



20 May 2011

Kentor Gold Limited (ASX: KGL) is an Australian-based company engaged in the exploration and development of gold, base metals and geothermal energy 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 in the Kyrgyz Republic and is targeted to produce annually 70,000 oz gold and 7,400 tonnes copper in concentrate. Kentor Gold is also targeting early production at gold-copper projects in Western Australia and the Jervois multi-metals project in the Northern Territory.

Issued capital:

1,062.1 million ordinary shares

58.1 million unlisted options

Market Capitalisation

(19 May. 2011): \$138 million

Andash Project Development Update

The development of Andash Copper-Gold Project in the Kyrgyz Republic remains the key focus of Kentor Gold Limited ("Kentor Gold" or "the Company").

To date, significant progress has been made in completing the detailed design, and preparing for construction. Merit Consultants of Vancouver has a team in country to ensure a smooth transition from Engineering and Procurement by AMEC in Australia to Construction Management by Merit Consultants which has 40 years experience in such projects.

There are still a number of key issues that require careful management and consideration to continue the development through to construction and commissioning however it has now become apparent that there will, most likely, be a delay to the development timetable. These issues need to be carefully understood in the context of the political environment in the Kyrgyz Republic.

The Kyrgyz Republic enjoys the reputation of being the first parliamentary democracy formed in Central Asia. It is now operating under a new constitution, introduced only last year and with a government and Prime Minister in position only since December 2010. The procedures and process of government are still being established as would be expected in a newly established democracy.

Kentor is a supporter of the democratic process within KR and is using its extensive in-country experience to work with all levels of government to address issues which have arisen and are arising on the development pathway. However, it would be fair to say that with such a new, young government, it is not a straightforward process and that elected government officials and administrators are grappling with the procedural courses of action. The outstanding issues requiring careful management can be summarised as follows:



Site Access. Sections of the local community representing a minority of the population in Kopuro Bazar (the village closest to the proposed mine site and in whose municipal area the project will be developed) remain opposed to the development of the Andash Project by Kentor. This opposition is currently very vocal and also has the potential to be violent, and as yet, the village council has not agreed that Kentor should have access to the site to commence construction. The reasons for the opposition vary between individuals in the village but Kentor believes that it will be able to overcome this opposition by:

- Continuing to engender government support. Kentor has made and continues to make representation to all levels of local and central government to discuss the value of the Andash Project to the nation. Both in-country staff and the Kentor Board have met with senior government representatives who have verbally provided their support. The Board made a special visit to the Kyrgyz Republic in April in order to obtain a better understanding of the issues and at the same time, find resolution to the issues.
- Continuing to engender local community support through direct communication and presentations wherever possible.

Permitting. The only significant outstanding permitting approval is the OVOS (Kyrgyz environmental and social permit). A draft OVOS has already been lodged with the Kyrgyz authorities, with the final version to be submitted in the first week in June. A three month review process will then be undertaken by government experts covering all aspects of social and environmental impact. The final approval of the OVOS is therefore expected at the end of the third quarter this year. Notwithstanding, the final approval of the OVOS is not holding up the commencement of site works and the timing for expected approval is not expected to cause any delays to the project.

Construction permits will also need to be obtained for each segment of the project. However, these are considered to be routine in nature. Kentor is working with licensed Kyrgyz design institutes to secure approvals of the basic designs from the relevant government departments.

Parliamentary Review. In February, Kentor advised shareholders that the Kyrgyz government had formed a Parliamentary Commission to review the Andash Project. It was expected that the Commission would make recommendations as to how any concerns being expressed by some members of the local community should be reconciled with the pressing economic needs of the Republic and the Parliamentary Committee was given a deadline of 1 March 2011 to report its findings. It has not met this deadline. However the Commission is still underway and although Kentor is in contact with its members, the terms of reference and reporting deadlines are now unclear. It is now quite possible that the commission may never report its findings. Although, this delay in completing the commission's report is not restricting any of the development activities on the project, the lack of definitive support from the central government has not helped with the resolution of the local access issues.

Mining Licence Conditions. Kentor has a valid mining licence for the Andash Project and as previously advised, one of the conditions of the licence requires that production commences by June 2012. In light of the ongoing delays impacting on the commencement of construction, Kentor is seeking to invoke Force Majeure on this condition as a result of site access being restricted. Verbal approval for this has been obtained from the Minister for Natural Resources and the Company awaits written confirmation of this.

Minority Ownership in Andash Mining Company (AMC). In April the Supreme Court ruled that the case between the General Prosecutor and Invest Centre Talas (ICT) relating to minority ownership of AMC should be re-tried in the Chui Inter-district court at a date to be determined. Kentor has since received the written ruling of the court and Kentor's interpretation is that the re-trial is based on a procedural matter. The Supreme Court found that the minority owner's interest of 20% in AMC was a Strategic Asset of the Kyrgyz Republic and as such, the government has a pre-emptive right in any sale of the AMC interest. Kentor believes that the re-trial in the Chui Inter-district court and resolution will take approximately four months to complete. Kentor's 80% stake in the Andash Project is unaffected by the issue of the minority owners of AMC.



In light of these issues, Kentor now considers that site access will be delayed and therefore construction is unlikely to commence in the next few months. Kentor believes access is more likely to be obtained later in this calendar year. The construction schedule still provides for commissioning to commence 12 months following the granting of site access and, barring extreme weather conditions, Kentor plans to undertake site activities through the winter period.

The delay in commencing the project, is not causing significant cost increases, other than the cost of maintaining staff for the additional period.

In summary, Kentor remains optimistic with regard to the development of Andash which will become one of the world's lowest production cost gold projects. The project is fully funded and is ready to proceed as soon as site access is available. The project is of national significance for the Kyrgyz Republic and, although the delay is frustrating, the Board believes that the government is working through the outstanding issues to provide the necessary support to enable construction to commence.

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