



Kentor Gold Ltd

**Highlights of interview....**

- MD discusses gold mine company maker.
- Equity funding for project financing completed
- Explains why the DFS meets all hurdles.
- Exploration upside.
- Outlook for the company.

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“MD Milroy on First Gold Mine”

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Kentor Gold Ltd (ASX code: KGL) recently took the decision to proceed with the full-scale development of the Andash gold-copper project (KGL 80%) in Kyrgyzstan, Central Asia, and this week announced a successful capital raising to complete the equity funding for the project financing. You’ve described Andash as a “company maker”. Can you explain why, particularly with reference to the major assumptions and financials in the DFS?

**Managing Director Simon Milroy**

We are very enthusiastic about the Andash Project. We think it is a company maker as it will transition us from a junior explorer to a 70,000 oz per year gold and 7,400 tonne per year copper producer operating with very high profit margins. Andash is the first part of our growth platform and over the ensuing years we plan to build a significant Central Asian copper gold business supplying international markets. Andash was acquired during the depth of the GFC on very competitive terms. It has a granted mining licence and has quality resources and reserves. Since acquiring the project nearly 12 months ago the capital and operating costs have been updated and the project is now better than we initially thought.

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Can you explain why the Definitive Feasibility Study (completed in June 2010) concluded with such a low cash cost of US\$29/oz? What does it include? What about the calculated operating costs on a per tonne of ore basis – how confident are you with those numbers?

**Simon Milroy**

The extremely low cash cost is a result of numerous factors including a wide ore body that outcrops at surface, that is amenable to bulk mining methods and has a strip ratio of 0.72 :1. The gold cost which is calculated after a credit for the copper, includes all treatment, transport and refining charges and royalty. The concentrate we plan on making is high grade being 24.5% copper and 72 g/t gold. Also, the technology we are using is off the shelf – it’s a simple open pit mine with a conventional flotation plant. Nothing is easy in mining, but this is at the lower scale of difficulty.

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You've identified an initial mine life of 6 years with average annual production of 70,000 ounces and 7,400 tonnes of copper. Can you explain the exploration upside to increase that mine life? What amount of expenditure are you committing to exploration?

### **Simon Milroy**

The exploration upside is fantastic. The planned mine encompasses Andash zone 1 which has the current Resources and Reserves. Recently we asked Hellman and Schofield to evaluate the exploration target for Andash zones 2 and 3 and they came up with an Exploration Target\* of between 5 and 10 million tonnes at between 1 and 1.5 g/t. Zones 2 and 3 are 2 of 6 known prospects where we plan to source additional feed. We also have the Aktash deposit 8 km from the mine where H&S have 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. Aktash is very significant as the grade of the mineralisation is much higher than the Andash zone 1 ore body. Our vision is to mine Aktash concurrently with zone 1 and blend the ore. This will potentially result in feeding a higher grade of ore to the plant and hence increased gold and copper production.

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

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The capital cost is expected to be US\$96 million. How robust is that figure? Last month you appointed Macquarie Bank to arrange US\$50 million in debt and this week announced an A\$65 million capital raising. Can you explain your capital raising strategy? What has been the impact of the exchange rate shifts this year?

### **Simon Milroy**

We are confident of the capex figure. After we formally acquired the project in December 2009 we commissioned a new feasibility study and optimisation study by AMEC Minproc of the capital and operating costs to take into account changed market conditions.

The capital raising announced this week completes the equity funding for the development of Andash. The placement raised A\$13.4 million in gross proceeds (at 15.5 cents per share, an 18.4% discount to the 30-day VWAP of 19 cents per share). At the same time, we announced a non-renounceable three-for-five rights issue to raise a gross A\$51.8 million (at 13 cents per share, a 31.6% discount to the one-month VWAP). We structured the project financing as a combination of debt and equity, giving shareholders a good value opportunity to grow their interest, while containing the dilution. The placement was significantly oversubscribed, and the success of the rights issue is already assured due to commitments from investors to take up any shortfall.

The response reflects not only confidence in the intrinsic value of the project and our technical and commercial expertise to develop and operate it, but also the fact that the international financial community has been buoyed by the recent positive political developments in the Kyrgyz Republic.

The changes in the AUD:USD exchange rate have been very beneficial to our project. We have been raising equity in Australian dollars, and the change from 12 months ago where the currency was high 80's to parity today is of great value to our shareholders.

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You've been open in your presentations in describing the recent political instability in Kyrgyzstan. Parliamentary elections were recently held on October 10. Why do you believe the country is now emerging from the crisis? What final permitting or approvals do you need to get into production?

**Simon Milroy**

We will continue to be very open about the political developments within the country. Since the government announced elections and after their success, we are increasingly confident of a stable political environment in the country. Importantly all our people on the ground tell us that the previous tensions are no longer apparent. People should also remember that during the recent crisis, the Kumtor Gold Mine which is the largest in the country and owned by Canadian Centerra did not have any disruption to the operations caused by the revolution or the subsequent ethnic violence that took place in the south of the country.

The final permitting approvals are an update to the previously issued environmental and social permit and a local approval from the Kopuro Bazar village council relating to project development. We are hopeful of having both of these in place before the end of the year.

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We've spoken about sovereign risk. How does the fiscal/tax regime in Kyrgyzstan compare with Australian and other mining jurisdictions?

**Simon Milroy**

Overall the taxation package is very competitive. In Kyrgyzstan we will pay 10% corporate income tax and a 1.5% sales tax. The royalty is 5% on gold and 3% on copper and we are also choosing to donate a 1% royalty to the local community and province for community development.

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Can you give more detail on the geometry of the ore body and the mining methods? Are there any technical challenges on the processing side?

**Simon Milroy**

The geometry is fairly simple. The ore body is approximately 250 metres wide and follows the slope of the hill. This results in a waste to ore stripping ratio of less than 1:1. Andash zones 2 and 3 and Aktash are all fairly shallow and gently dipping so will also be able to be mined with shallow open pits.

The processing consists of crushing, grinding and flotation. We place the concentrate into 2-tonne bags which will be trucked for 150km and then loaded on to rail. The gold goes out mixed with the copper concentrate because this avoids the security concerns of making gold bars.

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Where will you sell the concentrate and on what terms? i.e. what effective price will you receive relative to the prevailing spot price?

**Simon Milroy**

We are currently running a competitive process to put in place a concentrate off take agreement and we expect to have this completed before the end of the year. The concentrate is high grade and does not contain any penalty elements so we are expecting very good payment terms for the concentrate. We can send it to where ever we get the best terms because once it is on the rail, the actual cost of the freight is fairly insignificant in relation to the value of the concentrate.

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Kentor has several potential projects in central Asia, particularly Kyrgyzstan. What advantages does Kentor have to operate in that region? Is this where Kentor will focus to achieve growth above Andash? Can you summarise Kentor's longer term growth strategy?

**Simon Milroy**

Kentor has 12 years' experience in the country and the region. As we build the company we will be looking for further growth opportunities. The most important thing for the next 18 months is to build Andash and establish the mine as a profitable operation. At the same time, we will continue to evaluate other potential acquisitions. We are located in one of the best endowed gold belts in the world and the opportunities are immense.

With the quality of the Andash asset, the experience and expertise of our team, and our sensitivity to the Kyrgyz nation and people, I'm sure we will succeed.

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Thank you Simon.

The Exploration Targets in this report are 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 styles of the mineralisation and the types of deposits 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.

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