



## QUARTERLY ACTIVITIES REPORT

Period ended 31 March 2011

### HIGHLIGHTS

- ✓ Government moves toward carbon tax initiative.
- ✓ Government review into geothermal sector ongoing – consultant report finished.
- ✓ Tasmania project continues to look at intermediate drilling options. Engaged in discussions with driller, state and federal governments on this issue.
- ✓ Vanuatu - World Bank study to assess Vanuatu long term energy needs and geothermal integration is underway. KUTh heavily involved.
- ✓ New project identification well underway.

### Summary

**Industry:** The government has reopened the carbon debate and hopefully will now move to implement a price on carbon to provide some certainty to all concerned and to establish the platform for an eventual emissions trading scheme. The March quarter has seen considerable activity between the government and the geothermal industry. This started with a government commissioned review conducted by the Allens consulting group into the issues impacting the general slow down in the development of the sector. The report was completed during the quarter and has been passed on to the Australian Centre for Renewable Energy (ACRE) to consider the recommendations. There is strong awareness of the need for new initiatives to be considered to bolster momentum in the sector and submissions by the Australian Geothermal Energy Association and individual companies have made the issues affecting the industry well known.

**Australia :** The development of the company's naturally fractured rock target at Lemont in the central midlands of Tasmania remains of keen interest but equally we are well aware of the need to take a very structured approach to this development. The adoption of a two well program as the next step in "Proof of Concept" is a substantial commitment in terms of capital and risk management. We continue to believe that a first well to target depth is a critical step in gaining important knowledge on the insulation

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qualities of the geology we are penetrating, some understanding of the fracture zones we will be intersecting and the temperature and reservoir characteristics in the fractures and further down in the granite zone. This information will not only benefit future drilling programs by a better understanding of the drilling target but will hopefully also provide investors with greater comfort on target depth temperature and reservoir characteristics.

**International** : In Vanuatu, the World Bank has finally appointed the consultants who will be implementing the review of Vanuatu's long term energy needs. The consultants are in Vanuatu at the time of this report with KUTH management to look at how geothermal can be facilitated into the energy mix. One of the primary purposes of the World Bank study is to assess the future energy needs of the main island of Efate and to ensure that appropriate transmission infrastructure is constructed to maximise the benefits of communities along the transmission line. The arbitration process to resolve the impasse between UNELCO and the Energy Regulator in Port Vila is expected to be concluded in the June quarter and this will allow KUTH to pursue its commercial arrangements for future power supply.

The company has also been active in identifying other conventional geothermal targets that will fit with its strategy of pursuing projects that have compelling economics and a level of funding or strong partner support. These projects are important to offset delays that may be incurred in advancing the Australian projects.

## Australia

### Tasmania

In *Tasmania*, we have concentrated our efforts on the evaluation of rig options to allow deep slim hole drilling for the Lemont target. The possibility of a target with fractures and fluids creating a permeable fracture zone is a compelling reason for us to target this site for further exploration. We are in negotiation with a drill company and are jointly developing a well program that will hopefully achieve our needs for a better understanding of our target in the fracture zone and still allow us to drill deeper to the top of the granite. Figure 1 shows the schematic of the KUTH target at Lemont.

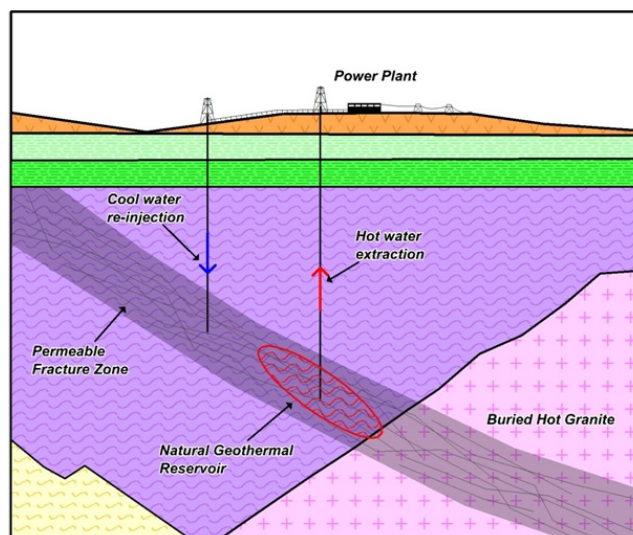


Figure 1 showing potential fluid filled fracture zones above the granite contour

In preparation for drilling in SEL 26/2005 KUTH has received a comprehensive report outlining the range of applicable legislation and permit requirements. The review was commissioned from SEMF Pty Ltd, environmental and engineering consultants based in Hobart, and encompasses logistic issues relating to the certification of the drilling rig, its transport to site and work place operations as well as the permits required for environmental and heritage impact, water usage and waste disposal. KUTH is now actively addressing these issues to ensure the safety of the drilling operation, the protection of environmental and heritage values, and community awareness of the project. This will be an important checklist document as we move through the drilling planning and evaluation process.

The company engaged with the Tasmanian government during the quarter to present the case for support from the state to drilling activities. There is broad recognition from the Department of Minerals and Resources of the work carried out by KUTH to date and the importance of this information to the Tasmanian geological database. We will continue to work through regulatory issues during the June quarter and advance our case for support for the project at both the state and national levels. It is pleasing to see the Tasmanian state government introduction of a \$30m renewable energy scheme to stimulate development in this area.

#### **Queensland**

There has been no additional exploration in this area during the quarter.

#### **Pacific Region.**

#### **Vanuatu**

This remains a high priority project for KUTH and during the quarter we have been active in assisting the World Bank consultants with information about the KUTH project that will assist them in their energy review of the island of Efate. KUTH management are currently in Vanuatu engaged in meetings with the consultants and government to facilitate the review and work through the issues of integrating KUTH's geothermal power into the energy mix.

The current utility company (UNELCO) is in arbitration with the Vanuatu Energy Regulator concerning the appropriate tariff formula to be used for existing power generation (largely based on diesel). This arbitration process is expected to be completed in the June quarter and that will pave the way for KUTH to finalise negotiations with UNELCO for power offtake arrangements and allow tariff formulation with the energy regulator. These issues have been delaying closure of the commercial arrangements and holding up finalisation of funding negotiations. We remain in communication with both the Regulator and UNELCO throughout this process.

We have used the time while waiting for the review to be completed to focus our attention on other aspects that need to be addressed to be able to move the project forward post the consultant report and recommendations. This includes more detailed design and evaluation of drilling requirements, rig procurement options and identification of potential collaborators in the project. We want to be in a position to be able to advance this project quickly once the World Bank study is complete.

## Other Project Targets

The management has been active in progressing other international geothermal targets and opportunities during the quarter. Amongst others, this has included meetings with the Fiji government and electricity utility concerning our applications pending for geothermal licences in Fiji. This will be followed up with further meetings in May to ascertain the commercial options available to the company to develop geothermal power from its licence application areas.

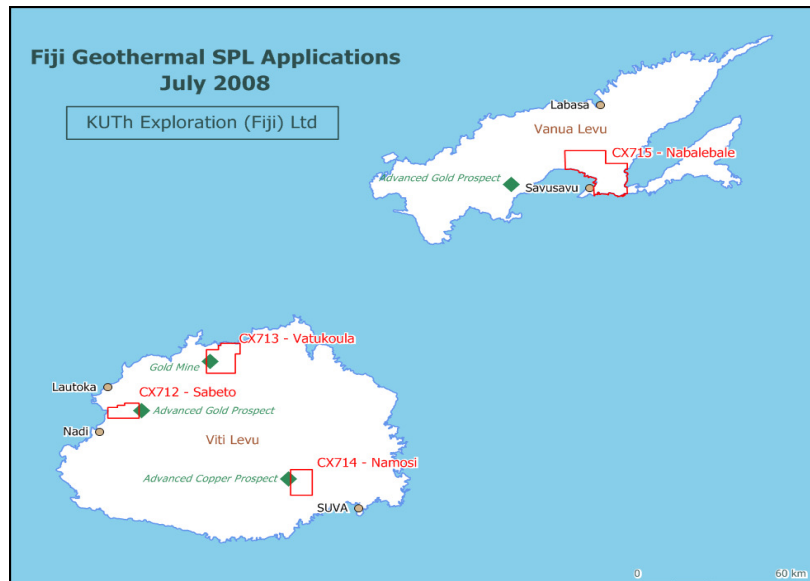


Figure 2: KUTh Fiji licence application areas

The company has also entered into discussions with interested parties to advance the Papua New Guinea exploration licence applications. These discussions are at an early stage and will be advanced during the next quarter.

**Business Development:** An important part of the KUTh strategy is to identify projects that can be developed alongside, and potentially quicker, than the Australian programs. This allows for better deployment of personnel across projects and in due course will lead to a pipeline of projects that accelerate the pathway to revenue generation. To implement this strategy, KUTh has developed a target list of opportunities and is working through these possibilities to assess which meet the key criteria to deliver :

- A geothermal resource suitable for development
- A commercially attractive tariff environment for renewable energy
- Potential carbon credit opportunities
- A receptive funding environment
- Partnership opportunities where both parties bring requisite skills

The company is establishing networks throughout the geothermal development chain that will allow it to extend its role in operations at each stage of project implementation.

## **General and Corporate Activities**

The company has spent considerable time during the quarter on contributing to Australian industry review initiatives. This is seen to be crucial to the future development of the sector in Australia. There is a need for a clear landscape on future renewable energy pricing initiatives and a clear policy on carbon. We are hopeful that the government is now cognisant of the issues impacting the industry and the potential policy drivers that can facilitate a faster development path to base load geothermal power.

## **Cash holdings**

At 31 March, 2011 the company's cash holdings stood at \$1,261,327.

The company also has a REDI Grant which expired on 31 March 2011 and we will not be able to draw the balance of the funds not expended. The REDI grant was approved for \$1,800,000 and the balance unutilised will be \$ 713,000. Of this amount only \$248,000 has been drawn in advance and will need to be refunded. Regrettably the change in economic climate coupled with the uncertainty over the direction of climate change policy has led to a slowing of investment activity and a consequent effect on spending in the sector.

David McDonald  
Managing Director  
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## Corporate information

### Board of directors

Bruce McKay (non-executive chairman)  
Stephen Bartrop (non-executive director)  
Dr John Bishop (non-executive director)  
Paul Broad (non-executive director)  
George Miltenyi (non-executive director)  
David McDonald (managing director)

### Company secretary

Justin Clyne

### Registered office

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### Share registry

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### Stock exchange listing

Ordinary shares ASX code: KEN

### Issued share capital

At 31 March 2011, issued capital was:  
65,421,460 ordinary shares  
6,133,333 unlisted options

### Substantial shareholders at 31 March 2011

Victoria & Joe Bishop	11.25%
Roger Lewis	8.06%
Stephen Bartrop	5.90%
John Bishop	5.85%
George Miltenyi	5.81%

### Quarterly price activity

KEN – ordinary shares  
High: \$0.061  
Low: \$0.053  
Last (31.03.11): \$0.060