



28 January 2011

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 in the Kyrgyz Republic and is targeted to produce annually 70,000 oz gold and 7,400 tonnes copper in concentrate.

Quarterly Activities Report **Period ending 31 December 2010**

HIGHLIGHTS

Andash Gold-Copper Project Development

- Decision taken to proceed with development of Andash Gold-Copper Project as one of the world's lowest cost gold mines
- Successful \$65.2M capital raising to fund the project
- Detailed engineering, design and procurement 80% complete
- Local employment commenced
- Major plant items continue to be acquired - second ball mill secured, to increase throughput
- Mining licence extended
- Full-scale construction scheduled to commence March 2011
- Continuing to target commissioning in early 2012

Andash Gold-Copper Project Expansion

- Binding option to acquire Aktash deposit as Andash high grade satellite mine
- Drilling programs prepared for Andash extensions and Aktash

Exploration

- Encouraging results from Bekbulaktor Gold Prospect at Bashkol

Kyrgyz Republic

- Coalition government formed, following successful parliamentary elections



Quarterly Overview

During the quarter, the Board of Directors of Kentor Gold Limited (Kentor or the Company) decided to proceed with the full-scale development of the low cost, high grade Andash Gold-Copper Project. Scheduled to begin production in early 2012, Andash is an outstanding project that will lift Kentor to the ranks of gold-copper producers with one of the lowest cost gold mines in the world.

At the same time, the Company secured the major equity funding required for the project's development. \$65.2M was raised in a share placement and rights issue, more than sufficient, with a proposed US\$50M debt facility, to finance the capital cost of developing Andash.

The Company was granted an extension of Government-issued licences and increased its on-the-ground presence at Andash as planning of the mine and processing plant progressed and the final local permits were sought.

Andash Gold-Copper Project – Kyrgyz Republic (Kentor 80%)

Work on the Andash project continued with a view to full-scale construction commencing on schedule in March 2011.

Engineering design work for the mine and processing plant is nearing completion. The project development team is building with the appointment of most of the key personnel required for the development of the project.

The very low operating cost Andash project is based on a shallow open cut mining operation with a strip ratio of 0.72 : 1, and a conventional crush, grind and flotation process.

In an initial six-year mine life, ore will be mined and processed at the rate of 1.6mtpa, rising to 3.2mtpa in the third year.

To provide the necessary grinding capacity for the expansion, the Company contracted to purchase a second grinding ball mill during the quarter, a similar mill having been acquired last year. The two fully fabricated 6MW mills will enable a 10% increase in installed power and a 6% increase in throughput capacity over the specifications in the Definitive Feasibility Study. As a result, the annual average production forecast for the initial six years was increased to 70,000 oz gold and 7,400 tonnes copper in a single concentrate.

The extremely low cost of production, resulting from these and other enhancements, is projected to be US\$29/oz gold after copper credits and including treatment, transport and refining charges, and royalties. This calculation assumes a copper price of US\$2.75/lb. At current copper prices, the by-product credit increases and the forecast cash cost reduces even further.

During the quarter, the Kyrgyz Government extended the mining licence for Andash. Specifically, the requirements to construct the processing plant and to complete elements of an exploration program at Andash were extended by a year to June 2012, in recognition of the delays caused by the unstable political situation that had prevailed during 2010 prior to the parliamentary elections and the formation of the coalition government last month.

The environmental and social permitting process is progressing and will be fully submitted to the government in January 2011.

Employment of local people has commenced in order to service the initial mine development and mine and processing plant construction stage which is now approaching. The Company has been expanding its community support program in the locality, including the provision of microfinance loans for small business development, donations of coal and flour to needy families and the sponsoring of a sports tournament.

The company has commenced training programmes about the planned activities and is receiving strong support from the residents of the local town who support the development of the project and welcome the jobs, community development and other benefits that a modern mining operation will bring to the region.



Coal delivery in Kopuro Bazar



Flour Delivery in Kopuro Bazar



Micro-Finance loans to assist with sustainable development in the community



Kentor Gold sponsored sports tournament in Talas



Community meeting in Kopuro Bazar



Minority Interest in Andash Mining Company:

In the Kryrgyz Republic on 19 January 2011, the Talas Oblast Court rejected Invest-center Talas LLC's (ICT) appeal and left the decision of the lower court (Talas Interdistrict Court) without change. In October 2010, the Talas Interdistrict Court had found that Aurum Mining plc (Aurum) and ICT's minority ownership in Andash Mining Company LLC (AMC) were invalid. ICT had appealed this decision.

Transfers of equity in AMC between the Aurum group of companies and ICT in late 2009 and early 2010 were declared invalid as the court had concluded that the Kyrgyz Law on Strategic Objects was not complied with at the time of the transfers. The court has therefore ordered that the 20% interest in AMC not held by Kentor be offered to the Kyrgyz Government on the same terms as the original transaction as per the Strategic Objects legislation.

Kentor owns 80% of AMC and this holding is not affected by the declaration of invalidity of the transfers of interests amongst AMC's minority shareholders. Prior to acquiring its 80% interest in the Andash project, Kentor complied with the requirements of the Strategic Objects legislation.

A date has not yet been set for the hearing of the separate case brought against Kentor by ICT alleging that Kentor was somehow responsible for the loss of its holding in AMC. However, the Company is confident that the case has no merit following the 19 January confirmation by the Talas Oblast Court of the invalidity of ICT's interest due to ICT's failure to comply with the law on Strategic Objects.

Andash Resource Expansion

During the quarter, the Company progressed the strategy of increasing the Mineral Resource base on which to expand the Andash project and extend its life well beyond the initial six years.

Plans were advanced for an aggressive exploration program in and around the current Andash Resource – at Andash Zone 1 in which the current Resource is located, at the adjoining Andash Zones 2 and 3 and other exploration targets nearby. During the quarter, the Company announced that Hellman & Schofield had established an Exploration Target* (announced on 21 October 2010 and included in the report for the September quarter) 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 to 1.5 g/t. The Target lies only one kilometre from the proposed initial open pit in Andash Zone 1.

*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.



Aktash Gold-Copper Project

The Company also announced that it had signed a binding option agreement on the Aktash Gold-Copper Project. Aktash, 8km from the site of the proposed Andash processing plant, is viewed as a satellite mine with the potential to increase the overall feed grade to the plant, thus reducing cash costs even further, increasing annual gold production and extending the life of the total Andash operation.

Hellman & Schofield have established an Exploration Target* for the Aktash deposit under JORC guidelines of 2 to 5 million tonnes of ore grading 2 to 3.5 g/t gold, 0.3 to 0.7% copper and 8 to 12 g/t silver.

*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.

The option agreement, with Turan Metals LLC, the vendor of the Aktash project, was signed after Kentor completed three months' due diligence.

The agreement gives Kentor the exclusive right to acquire the Aktash project after completing a drilling program of 1,500m. The Company has been completing the planning of an intensive exploration program involving a total of four diamond drill rigs. The program is scheduled to commence about April with the arrival of the northern spring.



Copper ore at Aktash



Developments in the Kyrgyz Republic

Landmarks in government were achieved in the Kyrgyz Republic during the quarter.

On 10 October, parliamentary elections were successfully conducted, and in December a coalition government was formed. This brought to an end the process that began last April when the government of President Bakiyev was ousted in a popular uprising. The country, under the stewardship of an interim government led by President Rosa Otunbaeva, opted for full parliamentary democracy.

A new constitution has shifted power to parliament where the coalition government is now headed by Prime Minister Almazbek Atambayev, leader of the Social Democratic party. Mr Atambayev, an experienced senior politician, has gained a reputation for his support of business.

Other Exploration

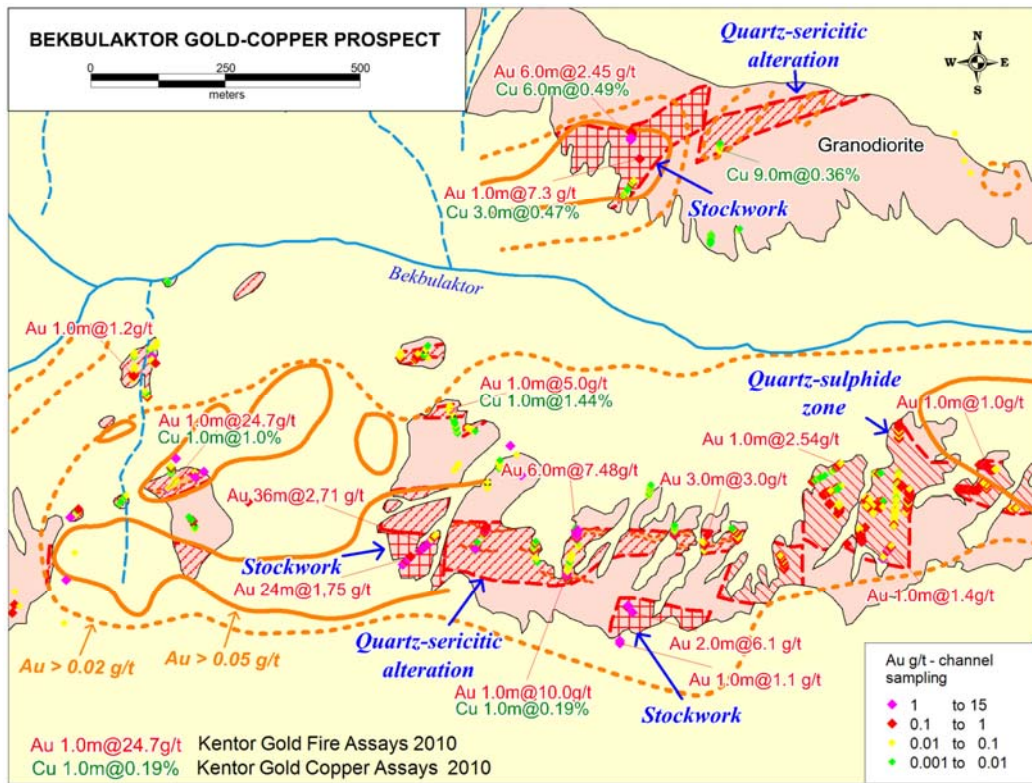
Bashkol Licence Area (Kentor 80%)

The final assay results from the 2010 exploration program at the Bekbulaktor gold prospect on the Bashkol Exploration Licence were received and reported.

The discovery of high grade gold and copper mineralisation on the northern side of the Bekbulaktor stream was confirmed and this has resulted in an increase in the size of the Bekbulaktor prospect. Located in the east of the Kyrgyz Republic, Bekbulaktor is situated at an altitude of 3600m, and is 7km from a major road.

The most encouraging results from the 2010 exploration activities are summarised below (reported in more detail on 4 November 2010):

- Two continuous channel sample intervals returning 36m @ 2.71g/t gold and 24m @ 1.7g/t gold. The two intervals are separated by a gap of 20m covered by scree material not sampled due to permafrost. The mineralisation is open to the south. Channel sampling 500m west returned an interval of 1m @ 24.7g/t gold
- A preliminary reconnaissance and sampling program on the northern side of the stream where gold mineralisation was discovered resulted in an interval of 6m @ 2.45g/t gold and 0.49% copper from continuous channel sampling, and an interval of 1m @ 7.3g/t gold and 0.73% copper
- Identification of a broad area of anomalous gold in soil on the south side of stream.
- The results have significantly increased expectations for the prospect. A geological and geophysical program is being planned for 2011, and this is expected to lead to the identification of clear drill targets.



Bekbulaktor Prospect on the Bashkol Licence area – 2010 Exploration Results

Kurgan Licence Area (Kentor 80%)

All assays were received from the drilling program at the Kurgan 1 gold prospect on the Kurgan Licence Area, located 70km south-west of the Andash Gold-Copper Project in the Kyrgyz Republic.

The purpose of the drilling program was to follow up encouraging surface sampling results from the 2009 field season. Five diamond holes were drilled with a total length of 615.2m. It was established that gold is widely distributed through a thick sequence of Riphean siltstone, shale and limestone. However, grades and thicknesses intersected were generally below those which would be required for a profitable development at Kurgan under normal circumstances (drilling results were reported on 30 November 2010). The results continue to be analysed to decide whether an exploration program in 2011 is warranted.

Savoyardy

Kentor has withdrawn from the Savoyardy gold-antimony project, in the south-east of the Kyrgyz Republic, where the Company had an agreement with Manas Resources Limited to earn up to 70% of the project. A small, high grade Resource has been identified at Savoyardy, and there is potential for further discoveries on the exploration licence. However, Kentor has concluded that the funds the Company would be required to expend at Savoyardy to complete the joint venture earn in, should be re-directed to other exploration and development commitments.



Business Development

Kentor Gold has a strategy to acquire another project. During the quarter, a number of resource projects were evaluated and negotiations are continuing regarding potential acquisitions.

Corporate

During the quarter, the Company successfully completed the equity funding required for the development of the Andash project. A gross \$65.2M was raised from a placement and a rights issue.

The placement of approximately 86.5 million new shares at 15.5 cents per share raised gross proceeds of \$13.4M, having been significantly oversubscribed and keenly sought by both professional and sophisticated investors in Australia, Asia and Europe. Thirty new institutions joined the Kentor share register and most of the Company's existing major shareholders supported the placement and rights issue.

The major part of the equity capital raising for the Andash development was provided by the rights issue. A total of 398.1 million shares were issued, raising \$51.8M in gross proceeds. The three-for-five non-renounceable rights issue provided shareholders with a substantial opportunity to participate in the capital raising. The shares were offered at 13 cents per share, a discount of 36.6% on the last price prior to the trading halt ahead of the announcement of the capital raising. Kentor received binding commitments from investors to take up any shortfall, thus providing the Company with funding certainty on the rights issue. In the event, approximately 87% of shareholders applied for shares.

Earlier in the quarter, Kentor announced that Macquarie Bank had been mandated to arrange US\$50M in debt finance towards the construction of the Andash project.

The capital raising and the debt facility are sufficient to finance the cost of developing Andash, estimated at US\$96M, as well as the exploration drilling and other costs currently anticipated.

Outlook

Kentor is now focussed on preparing for the full-scale construction of the Andash project. With the extension of mining and exploration licences, increased local employment and involvement in community support programs, the Company anticipates the outstanding permitting will be granted shortly.

Planning is intensifying for the exploration drilling programs at Andash and Aktash proposed for the spring, to increase and upgrade gold-copper Resources.



Andash Mining Company staff and supporters – Kopuro Bazar

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 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.

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