



## 29 October 2010

*Kentor Gold Limited (ASX: KGL) is an Australian-based company formed in 1998 as a specialist gold explorer. The Company was listed on the Australian Securities Exchange in 2005 and has diversified into exploration and development of gold, geothermal energy and base metals in Central Asia where it has highly regarded, established local management. Kentor Gold owns 80% of the Andash Gold-Copper Project which is under development and is targeted to annually produce 70,000 oz gold and 7,400 tonnes copper in concentrate.*

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### Issued capital:

577 million ordinary shares  
59.6 million unlisted options

### Market Capitalisation

28 October 2010: \$107 million

### Contact

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## QUARTERLY ACTIVITIES REPORT

Period ending 30 September 2010

### HIGHLIGHTS

#### Andash Gold-Copper Project Development

- Progress towards full-scale development
- Detailed engineering nearing completion
- Project NPV doubled to US\$270M at current metal prices

#### Andash Gold-Copper Project Expansion

- Established additional exploration target at Andash, providing further potential for project expansion
- Letter of intent to acquire Aktash deposit 8km from Andash

#### Exploration

- Encouraging results from Bekbulaktor Gold Prospect at Bashkol
- Drilling program completed at Kurgan Gold Prospect
- Geothermal shallow temperature survey on North Kyrgyz prospect showing encouraging results.

#### Corporate

- Oversubscribed placement and rights issue raised \$12.5M
- Project finance for Andash (capital cost US\$96M) well advanced
- Macquarie Bank mandated to provide US\$50M debt component

#### Kyrgyz Republic

- Parliamentary elections completed successfully



### **Quarterly Overview**

During the quarter, Kentor Gold Limited (Kentor or the Company) advanced the Andash Gold-Copper Project in the Kyrgyz Republic closer to full-scale development. Kentor is targeting early 2012 for the commencement of production from Andash, the Company's first mine.

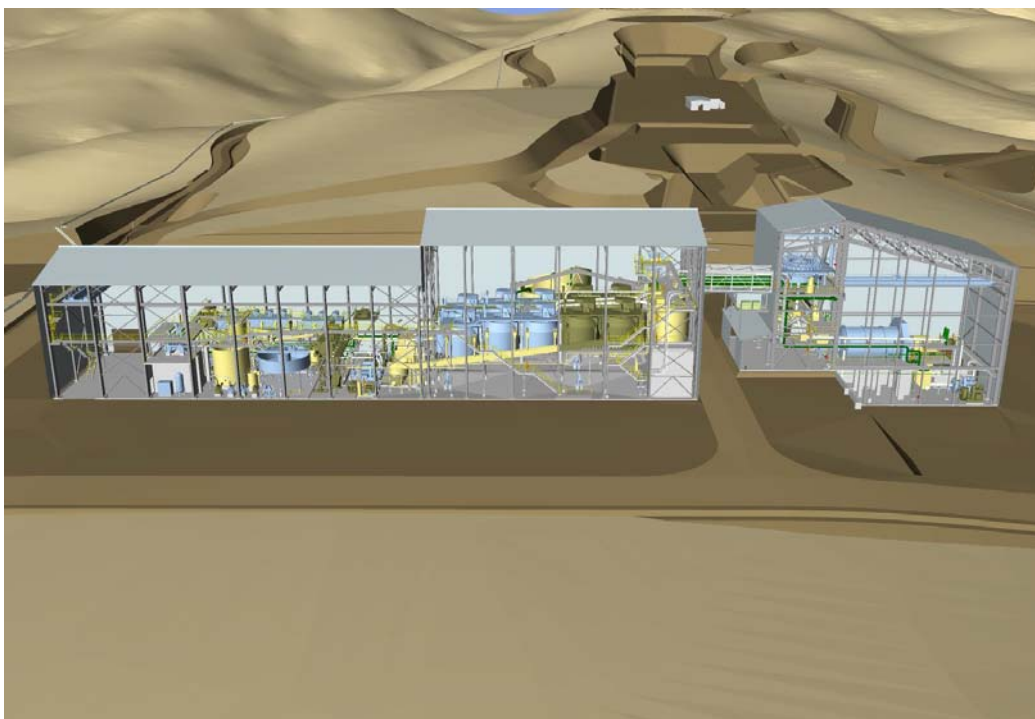
Pre-development activity progressed as Kentor successfully addressed funding requirements for the project. A total of \$12.5 million was raised through a placement and a rights issue, both oversubscribed. Subsequently, Macquarie Bank was appointed to arrange US\$50 million in debt funding towards the project's total capital cost estimated at US\$96 million.

The Company further enhanced the potential to extend and expand the project by establishing an additional gold exploration target at Andash Zone 2 and Zone 3.

### **Andash Gold-Copper Project**

During the quarter, work proceeded on several fronts on the high grade, low cost Andash Gold-Copper Project (Kentor 80%) in the Kyrgyz Republic, in advance of commitment to full-scale development.

Detailed engineering design work on the mine and processing plant neared completion.



***Fig 1 Andash processing plant design***

A simple and conventional open pit mine and flotation plant are being planned, commencing at the rate of 1.6mtpa rising to 3.2mtpa over the initial six year mine life. A single high grade concentrate will be produced, grading 24.5% copper and 72 g/t gold, for an average annual production of 70,000 oz gold and 7,400 tonnes copper.

The outcropping, wide ore body lends itself to open pit mining with a very low strip ratio of 0.72 : 1 and a high grade starter pit. A three-stage crush, grind and float process has been designed, with no deleterious elements in the ore to complicate the treatment.



The project's economics under the Definitive Feasibility Study were enhanced by the results of additional metallurgical studies, announced in June this year. The already very low cash cost for gold was reduced further to US\$29/oz after copper credits and including treatment and refining charges and royalties, and the base case Net Present Value (NPV) of the project was increased to US\$130M.

However, the increases in gold and copper prices during the quarter have resulted in a doubling of the base case NPV which now stands at US\$270M at current metal prices.

During the quarter, work proceeded on securing the remaining approvals for the Andash Project – an updated environmental and social permit (OVOS) and local development approval.

The OVOS, granted in 2007, is now being revised to account for minor changes in the project layout.

Approval relating to project development is required from the village council of Kopuro Bazaar where Kentor has placed strong emphasis on building local relationships.

The Andash project will have significant employment and other economic benefits at the local level, for the Talas province and the Kyrgyz Republic.

Both of the remaining permits are expected to be in place by the end of the year.

During the quarter, the engineering design of the camp, power supply water supply, tailings storage facility and other infrastructure was progressed.



*Fig 2 Andash accommodation camp design*





### Andash Resource Expansion

Kentor announced two major steps towards increasing the Resource base for the Andash project through exploration of nearby high potential prospects. The strategy is designed to increase production at Andash and extend the life of operations well beyond the initial six years.

An additional gold exploration target was established at Andash when Hellman & Schofield Pty Ltd (H&S) completed a review of exploration results of the Andash Zone 2 and Zone 3 prospects. As a result, H&S established an Exploration Target\* (announced on 21 October 2010) for Andash Zones 2 and 3 under the JORC guidelines of 5 to 10 million tonnes of ore with a gold grade range of 1 g/t to 1.5 g/t.

\*The potential quantity and grade of the Exploration Target are conceptual in nature and there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.

Andash Zones 2 and 3 are situated less than one kilometre west of the planned Andash Zone 1 open pit where Kentor has established a JORC Resource of 19.2 million tonnes grading 1.1 g/t gold and 0.4% copper and a Mining Reserve of 16 million tonnes containing 540,000 oz gold and 63,000 tonnes copper.

Andash Zones 2 and 3 are two of six prospects being progressively evaluated in the area surrounding the Andash Zone 1 mining project, the others being Nahodka, Jerganak, Chonkyshto and Toktonysai.

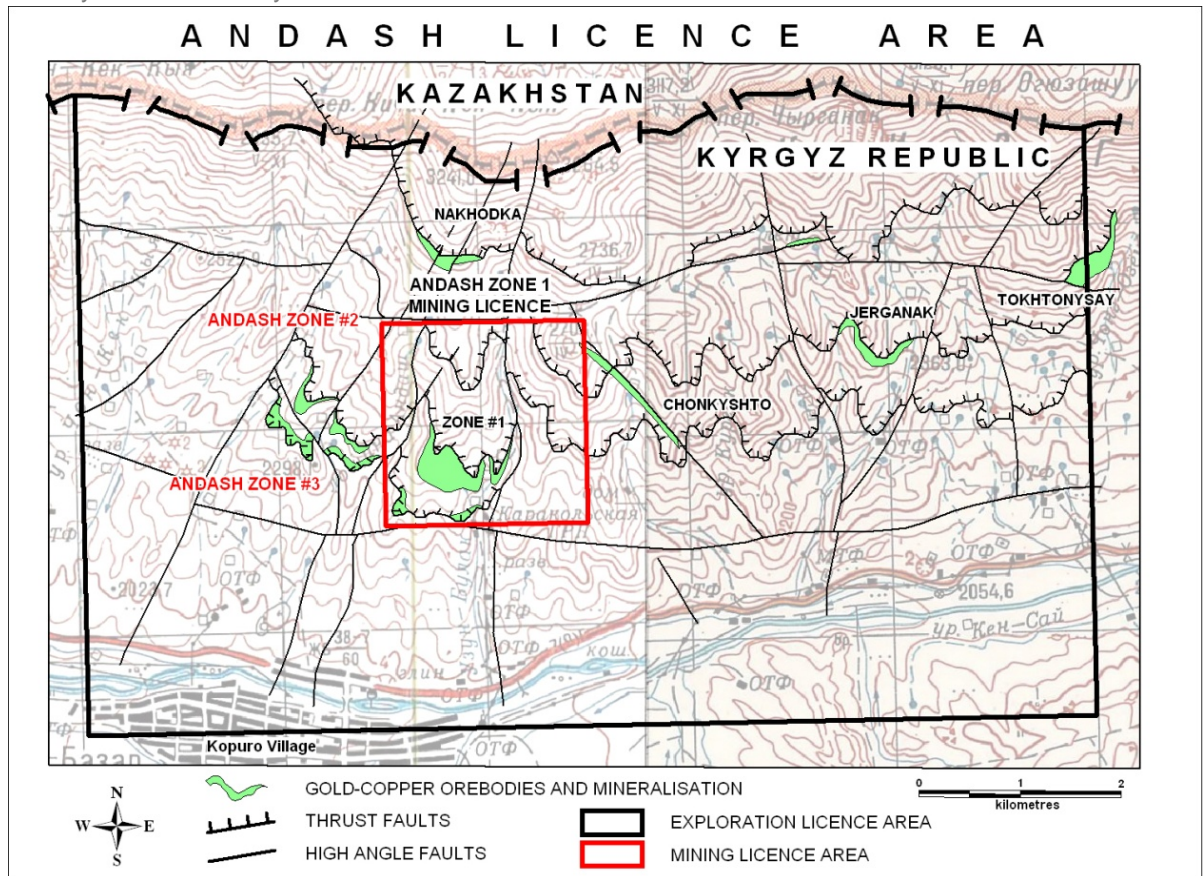


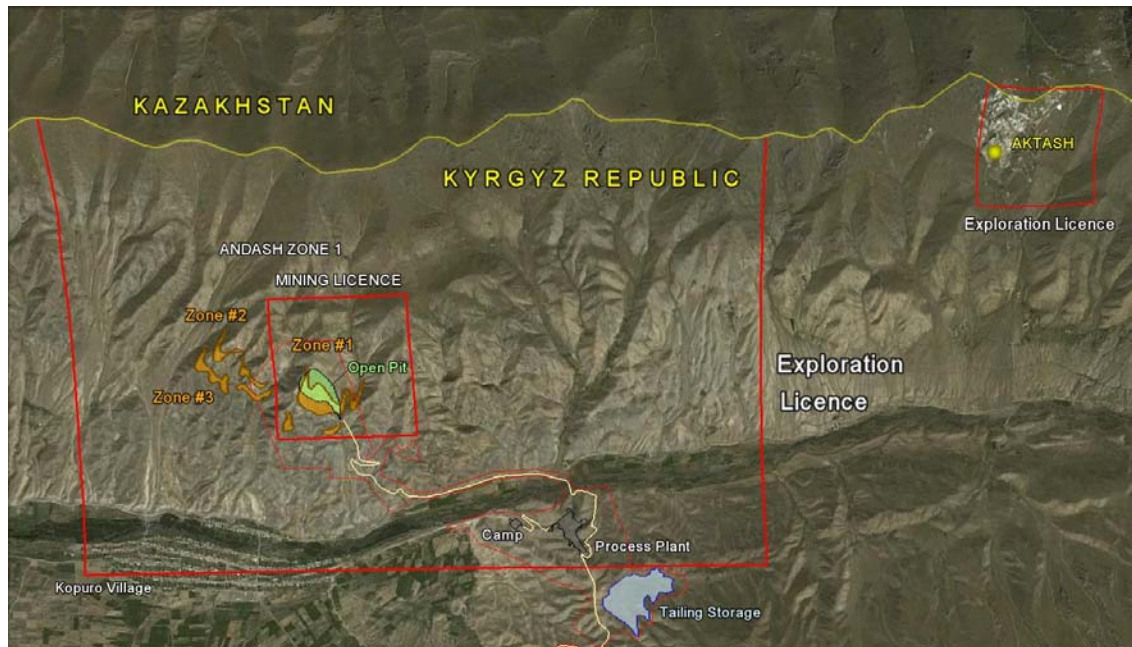
Fig 3 Andash Exploration Licence



## Aktash Exploration Licence

In addition, on 21 July 2010, Kentor announced that it had entered into a letter of intent with regard to an exclusive option to acquire the Aktash gold-copper deposit where H&S has established an Exploration Target\* of 2 to 5 million tonnes grading 2 to 3.5 g/t gold, 0.3 to 0.7% copper and 8 to 12 g/t silver. The Aktash deposit is located 8 km north-east of the planned Andash plant site.

\*The potential quantity and grade of the Exploration Target are conceptual in nature and there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.



*Fig 4 Location of Aktash Deposit*

## Developments in the Kyrgyz Republic

Following a popular uprising against the government last April, an interim government under the leadership of the internationally respected Rosa Otunbaeva set the Kyrgyz Republic on the road to full parliamentary democracy. Two major milestones were a referendum held on 27 June to adopt a new constitution, and parliamentary elections held on 10 October.

The parliamentary elections were successfully conducted, with the Kyrgyz Central Elections Commission reporting a 54% turnout of eligible voters in an election free of serious violations and the main international observer body, the Organisation for Security and Cooperation in Europe (OSCE) welcoming the peaceful conduct of the elections. Reuters reported that the Kyrgyz people had voted to create the first parliamentary democracy in central Asia.

The completion of the elections will enable the Government to encourage the foreign investment needed to meet national development objectives.

In their election platforms all five successful parties recognised the importance of foreign investment for development of the Kyrgyz economy, and the need to improve the investment climate to achieve this.





President Otunbaeva has espoused the principles of democracy, fairness, openness and transparency and committed to foreign investment within a market economy, describing the mining industry as the “wings of development in the country”.

The Government is in the process of forming a commission tasked with creating the appropriate conditions for accelerated development of the mining industry. The commission will be headed by a Deputy Prime Minister, and have full representation at ministerial level with participation of industry representatives.

### **Other Exploration**

#### Savoyardy Gold-Antimony Project (Kentor earning 70%)

Mapping, soil and rock chip sampling and trenching was conducted at Savoyardy throughout the quarter. The work concentrated on the eastern end of the licence in the area adjacent to the Chinese border. The aim of this work is to identify additional drilling targets for the next field season. The samples are currently being analysed and the results will be available in November.

While a small, high grade Resource has been identified at Savoyardy, Kentor is seeking to build a larger Resource that will support a substantial mining operation.

#### Kurgan Licence Area (Kentor 80%)

An initial drilling program of four holes totalling 643 metres was completed at the Kurgan 1 Gold Prospect on the Kurgan Exploration Licence. Final assay results are awaited. Kurgan is 70km south-west of Kentor's Andash Gold-Copper Project.

The drilling program follows the encouraging surface sampling results from 2009 when a program of geophysics, geochemistry, trenching and channel sampling led to the identification of 6 gold bearing lodes averaging 4.5 metres in width and 150 metres in length. The best intersections from channel sampling are: 3 metres @ 7.3 g/t gold, 5 metres @ 7.3 g/t gold, 17 metres @ 1.5 g/t gold and 5 metres @ 3.1 g/t gold.



*Fig 5 Sampling trenches at Kurgan*



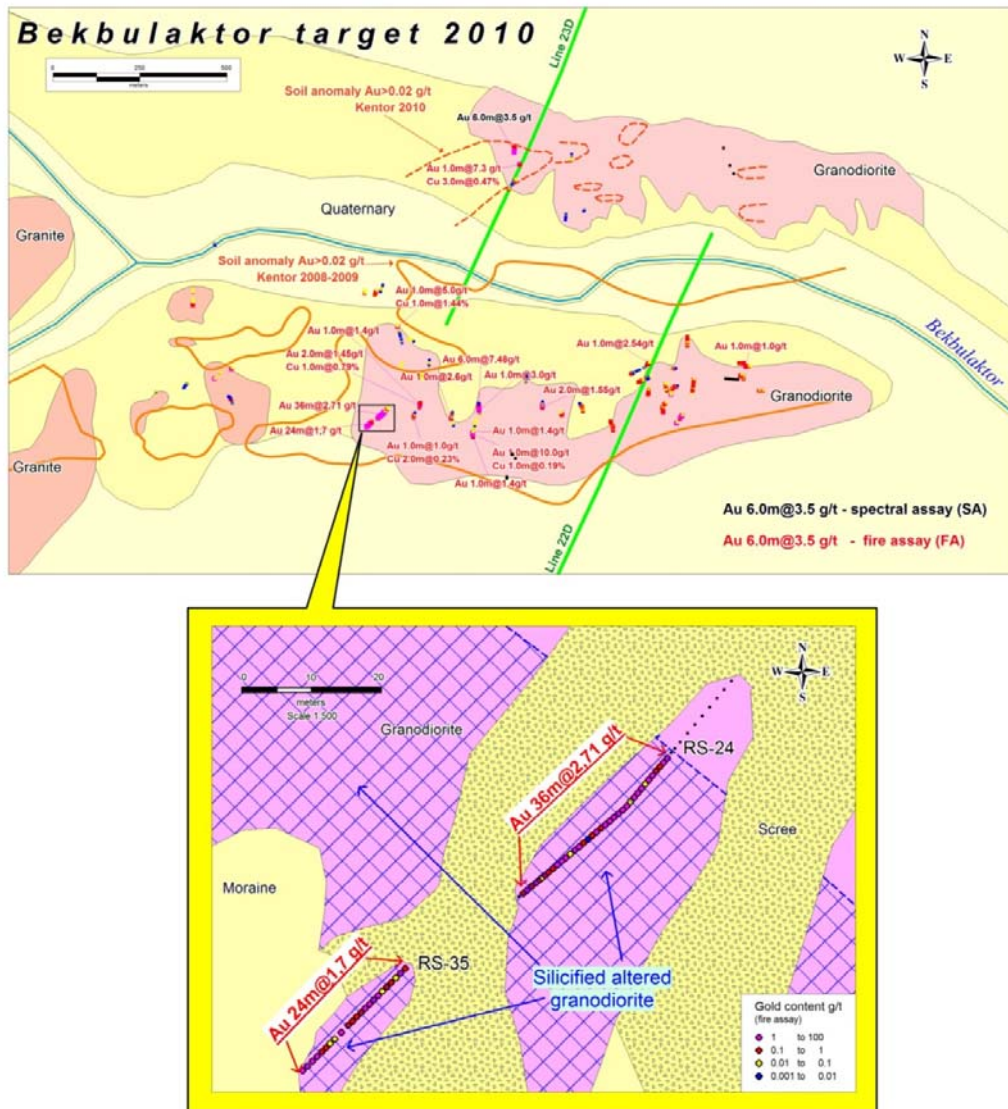
Bashkol Licence Area (Kentor 80%)

Encouraging results from the 2010 exploration program at the Bekbulaktor Gold Prospect on the Bashkol Exploration Licence have increased expectations for the prospect. A geological and geophysical program that should lead to the identification of clear drill targets can now be planned for next year.

Bekbulaktor is 80km north-east of the 500,000/oz pa Kumtor gold mine in the Kyrgyz Republic.

The most encouraging results from the 2010 activities are:

- Two continuous channel sample intervals returning 36 metres @ 2.71 g/t gold and 24 metres @ 1.7 g/t gold. The two intervals are separated by a gap of 20 metres covered by scree material. This 20-metre interval was not sampled because of permafrost within the scree material. The mineralisation is open to the south where there is a cover of glacial moraine material. The extensive gold values are coincident with a zone of salicified altered granite/granodiorite which is open in three directions.
- Discovery of gold mineralisation on the northern side of the valley of the Bekbulaktor stream. A preliminary reconnaissance and sampling program on the southern side of the valley resulted in:
  - An interval of 6 metres @ 3.5 g/t gold from continuous channel sampling
  - An interval of 3 metres @ 0.47% Cu containing 1 metre @ 7.3 g/t gold.
- Identification of a broad area of anomalous gold in soil on the north side of the valley of the Bekbulaktor stream
- Two lines of IP (Induced Polarisation) geophysics which indicate that:
  - Presence of gold is generally consistent with increased chargeability and resistivity, so that the geophysical surveys may prove to be a useful exploration tool
  - There is a geophysical anomaly to the south of the known mineralisation, under Quaternary cover, that needs to be investigated for possible gold mineralisation.



**Fig 6 Trench sampling results on the Bekbulaktor Prospect**

Geothermal energy (Kentor 80%)

Exploration continued on the North Kyrgyz licence area with a view to establishing a resource suitable for district heating the Kyrgyz capital, Bishkek. Historic Soviet geophysical surveys indicate an extensive zone of coincident low gravity and low resistivity consistent with fractured granite with water in the interstices. Shallow temperature surveys across the geophysical anomaly and the location of hot springs are consistent with elevated temperatures in the groundwater. Work is continuing to select drill targets for 2011.





*Fig 7 Shallow temperature sampling*

### **Corporate**

Kentor continued to put in place the funding requirements for Andash, aided by the improving economics of the project, a strengthening market for advanced gold and copper projects and increasing confidence in the Kyrgyz Republic.

During the quarter, a total of \$12.5 million in gross proceeds was raised through a share placement and a rights issue, both oversubscribed.

The placement of approximately 55 million new shares at 7.7 cents per share raised gross proceeds of \$4.2 million to be used to continue the development of the Andash project. The placement was keenly sought in Australia, Asia and Europe.

The 2 for 7 non-renounceable rights issue at an issue price of 6.5 cents per share raised the maximum gross proceeds of \$8.3 million from the issue of approximately 128 million shares.

On 4 October 2010, Kentor announced that Macquarie Bank had been mandated to provide US\$50 million in debt finance towards the construction of the Andash project. With the bank not requiring hedging, the arrangement gives Kentor shareholders the maximum exposure to future upside in both gold and copper prices. However, an additional US\$6 million facility forms part of the offer for the acquisition of put options at the discretion of the Kentor board.



**Kentor Gold Ltd**

ACN 082 658 080

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## **Outlook**

During the current quarter, Kentor expects to complete the detailed design work, finalise project funding and receive the remaining approvals related to the Andash project, opening the way to a final decision by the Company to proceed to full-scale development of the Andash project.

For further information, visit the Kentor website at [www.kentorgold.com.au](http://www.kentorgold.com.au) or contact:

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Managing Director

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Email: [info@kentorgold.com.au](mailto:info@kentorgold.com.au)

**Mr David Waterhouse**

Investor Relations

Ph (03) 9670 5008



Andash JORC Resource Estimate						
Category	Type	Tonnage (kt)	Grade		Metal	
			Au (g/t)	Cu (%)	Au (oz)	Cu (t)
Measured	Oxide	923	0.88	0.50	26,114	4,638
	Sulphide	3,160	1.21	0.47	122,932	14,900
Indicated	Oxide	810	0.85	0.43	22,136	3,510
	Sulphide	14,305	1.11	0.38	510,507	54,260
Total		19,200	1.10	0.40	679,023	77,300

Andash JORC Reserve Estimate						
Category	Type	Tonnage (kt)	Grade		Metal	
			Au (g/t)	Cu (%)	Au (oz)	Cu (t)
Proven*	Oxide	1,129	0.77	0.43	27,995	4,867
	Sulphide	2,921	1.17	0.46	110,210	13,408
Probable*	Oxide	1,389	0.68	0.31	30,155	4,315
	Sulphide	10,559	1.09	0.39	371,370	40,896
Total		16,000	1.05	0.40	539,730	63,486

*\*Ore Reserve estimated using assumptions of US\$525/oz gold and US\$3,000/t copper*

## Competent Persons Statement:

The Exploration Targets in this report is based on information compiled by Simon Tear, who is a member of the Australasian Institute of Mining and Metallurgy and a full time employee of Hellman and Schofield. Mr. Tear has sufficient experience which is relevant to the style of the mineralisation and the type of deposit under consideration and to the activity to which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Tear has consented to the inclusion of this information in the form and context in which it appears in this report.

The Andash Ore Reserves and Resource estimates in this report are based on information compiled by Dr. Phil Newall, who is a Chartered Engineer and Fellow of the Institute of Materials Minerals and Mining and a full time employee of Wardell Armstrong International. Dr. Newall has sufficient experience which is relevant to the style of the mineralisation and the type of deposit under consideration and to the activity to which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr. Newall has consented to the inclusion of this information in the form and context in which it appears in this report.

The exploration results in this report are based on information compiled by Simon Milroy, who is a member of the Australasian Institute of Mining and Metallurgy and a full time employee of Kentor Gold Limited. Mr. Milroy has sufficient experience which is relevant to the style of the mineralisation and the type of deposit under consideration and to the activity to which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Milroy has consented to the inclusion of this information in the form and context in which it appears in this report.



# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Kentor Gold Limited

ABN

52 082 658 080

Quarter ended ("current quarter")

30 September 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a)exploration and evaluation	(358)	(479)
(b) development	(2,189)	(8,076)
(c) production	(576)	(1,949)
(d) administration	-	-
1.3 Dividends received	53	200
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Foreign Exchange differences	-	-
Due diligence on Andash Project	-	-
<b>Net Operating Cash Flows</b>	<b>(3,070)</b>	<b>(10,304)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c) purchase options	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	(61)
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(3,070)</b>	<b>(10,365)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly**

1.13	Total operating and investing cash flows (brought forward)	<b>(3,070)</b>	<b>(10,365)</b>
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	11,841	11,841
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	<b>8,771</b>	<b>1,476</b>
1.20	Cash at beginning of quarter/year to date	5,752	13,035
1.21	Exchange rate adjustments to item 1.20	(22)	(10)
1.22	<b>Cash at end of quarter</b>	<b>14,501</b>	<b>14,501</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	158
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Remuneration paid to executive and non-executive directors for the quarter.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	664
4.2 Development	3,629
4.3 Admin	684
<b>Total</b>	<b>4,977</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	301	621
5.2 Deposits at call	14,200	5,131
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>14,501</b>	<b>5,752</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter				
(a) Increases through issues	54,915,722	54,915,722	7.7c	Fully Paid
(b) Decreases through returns of capital, buy-backs, redemptions	127,989,487	127,989,487	6.5c	Fully Paid
7.3 <b>+Ordinary securities</b>	575,916,690			
7.4 Changes during quarter				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	60,611,358	Unlisted Options	Exercise price	Expiry date
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.

*Anderson*

Sign here: ..... Date: ..29/10/2010.....  
(~~Director~~/Company secretary)

Print name: ...Kylie Anderson.....

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.