KUTh ENERGY

Power Down Under™

ABN 33 125 694 920

2013 ANNUAL REPORT

Corporate Directory

Board of Directors

Bruce McKay
Non-executive chairman

George Miltenyi
Non-executive director

Stephen Bartrop
(resigned 16 July 2013)
Non-executive director

Mary O'Kane
Non-executive director

Paul Broad
(resigned 30 May 2013)
Non-executive director

David McDonald
Managing director

Company Secretary
Justin Clyne

Auditors and Independent Accountants
BDJ Partners Audit Pty Limited
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Sydney NSW 2000

Solicitors
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+61 8 8235 7452 | Telephone

Registered Office
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Solicitors
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Auckland NZ
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Share Registry
Boardroom Pty Ltd
GPO Box 3993
SYDNEY NSW 2001
Telephone | 1300 737 760

Corporate Advisors
Clyne Corporate Advisory
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Sydney NSW 2000

ASX Code
KEN

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Our Business

KUTh Energy is an early stage geothermal development company. Our focus is the identification, exploration and commercialisation of geothermal heat resources that will provide an acceptable return to our shareholders and deliver a long term sustainable benefit to the environment and the end consumer. The company was incorporated in May 2007 and listed on the Australian Securities Exchange (ASX) in September 2007. The company's initial focus was the development of "Hot Rock" geothermal prospects in Australia in order to develop a renewable energy base-load alternative to current fossil fuel electricity generation. The company has since diversified its project platform to include more conventional "volcanic hosted" geothermal prospects. The first target area has been Pacific countries where surface expressions of hot fluid and steam offer the potential for lower cost exploration and development. Key projects include:

Australia

In **Tasmania**, we have identified two inferred resource targets in the midlands (Lemont) and in the northeast of the state (Fingal). Both of these inferred resource targets are prospective Enhanced Geothermal Systems (EGS) targeting heat at depths between 3,000-5,000 metres. Successful EGS projects require a combination of heat and permeability at depth so that economic flow rates can be achieved. Results of a comprehensive geological and geophysical exploration program have been encouraging, identifying the presence of a naturally fractured hot rock development opportunity at Lemont.

The Tasmanian projects are ready to be drilled however further development will be strongly influenced by government policy related to renewable energy support, certainty around long term carbon pricing and access to the necessary capital to develop these opportunities.

In **Queensland**, the company has identified two prospective locations for geothermal exploration and has lodged licence applications over these areas. One is located near to Weipa and the other is located in the south west of Queensland in the Cooper Basin region. Both have been targeted based on legacy data available to the company.

Vanuatu

The company holds a Production Licence in Vanuatu giving it the exclusive right to develop geothermal in a known prospective geothermal area located on the north of the main island of Efate. The next stage for the company is drilling the geothermal inferred resource target and in order to do so discussions are underway with government, utility, regulatory authority and land stakeholders to ensure all approvals and contract arrangements are in place. The government has formed a Geothermal Task Force to facilitate the project's commencement. The project will supply geothermal power to Port Vila and throughout Efate through transmission lines that will follow the recently sealed coastal ring road.

Other Locations

The company is expanding its project footprint targeted at diesel replacement opportunities. The high and volatile cost of diesel generated power offers a compelling business case if the presence of geothermal resources can be demonstrated. In the majority of cases surface manifestations of hot fluid and steam coupled with other geological elements provide the initial indications of geothermal potential.
The company has announced that it is pursuing exploration licences in Fiji and PNG as these locations meet the criteria for initial investigations by the company.

Chairman's Message

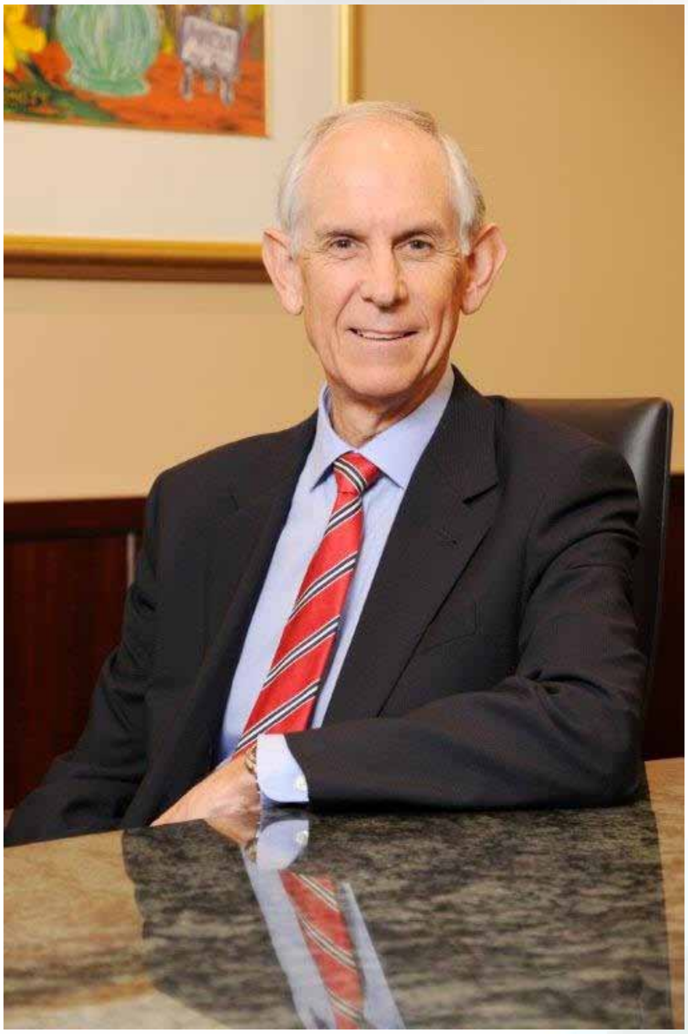
While KUTh remains committed to pursuing its strategic objective of delivering returns to our shareholders as a commercial geothermal energy producer, the environment in which we are operating is challenging and it is obviously a long journey with a number of obstacles.

Our foundation assets in Tasmania, which represent long-term potentially attractive EGS targets, are in "care and maintenance" mode given the political, policy and investment uncertainties in Australia, which have created a risk aversion felt keenly by all players in the sector. The company has reported inferred geothermal resources at Lemont and Fingal but the cost of deep drilling to confirm their potential remains prohibitive for a company of KUTh's size. To address this challenge, we are preparing an application for a grant from the Australian Renewable Energy Agency (ARENA) to fund an industry effort to better understand EGS systems using our Lemont prospect as one of the case examples. Nevertheless, the Board has taken the prudent decision to provide for impairment of these assets in our accounts until government and market conditions indicate that near- to medium-term activity may proceed.

As outlined over the last few years in light of the situation in Australia, the company has proactively pursued a number of conventional geothermal opportunities focussing primarily on the Pacific, with the specific target of island or remote locations where conventional resources have the potential to replace imported-diesel-fired electricity generation. Our areas of interest offer promise however we have been constantly hindered by external impediments and/or delays.

We were dismayed when the Commonwealth Utility Corporation in Saipan effectively abrogated the project it had awarded to KUTh through a public tender process while subsequently it has become a matter before the Office of the Public Auditor for review.

In Fiji, two KUTh applications for tenements were approved by the relevant government agency with modified term and commitments. These modifications are unacceptable to KUTh and negotiations to reach satisfactory arrangements are slowly continuing.



Bruce McKay | Chairman of the Board

In PNG we reached agreement with KULA Energy whereby they took a 49.8% interest in our PNG subsidiary and together we are seeking to convert outstanding licence applications to tenements in West New Britain and Fergusson Island. The resource potential for conventional geothermal to supply and support mineral developments is encouraging. Once again, formalising our applications and scheduling the necessary community and stakeholder consultations has slowed progress.

Chairman's Message *Continued*

The primary focus of our diversification strategy has been the Takara Project on the island of Efate in Vanuatu. We remain enthusiastic about this opportunity and cautiously optimistic about its ultimate development however progress in the last year has been slower than we had hoped or anticipated. The World Bank report endorsing geothermal as the preferred energy solution for Efate was finally released, shortly before the government went into caretaker mode prior to national elections in October 2012. That election resulted in a new coalition forming government with new ministers in the portfolios relevant to the project. On a positive note, we were pleased to be issued with a 30-year, renewable Production Licence for the Takara project with terms and conditions which appropriately recognise the rights and risks of such a venture. The government has established a Geothermal Task Force and recently approved the National Energy Road Map, which includes geothermal as a major contributor to Vanuatu's energy future. The fact that this is now embedded in government policy offers us some hope of advancing this project in the near term.

A significant amount of effort and activity has been effectively applied by KUTh management and consultants and the current priorities include conclusion of a satisfactory Power Purchase Agreement with UNELCO, the electricity concessionaire for Efate, and access agreements with land stakeholders in the project area. Once these have been achieved, the drilling program can be initiated and funding options crystallised.

The board continues to closely monitor the financial situation of the company and commends the managing director David McDonald and his team, not only for their significant efforts and contributions through the year, but also for the rigour and financial discipline to minimise discretionary expenditure and to focus on activities that reflect the appropriate balance between risk and reward. In March/April, the company undertook a capital raising partially underwritten by directors and management, which injected $460,515 to cover working capital requirements and ongoing activities in Vanuatu. KUTh continues to engage with potential donor agencies, financial institutions and joint venture partners to ensure that when the critical agreements have been achieved, the development and commercialisation activities can proceed. Hopefully this could result in a positive impact on the price of KUTh shares, which have languished similar to all our peers in the Australian geothermal sector.

As was reported in last year's Annual Report, Professor Mary O'Kane was appointed a non-executive director of KUTh in July 2012, however as a result of their increased business commitments outside KUTh, two of our non-executive directors have recently tendered their resignation from the board. Both Paul Broad and Stephen Bartrop have been involved in and made substantial contributions to the company since the initial public offering in 2007 and we regret their departure and wish them well in their new ventures. Consistent with an approach of appropriately streamlined governance, the board has decided not to make other appointments at this time. Even in these challenging times, I believe shareholders can take comfort in the commitment and competence of the company management and board to focus on achieving our key objectives and delivering value to shareholders.

Bruce McKay

Review of Operations

This year has been another difficult year for the company and for the geothermal sector overall. We face challenges from uncertainties on climate change policy in Australia and a lack of progress across the board on engineered geothermal projects. It is no surprise to the KUTh shareholders that the general investment environment is very risk averse and as such pioneering projects like enhanced geothermal systems with high upfront capital expenditure requirements are difficult when the policy scene is unstable. This report is written as we move into a new Australian government election cycle and we remain unclear of how policies may change in the near future.

Largely as a result of the uncertainty that exists in Australia the company has embarked on projects that have more conventional geothermal resource characteristics. The Pacific "rim of fire" plays host to more conventional targets and has been a focus for us in the last few years. Vanuatu has received most of our attention and while we have made some progress in this area the pace of doing business in this environment has been slow. This project has the hallmarks of being a successful, small green-field development and people on all fronts recognise the project has the potential to be a "game changer" for the country.

The company has several other opportunities it has investigated in the Pacific Region but is conscious that capital and human resources need to be deployed against projects with near term development prospects and that offer a compelling business case for commercialisation.

A summary of the key operations for the year to 30 June 2013 follows.

Australia

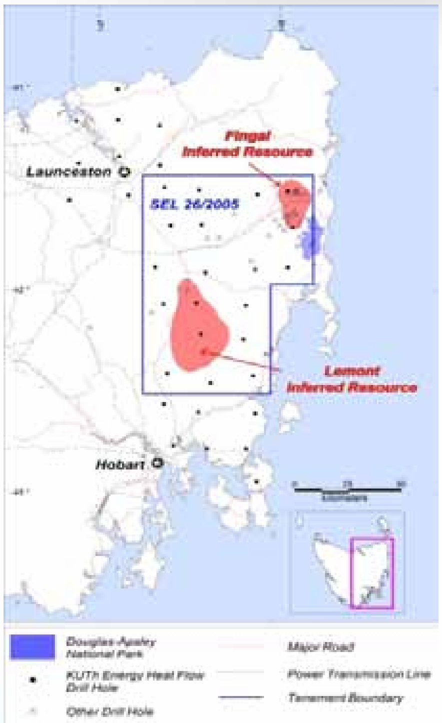
The Australian geothermal sector still remains a nascent industry and is very dependent on government policy and support mechanisms to drive early stage projects forward. Given the large capital requirement associated with drilling and proving resource targets it is a difficult sector for a small company to operate in.

KUTh's strength has been its rigorous approach to exploration in identifying its key targets but nevertheless it still faces the considerable challenge of funding the forward drilling stage.

David McDonald | Managing Director

This challenge is similar for all small-cap companies operating in the sector and that is evident from the lack of progress made during the year. We have been very transparent with the Tasmanian government on the challenges being faced by the industry and we are fortunate that they are cognisant of the issues. They have been supportive in their expectations of the pace of development on the KUTh tenements.

During the year the company rationalised its areas of interest in Australia by relinquishing tenements that were no longer core to the program. We have applied for two other tenements in Queensland, the most recent in response to changes in regulations which now permit "over the counter applications" enabling us to apply for prospective land across areas of our own choosing.



(Above) Map of KUTh's current Tasmanian tenement area

Tasmania

During the year the company's southern tenement SEL 45/2007 came up for renewal and the decision was taken to relinquish this area. The company did not consider this tenement to hold any prospective targets.

We are investigating innovative drilling solutions that may help to capture further data and validate the model that has been constructed by KUTh using shallow gradient drilling and surface geoscience programs. We see this as an important step for industry resource targeting. If deep drilling can validate the sophisticated geoscience programs already deployed by KUTh in arriving at its inferred resource targets then we will clearly demonstrate the importance of these processes ahead of embarking on high-cost drilling programs. In line with our commitments to the Tasmanian government we are preparing a grant application for this project, to be undertaken at our Lemont resource area, for consideration by the federal government's Australian Renewable Energy Agency (ARENA).

Given the current difficulties being experienced by the geothermal sector and the absence of clear direction on government climate change policy and associated support mechanisms for the renewable energy sector, the company has taken the prudent decision to provide for impairment of the Tasmanian tenements pending clearer government and market indicators (see note 9 to the Financial Statements).

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 project. We will maintain our tenement obligations and await the outcome of our grant application.

Queensland

In February 2013 the company surrendered its last remaining tenement EPG 7 located in north Queensland, however the company now has two applications pending approval. Both targets have been selected based on legacy data collected to date.

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 market at Weipa.

(Left) Map of KUTh's Queensland application areas

EPG 91 is a response-to-tender bid strategically identified in 2010 to capture potential benefits from nearby developments in the Cooper Basin. Available legacy data will assist the company to advance this project should the application be successful.

Pacific Region

Vanuatu

Progress for the year ended 30 June 2013 has been well below our expectations primarily due to national elections, with an associated caretaker period and then transition to a new government, and a general lack of urgency on the part of many stakeholders. Over the past six months we have started to regain momentum and the recent release of the National Energy Road Map, which identifies the project at the core of the Government's energy policy, should ensure that progress continues at a more rapid pace.

An important achievement during the year was the issue of a Production Licence from the Vanuatu government to KUTh Energy (Vanuatu) Limited. The licence was issued on 22 January 2013 with the following key terms:

Licence Term	➢ 30 years with renewal options
Rights of Licensee	➢ To exclusively develop and commercialise the geothermal energy in the licence area. ➢ Established a minimum tariff for geothermal power of 23.9 vatu / KWh (AUD 25 cents approx.) – CPI adjusted annually. ➢ Rights to earn carbon credits applicable to the project.
Exploration & Development Program	➢ On completion of the Power Purchase Agreement (PPA) with the utility (UNELCO) the company is committed to a program of exploration and development that will lead to the commencement of construction of a geothermal power plant within 36 months of the signing of the PPA (with additional time allowances for any Force Majeure events).

All indicators point to geothermal energy as being an important game-changer for Vanuatu and given the high cost of diesel-generated power this should not be surprising. The government now recognise that there are three key elements to be cleared for this project to get up and running and as I write this report I can advise that we are seeing a lift in momentum to get these items in order. They are:

1. **Government policy:** The government has recently released its National Energy Road Map, an initiative between government, development partners and other energy sector stakeholders. This is effectively the blueprint for Vanuatu's energy development over the coming years and includes geothermal energy as a major component of the future energy mix. As stated policy this is important in focussing attention on what has to be done to make geothermal a reality.
2. **Power purchase agreement:** This agreement is a pre-requisite before KUTh will commence any drilling program. At the date of this report the company is in discussions with UNELCO (the Vanuatu Power utility), the Vanuatu government and the Utilities Regulatory Authority (URA) to be able to reach appropriate terms to advance the project.
3. **Land access agreements:** No drilling program will commence until such times as land tenure has been resolved. The company is working with the Vanuatu appointed Geothermal Task Force and land stakeholders in a bid to resolve land access and title requirements. Next steps will include boundary surveys, valuations and a site plan identifying current use areas and future drilling and power plant footprints.

KUTh managing director receiving Production Licence from the Hon James Bule Minister for Lands and Energy and Chief Billy Ameara, January 2013.

The Vanuatu government and other stakeholders in the geothermal project made a visit to New Zealand in mid-July 2013 to familiarise themselves with geothermal development in that country.

The company is now engaged with all stakeholders in the project, including possible donor agencies and development banking institutions. The project has been elevated in the government's priorities and for KUTh remains a key focus to obtain closure on the PPA, land and funding options in the near term.

Saipan

On 24 September 2012 we advised that the company had received written notice from the Commonwealth Utilities Corporation (CUC) in Saipan that the Geothermal Gradient Well project which KUTh successfully bid for had been cancelled. The reason given being "specifications which have been revised". At the same time we were also informed that cancellation notices had been issued to other renewable energy projects that had passed through the request for proposal stage.

The company has lodged a protest with the CUC and specifically the Office of the Public Auditor to pursue its rights in this area.

Refer to "Matters subsequent to the end of the financial year" for an announcement the company made to the ASX on 6 August 2013.

Papua New Guinea

On the 7th December 2012 the company announced its subsidiary company KUTh Energy (PNG) Ltd (KPNG) had signed agreements with Kula Energy Pty Ltd (KULA) for the ongoing commercial development of its interests in Papua New Guinea (PNG). KULA took a 49.8% interest in KPNG and is now contributing additional working capital and management expertise to help secure tenement rights in West New Britain and Fergusson Island. Resource potential in KUTh's tenement areas looks encouraging for minerals and hot brine resources. We still need to complete our program of landholder consultations and obtain final exploration permits before looking at the next steps for possible development of these plays.

Fiji

The company has been advised that its tenement applications for Vatukoula and Sabeto have been considered by the Minister of Lands and approved subject to modifications to the term and the exploration commitments. The new commitments are practically unworkable as presented. To date KUTh's resident director has not been able to negotiate any modification to these terms. Next steps will require further discussions between the Fiji Minerals Resources Department and KUTh's management to determine if the impasse can be resolved.

Capital Management

The company announced on 14 March 2013 a 1 for 2 non-renounceable rights issue at $0.015 per new share to raise up to $863,500 before capital-raising costs. The offer was partially underwritten by entities associated with members of the Board and management to an amount of $148,572 in addition to their commitment to take up their full entitlement of $159,044 under the issue.

The main purpose of this raising was chiefly to fund working capital requirements, ongoing works in Vanuatu (including the completion of the Power Purchase Agreement) and the basic maintenance of tenement obligations in Australia.

The rights issue closed with the raising of $460,515 and the issue of 30,701,017 new shares.

Human Resources

The company maintains a lean management structure and bolsters that structure through consulting support services. During the year the management was further rationalised so that effectively finance, business development and corporate management personnel are all incorporated under the single Cintrex Pty Limited management contract.

Technical management remains under the supervision of the exploration manager Dr Fiona Holgate who draws on consulting advice from our Australian and New Zealand based geology, drilling and engineering support teams.

At the current stage of the projects being developed in the KUTh pipeline this structure is both efficient and cost-effective allowing the company to draw on multiple skills as and when required.

Resources and Reserves

A summary of KUTh's current resource inventory, correct as of 30 June 2013, is provided below. No changes have been made to these values in the current reporting period. All geothermal resource estimates are compliant with the Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves Edition 2 (2010). Details of individual resource estimations, including any significant variations to the original statements [dated 14 July 2009 (Lemont), 9 March 2010 (Fingal) and 5 October 2010 (Takara)] are summarised in the following sections.

Vanuatu

Takara Geothermal Resources (100% KUTh)*			
Confidence Level	Inferred Resource (PJ$_{th}$ as at 30/6/13)	Estimated Median Power Potential (MW$_e$ for 30yrs)	Previous Inferred Resource (PJ$_{th}$ as at 30/6/12)
TARGET A			
P90	140		140
P50	350	43	350
P10	600		600
TARGET B			
P90	70		70
P50	170	22	170
P10	300		300
TARGET C			
P90	82		82
P50	140	18	140
P10	220		220

Australia

Tasmanian Geothermal Resources (100% KUTh)**			
Depth Interval (m)	Inferred Resource (PJ$_{th}$ as at 30/6/13)	Estimated Power Potential (MW$_e$ for 30yrs)	Previous Inferred Resource (PJ$_{th}$ as at 30/6/12)
LEMONT			
<4,000	3,400	411	3,400
4,000 – 4,500	11,000	1,391	11,000
4,500 – 5,000	13,000	1,824	13,000
FINGAL			
<3,500	370	43	370
3,500 – 4,000	2,300	291	2,300
4,000 – 4,500	3,900	519	3,900
4,500 – 5,000	4,800	685	4,800

* All Vanuatu resource figures are determined relative to an assumed base (reinjection) temperature of 80°C
** All Australian resource figures are determined relative to an assumed base (reinjection) temperature of 92°C.

Vanuatu

Takara

Inferred Geothermal Resource Estimation
Takara, Vanuatu [Production Licence; 100% KUTh]

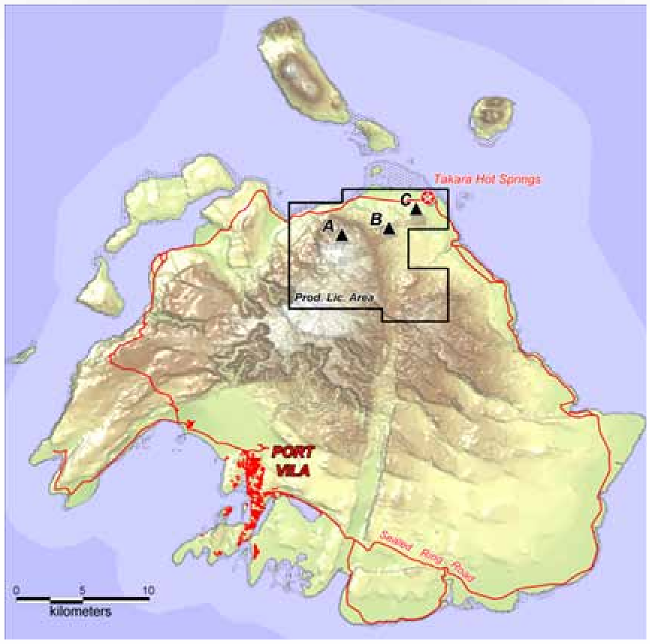
The Takara Geothermal Project is a conventional volcanic geothermal play on the island of Efate, Vanuatu. It is targeted for development as a power producer using industry standard flash-steam or binary plant technology to deliver base-load electricity that will displace existing diesel generation. KUTh Energy Ltd is the 100% owner and operator of the project via a geothermal production licence issued to its Vanuatu-incorporated subsidiary KUTh Energy (Vanuatu) Ltd.

The island of Efate is part of an extensive volcanic-arc system in the southwest Pacific. Geologically, it comprises a series of young (<1 million year) volcanic rock formations overlain by reef limestone sediments. Immediately to the north of Efate lies a cluster of small island volcanoes that are estimated to be only a few thousand years' old, young enough to provide heat for an active geothermal system. Surface thermal activity on Efate consists of hot springs up to 74°C and hot ground up to 101°C at Takara as well as hot springs up to 60°C further south in the Teouma Graben. Flow rates of Efate's hot springs are generally low except at Takara where heat flows of up $20MW_{th}$ are estimated. Geochemical data suggests fluid source temperatures at Takara of between 130 and 145°C.

The Takara Geothermal Resource model is based upon information derived from KUTh's own exploration program as well as existing legacy data. MT data acquired by KUTh in 2009 enables the definition of three potential target locations referred to as Targets A, B and C. Target C is spatially associated with the Takara hot springs whilst Targets A and B are not clearly associated with active surface thermal activity. Information available at present is not sufficient to uniquely define the relationship between these targets which may or may not be linked as part of an extensive active and/or fossil hydrothermal system or systems.

A stored-heat assessment was undertaken for each of the target zones by independent consultants Sinclair Knight Merz Ltd (SKM) of Auckland, NZ. Stored heat was estimated using a probabilistic (Monte Carlo) technique in which the various parameters are altered according to defined ranges and patterns to produce a range of values with different confidence probabilities. The results of this work are tabulated above as probabilistic resource estimates P10, P50 or P90. These indicate respectively 10%, 50% and 90% probability that the resource contains the given amount of heat.

All probabilistic resource estimates are determined using the same input data, however, a P90 value is more conservative than a P10 value and represents a conservative assumption for development purposes. Major data parameters and assumptions used in estimating the resource are tabulated (right). The recovery factor range used to estimate the Takara resource is 10 – 30% based on analogy with equivalent resource plays in fractured and/or porous volcanic rocks. The estimation of theoretical electrical power generation capacity over 30 years was undertaken as net of in-house power usage and assumes a temperature dependent conversion efficiency in the range 10 to 17% which is typical of commercially available binary plants.



Map of Efate Island, Vanuatu showing Production Licence area (black) and the location of identified resource targets A, B and C.

		Resource Area (km^2)	Resource Thickness (m)	Porosity (%)	Av. Temperature (°C)	Base Temperature (°C)	Rock Density (kg/m^3)	Liquid Saturation (%)	Recovery Factor (%)
TARGET A	Min	4.5	1,200	10	80	-	-	-	10
	Most Likely	60	1,700	15	150	*80*	2,500	100	20
	Max	7.5	1,950	20	225	-	-	-	30
TARGET B	Min	2.25	1,200	10	80	-	-	-	10
	Most Likely	3	1,700	15	150	*80*	2,500	100	20
	Max	3.75	1,950	20	225	-	-	-	30
TARGET C	Min	2.6	500	10	120	-	-	-	10
	Most Likely	3.45	1,375	15	150	*80*	2,500	100	20
	Max	4.3	1,600	20	190	-	-	-	30

Key parameters and assumptions from the Takara Geothermal Resource Estimation. Red italics indicate data that has been updated post the original resource statements.

This information in this report is based on data prepared by Mr James V. Lawless, an independent geological consultant under contract to Sinclair Knight Merz Ltd (SKM). Mr Lawless was previously employed by SKM for over 20 years, latterly in the position of Geothermal Resource Practice Leader. He has been assisted by other employees within SKM but takes responsibility and is accountable for the report as a Competent Person in terms of the Code. He has joined the Register of Practicing Geothermal Professionals maintained by AGEG, including conformance with the Code of Ethics. SKM has been engaged as Consultant by KUTh for various commissions since 2008 but holds no financial interest in the project or in KUTh.

Review of Operations *Continued*

Australia

Lemont

Inferred Geothermal Resource Estimation
Lemont, Tasmania [SEL 26/2005; 100% KUTh]

The Lemont Geothermal Play lies within the central Midlands area of eastern Tasmania and is included within KUTh's Special Exploration Licence (SEL) 26/2005.

Basement geology at Lemont is believed to be a mixture of metasediment and intrusive granite. These rocks are overlain by a younger sedimentary basin intruded by extensive, thick dolerite sills. Results from KUTh's extensive surface exploration program across Lemont (2007 – 2010) indicate a relatively high local crustal heat flow combined with geophysical features that may point to the existence of a permeable, potentially fluid-bearing fracture zone at depth. The geothermal play at Lemont is thus a deep, hot, naturally-fractured rock system suitable for Enhanced Geothermal System (EGS) development and potentially capable of supporting several hundred mega-watts of base-load electrical power generation.

Resource estimation at Lemont was undertaken by independent consultants Hot Dry Rocks Pty Ltd using a three-dimensional conductive stored heat model built upon data derived from KUTh's surface exploration program. The results of this work are tabulated above with major data parameters and assumptions provided overleaf. The total volume of potential EGS reservoir rock within the Lemont area that is hotter than 150°C and shallower than 5km is estimated to be 1019km^2. The inferred Geothermal Resource Estimation for this volume is determined per individual depth slices of 500m, reflecting the target thickness for an EGS development. Geologically, the resource is distributed across three reservoir units, granite, metasediment and a previously unrecognised thermally-conductive lithology referred to as Unit A. Temperatures predicted across the reservoir volume range from 150 - 198°C.

The recovery factor used to estimate this resource is 14% and is consistent with values recommended by the Geothermal Lexicon for Resources and Reserves Definition and Reporting, Edition 2 (2010). The estimation of theoretical electrical power generation potential over 30 years was undertaken in accordance with the International Geothermal Association endorsed Global Protocol for estimating and mapping Enhanced Geothermal System potential[1]. Assumptions made in this calculation are provided overleaf.

Fingal

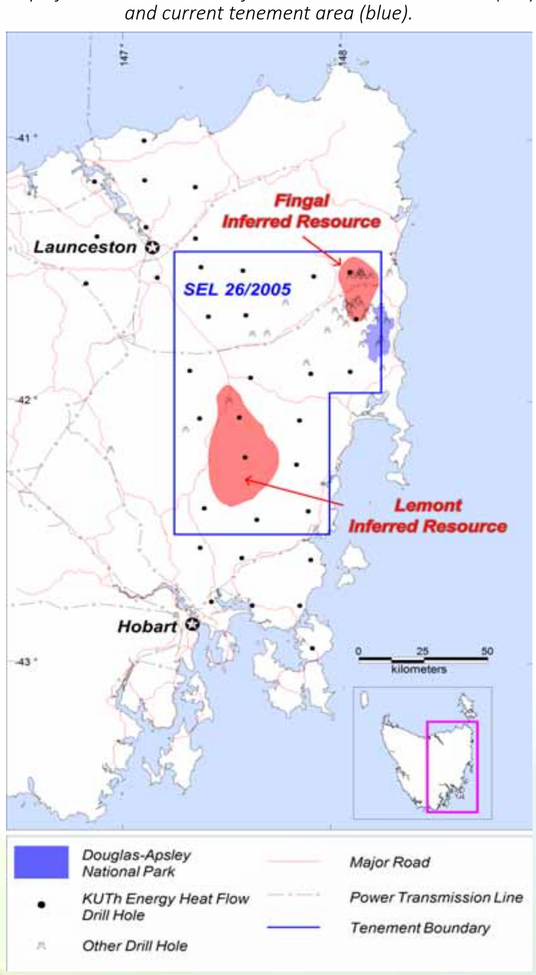
Inferred Geothermal Resource Estimation
Fingal, Tasmania [SEL 26/2005; 100% KUTh]

The Fingal EGS play is located within the active coal-mining area of the Fingal Valley in north-eastern Tasmania. Geologically similar to Lemont, the surface geology at Fingal comprises relatively young, coal-bearing sediments, extensively intruded by thick dolerite sills and underlain by basement metasediment which host significant granite intrusions. The geothermal play at Fingal is deep, hot granite bodies at drillable depths of 2 – 3 km suitable for EGS development and potentially capable of supporting several hundred mega-watts of base-load electrical power generation. Fingal is located directly below the power transmission grid making connection and power take-off a readily available proposition.

Resource estimation at Fingal was undertaken by independent consultants Hot Dry Rocks Pty Ltd using a three-dimensional conductive stored heat model that was built using data derived from KUTh's surface exploration program (2007 – 2010). The results of this work are tabulated above with major data parameters and assumptions provided overleaf. The total volume of potential EGS reservoir rock within the Fingal area that is hotter than 150°C and shallower than 5km is estimated to be 384km^2. The inferred Geothermal Resource Estimation for this volume is determined per individual depth slices of 500m. The resource is contained entirely within a granitic reservoir in which temperatures are predicted to range from 150 - 220°C.

The recovery factor used to estimate this resource is 14% and is consistent with values recommended by the Geothermal Lexicon for Resources and Reserves Definition and Reporting, Edition 2 (2010). The estimation of theoretical electrical power generation potential over 30 years was undertaken in accordance with the International Geothermal Association endorsed Global Protocol for estimating and mapping Enhanced Geothermal System potential[1]. Assumptions made in this calculation are provided overleaf.

Map of KUTh's Tasmanian Inferred Geothermal Resources (red) and current tenement area (blue).



[1] Beardsmore, G.R., Rybach, L., Blackwell, D. and Baron, C. 2010. A protocol for estimating and mapping global EGS potential. GRC Transactions, 34, 301 – 312.

Parameter	LEMONT	FINGAL
Energy Application	Electrical Power Generation	Electrical Power Generation
Cut-off Temperature	150°C	150°C
Base Temperature	*92°C*	*92°C*
Base of Reservoir	5000m	5000m
Recovery Factor	*14%*	*14%*
Reservoir Volume, total	1019km³	384km³
Reservoir Volume, Mathinna	230km³	-
Reservoir Volume, Granite	108km³	384km³
Reservoir Volume, Unit A	402km³	-
Reservoir Volume, Pre-Cambrian	279km³	-
Density, Mathinna	2,720kg/m³	-
Density, Granite	2,580kg/m³	2,580kg/m³
Density, Unit A	2,720kg/m³	-
Density, Pre-Cambrian	2,720kg/m³	-
Specific Heat, Mathinna	941 J/kg/K @ 169°C	-
Specific Heat, Granite	941 J/kg/K @ 169°C	941 J/kg/K @ 169°C
Specific Heat, Unit A	941 J/kg/K @ 169°C	-
Specific Heat, Pre-Cambrian	941 J/kg/K @ 169°C	-
Heat Production, Mathinna	1.61μW/m³	1.61μW/m³
Heat Production, Granite	7.33μW/m³	7.33μW/m³
Heat Production, Unit A	1.61μW/m³	-
Heat Production, Pre-Cambrian	0μW/m³	-
Thermal Conductivity, Dolerite	2.17W/mK	2.17W/mK
Vertical Thermal Conductivity, Upper Parmeener	2.30W/mK	1.69W/mK
Horizontal Thermal Conductivity, Upper Parmeener	2.30W/mK	1.88W/mK
Vertical Thermal Conductivity, Lower Parmeener	2.12W/mK	2.05W/mK
Horizontal Thermal Conductivity Lower Parmeener	2.12W/mK	2.09W/mK
Thermal Conductivity, Mathinna	3.80W/mK	3.80W/mK
Thermal Conductivity, Granite	3.50W/mK	3.50W/mK
Thermal Conductivity, Unit A	4.80W/mK	-
Thermal Conductivity, Pre-Cambrian	4.98W/mK	-
Reservoir Temperature <3500m	-	*150°C*
Power Conversion Efficiency <3500m	-	*11.0%*
Reservoir Temperature 3500-4000m	*160°C*	*167°C*
Power Conversion Efficiency 3500-4000m	*11.5%*	*11.9%*
Reservoir Temperature 4000-4500m	*175°C*	*183°C*
Power Conversion Efficiency 4000-4500m	*12.3%*	*12.7%*
Reservoir Temperature 4500-5000m	*190°C*	*200°C*
Power Conversion Efficiency 4500-5000m	*13.1%*	*13.6%*

Key parameters and assumptions from the Tasmanian Inferred Geothermal Resource Estimations.
Red italics indicate data updates which postdate the original resource statements.

The information in this report that relates to Exploration Results, Geothermal Resources or Geothermal Reserves in Tasmania is based on information compiled by Dr Graeme Beardsmore, who appears on the Register of Practicing Geothermal Professionals maintained by the Australian Geothermal Energy Group Incorporated at the time of the publication of this report. Dr Beardsmore is employed by Hot Dry Rocks Pty Ltd (HDR), an independent company that provides consulting services to KEN. Dr Beardsmore has sufficient experience relevant to the style and type of geothermal play under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the Second Edition (2010) of the 'Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves'. Dr Beardsmore was assisted by other employees within HDR but takes sole responsibility and is accountable for the report as a Competent Person. Dr Beardsmore consents to the public release of this report in its entirety.

Glossary of selected terminology

Base Temperature	The temperature of geothermal fluid once it has passed through the power conversion process.
Basement	The deepest geological horizon considered in a resource assessment.
Binary Power Plant	An electricity production plant which relies on a process whereby heat is exchanged from a hot fluid to a cooler one which has a lower boiling point than the source fluid. Power is generated by flashing the secondary fluid to vapour in a turbine. This system is typically used in lower temperature geothermal developments.
Cut-off Temperature	The minimum economic reservoir fluid temperature for commercial energy extraction.
Density	A physical property relating mass to volume (kg/m^3).
Dolerite	A hard, fine-grained igneous intrusive rock dominated by feldspar and dark-coloured minerals.
Enhanced Geothermal System	A geothermal play which has been engineered to improve or introduce permeability into a Hot Rock formation.
Granite	A coarse-grained quartz-bearing intrusive igneous rock.
Gravity Survey	A geophysical method which records high-precision measurements of the Earth's gravitational field at points across its surface. The location and shape of large bodies of relatively low density rock (such as granite) can be detected by expert modelling of these data.
Heat Flow	The amount of thermal energy passing through a square metre at the Earth's surface (mWm^{-2}).
Heat Production	The amount of heat generated by a rock through the natural decay of radiogenic elements, usually calculated in micro-watts per cubic metre ($\mu W/m^3$).
Hot Rock	A body of rock containing useful energy, but which needs additional fluid artificially added to be able to extract that energy.
Hydrothermal System	A natural geothermal system comprising hot water and/or steam percolating at depth through existing fractures and/or pore spaces in rock. Hydrothermal systems are often found in areas that are volcanically active.
Inferred Geothermal Resource	That part of a Geothermal Resource for which Recoverable Thermal Energy (in units of PJ_{th} or MW_{th}-years) can be estimated only with a low level of confidence.
Magnetotelluric (MT)	A geophysical survey method which takes advantage of disturbances in the Earth's natural electro-magnetic field to detect variations in the electrical conductivity of rocks at depth in the crust. Natural fluids such as water and brine are good electrical conductors and, where present in permeable rock fracture or pore spaces, may be detected by MT.
Play	An exploration concept or system which consists of four principle geothermal components: heat flow, thermal insulation, reservoir and access to water. This term is used as an informal qualitative descriptor for an accumulation of heat energy within the earth's crust. It can apply to heat contained in rock and/or fluid. It has no connotations as to permeability or the recoverability of the energy, although it implies an intention to investigate those parameters. A Geothermal Play does not necessarily imply the existence of a Geothermal Resource or Reserve.
Reservoir	A body of rock with certain permeability and porosity characteristics which enable it to hold fluids of economic interest.
Thermal Conductivity	A material property indicating the ability of a substance to transfer or 'conduct' heat energy; measured in W/mK.
Units of Electrical Power	Power (energy over time) is measured in Watts (W). One Watt is equivalent to one Joule per second. One Megawatt (MW) equals 1,000,000 W. MW may be specified as referring to electrical (MW_e) or thermal (MW_{th}) power.
Units of Energy	Energy is measured in Joules. One Petajoule (PJ) equals 1,000,000,000,000,000 J. Where specifically referring to heat energy PJ are recorded as thermal (PJ_{th}).
Specific Heat	The amount of energy required to raise the temperature of 1kg of a substance by 1°C; measured in J/kgK.
Stratigraphy	The sequence of geological strata at a given location.
Volcanic Arc	A linear chain of volcanoes related to the subduction of a major tectonic plate.
Well	A bore hole.

Corporate Governance

The board of directors of KUTh Energy Ltd (KUTh) is responsible for corporate governance and strives for high standards in this regard. The board monitors the business and affairs of KUTh on behalf of the shareholders by whom they are elected and to whom they are accountable. The board draws on relevant best practice principles particularly those issued by the ASX Corporate Governance Council in August 2007 and the updated ASX Corporate Governance Principles and Best Practice Recommendations (the "Best Practice Recommendations") issued on 30 June 2010.

Company Policies

The board has also established specific written policies in relation to the board's approach to corporate governance and, in particular, the obligations on directors and staff and, in some cases, key consultants in respect to Code of Conduct, Information Disclosure and Securities Trading in the company's shares. Company policies include:

Board Charter

The board has the following overall responsibilities:

- in conjunction with management, establishing the direction, strategies and financial objectives for the company and monitoring the implementation of those policies, strategies and financial objectives; and
- monitoring compliance with regulatory requirements and setting the tone for ethical behaviour and standards.

Code of Conduct

The employee code of conduct sets out the standards of conduct expected of directors, employees, contractors, and consultants of KUTh, referred to collectively as employees. It is expected that employees will act with integrity and will endeavour to always act in a manner that will contribute to company objectives.

Audit Committee Charter

The primary function of the committee is to assist the board in fulfilling its responsibilities relating to accounting and reporting practices of the company.

Information Disclosure Policy

The company is committed to:

- complying with the general and continuous disclosure principles contained in the Corporations Act and the ASX Listing Rules;
- preventing the selective or inadvertent disclosure of material price sensitive information;
- ensuring shareholders and the market are provided with full and timely information about the company's activities; and
- ensuring all market participants have equal opportunity to receive externally available information issued by the company.

Performance Evaluation Policy

As part of the annual review of the performance of the board, the appropriate size, composition and terms and conditions of appointment to, and retirement from, the board are considered. The level of remuneration for non-executive directors is considered with regard to practices of other public companies and the aggregate amount of fees approved by shareholders. The board also reviews the appropriate criteria for board membership collectively.

The board has established processes for reviews of its own performance, the performance of individual directors, committees of the board and senior management. An appraisal was undertaken during the year to review the effectiveness of the board and identify areas of improvement.

Securities Trading Policy

The company's share trading policy regulates dealings by directors, officers and employees, in securities issued by the company. In certain circumstances this policy also applies to contractors and consultants.

This policy imposes basic trading restrictions on all employees of the company who possess inside information.

Securities Trading and Trading Windows

The company implemented a formal Securities Trading Policy in January 2009 to regulate the manner in which the directors, employees and key consultants of the company trade in the company's shares. This policy was reviewed and amended in December 2010. The key elements of this policy are:

No director or employee may trade in the company's securities at any time:

a) when in possession of price sensitive information which has not been disclosed to the market; or

b) in the period 48 hours before 9am of the morning of a planned release of any announcement to the ASX; or

c) in the period 48 hours after any announcement to the ASX.

Before trading, or giving instructions for trading in the company's securities, a director:

- must notify the chairman or, in that person's absence, the managing director, of his or her intention to trade;

- confirm that he or she does not hold any inside information; and
- must be advised by the chairman that there is no reason to preclude him or her from trading in the company's securities as notified.

In the case of the chairman intending to trade in the company's securities, he or she must notify and obtain clearance from the board before trading, or giving instructions for trading. In the case of any other employee, he or she must notify and obtain clearance from the managing director, or in the managing director's absence, the chairman before trading, or giving instructions for trading.

Governance Principles

While the Best Practice Recommendations are not mandatory, KUTh aims to adhere to them but is mindful that there may be some instances where compliance is not practical for a company of KUTh's size. The following paragraphs set out the company's position relative to each of the eight key principles contained in the ASX Corporate Governance Council's report.

Principle 1: Lay solid foundations for management and oversight

The company has a board charter which sets out the responsibilities of the board. The general responsibilities are noted above under "Board Charter" and specific areas of responsibility include:

- appointment, evaluation, rewarding and, if necessary, removal of senior management personnel;
- identifying the direction, strategies and financial objectives of the company;
- monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level in order to understand the financial and operating conditions of the company, including the reviewing and approving of annual budgets;
- appreciation of areas of significant business risk and ensuring that the company is appropriately positioned to manage those risks;
- overseeing the management of safety, occupational health and environmental matters;
- satisfying itself that the financial statements of the company fairly and accurately set out the financial position and financial performance of the company for the period under review;
- satisfying itself that there are appropriate reporting systems and controls in place to assure the board that proper operational, financial, compliance and internal control processes are in place and functioning appropriately;
- ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- having a framework in place to help ensure that the company acts legally and responsibly consistent with the code of conduct; and
- reporting to shareholders.

In addition to the above, the board may nominate various committees comprising selected members of the board, to consider various matters that need more in depth analysis. The responsibility for day-to-day operation and administration of the company is delegated by the board to the managing director.

The board reviews the performance of the managing director annually based on the following:

- the company's financial performance;
- the extent to which key operational goals and strategic objectives are achieved;
- share price movements;
- development of management and staff; and
- compliance with legal and company policy requirements.

A review of the managing director's performance and that of all directors was conducted between the June and October 2012 board meetings.

The managing director is responsible for assessing the performance of senior management and staff within the company. The basis of evaluation of managers will be on performance measures and the overall performance of the company against predetermined goals. The managing director will make appropriate recommendation to the board of directors for all remuneration reviews of key management personnel.

A copy of this corporate governance statement which includes reporting under this principle is available under the *'Corporate Governance'* tab by first clicking on the *'Investor Centre'* tab on the company's website www.kuthenergy.com.

Principle 2: Structure the board to add value

The company's board of directors is structured appropriate to the size and stage of development of the company. The board has not established a formal nomination committee but is aware of the need to regularly review the structure to recruit the respective talents that can contribute at each stage of the company's development phase. Such a review was undertaken in the second half of 2012 which resulted in the appointment of Mary O'Kane as an independent non-executive director. At this stage, the board acts as the company's nomination committee.

At 30 June 2013 the board comprises five directors including Bruce McKay as appointed independent non-executive chairman, and David McDonald as managing director.

Bruce McKay has considerable experience in the oil and gas sector and a network of contacts that add value to the company as it scales up its activities. Bruce McKay has a long history of chairing successful organisations and offers skills that benefit the overall corporate governance of the company. While Stephen Bartrop (resigned 16 July 2013) and George Miltenyi hold substantial shareholdings in the company and under the ASX Corporate Governance Principles and Best Practice Recommendations are not strictly categorised as independent, the board considers them to be independent directors as they have no other relationship with the company which affect their independence. These directors possess skills and experience in early stage exploration, investment banking, management, and strategic development relevant to the company's operations. Mary O'Kane is considered to be an independent director as her shareholding is not substantial.

The board conducts a performance evaluation which includes the appraisal of individual director's contributions in their role as directors and committee members. The evaluation includes the following assessment criteria:

- comparison of the performance of the board against the requirements of the board charter;
- assessment of the performance of the board over the previous twelve months having regard to the corporate strategies, operating plans and the annual budget;
- review of the board's interaction with management;
- review of the type and timing of information provided to the directors; and
- identification of any necessary or desirable improvements to board or committee charters.

A summary of the skills, experience and expertise of each director, as well as the period of office held by each, is contained within this Annual Report and is also available on the company's website.

The board, board committees or individual directors may seek external professional advice as considered necessary at the expense of the company, subject to prior consultation with the chairperson.

A copy of this corporate governance statement which includes reporting under this principle is available under the *'Corporate Governance'* tab by first clicking on the *'Investor Centre'* tab on the company's website www.kuthenergy.com.

Principle 3: Promote ethical and responsible decision-making

The company has a formal code of conduct.

The key components of this code are:

- the first responsibility of the company is to its shareholders. Employees must recognise this and act accordingly;
- employees of the company are expected to act with integrity and honesty, in the best interests of the company and in support of its objectives;
- employees must act with due care and diligence in carrying out their assigned tasks and duties and in exercising any powers associated with their employment;
- confidential information may be received by employees as a result of the performance of their duties. This information remains the property of the company and may not be released or used in ways other than expressly authorised by the company;
- employees must not take advantage of their position or their knowledge of company business for personal gain or for the gain or advantage of associates not connected with the company;
- employees must abide by the corporate governance policies of the company; and
- all employees are required to act within the law.

Breaches of this code will be considered to be misconduct. An employee who believes that breaches of the code have taken place must report the matter to the managing director, chairman or any such other person as nominated by the board.

Diversity Policy: In accordance with the Best Practice Recommendations companies are required to establish a policy concerning diversity, with measureable objectives for achieving gender diversity and the board should annually assess both the objectives and progress in achieving them.

Diversity includes but is not limited to gender, age, ethnicity and cultural background.

The benefits of gender diversity on boards, in senior management and within the company generally, include the following:

- allows the company to benefit from all available talent;
- provides a broader pool for recruitment of high-quality directors and employees;
- employee retention; and
- encourages greater innovation by drawing on different perspectives.

The board recognises the importance of benefitting from all available talent, and is committed to a diverse workforce and diverse board. The board also recognises that diversity is a socially and economically responsible governance practice which will enhance the company's corporate reputation.

The company set the following two measureable diversity policy objectives, in order to set a target for greater gender diversity within the board and senior management / executive level both of which have now been achieved:

- one director of the under-represented gender by 2013; and
- at least one director and one senior management position or greater of the under-represented gender by 2016.

To achieve these objectives the company considers the following director selection process:

- ensuring the director selection process is formal and transparent as set out in the Best Practice Recommendations;
- broaden the search parameters in sectors where women are more prevalent;
- broaden the selection criteria to include a mix of skills, experience and attributes, ensuring that any statement as to skills and diversity sought is meaningful, rather than generic;
- consider potential directors from non-traditional areas where skill sets will benefit the company; and
- where recruitment consultants are used require such search consultants to provide a list of emerging women directors and emerging senior women executives as part of any recruitment process.

Notwithstanding that the board has already achieved its initial objectives regarding diversity, the board will continue to assess this annually to ensure future objectives and progress in diversity are achieved , and report in each annual report as per Recommendation 3.4, the proportion of:

(a) women employees in the whole organisation;

(b) women in senior executive positions; and

(c) women on the board.

At 30 June 2013 the company had made the following progress towards the gender diversity objectives:

(a) half of the employees (one of two) are women;

(b) one woman, of two staff employed in a senior executive position; and

(c) one woman, of five directors appointed to the Board of Directors.

A copy of this corporate governance statement which includes reporting under this principle, a summary of the code of conduct and diversity policy is available under the *'Corporate Governance'* tab by first clicking on the *'Investor Centre'* tab on the company's website www.kuthenergy.com.

Principle 4: Safeguard integrity in financial reporting

The company has an audit committee charter which follows the recommendations of the ASX Corporate Governance Council. The key components of the charter are:

- serve as an independent and objective party to review the financial information submitted by management to the board for issue to shareholders, regulatory authorities and the general public;
- review the adequacy of the reporting and accounting controls of the company;
- oversee, co-ordinate and appraise the quality of the audits conducted by the company's external auditors;
- determine the independence and effectiveness of the external auditor; and
- maintain open lines of communications among the board and the external auditor to exchange views and information, as well as, confirm their respective authority and responsibilities.

The company's audit committee had consisted of two non-executive directors – Paul Broad (audit committee chairman) and Stephen Bartrop – until Mr Broad's resignation from the board on 30 May 2013. At their June 2013 meeting, the directors decided the audit committee should be formed of all the non-executive directors. Stephen Bartrop served as audit committee chairman until his resignation from the board on 16 July 2013. He was replaced by George Miltenyi. While not all directors strictly meet the ASX's guidance regarding independence due to their substantial shareholdings, the board considers all directors to still be independent. It is also noted that the audit committee chairman is not the chairman of the board. The qualifications of the directors and details surrounding their attendance at audit committee meetings are contained separately within the company's annual report.

The managing director, the company's auditors and the company accountant attend audit committee meetings by invitation. Now that the audit committee includes all non-executive directors, processes for review and approval of financial reports will be simpler. In conjunction with the full board, the audit committee reviews the performance of the external auditors (including scope and quality of the audit). The audit committee also meets with the auditors without management present to discuss and seek the auditors' opinions around such issues as risk, fraud, reporting, and delivery of information etc. to ensure the auditors are adequately informed and in the best position to undertake the audit.

Information regarding the company's audit committee charter and procedures for selection, rotation and appointment of auditors can be obtained from the company.

Principle 5: Make timely and balanced disclosure

The company has implemented an information disclosure policy. The underlying feature of this policy is compliance with the ASX Listing rules on disclosure requirements and the principles behind continuous disclosure of market sensitive information.

The company proactively communicates to its directors, staff and consultants, the ASX's continuous disclosure requirements and the requirement to operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. The managing director and the company secretary act as the company's disclosure officers and are responsible for implementing and administering this policy.

The disclosure officers are responsible for all communication with ASX and for making decisions on what should be disclosed publicly under this policy. In the absence of the managing director and company secretary, any matters regarding disclosure are to be referred to the chairman.

A copy of the information disclosure policy is available under the *'Corporate Governance'* tab by first clicking on the *'Investor Centre'* tab on the company's website www.kuthenergy.com.

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on the KUTh Energy website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the group's operations, any new material to be used in the presentation is released to the ASX and posted on the company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Whilst the company does not have a formal communications strategy, it does have a website information e-mail for shareholder queries and is responsive to shareholder enquiries. It also has a newsletter subscription function on its website allowing interested shareholders to register and be immediately updated with announcements made by the company. The company reviews its shareholder registry on a regular basis and takes this into consideration when planning general meeting locations and timing in a bid to provide access across a broad range of the company's shareholders. KUTh Energy will continue to review technology methods that will expand the capability of the company to reach a broad cross-section of its shareholders.

Principle 7: Recognise and manage risk

The company recognises the need to identify, measure and mitigate risk areas of the business wherever possible. A formal risk management policy has not been implemented but the board and the audit committee in conjunction with the auditors are aware of the importance of risk management as it expands its operations into the next phase of its development programs.

Risk management arrangements are the responsibility of the board of directors and senior management collectively and risk factors continue to be a standing agenda item at board and audit committee meetings. The board and audit committee are required to assess risk management and associated internal compliance and control procedures and are responsible for ensuring the process for managing risks is integrated within business planning and management activities. Project or investment proposals brought to the board must specifically identify and consider risks and mitigation strategies. At their June 2013 meeting, the directors decided the audit committee should be formed of all the non-executive directors, with a director other than the board's chairman acting as committee chairman.

The audit committee will meet with the company's auditors, without the presence of management, to consider risk control and fraud, and to ensure appropriate controls are in place.

Twice each year, in line with the half year and full year accounts, the managing director and company accountant provide a declaration in accordance with section 295A of the Corporations Act to the board and the company's auditors.

Principle 8: Remunerate fairly and responsibly

Directors believe that the size of the company makes individual salary and consultant negotiations more appropriate than formal remuneration policies.

The company had during the year a remuneration committee, which consisted of three non-executive directors; Bruce McKay, Paul Broad (resigned as a director 30 May 2013), and George Miltenyi. While Paul Broad and George Miltenyi do not strictly meet the ASX's guidance regarding independence, the board still considered them to be independent and, therefore, the board considered all three members as independent non-executive directors with applicable expertise and skills suited to this committee.

At their June 2013 meeting, subsequent to the resignation of Paul Broad, the directors decided to dissolve the remuneration committee, and in future the functions of that committee will be undertaken by the board of directors.

The board distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. The company's constitution and the Corporations Act also provide that the remuneration of non-executive directors will not be more than the aggregate fixed sum determined by a general meeting. The board is responsible for determining the remuneration of the executive directors without the participation of the affected director.

The board of directors will seek independent external advice and market comparisons as required when reviewing market competitiveness of management remuneration. In accordance with Corporations Act requirements, the company will disclose the fees or salaries paid to all directors, plus the key senior executives in the company. The company has an Employee Share Option Plan that was introduced in May 2007 (and reapproved by shareholders at the company's 2012 annual general meeting) and selected directors, key staff and consultants have been issued share options under this plan.

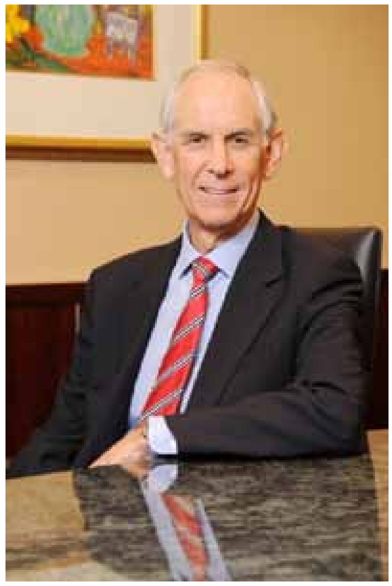
While there is no formal written remuneration policy the company prohibits entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

Directors' Report

The directors of KUTh Energy Ltd present their report on the consolidated entity (group), consisting of KUTh Energy Ltd and the entities it controlled at the end of, and during, the financial year ended 30 June 2013.

The following persons held office as directors throughout the period and at the date of this report, except as otherwise noted. Their qualifications and experience are:

Bruce McKay, Chairman of the Board



Bruce McKay comes from a background in oil and gas with almost 45 years' experience in professional, management and executive roles in the upstream petroleum and related industries. Bruce chairs the Advisory Board of the Australian School of Petroleum at Adelaide University and also provides executive coaching and mentoring services through the Stephenson Mansell Group.

Bruce, who holds a Bachelor of Science (Hons) in Geology from Sydney University, is an Honorary Life Member of the Australian Petroleum Production and Exploration Association, a member of the Petroleum Exploration Society of Australia, the American Association of Petroleum Geologists, a Fellow of the Institution of Engineers Australia and a Fellow of the Australian Institute of Company Directors.

Dr Stephen Bartrop, Non-Executive Director (Resigned 16 July 2013)

Dr Stephen Bartrop has been involved in analysing resource companies and projects from both a financial and technical perspective for over twenty years. This experience has been with leading global financial institutions including Macquarie Bank, Bankers Trust and JP Morgan and has involved research, advisory and funds management. Prior to working in the financial sector, Steve was a geologist for around ten years and involved in exploration, mine geology, project evaluation and feasibility studies. Steve is a founding director of the Breakaway Investment Group and managing director of Lime Street Capital.

Paul Broad, Non-Executive Director (Resigned 30 May 2013)

George Miltenyi, Non-Executive Director

George Miltenyi has been owner, investor and director in a wide range of commercial ventures including companies engaged in organisational development, marketing, immigration, education, life insurance, water distillation technology and recruitment. Since 1989, George has been the managing director of an organisation development company, EMD Workforce Development which consults to some of Australia's largest corporations.

George was instrumental in building one of Australia's largest English language educational companies (ACL). Recently he was a director of Australian Life Insurance Pty Ltd, a unique company specialising in the provision of life and home contents insurance through mortgage brokers. In June 2007, George was involved in floating a recruitment firm (Rubicor), which aggregated 19 separate recruitment companies. George founded and managed such businesses as Multicultural Marketing and Management, Immigration Australia and Clean Water Technology. George has a passion for commercialising renewable energy and low carbon emission power ventures.

George has degrees in Law and Social Work and is a non-practising Barrister. He is a Fellow of the Australian Institute of Company Directors.

Mary O'Kane, Non-Executive Director (Appointed 9 August 2012)

Professor Mary O'Kane is the New South Wales Chief Scientist and Engineer and also Executive Chair of Mary O'Kane & Associates Pty Ltd, a Sydney-based company specialising in major reviews. Mary is also a company director being Chair of the Development Gateway and the Development Gateway International, Chair of the Cooperative Research Centre for Spatial Information, and a director of PSMA Ltd, Business Events Sydney, National ICT Australia Ltd, and the Capital Markets Cooperative Research Centre. She was Chair of the Australian Centre for Renewable Energy, the Commonwealth Government's main renewable energy policy and funding advisory board throughout its existence (May 2010-June 2012).

Mary was Vice-Chancellor of the University of Adelaide from 1996-2001 and Deputy Vice-Chancellor (Research) from 1994-6. Before that, she was Dean of the Faculty of Information Sciences and Engineering at the University of Canberra. She is a former member of the Australian Research Council, the Co-operative Research Centres (CRC) Committee, the Tax Concession Committee, the board of the CSIRO, and the board of F.H. Faulding & Co Ltd. Mary O'Kane's research was in the field of automatic speech recognition. She was awarded the Australian Telecommunications and Electronics Research Board (ATERB) Medal in 1990 for her work in this field and a Queensland Science Tall Poppy Award in 2001. She is a Fellow and Vice-President of the Academy of Technological Sciences and Engineering and an Honorary Fellow of Engineers Australia.

David McDonald, Managing Director

David McDonald has extensive experience in commercialising new technologies both within Australia and abroad. He has been an early pioneer of Australian technology into offshore markets including China, India, the Middle East and North America developing unrefined early stage technologies into commercial business propositions. This has required not only strong commercial acumen but also a comprehensive strategy for engaging with international agencies, multi-national organisations and government policies affecting international trade.

David has led KUTh's development initiatives since early 2009 and was a member of the federal government expert panel formed in 2011 to conduct a review of the geothermal industry's progress. A history of international project development, a strong finance background and management experience from start-up through to business maturity are key strengths that David brings to the company.

Justin Clyne, Company Secretary

Justin Clyne was admitted as a Solicitor of the Supreme Court of New South Wales and the High Court of Australia in 1996 before gaining admission as a Barrister in 1998. He had 15 years of experience in the legal profession acting for a number of the country's largest corporations, initially in the areas of corporate and commercial law, before developing an interest in mining investment and research. Since 2006 Justin has dedicated himself full-time to the mining and resources sector and is now the principal of Clyne Corporate Advisory.

Justin is a director and/or secretary of a number of public listed and unlisted companies. He has significant experience and knowledge in international law, the Corporations Act, the ASX Listing Rules and corporate regulatory requirements generally. Justin holds a Master of Laws in International Law from the University of New South Wales and is a qualified Chartered Company Secretary.

Directors' Interests in Shares and Options

Directors' interests in shares and options as at the date of this report are set out in the table below.

Director	Shares directly and indirectly held	Options
Bruce McKay	2,859,225	2,000,000
Stephen Bartrop*	12,724,153	Nil
Paul Broad**	7,301,645	Nil
George Miltenyi	14,689,866	Nil
Mary O'Kane	795,000	Nil
David McDonald	3,639,014	7,500,000

** Resigned 16 July 2013*
*** Resigned 30 May 2013*

Principal Activities

The continuing principal activity of the group during the financial year was to explore and develop areas suitable for geothermal power production.

Results

The net result of operations after applicable income tax expense was a loss of $3,530,789. (Last year: $ 524,680).

In accordance with Accounting Standard *AASB 136 Impairment of Assets* the company has taken the conservative approach to provide for impairment of the Australian exploration expenditures carried in the balance sheet at 30 June 2013. The provision amounts to $3,073,515 being the material difference between year ended 30 June 2013 and 2012 loss comparison.

Dividends

No dividends were paid or proposed during the period.

Review of operations

A review of the operations of the company during the financial period and the results of those operations are contained in the front section of this report.

Corporate structure

KUTh Energy Ltd is a limited company that is incorporated and domiciled in Australia.

Employees

The company had two (2) employees as at 30 June 2013. Due to the nature of exploration the company also engages contract staff and specialist consultants as required.

Diversity

The company has a diversity policy, established in the 2011/2012 year, and in accordance with ASX CGC *Corporate Governance Principles and Best Practice Recommendations,* Recommendation 3.4, has set the following measureable objectives, in order to set a target for greater gender diversity within the board and senior management / executive level:

- one director of the under-represented gender by 2013; and
- at least one director and one senior management position or greater of the under-represented gender by 2016.

Statistics at 30 June 2013 are set out in the following table.

June 2013	Number	Percentage
Women employees in the whole organisation	1	50%
Women in senior executive positions	1	50%
Women on the board	1	20%

Significant changes in state of affairs

The directors are not aware of any significant changes in the state of affairs of the group occurring during the financial period, other than as disclosed in this report.

Matters subsequent to the end of the financial year

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2013 that have significantly affected or may significantly affect:

- the operations of the company;
- the results of those operations; or
- the state of affairs of the company, except as noted below.
- On 29 July, 2013 the company made an announcement to the ASX advising that the government of Vanuatu had released its National Energy Road Map (NERM). The NERM recommends strategies and actions to achieve a transformation of the country's energy sector including a move away from its current dependence on diesel power generation. KUTh's geothermal project is a cornerstone of Vanuatu's national energy policy.
- On 6 August , 2013 the company made an announcement to the ASX advising that it had received notification from the Office of the Public Auditor (OPA) in Saipan concerning two appeals that had been lodged by KUTh.
    - Appeal No 1 related to the Request for Proposal (RFP-048) from Commonwealth Utilities Commission (CUC) that KUTh submitted in 2011 and subsequently was notified that it was successful. CUC issued KUTh with a Letter of Intent to Award Contract in January 2012. RFP-048 was then cancelled by CUC in September 2012 on the basis that the *"specifications which have been revised".* The company immediately lodged an appeal that the CUC did not conduct its negotiations in good faith as per CUC procurement guidelines. The OPA has denied the appeal and the company is considering it's options.
    - Appeal No 2 related to a second RFP (RFP -024) issued for revised specifications and not properly notified to KUTh. The OPA granted KUTh's appeal and has referred the matter to the CUC Procurement and Supply to determine the merits of the protest not inconsistent with the appeal decision.

Further information can be accessed from the Announcements section contained on the company's web site www.kuthenergy.com

Likely developments and expected results

The near term focus for the company is on completing the items necessary to get started with the drilling program in Vanuatu. This will involve finalisation of a Power Purchase Agreement with the utility, the negotiation of acceptable land access and tenure arrangements and structuring the role of donors and/or development bank funding alongside private sector investment.

In Australia we will engage with the Australian Renewable Energy Agency to assess possibilities for government support to an innovative drilling program planned for the company's Tasmanian (Lemont) Inferred Resource target.

Share options

As at the date of this report, there were 12,800,000 unissued ordinary shares under options including 10,300,000 issued to key management personnel (refer to the remuneration report for further details) and 2,500,000 issued to non-employees (Note 14 to the financial statements).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate. There have been no shares issued during or since the end of the financial year as a result of the exercise of options.

Remuneration report – audited

The information in the audited remuneration report is presented in the following sections;

(a) policy used to determine the nature and amount of remuneration;
(b) key management personnel;
(c) details of remuneration;
(d) performance incentives;
(e) cash bonuses;
(f) share-based bonuses;
(g) options and rights granted as remuneration;
(h) equity instruments issued on exercise of remuneration options; and
(i) service contracts.

(A) Policy used to determine the nature and amount of remuneration

The objective of the company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of company objectives and the creation of sustainable value for shareholders. Bearing in mind the early stage exploration nature of the company's activities, the board believes that executive remuneration satisfies the following key criteria:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long-term incentives in line with the company's limited financial resources.

Board and senior management

Fees and payments to the non-executive directors and senior executives reflect the demands which are made on, and the responsibilities of, the directors and the senior management. Such fees and payments are reviewed annually by the board. The executive and non-executive directors, senior executives and officers are entitled to receive options under the company's employee share option scheme.

(B) Key management personnel

The following persons were key management personnel of the KUTh Energy Ltd Group during the financial year:

Name	Position held	
Bruce McKay	Non-Executive Chairman	
Stephen Bartrop	Non-Executive Director	(resigned 16 July 2013)
Paul Broad	Non-Executive Director	(resigned 30 May 2013)
George Miltenyi	Non-Executive Director	
Mary O'Kane	Non-Executive Director	(appointed 9 August 2013)
David McDonald	Managing Director	
Senior executives of the consolidated entity	**Position held**	
Fiona Holgate	Exploration Manager	

(C) Details of remuneration

Directors' and executives' remuneration

Directors are entitled to remuneration out of the funds of the company but the remuneration of the non-executive directors may not exceed in any year the amount fixed by the company in general meeting for that purpose. The aggregate remuneration of the non-executive directors has been fixed at a maximum of $200,000 per annum to be apportioned among the non-executive directors in such a manner as they determine (refer below). Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at board and committee meetings and otherwise in the execution of their duties as directors.

Details of the nature and amount of each element of the remuneration of each of the directors of KUTh Energy Ltd and each of the key management personnel of the company and the consolidated entity who received the highest emoluments during the year ended 30 June 2013 are set out in the following table:

	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share based payments			
	Salary & Consulting fees	Cash bonus	Non-monetary benefits	Superannuation	Long service leave	Termination benefits	Options and shares	Total	Proportion of remuneration that is performance based	% of Value of remuneration that consists of options
2013	$	$	$	$	$	$	$	$	%	%
B McKay	50,000	-	-	-	-	-	11,500(d)	61,500	11	11
S Bartrop (a)	-	-	-	-	-	-	27,500	27,500	-	-
P Broad (b)	-	-	-	-	-	-	28,631	28,631	-	-
G Miltenyi	-	-	-	-	-	-	27,500	27,500	-	-
M O'Kane	-	-	-	-	-	-	22,260	22,260	-	-
D McDonald	112,000 (c)		-	10,080	-	-	14,700(d)	136,780	11	11
Other key management personnel										
F Holgate	69,999	-	-	6,300	-	-	10,165(d)	86,464	12	12
Total key management compensation	231,999			16,380			142,256	390,635		
Other executives										
Nil	-	-	-	-	-	-	-		-	-
TOTAL	**231,999**			**16,380**			**142,256**	**390,635**	**-**	**-**
2012	$	$	$	$	$	$	$	$	%	%
B McKay	50,000	-	-	-	-	-	3,226	53,226	6	6
S Bartrop	-	-	-	-	-	-	17,742	17,742	-	-
J Bishop(f)	-	-	-	-	-	-	17,742	17,742	-	-
P Broad	-	-	-	-	-	-	20,968	20,968	-	-
G Miltenyi	-	-	-	-	-	-	17,742	17,742	-	-
D McDonald	105,608 (c)	-	-	9,505	-	-	58,162 (d)(e)	173,275	33	33
Other key management personnel										
F Holgate	33,239	13,000	-	4,162	-	-	14,465 (d)	64,866	22	22
Total key management compensation	188,847	13,000	-	13,667	-	-	150,047	365,561		
Other executives										
Nil	-	-	-	-	-	-	-	-	-	-
TOTAL	**188,847**	**13,000**	**-**	**13,667**	**-**	**-**	**150,047**	**365,561**	**-**	**-**

(a) Stephen Bartrop resigned 16 July 2013
(b) Paul Broad resigned 30 May 2013, and refunded the unearned value of shares awarded in lieu of director's fees.
(c) In addition to the above, David McDonald is a director of Cintrex Pty Ltd, which provides personnel associated with management, business development, administration and financial/ accounting management for the KUTh group companies. Fees and expenses paid to Cintrex Pty Ltd in year ended 30 June 2013 were $371,961 (2012: $346,577).
(d) Includes options. Refer notes below.
(e) Includes performance incentive of 164,050 shares approved at the 2011 AGM valued at $6,562.
(f) Dr John Bishop resigned 16 May 2012.

Options and shares do not represent cash payments to directors or senior executives and share options granted are subject to the rules and conditions of the Employee Share Option Plan and may or may not be exercised by the directors or executives.

Shares issued to directors are in lieu of directors' fees. There were 4,009,283 shares issued to directors as part remuneration during the financial year to 30 June 2013. An amount equivalent to 91,248 unearned shares for the period 30 May 2013 to 30 June 2013 was repaid by Paul Broad upon resignation. The value of the director shares granted is recognised as an expense in the financial statements.

Fair value of options

The directors have adopted an adjusted Cox Ross Rubenstein (CRR) (or Binomial) option pricing model, to determine the fair value of options issued in accordance with Accounting Standard AASB 2. This option model is considered to be appropriate for KUTh's purposes for the following reasons:

- the options may be exercised at any time during their life (after vesting); and
- the adjusted CRR model allows that "other factors that knowledgeable, willing market participants would consider in setting the price shall also be taken into account".

Some of the factors which the directors have taken into account include:

- Non-transferability of the options.
- The options are unlisted, and therefore there is no market for them.

While it is acknowledged that any adjusted valuation method is subjective, the above factors are considered to have an impact on short/medium term option valuations.

The expense associated with each grant of options is recognised in the accounts of the company as the options vest.

(D) Performance incentives

The board has established annual and longer term incentive principles for the managing director based on shareholder-value-related performance measures:

- annual cash and/or share payment as a percentage of the year-on-year increase in market capitalisation (above a 10% increase threshold);
- annually recurring grants of 1.5 million options with an exercise price 50 % above the share price at the end of the financial year; and
- the board may also establish project-based short term incentives where considered appropriate.

(E) Cash bonuses

There were no cash bonuses paid in the year ended 30 June 2013.

(F) Share-based bonuses

There were no share-based bonuses paid in year ended 30 June 2013.

(G) Options and rights granted as remuneration

The following unlisted options were issued during the year as part remuneration:

- 25 October 2012, to David McDonald, 1,500,000 options vesting 1 January 2013 and expiring 30 September 2015, with an exercise price of 4.2 cents. An expense of $14,700 has been recorded for these options.
- 25 October 2012 to Bruce McKay, 1,000,000 options vesting 1 January 2013 and expiring 31 December 2015, with an exercise price of 10 cents. An expense of $6,500 has been recorded for these options.

Refer to Note 14 of the financial statements for the detail of the option valuation assumptions. The movement in options issued to key management personnel is shown below:

30 June 2013	Balance at 1 July 2012	Granted as compensation	Options exercised	Other changes	Balance at 30 June 2013	Total vested at 30 June 2013	Exercisable at 30 June 2013
B McKay	1,000,000	1,000,000	-	-	2,000,000	2,000,000	2,000,000
D McDonald	6,000,000	1,500,000	-	-	7,500,000	7,500,000	7,500,000
F Holgate	800,000	-	-	-	800,000	800,000	800,000
	7,800,000	**2,500,000**	**-**	**-**	**10,300,000**	**10,300,000**	**10,300,000**
30 June 2012	**Balance at 1 July 2011**	**Granted as compensation**	**Options exercised**	**Other changes**	**Balance at 30 June 2012**	**Total vested at 30 June 2012**	**Exercisable at 30 June 2012**
B McKay	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
D McDonald	3,000,000	3,000,000	-	-	6,000,000	4,500,000	4,500,000
F Holgate	300,000	500,000	-	-	800,000	200,000	200,000
J Randle	1,000,000	-	-	(1,000,000)	-	-	-
	5,300,000	**3,500,000**	**-**	**(1,000,000)**	**7,800,000**	**5,700,000**	**5,700,000**

The terms of the 10,300,000 options issued to key management personnel as at 30 June 2013 are detailed below.

Number of options	Exercise price	Grant Date	Vesting Date	Expiry Date
1,000,000	$0.25	8 January 2009	5 January 2009	5 January 2014
1,000,000	$0.275	8 January 2009	5 January 2010	5 January 2015
1,000,000	$0.30	8 January 2009	5 January 2011	5 January 2016
100,000	$0.30	8 January 2010	31 December 2010	31 December 2015
100,000	$0.30	8 January 2010	31 December 2011	31 December 2016
100,000	$0.30	8 January 2010	31 December 2012	31 December 2017
1,000,000	$0.25	5 October 2010	1 December 2010	30 November 2013
1,500,000	$0.081	31 October 2011	1 July 2011	30 September 2014
1,500,000	$0.095	31 October 2011	1 July 2012	30 September 2014
500,000	$0.10	19 March 2012	1 January 2013	31 December 2015
1,000,000	$0.10	25 October 2012	1 January 2013	31 December 2015
1,500,000	$0.042	25 October 2012	1 January 2013	30 September 2015
10,300,000				

(H) Equity instruments issued on exercise of remuneration options

No equity instruments were issued to directors or key management personnel during the 2012-2013 financial year, as a result of the exercise of options.

(I) Service contracts

Remuneration and other terms of employment for the directors and executives are formalised in Service/Appointment agreements.

All contracts with executives may be terminated early by either party with the stipulated number of months' notice, subject to termination payments as detailed below.

Bruce McKay

An agreement was entered into with Mr McKay on 5 March 2010 to record the terms of his engagement as non-executive chairman of the company. The key terms of this agreement include an annual payment of $50,000 paid in twelve monthly instalments and 1,000,000 unlisted options approved by the company's shareholders at each of the annual general meetings held in 2010 and 2012. Refer to note (A) above for detail of the options issued to Mr McKay. Mr McKay also received shares to the value of $5,000 in lieu of sub-committee fees.

Dr Stephen Bartrop (resigned 16 July 2013)

There is no written contract with Dr Bartrop, who received payments and benefits totalling $27,500 in his role as a director of the company.

Paul Broad (resigned 30 May 2013)

There is no written contract with Mr Broad, who received payments and benefits totalling $28,631 in his role as a director of the company. Mr Broad repaid the unearned amount related to the shares awarded for his services for the period 30 May 2013 to 30 June 2013.

George Miltenyi

There is no written contract with Mr Miltenyi, who received payments and benefits totalling $27,500 in his role as a director of the company.

Mary O'Kane

Mary O'Kane commenced as a director on 9 August 2012. There is no written contract with Prof O'Kane, who received payments and benefits totalling $22,260 in her role as a director of the company.

David McDonald

There is an Executive Service Agreement effective 5 January 2012 between Mr McDonald and KUTh Energy Ltd for a service period of 3 years. The agreement provides the terms of employment for Mr McDonald as managing director of KUTh Energy Ltd. Under this agreement Mr McDonald received payments of $122,080 in remuneration benefits during the year to 30 June 2013. Also, refer note (G) above, for detail of the options issued to Mr McDonald.

Mr McDonald's employment contract may be terminated by the company with 4 months' notice, except in the case of a change in more than 50% ownership of the company, where either party may exercise a 12 month payout or completion of contract term – whichever is the lesser.

In addition to the above, a further sum of $371,961 (2012: $346,577), in fees and expenses, was paid to Cintrex Pty Ltd, a company of which Mr McDonald is a principal shareholder, to provide various business development, management, administration and accounting services to the company throughout the year. Refer Note 16 for details.

The contract agreement between Cintrex Pty Ltd and the company is for a 3 year period commencing on 5 January 2012 and can be terminated without notice by the company if persistent breaches of the contract obligations occur, or if Cintrex Pty Ltd or any of its consultants are charged with a criminal offence. There is also provision whereby Cintrex Pty Ltd or the company can terminate the contract giving 4 months' notice for any other reason, except for a change in more than 50% ownership of the company. In this case, Cintrex Pty Ltd may exercise a 12 month payout or completion of contract term – whichever is the lesser.

Dr Fiona Holgate

There is an Executive Service Agreement signed on 13 November 2008 between Dr Holgate and KUTh Energy Ltd for a service period of 3 years commencing on 19 January 2009 and concluding on 18 January 2012. New terms have been agreed extending the employment arrangements until 18 January 2014. Dr Holgate received payments of $76,299 in remuneration benefits for the year to 30 June 2013. Share options outlined in note (G) above have been issued to Dr Holgate and her employment may be terminated by the company with one month's notice.

Directors' interests

The relevant interest of each director (including their associates) in the share capital of the company as at 30 June 2013 are set out in note 16 to the financial statements.

Options included in directors' and executives' remuneration are valued using the Cox Ross Rubenstein (or binomial) option pricing methodology which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the options, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Share capital and options

A detailed breakdown of the company's capital, including options (unquoted options and employee options) and convertible instruments is contained in notes 13 and 14 to the Financial Statements.

Meetings of directors

Attendance of directors at directors' meetings is shown in the following table:

	Directors' Meetings		Audit Committee	
	Eligible to attend	Number attended	Eligible to attend	Number attended
B McKay	7	7	-	-
S Bartrop	7	6	2	2
P Broad (resigned 30 May 2013)	6	5	2	2
G Miltenyi	7	5	-	-
M O'Kane	6	6	-	-
D McDonald	7	7	-	-

Non-executive directors, Paul Broad (audit committee chairman until 30 May 2013) and Stephen Bartrop (resigned 16 July 2013) were members of the company's audit committee. Following Paul Broad's resignation, the board of directors at their June 2013 meeting decided the audit committee would include all non-executive directors, with Stephen Bartrop (resigned 16 July 2013) as committee chairman. The audit committee reviews the company's financial systems, accounting policies, and half-year and annual financial statements. There were two audit committee meetings during the year. The remuneration committee was dissolved by the board of directors at their June 2013 meeting, and all functions of that committee will now be dealt with by the board.

Share option plan: directors, officers, senior employees and consultants

The company has established the KUTh Energy Ltd Employees and Officers Share Option Plan ("the Plan") to assist in the attraction, retention and motivation of the company's directors, officers, employees and senior consultants. The Plan was reapproved by shareholders at the company's 2012 annual general meeting. Changes made were to comply with current tax and legal requirements.

A summary of the rules of the Plan is as follows:

- all directors, officers, employees and senior consultants (whether full or part-time) will be eligible to participate in the Plan after a qualifying period of 12 months employment by the company or its subsidiaries (or, in the case of a senior consultant, having provided consulting services to the company or its subsidiaries on a continuous basis for at least 12 months), although the board may waive this requirement;
- the allocation of options under the Plan is at the discretion of the board;
- if permitted by the board, options may be issued to a nominee of a director, officer, employee or senior consultant (for example, to a spouse or family company);
- each option allows the option holder to subscribe for one fully paid ordinary share in the company and will expire five years from its date of issue. Options will be issued free. The exercise price of options will be determined by the board subject to a minimum price equal to the market value of the company's shares at the time the board resolves to issue the options. The total number of options issued under the Plan, when aggregated with other options issued under the Plan during the previous five years, must not exceed ten percent of the company's issued share capital at any given time; and
- the board may amend the Plan rules at any time subject to the requirements of the ASX Listing Rules.

Indemnification and insurance of directors and officers

During the financial year, KUTh Energy Ltd paid a premium in respect of a contract insuring directors, secretaries and executive officers of the company and its controlled entities against a liability incurred as director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of its controlled entities against a liability incurred as such an officer or auditor.

Audit and non–audit services

During the financial year, the following fees for audit and non-audit services were paid or payable to the auditor, BDJ Partners, as follows:

	Consolidated 2013 $	Consolidated 2012 $
Audit-related services		
- Audit of regulatory returns	28,500	25,000
Taxation services		
- Tax compliance services	1,200	1,200
Other services		
Advice	-	1,250
	29,700	27,450

On the advice of the audit committee, the directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Environmental performance

The company currently holds exploration licences issued by the Mines Department of Tasmania which specify guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the Mines Department guidelines and standards. There have been no known breaches of the licence conditions.

The company also holds a Production Licence in Vanuatu issued in January 2013 which includes associated environmental guidelines to be followed. The company is not aware of any breaches in its licence conditions and continues to engage with relevant government agencies to ensure ongoing compliance as the development project progresses.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001.*

Government support initiatives

Australia:

In the near term the company is preparing a submission to the Australian Renewable Energy Agency (ARENA) to support an innovative drilling program at the company's Lemont Inferred Resource target. The company will need to wait until government elections are complete to understand what programs survive the election and if/what conditions may apply to these programs. The company will seek to add other collaborating agencies to support its submission.

The company claimed an R & D Tax Incentive of $31,238 (received July 2013) in respect of work undertaken during the year.

Vanuatu:

In July 2013 the government of Vanuatu released its National Energy Road Map (NERM) which clearly identifies geothermal as an important part of the future energy strategy for the country. The NERM identifies the government's desire for concessional funding and/or donor assistance to support various projects identified in the Road Map – including geothermal on Efate. There is no commitment by any agency in this area but the company is in early discussion with various multilateral donors and development banks.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* 2001 is set out and located after the Directors' Declaration and forms part of this report.

This report is made in accordance with a resolution of directors.

David McDonald
Managing Director
Sydney.
9 August 2013

		Consolidated		Parent	
	Note	2013	2012	2013	2012
		$	$	$	$
Revenue	2	32,497	88,965	35,718	88,965
Administration expenses		(61,203)	(54,470)	(51,397)	(38,214)
Audit services	4	(29,700)	(27,450)	(29,700)	(27,450)
Consultant expenses		(140,490)	(91,379)	(140,490)	(91,379)
Depreciation expense		(682)	(204)	(682)	(204)
Directors' fees		(162,086)	(145,865)	(160,891)	(133,981)
Exploration expenditure written-off		(204,543)	(106,670)	-	-
Provision for impairment – exploration assets	9	(3,073,515)	-	-	-
Occupancy expenses		(1,659)	(695)	(1,539)	(695)
Salaries and employee benefits expense		(51,259)	(14,643)	(51,259)	(14,643)
Share and option based payments		(22,356)	(46,250)	(22,356)	(46,250)
Travel and accommodation		(743)	(3,458)	(743)	(1,163)
Business development		(103,903)	(101,720)	(103,903)	(101,720)
Provision for diminution in value – loans		-	-	(2,951,783)	(999,753)
Foreign exchange losses		(8,679)	(1,238)	-	-
Other expenses from ordinary activities		(3,142)	(19,603)	-	-
Loss before income tax		(3,831,463)	(524,680)	(3,479,025)	(1,366,487)
Income tax benefit	3	31,238	-	31,238	-
Loss from continuing operations for the year		(3,800,225)	(524,680)	(3,447,787)	(1,366,487)
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss:					
Foreign exchange translation differences – foreign operations		269,436	-	-	-
Total other comprehensive income		**269,436**	**-**	**-**	**-**
Total comprehensive income (loss) for the year		**(3,530,789)**	**(524,680)**	**(3,447,787)**	**(1,366,487)**
Loss attributable to:					
Members of the parent company		(3,796,751)	(524,680)	(3,447,787)	(1,366,487)
Non-controlling interest		(3,474)	-	-	-
		(3,800,225)	(524,680)	(3,447,787)	(1,366,487)
Total comprehensive income (loss) attributable to:					
Members of the parent company		(3,527,315)	(524,680)	(3,447,787)	(1,366,487)
Non-controlling interest	6	(3,474)	-	-	-
		(3,530,789)	(524,680)	(3,447,787)	(1,366,487)
Earnings per share		(cents)	(cents)	(cents)	(cents)
Basic profit/(loss) per share	15	(3.1693)	(0.5121)	(2.8780)	(1.3336)
Diluted profit/(loss) per share	15	(3.1693)	(0.5121)	(2.8780)	(1.3336)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

Year Ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $	Parent 2013 $	Parent 2012 $
Current assets					
Cash and cash equivalents		775,550	1,406,256	720,294	1,366,377
Trade and other receivables	5	79,271	63,028	59,765	41,982
Total current assets		854,821	1,469,284	780,059	1,408,359
Non-current assets					
Shares in controlled entities	6	-	-	23	23
Tenement security deposits	7	92,000	115,000	-	-
Other security deposits	7	-	50,000	-	50,000
Plant and equipment	8	14,730	14,875	5,013	5,168
Deferred exploration and evaluation expenditure	9	2,610,968	4,852,977	-	-
Loans to controlled entities	10	-	-	2,826,900	5,021,684
Total non-current assets		**2,717,698**	**5,032,852**	**2,831,936**	**5,076,875**
Total assets		**3,572,519**	**6,502,136**	**3,611,995**	**6,485,234**
Current liabilities					
Trade and other payables	11	91,206	118,892	67,360	96,670
Provisions	12	13,934	20,524	13,934	20,524
Total current liabilities		**105,140**	**139,416**	**81,294**	**117,194**
Non-current liabilities					
Provisions	12	4,103	-	4,103	-
Total non-current liabilities		**4,103**	**-**	**4,013**	**-**
Total liabilities		**109,243**	**139,416**	**85,397**	**117,194**
Net assets		**3,463,276**	**6,362,720**	**3,526,598**	**6,368,040**
Equity					
Issued capital	13	10,523,361	9,960,781	10,523,361	9,960,781
Reserves	14	598,195	351,477	328,759	351,477
Accumulated losses		(7,667,256)	(3,949,538)	(7,325,522)	(3,944,218)
Equity attributable to owners of KUTh Energy Ltd		3,454,300	6,362,720	3,526,598	6,368,040
Non-controlling interest	6	8,976	-	-	-
Total equity		**3,463,276**	**6,362,720**	**3,526,598**	**6,368,040**

The above statement of financial position should be read in conjunction with the accompanying notes.

	Note	Consolidated		Parent	
		2013	2012	2013	2012
		$	$	$	$
Cash flows from operating activities					
Payments to suppliers and employees		(477,313)	(504,190)	(431,283)	(486,771)
Other income		-	-	3,250	-
Interest received		43,766	84,485	42,605	83,254
Net cash flows used in operating activities	24	**(433,547)**	**(419,705)**	**(385,428)**	**(403,517)**
Cash flows from investing activities					
Purchase of plant and equipment		(6,662)	(3,250)	(3,976)	(3,250)
Expenditure on energy interests (exploration)		(738,816)	(970,843)	-	-
Security deposits		73,000	20,000	50,000	-
Proceeds from sale of assets		-	-	-	-
Net cash flows used in investing activities		**(672,478)**	**(954,093)**	**46,024**	**(3,250)**
Cash flows from financing activities					
Advances to/loans from controlled entities		-	-	(756,998)	(981,981)
Proceeds from issue of shares		485,515	1,875,415	460,515	1,875,415
Equity raising expenses		(10,196)	(145,657)	(10,196)	(145,657)
Net cash flows from financing activities		**475,319**	**1,729,758**	**(306,679)**	**747,777**
Net increase (decrease) in cash held		**(630,706)**	**355,960**	**(646,083)**	**341,010**
Add opening cash brought forward		1,406,256	1,050,296	1,366,377	1,025,367
Closing cash carried forward	24	**775,550**	**1,406,256**	**720,294**	**1,366,377**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Financial Statements
Statement of Changes in Equity
Year Ended 30 June 2013

	Issued capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated losses	Attributable to the members of KUTh Energy Ltd	Non-controlling interest	Total equity
Consolidated	$	$	$	$	$	$	$
At 1 July 2011	8,147,042	252,452	-	(3,424,858)	4,974,636	-	4,974,636
Loss for the year	-	-	-	(524,680)	(524,680)	-	(524,680)
Contributions of equity, net of transaction costs	1,729,758	-	-	-	1,729,758	-	1,729,758
Share based payments	83,981	99,025	-	-	183,006	-	183,006
At 30 June 2012	9,960,781	351,477	-	(3,949,538)	6,362,720	-	6,362,720
At 1 July 2012	9,960,781	351,477	-	(3,949,538)	6,362,720	-	6,362,720
Loss for year	-	-	-	(3,796,751)	(3,796,751)	(3,474)	(3,800,225)
Other comprehensive income for the year	-	-	269,436	-	269,436	-	269,436
Excess on acquisition by minority interest	-	-	-	12,550	12,550	(12,550)	-
Contributions of equity, net of transaction costs	450,320	-	-	-	450,320	25,000	475,320
Share based payments	112,260	43,765	-	-	156,025	-	156,025
Transfer re expired options	-	(66,483)	-	66,483	-	-	-
At 30 June 2013	10,523,361	328,759	269,436	(7,667,256)	3,454,300	8,976	3,463,276

	Attributable to the members of KUTh Energy Ltd			
	Issued capital	Reserves	Accumulated Losses	Total equity
Parent entity	$	$	$	$
At 1 July 2011	8,147,042	252,452	(2,577,731)	5,821,763
Loss for the year	-		(1,366,487)	(1,366,487)
Contributions of equity, net of transaction costs	1,729,758	-	-	1,729,758
Share based payments	83,981	99,025		183,006
At 30 June 2012	9,960,781	351,477	(3,944,218)	6,368,040
At 1 July 2012	9,960,781	351,477	(3,944,218)	6,368,040
Loss for the year			(3,447,787)	(3,447,787)
Contributions of equity, net of transaction costs	450,320			450,320
Share based payments	112,260	43,765		156,025
Transfer re expired options		(66,483)	66,483	-
At 30 June 2013	**10,523,361**	**328,759**	**(7,325,522)**	**3,526,598**

The above statement of changes in equity should be read in conjunction with the accompanying notes

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The financial report also complies with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Amended Australian Accounting Standards and Interpretations

The group has adopted amended Australian Accounting Standards and AASB interpretations that came into effect during the financial year. None of these amendments had an impact on the financial position or performance of the group.

Australian Accounting Standards and AASB Interpretations that have been issued or amended but are not yet effective have not been adopted by the group for the period ended 30 June 2013. The directors' have assessed the impact of these new or amended standards (to the extent relevant to the company) and have concluded that these standards and interpretations will not impact the amounts recognised in the financial statements.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of KUTh Energy Ltd ("KUTh" or "the company") and its subsidiaries ("the group") as at 30 June 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 the 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 judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on experience and on other factors it believes to be reasonable under the circumstances, the results of which form the bases of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in the future.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

- Classification and valuation of shares in controlled entities – Note 1(E)
- Deferred exploration and evaluation expenditure – Note 1(F)
- Share based payment transactions – Note 1(K)

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

- plant and equipment – 4 years;
- office equipment – 3 years;
- motor vehicle – 8 years; and
- low value assets (pooled) – 4 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(e) Shares in controlled entities

Shares in controlled entities are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, shares in controlled entities, which are all classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income. Fair value is determined by reference to the expected cash flows of the underlying net asset base of the investment.

(f) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an allocated portion of overhead expenditure, to the extent that those costs are directly related to operational activities in the area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current, are brought to account in the year in which they are incurred and carried forward provided that:

- such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

Impairment

The directors assess at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation cost whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off when the above criteria do not apply or when the directors assess that the carrying value may exceed the recoverable amount.

(g) Trade and Other Receivables

Trade receivables, which generally have 5-30 day terms, are recognised and carried at original invoice amount. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(h) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

(i) Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for good and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of these goods and services.

(j) Employee entitlements

Liabilities for wages and salaries are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Where current employee contracts entitle them to annual leave and long service leave or a retention incentive, then an accrual in respect of the unpaid liability has been recognised in the accounts.

(k) Share-based payments

Shares issued to directors in lieu of directors' fees are detailed in the remuneration report contained within the directors' report. Details of options issued are disclosed in the directors' report. The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (a) the extent to which the vesting period has expired and (b) the number of awards that, in the opinion of the directors of the company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

(l) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria have been applied.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(m) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(o) Foreign currency

Both the functional and presentation currency of the company is Australian dollars ($).

Foreign subsidiaries use their local currencies for functional and presentation purposes. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the income statement. On consolidation the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

(p) Comparatives

When required, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
2. Revenue from Ordinary Activities				
Interest received - other persons/ corporations	32,497	88,965	32,468	88,965
Other income	-	-	3,250	-
	32,497	**88,965**	**35,718**	**88,965**

3. Income Tax

A reconciliation between tax expense and the product of accounting profit/(loss) multiplied by the company tax rate of 30% (2012: 30%) is as follows:

Total comprehensive loss for the year before tax	(3,562,027)	(524,680)	(3,479,025)	(1,366,487)
Tax at 30%	(1,068,608)	(157,404)	(1,043,708)	(409,946)
Adjustment for income tax losses not brought to account	1,068,608	157,404	1,043,708	409,946
R & D tax incentive	31,238	-	31,238	-
Income tax benefit	**31,238**	**-**	**31,238**	**-**

As at 30 June 2013 the company has tax losses of $2,830,000 approximately. These tax losses have not been brought to account in calculating any future tax benefit.

The tax benefit of $ 849,000 will only be obtained if:

a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

b) the company continues to comply with the conditions for deductibility imposed by the law; and

c) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses, ie current tax legislation permits carried forward tax losses to be carried forward indefinitely.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$

4. Auditors' Remuneration

Total amounts receivable by the auditors of the company for:				
Audit of the company's accounts	28,500	25,000	28,500	25,000
Other Services	1,200	2,450	1,200	2,450
TOTAL	**29,700**	**27,450**	**29,700**	**27,450**

5. Receivables-Current

R & D tax incentive	31,289	-	31,289	-
Receivable from related entity	-	-	1,782	-
Interest	2,299	13,568	2,299	12,436
Refund for GST paid	14,903	20,227	14,486	19,622
Prepayments	30,780	29,233	9,909	9,924
TOTAL	**79,271**	**63,028**	**59,765**	**41,982**

6. Shares in Controlled Entities

A. 100% controlled subsidiaries

KUTh Exploration Pty Ltd	-	-	3	3
Mineral Ventures Pty Ltd	-	-	10	10
KUTh Pacific Pty Ltd	-	-	10	10
	-	**-**	**23**	**23**

KUTh Pacific Pty Ltd has subsidiaries listed below with their respective percentage ownership:

KUTh Exploration (Fiji) Limited	100%
KUTh Energy (PNG) Ltd	50.2%
KUTh Energy (Vanuatu) Ltd	100%

B. Non-Controlling Interest in KUTh Energy (PNG) Ltd

In December 2012, KULA Energy Pty Ltd (KULA) acquired a 49.8% interest in KUTh Energy (PNG) Ltd, a subsidiary of KUTh Pacific Pty Ltd. The only identifiable asset as at the date of KULA's investment was a cash balance of $25,000. The table below shows the respective interests at the subscription date and KULA's interest at 30 June 2013.

		At 4 December 2012	At 30 June 2013
Total consideration received		$25,000	
Fair value of assets		$25,000	
KUTh interest	50.2%	$12,550	
KULA interest	49.8%	$12,450	$8,976
KULA share of loss for the year			($3,474)

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$

7. Security Deposits

Bank Security Deposit	-	50,000	-	50,000
Tenement security deposits*	92,000	115,000	-	-

* These security deposits guarantee the company's performance in rehabilitating tenements. (Refer Note 20)

8. Plant and Equipment

Plant and equipment - at cost	52,208	45,545	22,754	18,778
Accumulated depreciation	(37,478)	(30,670)	(17,741)	(13,610)
	14,730	**14,875**	**5,013**	**5,168**
Reconciliation of movements in the carrying amount of plant and equipment				
Carrying amount at beginning	14,875	17,156	5,168	4,737
Additions	6,663	3,250	3,976	3,250
Disposals	-	-	-	-
Depreciation expense*	(6,808)	(5,531)	(4,131)	(2,819)
	14,730	**14,875**	**5,013**	**5,168**

* $682 (2012:$204) appears as an expense in the statement of comprehensive income for both the parent and consolidated entities. The remainder of the amounts have been capitalised to deferred exploration and evaluation expenditure.

9. Deferred Exploration and Evaluation Expenditure

Costs brought forward	4,852,977	3,988,803	-	-
Costs incurred during the period	766,352	970,844	-	-
Effect of change in exchange rates	269,697	-	-	-
Expenditure written off during the period	(204,543)	(106,670)	-	-
Provision for impairment*	(3,073,515)	-	-	-
Costs carried forward	**2,610,968**	**4,852,977**	**-**	**-**
Exploration expenditure costs carried forward are made up of:				
Expenditure on non-joint venture areas	2,610,968	4,852,977	-	-
Costs carried forward	**2,610,968**	**4,852,977**	-	-

*In accordance with Accounting Standard *AASB 136 Impairment of Assets* the company has provided for an impairment charge in respect of exploration and evaluation expenditures relating to the Australian tenements. The future value of the Company's inferred resource targets in Tasmania is difficult to estimate and will be largely dependent upon success from within the industry on other geothermal projects and the position taken by government in respect of renewable energy policy (specifically geothermal support initiatives). Both of these areas are sufficiently unclear at 30 June 2013 to make an accurate assessment. The company has therefore taken the prudent decision to provide for impairment of $3,073,515 until more industry and government policy progress is made to allow for a more objective valuation assessment.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$

10. Loans to Controlled Entities

Unsecured loans to controlled entities (interest free)	**-**	**-**	**2,826,900**	**5,021,684**

11. Trade and other payables

Trade creditors	42,849	51,884	40,976	51,076
Accrued expenses	48,357	67,008	26,384	45,594
	91,206	**118,892**	**67,360**	**96,670**

12. Provisions

Staff entitlements - current	13,934	20,524	13,934	20,524
Staff entitlements - non-current	4,103	-	4,103	-

13. Contributed equity

Share capital

145,845,600 (2012: 111,135,300) ordinary shares fully paid	10,523,361	9,960,781	10,523,361	9,960,781

	Date	Number of shares	Issue Price	$
Movements in ordinary share capital				
1 July 2011 to 30 June 2012				
Balance b/fwd	1 Jul 2011	65,421,460		8,147,042
Non-renounceable rights issue	5 Sep 2011	13,468,422	$0.043	579,142
	6 Sep 2011	30,145,885	$0.043	1,296,273
Shares issued in lieu of directors' fees	31 Oct 2011	2,099,533	$0.040	83,981
Share issue costs				(145,657)
Balance as at 30 June 2012		**111,135,300**		**9,960,781**
1 July 2012 to 30 June 2013				
Balance b/fwd	1 Jul 2012	111,135,300		9,960,781
Shares issued in lieu of directors' fees		4,009,283	$0.028	112,260
Non-renounceable rights issue	17 Apr 2013	20,796,218	$0.015	311,943
	1 May 2013	9,904,799	$0.015	148,572
Share issue costs				(10,195)
Balance as at 30 June 2013		**145,845,600**		**10,523,361**

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts of paid up shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company. Option holders have no voting rights until the options are exercised.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
14. Reserves				
Foreign currency translation reserve	269,436	-	-	-
Options reserve	328,759	351,477	328,759	351,477
Total reserves	598,195	351,477	328,759	351,477
Foreign currency translation reserve				
Exchange differences on translation of foreign controlled entities	269,436	-	269,436	-
Options Reserve				
Options reserve- employee related	284,660	253,295	284,660	253,295
Options reserve- non-employee related	44,099	98,182	44,099	98,182
	328,759	**351,477**	**328,759**	**351,477**

	Number	**Weighted average exercise price**
Movements in options		
Balance 1 July 2011	6,133,333	
Options issued	6,000,000	$0.093
Options cancelled	(1,000,000)	
Balance 30 June 2012	**11,133,333**	
Options issued	2,500,000	$0.065
Options lapsed	(833,333)	
Balance 30 June 2013	**12,800,000**	

	Consolidated		Parent	
	2013	2012	2013	2012
Options reserve – employee related	$	$	$	$
Balance brought forward	253,295	185,970	253,295	185,970
Expense transferred to reserve	31,365	67,325	31,365	67,325
	284,660	**253,295**	**284,660**	**253,295**

The company issued 2,500,000 options to employees during 2013 (2012:3,500,000) (Refer to the audited remuneration report for detail).

Options reserve – non-employee related				
Balance brought forward	98,182	66,482	98,182	66,482
Expense transferred to reserve	12,400	31,700	12,400	31,700
Options expired and reserve reduced	(66,483)	-	(66,483)	-
	44,099	**98,182**	**44,099**	**98,182**

The company did not issue any options to non-employees in 2013 (2012: 2,500,000).

Option Pricing Model

The fair value of the options granted by the company has been estimated using an adjusted binomial option pricing model that takes into account the following inputs.

	10 cent options	**4.2 cent options**
Expected volatility	90.970%	92.230%
Risk free interest rate	2.660%	2.660%
Expected life of options	3.18 years	2.93 years
Dividend yield	NIL	NIL
Market price for shares	2.80c	2.80c
Discount factor	30%	30%

At 30 June 2013 there are 2,500,000 unexpired options issued to non-employees as detailed below:

Number of options	**Exercise price**	**Vesting date**	**Expiry date**
1,500,000	$0.095	1 October 2012	30 September 2014
1,000,000	$0.10	1 January 2013	31 December 2015

15. Loss per Share

	Consolidated		**Parent**	
	2013	2012	2013	2012
	$	$	$	$
Net loss attributable to ordinary equity holders of the parent for basic and diluted earnings	**($3,796,751)**	**($524,680)**	**($3,447,787)**	**($1,366,487)**
Weighted average number of ordinary shares on issue used in calculation of basic and diluted loss per share is 119,798,918 (2012: 102,464,524)				
Basic loss per share (cents per share)	(3.1693)	(0.5121)	(2.8780)	(1.3336)
Diluted loss per share (cents per share)	(3.1693)	(0.5121)	(2.8780)	(1.3336)

16. Key Management Personnel Disclosures

Key management personnel compensation				
Short term employee benefits	198,379	165,514	198,379	165,514
Share based payments	26,878	150,047	26,878	150,047
Total for the period	**225,257**	**315,561**	**225,257**	**315,561**

Further information regarding the identity of key management personnel and their compensation can be found in the audited remuneration report contained in the directors' report.

Equity instruments

Options holdings

Details of options held directly, indirectly or beneficially by key management personnel and their related parties are disclosed in the audited remuneration report contained in the directors' report.

Shareholdings

Detail of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

30 June 2013	Balance at 1 July 2012	Granted as compensation	Received on exercise of rights	Other changes	Balance at 30 June 2013	Balance held nominally
B McKay	680,645	178,571	2,000,009	-	2,859,225	2,266,667
S Bartrop	7,075,336	982,142	4,666,675	-	12,724,153	12,515,815
P Broad	3,735,313	1,071,428	2,494,904	-	7,301,645	-
G Miltenyi	6,794,834	982,142	6,912,890	-	14,689,866	14,564,857
M O'Kane	-	795,000	-	-	795,000	-
D McDonald	1,005,654	-	2,433,360	200,000	3,639,014	3,639,014
F Holgate	-	-	-	-	-	-
	19,291,782	**4,009,283**	**18,507,838**	**200,000**	**42,008,903**	**32,986,353**

30 June 2012	Balance at 1 July 2011	Granted as compensation	Received on exercise of rights	Other changes	Balance at 30 June 2012	Balance held nominally
B McKay	300,000	80,645	200,000	100,000	680,645	600,000
S Bartrop	3,859,070	443,548	2,572,718	200,000	7,075,336	6,936,439
J Bishop	3,826,340	443,548	1,803,334	-	6,073,222	5,906,549
P Broad	2,726,671	524,194	484,448	-	3,735,313	2,000,000
G Miltenyi	3,799,565	443,548	2,325,582	226,139	6,794,834	6,655,935
D McDonald	200,000	164,050	133,334	508,270	1,005,654	841,604
F Holgate	-	-	-	-	-	-
	14,711,646	**2,099,533**	**7,519,416**	**1,034,409**	**25,365,004**	**22,940,527**

Loans to key management personnel
There are no loans made by the company to key management personnel or their related parties.

Other transactions and balances

Consulting services
David McDonald is a director of and has a significant financial interest in Cintrex Pty Ltd, a company that provided management, business development, and accounting and administration services to KUTh during the period. Payments for services provided and expenses incurred during the period ended 30 June 2013 amounted to $371,961. This amount includes fees and corporate expenses of $348,000 and additional reimbursable expenses of $23,961.

Services provided by director and key management personnel - related entities were under normal commercial terms and conditions. No other benefits have been received or are receivable by directors, other than those already disclosed in the notes to the accounts.

	Consolidated	Consolidated
Consulting services provided by director and key management associated entities recognised as an expense , or capitalised as part of deferred exploration and evaluation expenditure, during the year	2013 $	2012 $
D McDonald (Cintrex Pty Ltd)	371,961	346,577
	371,961	**346,577**

Aggregate amounts of liabilities at balance date relating to consulting services with directors of the group are as follows:

Current liabilities	**34,244**	**33,354**

17. Related Party Disclosures

The company's main related parties are key management personnel. The directors in office during the period were Bruce McKay, Stephen Bartrop, Paul Broad, George Miltenyi, Mary O'Kane and David McDonald. The other key management personnel member is Fiona Holgate. For detail of disclosures relating to key management personnel, refer to Note 16: Key Management Personnel Disclosures.

18. Joint Ventures

The company is not a party to any joint venture agreements.

19. Segment Information

The company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The company is managed primarily on the basis of geographic areas, and operating segments are determined on the same basis.

Basis of accounting for purposes of reporting by operating segments.

a) **Accounting policies adopted**
Unless otherwise stated, all amounts reported to the board of directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the company.

b) **Inter-segment transactions**
There are no inter-segment sales.
Expenses are allocated to reporting segments where there is a direct correlation between the expense incurred and the operations of the segment. Transfers of expenses between segments are at cost.

c) **Segment assets**
Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

d) **Segment liabilities**
Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables.

(i) Segment performance

	June 2013					June 2012				
	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total
Segment revenue	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Interest revenue	32,468	-	-	29	32,497	88,965	-	-	-	88,965
Other revenue	3,250	-	-	-	3,250	-	-	-	-	-
Total segment revenue	**35,718**	**-**	**-**	**29**	**35,747**	**88,965**	**-**	**-**	**-**	**88,965**
Inter-segment elimination					(3,250)					-
Segment revenue reconciled to total entity revenue					**32,497**					**88,965**
Segment expenses										
Administration expenses	(51,397)	-	-	(13,175)	(64,572)	(38,214)	-	-	(16,256)	(54,470)
Audit services	(29,700)	-	-	-	(29,700)	(27,450)	-	-	-	(27,450)
Consultant expenses	(140,490)	-	-	-	(140,490)	(91,379)	-	-	-	(91,379)
Depreciation expense	(682)	-	-	-	(682)	(204)	-	-	-	(204)
Directors' fees	(160,891)	-	-	(1,195)	(162,086)	(133,981)	-	-	(11,884)	(145,865)
Write off- exploration expenditure	-	(204,543)	-	-	(204,543)	-	(101,861)	(4,809)	-	(106,670)
Provision for impairment – exploration assets	-	(3,073,515)	-	-	(3,073,515)	-	-	-	-	-
Occupancy expenses	(1,539)	-	-	-	(1,539)	(695)	-	-	-	(695)
Salaries and employee benefits expense	(51,259)	-	-	-	(51,259)	(14,643)	-	-	-	(14,643)
Share and option based payments	(22,356)	-	-	-	(22,356)	(46,250)	-	-	-	(46,250)
Travel and accommodation	(743)	-	-	-	(743)	(1,163)	-	-	(2,295)	(3,458)
Business development	(103,903)	-	-	-	(103,903)	(101,720)	-	-	-	(101,720)
Provision for diminution in value – loans	(2,951,783)	-	-	-	(2,951,783)	(999,753)	-	-	-	(999,753)
Other expenses from ordinary activities	-	-	-	(3,142)	(3,142)	-	-	-	(19,603)	(19,603)
Foreign exchange losses	-	-	(7,491)	(1,229)	(8,720)	-	-	-	(1,238)	(1,238)
Total segment losses	**(3,479,025)**	**(3,278,058)**	**(7,491)**	**(18,712)**	**(6,783,286)**	**(1,366,487)**	**(101,861)**	**(4,809)**	**(51,276)**	**(1,524,433)**
Inter-segment elimination					2,951,823					999,753
Segment losses reconciled to entity losses before tax					**(3,831,463)**					**(524,680)**

(ii) Segment assets and liabilities

	June 2013					June 2012				
	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total
	$	$	$	$	$	$	$	$	$	$
Current assets										
Cash and cash equivalents	720,294	25,151	9,848	20,257	775,550	1,366,377	36,797	2,459	623	1,406,256
Receivables	59,765	421	1,039	19,829	81,054	41,982	1,740	872	18,433	63,027
Total current assets	**780,059**	**25,572**	**10,887**	**40,086**	**856,604**	**1,408,359**	**38,537**	**3,331**	**19,056**	**1,469,283**
Non-current assets										
Investments in subsidiaries	23	-	-	-	23	23	-	-	-	23
Tenement security deposits	-	92,000	-	-	92,000	-	115,000	-	-	115,000
Other security deposits	-	-	-	-	-	50,000	-	-	-	50,000
Plant and equipment	5,013	7,516	2,201	-	14,730	5,168	9,707	-	-	14,875
Deferred exploration and evaluation expenditure	-	-	2,610,968	-	2,610,968	-	3,166,643	1,686,334	-	4,852,977
Intercompany loans	2,826,900	-	-	-	2,826,900	5,021,684	-	-	-	5,021,684
Total non-current assets	**2,831,936**	**99,516**	**2,613,169**	**-**	**5,544,621**	**5,076,875**	**3,291,350**	**1,686,334**	**-**	**10,054,559**
Total segment assets	**3,611,995**	**125,088**	**2,624,056**	**40,086**	**6,401,225**	**6,485,234**	**3,329,887**	**1,689,665**	**19,056**	**11,523,842**
Reconciliation of segment assets to group assets:										
Inter-segment elimination					(2,828,706)					(5,021,706)
Total group assets					**3,572,519**					**6,502,136**

	June 2013					June 2012				
	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total	Corporate	Australian operations	Vanuatu operations	Other OS operations	Total
	$	$	$	$	$	$	$	$	$	$
Current liabilities										
Payables and provisions	81,294	54	23,792	1,823	106,963	117,194	-	6,105	16,117	139,416
Total current liabilities	**81,294**	**54**	**23,792**	**1,823**	**106,963**	**117,194**	**-**	**6,105**	**16,117**	**139,416**
Non-current liabilities										
Provisions	4,103	-	-	-	4,103	-	-	-	-	-
Intercompany loans	-	4,101,524	2,634,017	76,063	6,811,604	-	4,028,320	1,709,822	283,295	6,021,437
Total non-current liabilities	**4,103**	**4,101,524**	**2,634,017**	**76,063**	**6,815,707**	**-**	**4,028,320**	**1,709,822**	**283,295**	**6,021,437**
Total segment liabilities	**85,397**	**4,101,578**	**2,657,809**	**77,886**	**6,922,670**	**117,194**	**4,028,320**	**1,715,927**	**299,412**	**6,160,853**
Reconciliation of segment liabilities to group liabilities										
Inter-segment elimination					(6,813,427)					(6,021,437)
Total group liabilities					**109,243**					**139,416**
Additions/(Reductions) to non-current assets										
Non-current assets as at 1 July	5,076,875	3,291,350	1,686,334	-	10,054,559	5,094,216	3,364,062	772,161	-	9,230,439
Additions/(Reductions)	(2,244,939)	(3,191,834)	926,835	-	(4,509,938)	(17,341)	(72,712)	914,173	-	824,120
Balance as at 30 June	**2,831,936**	**99,516**	**2,613,169**	**-**	**5,544,621**	**5,076,875**	**3,291,350**	**1,686,334**	**-**	**10,054,559**
Reconciliation of segment assets to group assets										
Inter-segment elimination					(2,826,923)					(5,021,707)
Total group non-current assets					**2,717,698**					**5,032,852**

20. Contingent Liabilities and Bank Guarantees

The group has provided guarantees totalling $92,000 in respect of exploration tenements, by way of cash deposits. The company does not expect to incur any material liability in respect of the guarantees.

21. Financial Instruments

Interest rate risk exposure

At balance date, the company was exposed to a floating weighted average interest rate as follows:

	Consolidated	Parent
	2013	2013
Weighted average rate of cash balances	3.05%	3.22%
Cash balances	775,550	720,294

Bank term deposits are normally invested for periods between 30 days and 180 days and other cash at bank balances are at call. All other financial assets and liabilities are non-interest bearing.

Net fair value of financial assets and liabilities on balance sheet and credit risk

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the company approximates their carrying value. Credit risk is minimal at balance date.

22. Commitments

Exploration licence expenditure requirements

In order to maintain the company's tenements in good standing with the various mines departments, the company will be required to incur expenditure under the terms of each licence. These expenditure requirements will diminish if the company joint ventures projects with third parties.

	Consolidated	Parent
	2013	2013
	$	$
Payable not later than one year	120,000	-
Payable later than one year but not later than two years	3,000,000	-
Payable later than two years but not later than five years	500,000	-

It is likely that the granting of new licences and changes in licence areas at renewal or expiry will change the expenditure commitment to the company from time to time.

The whole of the commitments above relate to the Tasmanian tenements. The company engages closely with the Tasmanian authorities in terms of programs to be followed and there is awareness at state government level that advancing the tenements is largely dependent upon clear government policy on renewable energy support initiatives being established.

In addition to the above financial commitments, there are a number of commitments associated with the Vanuatu Production Licence:

- Commencement of exploration drilling within 12 months
- Commencement of production drilling within 24 months
- Commencement of construction of an Electricity Generation Plant with a capacity of at least 4MW and surface facilities within 36 months

of the granting of the Production Licence and the signing of a Power Purchase Agreement with the Utility. The Production Licence is subject to cancellation for failure to comply with the above commitments, unless the delays are outside the company's control.

23. Subsequent Events

There were as at the date of this report no matters or circumstances which have arisen since 30 June 2013 that have significantly affected or may significantly affect:

- the operations of the company;
- the results of those operations; or
- the state of the affairs of the company.

24. Statement of Cash Flow

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
(a) Reconciliation of net cash outflow from operating activities to operating loss after income tax				
Operating (loss) after income tax	(3,800,225)	(524,680)	(3,447,787)	(1,366,487)
Depreciation	682	5,530	4,131	2,819
Share/option based payments for services	22,356	99,025	43,765	99,025
Share based payments for directors' fees	112,260	83,981	112,260	83,981
Exploration expenditure written off	204,543	106,670	-	-
Provision for diminution in value – exploration assets	3,073,515	-	-	-
Provision for diminution in value – loans	-	-	2,951,783	999,753
Change in assets and liabilities:				
(Increase)/decrease in receivables	(18,026)	30,713	(17,783)	15,313
(Decrease)/increase in trade and other creditors	(28,347)	(220,944)	(31,797)	(237,921)
Exchange variation	(305)	-	-	-
Net cash outflow from operating activities	**(433,547)**	**(419,705)**	**(385,428)**	**(403,517)**
(b) Cash and cash equivalents				
Bank deposits and cash on hand	175,550	206,256	120,294	166,377
Term deposits	600,000	1,200,000	600,000	1,200,000
	775,550	**1,406,256**	**720,294**	**1,366,377**

25. Corporate Information

The financial report of the group for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 9 August 2013.

KUTh Energy Ltd is a company limited by shares and incorporated in Australia. Its shares are publicly traded on the Australian Securities Exchange under the ticker code "KEN".

26. Financial Risk Management Objectives and Policies

The consolidated entity's principal financial instruments comprise cash, short-term deposits and available-for-sale investments.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the consolidated entity's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the consolidated entity's financial instruments are foreign exchange risk and cash flow interest rate risk. Other minor risks are summarised below. The board reviews and agrees policies for managing each of these risks

(a) Foreign exchange risk

The consolidated entity's exposure to the risk of changes in the value of the Australian dollar relates primarily to the consolidated entity's project in Vanuatu, the currency of which is the vatu. Exposures to movements in the PNG kina and Fiji dollar are not material.

	Consolidated	
	2013	2012
	$	$
Carrying value of assets that had vatu as their functional currency	2,634,017	1,709,822

The consolidated entity has not entered into any hedging activities to cover foreign exchange risk.

(b) Cash flow interest rate risk

The consolidated entity's exposure to the risks of changes in market interest rates, relates primarily to the consolidated entity's short-term deposits with a floating interest rate. These financial assets with variable rates expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk.

The following table set out the carrying amount of the consolidated entity's and parent entity's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Cash and cash equivalents	745,294	1,403,170	720,294	1,366,373
Weighted average interest rate	3.01%	4.79%	3.22%	5.02%

As at 30 June 2013, if interest rates had been 10% lower or higher, with all variables held constant, the effect on equity and profit after tax would have been as follows:

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Profit after tax				
-10%	(2,337)	(6,741)	(2,330)	(6,712)
+10%	2,337	6,741	2,330	6,712
Equity				
-10%	(2,337)	(6,741)	(2,330)	(6,712)
+10%	2,337	6,741	2,330	6,712

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short-term and long-term Australian dollar interest rates. A 10% sensitivity would move short-term interest rates at 30 June 2013 from around 3.55% to 2.75% representing an 80 basis points shift.

The consolidated entity has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

(a) Price risk

The consolidated entity is not currently exposed to equity securities price risk. There are no investments held and classified on the balance sheet as available-for-sale.

(b) Liquidity risk

The consolidated entity manages liquidity risk by maintaining sufficient cash reserves and marketable securities, and through the continuous monitoring of budgeted and actual cash flows.

(c) Commodity price risk

The consolidated entity is not exposed to commodity price risk.

(d) Credit risk

Exposure to credit risk relates to potential non-performance by counter parties of contract obligations that could lead to a financial loss to the company. The company has limited exposure to credit risk, having few debtors.

(g) Net fair values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are traded on organised markets in standardised form. The consolidated entity has no financial assets where carrying amount exceeds net fair values at balance date.

The consolidated entity's receivables at balance date are detailed in Note 5 and comprise primarily accrued interest receivable and GST input tax credits refundable by the ATO, and prepayments.

The credit risk on financial assets of the economic entity which have been recognised in the statement of financial position is generally the carrying amount.

27. Going Concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The group's cash assets of $775,550 appear insufficient to meet the company's project development and normal administrative expenses in the twelve months following the date of this report.

To address this issue the Directors are investigating options to raise additional funds for working capital to allow the company to pursue its project opportunities and meet its debts as and when they fall due. These options include raising project funding through its Vanuatu subsidiary company to meet the capital requirements of the Vanuatu project.

In addition, the directors are investigating options to reduce the cash burn of the business in the event that key milestones are delayed.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 34 to 56, are in accordance with the *Corporations Act 2001* and:

    a. comply with accounting standards, which, as stated in accounting policy Note 1, to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the company and consolidated group;

2. the chief executive officer and chief finance officer have each declared that:

    a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001;*

    b. the financial statements and notes for the financial year comply with Accounting Standards; and

    c. the financial statements and notes for the financial year give a true and fair view; and

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.

David McDonald

Managing Director

Dated this 9th day of August, 2013

Sydney

Auditor's Independence Statement

bdjpartners audit pty limited
ACN:154 694 925
CHARTERED ACCOUNTANTS

directors
C H Barnes FCA
A J Dowell CA
S Dadich CA

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Auditor's Independence Declaration

To the directors of KUTh Energy Limited

As lead auditor for the audit of KUTh Energy Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

BDJ Partners Audit Pty Limited

……………………………………………..

Steven Dadich
Director
8 August 2013

Independent Auditor's Report

bdjpartners audit pty limited

ACN 134 694 925

CHARTERED ACCOUNTANTS

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To the members of KUTh Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of KUTh Energy Limited, which comprises the statements of financial position as at 30 June 2013, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards. Auditor's Responsibility Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Independent Auditor's Report *Continued*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of KUTh Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of KUTh Energy Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Going Concern

Without modifying our opinion, we draw attention to Note 27 "Going Concern" which states that the Directors are investigating options to both raise additional funds for working capital and reduce the working capital requirements of the business. Should all of these measures be unsuccessful, it would indicate a material uncertainty which may cast doubt about the consolidated entity's ability to continue as a going concern and the consolidated entity's ability to pay its debts as and when they fall due.

Our opinion is not qualified in respect of this matter.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of KUTh Energy Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDJ Partners Audit Pty Limited

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Steven Dadich
Director

12 August 2013

Shareholder's Information

Information relating to shareholders at 7 August 2013 (per ASX Listing Rule 4.10)

Substantial shareholders		
Shareholder	Shares	%
George Miltenyi and associates	14,689,866	10.07
John Bishop and associates	13,215,984	9.06
Stephen Bartrop and associates	12,724,153	8.72
Bluestar Management	7,950,000	5.45
Paul Anthony Broad	7,301,645	5.00
TOTAL SUBSTANTIAL SHAREHOLDERS	55,881,648	38.32

Distribution of Shareholders			
Number of ordinary shares held	Number of holders	Total Units	%
1-1,000	14	2,688	0.002
1,001-5,000	76	272,568	0.187
5,001-10,000	88	728,039	0.499
10,000 -100,000	251	8,734,100	5.989
100,001 +	125	136,108,205	93.323
TOTAL SHARES	554	145,845,600	100.000

There are 331 shareholders who hold less than a marketable parcel of 35,714 shares, at the market price of $0.014 on 7 August 2013.

Top 20 Shareholders of Ordinary shares as at 7 August 2013		
Shareholder	Number held	%
BULLOCK POINT PTY LTD <BISHOP FAMILY SUPER FUND A/C>	12,957,979	8.885
MILTOUT PTY LIMITED	10,122,643	6.941
BLUESTAR MANAGEMENT PTY LTD <SUPER FUND A/C>	7,950,000	5.451
MR PAUL ANTHONY BROAD	7,301,645	5.006
TROPPO RESOURCES PTY LTD	7,037,934	4.826
CLODENE PTY LTD	6,705,480	4.598
NUTSVILLE PTY LTD <INDUSTRIAL ELECTRIC S/F A/C>	4,563,348	3.129
PATHOLD NO 107 PTY LIMITED <EMD GROUP S/F A/C>	4,442,214	3.046
MR NEIL KENNETH WATSON & MS MARGARET HELEN MORONEY <ROSSDALE SUPER FUND A/C>	4,440,348	3.045
D MCDONALD INVESTMENTS PTY LTD <MCDONALD SUPER FUND NO 1 A/C>	3,639,014	2.495
DR ROGER JAMES GOLLAN LEWIS & MRS AMELIA BARBARA LEWIS <LEWIS FAMILY A/C>	2,810,765	1.927
MR STEPHEN BRUCE BARTROP & MS KERRYN WENDY CHISHOLM <FUND ON THE BEACH S/F A/C>	2,750,999	1.886
PAGODA ENTERPRISES PTY LTD <NABEV SUPER FUND A/C>	2,276,345	1.561
MR BRUCE MCKAY & MRS LYNDA MCKAY <MCKAY FAMILY S/F A/C>	2,266,667	1.554
A930 PTY LTD	2,166,667	1.486
MR STEPHEN BRUCE BARTROP & MS KERRYN WENDY CHISHOLM <FUND ON THE BEACH S/F A/C>	2,138,536	1.466
DISKDEW PTY LTD	2,000,000	1.371
MINING ADVISORY PTY LTD <M WARD SUPER FUND A/C>	1,700,000	1.166
MR RUSSELL LINDSAY KING & MRS TERESA ELIZABETH KING <KING SUPER FUND A/C>	1,694,265	1.162
MCKELL PLACE NOMINEES PTY LTD	1,621,730	1.112
Subtotal	90,586,579	62.111
Total issued shares	**145,845,600**	

Shareholder's Information

Option holders at 7 August 2013	Options	% Options issued
McDonald Family Trust	7,500,000	58.6
Bruce McKay	2,000,000	15.6
Exertus Capital Pty Ltd	1,500,000	11.7
Leura Capital Pty Ltd	1,000,000	7.8
Fiona Holgate	800,000	6.3
TOTAL OPTIONS	12,800,000	100.00

Employee share option plan

At a directors' meeting held in May 2007, the board approved the adoption of the company's Employee Share Option Plan, (ESOP). An amended version of the Plan, updated to comply with current applicable taxation laws, was approved by shareholders at the 2012 Annual General Meeting.

Further detail in relation to options issued under the Plan is in Note 14 and in the audited remuneration report contained in the directors' report.

Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Audit committee

At the date of the Report of the Directors, the company has a committee of all non-executive directors which meets with the company's external auditors at least once during each half-year. These meetings take place prior to the finalisation of the half-year financial statements and Annual Report and prior to the signing of the Audit Report.

Statement under ASX listing rule 4.10.19

From the date of admission of the company's shares on ASX (20 September 2007) to the date of this Annual Report, the company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

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