



## **ANNUAL GENERAL MEETING**

### **CHAIRMAN'S COMMENTS**

**25 October 2011**

Before we move to the formal business of the meeting, let me share a few comments regarding your company, its activities and its people.

The geothermal sector in Australia remains very challenging for all participants: while there continues to be significant potential on this hot continent for Enhanced Geothermal Systems, there is yet to be a proven project proceeding to development. The capital requirements for confirmation and appraisal are significant and beyond most company's current means. While we remain firm in our belief that KUTH is well positioned and our Tasmanian prospects are certainly worth pursuing, we are similarly firm that it is not prudent to bet the entire company on its Australian assets.

The political developments and the carbon tax are interesting and welcomed but they do not provide sufficient impetus to stimulate the necessary funding for full scale drilling programs. Nevertheless Lemont and Fingal are "drill ready" and KUTH is prepared to consider partner development to pursue these targets whose attraction is enhanced by their location close to a major transmission grid.

David McDonald will make a presentation at the conclusion of the meeting which will include further details on Tasmania but during the year we have made several announcements which support our enthusiasm for these prospects: specifically data from the 2010 MT survey continues to provide corroborative evidence to support the interpretation of the Tamar Conductivity Zone as a major crustal fracture zone that is host to hot fluids at depth. Also results from our most recent gravity survey are encouraging. The older data indicated that while granite was expected at drillable depths (less than 5km) in part of the resource area the granite was deeper in other parts. Preliminary interpretation using the new data, derived from two dimensional (2D) modelling, revises the topography on the top of the granite bringing significantly larger areas of granite within drillable depth.

Given the reality of the domestic environment, our primary focus has shifted to where we believe there is an earlier opportunity to deliver meaningful returns to our shareholders. At last year's AGM, we announced the Vanuatu Inferred Resource assessment by consultants SKM and indicated our keen interest in progressing a diesel replacement project on the island. During the year while we have advised that we are moving forward, we have been held up by a couple of processes:

- firstly, arbitration hearing delays between the Vanuatu energy regulator and the utility; and
- secondly, the World Bank study commissioned by the Vanuatu government to look at future energy demands including geothermal integration and distribution transmission issues.

I am pleased to report that both these items are now complete and detailed discussions and negotiations are once again underway.

- We have re-engaged with the local utility UNELCO on a power off-take agreement.
- We continue to work towards development bank funding, with positive discussions with the European Investment Bank
- Preliminary well design and draft drilling contracts have been prepared. Several rig options have been identified and contract negotiations have been initiated.
- Constructive relationships with local landowners and the Government of Vanuatu have been established – the latter is especially significant since we have been promised support from senior ministers to expedite the required processes

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- Accordingly strong investment interest has been aroused in the project and we have had preliminary discussions with potential joint venture partners.
- The next steps are to finalise tariff and power off-take arrangements, secure funding and proceed to drill.

We are genuinely excited by this project but we are also on the watch for other opportunities for our portfolio, especially similar situations where there is potential in isolated locations to replace diesel-fired electricity generation with geothermal power.

While it has been a challenging year in Australia and the delays in Vanuatu have been at times frustrating, I must commend the commitment and contribution of the KUTh people: my fellow directors, our small but dedicated group of staff and consultants and especially our Managing Director, David McDonald. It was appropriate recognition that in November last year David was appointed Chairman of the Australian Geothermal Energy Association in which role he has displayed significant leadership and established respect and credibility in representations with Government ministers, departments and agencies.

We strive to operate with high levels of technical competence and commercial acumen and David leads by example. We also pride ourselves on prudent cash management and we completed a successful capital raising in August and I thank all those shareholders who demonstrated their support for our ongoing work. Since several items on the agenda for this meeting deal with remuneration, let me just say that our remuneration policies and practices are consciously consistent with that prudent approach while appropriately recognising the value of adequately rewarding and incentivising the contribution of directors and especially the MD to deliver outcomes for the benefit of shareholders.

Bruce McKay  
**Chairman**