



ASX RELEASE
29 August 2012

Saipan project update

On 30 January 2012 the company made an announcement that it had been notified by the Commonwealth Utilities Corporation (CUC) in Saipan that it was the successful tenderer for the drilling of a geothermal gradient well in Saipan and a concession to develop geothermal power on the island in the event an adequate geothermal resource was located. The CUC issued KUTh a formal Intent to Award letter dated 27 January 2012 confirming *“at this time the contract is being prepared for the necessary government review and endorsement. You will be notified when the contract is ready for your review and endorsement.”*

We advise that despite ongoing efforts to close this contract, including drafting and negotiating documentation, we have encountered considerable difficulties with local issues leaving us uncertain how this project will progress.

Since KUTh was announced as the successful tenderer for the geothermal drilling and power development concession on Saipan in an international and independently monitored process, the Governor declared a state of emergency over the CUC, effectively placing it under his control. The Governor and the then Attorney General have apparently subsequently signed off on a 25-year sole source power purchase agreement with a private company to construct additional diesel generation in Saipan. The effect of the diesel agreement will likely be to limit the governments' ability to contract with renewable energy producers as promised. Local action has been taken to try and stop the diesel agreement including:

- A local resident filed litigation seeking to cancel the diesel power purchase transaction and the Court has issued an injunction temporarily staying the diesel agreement.
- The Senate of the Northern Marianas Commonwealth Legislature has passed a resolution calling on the Governor to cancel the diesel agreement. The Senate resolution said that the diesel PPA *“has placed CUC in anticipatory breach of its agreements to award contracts to those renewable energy proposers, including KUTh Energy ... who followed the procurement rules and submitted winning proposals intended to benefit the CNMI and lower the cost of electricity.”*

We have and will continue to pursue the government in an attempt to clarify and resolve this issue.

In light of the public debate that is taking place through the media in Saipan we believe it is appropriate to update investors with this information. It is evident from that debate that there is strong support for replacing high cost diesel generation with renewable energy sources including geothermal as Saipan has been afflicted with an expensive and unreliable electricity supply for some years. We will further advise as information becomes clearer to the company.

End

For more information contact:

David McDonald
Managing Director
KUTh Energy Ltd
+61 2 9238 6865