underlying rationale.

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**Operator**

Mr. Pearson, I will now turn the call back over to you. Please continue with your presentation or your closing remarks.

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

Thank you, Kelly. Thank you for your attendance today and the questions. At this point in time, we'll just conclude the conference call. Thank you.

**Operator**

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