

## Recommendation – Speculative buy

Kentor Gold Ltd (ASX: KGL) is seeking to develop the Burnakura gold project in Western Australia, the Andash gold and copper project in the Kyrgyz Republic and the Jervois copper project in the Northern Territory.

### Investment data

ASX code	KGL
Share price (12 <sup>th</sup> October 2011)	A\$0.096
Cash (30 <sup>th</sup> June 11)	A\$43 M
Debt	Nil

### Current issued capital

Issued shares	1,062.1 M
Options	63.6 M
Market capitalisation (fully diluted)	\$109 M

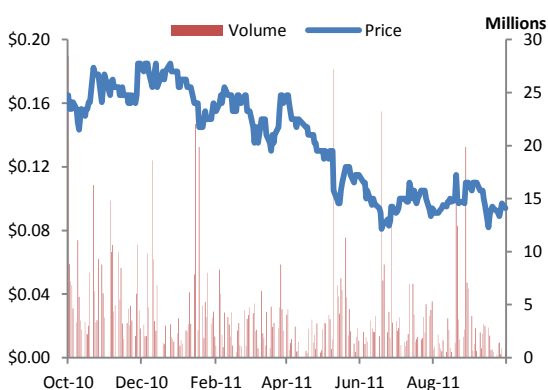
### Board and Management

John Barr	Chairman
Simon Milroy	Managing Director
Hugh McKinnon	Executive Director
Andrew Daley	Director
John Taylor	Director

### Top shareholders

	%
KMP Investments	12.7

### Share price performance



### Analyst

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## SUMMARY OPINION

- Kentor's plans to take advantage of higher gold prices by returning Burnakura to production look likely to pay off. At +US\$1,500/oz gold today the economics of cutting back pits last mined in the 1990s can be lucrative. The NOA2 resource is sufficiently large and high grade to underpin the Burnakura plans. If successful Burnakura will both secure Kentor's finances and open up large and very prospective tracts of half explored terrain, at Burnakura and Gabanintha.
- The Andash project also boasts better projected margins than it did a year ago due to the higher gold price. A very low strip ratio, relatively cheap power and labour, good access to roads and rail – are all still on offer. However Kentor has encountered a fractured local community not yet able to make a decision on Andash. Kentor believes good sense will prevail over the next six months, which would allow commissioning to begin 12 months from approval. Progress should be well rewarded in the share price.
- Recent drilling at Jervois has given the best indication to date of coherent, high grade copper-silver-gold lodes at depth. Follow up drilling will be closely watched.

## KEY POINTS

- Kentor acquired Burnakura's database and recently operated CIL treatment plant in May 2011 and immediately began preparations for bringing the project back into production. A mid 2012 commissioning is planned.
- Kentor is financing Burnakura's redevelopment with cash reserves. Gold production of 33,000 ounces at a cash cost of US\$830/oz is forecast from 2013.
- The Burnakura and nearby Gabanintha belts (both held by Kentor 100%) are each centres of significant past gold production with an array of resources and exploration prospects.
- Kentor has had the Andash gold and copper project in the Kyrgyz Republic in the starting blocks since September 2010. Final approval to commence construction has been delayed by local and national issues following the establishment of a new Kyrgyz government in 2010. Kentor is continuing negotiations with the aim of gaining final approval.
- Average annual production at Andash is forecast at 70,000 ozs Au and 7,400 t Cu in concentrate respectively. Net of copper credits, the forecast cash cost of gold production is US\$30/oz.
- In May 2011 Kentor acquired the Jervois project in the Northern Territory. Jervois' near surface sulphide resources (incl. 113,000t Cu and 8 Moz silver) and a deeper discovery from Kentor's recent drilling could combine to give the project commercial lift-off.
- Kentor is valued here at A\$0.18/share; a figure which is heavily discounted to reflect the uncertain timing at Andash.

## KEY RISKS

- There is a risk of further delays at Andash.
- Mine plans at Burnakura are still to be finalised.

## Kentor Gold background

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Kentor Gold Ltd was incorporated in 1998 to hold mineral interests in the Kyrgyz Republic (Kyrgyzstan). A public share offer and Australian Stock Exchange listing of Kentor's shares in 2005 funded exploration of a series of Kyrgyz gold prospects, with an emphasis on several targets near the Kumtor gold mine. In late 2009 Kentor acquired the Andash gold-copper project in north-west Kyrgyzstan. Kentor financed the acquisition and a subsequent revision of the Andash Feasibility Study with a A\$28 million placement in December 2009.

Kentor and its consultants completed the Andash Feasibility Study in March 2010, proposing development of a mine and processing operation to produce 70,000 ounces of gold and 7,400 tonnes of copper per year.

In April 2010 a popular uprising across the Kyrgyz Republic and the consequent change of government forestalled Kentor's financing and permitting processes for Andash.

In November 2010, following election of a new Kyrgyz parliament, Kentor committed to Andash's development and raised A\$65 million through a placement and a rights issue. In 2011 Kentor has been working through various bureaucratic, legal and social issues pursuant to Andash's development.

Kentor acquired a portfolio of mineral assets in Western Australia and Northern Territory in May 2011, through the takeover of unlisted Jinka Minerals at a net cost of A\$12.8 million.

Since mid 2011 Kentor has sought to advance gold and copper development claims in three project areas; Andash in Kyrgyz Republic, Burnakura/Gabanintha in Western Australia's Murchison and Jervois in the Northern Territory.

## Board and Management

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Kentor has offices in Brisbane Bishkek and Perth.

### **John Barr, AM, MAICD, Chairman**

John Barr has had a long involvement with the Australian minerals and metals industry having been Managing Director of Metallgesellschaft's Australian subsidiary since the company's inception in 1974 until his retirement in 1994. He was appointed non-executive Chairman of Kentor in 2005.

### **Simon Milroy, B.Eng (Mining), Managing Director**

Simon Milroy was appointed Managing Director and CEO of Kentor in May 2007. Simon Milroy is a mining engineer with twenty year experience across a diverse range of metals. His

most recent experience has been with Kingsgate in Thailand and with Pan Australian Resources in Laos where he managed the Phu Kham copper-gold mine feasibility studies.

### **Hugh McKinnon, B.Eng (Mining), Executive Director**

Hugh McKinnon has been involved in the mining industry in Australia, Africa, and Asia for 30 years in activities ranging from exploration ventures to mine production. Since early 1996 he has worked on mining and exploration projects across Central Asia from Tajikistan to Mongolia, with a particular interest in the Kyrgyz Republic. Hugh is based in Bishkek since 1996, speaks competent Russian and has been instrumental in Kentor's development since its inception in 1997.

### **Andrew Daley, BSc (Hons) (Mining), Non-Exec. Director**

Kentor non-executive director Andrew Daley is a mining engineer and investment banker, also director of Pan Australian Resources (ASX:PNA, A\$2.2 billion). Andrew was appointed to Kentor's board before the listing in 2005.

### **John Taylor, B. Eng (Chemical), MBA, Non-Exec. Director**

John Taylor was previously the MD of Outotec Australasia. John brings extensive mineral processing and engineering skills to the company. John Taylor was appointed non executive director of Kentor in July 2009.

## Jinka Minerals Ltd

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Gabanintha and Jervois were the main projects held by Reward Minerals Ltd when it first listed on the ASX in 2004. Reward began to focus on potash interests in 2006, and in mid 2008 a decision was made to spin off Gabanintha and Jervois into a separate company, called Jinka Minerals Ltd. Shares in Jinka were distributed to Reward shareholders, but Jinka's planned capital raising and listing were foiled by adverse markets in 2009. In June 2010, financed by a director loan, Jinka purchased the Burnakura Project to complement Gabanintha. Kentor acquired Jinka's assets in May 2011.

Burnakura and Gabanintha are two tenement blocks 20 kilometres apart in Western Australia's Murchison region. Both projects have extensive histories of gold production and exploration. Resources are estimated at each project and there is a treatment plant under care and maintenance at Burnakura.

## Burnakura

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From the mid 1980s to 1998 a total of 220,000 ounces of gold were mined from 15 pits along an 8-kilometre stretch of greenstones at Burnakura. Metana Minerals mined

Burnakura as part of the Reedys project and then St Barbara Mines discovered and mined the NOA (North of Alliance) deposits under cover in the northern half of the project. At the completion of open pit mining in 1998 a series of high grade lodes beneath one of the pits, NOA2, was drilled to resource status and examined from several angles but left unmined due to a soft gold price and an uncertain geological interpretation. In 2006 and 2007, Extract Resources and Tectonic Resources relocated a 160,000 tpa CIL plant on site and underground mined NOA2 extracting 184,000 tonnes at 7g/t to produce 37,000 ounces of gold. The project was sold to Canadian listed ATW Gold Corp in December 2007. ATW refurbished the mill and recommenced underground mining at NOA2 in late 2008, but found the lodes more complex than initially interpreted and placed the Burnakura plant on care and maintenance in October 2009 after producing about 13,000 ounces of gold. In June 2010 ATW sold Burnakura to unlisted Jinka Minerals, owner of the nearby Gabanintha project. Jinka conducted minimal field work at Burnakura prior to Kentor's acquisition of Jinka's assets in May 2011.

Kentor recognised the opportunity to revisit open pit mine plans at Burnakura, taking advantage of a higher gold price, drilled resources and a recently operated treatment plant in place.

Kentor engaged consultant Helman and Schofield to estimate resources at Burnakura from the historical data as at May 2011.

### Burnakura Inferred Resources

Deposit	Tonnage (Mt)	Grade Au (g/t)	Metal Au (oz)
NOA	3.4	2.4	262,000
Alliance	0.8	2.0	51,000
Lewis Reward	0.4	1.8	23,000
Authaal	0.4	2.0	26,000
Federal City	0.2	2.7	17,000
Banderol	0.2	1.5	10,000
<b>TOTAL</b>	<b>5.4</b>	<b>2.2</b>	<b>390,000</b>

May 2011 (1.0 g/t lower cut off)

A second consultant was engaged to identify pit cutback opportunities among the Burnakura resource positions and put together a mine plan. Resources at NOA2, Lewis Reward, Federal City, Alliance and Authaal were chosen to form the basis for an initial mine plan.

The first round of mine design work, estimating tonnages, grades and waste movement requirements, is expected to be finished by the end of October 2011. Preliminary plans involve extraction of about 250,000 tonnes in total from three pits at Lewis, Reward and Federal City, satisfying the

first twelve months of mill feed. Much of the drilling data requires validation. Kentor's first drill program at Burnakura, planned for November 2011, is designed to firm up the Lewis and Reward mine plans. Validation drilling programs at Federal City and NOA2 will follow from December 2011.

Kentor has an initial target of three million tonnes in ore reserves, of which up to half is expected to be defined within a deepened NOA2 pit design. NOA2 was open pit mined to 80 metres vertical depth and drilled to a maximum vertical depth of 200 metres below surface. Recent underground mining of the NOA2 lodes was curtailed by complex ore geometry and lower gold prices, leaving scope for open pit recovery of the remaining lodes and low grade envelope. Kentor's approach to NOA2 has the benefit of the underground sampling and drilling, and mining will be assisted by exposure of the lodes in an open pit.



The NOA2 pit at Burnakura, looking south, October 2011.

In the accompanying forecasts the mining inventory for Burnakura is assumed to be 3.0 million tonnes at 2.2 g/t Au, with an average waste:ore ratio of 9:1. Average head grade in the first year of operation may be lower than the mine life average. Capitalised waste movement from NOA2 of 8 million tonnes (A\$25 million cost) is assumed in years one and two of the mining campaign, after which the estimated strip ratio reduces to 6:1. (These are Green Leader assumptions that are subject to change as the relevant studies progress). Kentor is examining pit designs that will spread the waste movement profile more evenly over the mine life and reduce the early capital spend.

Kentor began preparations for expanding and recommissioning the Burnakura on-site treatment plant in mid 2011. Additional equipment from the Indee heap leach project, purchased for \$1.3 million in June 2011, was relocated to Burnakura by September 2011 at an additional

cost of \$1.0 million. Almost all of the existing plant, including the power station and electrical wiring, will be brought back into service. The major new items for installation are extra CIL tanks and the Indee elution column and gold room. Kentor’s consultant engineers estimate the cost of refurbishing and recommissioning the Burnakura plant at an initial ore throughput rate of 280,000 tpa will be A\$3.5 million before first fill and working capital needs.

At the end of September 2011 refurbishment work was on track for completion and commissioning by mid 2012.



*Burnakura CIL treatment plant, October 2011*

In Stage 2 of Burnakura’s redevelopment Kentor plans to expand operations in order to process 500,000 tonnes of ore per annum from mid 2013. Ore from the cut back NOA2 pit is expected to make up half the feed to the expanded plant for six years. Alliance, Authaal and New Alliance provide the balance. Kentor has procured most items of equipment required for the expansion, with the exception of additional leach tanks and a replacement ball mill. The cost of the expansion is estimated here at A\$6 million. Kentor’s engineering consultant is expected to deliver a cost estimate by December 2011.

In parallel with CIL processing Kentor has the option of establishing a parallel heap leach operation to treat lower grade oxide ore. The Indee stackers and other heap leach equipment are on site at Burnakura. The material volumes available for heap leaching are difficult to predict, and heap leaching is not included in forecasts.

Prior to Kentor’s push the last examination of open pit mining prospects on the Burnakura belt were conducted before 1998. Not all open pit extensions were drilled well enough to enable resource estimation and pit design. Mineralisation beneath NOA7/8 (mined to 60 metres depth and over 500 metres of strike) was considered for underground mining only and key levels immediately under

the pit were left undrilled. Kentor plans to drill NOA7/8 after commissioning to assess its possible place in the mine plan.

Gold occurs at Burnakura over eight kilometres of strike in a variety of structural positions and rock types. Past exploration has been typically shallow and incremental, leaving Kentor scope for new discoveries. Kentor’s first exploration drilling program targeted prospects north of the NOA line in September 2011. More targets will emerge as previous drill data bases are compiled and interrogated.

## Gabanintha

Dominion Mining mined about 1.5 million tonnes of oxidised, open pit ore grading 3.2 g/t Au from Gabanintha between 1987 and 1992, producing 150,000 ounces of gold. Most of the mined ore came from a series of sub parallel shoots occurring over a one by two kilometre area. The maximum pit depth was 70 metres from surface. Remnant resources in the pit margins and floors were estimated at 660,000 tonnes at 3.5 g/t in 1993. Exploration recommenced at Gabanintha in 2001. Reward Minerals completed several drilling programs between 2004 and 2008, outlining a high grade resource at Yagahong North in 2005.

Kentor’s consultant, Hellman & Schofield, estimated resources at Gabanintha in July 2011.

### Gabanintha Inferred Resources

Deposit	Tonnage (Mt)	Grade Au (g/t)	Metal Au (oz)
<i>Tumblegum</i>	0.1	1.8	3,000
<i>Canterbury</i>	0.5	1.7	27,000
<i>Terrells</i>	0.7	1.8	41,000
<i>Yagahong</i>	0.1	1.5	2,000
<i>Yagahong North</i>	0.8	2.9	75,000
<i>Golden Hope North</i>	0.1	1.5	5,000
<b>TOTAL</b>	<b>2.2</b>	<b>2.2</b>	<b>156,000</b>

*July 2011 (1.0 g/t lower cut off).*

Gabanintha’s main gold lodes are often associated with copper mineralisation, which has restricted exploration for and development of Gabanintha’s gold prospects (copper interferes with gold recovery in the CIL process). Discrete zones grading over 2.5% copper are evident in drilling at Yagahong North.



Terrels Pit at Gabanintha, October 2011

Kentor is examining the gold and copper domains within the Gabanintha resources to assess the potential for selective mining and CIL treatment at Burnakura, and whether addition of a flotation circuit at Burnakura may be justified to extract copper and gold in a concentrate for sale. The latter option requires discovery of additional copper-gold resources.

Kentor plans to undertake a regional field program aimed at new copper and gold deposits. Gabanintha's complex structural geology is likely to host more flat lying deposits than found to date. An area north of the Kavanagh pit is strewn with copper showings suggesting the system extends at least a kilometre further north.

## Jervois

The Jervois base metals project in the Northern Territory is 280 kilometres north-east of Alice Springs and 400 kilometres south west of Mt Isa. Base metals mineralisation was discovered in outcrop at Jervois in 1929. Numerous mining and exploration campaigns have since gouged and probed at Jervois' massive and disseminated sulphide deposits, which occur within a folded Proterozoic sequence, along ten kilometres of J-shaped strike length.

Two types of sediment hosted base metal mineralisation occur at Jervois, typified by stratiform copper at Marshal and lenticular lead-zinc-silver at Green Parrot. Relatively small but high grade (~300,000 tonnes at 8% lead) lead-zinc-silver lenses can occur in close proximity (less than 10 metres) to more extensive chalcopyrite dominant copper deposits.

In recent times the only significant production at Jervois occurred in 1983, when Plenty River Mining open pit mined 44,000 tonnes grading 8% lead, 2.5% zinc, 160 g/t silver and

1.5% copper from the Green Parrot deposit, before closing the on-site concentrator in the face of collapsing metal prices. Subsequent explorers including Normandy Poseidon and MIM Exploration focussed on the sulphide copper prospects and completed extensive drilling and geophysical surveys at Jervois. MIM also conducted metallurgical tests. Reward Minerals drilled 160 RC and diamond core holes at Jervois between 2004 and 2009.

Kentor's consultants Hellman and Schofield completed an estimate of the Jervois resources in July 2011.

### Jervois Inferred Copper Resources

Deposit	Tonnage (Mt)	Grade		Metal	
		Cu (%)	Ag (g/t)	Cu (t)	Ag (Moz)
Reward	4.4	1.8	31	59,000	4.4
Bellbird	3.4	1.3	8	45,000	0.9
Green Parrot	0.7	1.0	94	7,000	2.1
Bellbird North	0.3	0.7	27	2,000	0.3
<b>TOTAL</b>	<b>8.8</b>	<b>1.3</b>	<b>27</b>	<b>113,000</b>	<b>7.6</b>

July 2011

### Jervois Inferred Pb-Zn-Ag Resources

Deposit	Tonnes (Mt)	Grade			Metal		
		Pb (%)	Zn (%)	Ag (g/t)	Pb (t)	Zn (t)	Ag (Moz)
Green Parrot	0.7	2.5	1.2	94	17,000	8,000	2.1
Bellbird North	0.3	2.7	4.5	27	8,000	14,000	0.3
<b>TOTAL</b>	<b>1.0</b>	<b>2.6</b>	<b>2.2</b>	<b>73</b>	<b>26,000</b>	<b>22,000</b>	<b>2.4</b>

July 2011

The resources are limited to a maximum vertical depth of 200 metres below surface. The sub-vertical Reward and Bellbird deposits which start from surface, are up to 30 metres in width and open at depth. Contained metal in the copper resources totals 113,000 tonnes of copper and 7.6 million ounces of silver.

Kentor began a pre-feasibility study, based on open pit mining and on site copper concentrate production at Jervois, upon completion of the resource estimates. An infill and extension drilling program consisting of 15 diamond holes and 26 RC holes began in May 2011. Each of the Jervois resource positions was included in the program.

By early October 2011 Kentor had completed its first drilling program at Jervois, with all but nine of the hole results reported. Hole RJ169, a core hole drilled to follow up two intercepts in an interpreted northerly plunging shoot of the Reward deposit, intersected 72 metres at 3.3% copper, 51 g/t silver and 1.16 g/t gold from 414 metres down the hole. Kentor adjudged the hole deviated down the dip of the deposit and that the true width in the vicinity of the intercept was about 16 metres. The intercept is the deepest

on the field and even at 16 metres true width, one of best recorded on the field to date. Previous intercepts of 22m at 2.9% Cu and 11m at 4.7% Cu (plus 1.8 g/t Au), 50 metres north and south of RJ169 respectively, suggest the Reward shoot or shoots have greater grade and tonnage potential than those drilled closer to the surface. The gold grades are also encouraging, as gold assays have only rarely been included in previous exploration, and hence do not figure in resources.

Upon receipt of the remaining results Kentor plans to return to Reward in early 2012 for both shallower infill drilling and follow up of the deeper target.

The presence of a coherent, thick, high grade copper and gold shoot in the deeps at Reward would add an important dimension to the Jervois development outlook. In past development studies Jervois has fallen short of the amount of metal needed to clear return on capital hurdles (at median copper price settings). Kentor may have the opportunity to use an open pit phase at Jervois to pay off capital and establish the infrastructure for a profitable underground mining operation. The exploration outlook would also be enhanced, with the possibility of decline access underground mining to at least 1,000 metres depth if the lode system is shown to persist. By association the depth prospects beneath the other Jervois resources also take on new importance.

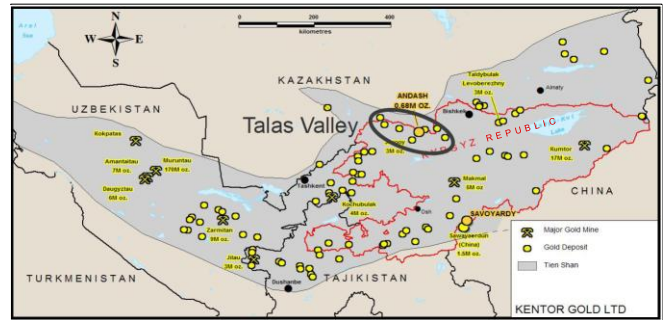
Kentor believes the inventory at Jervois may already underpin a viable development proposition and has commissioned a scoping study based on on-site production of a copper concentrate for sale.

Jervois' relative remoteness does raise expected capital and operating costs. Currently access from the nearest point on the Alice Springs to Darwin railway to Jervois is via about 300 kilometres of mainly unsealed highway. The Port of Darwin is then 1,400 line kilometres further along. In other respects Jervois may be a relatively straightforward development proposition. MIM's tests suggest a clean, saleable copper concentrate can be produced. Some water storage capacity remains from previous development, although Kentor may need to augment this supply. Tenure over the main resources is by Mineral Leases, the ultimate development title in the Northern Territory.

## Andash & the Kyrgyz Republic

Gold and copper was discovered in the course of geological mapping in the foothills at Andash in 1962. Soviet mineral exploration in the region was heavily influenced by the 1950s discovery of Muruntau, in present day Uzbekistan. Muruntau was brought into production in 1967, and

produced more than two million ounces of gold in 2010. Muruntau is in the Tien Shan Belt, which extends from western Uzbekistan, through Tajikistan, Kyrgyzstan and southern Kazakhstan to western China. Andash is one of numerous Tien Shan Belt gold discoveries made since the 1950s.



Tien Shan gold belt and Andash project location. Source: Kentor

The Soviets carried out three methodical exploration campaigns at Andash between 1977 and 1988. Work on the main Andash deposit, or Zone 1, included trenching, mapping, geophysical surveys, three deep core holes from surface, development of an adit, and five horizontal holes from adit crosscuts. Resources at Andash were estimated under the Soviet system in 1988.

Soviet exploration programs found at least five gold deposits in Kyrgyzstan that are either in production or near development; Andash, Kumtor, Taldybulak, Jerooy and Makmal. Of these only Makmal was developed in Soviet times. Makmal was first mined in 1986 and is still operating in 2010 under state ownership, producing about 30,000 ounces per year.

After Kyrgyz independence in 1991 foreign investors were invited into Kyrgyzstan's mining sector. The Kumtor gold project was developed by a Cameco/Kyrgyz government JV from 1994. Private company, Commonwealth and British Minerals (CBM), was granted a licence covering Andash, and drilled 23 reverse circulation holes, mostly into Zone 1, in 1996 and 1997. CBM decided not to proceed and work at Andash only resumed in 2003, in the hands of a locally owned company.

In 2005 the Kumtor mine (now operated by Toronto listed Centerra Gold Inc.) produced over 600,000 ounces of gold and almost 10% of the nation's GDP; easily the largest foreign investment in the Kyrgyz Republic. In January 2005 AIM listed Aurum Mining plc acquired the Andash project. Also in early 2005 Central Asia Gold Limited and Oxus Mining plc each completed feasibility studies on the Taldybulak and Jerooy projects respectively.

In March and April 2005 a revolution swept a new parliament and president into power in Kyrgyzstan. The new regime reiterated outward support for foreign investment, while investigating alleged abuses of authority by the previous government and its agencies. In late 2005 licences for the Jerooy and Taldybulak projects were effectively reassigned. The aggrieved licence holders Oxus Mining and Central Asia Gold later settled separate disputes with the Kyrgyz government, effectively accepting reimbursement of expenditures and withdrawing from Kyrgyzstan. Centerra continued operations at Kumtor against a background of government negotiations until May 2009, when an agreement was ratified on new terms for the Kumtor ownership structure.

The Andash project was also affected by reviews of pre-March 2005 agreements. Aurum Mining completed a study of Andash's feasibility in January 2007 and raised £30 million for project construction in April 2007. However in May 2008 work on the project was suspended by a court ruling in a case concerning the transfer of Andash between local companies prior to January 2005.

Aurum settled the case in February 2009, in the process "neutralising the disputed underlying cause of the action and the challenge to Aurum's entitlement to the Andash asset." Aurum retained the Andash licence unencumbered and the financial injunction was removed the following month. Despite the court clearance Aurum subsequently resolved to suspend further investment in Andash and seek a buyer for it.

In June 2009 Kentor accepted options to acquire Aurum's 80% interest in the Andash project for US\$10 million, and the mining and construction fleet, delivered to a depot in February 2008, for US\$5 million. These options were exercised in October 2009.

In 2009 Kyrgyzstan appeared to stabilise as a destination for foreign investment. In July 2009 Centerra's CEO described the Kyrgyz Republic as a "stable and economically attractive environment" in which to invest. Other foreign companies, including Gold Fields Limited and Santos Limited committed significant exploration expenditure to the Kyrgyz Republic in 2010.

On the 7th April 2010 a violent popular uprising once again changed the political scene in Kyrgyzstan. Nepotism and corruption, and the formation of a united opposition in March 2010, created the conditions that led to the uprising. Order was restored within days. An interim government dissolved the presidential administration, pledged to honour existing international agreements and proposed general elections within six months.

Despite flared ethnic conflict in the south of the country throughout the second half of 2010, in October 2010 a new national Constitution was adopted and national parliamentary elections were held under international supervision.

The new Kyrgyz Constitution has been designed to avoid a recurrence of the situation that led to the events of 2005 and 2010. Government officials are prevented from participating or campaigning in elections to preclude the use of administrative resources to favour certain candidates. Changes have been made to the process of selection of judges in an attempt to reduce corruption in the courts. The parliamentary opposition has been given the power to appoint the Auditor General and to oversee the budget. The powers of the President have been curtailed in favour of a Prime Minister answerable to Parliament. Roza Otunbaeva was confirmed as President by referendum. She has undertaken to manage the transition process through to the end of 2011, when she will step down with no opportunity to stand for re-election. A career diplomat who has held postings as ambassador to the United States and the United Kingdom, Mrs Otunbaeva was instrumental in gaining the support of the international community after the events of April 2010. A presidential election is scheduled for October 30 2011.

## **Andash Licences and Permitting**

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In August 2005 the State Agency of Geology and Mineral Resources issued Licence AE 218 to the Andash Mining Company Ltd (AMC). The licence confers the right to develop Zone 1 at the Andash project. AMC is a Kyrgyz registered company, owned 80% by Kentor through a wholly owned British Virgin Islands registered company.

In October 2010 the Talas Interdistrict court ruled that, due to non compliance with Kyrgyz laws, the 2009 transfer of the 20% of AMC that Kentor did not own was invalid. The court ordered that the 20% holding be offered to the Kyrgyz government on the same terms as the original transfer. The aggrieved party appealed the decision through the Kyrgyz Supreme Court in April 2011, culminating in a rejection of the appeal in the Chui Interdistrict Court in September 2011. While the proceedings do not concern Kentor's 80% interest in the project, the identity of the shareholders of AMC has implications for certain funding and procedural issues. Subject to further appeal, Kentor is preparing to re-register AMC and sell 20% to the Kyrgyz government.

AMC is financed through inter-company loans. Kentor lends the local limited liability company its share of capital contribution and is repaid from cash flow after recouped

capital. At the end of December 2010 US\$30 million of past expenditure incurred by Aurum was repayable to Kentor.

AMC's licence for development covers an area of four square kilometres over Zone 1. Land to develop the project was reassigned to industrial use and awarded to AMC. The licence requires renewal in 2017. The granted licence requires production begins at Andash by June 2012. Kentor has received verbal approval from the Minister for Natural Resources to invoke force majeure on the deadline.

Kentor's Andash Exploration Licence covers 49 square kilometres, extending from the Talas Valley in the south to the mountainous frontier with Kazakhstan in the north. Kyrgyz policy is to re-new exploration licences provided a schedule of works has been agreed with the State authorities and subsequently implemented.

Aurum's environmental impact statement was approved in 2008. Kentor updated the study to reflect changes in plant location and tailings storage design. The focus of environmental studies at Andash is on preserving the quality of water flows in the Karakol River. Kentor is assisted by low levels of sulphides in the waste rock and tailings, mitigating against acid mine drainage, and by the area's relatively light rainfall (400 mm annual average). Kentor submitted a new environmental impact statement in July 2010.

In late 2010 Kentor suspended on-site activities at Andash. Opposition to development of the project by a vocal minority of local community members obstructed approval of the remaining permit required to commence construction. The reasons given for the opposition are fears of the project's environmental effects. Local societal politics may be a major factor at work, as interest groups vie for control or access to the employment opportunities and community benefits the project will bring. The situation has developed while the central government and the Kyrgyz bureaucracy is finding its feet and offering little direction to either Kentor or the Talas Valley residents.

Kentor is continuing to negotiate at community and central government levels to allay local concerns and gain approval to commence construction at Andash.

## Andash Geology & Resources

The Andash licence area is part of the large Tien Shan Fold Belt, which hosts a large number of intrusion related gold deposits including the Kumtor (17moz, Centerra Gold, TSX:CG), Muruntau (170moz, Uzbekistan) and Zarmitan (10moz, Uzbekistan) mines.

The Andash gold-copper deposit occurs within silicified, quartz-sulphide breccia in a Devonian granodiorite intrusion. Fine grained gold and chalcopyrite occur in the breccia matrix. Andash is similar in style to some of the Lachlan Fold Belt deposits including Cadia and Northparkes.

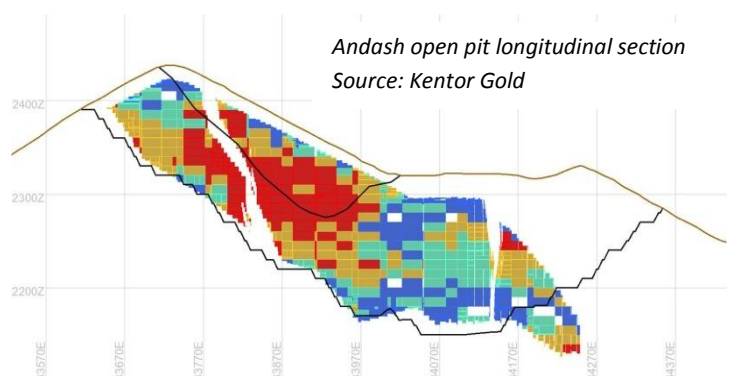
The main Zone 1 deposit is cylindrical in shape with a strike length of 600 metres and an average diameter of 150 metres. Mineralisation outcrops at its north-west end and plunges south-east at 30 degrees, parallel to the topographic slope.

A number of later, 5-20m wide porphyry dykes cut through the main Andash deposit. Soil cover is up to 7m thick in the valley floors, but only 10 to 50 cm over the Zone 1 ore body.

Between 2004-2006, Aurum Mining completed an infill drilling program on Zone 1 which comprised 31 NQ and 4 HQ diamond drill holes at various orientations. Completion of this drilling program has provided an intersection pattern with a 30-50m spacing which has allowed classification of the majority of the Zone 1 resources into Measured and Indicated categories.

### Andash resources 2006

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
<b>TOTAL</b>		<b>19,200</b>	<b>1.10</b>	<b>0.40</b>	<b>679,023</b>	<b>77,300</b>
Inferred	Sulphide	379.6	0.93	25	11,350	950



## Previous Andash Development

Aurum spent about US\$30 million on Andash between early 2005 and March 2007. Kentor (through AMEC Minproc) completed the new Andash feasibility study in March 2010.

Kentor purchased the second hand mobile fleet that Aurum had delivered to a depot, 150 km from Andash, just before work was suspended in 2007. The fleet is a full complement of excavators, haul trucks, dozers, graders, drill rigs, cranes, compactors and service vehicles required to build and owner operate a 3 Mtpa mine at Andash. All equipment has been maintained in working order since March 2007. A 30 man construction camp and two years supply of spare parts were also part of the purchase. Kentor estimates the replacement cost of the equipment at US\$9 million.

## Reserves and Mining

Kentor accepted the Wardell Armstrong International resource and reserve model and revised the mine plan, designing a pit with reserves of:

### Andash reserves 2006

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
<b>TOTAL</b>		<b>15,999</b>			<b>539,730</b>	<b>63,486</b>

The estimated strip ratio is 0.72:1. In the first two years of operation Kentor plans to mine ore at a greater rate than the treatment schedule, building up a low grade oxide stockpile and delivering grades of up to 1.6 g/t gold and 0.6% copper to the mill. Ore will be trucked 6 km to the process plant site above the flood plain of the Karakol River.

## Metallurgy and Ore Processing

Kentor plans to process the ore through a three stage crushing circuit, a single ball mill (in stage 1 with a secondary mill added in stage 2), an Isa Mill regrind of the rougher concentrate to 20 micron, then final cleaning to produce a single concentrate stream. Facility to install a gravity circuit is included in the design.

Anticipated life of mine average gold and copper recoveries are 72% and 69% respectively. Oxide copper minerals are present in Zone 1 at depths from surface of up to 120 metres, and are estimated to account for about 15% of Andash's copper reserves.

Tailings will be stored in an impermeable basin. A reclaim facility will recover water from the tailings dam for use in the process plant. Tailings storage conforms to regulations designed to prevent seepage into the Karakol River.

## Access and Infrastructure

Road and rail links to Andash are good. The village Kopuro-Bazar, 2.5 km from the deposit and 4km from the site of the processing plant, is connected by 10 km of unsealed road, then 45 km of sealed road to the town of Talas. From Talas, there are sealed highways to the Maimak railway station in Kazakhstan (100 km) and the Kyrgyz capital Bishkek (200 km).

Kentor will draw unskilled labour from local villages, and skilled operators from the broader mining sector in Kyrgyzstan and the region. At 2,000 to 2,500 metres above sea level and on a south facing aspect, the continental climate at Andash is considerably kinder on people and machines than at Kumtor, which is up to 4,000 metres above sea level.

Andash will draw its process water from the Karakol River next to the treatment plant. The project's water demand accounts for about 5% of the annual river flows.

A sub-station on the main, 500kV power line that serves the Talas region is eight kilometres from the planned Andash plant site. Kentor plans to build a spur and separate sub-station on site, with the capacity to supply Andash with up to 25 MW of mains electricity. The Kyrgyz power network is based on reliable hydro schemes and Kyrgyzstan exports power to neighbouring countries.

## Concentrate Sales

Representative Andash concentrate produced in testing is considered clean with a relatively high gold content. Average concentrate specifications are 70 g/t gold and 24% copper, with no deleterious elements approaching penalty thresholds. At current price settings revenue from concentrate sales is apportioned 75% gold and 25% from copper.

Average treatment and refining charges of US\$75/t and US\$7.5/lb are assumed in the accompanying forecasts. Assumed payment terms are 97% payable gold, 96.5% payable copper, or a minimum of 1 percentage point taken off the concentrate copper grade

Kentor plans to export 31,000 tonnes of concentrate per year. The concentrate will be trucked in two tonne bulka bags to the Maimak rail station, which is part of a network connected to smelters in Kazakhstan, China and Europe.

## Capital and Operating Costs

The feasibility study capital cost estimate is US\$96 million. The estimate includes all expenses to the beginning of the ramp-up of Stage 1 to 1.5 Mtpa, including the process plant, infrastructure, tailings storage facility, pre-production mine costs, first reagent fill, three additional haul trucks and US\$5.4 million in contingency allowance. The engineering, procurement and construction of the process plant comprises US\$63.5 million of the total cost estimate.

The feasibility study capital cost estimate of Phase 2, in which the project is expanded to mine and process 3.0 million tonnes of ore per year, is US\$25 million. The mine schedule maintains steady earth movement rates between Stages 1 & 2, requiring no further investment in the mining fleet.

The feasibility study estimate of the average cost of owner operated drill and blast mining is US\$3.20 per bank cubic metre of ore and waste. The mining cost (including the 6 km haul from mine to crusher) is estimated at US\$3.46 per tonne of ore delivered to the treatment plant. The low strip ratio at Andash (0.7:1) allows for very low mining costs.

The cost of ore processing is estimated at US\$8 per tonne, reducing to US\$7/tonne in Stage 2. The ore is not particularly hard or abrasive and mains power is available at US¢4-5/kWh.

Concentrate freight costs depend on the destination smelter. The range of freight costs between the nearest smelter (Kaz Zinc in Kazakhstan, 60% owned by Glencore) and a northern European smelter is US\$45 to US\$110 per tonne of concentrate. The total cost of handling and freight assumed in the accompanying forecasts is US\$85/t of concentrate. Smelter terms variation can easily outweigh the freight differential.



View from the Andash deposit looking south. Source: Kentor

## Other assets

Kentor is currently conducting exploration on a copper gold project at Bekbulaktor on the Bashkol exploration license to the east of the Kumtor gold mine. The project is at an early stage and does not currently have any defined resources.

## Production forecasts

Year Ending 31st Dec	2012	2013	2014	2015	2016	2017
<b>Andash 100%</b>						
Ore treated (000t)		500	1,500	2,600	3,000	3,000
Head grade (g/t Au)		1.14	1.61	1.20	0.99	0.99
Head grade (%Cu)		0.43	0.58	0.45	0.38	0.38
Concentrate prod'n (t)		6,860	27,780	37,300	36,390	36,390
Concs Au grade (g/t)		60	63	60	59	59
Concs Cu grade		22%	22%	22%	22%	22%
Gold prodn (000oz)		13	56	72	69	69
Cu prodn (t)		1,440	5,830	7,830	7,640	7,640
Capital exp (\$AM)	42.0	77.0	19.0	12.0	3.3	2.5
Net cash cost (\$US/oz)		700	-30	-90	-40	-30
Net total cost (\$US/oz)		1,030	250	290	430	440
<b>Burnakura 100%</b>						
Ore treated (000t)		248	500	500	500	500
Head grade (g/t)		1.70	2.25	2.25	2.25	2.25
Gold prodn (000oz)		12	33	33	33	33
Capital exp (\$AM)	10.0	22.5	9.4			
Cash cost (\$A/oz)		1,250	825	830	835	840

The Andash forecasts are independently modelled, largely based on estimates prepared for the Andash feasibility study. The production schedules have been flattened to simplify the model, while retaining life of mine averages and totals. The forecast timing assumes receipt of approvals to commence construction at the end of December 2011.

Burnakura forecasts are Green Leader estimates based on discussions with Kentor. Burnakura mine plans and costs are still in formulation.

## Finance

At the end of June 2011 Kentor had \$A43.7 million in cash, after settlement of the Jinka Minerals and Andash ball mill acquisitions. Under the feasibility study assumptions the amount required to complete construction of Andash stage-1 is \$US85 million. In March 2011 Kentor accepted a Committed Letter of Offer for a \$US50 million debt facility arranged by Macquarie Bank. Draw down of the facility is subject to receipt of approvals to commence production and clearance of any remaining legal action concerning the project.

Kentor plans to accommodate the simultaneous development of Burnakura and Andash without recourse to further equity issue, with the possible exception of A\$5 million in subscriptions from exercised options due in December 2011. One of the main capital items, the cutback of NOA2, may be scheduled out over a longer period to meet this objective. Kentor may also seek to extend the Macquarie facility.

## Returns

Under the Andash feasibility study assumptions (as modelled here), a flat gold price of US\$1,500/oz and a copper price of US\$2.75/lb and at a real, after tax discount rate of 10%, the Andash Zone 1 project has an NPV of US\$210 million, of which Kentor's share is US\$189 million. The internal rate of return is 55%. A fall in price assumptions to US\$700/oz and US\$1.92/lb (with no change in smelter terms) results in breakeven returns from the Andash model.

Under the assumptions described above, at a flat gold price of US\$1,500 per ounce, an AUDUSD exchange rate of 0.90, and a real after tax discount rate of 7%, the Burnakura net present value is estimated at A\$52 million. After net investment of A\$35 million spread across 2011, 2012 and 2013 (mostly for waste pre-stripping), average net surplus after tax is estimated at A\$20 million per year from 2014 inclusive. The Burnakura model breaks even at a gold price of US\$1,000 per ounce.

## Valuation

Kentor has still to clear final approvals for Andash and establish an environment in which the project can proceed along the lines considered in the feasibility study. The estimated NPV is discounted by 60% here to account for the inherent risks. No value is attributed to exploration potential at Andash, although exploration potential is still considered a project strength.

Development estimates for Burnakura precede final formulation of a mine plan and costing. There is some risk the outcome will differ substantially from the estimates used, and a 30% discount is applied to the modelled Burnakura NPV to account for this risk.

Jervois and Gabanintha are exploration projects not included in discounted cash flow valuations.

## Kentor valuation October 2011

Asset	A\$M	Cents /share
Andash (80% Kentor)	85	8.0
Burnakura (100% Kentor)	36	3.4
Jervois (100% Kentor)	20	1.9
Gabanintha (100% Kentor)	7	0.7
Cash	40	3.8
Option dilution	0	0
<b>Share Valuation</b>	<b>188</b>	<b>17.7</b>

An undiscounted valuation for Kentor (removing Andash and Burnakura discounts) is A\$330 million or 31 cents per Kentor share.

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