

*Power down under*®

**ACN 125 694 920**

# **Half-Year Financial Report**

**31 DECEMBER 2010**

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

Bruce McKay	Chairman
Stephen Bartrop	Non-executive director
John Bishop	Non-executive director
Paul Broad	Non-executive director
George Miltenyi	Non-executive director
David McDonald	Managing director

## COMPANY SECRETARY

Justin Clyne

## CORPORATE OFFICE

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## SHARE REGISTRY

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PO Box R67  
Royal Exchange, NSW 1223  
Telephone: 02 9290 9600

## ASX CODE

KEN

## AUDITORS AND INDEPENDENT

### ACCOUNTANTS

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Level 13, 122 Arthur Street,  
North Sydney, NSW 2060

### SOLICITORS

Gadens Lawyers  
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## CORPORATE ADVISORS

Oakhill Hamilton Pty Ltd  
PO Box 324, Crows Nest, NSW 1585

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# DIRECTORS' REPORT

*Half-year ended 31 December 2010*

Your directors submit their report for the half-year ended 31 December 2010.

## DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Bruce McKay (Chairman)

John Bishop (Non-executive director)

Stephen Bartrop (Non-executive director)

Paul Broad (Non-executive director)

George Miltenyi (Non-executive director)

David McDonald (Managing director)

## REVIEW AND RESULTS OF OPERATIONS

### Operations Review

In the half year ended 31 December 2010 the company concentrated its efforts on the Australian and Vanuatu geothermal exploration targets. A summary of operations is provided below:

#### Australia

#### Tasmania

In Tasmania, the company continued to focus on the consolidation of data from recent geophysical programs and the ongoing refinement of drill targeting at its Lemont and Fingal resources (see resource statements released 14 July 2009 & 9 March 2010). Results from the company's extensive Tasmanian exploration program provide encouraging indications for the geothermal potential of both our **Naturally Fractured Hot Rock (NFHR)** play at Lemont and our **Hot Rock** play at Fingal. The company is now effectively drill ready in Tasmania and is investigating different options for slim hole exploration that will provide important data on geology, temperature and reservoir characteristics at or near to target depth. This approach to the development program is seen as an important step in the risk mitigation program and will provide critical data for subsequent production hole drilling.

The company has now identified Inferred Resource targets totalling 361,000 petajoules which at this early stage of exploration is encouraging for the future potential of extracting stored heat for electricity generation (see Figure 1).

# DIRECTORS' REPORT (CONTINUED)

Half-year ended 31 December 2010

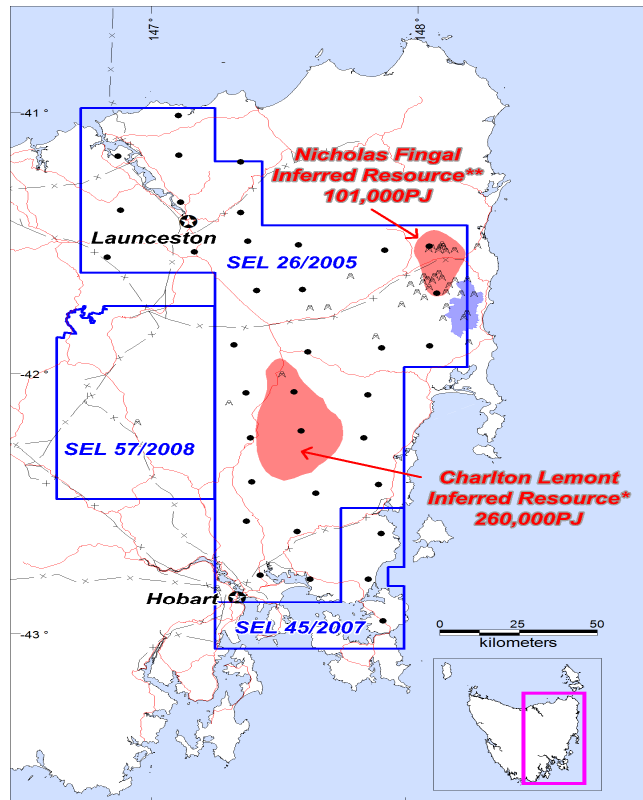


Figure 1: Tasmania Inferred Resource locations

\*Report to the ASX 14 July 2009

\*\*Report to the ASX 9 March 2010

## Lease areas relinquished

In focussing on the exploration lease areas of most potential, Figure 2 shows areas that the company elected to relinquish during the December quarter.

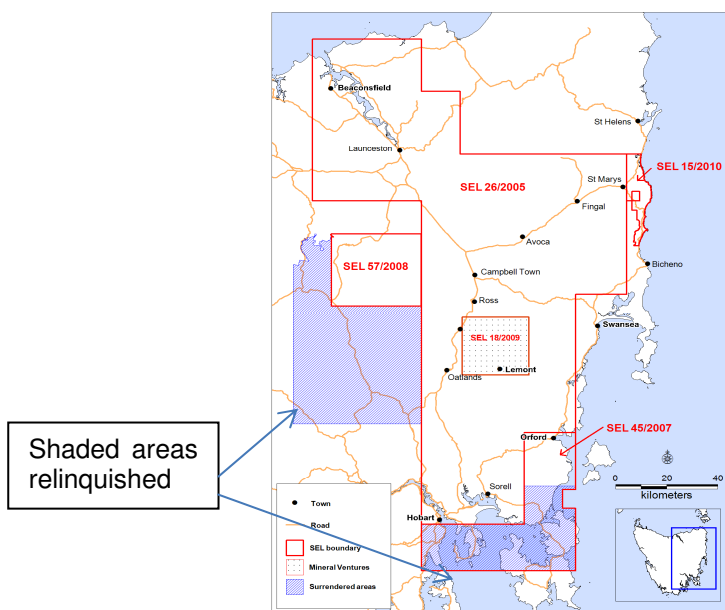


Figure 2: Tasmania tenements with relinquished areas highlighted

# DIRECTORS' REPORT (CONTINUED)

Half-year ended 31 December 2010

KUTH will continue to pursue a development approach that seeks to identify as much information as possible before committing to deep production well drilling. Our immediate focus on slim hole drilling is intended to build a better understanding of the temperature at target depth, the geology overlying the heat source and characteristics of the reservoir we are targeting. We are currently investigating options for slim hole construction.

## Tasmanian Government

The state government released the report titled "Tasmania's Innovation Strategy" in August 2010 and this devoted a chapter to "Tasmania's clean and renewable energy advantage". Of note in this report are the following key initiatives:

- Renewable Energy Development Board established
- Renewable Energy Loan Fund
  - \$30m loan and grant fund to be allocated on merit base for projects including "the manufacture or purchase, adaptation and installation of technology that leads to more renewable energy generation or use"
- Bass Strait High Voltage interconnection (Figure 3).
  - A study into a second Basslink cable to allow an expanded export channel for the expected growth in Tasmania's renewable energy resources.

In particular, in respect to geothermal the state recognises the potential of the geothermal resources, and in the report noted "compared to many mainland localities, Tasmanian geothermal targets are only a few kilometres from the electricity transmission grid". The focus for the state is "on assisting developers to obtain funding support to increase the momentum of exploration and technology development".

The key for the company will be to identify ways in which collaboration between the state and the company can be structured to maintain momentum in the KUTH geothermal development programs.

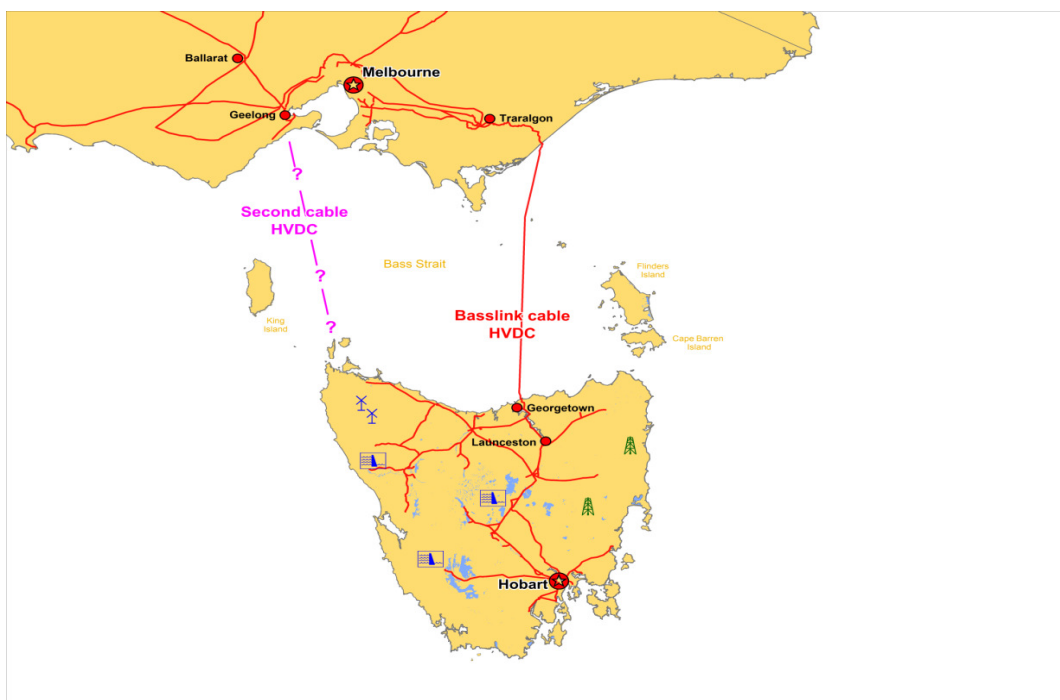


Figure 3: Existing Basslink cable (red) and second cable link (purple) under investigation

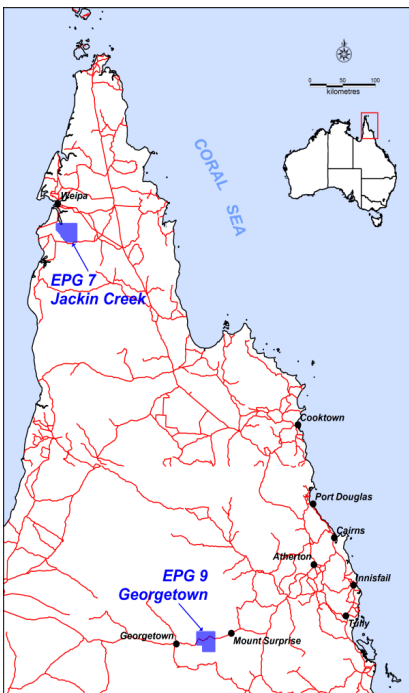
# DIRECTORS' REPORT (CONTINUED)

Half-year ended 31 December 2010

## Federal Government Policy

On the government policy front, an absence of clarity on the way forward with carbon pricing and other forms of renewable energy support has sidelined investors in the sector. The government is seeking additional inputs from industry and advisors to determine best use of government funds to bridge the market gap that presently exists. The company continues to engage with government in this area and is hopeful that the landscape will become clearer in 2011. There is no doubt that the high upfront costs associated with the drilling of deep production holes is proving to be a challenge at this early stage of geothermal development in Australia.

## Queensland



In the December quarter the company received the results of geological and geophysical appraisals of its existing North Queensland tenements EPG 7 and EPG 9 (Figure 4).

### EPG 7 Jackin Creek

Assessment of the available legacy geophysical data at EPG 7 indicated that potential may exist for the presence of granitic bodies within basement rocks underlying this region. These results are encouraging when combined with recent work by KUTH (reported in Quarterly Report dated 21 July 2010) using legacy borehole temperature data from existing petroleum wells in and around EPG 7 and which indicate that significant heat flows ( $>110\text{mWm}^{-2}$ ) may also exist in this area. Such elevated values may signify the presence of thermal anomalies at depth that may be related to the presence of deep “hot rock” bodies within the basement units. Further appraisal of the geothermal potential of EPG 7 will continue throughout 2011.

Figure 4 (left): Regional location map showing relative positions of KUTH Queensland tenements EPG 7 and 9.

### EPG 9 Georgetown

Geophysical assessment of available legacy data from EPG 9, combined with the results from new geochemical surveys of springs in and around the tenement, has led to a significant downgrading of the geothermal prospectivity of this area. In July 2010 KUTH undertook a program of geochemical spring sampling across and around the tenement. This work, which was completed by KUTH staff in conjunction with an expert consultant from Sinclair Knight Merz (SKM), successfully recovered a variety of fluid, isotope and gas samples from thirteen locations. All samples were submitted for analysis at Geological and Nuclear Sciences (GNS) in New Zealand. Thermal waters at Talaroo were found to be compositionally different from all other samples in EPG 9 suggesting that the hot springs are an isolated system. Estimations of peak fluid temperature at Talaroo consistently predicted values of  $<120^{\circ}\text{C}$  for the system. Further review of available geological and geophysical data from EPG 9 indicate little additional potential for the trapping of heat in Hot Rock style resources due to a lack of insulating cover sequences across the granite. Based on these results KUTH has concluded that the prospectivity of EPG 9 for economic geothermal electricity generation is low. Accordingly, a decision has been made to discontinue the exploration program and relinquish this tenement area.

# DIRECTORS' REPORT (CONTINUED)

Half-year ended 31 December 2010

## Vanuatu

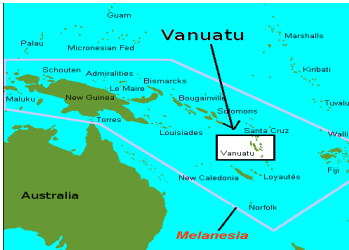


Figure 5: Vanuatu – Pacific location

Vanuatu remained a key focus for the company during the period to 31 December 2010 and in particular the completion of the exploration program conducted earlier in the year.

The company released a report from Sinclair Knight Merz (SKM) in October 2010 which outlined the finding of the various geological surveys undertaken by the company in Vanuatu during the year. SKM reported on the geothermal potential from KUTH's geothermal tenements and culminated in the release of an Inferred Resource Statement on 5 October 2010 reflected by the summary in Figure 6a and Figure 6b.

Target Zone	Inferred Geothermal Resource at Confidence Level						Estimated Power Plant Capacity (Mw <sub>e</sub> )		
	PJ <sub>th</sub>			MW <sub>th</sub> -years			Capacity (Mw <sub>e</sub> )		
	P10	P50	P90	P10	P50	P90	P10	P50	P90
A Mt Fatmalapa	2,900	1,700	720	91,000	54,000	23,000	75	43	15
B Central	1,300	860	350	43,000	27,000	11,000	37	22	7.4
C Takara	1,000	730	430	32,000	23,000	14,000	28	18	9.6
<b>Total Mean Values</b>	<b>3290 PJ<sub>th</sub></b>			<b>104000 MW<sub>th</sub>-years</b>			<b>83 MW<sub>e</sub></b>		

Figure 6a: Geothermal target locations. P10, P50, P90 represent a rating based on confidence levels of resource estimation. P10 being 10% and P50 being 50% and P90 being 90% level of confidence. For this summary table P50 has been used as the mean probability. It is important to note that even at P90, the highest confidence level by SKM, the project potentially has more than sufficient capacity to implement the project being contemplated by KUTH.

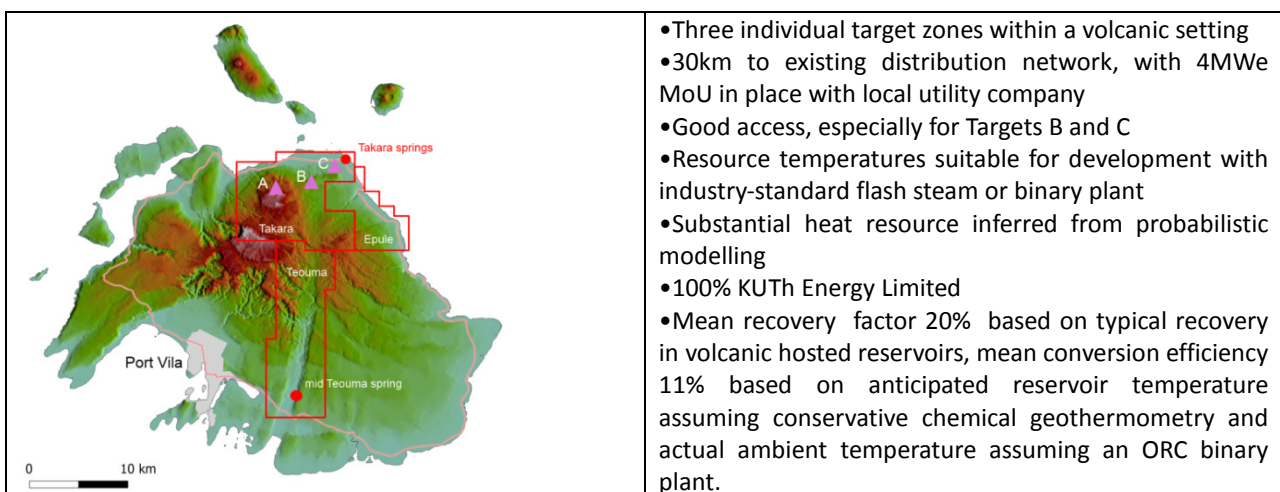


Figure 6b: Target drilling locations and general summary.



## ***DIRECTORS' REPORT (CONTINUED)***

***Half-year ended 31 December 2010***

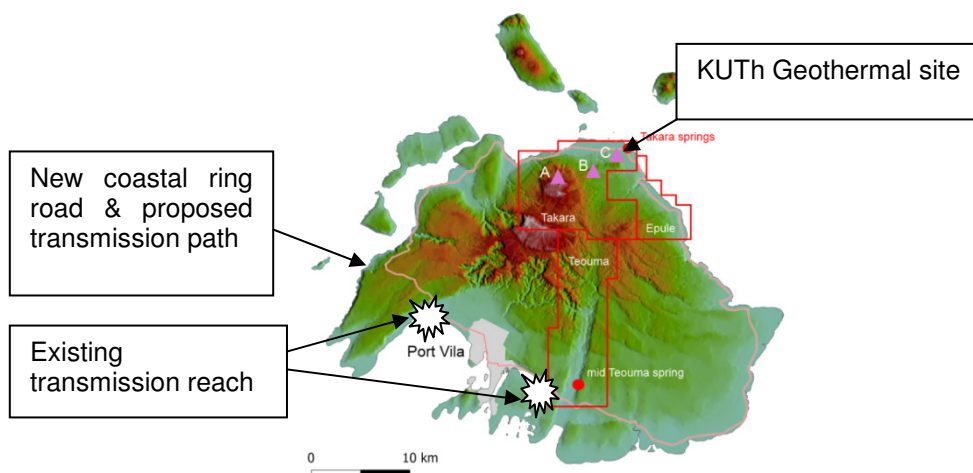
The company is initially reviewing a start-up plant with a 4MW net base load supply capacity and in view of the information contained in the report from SKM we are now actively pursuing closure on other commercial arrangements to initiate the project.

### ***In particular the company has focussed on:***

- The company has deepened its discussions with multi-lateral banks on funding options for the Vanuatu project. To this end the company is now in dialogue with European Investment Bank (EIB) and other development institutions to provide funding support to the project.
- The company expanded its discussions with the Energy Regulator in Port Vila and with UNELCO (the existing power utility in Vanuatu). These discussions surround appropriate supply timings and base load demand and how geothermal power will integrate into the electricity mix.
- Drilling targets have been identified in priority sequence and the company has commissioned SKM to prepare initial well design concepts for negotiations with drill rig operators.
- Discussions have been held with rig operators and preliminary contract documentation is in preparation.

The two issues which are in progress and which the company will need to await closure on before moving to the next stage of drilling are:

- The Vanuatu government has appointed the World Bank to complete an energy study to assess the future power demands on the island of Efate that will result from:
  - The sealed coastal road that has now been built around the island.
  - The additional transmission infrastructure that will be built to link up the potential KUTH geothermal project in the north of the island to Port Vila in the south. The current power grid on the island supplies only the Port Vila precinct. With new developments being planned along the sealed ring road, future power demands will be important in the specification of the new transmission line (see Figure7).



*Figure 7: Island of Efate showing Port Vila, existing transmission reach, coastal ring road (purple) and KUTH development site. Considerable land development potential is opened up by the new transmission line.*

# **DIRECTORS' REPORT (CONTINUED)**

*Half-year ended 31 December 2010*

- 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 holding up finalisation of draft power purchase agreements and commercial arrangements between KUTH and UNELCO. We remain in communication with UNELCO throughout this process.
- The World Bank energy study and the arbitration process are also delaying KUTH finalising tariff rates with the Energy Regulator. KUTH is assisting the World Bank study as required and continues to maintain a dialogue with UNELCO and the government to try and speed up the process for resolution of the outstanding items. Indications are that this report will be finalised in June/July 2011.

The Vanuatu project is an important strategic play for KUTH, providing the following advantages:

- Diversifies the geothermal portfolio
  - Geographically
  - Technically
  - Commercially
- Provides an important diversification cushion against policy changes in the Australian market
- Diesel generation replacement strategy provides compelling market economics
- Potential for accelerated revenue and profits
- Developing market funding options not available in Australia
- Putting together a team in geothermal exploration, development and funding partners that can be expanded to new projects in the future
- Experience in how to implement small scale geothermal opens up expanded opportunities.

## **Corporate**

### **Strengthening the team**

The company appointed Jim Randle to the position of Director of Projects on 1 August 2010.

Jim, who holds a Bachelor of Science (Hons) in Mechanical Engineering, has been involved in the power industry for the last 30 years. He has considerable experience in the front end development of new geothermal projects. In the last 20 years Jim has been specifically focused on the appraisal, development and project management of geothermal projects across Africa, Latin America, Indonesia, Philippines and New Zealand.

Jim's appointment was important in building on the strength of the outstanding geoscience team that KUTH has assembled. His background and recent experience in implementing geothermal projects from inception through to power generation will be key as KUTH advances its projects.

### **Annual General Meeting**

The company held its Annual General Meeting on 5 October, 2010 in Sydney and followed this up a week later with an information day in Hobart for shareholders and other stakeholders in KUTH's Tasmanian project. Both meetings were followed by refreshments with those attending the meetings and this gave a good opportunity for questions on the various company activities. The AGM coincided with the release by the company of the Vanuatu technical report and Inferred Resource assessment prepared by Sinclair Knight Merz. This created much discussion on the future potential of this project.

# ***DIRECTORS' REPORT (CONTINUED)***

***Half-year ended 31 December 2010***

## **Australian Geothermal Energy Association (AGEA)**

The Annual General Meeting of AGEA was held in November 2010 to coincide with the Australian Geothermal Conference held in Adelaide. KUTH's managing director, David McDonald was appointed as chairman of the association effective from that date. We are confident that David has a good understanding of the industry and the challenges that need to be addressed and that his engagement across the stakeholder base will be beneficial to the industry.

## **Financial**

The net financial result after applicable income tax for the half year was a loss of \$682,545 (2009 - \$627,707). The Company's main focus during the half year has been on the Tasmanian and Vanuatu projects with some preliminary exploration works in Queensland. Capitalised exploration expenses during this period amounted to \$476,480 and during this period the company also elected to write off \$375,216 in capitalised development costs to reflect a pro-rata of costs incurred on tenement areas that have been relinquished during six month period.

The Company also has a Commonwealth Government REDI Grant. At 31 December, 2010 the balance undrawn on this grant is \$464,629. These funds can be applied by the company on a dollar for dollar basis against expenditures identified against the Tamar Conductivity Zone project. The REDI grant term will expire on 31 March 2011 and the Company will endeavour to seek an extension of this term in an attempt to incorporate possible slim hole research on the Tamar Conductivity intersection with the Lemont target. If an extension is not granted the company will unlikely be in a position to fully draw these funds by 31 March 2011.

On 5 October 2010 the shareholders approved the issue of 1,640,000 shares to non-executive directors covering directors' fees payable for the period 1<sup>st</sup> July 2010 to 30<sup>th</sup> June 2011. These shares, as they are partly an advance payment, have been voluntarily escrowed. Half the shares issued, 820,000, have been escrowed, with 410,000 to be released from escrow 31st March 2011, and the remaining 410,000 to be released 30th June 2011. The shares were issued on 6th October 2010 and the pro-rata value of the shares issued have been recognised as expenses in the financial statements resulting in an increase in directors' benefits expense of \$51,660 for the December 2010 half year.

## **Subsequent Events**

The directors are not aware of any significant changes in the state of affairs of the company occurring since the end of the half year ended 31 December 2010.

## **Auditors Independence Declaration**

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is attached to this report.

Signed at Sydney, 9 February, 2011, in accordance with a resolution of the directors.



**DAVID McDONALD**

**Managing Director**

## **DIRECTORS' REPORT (CONTINUED)**

**Half-year ended 31 December 2010**

**Note:** The Resource estimates quoted in this report are under Edition 1 (2008) of the Australian Geothermal Reporting Code. That version has since been superseded by Edition 2 (2010) of the Code. KUTH is working to reassess its Resource estimates under the significantly different requirements of the second edition.

*The information in this report that relates to Tasmanian Geothermal Exploration Results is compiled by the staff of KUTH Energy Ltd and its respective consultants and supervised by Dr Roger Lewis an employee of Liddington Technology Pty Ltd. Dr Lewis and associates hold a financial interest in KUTH Energy Ltd.*

*Dr Lewis has sufficient experience in the style of geothermal play under consideration to qualify as a Competent Person under the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition) and is a member of the Australian Institute of Geoscientists and abides by the Code of Ethics of that organisation. Dr Lewis has consented in writing to the public release of this report in the form and context in which it appears.*

*The information in this report that relates to Tasmanian Geothermal Resources is based upon a report compiled by Dr Graeme Beardsmore, an employee of Hot Dry Rocks Pty Ltd. Dr Beardsmore has over 15 years experience in the determination of crustal temperatures relevant to the style of geothermal play under consideration, is a member of the Australian Society of Exploration Geophysicists and abides by the Code of Ethics of that organisation.*

*Dr Beardsmore is a Competent Person as defined by the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition). Dr Beardsmore has consented in writing to the public release of this Report in the form and context in which it appears.*

*The information in this report that relates to Vanuatu Geothermal Resources has been compiled by Mr James Vincent Lawless, an employee of Sinclair Knight Merz Ltd. Mr Lawless has over 20 years experience in the determination of geothermal resource capacities relevant to the type of geothermal play under consideration, is a member of the Australian Institute of Mining and Metallurgy and abides by the Code of Ethics for that organization.*

*Mr Lawless is a Competent Person as defined by the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition). Mr Lawless has consented in writing to the public release of this Memorandum in the form and context in which it appears.*

# AUDITOR'S INDEPENDENCE STATEMENT

Half-year ended 31 December 2010

## BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

AJD:KG

1 February, 2011

The Board of Directors  
KUTH Energy Limited  
Level 57 MLC Centre  
19-29 Martin Place  
SYDNEY NSW 2000

**Partners**  
C H Barnes FCA  
A J Dowell CA  
B Kolevski (Affiliate ICAA)  
M Galouzis CA

**Associate**  
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(02) 9929 7428  
**Email:**  
bdj@bdj.com.au

Dear Board of Directors,

### KUTH ENERGY LIMITED

We declare that to the best of our knowledge and belief, during the half year ended 31 December, 2010 there have been:

- i. No contraventions of auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit review and,
- ii. No contraventions of any applicable code of professional conduct in relation to the audit review.

Kind regards,  
BARNES DOWELL JAMES



.....  
Anthony Dowell  
Partner



Liability limited by a scheme approved under Professional Standards Legislation

Website: [www.bdj.com.au](http://www.bdj.com.au)

# STATEMENT OF COMPREHENSIVE INCOME

Half-year ended 31 December 2010

	Note	31 Dec 2010	31 Dec 2009
		\$	\$
REVENUE FROM ORDINARY ACTIVITIES	2	49,745	55,111
Administration expenses		(81,451)	(137,664)
Audit services		(8,500)	(8,000)
Consultant expenses		(35,716)	(166,886)
Depreciation expense		(1,752)	(4,257)
Directors' fees		(81,725)	(108,471)
Exploration Expenditure written-off		(375,216)	-
Occupancy expenses		(4,587)	(16,647)
Salaries and employee benefits expense		(48,677)	(84,959)
Share based payments		-	-
Share based payments - options		-	(75,267)
Travel and accommodation		(13,142)	(22,736)
Other expenses from ordinary activities		<u>(81,524)</u>	<u>(57,931)</u>
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(682,545)	(627,707)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		<u>-</u>	<u>-</u>
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		<u>(682,545)</u>	<u>(627,707)</u>
NET LOSS ATTRIBUTABLE TO MEMBERS OF KUTH ENERGY LIMITED		<u>(682,545)</u>	<u>(627,707)</u>
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF KUTH ENERGY LTD AND RECOGNISED DIRECTLY IN EQUITY		<u>-</u>	<u>-</u>
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF KUTH ENERGY LIMITED		<u>(682,545)</u>	<u>(627,707)</u>
Basic loss per share (cents per share)		0.010	0.011
Diluted loss per share (cents per share)		0.010	0.011

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

at 31 December 2010

	Note	31 Dec 2010 \$	30 Jun 2010 \$
CURRENT ASSETS			
Cash and cash equivalents		1,482,273	2,355,204
Receivables	3	<u>129,773</u>	<u>76,279</u>
TOTAL CURRENT ASSETS		<u>1,612,046</u>	<u>2,431,483</u>
NON-CURRENT ASSETS			
Tenement security deposits		147,000	147,000
Other security deposits		50,000	50,000
Plant and equipment		20,766	22,014
Deferred exploration and evaluation expenditure	4	<u>3,592,393</u>	<u>3,491,129</u>
TOTAL NON-CURRENT ASSETS		<u>3,810,159</u>	<u>3,710,143</u>
TOTAL ASSETS		<u>5,422,205</u>	<u>6,141,626</u>
CURRENT LIABILITIES			
Payables		<u>359,429</u>	<u>487,667</u>
TOTAL CURRENT LIABILITIES		<u>359,429</u>	<u>487,667</u>
TOTAL LIABILITIES		<u>359,429</u>	<u>487,667</u>
NET ASSETS		<u>5,062,776</u>	<u>5,653,959</u>
EQUITY			
Issued Capital	5	8,147,042	8,043,722
Reserves		209,009	222,125
Accumulated Losses		<u>(3,293,275)</u>	<u>(2,611,888)</u>
TOTAL EQUITY		<u>5,062,776</u>	<u>5,653,959</u>

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

Half-year ended 31 December 2010

	Note	31 Dec 2010	31 Dec 2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(451,647)	(502,703)
Other Income		0	136,994
Interest Received		57,441	33,020
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES		<u>(394,206)</u>	<u>(332,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of plant and equipment		(2,245)	(2,844)
Expenditure on mining interests (exploration)		(476,480)	(391,404)
REDI Grant funds received		0	157,338
Tenement security deposits (recovered)		0	17,250
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		<u>(478,725)</u>	<u>(219,660)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		0	1,329,000
Equity raising expenses		0	(73,975)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>0</u>	<u>1,255,025</u>
NET INCREASE (DECREASE) IN CASH HELD		(872,931)	702,676
Add opening cash brought forward		2,355,204	2,019,590
CLOSING CASH CARRIED FORWARD		<u>1,482,273</u>	<u>2,722,266</u>

The accompanying notes form part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

Half-year ended 31 December 2010

	Attributable to the shareholders of KUTh Energy Limited			
	Issued Capital	Accumulated Losses	Reserves	Total Equity
	\$	\$	\$	\$
AT 1 JULY 2009	6,696,279	(1,731,312)	99,288	5,064,255
Loss for the period		(873,764)		(873,764)
Cost of share based payments taken directly to equity	105,000		114,867	219,867
Foreign currency translation reserve		(6,812)	7,970	1,158
Issue of share capital	1,329,000			1,329,000
Share issue costs	(86,557)			(86,557)
AT 30 JUNE 2010	8,043,722	(2,611,888)	222,125	5,653,959
AT 1 JULY 2010	8,043,722	(2,611,888)	222,125	5,653,959
Loss for the period		(682,545)		(682,545)
Cost of share based payments taken directly to equity	103,320			103,320
Foreign currency translation reserve		1,158	(13,116)	(11,958)
AT 31 December 2010	8,147,042	(3,293,275)	209,009	5,062,776

The accompanying notes form part of these financial statements.

# NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

31 December 2010

## 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of KUTh Energy Limited as at 30 June 2010.

It is also recommended that the half-year financial report be considered together with any public announcements made by KUTh Energy Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### (a) Statement of Compliance

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis and available-for-sale financial assets that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

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

### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of KUTh Energy Limited (KUTh or the "Company") and its subsidiaries ("the Group") as at 31 December each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

### (c) Significant Accounting Policies

The half-year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2010.

## 2. REVENUE FROM ORDINARY ACTIVITIES

	31 Dec 2010	31 Dec 2009
	\$	\$
Interest Received - other persons/ corporations	49,745	39,979
Other Income	-	15,132
<b>Total</b>	<u>49,745</u>	<u>55,111</u>

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS (CONTINUED)

	31 Dec 2010	30 Jun 2010
	\$	\$
<b>3. RECEIVABLES - CURRENT</b>		
Interest receivable	4,553	11,592
Refund for GST paid	24,423	15,472
Other	100,797	49,215
<b>Other Receivables</b>	<u>129,773</u>	<u>76,279</u>
<b>4. NON-CURRENT ASSETS</b>		
<b>Deferred exploration and evaluation expenditure</b>		
Costs brought forward	3,491,129	2,796,116
Costs incurred during the half-year	548,270	974,782
REDI grant funds applied to offset expenditure	(71,790)	(279,769)
Expenditure written off during the half-year	(375,216)	0
Costs carried forward	<u>3,592,393</u>	<u>3,491,129</u>
<b>5. ISSUED CAPITAL</b>		
<b>Share capital</b>		
Balance brought forward	8,043,722	6,696,279
Shares issued in lieu of directors fees		
1,640,000 shares – 6 October 2010	103,320	
750,000 shares - 29 September 2009		105,000
Share Placement		
8,100,000 shares - November 2009		1,215,000
Share Purchase Plan - December 2009		
760,009 shares		114,000
Share Issue Costs		(86,557)
65,421,460 ordinary shares fully paid (30 June 2010 – 63,781,460)	<u>8,147,042</u>	<u>8,043,722</u>

## 6. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no change in any contingent liabilities or contingent assets.

## 7. SEGMENT INFORMATION

The Company operates predominantly in the one business segment; namely geothermal exploration and development. KUTH notes that expenditure can be identified in different locations as separate operating segments. In operations, KUTH incurred expenditures in relation to identifying potential business opportunities in the Pacific region during the period; specifically in Vanuatu. Under the guidelines provided by AASB 8 "Operating Segments", KUTH was not required to undertake segment reporting as at 30 June 2010, and has not done so in this interim report for the 6 months to 31 December 2010, although it is likely that compliance with the standard will require segment reporting to be undertaken in the next annual report.

## ***NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS (CONTINUED)***

### **8. SUBSEQUENT EVENTS**

No event has occurred subsequent to 31 December 2010 requiring disclosure in, or amendment to these financial statements.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of KUTh Energy Limited, I state that:

In the opinion of the directors:

- a) the financial statements and notes of the Company:
  - i) give a true and fair view of the Company's financial position as at 31 December 2010 and the performance for the half-year ended on that date; and
  - ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 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.

On behalf of the Board



**DAVID McDONALD**  
Managing Director

Sydney,

9 February 2011

# INDEPENDENT AUDITOR'S REVIEW REPORT

## BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

**Partners**

C H Barnes FCA  
A J Dowell CA  
B Kolevski (Affiliate ICAA)  
M Galouzis CA

**Associate**

M A Nakkan CA

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### INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KUTH Energy Limited,

#### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of KUTH Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134.

#### Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of KUTH Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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Website: [www.bdj.com.au](http://www.bdj.com.au)

# INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)

## BARNES DOWELL JAMES

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CHARTERED ACCOUNTANTS

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of KUTH Energy Limited on 1 February, 2011, would be in the same terms if provided to the directors as at the date of this auditor's review report.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of KUTH Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

BARNES DOWELL JAMES  
Chartered Accountants



Anthony J Dowell    9 February 2011  
Partner



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Website: [www.bdj.com.au](http://www.bdj.com.au)

# **KUTH ENERGY LIMITED**

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