



ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS

3 October 2013

The Chairman's message in the Annual Report outlined the challenges and obstacles in the Australian geothermal sector and I will not elaborate on them further today because clearly KUTH's situation is now one of likely transition. While we could be proud of our proactive initiative to pursue a number of conventional geothermal opportunities with the specific target of island or remote locations where conventional resources have the potential to replace imported-diesel-fired electricity generation, we have recognised that our financial position was not strong enough to withstand the continuing impediments and/or delays. Although the company undertook a capital raising partially underwritten by directors and management, of just over \$450,000 to cover working capital requirements and ongoing activities in Vanuatu, unless we made significant and rapid progress to conclude a satisfactory Power Purchase Agreement and access arrangements with land stakeholders, we were subject to the vagaries of the market and an uncertain investor climate. The Company has made good progress with the Vanuatu Government toward donor support for the project but multilateral organisations unfortunately have long decision making lead times and processes. Accordingly the company faced the potential risk of being unable to progress the Vanuatu project at a speed expected by commercial investors.

Our objective has always been to deliver returns to our shareholders as early as possible, however it will now not be as a commercial geothermal energy producer in our own right. Over the last few years, KUTH has engaged with several potential joint venture partners because we have been convinced that consolidation in the Australian geothermal sector was not only an intelligent approach but also necessary for survival of a number of players. Specifically there have been ongoing discussions with Geodynamics in response to the obvious synergies of their balance sheet and expertise and KUTH's portfolio of opportunities which were relatively more mature than those of our peers. Vanuatu has been the project of primary common interest however I am hopeful that with the merged resources of projects, people and finances, Fiji, Saipan and PNG may contribute to a pipeline of development assets, not to mention, in due course, further evaluation of KUTH's Tasmanian geothermal resources. I will not detail the current status of or plans for these projects because our

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MD, David McDonald, will do that at the conclusion of the meeting.

The Board is absolutely committed to the transaction announced on 18 September and will work with Geodynamics to reach an expeditious and efficient conclusion and transition: I am personally and my director colleagues are similarly very comfortable that this is the right action for KUTh at this time.

In the announcement, the rationale for the transaction was described as

“KUTh’s portfolio contains attractive geothermal opportunities that are a strong strategic and commercial fit with Geodynamics’ activities in the Solomon Islands. The combination of Geodynamics’ and KUTh’s portfolio provides shareholders access to a well-balanced portfolio of opportunities offering near term revenue and potential for longer-term growth within an overall stronger company that is well financed to achieve the development of these projects. The combination of the two groups will allow equipment, knowledge and capability to be shared effectively across the portfolio providing significant benefits through combined drilling campaigns, shared technical resources and cost efficiencies.”

To summarise the deal:

- Geodynamics Limited (Geodynamics) intends to make a conditional off market takeover offer to acquire 100% of KUTh Energy Limited (KUTh).
- KUTh shareholders will be offered one (1) Geodynamics share for every five and a half (5.5) KUTh shares. Using the Volume Weighted Average Prices of both company’s shares in the 30 days prior to the announcement, it represents a 31.6% premium to the KUTh share price. In that month, KUTh shares traded between 1.2 cents and 2 cents while the Geodynamics share price ranged between 8.7 cents and 15.5 cents. Nevertheless while the share prices of both companies have been quite volatile at times, over a twelve month period, the average ratio in value has remained fairly constant.
- KUTh shareholders will hold 6.12% of the enlarged Geodynamics Group.
- Another important consideration was the lack of liquidity in the Company’s shares and KUTh shareholders will benefit from the increased liquidity that is likely to arise if the offer is successful.

I must commend and thank my fellow directors and the management team for their diligence and contributions throughout the year but especially over the last few months: not only did they personally commit their financial support to the company, but have been disciplined in monitoring expenditure and risks and taking prudent decisions including the impairment of Tasmanian assets in our accounts until government and market conditions indicate that near- to medium-term activity may proceed (and we note a similar decision by Geodynamics in relation to their Cooper Basin EGS project). And obviously the recent developments have required a significant

level of personal participation, consultation and negotiation.

As I reflect on the last three and a half years of my own involvement with this Board, despite a difficult market climate, KUTh has achieved much. I pay credit to John Bishop who founded the company with a credible vision and hope for a “hot rock” industry in Australia especially Tasmania. The strategic initiative to diversify and pursue conventional diesel-replacement opportunities was sound and timely and the technical expertise applied to the company’s expanding activities has always been top class. David McDonald’s leadership has been instrumental in developing the relationships and negotiating the terms by which electricity generation from geothermal in Vanuatu will become a reality (a 30-year production licence is a really valuable asset). I congratulate him and also recognise the contributions of Stephen Robinson and Fiona Holgate (plus a number of others) to KUTh’s progress and I thank every member of the KUTh Board, past and present, as well as Justin Clyne as Company Secretary for their shared vision, collegiate approach and wise counsel.

Bruce McKay

CHAIRMAN