



***KENTOR GOLD LTD***



**annual report** 2005





**KENTOR GOLD LTD**

ABN 52 082 658 080

## PLANNED KEY ACTIVITIES 2006

<i>Project</i>	<i>Activity</i>
<b>Akbel</b>	3,000m RC/diamond drill program - 2Q
<b>Bashkol</b>	Follow up field evaluation of Kuylu gold showings to define drill targets - 3Q
<b>Uzunbulak</b>	Two diamond drill holes to test porphyry Cu-Au targets - 1Q
<b>Barkol</b>	Geological evaluation of Upper Chungur Prospect to identify drill targets - 3Q
<b>Karabalta</b>	Follow up field evaluation of targets CT73 & CT74 to identify drill targets - 2Q
<b>Reconnaissance</b>	Project generation activities will continue throughout 2006 focussed on the Kyrgyz Republic to feed the project pipeline





# CHAIRMAN'S LETTER



**John Barr**  
AM MAICD  
Non-Executive  
Chairman

*The Company has  
established a  
strong springboard  
of exciting projects  
in the Kyrgyz  
Republic*

Dear Shareholders,

It is my pleasure to present this Annual Report of Kentor Gold Limited for the 12 months ending 31 December 2005. The change in the Company's financial year was made in order to align with the standard 31 December financial year in the Kyrgyz Republic, where the great majority of our funds are being expended.

The Company's prime objective continues to be the discovery and development of profitable gold and deposits in both the Kyrgyz Republic and other prospective parts of the Tien Shan belt in Central Asia. Since its A\$6m IPO raising and listing on the Australian Stock Exchange in March 2005, Kentor has consolidated its position in the Kyrgyz Republic as a responsible and reliable exploration company.

The Company's major exploration focus to date has been the Ertash Licence, directly along strike from the multi-million ounce Kumtor deposits. Kentor is also exploring the Uzunbulak, Barkol and Karabalta Licences, which are within the Talas-Kemin porphyry copper-gold belt, an emerging significant exploration region. Drilling at Uzunbulak commenced in late February of this year.

An important step for the Company was the recent renewal of the strategic Ertash Licence by the State Agency for Geology and Mineral Resources. At Kentor's request, the State Agency granted two new Licence areas as successors to Ertash, each with separate work and monetary commitments. The Akbel licence (365 km<sup>2</sup>) has been granted for four (4) years and the Bashkol Licence (1,259 km<sup>2</sup>) granted for two (2) years, with extensions for up to a total of ten (10) years available for both Licences.

This would not have been achievable without the co-operative attitude of the Government of the Kyrgyz Republic. The Government has also confirmed that it is fully committed to implementing the recommendations of a World Bank study in making the Mining Code even more attractive to genuine foreign investors such as Kentor.

David Royle, our Managing Director, and his team, are to be congratulated for the excellent work which they have performed in 2005. The Company has established a strong springboard of exciting projects in the Kyrgyz Republic. With current focus on drilling programs at Akbel and Uzunbulak, the Board looks forward to reporting further positive progress of these projects and the Company as 2006 unfolds.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'John Barr', written in a cursive style.

John Barr AM  
Chairman



# DIRECTORS & MANAGEMENT

## DIRECTORS



**John Barr**  
AM MAICD  
Non-Executive  
Chairman

*Appointed 10  
November 2004*

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 is a Director of Iluka Resources Limited and a former Director of Acacia Resources Ltd, Oxiana Limited, and Transurban City Link Ltd. In August 2005 he retired as Chairman of Utilities of Australia Pty Ltd, a major unlisted infrastructure investment fund.



**Andrew Daley**  
BSc (Hons)(Mining)  
Non-Executive  
Director

*Appointed 10  
November 2004*

Andrew Daley is a mining engineer and resources finance executive. Andrew spent several years working on mining projects in Africa before relocating to Australia as Senior Engineer with Fluor Australia in 1981. Since then he has had a long career in international investment banking and held senior positions with NAB, Barclays, and Chase Manhattan. He is a Chartered Engineer, a former Director of Oxiana Limited, a Director of Pan Australian Resources Limited, Dragon Mining NL, Gladstone Pacific Nickel Ltd (listed on AIM), a Member of IOM3 and a Fellow of the Australasian Institute of Mining and Metallurgy.



**Hugh McKinnon**  
BEng (Mining)  
Executive  
Director

*Appointed 28 May  
1998*

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 speaks competent Russian.



**David Royle**  
BSc (Hons)  
(Geology)  
Managing  
Director

*Appointed 1 March  
2004*

David Royle has extensive international experience in exploration for precious metals, base metals and diamonds with major multinational resource companies over the past 30 years. He has a track record for the discovery of a number of significant minerals deposits through grass roots exploration. He is a Fellow and CP of the Australasian Institute of Mining and Metallurgy and Fellow of the Society of Economic Geologists.

## MANAGEMENT

In addition to the Managing Director, David Royle and Executive Director, Hugh McKinnon, the Kentor Gold Management team includes:

### Exploration Manager:

**Julian Bartlett** B.App.Sci. (Hons) and MSc. (Econ. Geol.)

Julian Bartlett brings to Kentor over 13 years international experience in precious and base metals and diamonds. He recently held the position of Exploration Manager for Reliance Mining Ltd and has worked in diverse geological environments around the world in Australia, Jamaica, China and Indonesia.

### Company Secretary:

**Bruce Paterson** LLB

Bruce Paterson has over 30 years secretarial, legal and commercial experience in the mineral resources and energy sectors. Previously Bruce was Company Secretary and then Commercial Manager, International for Newcrest Mining Limited. Currently he is also Company Secretary of Alexander Resources Limited.

### Chief Financial Officer:

**Greg Burgess** BA (Accounting), F.CPA

Greg Burgess is a qualified accountant and also holds the positions of Company Secretary and Director of Gold Bullion Securities Limited. Previously, Greg held various positions including those of Chief Financial Officer of Wizard Information Services, senior positions within the Australian Department of Finance and the Internal Auditor at Normandy Mining Limited.





# REVIEW OF ACTIVITIES

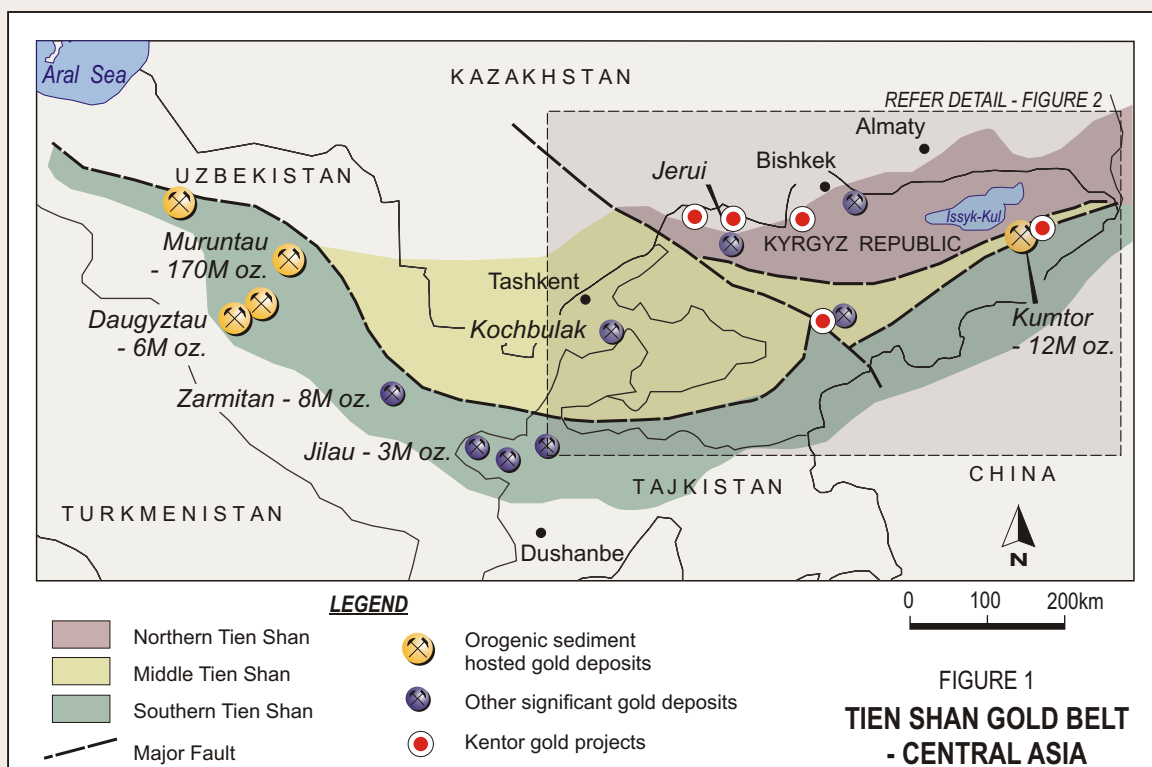
*Kentor's exploration focus is on the Kyrgyz segment of the highly prolific Tien Shan Gold Belt of Central Asia*

Kentor's vision is to build wealth for its shareholders through the discovery and development of high-value gold and base metal deposits in and around the Central Asian region. The Company's primary focus is the discovery of multi-million ounce orogenic gold, intrusion hosted gold and porphyry style gold-copper deposits in the Kyrgyz segment of the Tien Shan metallogenic belt of Central Asia. This highly prolific gold belt is host to some of the world's largest gold deposits, including the Muruntau Mine (170 million ounces) in Uzbekistan and the Kumtor Mine (12.5 million ounces) in the Kyrgyz Republic, yet it remains under-explored, in terms of using modern exploration technology, relative to other major gold provinces of the world (Fig. 1). Kentor has seized the opportunity to be one of the first groups to assess the mineral wealth of the region by using modern, cost-effective and smart exploration techniques.

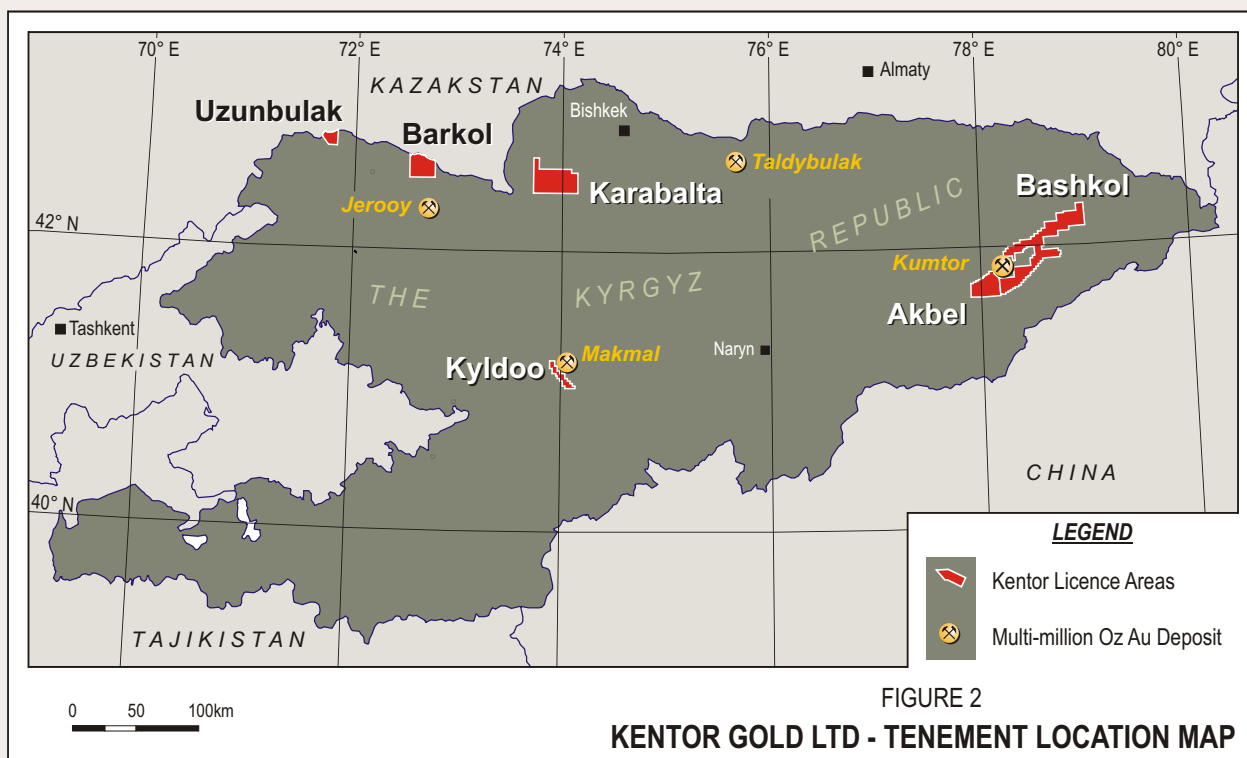
To exploit this opportunity, Kentor has established itself in some of the most prospective mineral districts of the Kyrgyz Republic (Fig. 2), and now has granted title to over 2,776 km<sup>2</sup>.

Key exploration tenements include:

1. The Ertash Licence - with over 80 km strike of the multi-million ounce Kumtor trend.
2. Uzunbulak, Barkol and Karabalta Licences - strategically located in the Talas-Kemin porphyry copper-gold belt which is emerging as a significant exploration play.







Exploration activities for 2005 concentrated on geological, geophysical and geochemical assessment of all of Kentor's projects in the Kyrgyz Republic as well as generating new projects via regional generative studies to add to the project pipeline.

In particular this work has advanced and upgraded the prospectivity of the Akbel Project and the Uzunbulak, Barkol and Karabalta Project areas where a number of attractive drill targets have been defined for drill testing, which is now underway. All projects are well located with respect to road access and power infrastructure.







# EXPLORATION PROJECTS

*Kentor's success depends both on systematic exploration around the Kumtor Mine and dedicated greenfields exploration elsewhere in the Kyrgyz Republic*

## AKBEL

*Kentor is confident that by focusing drilling on the most prospective areas we will maximise our chance of success in this highly prospective belt*

Akbel is the most advanced project at present in the Kentor portfolio, and is a major focus for the Company. Systematic exploration during the 2005 field season has identified multiple drilling targets on trend with the prolific Kumtor deposits.

The Kumtor Mine property, owned by Centerra Gold Inc, contains a series of multi-million ounce, shale-hosted gold deposits stretching for 12km along the Kumtor Fault Zone. Kentor's Akbel and Bashkol Licences cover over 80km strike extensions of this key structure and the target black shale host stratigraphy.

The more advanced prospects of Akbel and Choloktor lie along a southwest extension of the Kumtor Trend (Fig. 3). Recent geophysical (IP and ground magnetics), MMI geochemical and geological surveys have identified buried geological features that are interpreted to be prospective for Kumtor-style black shale-hosted gold mineralisation.

Logistical transport difficulties with importing a suitable drill rig for the program, delayed the initial drill testing of the Akbel combined geochemical and geophysical targets until early October 2005 (Fig. 4). Notwithstanding, a total of approximately 1,450m was completed before the onset of winter when drilling had to be

suspended. As anticipated, holes DD001 and DD002 (testing magnetic and IP anomalies) intersected pyritic carbonaceous shale and tilloid conglomerate now interpreted as the Kumtor Mine hanging wall sequence (Vendian Baikonur Formation) beneath about 50m of moraine cover. Although the assay results for these two holes did not record significant gold values the interpretation of the stratigraphy indicates that the vector to the black shale mine host sequence (Vendian Jetymtau Formation) is to the north-west. Drill holes DD003 and DD004 targeted this prospective area where several strong MMI gold and coincident IP anomalies were identified. However, drilling revealed that the cover in this area is deeper (up to 150m thick) and more unconsolidated. Both holes collapsed and were abandoned before reaching target depth.



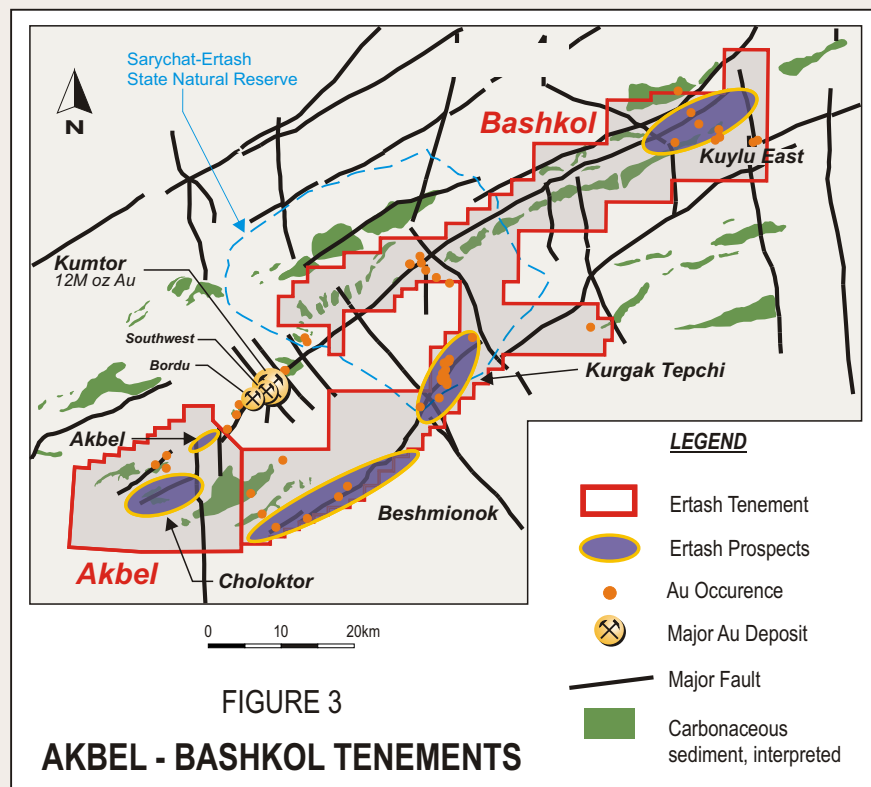


The drilling to date has been very valuable in providing a better understanding of the subsurface geology. When combined with surface mapping and geophysics it confirms the presence of the key ingredients for a Kumtor-style gold deposit in the Kentor held ground (including favourable structures, carbonaceous pyritic host rocks and signs of hydrothermal alteration). This now gives Kentor confidence that by focusing the 2006 drilling program on the most prospective areas, we will optimise our chance of success in this highly prospective belt.

An extensive drilling program is planned to commence as soon as the weather eases (anticipated early April) to test further multiple targets at Akbel (Fig. 4). Priority will be given to drilling the shallowest targets within the most prospective corridor shown on Figure 4, now better defined from the 2005 exploration program.

MMI soil geochemical sampling of extensions of the Akbel-Choloktor grid has been completed. Processing of results revealed several new, exciting and very impressive anomalies (Fig. 4):

- NE Akbel - larger and more coherent anomalies than previously defined
- SE Akbel - about 7km semi-continuous Au±Bi±W anomaly



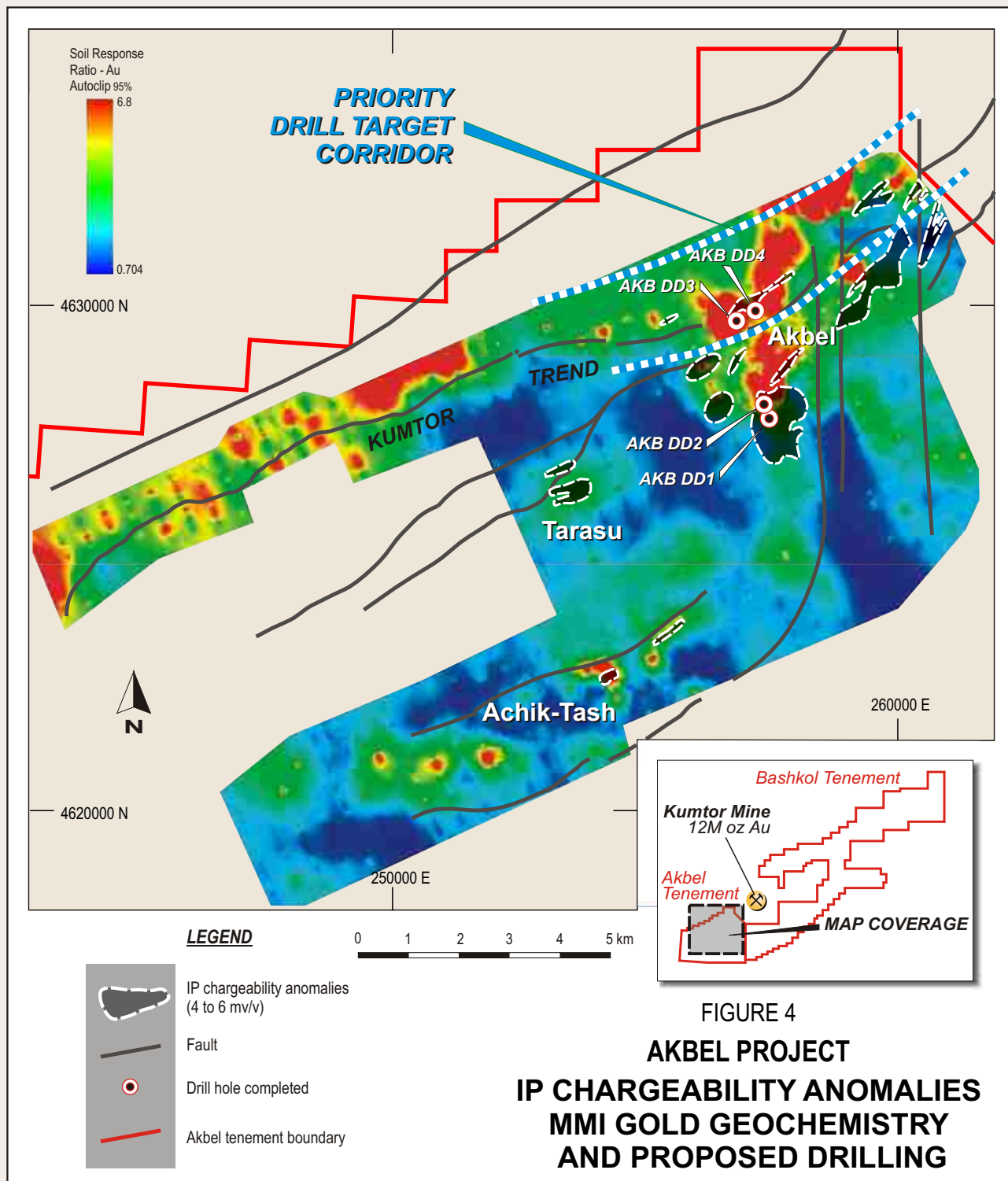
Results indicate the Kumtor Trend extends at least 19km across Kentor's ground.

Results of regional first pass stream and rock sampling of the south-western corner of the Ertash licence did not return results attractive enough to warrant further investigation and this area has therefore now been included as part of the statutory relinquishment area on licence renewal.

Elsewhere in the Akbel and Bashkol Licences, numerous attractive gold targets in the Kuyly and Kerkak Tepchi areas remain to be systematically evaluated, (Fig. 3).





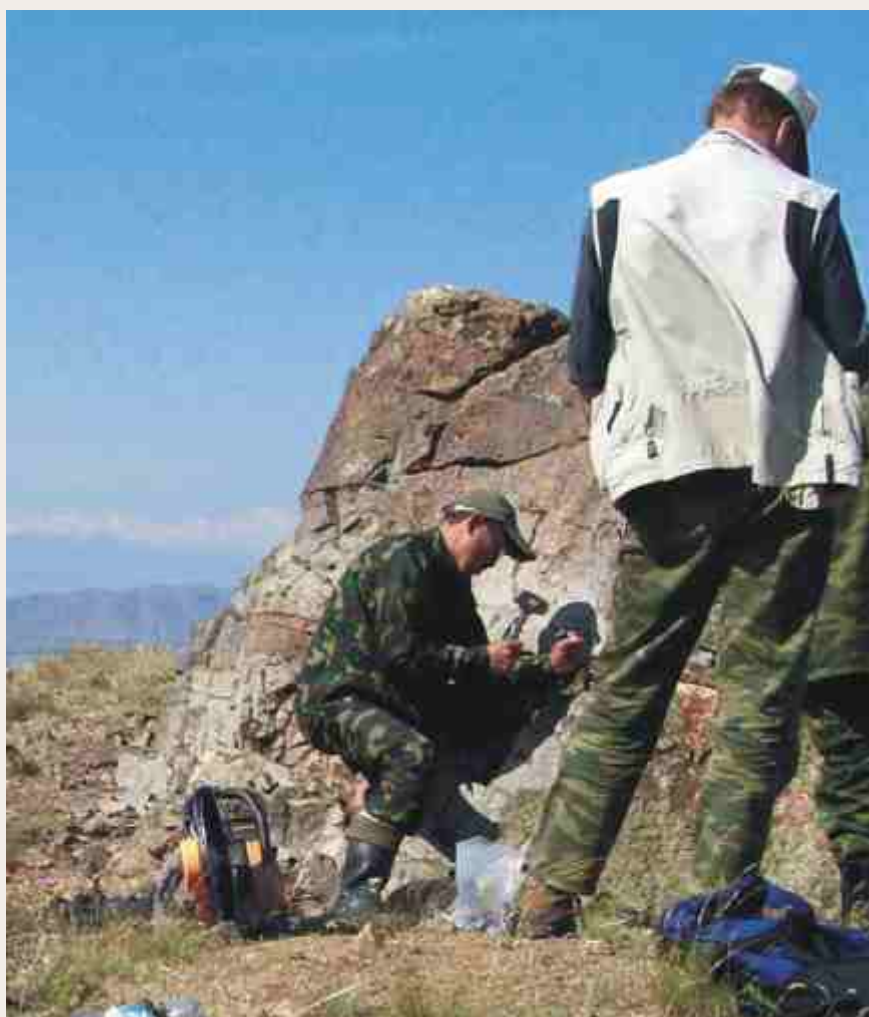




## UZUNBULAK

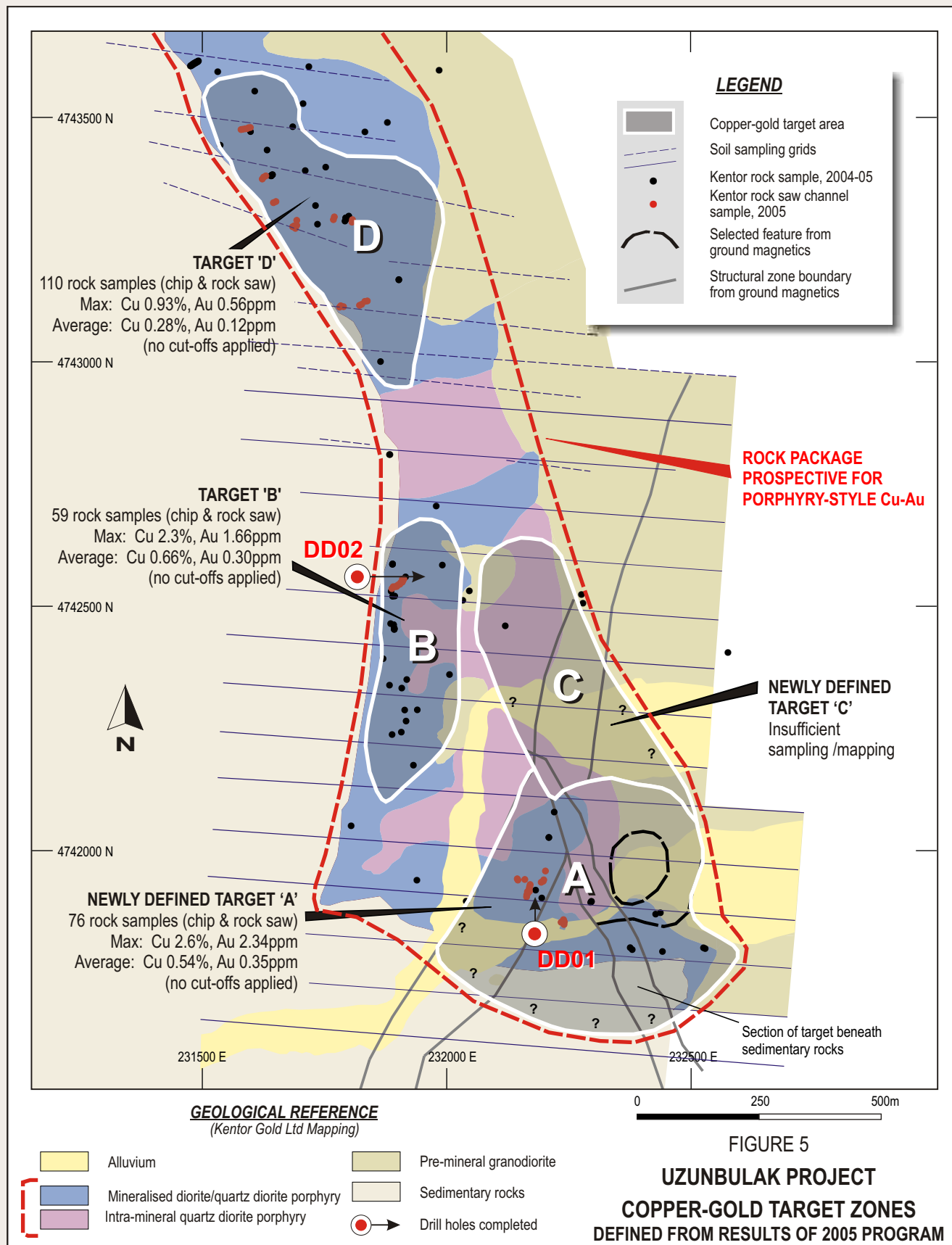
The Uzunbulak Licence (108km<sup>2</sup>) is located along the Talas-Kemin metallogenic belt in the north-western corner of Kyrgyz Republic (Fig. 5), and is a direct outcome of Kentor's ongoing project generation program. The project has rapidly developed from a raw discovery in late 2004 to the point where, by mid-2005, Kentor had identified highly encouraging porphyry copper-gold targets ready for drill testing.

As a direct result of this work initial scout drilling of the best two target areas (Targets "A" and "B") will commence in late February 2006 when access to this lower altitude area becomes available (Fig. 5).



*Work by Kentor in 2005 identified highly encouraging porphyry copper-gold targets ready for drill testing*







## BARKOL

The Barkol Licence (334km<sup>2</sup>) is another direct outcome of Kentor's ongoing project generation activities in the second half of 2004 and, like Uzunbulak, is located along the Talas-Kemin metallogenic belt in the north-western corner of Kyrgyz Republic (Fig. 2).

Results of soil sampling at the Upper Chungur Prospect have identified a coherent, and elongated gold anomaly measuring 600m x 250m (defined by the + 50ppb contour) with coincident As-Cu-Bi-Sb (Fig. 6). A total of 31 samples exceeded 100 ppb Au with values to 1,000 ppb (1g/t Au).

The gold-in-soil anomaly coincides with a window of altered and mineralised conglomerate. Stream sediment sampling of a gully to the north-west returned anomalous geochemical values between 10 to 40 ppb Au from five consecutive BLEG samples, suggesting an extension of the mineralised system upstream and along strike of at least one kilometre. The gold drainage anomaly is open to the west. This potential north-west mineralised trend is supported by structures observed on satellite images.

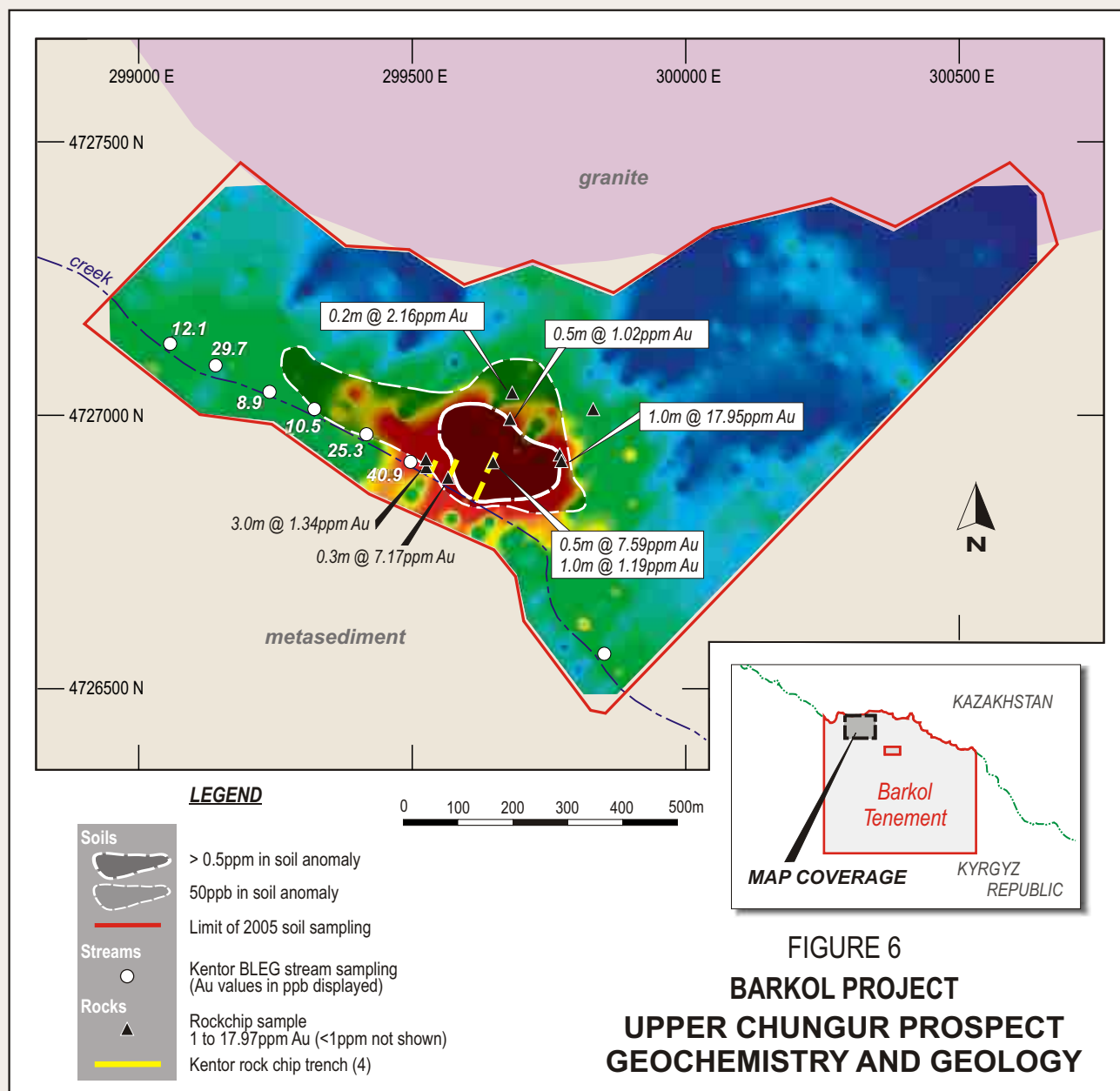
Sulphide mineralisation appears to replace carbonate clasts in the conglomerate and is also observed as recessive gossanous lodes in hornfelsed shale. Lode style mineralization has returned reconnaissance rock chip values in the range of 1.0 to 18.0 g/t Au. A large granitic stock lies 200m to the north. Recent channel sampling across isolated outcrops returned patchy gold values inconsistent with previous, highly anomalous reconnaissance samples and with the tenor of the soil anomaly. The best result from channel sampling is 5m @ 2.6 g/t Au. This suggests that the source of the gold may be preferentially weathered gossanous lodes and replacement bodies forming topographic lows and concealed by the shallow soil and talus cover.

Extension soil sampling, detailed ground magnetics, trenching and possible drill testing of the Upper Chungur Prospect is planned for the second quarter of 2006, to define the extent and significance of this strong gold-in-soil anomaly.

*Encouraging results from soil sampling continue to upgrade the Barkol Project*









## KARABALTA

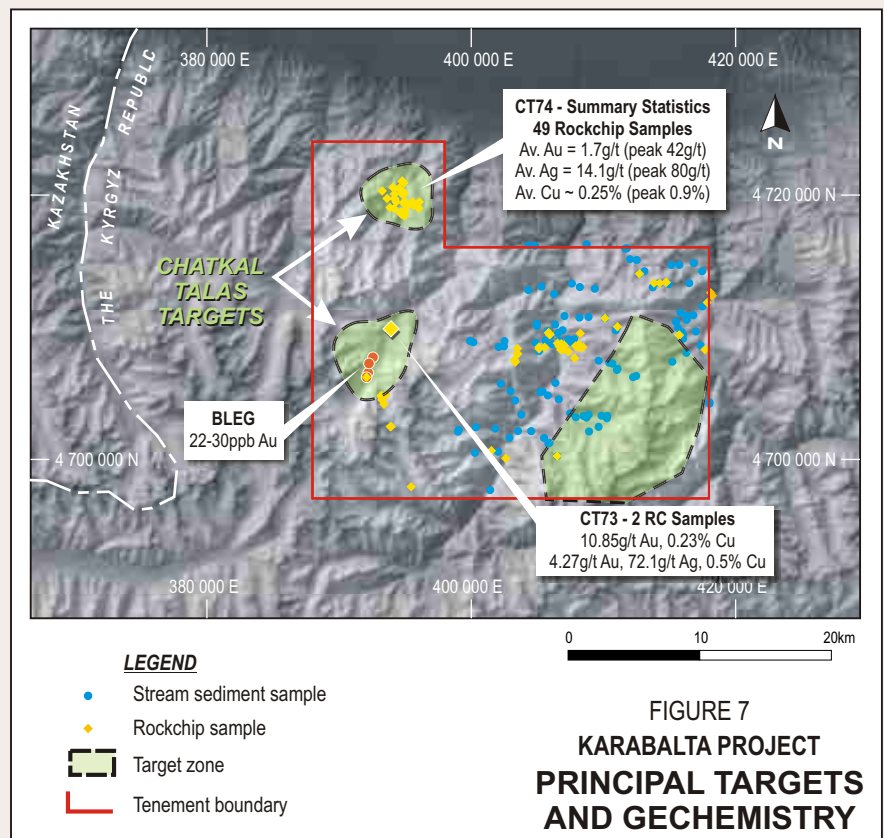
Reconnaissance stream sampling and target assessment over the Karabalta Licence (650km<sup>2</sup>) in 2005 identified two main target areas for further evaluation including:

*Two highly encouraging targets defined by rock and stream gold anomalies*

1. Jarkonush Prospect (Target CT74): high-grade gold and gold-silver-copper-lead-zinc occurrences are associated with pyritised and silicified shear zones. A total of 49 reconnaissance rock chip samples averaged 1.7 g/t Au with peak values to 42.0 g/t Au.
2. Target CT73: This is a newly identified area, which has returned highly anomalous BLEG gold values (22ppb-30ppb) sourcing from contiguous drainages

extending to just outside of the western side of the Karabalta tenement. A mineralised quartz-limonite float rock found in a stream bed returned highly anomalous gold and base metal values including, 10.85 g/t Au, 96g/t Ag, 11.2% Pb, 0.8% Zn and 0.23% Cu.

Licence Agreement #3, for extension of Karabalta Prospecting Licence to cover the full extent of these newly identified anomalous gold drainages, was granted by the Director of the State Agency for Geology and Mineral Resources on 7 December 2005 (Fig. 7). Follow up prospecting to identify the bedrock source of Target CT73 and to determine the significance of the Jarkonush mineralised shear zones is planned for the 2006 summer field program.







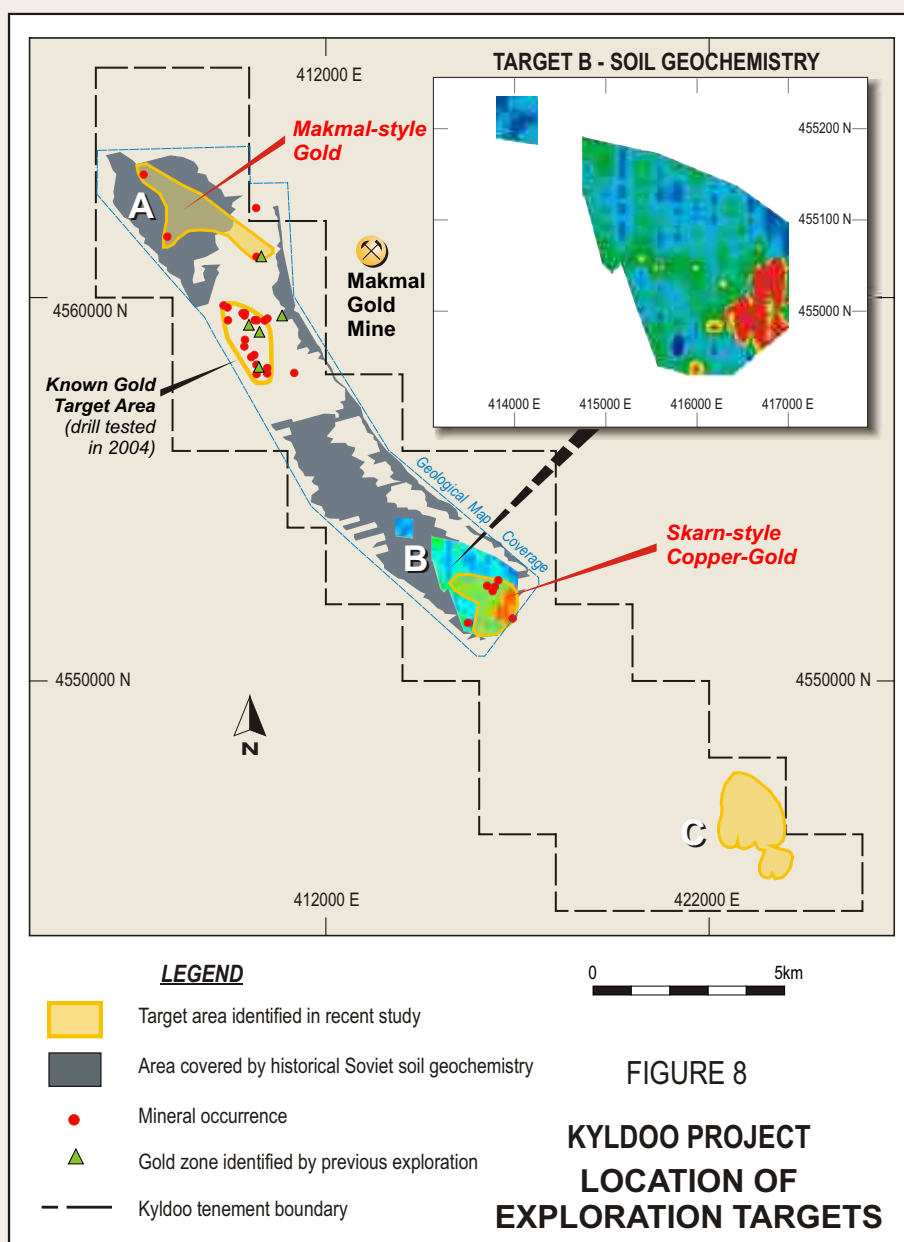
## KYLD00

(CJSC Kentor 50%, Perseus 50% and managing the Project)

CJSC KylDoo, a Kyrgyz registered company jointly owned 50% each by CJSC Kentor (Kentor's operating company in Kyrgyz Republic) and Perseus Mining Ltd ("Perseus"), had its Pchan Licence (130km<sup>2</sup>) renewed during the year on amended boundaries.

Results of follow up geological mapping and rock sampling of Target "A" were disappointing. The area appears to lack widespread silicification, quartz veining, skarn alteration or evidence of oxidised or fresh sulphides typically observed at the nearby Makmal Gold Mine. Rock sampling returned at best weakly anomalous gold in the 0.1 to 0.6 g/t Au range.

Results from 562 soil samples collected over Target "B" have been processed and plotted as response ratios (Fig. 8). A coherent gold anomaly in the south-eastern part of the grid (+15RR) measuring 800m x 1000m is partially coincident with anomalous As-Bi-U-Mo, with a peripheral zone of Cu-W-Ba, suggesting this may represent skarn style mineralisation.





## PROJECT GENERATION

Kentor is continuing to pursue an ongoing regional project generation and acquisition program in the Kyrgyz Republic, which focuses on belts of mineralisation with established pedigrees for multi-million ounce gold and gold-copper deposits.

Targeting is driven by a multilayered GIS approach, incorporating extensive Soviet-era geochemical, geophysical and geological data, and Kentor's ASTER satellite image processing and interpretation.



## TENEMENTS

Kentor's current tenements in the Kyrgyz Republic are shown on Figure 2 and are detailed in the Tenement Schedule below.

As part of the renewal process of the strategic Ertash licence, the State Agency for Geology and Mineral Resources, Kyrgyz Republic, has, at Kentor's request, granted two new licence areas as successors to Ertash. The two tenements have separate work and monetary commitments with the Akbel licence (365 km<sup>2</sup>) granted for four (4) years and the Bashkol licence (1,259 km<sup>2</sup>) granted for two (2) years. The licences may then be extended for up to a total of ten years on the condition that the requirements of the Licence Agreements continue to be met. The granting of these key licences adds certainty to Kentor's future programs.

Licence Agreement #3, for extension of Karabalta Prospecting Licence (650 km<sup>2</sup>) was granted by the Director of the State Agency for Geology and Mineral Resources on 7 December 2005.

Kentor's relationship with the Kyrgyz State Agency for Geology and Mineral Resources and its partner, the Kyrgyz Geophysical Expedition ("KGE"), remain very good. No issues have arisen with regard to its licence tenure or renewals that give the Company any concerns going forward.



## TENEMENT SCHEDULE

Tenement Number	Licensed Holder	Name & Area of Subject of Licence	Area - km <sup>2</sup>	Current Beneficial Interest	Renewal Date
AP340	CJSC Kentor	Akbel Area, Issykul Oblast, Djetyoguz Region	365.0	80% (1)	31 Dec 09
AP341	CJSC Kentor	Bashkol Area, Issykul Oblast, Djetyoguz Region	1,259.0	80% (1)	31 Dec 07
Au-237-04	CJSC Kentor	Uzunbulak Area, Talas Oblast, Talas Region	90.5	80% (1)	17 Dec 06
Au-238-04	CJSC Kentor	Barkol Area, Talas Oblast, Talas Region	281.6	80% (1)	17 Dec 06
Au-239-04	CJSC Kentor	Karabalta Area, Chui Oblast, Panfilov Region	650.0	80% (1)	17 Dec 06
Au-63-04	CJSC Kyldoo	Pchan Area, Jalalabad Oblast, Toguztoro Region	130.0	40% (2)	31 Dec 06

### Notes

- (1) CJSC Kentor owns 100% of these licences. CJSC Kentor is an 80% owned subsidiary of Kentor Gold Limited.
- (2) Each of CJSC Kentor (in which Kentor Gold Limited has an 80% interest) and Perseus Mining Limited has an entitlement to a 50% interest in CJSC Kyldoo.





## MANAGEMENT

*Technical ability, strong business skills, depth of local operating experience, internal team work and access to a vast store of technical data are keys to Kentor's success*

Kentor has the core management and technical expertise to discover major gold deposits. Managing Director David Royle has over 30 years extensive international experience in exploration and management with a track record of discoveries across a number of the world's major gold producing belts. Hugh McKinnon, Kentor's Country Manager and an Executive Director has lived in the Kyrgyz Republic for 8 years and heads Kentor's Bishkek office with Orozbai Tohtonazarov, the General Director of CJSC Kentor and a Director of the Kyrgyz Geophysical Expedition ("KGE"). Both Hugh McKinnon and Orozbai Tohtonazarov provide unique in-country experience in the region and an intimate understanding of the local business and government environment.



Since Kentor listed on the ASX in March 2005, the Company has gained increased recognition in the Kyrgyz Republic.

Supporting the management group, CJSC Kentor's Bishkek office has 7 staff providing year-round support. During the exploration field season, this increases by up to 60 KGE staff and contractors including geologists, geophysicists, surveyors, field assistants, drivers and medical staff.

In addition to Kentor management, Global Ore Discovery Pty Ltd and AUSMEC Geoscience of Brisbane, provide consulting services to Kentor including state-of-the-art target generation.

Over the last three years Kentor has developed a synergy and productive relationship between the in-depth local knowledge of Kyrgyz Soviet-trained geoscientists and western, internationally experienced geoscientists with track records of discovery.





## GLOSSARY OF TECHNICAL TERMS

- alluvium** Recent surface sediments laid down by water.
- alteration** The change in the mineral composition of a rock, commonly due to hydrothermal activity.
- alteration zone** A zone in which rock-forming minerals have been chemically changed.
- ASTER** Advanced Spaceborne Thermal Emission and Reflection Radiometer is an imaging instrument that is flying on Terra, a satellite launched in December 1999 as part of NASA's Earth Orbiting System
- base-metal** A non-precious metal, usually referring to copper, lead and zinc.
- Batholithic** A large, generally discontinuous plutonic mass
- BLEG** Bulk Leach Extractable Gold a chemical analysis technique.
- Carbonaceous shale** Black shale with significant content of carbon
- Carboniferous** A period of geological time approximately from 295 Ma to 355 Ma.
- complex** An assemblage of rocks of various ages and origins intricately mixed together.
- conglomerate** A sedimentary rock formed by the cementing together of water-rounded pebbles, distinct from a breccia.
- Devonian** A period of geological time approximately from 355 Ma to 410 Ma.
- diamond drilling** Rotary drilling technique using diamond set or impregnated bits, to cut a solid, continuous core sample of the rock. The core sample is retrieved to the surface, in a core barrel, by a wire line.
- Diorite** An igneous rock of intermediate composition
- dip** The angle at which any planar feature is inclined from the horizontal.
- g, g/t** gram, grams per tonne.
- GIS** Geographic Information System. A system devised to present spatial data in a series of compatible and interactive layers.
- granitoids** A general term to describe coarse-grained, felsic intrusive plutonic rocks, resembling granite.
- intermediate** Igneous rocks whose composition is intermediate between felsic and mafic rocks.
- IP survey** Induced Polarization survey - an electrical geophysical survey technique measuring the magnetic field spontaneously induced in a volume of rock by the application of an electric current. This technique is often used to identify disseminated sulphide deposits.
- LandSat imagery** Reflective light data of the earth's surface collected by the LandSat satellite and commonly processed to enhance particular features. Includes the visible and invisible light spectrums.
- Ma** Million years ago.
- magnetic anomalies** Zones where the magnitude and orientation of the earth's magnetic field differs from adjacent areas.
- magnetic survey** Systematic collection of readings of the earth's magnetic field. The data are collected on the surface or from aircraft.
- massive sulphides** Rock containing abundant sulphides that constitutes close to 100% of the rock mass.
- metamorphosed** Mineralogical, structural and textural adjustment due to changes from the environment in which rocks were originally deposited.
- MMI** Mobile Metal Ion is an advanced exploration technique for locating mineral deposits
- Moz** Million ounces
- Neoproterozoic** An era of geological time approximately from 544 Ma to 1000 Ma.
- Ordovician** An era of geological time approximately from 435 Ma to 500 Ma.
- orogenic** Adjectival form of orogeny.
- orogeny** The process of formation of mountains, including thrusting, folding & faulting.
- oxide** Pertaining to weathered or oxidised rock.
- percussion** A method of drilling where the rock is broken into small chips by a hammering action.
- Permian** An era of geological time approximately from 248 Ma to 295 Ma.
- plunge** The attitude of a line in a plane which is used to define the orientation of fold hinges, mineralised zones and other structures.
- Porphyritic** Descriptive of igneous rocks containing relatively large crystals set in a finer-grained groundmass.
- ppb, ppm** Parts per billion, parts per million (quantitative equivalent of g/t).
- pyrite** A common iron sulphide mineral with the chemical formula FeS<sub>2</sub>.
- RC drilling** Reverse Circulation drilling - a method of rotary drilling in which the sample is returned to the surface, using compressed air, inside the inner-tube of the drill-rod. A more accurate drilling technique than simple percussion drilling, the RC technique minimises contamination.
- Riphean** A subdivision of the Neoproterozoic, around 650-850 Ma.
- Sericite** A white, fine-grained mica, usually formed as an alteration product of various silicates in metamorphic rocks and the wall rocks of ore deposits.
- shear zone** A zone in which rocks have been deformed primarily in a ductile manner in response to applied stress.
- silicified** The alteration or replacement of primary minerals by silica.
- Silurian** An era of geological time approximately from 410 Ma to 435 Ma.
- skarn** A thermally metamorphosed impure limestone.
- soil sampling** The collection of soil specimens for mineral analysis.
- stockwork** A network of (usually) quartz veinlets produced during pervasive brittle fracture.
- stream sampling** The collection of stream sediments for mineral analysis.
- strike** The direction or bearing of a geological structure on a level surface, perpendicular to the direction of dip.
- t, tpa** Metric tonne, tonnes per annum.
- Thrust fault** A fault with a dip of 45° or less, on which the hanging-wall appears to have moved upwards relative to the footwall.
- Tilloid** Till-like deposit of conglomeratic mudstone.
- Triassic** Applied to the first period of the Mesozoic era, 203Ma to 248Ma.
- Vendian** A subdivision of the Neoproterozoic, around 544 to 650Ma.





**KENTOR GOLD LTD**

ABN 52 082 658 080



# **Annual Directors Report and Statement of Financial Performance**

forming part of the 2005 Annual Report



# CORPORATE DIRECTORY

## directors

CHAIRMAN

**John Barr, AM**

MANAGING DIRECTOR

**David Royle**

EXECUTIVE DIRECTOR

**Hugh McKinnon**

NON-EXECUTIVE DIRECTOR

**Andrew Daley**

## company secretary

**Bruce Paterson**

## chief financial officer

**Greg Burgess**

## registered office

**Kentor Gold Ltd** (ABN 52 082 658 080)

Level 3

15 Queen Street

Melbourne VIC 3000

TELEPHONE 03 9621 1344

FACSIMILE 03 9621 1544

EMAIL [info@kentorgold.com](mailto:info@kentorgold.com)

WEBSITE [www.kentorgold.com](http://www.kentorgold.com)

## solicitors

**Rawling & Company**

BDO House

563 Bourke Street

Melbourne VIC 3000

## auditors

**BDO**

BDO House

563 Bourke Street

Melbourne VIC 3000

## bankers

**National Australia Bank Limited**

Level 2, 330 Collins Street

Melbourne Victoria 3000

## financial adviser

**Investor Resources Finance Pty Ltd**

Level 3

15 Queen Street

Melbourne VIC 3000

## share registry

**Link Market Services Limited**

Level 4

333 Collins Street

Melbourne VIC 3000

## stock exchange listing

The Company is listed on the  
Australian Stock Exchange Limited  
ASX Code: **KGL**

*[www.kentorgold.com](http://www.kentorgold.com)*



## CONTENTS

Corporate Governance Statement	20
Directors' Report	25
Auditors' Independence Declaration	33
Financial Report	34
Directors' Declaration	62
Audit Report	63
ASX Additional Information	65



# CORPORATE GOVERNANCE STATEMENT

## Corporate Governance

**As a listed company with Australian Stock Exchange Limited (ASX), Kentor Gold Limited must comply with the ASX Listing Rules, which were amended on 1 January, 2003 to enhance compliance by listed companies with corporate governance best practice.**

These provisions require listed companies to report on their main corporate governance practices by reference to the essential corporate governance principles (Principles) and best practice recommendations (Recommendations) of the ASX Corporate Governance Council (the Council), and require a company to highlight those areas of departure from the Recommendations of the Council and explain that departure.

### Principle 1 Lay solid foundations for management and oversight

*Recommendation 1.1 - Formalise and disclose the functions reserved to the Board and those delegated to management.*

The Board of Directors has been charged by members to oversee the affairs of the Company to ensure that they are conducted appropriately and in the interests of all members. The Board defines the strategic goals and objectives of the Company, as well as broad issues of policy, and establishes an appropriate framework of corporate governance within which Board members and management must operate. The Board is proactively involved with management in key matters of strategic direction.

The Board has adopted a Board Charter, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com)

The Board has delegated to the Managing Director responsibility for the formulation of strategy and management of the day-to-day operations and administration of the Company, consistent with the objectives and policies set down by the Board. The Managing Director is directly accountable to the Board for the performance of the management team.

### Principle 2 Structure the Board to add value

*Recommendation 2.1 - A majority of the Board should be independent directors*

*Recommendation 2.2 - The chairperson should be an independent director*

*Recommendation 2.3 - The roles of chairperson and chief executive officer should not be exercised by the same individual*

*Recommendation 2.4 - The Board should establish a Nomination Committee*

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Director's Report under the section headed "Directors". Directors of Kentor Gold Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

In the context of director independence, to be considered independent, a non-executive director may not have a direct or indirect material relationship with the Company. The Board has determined that a material relationship is one which has, or has the potential to, impair or inhibit a director's exercise of judgement on behalf of the Company and its shareholders.

In accordance with the definition of independence above, the following directors of Kentor Gold Limited are considered to be independent:

Name	Position
W H J Barr	Chairman, Non-Executive Director
A E Daley	Non-Executive Director



Mr Daley is considered to be an independent director notwithstanding that under the ASX Principles of Good Corporate Governance he would not be considered independent due to his employment with Investor Resources Limited, a material professional adviser to the Company.

Where a vacancy arises or it is considered appropriate to increase the size of the Board, the Chairman proposes nominations at the first instance. All such nominations are reviewed and, if suitable, are ratified by the full Board. It is not a current intention of the Board to establish a Nomination Committee.

The Directors' terms of appointment are governed by the Constitution of the Company. A Director appointed to fill a casual vacancy, or as an addition to the Board, only holds office until the next general meeting of members and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director and any other executive Director) must retire at each annual general meeting of members. The term of office held by each director in office at the date of this Annual Report is set out in the Directors Report.

All Directors of the Company have direct access to the management of the Company and, where necessary, to external advisers.

Each Director has the right to request independent professional advice at the expense of the Company, which request is not to be unreasonably withheld.

### **Principle 3 Promote ethical and responsible decision-making**

*Recommendation 3.1 - Establish a code of conduct to guide the directors, the Managing Director, the Chief Executive Officer and any other key executives as to:*

*3.1.1 the practices necessary to maintain confidence in the Company's integrity; and*

*3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Board has adopted a Code of Conduct, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com)

*Recommendation 3.2 - Disclose the policy concerning trading in Company securities by directors, officers and employees.*

The Board has adopted a Securities Trading Policy, which is posted on the Company's website.

### **Principle 4 Safeguard integrity in financial reporting**

*Recommendation 4.1 - Require the Managing Director and the Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.*

For the financial year ending 31 December 2005, the Managing Director and the Chief Financial Officer have provided a statement to the Board that, in their view, the Company's financial statements present a true and fair view of the Company's financial position at that date, and are based on a sound system of internal control.

*Recommendation 4.2 - The Board should establish an Audit Committee*

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non financial considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit & Compliance Committee.

The Audit & Compliance Committee also provided the Board with additional assurance regarding the reliability of financial information for inclusion in the financial statements.



On 24 November 2005 shareholders approved the appointment of BDO as auditor to the Company, with the new engagement partner being Craig Bryan. He has been a partner of BDO for 8 years and has extensive experience in the provision of audit services to public companies, particularly in the resources sector.

The external auditor will attend the Annual General Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

*Recommendation 4.3 - Structure the Audit Committee so that it consists of;*

- only non-executive directors
- a majority of independent directors
- an independent chairperson, who is not chairperson of the Board
- at least three members

The Audit & Compliance Committee comprises A E Daley (Chairman of the Committee and independent non-executive director) and W H J Barr (non-executive director), supported where necessary by appropriate external consultants and advisors. Messrs Daley and Barr each have had many years experience in the financial management of public companies.

*Recommendation 4.4 - The Audit Committee should have a formal charter*

The Board has adopted an Audit & Compliance Committee Charter, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com)

## **Principle 5 Make timely and balanced disclosure**

*Recommendation 5.1 - Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance*

The Board has adopted an ASX Disclosure Compliance Policy and Procedures document, which is posted on the Company's website.

## **Principle 6 Respect the rights of shareholders**

*Recommendation 6.1 - Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

Information is communicated to the members through compliance with ASX Listing Rules and the Corporations Act 2001, by way of the Annual Report, Half-Yearly Report, Appendix 5B quarterly reports, the Annual General Meeting and other meetings that may be called to obtain approval for Board recommendations. The Company also maintains a website - [www.kentorgold.com](http://www.kentorgold.com) - where all of the Company's ASX announcements and media releases can be viewed at any time.

*Recommendation 6.2 - Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*

This will be done by way of letter from the Company to the external auditor.

## **Principle 7 Recognise and manage risk**

*Recommendation 7.1 - The Board or relevant Board Committee should establish policies on risk oversight and management.*

The Directors continually monitor areas of significant business risk, recognising that there are inherent risks associated with the exploration for, development and mining of mineral deposits.



Specifically, in relation to risk oversight the Board is conscious of its responsibilities to: ensure compliance in legal, statutory and ethical matters; monitor the business environment; identify business opportunities; and monitor the systems established to ensure proper and appropriate responses to member complaints and enquiries.

The Board has delegated the responsibility for the establishment and maintenance of a framework for risk oversight and the management of risk for the consolidated entity to the Audit & Compliance Committee. The Charter of that Committee, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com) details those responsibilities of that Committee and how they are to be met.

*Recommendation 7.2 - The Managing Director and the Chief Financial Officer should state to the Board in writing that:  
7.2.1 the statement given in accordance with best practice Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board; and  
7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

For the financial year ending 31 December 2005, the Managing Director and the Chief Financial Officer have provided a statement to the Board that, in their view, the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board; and the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## **Principle 8 Encourage enhanced performance**

*Recommendation 8.1 - Disclose the process for performance evaluation of the Board, its Committees and individual directors, and key executives.*

Such a performance evaluation for the Board and its members and key executives has not taken place in the reporting period.

## **Principle 9 Remunerate fairly and responsibly**

*Recommendation 9.1 - Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.*

A full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current financial year is included in the Remuneration Report, which is contained within the Directors' Report (page 25).

Details of the Company's remuneration policy and the total remuneration, including monetary and non-monetary components, payable to each Director and specified executive is included in Note 21 of the Financial Statements.

*Recommendation 9.2 - The Board should establish a Remuneration Committee*

The Board has established a Remuneration Committee, comprising the two non-executive directors. Members of the Remuneration Committee are A E Daley (Chairman of the Committee and independent non-executive director) and W H J Barr (non-executive director).

The Board has adopted a Remuneration Committee Charter, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com)

*Recommendation 9.3 - Clearly distinguish the structure of Non-Executive Director's remuneration from that of executives*

The Constitution of the Company provides that the aggregate remuneration of all Directors, in their capacity as Directors, must not exceed \$150,000 per annum, or such other sum as the Company in general meeting may approve. This amount



Is to be apportioned amongst them in such manner as the Directors agree and, in default of agreement, equally. Non-Executive Directors who chair any of the Board committees do not receive additional remuneration for such duties.

There are no arrangements currently in place for payment of retirement benefits to Non-Executive Directors, other than statutory superannuation contributions.

#### **Principle 10 Recognise the legitimate interests of stakeholders**

*Recommendation 10.1 - Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

The Board has adopted a Code of Conduct, which is posted on the Company's website at [www.kentorgold.com](http://www.kentorgold.com)

#### **ASX Corporate Governance Principles Best Practice Compliance Checklist**

<b>Recommendation Number</b>	<b>Compliant Yes/No</b>	<b>If No - Status and / or Reason for Non-Compliance</b>
1.1	Yes	
2.1	No	A Board of 2 Independent Directors and 2 Executive Directors is appropriate to the present needs of the Company.
2.2	Yes	
2.3	Yes	
2.4	No	The full Board undertakes the responsibilities of a Nomination Committee
3.1	Yes	
3.2	Yes	
4.1	Yes	
4.2	Yes	
4.3	Partly No	The Audit & Compliance Committee has only 2 members, being both of the Non-Executive Directors
4.4	Yes	
5.1	Yes	
6.1	Yes	
6.2	Yes	
7.1	Yes	
7.2	Yes	
8.1	No	A performance evaluation for the Board and its members and key executives has not taken place in the reporting period.
9.1	Yes	
9.2	Yes	
9.3	Yes	
10.1	Yes	



# DIRECTORS' REPORT

Your directors submit their report for the 6 month period ended 31 December 2005.

## DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### **John Barr AM**

MAICD

Non-Executive Chairman  
Appointed 10 November 2004

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 is a Director of Iluka Resources Limited and a former Director of Acacia Resources Ltd, Oxiana Limited, and Transurban City Link Ltd. In August 2005 he retired as Chairman of Utilities of Australia Pty Ltd, a major unlisted infrastructure investment fund.

*Other Current Directorships of Listed Companies*  
Iluka Resources Limited.

*Former Directorships of Listed Companies in last three years*  
Oxiana Limited.

### **Andrew Daley**

BSc (Hons)(Mining)

Non-Executive Director  
Appointed 10 November 2004

Andrew Daley is a mining engineer and resources finance executive. Andrew spent several years working on mining projects in Africa before relocating to Australia as Senior Engineer with Fluor Australia in 1981. Since then he has had a long career in international investment banking and held senior positions with NAB, Barclays, and Chase Manhattan. He is a Chartered Engineer, a former Director of Oxiana Limited, a Director of Pan Australian Resources Limited, Dragon Mining NL, Gladstone Pacific Nickel Ltd (listed on AIM), a Member of IOM3 and a Fellow of the Australasian Institute of Mining and Metallurgy.

*Other Current Directorships of Listed Companies*  
Pan Australian Resources Limited, Dragon Mining NL, Gladstone Pacific Nickel Ltd.

*Former Directorships of Listed Companies in last three years*  
None.

### **David Royle**

BSc (Hons) (Geology)

Managing Director

David Royle has extensive international experience in exploration for precious metals, base metals and diamonds with major multinational resource companies over the past 30 years. He has a track record for the discovery of a number of significant minerals deposits through grass roots exploration. He is a Fellow and CP of the Australasian Institute of Mining and Metallurgy and Fellow of the Society of Economic Geologists.

*Other Current Directorships of Listed Companies*  
None.

*Former Directorships of Listed Companies in last three years*  
None.



**Hugh McKinnon**

BEng (Mining)

Executive Director

Appointed 28 May 1998

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 speaks competent Russian.

*Other Current Directorships of Listed Companies*

None.

*Former Directorships of Listed Companies in last three years*

None.

**COMPANY SECRETARY****John Rawling**

B.Comm, CA

Mr Rawling is a chartered accountant with more than 20 years experience in the chartered accounting profession, statutory corporations and international and ASX listed companies. He was appointed as company secretary and chief financial officer on 1 April 2005. Mr Rawling is currently also company secretary and chief financial officer of ASX listed EQiTX Limited.

**Interests in the shares and options of the company and related bodies corporate**

At the date of this report, the interest of the directors in the shares and options of Kentor Gold Limited were:

<b>Name of Director</b>	<b>Ordinary Shares</b>	<b>Options over Ordinary Shares</b>
W H J Barr	50,000	-
A E Daley	381,470	174,690
H McKinnon	2,064,627	1,033,334
D Z Royle	833,951	1,866,667

**CORPORATE INFORMATION****Corporate Structure**

Kentor Gold Limited is a company limited by shares that is incorporated and domiciled in Australia. Kentor Gold has prepared a consolidated financial report incorporating the entities that it controlled during the financial period and which are outlined in note 10 of the financial statements.

**Principal Activities**

The principal activity of the economic entity during the financial period was exploration for gold and base metals in the Kyrgyz Republic.

**Employees**

The consolidated entity employed 10 employees as at 31 December 2005 (June 2005: 10 employees).

**CONSOLIDATED RESULTS**

The loss for the consolidated entity for the financial period after income tax and providing for outside equity interests was \$ 447,181 (June 2005: loss of \$985,786).



## DIVIDENDS

No dividends in respect of the current financial period have been paid, declared or recommended for payment.

## OPERATING AND FINANCIAL REVIEW

### Group Overview

Kentor Gold Limited was established in May 1998 for the purpose of exploring for and developing gold properties in the Kyrgyz Republic.

### Exploration Overview

Please refer to the Managing Director's Report for details of exploration activities undertaken during the financial period.

### Financial Overview

#### *Operating Results for the Period*

The loss for the consolidated entity after income tax but before minority interest was \$449,679 (30 June 2005: loss of \$1,039,118). This result was in line with expectations and is consistent with information as provided in the prospectus dated 31 January 2005 and reflected costs associated with managing the exploration programme.

#### *Review of Financial Condition*

During the period, the Company continued its exploration programme in the Kyrgyz Republic through its foreign controlled entity CJSC Kentor.

#### *Cash Flows*

The cash flows of the Company consist of: in the case of the foreign controlled entity, payments to employees and suppliers for exploration activities on tenements held; and in the case of the parent entity the maintenance of the corporate head office which manages existing projects as well as costs involved in investigating new exploration opportunities.

## CAPITAL RAISINGS / CAPITAL STRUCTURE

During the period under review, the Company did not undertake any capital raisings.

### Summary of Shares / Options on Issue 31 December 2005

At the end of the period under review the Company has 34,651,132 ordinary shares and 9,219,557 options on issue. 466,668 options lapsed on 1 August 2005. The options on issue are as follows:

Expiry Date	Number	In Escrow	Exercise Price
On or before 1 April 2006	66,667	N/a	\$0.21
On or before 1 April 2006	1,232,887	1,032,887 until 17 March 2007	\$0.30
On or before 1 July 2006	386,668	333,334 until 17 March 2007	\$0.30
On or before 1 March 2007	4,666,668	1,841,357 until 17 March 2007	\$0.45
On or before 1 July 2007	333,333	333,333 until 17 March 2007	\$0.625
On or before 1 July 2008	266,667	266,667 until 17 March 2007	\$0.75
	<b>6,952,890</b>		

Issued without expiry date*	Number	In Escrow	Exercise Price
Tranche 1	846,667	846,667 until 17 March 2007	\$0.625
Tranche 2	710,000	710,000 until 17 March 2007	\$0.75
Tranche 3	710,000	710,000 until 17 March 2007	\$0.875
	<b>2,266,667</b>		
	<b>9,219,557</b>		

\* 30 days after ceasing employment



## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the company during the reporting period.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matter or circumstance has arisen since 31 December 2005 which has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in subsequent financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Board of Directors intends to continue with the exploration programme in the Kyrgyz Republic as outlined in the prospectus dated 31 January 2005. Further details of the Company's prospects are included in the Report on Exploration Projects which forms part of the Managing Director's Report.

As the Company is listed on the Australian Stock Exchange, it is subject to the continuous disclosure requirements of the ASX Listing Rules which require immediate disclosure to the market of information that is likely to have a material effect on the price or value of Kentor Gold Limited's securities.

## ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation of Australia or the legislation of the Kyrgyz Republic.

## MEETINGS OF DIRECTORS

The number of meetings of the Directors held during the period and the number of meetings attended by each Director were as follows:

		Board Meetings	
		Attended	Held
Current Directors	W H J Barr	5	5
	A E Daley	5	5
	D Z Royle	5	5
	H McKinnon	5	5

## Committee membership and meetings

The Audit and Compliance Committee and the Remuneration Committee were established on 17 January 2005. The members of both Committees are the independent directors, John Barr and Andrew Daley.

Two meetings of the Audit and Compliance Committee (Chairman, Andrew Daley) were held during the period, and they were attended by both members. There were no meetings of the Remuneration Committee (Chairman, John Barr) held during the period.

## REMUNERATION REPORT

### Remuneration philosophy

The Board of Directors of Kentor Gold Limited is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms, including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Company.



To assist in achieving these objectives, the Board intends to link the nature and amount of executive officers' emoluments to the Company's financial and operational performance. No formal plan has been adopted at this time.

Employment Agreements are entered into with Executive Directors and Specified Executives. The current employment contract with the Managing Director runs until its termination date of 31 December 2006, unless terminated by the Managing Director who may give three months' notice. The employment contract with the Executive Director runs until its termination date of 31 December 2006, unless terminated by the Executive Director who may give four months' notice. The Specified Executive has a contract which provides for one months' notice. Contracts do not provide for any additional termination benefits.

### **Remuneration Committee**

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and executives.

### **Remuneration Structure**

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### **Non-Executive Director Remuneration**

#### *Objective*

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

#### *Structure*

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was in the Constitution adopted on 19 October 2004 which approved an aggregate remuneration of \$150,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

Non-executive directors have long been encouraged by the Board to hold shares in the Company. It is considered good governance for directors to have a stake in the company on whose board he or she sits.

The remuneration of non-executive Directors for the period ending 31 December 2005 is detailed in the Remuneration Table on page 31 of this Annual Report.

### **Senior Executive Remuneration**

#### *Objective*

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.



### *Structure*

In determining the level and make-up of executive remuneration, the Board obtained independent advice from external consultants on market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with the all senior executives.

## **Variable Remuneration Long Term Incentives**

### *Objective*

The objectives of long term incentives are to:

- recognise the ability and efforts of the employees of the Company who have contributed to the success of the Company and to provide them with rewards where deemed appropriate;
- provide an incentive to the employees to achieve the long term objectives of the Company and improve the performance of the Company; and
- attract persons of experience and ability to employment with the Company and foster and promote loyalty between the Company and its employees.

### *Structure*

No formal plan has been implemented at this time. It is expected that long term incentives granted to senior executives will be delivered in the form of options in accordance with an Employee Share Option Plan. At the commencement of each financial year, the Company and each senior executive will agree upon a set of financial and non-financial objectives related to the senior executive's job responsibilities. The objectives will vary but all will be targeted to relate directly to the Company's business and financial performance and thus to shareholder value.

## **Employment Contracts**

### **David Royle**

By an employment agreement dated 1 December 2004, the Company and Mr David Royle have agreed the terms of his employment including inter alia:

- Mr Royle is engaged to provide services in the capacity of Managing Director commencing on 1 January 2005, for a period of 24 months, renewable by mutual agreement by the October prior to expiry of the agreement, at an annual salary of \$140,000 with annual review.
- A restraint on Mr Royle undertaking employment in the Kyrgyz Republic for a period of 6 months after termination.
- An obligation on Mr Royle to maintain confidentiality in respect of proprietary information obtained during employment
- The grant of 1,366,667 options to a company associated with Mr Royle in 3 tranches:
  - a) 546,667 options exercisable at \$0.625
  - b) 410,000 options exercisable at \$0.75
  - c) 410,000 options exercisable at \$0.875

The options are not transferable and may be exercised at any time during employment and for 30 days after cessation of employment, after which they lapse. They will not be quoted.

- The Company will consider further bonuses based on the contribution of Mr Royle to Company milestones and the then circumstances of the Company.

### **Hugh McKinnon**

By an employment agreement dated 1 December 2004, the Company and Mr Hugh McKinnon have agreed the terms of his employment including inter alia:

- Mr McKinnon is engaged to provide services in the Kyrgyz Republic in the capacity of Executive Director and Country Manager for a term ending on 31 December 2006, renewable by mutual agreement in the March prior to expiry of the agreement, for a further period of 12 months at an annual salary of \$100,000 with annual review. His place of employment is in the Kyrgyz Republic.
- A restraint on Mr McKinnon undertaking employment in the Kyrgyz Republic for a period of 6 months after termination.



- An obligation on Mr McKinnon to maintain confidentiality in respect of proprietary information obtained during employment.
- The grant of 900,000 options to a company associated with Mr McKinnon in 3 tranches:
  - a) 300,000 options exercisable at \$0.625
  - b) 300,000 options exercisable at \$0.75
  - c) 300,000 options exercisable at \$0.875

The options are not transferable and may be exercised at any time during employment and for 30 days after cessation of employment, after which they lapse. They will not be quoted.

## Remuneration of Directors and Executives

<b>6 Month Period ended 31 December 2005</b>	<b>Short Term</b>	<b>Post Employment</b>	<b>Share Based Payment</b>	<b>Total</b>
	Salary & Fees \$	Superannuation \$	Options \$	\$
<b>Specified Directors</b>				
W H J Barr	30,000	2,700	-	32,700
A E Daley*	16,350	-	-	16,350
H McKinnon	50,000	-	-	50,000
D Z Royle	70,000	6,300	-	76,300
<b>Specified Executives</b>				
J W Rawling	32,110	2,890	-	35,000
	<b>198,460</b>	<b>11,890</b>	<b>-</b>	<b>226,700</b>
<hr/>				
<b>Year ended 30 June 2005</b>	<b>Short Term</b>	<b>Post Employment</b>	<b>Share Based Payment</b>	<b>Total</b>
	Salary & Fees \$	Superannuation \$	Options \$	\$
<b>Specified Directors</b>				
W H J Barr	17,000	1,568	-	18,987
A E Daley*	9,575	-	-	9,575
H McKinnon	86,000	-	20,160	106,160
D Z Royle	120,000	10,800	22,140	152,940
<b>Specified Executives</b>				
J W Rawling	16,055	1,445	-	17,500
	<b>249,049</b>	<b>13,813</b>	<b>42,300</b>	<b>305,162</b>

\* Directors fees were paid to Dalenier Enterprises Pty Ltd, a company which is controlled by Andrew Daley.

The fair value of the options issued in the year ended 30 June 2005 has been recognised in its entirety in that year as the options vested immediately on issue.

## Options granted as part of remuneration

No options were issued or granted during the reporting period.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into Deeds of Indemnity with the Directors and the Company Secretary, indemnifying them against certain liabilities and costs to the extent permitted by law.

The Company has also agreed to pay a premium in respect of a contract insuring the Directors and Officers of the Company. Full details of the cover and premium are not disclosed as the insurance policy prohibits the disclosure.



## **CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Kentor Gold Limited adhere to strict principles of corporate governance. The Company's corporate governance statement is described on page 20 of this Annual Report.

## **AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

On 24 November 2005, the shareholders of the Company appointed BDO as auditor of the Company, replacing MSI Ragg Weir.

The directors received the declaration, included on page 33 of this Annual Report, from the auditor of Kentor Gold Ltd.

### **Non-Audit Services**

No non-audit services were provided by the entity's auditor, BDO.

This report has been made in accordance with a resolution of the Directors.



**W H J BARR AM**

Director

Melbourne, 24 March 2006



# AUDITORS' INDEPENDENCE DECLARATION



**Chartered Accountants**

563 Bourke Street Melbourne 3000  
DX 30937 Stock Exchange  
Melbourne  
Telephone (03) 9615 8500  
Facsimile (03) 9615 8700  
Email: [bdomel@bdomel.com.au](mailto:bdomel@bdomel.com.au)  
**[www.bdo.com.au](http://www.bdo.com.au)**

## **DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF KENTOR GOLD LIMITED**

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'C M J Bryan', with a long horizontal flourish extending to the right.

**C M J Bryan**  
Partner

**BDO**  
Chartered Accountants

Melbourne, 24 March 2006



## INCOME STATEMENT

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005

	Note	Consolidated		Company	
		Six months ended	Year ended	Six months ended	Year ended
		31 December 2005 \$	30 June 2005 \$	31 December 2005 \$	30 June 2005 \$
Revenue	2	<b>125,607</b>	114,852	<b>117,322</b>	114,445
Employment related costs		<b>(257,470)</b>	(296,277)	<b>(234,889)</b>	(250,499)
Depreciation and amortisation expense		<b>(21,937)</b>	(35,977)	<b>(6,984)</b>	(10,290)
Office expenses		<b>(35,509)</b>	(55,054)	<b>(19,498)</b>	(36,290)
Travel related expenses		<b>(48,120)</b>	(94,066)	<b>(47,853)</b>	(75,302)
Administrative expenses		<b>(162,947)</b>	(178,724)	<b>(153,356)</b>	(159,960)
Provision for diminution of investments		-	(14,251)	-	(14,251)
Provision for write-down of amount receivable from foreign controlled entity		-	-	<b>(19,371)</b>	(623,428)
Exploration and evaluation costs written off		-	(207,161)	-	-
Provision for write-down of exploration and evaluation costs		<b>(7,693)</b>	(206,775)	-	-
Other expenses from ordinary activities		<b>(41,610)</b>	(65,685)	<b>(41,058)</b>	(20,649)
Total expenses	2	<b>(575,286)</b>	(1,153,970)	<b>(523,009)</b>	(1,190,669)
Loss before income tax expense		<b>(449,679)</b>	(1,039,118)	<b>(405,687)</b>	(1,076,224)
Income tax expense	3	-	-	-	-
Net loss for the period		<b>(449,679)</b>	(1,039,118)	<b>(405,687)</b>	(1,076,224)
Net loss attributable to minority interest		<b>2,498</b>	53,362	-	-
<b>Net loss attributable to members of Kentor Gold Limited</b>		<b>(447,181)</b>	(985,756)	<b>(405,687)</b>	(1,076,224)
Basic earnings per Share (cents per share)	4	(1.30)	(3.90)		
Diluted earnings per Share (cents per share)	4	(1.30)	(3.90)		



## BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	Consolidated 31 December 2005 \$	30 June 2005 \$	Company 31 December 2005 \$	30 June 2005 \$
<b>Current Assets</b>					
Cash and cash equivalents	18(b)	3,496,273	5,455,623	3,437,726	5,315,482
Trade and other receivables	5	295,547	116,508	48,142	24,450
Other	6	15,195	41,295	15,195	41,295
<b>Total Current Assets</b>		<b>3,807,015</b>	<b>5,613,426</b>	<b>3,501,063</b>	<b>5,381,227</b>
<b>Non-Current Assets</b>					
Trade and other receivables	7	-	-	3,038,484	1,552,318
Plant and equipment	8	146,363	133,448	36,413	23,232
Deferred exploration and evaluation costs	9	2,679,972	1,283,036	-	-
Other financial assets	10	-	-	27,135	27,135
Intangible assets	11	-	958	-	-
<b>Total Non-Current Assets</b>		<b>2,826,335</b>	<b>1,417,442</b>	<b>3,102,032</b>	<b>1,602,685</b>
<b>Total Assets</b>		<b>6,633,350</b>	<b>7,030,868</b>	<b>6,603,095</b>	<b>6,983,912</b>
<b>Current Liabilities</b>					
Trade and other payables	12	(170,829)	(173,654)	(140,574)	(126,698)
Provisions	13	(27,396)	(14,670)	(27,396)	(14,670)
<b>Total Current Liabilities</b>		<b>(198,225)</b>	<b>(188,324)</b>	<b>(167,970)</b>	<b>(141,368)</b>
<b>Total Liabilities</b>		<b>(198,225)</b>	<b>(188,324)</b>	<b>(167,970)</b>	<b>(141,368)</b>
<b>Net Assets</b>		<b>6,435,125</b>	<b>6,842,544</b>	<b>6,435,125</b>	<b>6,842,544</b>
<b>Equity</b>					
<b>Parent Entity Interest</b>					
Contributed equity	14	9,085,407	9,089,007	9,085,407	9,089,007
Reserves	15	(30,023)	(75,883)	(79,578)	(81,446)
Accumulated losses	16	(2,497,126)	(2,049,945)	(2,570,704)	(2,165,017)
<b>Total parent entity interest in equity</b>		<b>6,558,258</b>	<b>6,963,179</b>	<b>6,435,125</b>	<b>6,844,544</b>
Total outside equity interest	17	(123,133)	(120,635)	-	-
<b>Total Equity</b>		<b>6,435,125</b>	<b>6,842,544</b>	<b>6,435,125</b>	<b>6,842,544</b>



## STATEMENT OF RECOGNISED INCOME AND EXPENSE

### FOR THE PERIOD ENDED 31 DECEMBER 2005

Note	Consolidated		Company	
	Six months ended 31 December 2005 \$	Year ended 30 June 2005 \$	Six months ended 31 December 2005 \$	Year ended 30 June 2005 \$
Foreign currency translation	<b>45,860</b>	217,288	<b>1,868</b>	(109,107)
<b>Net expenses recognised directly in equity</b>	<b>45,860</b>	217,288	<b>1,868</b>	(109,107)
Net loss for the period	<b>(449,679)</b>	(1,039,118)	<b>(405,687)</b>	(1,076,224)
<b>Total recognised income and expense for the period</b>	<b>(403,819)</b>	(821,830)	<b>(403,819)</b>	(1,185,331)
Attributable to:				
Equity holders of the parent entity	<b>(406,317)</b>	(875,192)	<b>(403,819)</b>	(1,185,331)
Minority interest	<b>2,498</b>	53,362	-	-
	<b>(403,819)</b>	(821,830)	<b>(403,819)</b>	(1,185,331)



## CASH FLOW

FOR THE PERIOD ENDED 31 DECEMBER 2005

	Note	Consolidated		Company	
		Six months ended	Year ended	Six months ended	Year ended
		31 December 2005	30 June 2005	31 December 2005	30 June 2005
		\$	\$	\$	\$
<b>Cash Flows From Operating Activities</b>					
Payments to suppliers and employees		(570,476)	(578,656)	(446,148)	(540,295)
Payment for exploration costs		(1,450,851)	(1,138,746)	(708,342)	-
Interest received		95,552	114,037	95,552	113,954
Interest paid		-	(17)	-	(17)
<b>Net Cash Flows Used in Operating Activities</b>	18(a)	<b>(1,925,775)</b>	<b>(1,603,382)</b>	<b>(1,058,938)</b>	<b>(426,358)</b>
<b>Cash Flows From Investing Activities</b>					
Purchase of plant and equipment		(29,975)	(68,348)	(15,104)	(500)
Funds transferred to subsidiary		-	-	(800,114)	(1,221,147)
Other		-	(4,582)	-	(4,582)
<b>Net Cash Flows Used in Investing Activities</b>		<b>(29,975)</b>	<b>(72,930)</b>	<b>(815,218)</b>	<b>(1,226,229)</b>
<b>Cash Flows From Financing Activities</b>					
Proceeds from issue of ordinary shares		-	7,096,030	-	7,096,030
Payment of share issue costs		(3,600)	(642,036)	(3,600)	(642,036)
<b>Net Cash Flows From Financing Activities</b>		<b>(3,600)</b>	<b>6,453,994</b>	<b>(3,600)</b>	<b>6,453,994</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>(1,959,350)</b>	<b>4,777,682</b>	<b>(1,877,756)</b>	<b>4,801,407</b>
Cash and cash equivalents at the beginning of the financial period		5,455,623	677,941	5,315,482	514,075
<b>Cash and cash equivalents at the end of the financial period</b>	18(b)	<b>3,496,273</b>	<b>5,455,623</b>	<b>3,437,726</b>	<b>5,315,482</b>



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005

Note	Contents
1.	Summary of significant accounting policies
2.	Revenue and expenses
3.	Income tax
4.	Earnings per share
5.	Trade and other receivables - Current
6.	Other Current Assets
7.	Trade and other receivables - Non-Current
8.	Plant and Equipment
9.	Deferred Exploration and Evaluation Costs
10.	Other Financial Assets - Non-Current
11.	Intangible assets
12.	Trade and other payables - Current
13.	Provisions - Current
14.	Contributed equity
15.	Reserves
16.	Accumulated losses
17.	Outside equity interest
18.	Cash and cash equivalents
19.	Expenditure commitments
20.	Subsequent Events
21.	Employee benefits and superannuation commitments
22.	Key management personnel remuneration
23.	Auditors remuneration
24.	Related party disclosures
25.	Segment information
26.	Financial instruments
27.	Transition to AIFRS
28.	Contingent liabilities and contingent assets



## Notes to the Financial Statements for the financial period ended 31 December 2005

### Note 1. Summary of Significant Accounting Policies

#### Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 27.

#### Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The company has changed its financial reporting period from 30 June to 31 December to align the reporting period of the parent company with its subsidiary. This financial report is therefore presented for the six months ended 31 December 2005.

The financial report is presented in Australian dollars.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. A list of subsidiaries appears in note 10 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

#### (b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted.

Amounts receivable from foreign controlled entity

Ultimate recovery of amounts receivable from the foreign controlled entity is dependent upon success in exploration and evaluation or sale or farm-out of the foreign controlled entity's exploration interests. Therefore the parent entity makes provision against the amount receivable from the foreign controlled entity to the extent that the net assets of the foreign controlled entity do not increase the net assets of the consolidated entity.



## Note 1. Summary of Significant Accounting Policies (continued)

### (c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Interest Income*

Control of the right to receive the interest payment.

### (d) Income Tax

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

### (e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.



## Note 1. Summary of Significant Accounting Policies (continued)

### (f) Foreign Currency

#### Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that:

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

#### Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

### (g) Cash and Cash Equivalents

Cash on hand and in banks and short term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily converted to cash, net of outstanding bank overdrafts.

### (h) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Available-for-sale financial assets

Certain shares and convertible notes held by the consolidated entity are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

#### Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

#### Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.



## **Note 1. Summary of Significant Accounting Policies (continued)**

### **(i) Exploration and Evaluation Assets**

The consolidated entity applies AASB 6 *Exploration For and Evaluation of Mineral Resources*. Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against operating results in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

### **(j) Impairment of Assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **(k) Plant and Equipment**

#### *i) Acquisition*

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

#### *ii) Depreciation*

Plant and equipment are depreciated on a straight line basis at rates based upon the expected useful lives of these assets. The expected useful lives of these assets are 3-6 years (30 June 2005: 3-6 years).



## **Note 1. Summary of Significant Accounting Policies (continued)**

### **(l) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating Leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

#### *Finance Leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as plant and equipment under lease. A lease liability of equal value is also recognised. The consolidated entity has no finance leases as at 31 December 2005.

### **(m) Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

### **(n) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the share proceeds received.

### **(o) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

### **(p) Earnings per Share ("EPS")**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### **(q) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. Due to the shorter reporting period the comparative amounts for the income statement, statement of recognised income and expense, cash flow statement and related notes are not entirely comparable.



Consolidated		Company	
31 December	30 June	31 December	30 June
2005	2005	2005	2005
\$	\$	\$	\$

## Note 2. Revenue and Expenses

### (a) Revenue

Revenue from continuing operations consisted of:

Interest – Other persons/corporations	117,322	114,852	117,322	114,445
Other income	8,285	-	-	-
Total revenue from continuing operations	125,607	114,852	117,322	114,445
<b>Total Revenue</b>	<b>125,607</b>	<b>114,852</b>	<b>117,322</b>	<b>114,445</b>

### (b) Loss before income tax

Loss before income tax has been arrived at after crediting/(charging) the following expenses from continuing operations:

Depreciation	20,803	32,953	6,984	10,290
Amortisation	1,134	3,024	-	-
Interest expense – Other persons/corporations	-	23	-	23
Operating lease rentals				
- minimum lease payments	8,338	16,626	8,338	16,626

## Note 3. Income Tax

- (a) The prima facie tax, using tax rates applicable in the country of operations, on operating loss differs from the income tax provided in the financial statements as follows:

Prima facie tax benefit on loss for the period	134,904	311,735	121,706	322,867
Tax effect of permanent differences				
- provision for diminution of investments	-	(4,275)	-	(4,275)
- provision for diminution of receivables	-	-	(5,811)	(187,028)
- provision for exploration costs write-down	(2,308)	(62,033)	-	-
- capital raising costs allowance	-	43,672	-	43,672
- share based payments	-	(12,690)	-	(12,690)
Timing differences and tax losses not brought to account	(132,596)	(276,409)	(115,895)	(162,546)
Income tax benefit attributable to ordinary activities	-	-	-	-

### (b) Income tax losses

Future income tax benefit arising from tax losses not brought to account at reporting date as the benefit is not regarded as virtually certain

894,046	761,450	559,575	443,680
---------	---------	---------	---------

This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.



Consolidated	
31 December 2005	30 June 2005

#### Note 4. Earnings per Share

The following reflects the income and share data used in calculating basic and diluted earnings per share:

Net loss	<b>\$449,679</b>	\$1,039,118
Basic and diluted earnings per share (cents per share)	<b>(1.30)c</b>	(3.90)c
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	<b>34,651,132</b>	26,624,831

Diluted earnings per share is calculated after classifying all options on issue remaining unconverted at 31 December 2005 as potential ordinary shares. As at 31 December 2005, the Company has on issue 9,686,225 options over unissued capital and has incurred a net loss. As the notional exercise price of these options is greater than the current market price of the shares they have not been included in the calculations of diluted earnings per share.

	Consolidated		Company	
	31 December 2005	30 June 2005	31 December 2005	30 June 2005
	\$	\$	\$	\$
<b>Note 5. Trade and other receivables – Current</b>				
Deposits	<b>1,524</b>	1,524	<b>1,524</b>	1,524
GST receivable (net)	<b>24,848</b>	22,926	<b>24,848</b>	22,926
Other receivables	<b>269,175</b>	92,058	<b>21,770</b>	-
	<b>295,547</b>	116,508	<b>48,142</b>	24,450

Terms and conditions relating to the above financial instruments

- (i) Other receivables are non interest bearing and have repayment terms between eight and ninety days.
- (ii) Details of the terms and conditions of any related party receivables are set out in Note 24.

#### Note 6. Other Current Assets

Prepayments	<b>15,195</b>	41,295	<b>15,195</b>	41,295
	<b>15,195</b>	41,295	<b>15,195</b>	41,295

#### Note 7. Trade and other receivables – Non Current

Amount receivable from foreign controlled entity	-	-	<b>3,681,283</b>	<b>2,175,746</b>
Less provision for diminution	-	-	<b>(642,799)</b>	<b>(623,428)</b>
	-	-	<b>3,038,484</b>	<b>1,552,318</b>

Ultimate recovery of amounts receivable from the foreign controlled entity is dependent upon success in exploration and evaluation or sale or farm-out of the foreign controlled entity's exploration interests.



## Note 8. Plant and Equipment

	Plant & Equipment & low value pool \$	Consolidated Computer Equipment & Software \$	Total \$	Plant & Equipment & low value pool \$	Company Computer Equipment & Software \$	Total \$
<b>Period ended 31 December 2005</b>						
At 1 July 2005, net of accumulated depreciation	117,369	16,079	133,448	7,153	16,079	23,232
Additions	20,130	13,588	33,718	6,577	13,588	20,165
Depreciation expense	(14,826)	(5,977)	(20,803)	(1,007)	(5,977)	(6,984)
At 31 December 2005, net of accumulated depreciation	122,673	23,690	146,363	12,723	23,690	36,413
<b>At 1 July 2005</b>						
Cost	186,553	24,166	210,719	10,329	24,166	34,495
Accumulated depreciation	(69,184)	(8,087)	(77,271)	(3,176)	(8,087)	(11,263)
Net carrying amount	117,369	16,079	133,448	7,153	16,079	23,232
<b>At 31 December 2005</b>						
Cost	206,683	37,754	230,884	16,906	37,754	54,660
Accumulated depreciation	(84,010)	(14,064)	(84,255)	(4,183)	(14,064)	(18,247)
Net carrying amount	122,673	23,690	146,629	12,723	23,690	36,413
<b>Year ended 30 June 2005</b>						
At 1 July 2004, net of accumulated depreciation	80,014	16,119	96,133	8,619	16,119	24,738
Additions	62,710	7,558	70,268	1,226	7,558	8,784
Depreciation expense	(25,355)	(7,598)	(32,953)	(2,692)	(7,598)	(10,290)
At 31 December 2005, net of accumulated depreciation	117,369	16,079	133,448	7,153	16,079	23,232
<b>At 1 July 2004</b>						
Cost	123,843	16,608	140,451	9,103	16,608	25,711
Accumulated depreciation	(43,829)	(489)	(44,318)	(484)	(489)	(973)
Net carrying amount	80,014	16,119	96,133	8,619	16,119	24,738
<b>At 30 June 2005</b>						
Cost	186,553	24,166	210,719	10,329	24,166	34,495
Accumulated depreciation	(69,184)	(8,087)	(77,271)	(3,176)	(8,087)	(11,263)
Net carrying amount	117,369	16,079	133,448	7,153	16,079	23,232



	Consolidated		Company	
	31 December 2005	30 June 2005	31 December 2005	30 June 2005
	\$	\$	\$	\$
<b>Note 9. Deferred Exploration and Evaluation Costs</b>				
Balance at beginning of the period	<b>1,283,036</b>	368,226		
Additional expenditure carried forward	<b>1,404,629</b>	1,328,746	-	-
Write-off during financial period	-	(207,161)	-	-
Provision for licence areas to be relinquished	<b>(7,693)</b>	(206,775)	-	-
Balance at end of the period	<b>2,679,972</b>	1,283,036	-	-
Deferred Exploration and Evaluation Costs	<b>2,894,440</b>	1,489,811	-	-
Provision for licence areas to be relinquished	<b>(214,468)</b>	(206,775)	-	-
	<b>2,679,972</b>	1,283,036	-	-

Ultimate recovery of deferred exploration and evaluation costs is dependent upon success in exploration and evaluation or sale or farm-out of the exploration interests.

Deferred Exploration and Evaluation Costs includes expenditure amounting to \$22,948 (30 June 2005: \$22,948) incurred at the Pchan licence area through the joint venture entity CJSC Kyldoo, in which the consolidated entity has a 40% interest.

**Note 10. Other Financial Assets – Non Current**

Investment in foreign controlled entity (i)	-	-	<b>27,135</b>	27,135
Available-for-sale financial assets				
Shares in Action Hydrocarbons Ltd (ii)	<b>14,251</b>	14,251	<b>14,251</b>	14,251
Provision for diminution	<b>(14,251)</b>	(14,251)	<b>(14,251)</b>	(14,251)
	<b>-</b>	-	<b>27,135</b>	27,135

(i) Details of investment in foreign controlled entity are:

	Country of Incorporation	31 December 2005 % Held	30 June 2005 % Held
CJSC Kentor	Kyrgyz Republic	80%	80%

(ii) Action Hydrocarbons Ltd is an Australian unlisted public company which has been placed into liquidation and the investment has been fully provided for.

**Note 11. Intangible Assets**

Geological information & licences at cost	<b>9,303</b>	<b>9,303</b>	-	-
Less accumulated amortisation	<b>(9,303)</b>	<b>(8,345)</b>	-	-
	<b>-</b>	<b>958</b>	-	-

**Note 12. Trade and other payables - Current**

Trade payables	<b>137,493</b>	106,814	<b>117,330</b>	63,098
Other payables	<b>33,336</b>	66,840	<b>23,244</b>	63,600
	<b>170,829</b>	173,654	<b>140,574</b>	126,698

Terms and conditions relating to the above financial instruments:

- (i) Trade payables are non-interest bearing and are usually settled on 30 day terms.
- (ii) Other payables are non-interest bearing and have an average term of 30 days.

**Note 13. Provisions - Current**

Employee benefits (see Note 21)	<b>27,396</b>	14,670	<b>27,396</b>	14,670
---------------------------------	---------------	--------	---------------	--------



	Consolidated		Company	
	31 December 2005 \$	30 June 2005 \$	31 December 2005 \$	30 June 2005 \$
<b>Note 14. Contributed Equity</b>				
(a) Issued and paid up capital				
Ordinary shares fully paid	<b>9,085,407</b>	9,089,007	<b>9,085,407</b>	9,089,007
(b) Movements in shares on issue				
<b>Details</b>	6 months ended 31 December 2005		Year ended 30 June 2005	
	Number of Shares Issued	Issued Capital \$	Number of Shares Issued	Issued Capital \$
Beginning of the financial year	<b>34,651,132</b>	<b>9,089,007</b>	57,443,974	<b>2,640,629</b>
Movements during the year				
- share placements	-	-	9,009,362	<b>991,030</b>
- share consolidation	-	-	(44,302,204)	-
- initial public offer	-	-	12,000,000	<b>6,000,000</b>
- exercise of options	-	-	500,000	<b>105,000</b>
Less: costs of share issues (see below)	-	<b>(3,600)</b>	-	<b>(647,652)</b>
<b>Closing balance</b>	<b>34,651,132</b>	<b>9,085,407</b>	34,651,132	<b>9,089,007</b>

#### Capital Transactions

No share movements took place during the financial period. Costs of share issues during the financial period relate to listing fees for shares which have been released from escrow.

(c) Terms and condition of contributed equity

#### Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(d) Share Options

#### Options over Ordinary Shares

At the end of the financial period, there were 9,219,557 (30 June 2005: 9,686,225) unissued ordinary shares in respect of which the following options were outstanding:

	<i>Expiry date/Duration</i>	<i>Number</i>	<i>In Escrow</i>	<i>Exercise price</i>
Unlisted Options	On or before 1 April 2006	66,667	n/a	\$0.21
	On or before 1 April 2006	1,232,887	1,032,887 until 17 March 2007	\$0.30
	On or before 1 July 2006	386,668	333,334 until 17 March 2007	\$0.30
	On or before 1 March 2007	4,666,668	1,841,357 until 17 March 2007	\$0.45
	On or before 1 July 2007	333,333	333,333 until 17 March 2007	\$0.625
	On or before 1 July 2008	266,667	266,667 until 17 March 2007	\$0.75
		<u>6,952,890</u>		
Executive Options	30 days after ceasing employment	846,667	846,667 until 17 March 2007	\$0.625
	30 days after ceasing employment	710,000	710,000 until 17 March 2007	\$0.75
	30 days after ceasing employment	710,000	710,000 until 17 March 2007	\$0.875
		<u>2,266,667</u>		
<b>TOTAL</b>		<u><b>9,219,557</b></u>		

Since 30 June 2005 no further options have been issued and no options have been exercised. The Company has an obligation to a contractor, Global Ore Discovery, in the event of renewal of its contract for 2006, to issue 266,667 options at an exercise price of \$0.875.



	Consolidated		Company	
	31 December 2005 \$	30 June 2005 \$	31 December 2005 \$	30 June 2005 \$
<b>Note 15. Reserves</b>				
Foreign currency translation reserve (a)	<b>(72,323)</b>	(118,183)	<b>(121,878)</b>	(123,746)
Other reserves (b)	<b>42,300</b>	42,300	<b>42,300</b>	42,300
	<b>(30,023)</b>	(75,883)	<b>(79,578)</b>	(81,446)
<b>(a) Foreign Currency Translation Reserve</b>				
Opening balance	<b>(118,183)</b>	(335,471)	<b>(123,746)</b>	(14,639)
Currency translation differences	<b>45,860</b>	217,288	<b>1,868</b>	(109,107)
Closing balance	<b>(72,323)</b>	(118,183)	<b>(121,878)</b>	(123,746)
<b>(b) Other Reserves</b>				
Opening balance	<b>42,300</b>	-	<b>42,300</b>	-
Share based payments	-	42,300	-	42,300
Closing balance	<b>42,300</b>	42,300	<b>42,300</b>	42,300

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign controlled entity. Other reserves are used to record the value assigned to share-based payments.

#### Note 16. Accumulated Losses

##### (a) Accumulated Losses

Accumulated losses				
at the beginning of the financial period	<b>(2,049,945)</b>	(1,064,189)	<b>(2,165,017)</b>	(1,088,793)
Net loss attributable to members of Kentor Gold Limited	<b>(449,679)</b>	(1,039,118)	<b>(405,687)</b>	(1,076,224)
Net loss attributable to outside equity interest	<b>2,498</b>	53,362	-	-
Accumulated losses at the end of the financial period	<b>(2,497,126)</b>	(2,049,945)	<b>(2,570,704)</b>	(2,165,017)

##### (b) Franking Credits

There are no franking credits available for the subsequent financial year.

#### Note 17. Outside Equity Interest

Outside equity interests in controlled entities comprises:

Contributed equity	<b>6,784</b>	6,784	-	-
Accumulated losses	<b>(129,917)</b>	(127,419)	-	-
	<b>(123,133)</b>	(120,635)	-	-



	Consolidated		Company	
	31 December 2005 \$	30 June 2005 \$	31 December 2005 \$	30 June 2005 \$
<b>Note 18. Cash and cash equivalents</b>				
(a) <b>Reconciliation of loss from ordinary activities after tax to net cash flows from operations</b>				
Net loss for the period	(449,679)	(1,039,118)	(405,687)	(1,076,224)
<i>Non cash flows in operating result</i>				
Depreciation of property, plant and equipment	20,803	32,953	6,984	10,290
Amortisation of intangible assets	1,134	3,024	-	-
Share based payments	-	42,300	-	42,300
Provision for annual leave	12,726	14,670	12,726	14,670
Provision for diminution of investments	-	14,251	-	14,251
Provision for write-down of amount receivable from foreign controlled entity	-	-	19,371	623,428
Exploration costs written off	-	207,161	-	-
Provision for write-down of exploration and evaluation costs	7,693	206,775	-	-
<i>Operating cash flows not expensed</i>				
Payments for exploration costs	(1,450,851)	(1,138,746)	(708,342)	-
<i>Changes in assets and liabilities</i>				
Decrease/(Increase) in receivables	(64,776)	131,081	29,886	42,202
Increase/(Decrease) in payables	(2,825)	(77,733)	(13,876)	(97,275)
Net cash used in operating activities	(1,925,775)	(1,603,382)	(1,058,938)	(426,358)
(b) <b>Reconciliation of cash</b>				
Cash and cash equivalents comprise:				
Cash on hand and at call	996,273	5,455,623	937,726	5,315,482
Term deposits	2,500,000	-	2,500,000	-
	3,496,273	5,455,623	3,437,726	5,315,482
(c) <b>Financing Facility</b>				
The group has no available finance facilities at balance date.				
(d) <b>Non-Cash Financing and Investing Activities</b>				
The group did not have any non-cash financing activities during the period.				

#### Note 19. Expenditure Commitments

The company has no expenditure commitments at the end of the financial year, except commitments under tenement licences in the Kyrgyz Republic where the controlled entity is required to rehabilitate each licence area to its original state prior to any exploration works.

#### Note 20. Subsequent Events

No matters or circumstances have arisen since the end of the financial period that have significantly affected or may have a significant effect on the financial operations of the consolidated entity, the financial performance of those operations or the financial position of the consolidated entity in the subsequent financial year.



Consolidated		Company	
31 December	30 June	31 December	30 June
2005	2005	2005	2005
\$	\$	\$	\$

## Note 21. Employee Benefits and Superannuation Commitments

### Employee Benefits

The aggregate employee benefit liability comprises:

Accrued salaries, wages, fees and on-costs	<b>16,986</b>	30,942	<b>6,894</b>	27,856
Provisions (current)	<b>27,396</b>	14,670	<b>27,396</b>	14,670
	<b>44,382</b>	45,612	<b>34,290</b>	42,526

### Executive Options

No options over unissued shares of the Company were granted during the period.

Information with respect to the number of options granted is as follows:

	31 December 2005		30 June 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	2,266,667	\$0.74	-	-
- granted	-	-	2,266,667	\$0.74
- lapsed/exercised	-	-	-	-
Balance at end of period	2,266,667	\$0.74	2,266,667	\$0.74

Options held at the beginning and end of the reporting period

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted average exercise price
546,667	6 December 2004	6 December 2004	n/a*	\$0.625
410,000	6 December 2004	6 December 2004	n/a*	\$0.75
410,000	6 December 2004	6 December 2004	n/a*	\$0.875
300,000	1 December 2004	1 December 2004	n/a*	\$0.625
300,000	1 December 2004	1 December 2004	n/a*	\$0.75
300,000	1 December 2004	1 December 2004	n/a*	\$0.875

\* The options have no expiry date except, in the event of the cessation of employment, 30 days after the date of cessation of employment.

No options were granted or exercised during the reporting period

### Superannuation

The consolidated entity contributes to a defined contribution fund in accordance with the Government Superannuation Guarantee legislation.



## **Note 22. Key Management Personnel Remuneration**

### **(a) Key Management Personnel**

The specified directors of Kentor Gold Limited during the period were:

W.H.J. Barr	Chairman (non-executive)
A.E. Daley	Director (non-executive)
H. McKinnon	Executive Director (executive)
D.Z. Royle	Managing Director (executive)

The specified executive of Kentor Gold Limited during the period was:

J.W. Rawling	Company Secretary/CFO
--------------	-----------------------

### **(b) Compensation of Key Management Personnel**

#### **(i) Compensation Policy**

The Board of Directors of Kentor Gold Limited is responsible for determining and reviewing compensation arrangements for the directors and executives. The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executives. Such officers will be given the opportunity to receive their base emolument in a variety of forms, including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the company.

To assist in achieving these objectives, the Board links the nature and amount of executive officers' emoluments to the company's financial and operational performance. All directors and executives will have the opportunity to qualify for executive options under an Executive Share Option Plan which will provide incentives where specified performance criteria are met. The plan has not yet been formalised by the Board.

Employment Agreements are entered into with Executive Directors and Specified Executives. The current employment contract with the Managing Director runs until its termination date of 31 December 2006, unless terminated by the Managing Director who may give three month's notice. The employment contract with the Executive Director runs until its termination date of 31 December 2006, unless terminated by the Executive Director who may give four month's notice. The Specified Executive has a contract which provides for one month's notice. Contracts do not provide for any additional termination benefits.



**Note 22. Key Management Personnel Remuneration (continued)**

(ii) Compensation of Key Management Personnel

<b>Period ended 31 December 2005</b>	<b>Short Term</b>	<b>Post Employment</b>	<b>Share Based Payment</b>	<b>Total</b>
	<b>Salary &amp; Fees</b>	<b>Superannuation</b>	<b>Options</b>	
	\$	\$	\$	\$
<b>Specified Directors</b>				
W.H.J. Barr	30,000	2,700	-	32,700
A.E. Daley*	16,350	-	-	16,350
H. McKinnon	50,000	-	-	50,000
D.Z. Royle	70,000	6,300	-	76,300
<b>Specified Executives</b>				
J.W. Rawling	32,110	2,890	-	35,000
	<u>198,460</u>	<u>11,890</u>	<u>-</u>	<u>210,350</u>
<b>Year ended 30 June 2005</b>	<b>Short Term</b>	<b>Post Employment</b>	<b>Share Based Payment</b>	<b>Total</b>
	<b>Salary &amp; Fees</b>	<b>Superannuation</b>	<b>Options</b>	
	\$	\$	\$	\$
<b>Specified Directors</b>				
W.H.J. Barr	17,419	1,568	-	18,987
A.E. Daley*	9,575	-	-	9,575
H. McKinnon	86,000	-	20,160	106,160
D.Z. Royle	120,000	10,800	22,140	152,940
<b>Specified Executives</b>				
J.W. Rawling	16,055	1,445	-	17,500
	<u>249,049</u>	<u>13,813</u>	<u>42,300</u>	<u>305,162</u>

\* Directors fees were paid to Dalenier Enterprises Pty Ltd, a company which is controlled by Andrew Daley.

(iii) Compensation by Category: Key Management Personnel

	<b>Consolidated</b>		<b>Company</b>	
	<b>31 December 2005</b>	<b>30 June 2005</b>	<b>31 December 2005</b>	<b>30 June 2005</b>
	\$	\$	\$	\$
Short Term	214,810	249,049	214,810	249,049
Post Employment	11,890	13,813	11,890	13,813
Share Based Payment*	-	42,300	-	42,300
	<u>226,700</u>	<u>305,162</u>	<u>226,700</u>	<u>305,162</u>

\* The fair value of the options issued in the year ended 30 June 2005 was recognised in its entirety in that year as the options vested immediately on issue.

**(c) Remuneration Options: Granted and vested during the period**

No options were issued or vested during the reporting period.

**(d) Share issued on exercise of remuneration options**

No shares were issued on the exercise of remuneration options during the reporting period.



**Note 22. Key Management Personnel Remuneration (continued)**

**(e) Option holdings of Specified Directors and Specified Executives**

Unlisted options held by Specified Directors and Specified Executives. Details of options are contained in Note 14

<b>31 December 2005</b>	<b>Opening Balance 1 July 2005</b>	<b>Granted as remuneration</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Closing Balance 31 December 2005</b>	<b>Vested and exercisable at 31 December 2005</b>
<b>Specified Directors</b>						
A E Daley	174,690	-	-	-	174,690	174,690
H. McKinnon	1,033,334	-	-	-	1,033,334	1,033,334
D.Z. Royle	1,866,667	-	-	-	1,866,667	1,866,667
<b>Total</b>	<b>3,074,691</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,074,691</b>	<b>3,074,691</b>
<hr/>						
<b>30 June 2005</b>	<b>Opening Balance 1 July 2004</b>	<b>Granted as remuneration</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Closing Balance 30 June 2005</b>	<b>Vested and exercisable at 30 June 2005</b>
<b>Specified Directors</b>						
A E Daley	-	-	-	174,690	174,690	174,690
H. McKinnon	133,334	900,000	-	-	1,033,334	1,033,334
D.Z. Royle	1,000,000	1,366,667	(500,000)	-	1,866,667	1,866,667
<b>Total</b>	<b>1,133,334</b>	<b>2,266,667</b>	<b>(500,000)</b>	<b>174,690</b>	<b>3,074,691</b>	<b>3,074,691</b>

**(f) Shareholdings of Key Management Personnel**

<b>31 December 2005</b>	<b>Balance 1 July 2005 No.</b>	<b>Granted as remuneration No.</b>	<b>On exercise of Options No.</b>	<b>Net Change Other No.</b>	<b>Balance 31 December 2005 No.</b>
Ordinary Shares					
<b>Specified Directors</b>					
W H J Barr	50,000	-	-	-	50,000
A E Daley	381,470	-	-	-	381,470
H McKinnon	2,064,627	-	-	-	2,064,627
D Z Royle	833,951	-	-	-	833,951
<b>Specified Executives</b>					
J W Rawling	5,000	-	-	-	5,000
<b>Total</b>	<b>3,335,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,335,048</b>
<hr/>					
<b>30 June 2005</b>	<b>Balance 1 July 2004 No.</b>	<b>Granted as remuneration No.</b>	<b>On exercise of Options No.</b>	<b>Net Change Other No.</b>	<b>Balance 30 June 2005 No.</b>
Ordinary Shares					
<b>Specified Directors</b>					
W H J Barr	-	-	-	50,000	50,000
A E Daley	1,144,410	-	-	(762,940)	381,470
H McKinnon	6,193,880	-	-	(4,129,253)	2,064,627
D Z Royle	1,001,849	-	500,000	(667,898)	833,951
<b>Specified Executives</b>					
J W Rawling	-	-	-	5,000	5,000
<b>Total</b>	<b>8,340,139</b>	<b>-</b>	<b>500,000</b>	<b>(5,505,091)</b>	<b>3,335,048</b>

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.



## Note 22. Key Management Personnel Remuneration (continued)

### (g) Other transactions and balances with Key Management Personnel

Corporate advisory services totalling \$20,000 and \$10,000 (30 June 2005: \$87,075 and \$nil) were provided by Investor Resources Ltd and Investor Resources Finance Pty Ltd, companies with which Andrew Daley is associated. At year end, \$10,000 payable to Investor Resources Finance Pty Ltd remained outstanding (30 June 2005: \$nil).

As described in Note 22(b)(ii), directors fees payable to Andrew Daley are paid to Dalenier Enterprises Pty Ltd.

There were no transactions with Specified Executives.

Consolidated		Company	
31 December	30 June	31 December	30 June
2005	2005	2005	2005
\$	\$	\$	\$

## Note 23. Auditors' Remuneration

Amounts received or due and receivable by  
BDO for:

- |   |               |        |               |        |
|---|---------------|--------|---------------|--------|
| • audit or review of the financial statements of the entity and any other entity in the economic entity | <b>20,000</b> | 19,350 | <b>20,000</b> | 19,350 |
|---|---------------|--------|---------------|--------|

Remuneration of other auditors of controlled entity

- |  |            |     |   |   |
|--|------------|-----|---|---|
| • audit or review of the financial statements of controlled entity | <b>405</b> | 459 | - | - |
|--|------------|-----|---|---|

## Note 24. Related Party Disclosures

- (a) The Directors during the financial year were:

William Henry John Barr AM  
Andrew Edward Daley  
Hugh McKinnon  
David Zouch Royle

- (b) Information on remuneration and retirement benefits of Directors is disclosed in Note 22.

- (c) Directors' shareholding

At period end, the current Directors held directly and indirectly, 3,330,048 shares (30 June 2005: 3,330,048) and 3,074,691 options (30 June 2005: 3,074,691) in the Company.

There was no movement in shares and options held during the reporting period.

- (d) Other related party transactions:

There were no related party transactions other than those described in Note 22(g).

- (e) Ultimate Parent:

Kentor Gold Limited is the ultimate Australian parent company.



**Note 25. Segment Information****Segment products and locations**

The consolidated entity operates in one business segment (for primary reporting) being mineral exploration and two geographical segments (for secondary reporting) being Australia and the Kyrgyz Republic. This is consistent with the previous accounting period.

**Segment accounting policies**

Revenues are attributable to geographic areas based on the location of the assets producing the revenues. Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial period, there were no changes in segment accounting policies that had a material effect on the segment information.

Geographical segments	Australia	The Kyrgyz Republic	Total
Six months ended 31 December 2005	\$	\$	\$
<b>Revenue</b>			
Revenue from external customers	117,322	8,285	125,607
<b>Result</b>			
Segment results	(405,687)	(43,992)	(449,679)
Net loss for the period			(449,679)
<b>Assets and Liabilities</b>			
Segment assets	3,529,491	3,103,859	6,633,350
Segment liabilities	167,970	30,255	198,225
<b>Other Segment Information</b>			
Acquisition of segment assets	13,588	20,130	33,718
Depreciation	6,984	13,819	20,803
Amortisation	-	1,134	1,134
Provision for write-down of exploration and evaluation costs	-	7,693	7,693
Other non-cash expenses	12,726	-	12,726
<b>Cash Flow Information</b>			
Net cash flow from operating activities	(1,058,938)	(866,837)	(1,925,775)
Net cash flow from investing activities	(15,104)	(14,671)	(29,775)
Net cash flow from financing activities	(3,600)	-	(3,600)
Year ended 30 June 2005	\$	\$	\$
<b>Revenue</b>			
Revenue from external customers	114,445	407	114,852
<b>Result</b>			
Segment results	(1,076,224)	37,106	(1,039,118)
Net loss for the period			(1,039,118)
<b>Assets and Liabilities</b>			
Segment assets	5,402,728	1,628,140	7,030,868
Segment liabilities	141,368	46,956	188,324
<b>Other Segment Information</b>			
Acquisition of segment assets	6,184	64,084	70,268
Depreciation	10,290	22,663	32,953
Amortisation	-	3,024	3,024
Exploration and evaluation costs written off	-	207,161	207,161
Provision for write-down of exploration and evaluation costs	-	206,775	206,775
Other non-cash expenses	14,670	-	14,670
<b>Cash Flow Information</b>			
Net cash flow from operating activities	(426,358)	(1,177,024)	(1,603,382)
Net cash flow from investing activities	(5,082)	(67,848)	(72,930)
Net cash flow from financing activities	6,453,994	-	6,453,994



## Note 26. Financial Instruments

### (a) Credit Risk Exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date, to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

### (b) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	Note	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in:			Non- interest bearing \$	Total \$
				1 year or less \$	over 1 to 5 years \$	5 years or more \$		
<b>31 December 2005</b>								
<b>Financial assets</b>								
Cash and deposits	18(b)	5.2%	3,496,273	-	-	-	-	3,496,273
Receivables	5	N/A	-	-	-	-	295,547	295,547
			<u>3,496,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,547</u>	<u>3,791,820</u>
<b>Financial liabilities</b>								
Payables	12	N/A	-	-	-	-	(170,829)	(170,829)
Net financial assets/(liabilities)			<u>3,496,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,718</u>	<u>3,620,991</u>
<b>30 June 2005</b>								
<b>Financial assets</b>								
Cash and deposits	18(b)	5.2%	5,455,623	-	-	-	-	5,455,623
Receivables	5	N/A	-	-	-	-	116,508	116,508
			<u>5,455,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,508</u>	<u>5,572,131</u>
<b>Financial liabilities</b>								
Payables	12	N/A	-	-	-	-	(173,654)	(173,654)
Net financial assets/(liabilities)			<u>5,455,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,146)</u>	<u>5,398,477</u>

N/A – not applicable for non-interest bearing financial instruments.

### (c) Net Fair Values

All financial assets and liabilities have been recognised at the balance date at lower of cost and realisable value which approximates their net fair value.



## Note 27. Transition to AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the period ended 31 December 2005 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

### Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively. The Group has taken the following exemptions:

- AASB 3 *Business Combinations* has not been applied to acquisitions of subsidiaries and joint ventures that occurred before 1 July 2004.
- Cumulative currency translation differences for foreign operations are deemed to be zero as at 1 July 2004.

### Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

### Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

	Note	AGAAP \$	Consolidated Impact \$	AIFRS \$	AGAAP \$	Company Impact \$	AIFRS \$
<b>Current Assets</b>							
Cash and cash equivalent	s	677,941	-	677,941	514,075	-	514,075
Trade and other receivables		46,722	-	46,722	24,425	-	24,425
	Other	-	-	-	-	-	-
<b>Total Current Assets</b>		724,663		724,663	538,500		538,500
<b>Non-Current Assets</b>							
Trade and other receivables	es	-	-	-	962,879	-	962,879
Property, plant and equipment		96,133	-	96,133	24,738	-	24,738
Deferred exploration and evaluation costs		368,226	-	368,226	-	-	-
Other financial assets		14,251	-	14,251	41,386	-	41,386
Intangible assets	D	5,552	(1,570)	3,982	1,570	(1,570)	-
<b>Total Non-Current Assets</b>		484,162		482,592	1,030,573		1,029,003
<b>Total Assets</b>		1,208,825		1,207,255	1,569,073		1,567,503
<b>Current Liabilities</b>							
Trade and other payables		(33,557)	-	(33,557)	(30,306)	-	(30,306)
Provisions		-	-	-	-	-	-
<b>Total Current Liabilities</b>		(33,557)		(33,557)	(30,306)		(30,306)
<b>Total Liabilities</b>		(33,557)		(33,557)	(30,306)		(30,306)
<b>Net Assets</b>		1,175,268		1,173,698	1,538,767		1,537,197
<b>Equity</b>							
<b>Parent Entity Interest</b>							
Contributed equity		2,640,629	-	2,640,629	2,640,629	-	2,640,629
Reserves	A,B,C	-	(335,471)	(335,471)	-	(14,639)	(14,639)
Accumulated losses	A,B,C,D	(1,398,090)	333,901	(1,064,189)	(1,101,862)	13,069	(1,088,793)
<b>Total parent entity interest in equity</b>		1,242,539		1,240,969	1,538,767		1,537,197
Total outside equity interest		(67,271)	-	(67,271)	-	-	-
<b>Total Equity</b>		1,175,268		1,173,698	1,538,767		1,537,197



## Note 27. Transition to AIFRS (continued)

### Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	AGAAP \$	Consolidated AIFRS Impact \$	AIFRS \$	AGAAP \$	Company AIFRS Impact \$	AIFRS \$
<b>Current Assets</b>							
Cash and cash equivalents		5,455,623	-	5,455,623	5,315,482	-	5,315,482
Trade and other receivables		116,508	-	116,508	24,450	-	24,450
Other		41,295	-	41,295	41,295	-	41,295
<b>Total Current Assets</b>		<b>5,613,426</b>		<b>5,613,426</b>	<b>5,381,227</b>		<b>5,381,227</b>
<b>Non-Current Assets</b>							
Trade and other receivables		-	-	-	1,552,318	-	1,552,318
Property, plant and equipment		133,448	-	133,448	23,232	-	23,232
Deferred exploration and evaluation costs		1,283,036	-	1,283,036	-	-	-
Other financial assets		-	-	-	27,135	-	27,135
Intangible assets	D	2,528	(1,570)	958	1,570	(1,570)	-
<b>Total Non-Current Assets</b>		<b>1,419,012</b>		<b>1,417,442</b>	<b>1,604,255</b>		<b>1,602,685</b>
<b>Total Assets</b>		<b>7,032,438</b>		<b>7,030,868</b>	<b>6,985,482</b>		<b>6,983,912</b>
<b>Current Liabilities</b>							
Trade and other payables		(173,654)	-	(173,654)	(126,698)	-	(126,698)
Provisions		(14,670)	-	(14,670)	(14,670)	-	(14,670)
<b>Total Current Liabilities</b>		<b>(188,324)</b>		<b>(188,324)</b>	<b>(141,368)</b>		<b>(141,368)</b>
<b>Total Liabilities</b>		<b>(188,324)</b>		<b>(188,324)</b>	<b>(141,368)</b>		<b>(141,368)</b>
<b>Net Assets</b>		<b>6,844,114</b>		<b>6,842,544</b>	<b>6,844,114</b>		<b>6,842,544</b>
<b>Equity</b>							
<b>Parent Entity Interest</b>							
Contributed equity		9,089,007	-	9,089,007	9,089,007	-	9,089,007
Reserves	A,B,C	-	(75,883)	(75,883)	-	(81,446)	(81,446)
Accumulated losses	A,B,C,D	(2,124,258)	74,313	(2,049,945)	(2,244,893)	79,876	(2,165,017)
<b>Total parent entity interest in equity</b>		<b>6,964,749</b>		<b>6,964,749</b>	<b>6,844,114</b>		<b>6,842,544</b>
Total outside equity interest		(120,635)	-	(120,635)	-	-	-
<b>Total Equity</b>		<b>6,844,114</b>		<b>6,842,544</b>	<b>6,844,114</b>		<b>6,842,544</b>



## Note 27. Transition to AIFRS (continued)

### Income Statement reflecting reconciliation of adjustments to AIFRS for the year ended 30 June 2005

	Note	AGAAP \$	Consolidated AIFRS Impact \$	AIFRS \$	AGAAP \$	Company AIFRS Impact \$	AIFRS \$
Revenue		114,852	-	114,852	114,445	-	114,445
Employment related costs	A	(253,977)	(42,300)	(296,277)	(208,199)	(42,300)	(250,499)
Depreciation and amortisation expense		(35,977)	-	(35,977)	(10,290)	-	(10,290)
Office expenses		(55,054)	-	(55,054)	(36,290)	-	(36,290)
Travel related expenses		(94,066)	-	(94,066)	(75,302)	-	(75,302)
Administrative expenses		(178,724)	-	(178,724)	(159,960)	-	(159,960)
Provision for diminution		(14,251)	-	(14,251)	(14,251)	-	(14,251)
Provision for write-down of amount receivable from foreign controlled entity		-	-	-	(623,428)	-	(623,428)
Exploration and evaluation costs written off		(207,161)	-	(207,161)	-	-	-
Provision for write-down of exploration and evaluation costs		(206,775)	-	(206,775)	-	-	-
Other expenses		(65,685)	-	(65,685)	(20,649)	-	(20,649)
Foreign exchange gain/(loss)	B,C	217,288	(217,288)	-	(109,107)	109,107	-
Total expenses		(894,382)	(259,588)	(1,153,970)	(1,257,476)	66,807	(1,190,669)
Loss before income tax expense		(779,530)	(259,588)	(1,039,118)	(1,143,031)	66,807	(1,076,224)
Income tax expense		-	-	-	-	-	-
Net loss for the period		(779,530)	(259,588)	(1,039,118)	(1,143,031)	66,807	(1,076,224)
Net loss attributable to minority interest		53,362	-	53,362	-	-	-
<b>Net loss attributable to members of Kentor Gold Limited</b>		<b>(726,168)</b>	<b>(259,588)</b>	<b>(985,756)</b>	<b>(1,143,031)</b>	<b>66,807</b>	<b>(1,076,224)</b>

### Impact of adopting AIFRS

Outlined below are the areas impacted upon adoption of AIFRS, including the financial impact on equity and the operating result.

#### A. Equity-based compensation benefits

The Company did not previously recognise an expense for options issued to staff, executives and directors. On adoption of AIFRS, the Company recognises an expense for all share-based remuneration, including deferred shares and options, and amortises those expenses over the relevant vesting periods. This results in additional expenses being recorded and therefore lower earnings.

For the year ended 30 June 2005, an additional expense of \$42,300 has been recognised in employment related costs and loss before tax has been increased by \$42,300.



## **Note 27. Transition to AIFRS (continued)**

### *Investment in Foreign Operations*

#### *B. Translation to the Presentation Currency*

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates* the results and financial position of an entity with a foreign functional currency are translated into a different presentation currency (i.e. Australian Dollars) using the following procedures:

- assets and liabilities are translated at the closing rate at balance date;
- income and expenses are translated at exchange rates at the dates of the transactions (an average rate may be used if reasonable); and
- All resulting exchange differences are recognised as a separate component of equity.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognised as part of, minority interest in the consolidated balance sheet.

On transition, the \$217,288 gain relating to the net exchange difference recognised on translation of the foreign controlled entity for the year ended 30 June 2005 has been reclassified to a new section of equity labelled “Foreign currency translation reserves”. The loss for the year ended 30 June 2005 has increased by \$217,288.

#### *C. Net Investment in a Foreign Operation*

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates* a monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for as described below. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Exchange differences arising on a monetary item that forms part of a reporting entity's *net investment in a foreign operation* are recognised in profit or loss in the separate financial report of the reporting entity or the individual financial report of the foreign operation as appropriate. In the consolidated financial report such exchange differences are recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

On transition, the \$109,107 foreign exchange loss on revaluation of the US dollar loan receivable from the foreign controlled entity for the year ended 30 June 2005 has been reclassified to a new section of equity labelled “Foreign currency translation reserves”. The loss for the year ended 30 June 2005 has been decreased by \$109,107.

#### *D. Intangible Assets*

Under AIFRS an intangible asset can only be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company.

On transition, the previously capitalised “Preliminary Costs” did not meet these criteria. The financial effect of this impact, in both the parent entity and the consolidated entity, has been to reduce intangible assets by \$1,570 and increase opening accumulated losses at 1 July 2004 by \$1,570.

## **Note 28. Contingent Liabilities and Contingent Assets**

No contingent liabilities or contingent assets existed at the reporting date except under tenement licences in the Kyrgyz Republic where the controlled entity is required to rehabilitate each licence area to its original state prior to any exploration works.



## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Kentor Gold Limited, we state that:

1. In the opinion of the Directors:
  - a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of their performance for the period ended on that date; and
    - ii. complying with Accounting Standards and the Corporations Regulations 2001.
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 31 December 2005.

On behalf of the Board



**W H J BARR AM**  
Director

Melbourne  
24 March 2006



# AUDIT REPORT



**Chartered Accountants**

563 Bourke Street Melbourne 3000  
DX 30937 Stock Exchange Melbourne  
Telephone (03) 9615 8500  
Facsimile (03) 9615 8700  
Email: bdomel@bdomel.com.au  
**www.bdo.com.au**

## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KENTOR GOLD LIMITED**

### **Scope**

#### *The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, accompanying notes to the financial statements, and the directors' declaration for both Kentor Gold Limited (the company) and the consolidated entity, for the six months ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit Approach*

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.





### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

### **Audit Opinion**

In our opinion, the financial report of Kentor Gold Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of its performance for the period ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

A stylized, handwritten signature of the BDO firm, appearing as 'BDO' in a bold, cursive script.

**BDO**

Chartered Accountants

A handwritten signature in black ink, which appears to read 'C M J Bryan'.

**C M J Bryan**

Partner

Melbourne, 24 March 2006



## ASX ADDITIONAL INFORMATION

### Shareholder Information as at 28 February 2006

#### Fully Paid Ordinary Shares

(a) Number of Shareholders	<b>386</b>
(b) Total Shares Issued	<b>34,651,132</b>
(c) Percentage of Shareholding by or on behalf of 20 largest Shareholders	<b>65.13%</b>
(d) Shareholders with less than a marketable parcel of 1,852 Shares	<b>5</b>

Size of Holding	No. of Holders	No. Of Shares
1 - 1,000	1	1,000
1,001 - 5,000	129	516,250
5,001 - 10,000	89	757,764
10,001 - 100,000	117	4,261,749
100,000 and over	50	29,114,369
<b>Total Holders</b>	<b>386</b>	<b>34,651,132</b>

- (f) Voting rights: Every member present personally or by proxy or attorney etc shall, on a show of hands, have one vote and on a poll shall have one vote for every Share held.

### Twenty largest holders of Fully Paid Ordinary Shares as at 28 February 2006

	Name	Number of fully paid ordinary shares held	% of issued capital
1	Citicorp Nominees Pty Limited	3,557,055	10.27%
2	HSBC Custody Nominees	2,306,706	6.66%
3	Graham Tuckwell	2,300,000	6.64%
4	Hugh McKinnon	2,064,627	5.96%
5	Poolette Holdings (Vic) Pty Ltd	1,900,000	5.48%
6	D&D Nominees Pty Ltd	1,243,000	3.59%
7	Natalia Tihomirova	898,028	2.59%
8	Westpac Custodian Nominees	854,546	2.47%
9	Zouch Resources Pty Ltd	833,951	2.41%
10	Professor Michael Gross	783,334	2.26%
11	Australian Investors Pty Ltd	754,546	2.18%
12	Co-opr8 Investments PLC	688,854	1.99%
13	Hooper Bailie Industries Pty Ltd	678,030	1.96%
14	Frank Hudson	600,000	1.73%
15	Garry John Lloyd	600,000	1.73%
16	Bronwyn Burgess	534,162	1.54%
17	Sand Cort Investments Pty Ltd	534,162	1.54%
18	Ian Desborough Ennis & Gwenda Louise Ennis	500,000	1.44%
19	Edwina Margaret Prybl	482,117	1.39%
20	MacQuarie Bank Limited	454,334	1.31%
<b>TOTAL</b>		<b>22,567,452</b>	<b>65.13%</b>
<b>Share on issue as at 28 February 2006</b>		<b>34,651,132</b>	<b>100%</b>



## Substantial Shareholders

Name	Shares to which entitled	% of issued capital
Citicorp Nominees Pty Limited	3,557,055	10.27%
HSBC Custody Nominees	2,306,706	6.66%
Graham Tuckwell	2,300,000	6.64%
Hugh McKinnon	2,064,627	5.96%
Poolette Holdings (Vic) Pty Ltd	1,900,000	5.48%

## UNLISTED OPTIONS ON ISSUE

As at 28 February 2006, a total of 6,952,890 options, which are not listed on the Australian Stock Exchange, remain outstanding as follows:

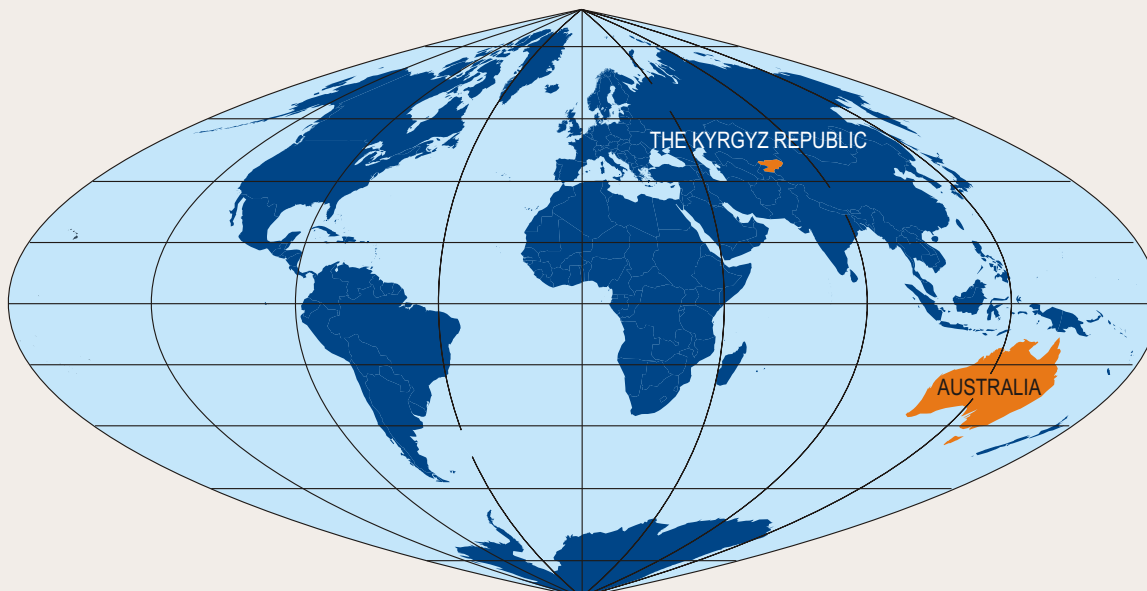
- 66,667 options exercisable on or before 1 April 2006 at an exercise price of \$0.21 each;
- 1,232,887 options exercisable on or before 1 April 2006 at an exercise price of \$0.30 each;
- 386,668 options exercisable on or before 1 July 2006 at an exercise price of \$0.30 each;
- 4,666,668 options exercisable on or before 1 March 2007 at an exercise price of \$0.45 each;
- 333,333 options exercisable on or before 1 July 2007 at an exercise price of \$0.625 each;
- 266,667 options exercisable on or before 1 July 2008 at an exercise price of \$0.75 each.

In addition, 2,266,667 executive options have been issued to executives David Royle and Hugh McKinnon as follows:

Exercise Price	D Z Royle	H McKinnon
Exercisable at \$0.625	546,667	300,000
Exercisable at \$0.75	410,000	300,000
Exercisable at \$0.875	410,000	300,000
<b>Total</b>	<b>1,366,667</b>	<b>900,000</b>

These executive options are fully vested, are not transferable and are exercisable at any time during the employment of the executive and for 30 days after the executive ceases employment, after which time they lapse.





# CORPORATE DIRECTORY

## directors

CHAIRMAN  
**John Barr, AM**

MANAGING DIRECTOR  
**David Royle**

EXECUTIVE DIRECTOR  
**Hugh McKinnon**

NON-EXECUTIVE DIRECTOR  
**Andrew Daley**

## company secretary

**Bruce Paterson**

## chief financial officer

**Greg Burgess**

## registered office

**Kentor Gold Ltd** (ABN 52 082 658 080)  
Level 3  
15 Queen Street  
Melbourne VIC 3000

TELEPHONE 03 9621 1344  
FACSIMILE 03 9621 1544  
EMAIL [info@kentorgold.com](mailto:info@kentorgold.com)  
WEBSITE [www.kentorgold.com](http://www.kentorgold.com)

## solicitors

**Rawling & Company**  
BDO House  
563 Bourke Street  
Melbourne VIC 3000

## auditors

**BDO**  
BDO House  
563 Bourke Street  
Melbourne VIC 3000

## bankers

**National Australia Bank Limited**  
Level 2, 330 Collins Street  
Melbourne Victoria 3000

## financial adviser

**Investor Resources Finance Pty Ltd**  
Level 3  
15 Queen Street  
Melbourne VIC 3000

## share registry

**Link Market Services Limited**  
Level 4  
333 Collins Street  
Melbourne VIC 3000

## stock exchange listing

The Company is listed on the  
Australian Stock Exchange Limited  
ASX Code: **KGL**





## registered office

### Australia

Level 3  
15 Queen Street  
MELBOURNE, VIC 3000  
Telephone: (61) 3 9621 1344  
Email: [info@kentorgold.com](mailto:info@kentorgold.com)

### Kyrgyz Republic

Boulevard Erkindik 235/2  
Bishkek 720739  
KYRGYZ REPUBLIC  
Telephone: 996 (312) 621389  
Facsimile: 996 (312) 665759  
Email: [kentor2@mail.kg](mailto:kentor2@mail.kg)

[www.kentorgold.com](http://www.kentorgold.com)



# annual report 2005