



## QUARTERLY ACTIVITIES REPORT

Period ended 30 June 2013

### HIGHLIGHTS

- Power Purchase Terms in Vanuatu under negotiation.
- Vanuatu Government Energy Roadmap approved by Council Of Ministers.

### Summary

**Vanuatu:** The Company is heavily engaged with government, development banking institutions, the power utility, regulatory authorities and land stakeholders to complete the necessary negotiations that trigger the commencement of drilling operations. The government of Vanuatu has approved the long awaited National Energy Road Map (NERM) which has involved an in-depth study of the current and future energy demands for the country and the strategies to be employed toward the future. This initiative has been supported by development partners to create a structured format for development of the energy sector. We are pleased to see geothermal energy plays a significant role in government policy for the future development of the power sector.

**Australia:** The Company has maintained its tenement obligations during the quarter and has commenced preparation of a grant application to be lodged with ARENA to support drilling operations. We maintain regular communication with the Tasmanian government concerning the main tenement SEL26/2005 and to date we have received solid support from the Department of Mineral Resources.

### Pacific Region

#### **Vanuatu**

KUTH's Takara geothermal project is gathering momentum as it moves closer to the drilling phase. Recent developments in Vanuatu include:

##### **1. Power Purchase Agreement**

- a. UNELCO have provided the company with an extensive schedule of proposed terms for the Power Purchase Agreement to be entered into between KUTH and UNELCO. These terms, which are currently subject to negotiation between the parties, are the precursor to the finalisation of the PPA. In addition to negotiations with UNELCO, the company continues to engage with the Government and the Utilities Regulatory Authority (URA) to ensure that the PPA is acceptable to those parties.
- b. The Minister for Energy and Climate Change the Hon Thomas Laken has advised that the Takara geothermal project is of national importance and he is strongly supporting the satisfactory completion

of the PPA so the project can be progressed. To this end he has sought assurances from KUTH and UNELCO that the Terms of the PPA can be finalised during the September quarter.

- c. This matter is a key focus for the management team.

## **2. Land**

- a. The company has held meetings with land representatives and the Government's Geothermal Task Force committee to discuss the steps to be taken by KUTH at the various development stages of the Takara project. It has been agreed that the next steps will require the organisation of land access for KUTH management and consulting teams to enable:
  - i. Boundary establishment for drilling program requirements; with the resource targeting data available KUTH staff will further ground-truth the land area for rig access and drill pad locations.
  - ii. Delineation and survey of any gardens and/or occupant accommodation areas so these can be incorporated into a definitive map of affected areas.
  - iii. Independent land valuations across the areas of interest.

Once these data have been collected, KUTH will reconvene with land representatives and the Geothermal Task Force to discuss and agree the strategy for overall project land requirements and initial social impact assessment.

- b. The Geothermal Task Force and related ministries are aware of the importance of coordinating land access and have been instrumental in convening recent meetings with land stakeholders.

## **3. Project Funding and Donor Agency support**

- a. KUTH is currently involved in discussions with one multilateral bank who is conducting its own due diligence on the Takara project. There have been technical evaluations and commercial discussions running in parallel and during the September 2013 quarter we hope to be able to get a clearer picture to what extent participation from the international development banking institutions may be possible.
- b. An important part of these discussions is the recent cabinet approved National Energy Road Map (NERM) which sets out Government policy for the sector. Given the strong involvement of development partners in the preparation of the NERM and the solid endorsement of geothermal energy contained within it, we are hopeful it will act as a catalyst to accelerate the Takara project. To this end KUTH is working closely with Government, with potential donor agencies and with multilateral banking institutions to see how their involvement can improve tariff efficiencies whilst still delivering a viable commercial project.
- c. We continue to engage with possible partners to work alongside us on the Takara project, however until finalisation of the PPA terms and securing land tenure, we will not be able to establish firm arrangements in this area.

## **4. Government Delegation to New Zealand**

- a. The Government has appointed a high-level delegation to visit New Zealand (including the Minister for Land Hon. Ralph Regen vanu, Minister for Climate Change and Energy Hon. Thomas Laken and other key stakeholders). The purpose of this mission is to gain a greater appreciation of geothermal, its potential applications, land considerations and general industry knowledge. The mission will take place in mid-July and is supported by the New Zealand government.

Despite recent progress, there is no avoiding the fact that timeliness has become an issue for the Takara project and we recognise that we have encountered multiple frustrations in moving the project from pre-feasibility into drilling and development. However, we are pleased to observe an increasing awareness by Government that long delays will hurt the project. As a result we are seeing greater urgency being placed on a number of fronts including closing key documents such as the PPA and providing clarity on land ownership. These two items in particular are the keys to moving the Takara project forward.

## Other Pacific Pipeline Projects

### Papua New Guinea

A wardens hearing was held in which representatives of KUTH, the Papua New Guinea Mineral Resources Authority (MRA) and local community members met to discuss KUTH's plans for the West New Britain tenement which is the subject of an exploration licence application by KUTH. This application is now proceeding through the MRA process for granting exploration licences.

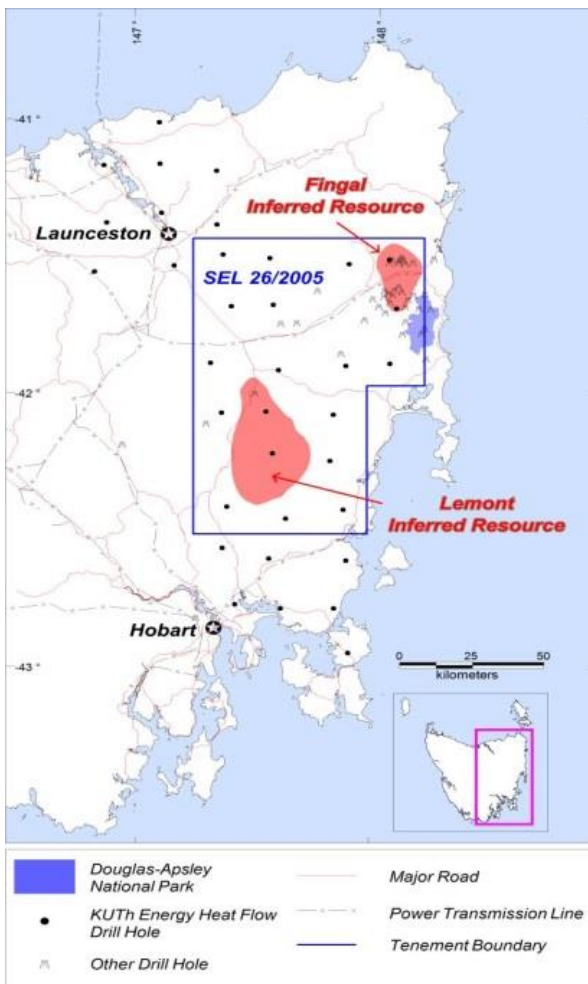
The wardens hearings for the tenement applications in Fergusson Island were delayed for logistical reasons and are in the process of being rescheduled.

### Fiji

There has been no further advancement of the Fiji tenement applications at 30 June 2013.

### Australia

The company retains two areas of interest in Australia in Tasmania and Queensland each having a different strategic value to the company.



### Tasmania

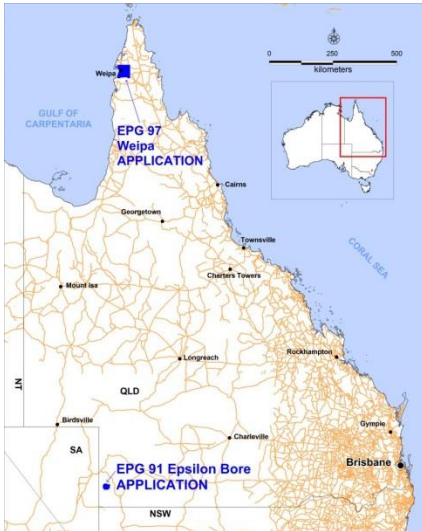
KUTH's Tasmanian exploration targets remain "drill ready" but funding for deep production style drilling is still unavailable to the company at this point. There has been little advancement in the geothermal sector in Australia recently, largely as a result of slow or insufficient progress from wells already drilled, combined with market conditions and government policy uncertainties. Together, these conditions make it difficult to attract the substantial funding needed to drill and acquire better knowledge of deep reservoir targets. KUTH's approach to this challenge has been to be open and candid with the Tasmanian authorities concerning our ability to advance these resource targets in the absence of substantial government funding and/or farm-in partners. We are fortunate that the Tasmanian government are both aware and understanding of the challenges facing the Australian geothermal sector and have adjusted our Tasmanian licence conditions to reflect this.

(left) Map of KUTH's current Tasmanian tenement area

In accordance with its commitments to the Tasmanian government the company will submit a grant application to the Australian Renewable Energy Agency (ARENA) during the September 2013 quarter to support an innovative approach to preliminary drilling that will allow us to assess the deep resource potential at Lemont.

The company still firmly believes that surface exploration programs employed to identify the Naturally Fractured Hot Rock play at Lemont are based on sound principles identifying an inferred resource area that potentially provides the two key elements of permeability and heat at depth – both of which are needed for a successful EGS geothermal project. We will maintain our tenement obligations and await the outcome of our grant application.

## Queensland



KUTH has two applications filed with the Queensland government for tenement areas. These two targets are based on legacy data collected to date and are strategically identified for the following reasons:

1. EPG 97 is an area applied for “over the counter” by KUTH and represents an area of geological interest that could host geothermal targets. This area fits with KUTH’s strategy of identifying possible targets that are close to a viable market, in this case the isolated diesel-generated electricity demand at Weipa.
2. EPG 91 is a response-to-tender bid strategically identified in 2010 to capture potential benefits from nearby developments in the Cooper Basin. Legacy data available will assist the company to advance this project should the application be successful.

*(left)* Map of KUTH’s Queensland application areas

## General and Corporate Activities

### Rights Issue

The Company raised \$460,515 from the Rights issue announced in March 2013. The additional shares issued amounted to 30,710,017. The company expresses its thanks to the shareholders who supported the Rights Issue. Total shares on issue at 30 June 2013 are 145,845,600.

### Directors

**Paul Broad** resigned as Director on 30 May 2013 and was announced as CEO of Snowy Hydro on 31 May 2013.

**Stephen Bartrop** resigned as a Director on 16 July 2013.

The Company conveyed best wishes to Paul and Stephen in their future endeavours and for their contribution as original directors.

### Cash holdings

At 30 June 2013 the company’s cash holdings stood at \$775,000.

David McDonald  
Managing Director  
Ph: +61 2 9238 6865

## Corporate information

### Board of directors at 30 June 2013

Bruce McKay (non-executive chairman)  
George Miltenyi (non-executive director)  
Prof. Mary O’Kane (non-executive director)  
David McDonald (managing director)  
Dr Stephen Bartrop (resigned 16.7.13)

### Company secretary

Justin Clyne

### Registered office

Level 7, 207 Kent Street  
Sydney NSW 2000  
Australia  
Telephone: 1300 737 760  
Email: [info@kuthenergy.com](mailto:info@kuthenergy.com)  
Website: [www.kuthenergy.com](http://www.kuthenergy.com)

### Share registry

Boardroom Pty Ltd  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Australia  
Telephone: 1300 737 760  
Facsimile: 1300 653 459  
Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

### Stock exchange listing

Ordinary shares ASX code: KEN

### Issued share capital

At 30 June 2013, issued capital was:  
145,845,600 ordinary shares  
12,800,000 unlisted options

### Substantial shareholders

George Miltenyi & associates	10.07%
John Bishop & associates	9.06%
Stephen Bartrop & associates	8.72%
Bluestar Management Pty Ltd	5.45%

### Quarterly price activity

KEN – ordinary shares  
High: \$0.020  
Low: \$0.015  
Last (28.06.13): \$0.015