



21 January 2009

ASX ANNOUNCEMENT

Application for \$7 million Drilling Grant accepted by Australian Government

Panax Geothermal Ltd ("Panax") is pleased to announce that it has been advised that its application under the Geothermal Drilling Programme ("GDP") for a grant of \$7 million for drilling Salamander 1 in the advanced Penola Project, part of the Limestone Coast Geothermal Project in South Australia meets all of the required criteria. Panax's application will now proceed to a full merit assessment.

Two of the key criteria to be met by applicants under the GDP program relate to:

- Ability to demonstrate the existence of an "Inferred Geothermal Resource" in the project area (please refer to an ASX announcement released earlier today); and
- Access to a suitable drilling rig.

Panax has secured a firm drilling slot with Weatherford Drilling International (Australia) Pty Ltd ("WDI"). A deposit of approximately AUD\$500,000 (part of a binding Heads of Agreement with WDI and a formal Drilling Contract) has been paid to secure a drilling slot in mid-2009. Panax has the option to drill a second well within an 18 month period of completion of its first well.

Key Attributes of the Penola Project

The Limestone Coast Geothermal Project targets hot sedimentary aquifers ("HSA") (also known as buried deep sedimentary basins) in four sub-basins or troughs in the Otway Basin in South Australia. The Penola Trough in GEL 223 has been selected for drill testing as this trough has an extensive geological/ geophysical data base, (a legacy of previous petroleum exploration) comprising:

- Full geological and geophysical logs of 20 deep petroleum wells drilled in the licence area; and
- 400 km² of 3D and 1,000 km² of 2D seismic surveys completed over the licence area;

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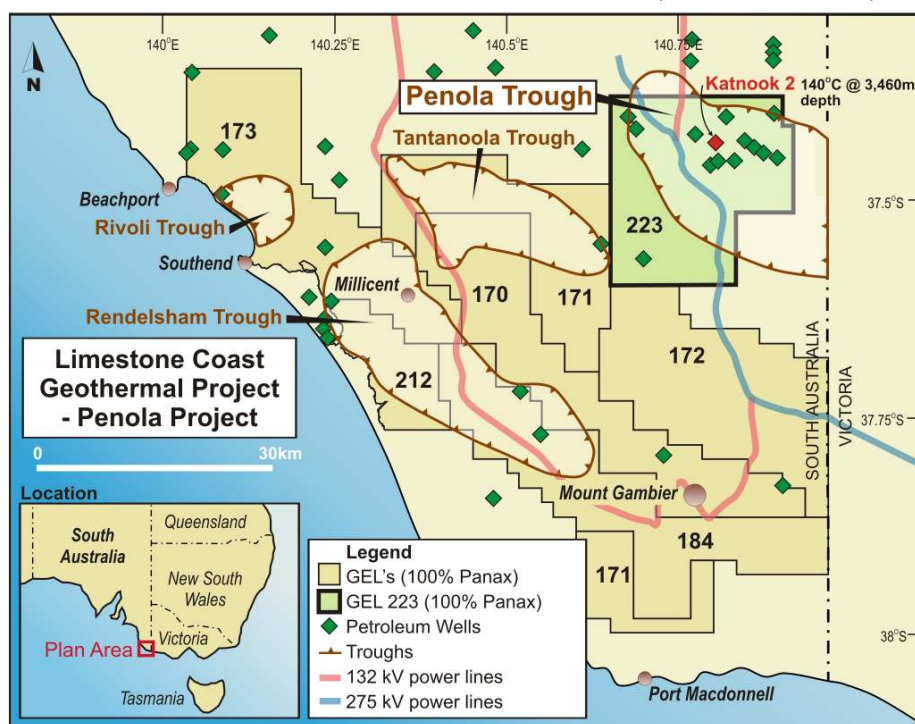
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As a consequence, the geothermal temperatures and the characteristics of the productive geothermal reservoir (or sedimentary aquifer) are already established, thereby eliminating most of the exploration risks usually associated with projects of this nature.

The above provides Panax with the unique opportunity to drill a production well rather than an exploration well, highlighting the advanced status of this project. Following a successful outcome of planned production tests, Salamander 1 is scheduled to become part of a 5-10 MWe grid-connected commercial geothermal power plant scheduled for 2011.

The Penola Project has excellent access to infrastructure, with the main NEMMCO grid traversing the Project Area.

Panax's Limestone Coast Geothermal Project totalling 3127 km²
 Note the location of the National Transmission Grid (red and blue lines)



The Penola Project is located in GEL223

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