QUARTERLY ACTIVITIES REPORT

Period ended 31 December 2011

HIGHLIGHTS

- Tasmania: Special Exploration Licence 26/2005 renewed for a second five-year term
- Fiji: Japanese government report shows promising signs for KUTH geothermal application sites.
- PNG: MOU signed for collaboration on geothermal exploration licences.
- Team strengthening: addition of Jim Lawless (Advisory), Tim Hewatt (Vanuatu Representative) and Hagen Hole (Consulting Drilling Engineer).

Summary

In Tasmania we were pleased to receive notification of the renewal of our main licence area SEL 26/2005 for a further five-year period. The area of the renewed licence comprises 7570 km² and includes the highly prospective Lemont and Fingal Inferred Geothermal Resources, previously identified by KUTH’s exploratory work. Securing this exclusive tenure will enable KUTH to undertake deep exploration activities to further assess these prospective areas and their potential for geothermal energy generation in eastern Tasmania.

The Pacific Region has seen encouraging activity during the December quarter with the following key initiatives:

Vanuatu – extension of the Takara exploration licence until 1 October 2013 compensates the company for time lost during the period in which the World Bank report titled “Vanuatu: Efate Geothermal Power and Island - Ring grid Development Framework” was undertaken. This extension allows the company to conduct an orderly exploration drilling program and secure various approvals within the allotted exploration timetable.

Fiji – the completion of the Japanese government report titled “Study on Infrastructure Improvement of Power Generation in Viti Levu Island, the Republic of the Fiji Islands” has provided insight to geothermal opportunities in and around the areas under application by KUTH. The report will assist better targeting of potential resources and has also allowed the company to design its exploration programs to build on the work done by the Japanese exploration teams. The Fiji government has now asked KUTH to submit revised exploration programs to be considered for licence processing.

Papua New Guinea – The company has entered into an agreement with KULA Energy to collaborate on the securing of the outstanding KUTH Energy (PNG) Ltd geothermal licence applications. This cooperation allows KUTH to allocate its limited resources to existing and new projects being investigated and at the same time leverage the skills of other parties to put the time and capital into negotiations with government, landowners and market off-takers.
Australia

Tasmania

The company was pleased to receive notification of the renewal of our main licence area SEL 26/2005 for a further five-year period. The area of the renewed licence comprises 7570 km² and includes the highly prospective Lemont and Fingal Inferred Geothermal Resources, previously identified by KUTh’s exploratory work (see figure, left). Securing the exclusive long-term rights to this licence will enable the company to undertake deep exploration activities to further assess these prospective areas and their potential for geothermal energy generation in eastern Tasmania.

Throughout the quarter we continued our work investigating the options available for the deep drilling at Lemont and Fingal. Meetings held in New Zealand in December 2011 with our recently appointed advisors Jim Lawless and Hagan Hole provided an extremely productive review of drilling strategies and rigs that may be applicable to these unique target areas.

Following on from that review we will continue to investigate options for the Tasmanian projects in order to find the best available combination of cost and project risk-mitigation.

Left: Location map of KUTh’s Tasmanian exploration tenure. Licence areas (labelled) are outlined in blue; Inferred resource areas are shown in red.

Queensland

There has been no additional exploration on the Jackin Creek tenement in nth Queensland and we still await the final decision of the state government on the application lodged for the Epsilon licence area located in the south west of the state.

Pacific Region

Vanuatu

Exploration Licence extended

During November the company met with officials from the Ministry of Lands and Energy and the Vanuatu Climate Change committee to seek extension of the licencing terms for the development of the geothermal targets located in Takara, North Efate (see figure below). The development of geothermal energy on the island was recognised by the Minister for Lands and Energy as a project of national interest and that it would be facilitated by the National Advisory Committee for Climate Change. The Minister noted the delays that have occurred to KUTh as a result of the government commissioned World Bank energy study in 2010 and agreed to an extension of 17 months to KUTh’s Takara Exploration Licence revising the expiry date from 1 April 2012 to 1 October 2013.
World Bank Energy Study Report
The World Bank has now finished its final report but this will not be released until it has been formally delivered to the Vanuatu government. KUTH management have been in dialogue with the consultants who prepared the report and with World Bank officials who are looking at various ways that donor funding can be used to support the development of geothermal in Vanuatu. The company met with the World Bank on 22 December to go through the project implementation plan and have been advised that release of the final report is imminent. With the study now complete, government planning can now proceed for the development of the project and active engagement between the company, government and the utility is taking place to complete the necessary documentation to move the project forward.

Implementation progress
The company announced in December that it has appointed Tim Hewatt as its representative in Port Vila. Tim has experience in the power sector in Vanuatu which will be important as we move forward with the development. His appointment will provide greater in-country coordination and emphasis especially focussing on local issues that need to be addressed in order to drive the project forward. To this end the company is currently engaged in the following key areas:
Land lease discussions underway
In early January 2012 the company held meetings in Vanuatu to proceed through the next stage of land procurement for the geothermal project. Close cooperation between the company, the Minister for Lands, Geology, Mines and Energy, Hon. Stephen Kalsakau, his department heads and the local community at Takara, plays a critical role in keeping stakeholders aware of the project progress. With visits to Takara in December and January, the Minister has taken a positive and proactive stance in communicating with the community and initiating long term land lease discussions. This will help to avoid delays as the project undertakes drilling programs planned for the second half of the year.

Members of the government Energy Unit, Geology and Mines Department, Environmental Planning director and KUTh management accompanied the Minister to discuss with landowners the process being followed to facilitate the introduction of KUTh geothermal energy to Vanuatu.

- Power Purchase Agreement negotiations;
- Regulatory approvals for tariff formulation;
- Land survey and lease arrangements;
- Community consultations;
- Rig evaluation and drill contract preparation.

Left: Community Consultation – an important part of the Efate project implementation

Top Left: Minster Stephen Kalsakau, KUTh management, Energy Unit staff, Environment director and the Climate Change committee on 12 January discussing land areas for geothermal project.

Above and left: Minister addressing landowners in Takara (Jan 12th) on proposed land lease arrangements - a follow-up to his previous visit in December.
Fiji

The Fiji Mineral Resources Department has provided the company with data from the report sponsored by the government of Japan and titled *Study on Infrastructure Improvement of Power Generation in Viti Levu Island, the Republic of the Fiji Islands*. This report included preliminary exploration works on or near to some of KUTh’s licence application areas.

With the benefit of the Japanese study, the company has been asked to submit its exploration programs to progress its licence applications in Sabeto and Vatukoula. These programs will be lodged in January 2012. Initial indications provide some evidence of direct use potential from the Sabeto tenement area and encouraging signs of potential for electricity generation in the vicinity of the company’s Vatukoula tenement (see figure, below).

In view of the market potential for direct use applications in the nearby Nadi airport, hotels and general commercial precinct at Sabeto and the power off-take possibilities for the nearby Emperor Gold Mine at Vatukoula, the company feels that these prospects warrant further exploration and commercial evaluation.

![Location map of KUTh tenement applications in Fiji](chart)

Papua New Guinea (PNG)

The company announced on 11 January 2012 that it has entered into an agreement with KULA Energy to collaborate for the securing of the PNG tenement areas under application by KUTH Energy (PNG) Limited (KPNG). The key components of the Memorandum of Understanding reached with KULA include:

1. KULA will invest its own equity and human resources in a bid to accelerate the securing of the exploration licences over the application areas lodged by KPNG.
2. KULA will have an initial period of 12 months, ending 31 December 2012, to secure one or more of the KPNG licence applications (one of which must be Talasea). In return it will earn a 49.8% share in KPNG if this condition is met.
3. If KULA does not meet the conditions of securing the licences noted in point 2, they may seek an extension of the time (at KPNG discretion to award) or alternatively KULA may exercise an option to buy all KUTh shares held in KPNG for $502,000.

The board considers that at this point in the company’s development, capital funding and human resource allocation is a key priority and the expansion of the project portfolio will be better served by alignment and association with collaborators that bring expertise and support funding to move potential projects to the next stage. The principals of KULA bring significant mining and geological experience. Julian Malnic’s recent PNG exposure with Nautilus Minerals Inc. and Direct Nickel will provide better linkages to secure the tenement areas under application by KPNG.
General and Corporate Activities

Annual General Meeting (AGM)
The company held its AGM in Sydney on Tuesday 25 October 2011 and we were pleased to see familiar faces assembled with new shareholders who joined the register as a result of the underwritten rights issue we undertook in the September 2011 quarter. The directors appreciate the opportunity to engage with our shareholders and to address their questions during and after the presentation made by the managing director. Full details of the Annual General Meeting resolutions and the presentation are published on the company’s web site.

Managing Director contract renewal
The board approved the renewal of the managing director employment terms for a further 3 years commencing 5 January 2012. Terms of engagement were substantially similar to the existing contract with an adjustment recognised for inflationary impacts since the initial contract was agreed in 2008.

Strengthening the team
The company announced in December 2011 that it had appointed Jim Lawless to the team in the role of Adviser International Projects. Jim has more than 30 years of international geothermal experience and has extensive connections throughout the geothermal development chain. He will play an important role as we scale up activities in various projects, with his immediate focus on implementation aspects of the KUTh Vanuatu project especially the important next stage drilling program.

The company has also appointed experienced drilling engineer Hagen Hole to coordinate upcoming drilling programs. In December, the managing director and Fiona Holgate spent time with Jim Lawless and Hagen Hole in New Zealand to review drilling strategies and rigs that may be applicable to KUTh’s Australian and Vanuatu projects. This was followed by visits to geothermal power plants to review binary plant options and establish relationships with potential technical service support contractors.

Australian Geothermal Energy Association (AGEA) - Chair role
At the AGM of AGEA held in November 2011 the company’s managing director, David McDonald was re-elected to the position of chair of the association. David has since made the decision that, due to the expected escalation in KUTh project activity for 2012, he will be unable to dedicate the time needed to make a fair contribution to the AGEA agenda. Consequently he has decided to step back and has resigned as chair.
Cash holdings

At 31 December 2011 the company’s cash holdings stood at $2,020,000.

David McDonald
Managing Director
Ph: +61 2 9238 6865

Corporate information

Board of directors
Bruce McKay (non-executive chairman)
Dr Stephen Bartrop (non-executive director)
Dr John Bishop (non-executive director)
Paul Broad (non-executive director)
George Miltenyi (non-executive director)
David McDonald (managing director)

Company secretary
Justin Clyne

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Website: www.registries.com.au

Stock exchange listing
Ordinary shares ASX code: KEN

Issued share capital
At 31 December 2011, issued capital was:
111,135,300 ordinary shares
9,633,333 unlisted options

Substantial shareholders
Victoria & Joe Bishop 6.63%
Clodene Pty Ltd 6.14%
Stephen Bartrop 6.19%
George Miltenyi 5.91%
John Bishop 5.46%

Quarterly price activity
KEN – ordinary shares
High: $0.045
Low: $0.039
Last (31.12.11): $0.042