



TM

EARTH

Quarter Ending 30 June 2009

POWERED



PANAX GEOTHERMAL

#### DIRECTORS

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Dr Bertus de Graaf (Managing Director and Chief Executive Officer)  
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Australian Stock Exchange  
Ordinary Shares – “PAX”

## HIGHLIGHTS

- Panax was awarded a \$7 million Government grant;
- An underwritten rights issue and placement, raising \$9.3 million, was completed;
- Panax announced a “Measured Geothermal Resource” of 11,000 PJ for the Tirrawarra Project in the Cooper Basin;
- Preparation of an application for a \$7 million grant from the 2nd round of the GDP is in progress;
- Applications for two grants for projects in Kyrgyz Republic and Tajikistan submitted to Geofund of World Bank;
- Site civil works for the Salamander-1 well commenced;
- The 2,000 hp “Lightning Rig 828” is expected to spud the Salamander-1 well in late September / early October;
- Panax’s shareholder base totals approximately 1,500, nearly double that of a year ago.

## OVERVIEW

The focus of activities during the quarter was directed towards:

- Strengthening Panax’s balance sheet;
- Advancing the search for a Joint Venture Partner for the Penola Project;
- Geothermal Resource Assessment of one of Panax’s Cooper Basin tenements - Tirrawarra;
- Preparations for drilling the production well Salamander-1.

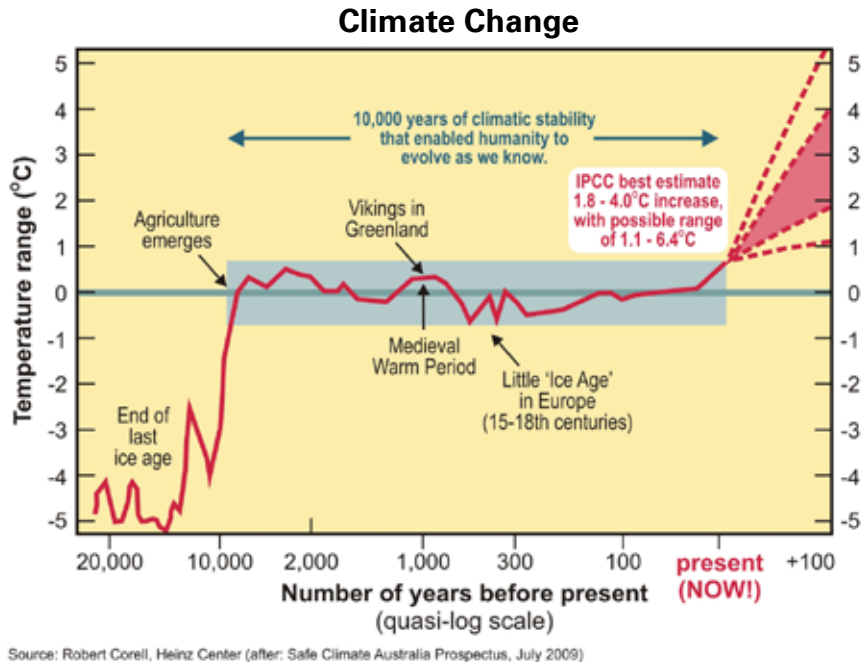
In addition, progress was made with the exploration projects in Kyrgyz Republic and Slovakia.

Following the allocation of a \$7 million grant from the Commonwealth Government’s Geothermal Drilling Programme (“GDP”) in April, 2009, the Company raised an additional

\$9.3 million through the combination of a share placement and an entitlement issue, underwritten by Wilson HTM. As a result of the above, Panax’s available cash was boosted from \$6.25 million at the end of the March 2009 quarter, to \$21 million at the end of the June 2009 quarter (inclusive of \$7 million grant funding). This leaves the Company in a sound position, before it embarks on drilling its first production well, Salamander-1, scheduled to spud in September/October, 2009.

The scope of the Penola Project is of course much broader than drilling a single well and constructing a demonstration plant. As such, we have decided to seek a Joint Venture Partner to realise the full development potential of this project. We have appointed Wilson HTM to assist us in this, including preparation of detailed financial modeling of the Penola Project, which is nearing completion.

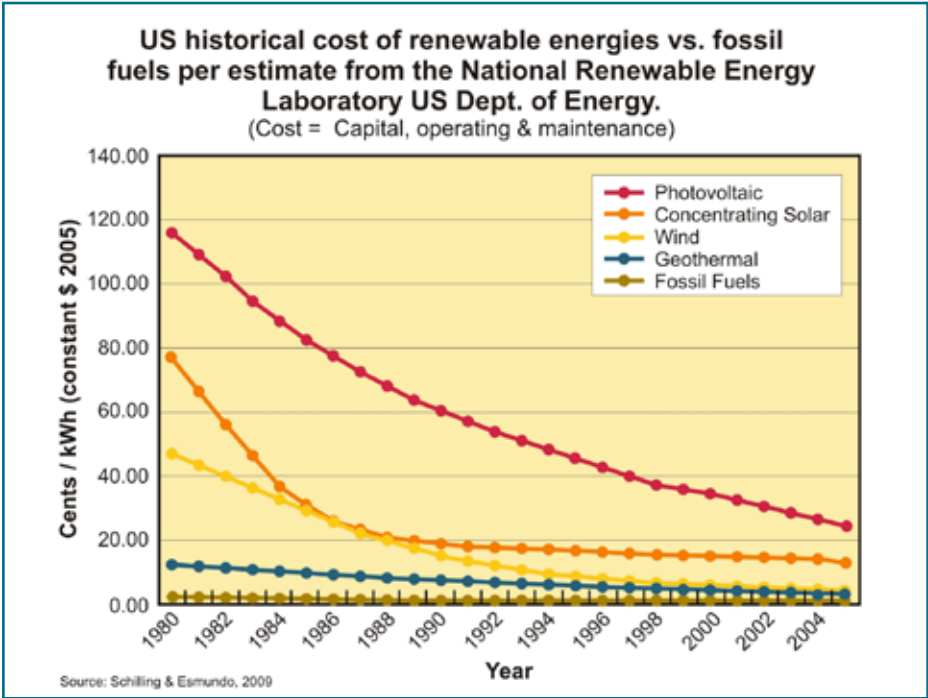




One hundred and fifty years ago, on June 10, 1859, John Tyndall presented a lecture on the physical proof of the greenhouse gas effect to the Royal Society in London. Building on work by Joseph Fourier (1827), Tyndall demonstrated that the combination of water vapour and carbon dioxide ( $CO_2$ ) were very effective in blocking heat radiation from the Earth into space. Water vapour is the most abundant greenhouse gas, followed by  $CO_2$ .

Climate change is a highly complex issue and the absolute proof that the rise in  $CO_2$  levels is the cause of global warming is still in contention, despite growing scientific evidence. However, the fact that  $CO_2$  levels are rising rapidly because of human activity is not disputed. It is also a fact that both sea levels and sea temperatures are rising. The National Academies of Science from the USA, Australia, Russia, China and Japan have all endorsed the link between  $CO_2$  concentrations and climate change.

It is known that, since the start of agriculture some 10,000 years ago, the Earth's temperature has been "stable" within a  $0.5^\circ C$  range @  $15^\circ C$  and also that the  $CO_2$  concentration has been within a range of  $\pm 280$ ppm. There is no dispute that human activity is now increasing the  $CO_2$  levels well beyond that range and also, there is no dispute that global warming is happening. To continue increasing  $CO_2$  levels beyond the historical stable levels is a risk which could lead to global disasters beyond belief. The geological past is not a sound guide to the future, especially as the Earth and its natural processes has never been so totally dominated and affected by one of its creatures, namely human beings. For more information, please refer to [www.ncdc.noaa.gov/oa/climate/globalwarming.html#qq](http://www.ncdc.noaa.gov/oa/climate/globalwarming.html#qq).



An independent resource assessment of GEL281, “Tirrawarra,” located in the Cooper Basin near Moomba, was completed. This resulted in the delineation of both “Measured-” and “Indicated Resources” as set out below. After Penola, Tirrawarra is the second “Measured Hot Sedimentary Aquifer (“HSA”) Geothermal Resource” in Australia, bringing Panax’s “Measure Resource” base to 22,000 PJ.

To date, the entire Australian geothermal sector has indentified only three “Measured Geothermal Resources,” two of which are owned by Panax. To develop this second

asset, the Company is currently preparing a submission for a \$7 million grant from a second round of the Commonwealth’s Geothermal Drilling Programme (“GDP”).

**Salamander-1**

Planning and preparation for drilling the production well Salamander-1 are in full progress. A senior drilling engineer from AGR (Panax’s drilling consultants and drilling manager of Salamander-1) has joined the Panax office on a full time basis. The permitting process is on schedule and site preparation has commenced.

<b>Measured &amp; Indicated Geothermal Resources (100% Panax)</b>				
<b>Project</b>	<b>Measured (PJ)</b>	<b>Indicated (PJ)</b>	<b>Total (PJ)</b>	<b>Report Date</b>
Tirrawarra (new)	11,000	30,000	41,000	07/07/09
Penola	11,000	32,000	43,000	18/02/09
<b>Total</b>	<b>22,000</b>	<b>62,000</b>	<b>84,000</b>	

*Utilisation of low-to medium-temperature Geothermal Resources is being boosted around the world by the availability of new technology developments. For example, Pratt & Whitney has developed the modular "Pure Cycle" unit for geothermal brines ranging in temperature from 90°C to 163°C (195°F-325°F). These come fully assembled, not unlike a diesel generator set. A geothermal development in Nevada, USA, has recently commissioned 50 of these units to supply 12.5 MW of geothermal power to California.*



*Pratt & Whitney are now developing 1 MW and 5 MW fully assembled, skid mounted units. For more information on this please refer to [www.pw.utc.com](http://www.pw.utc.com).*

## Geothermal Models in Australia

As pointed out in previous quarterly reports, Panax is focusing on conventional geothermal energy from Hot Sedimentary Aquifers ("HSA"), which are associated with an extensive data base from petroleum wells, as well as 3D and 2D seismic data. Using these data bases, both temperature and reservoir quality can be established without drilling a single well. This greatly reduces risk, development time and cost.

In contrast, most Hot Fractured Rock ("HFR") projects, also known as Enhanced Geothermal Systems ("EGS"), have to prove the temperature at depth before commencing with the development of an artificial underground reservoir or heat exchanger, the success of which is not known before this is attempted. In other words, HSA projects are low cost in comparison with HFR projects and also have a much faster development time. Compared to HFR projects, HSA projects generally utilise lower geothermal temperatures. Utilisation of these low- to medium-temperature geothermal resources is being advanced by the availability of new technologies (see box).

## Scope of Panax

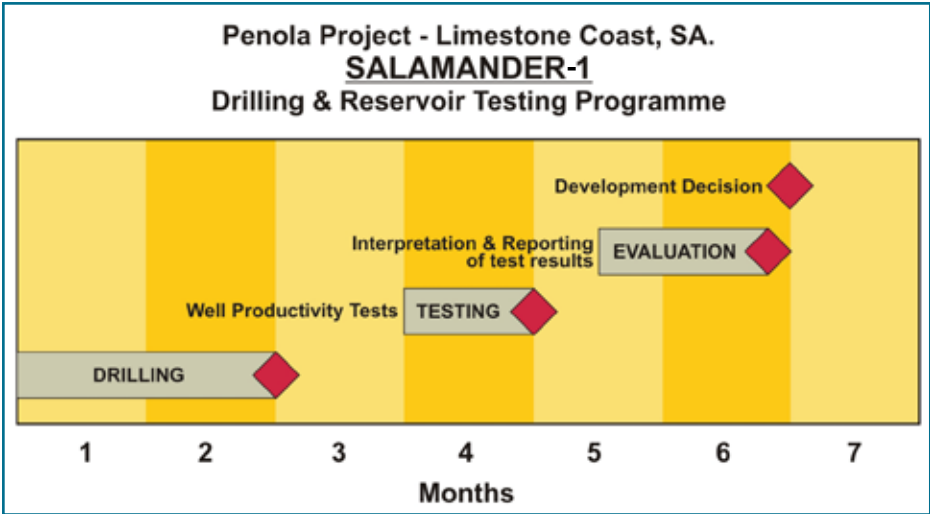
As a company, Panax is more than just the Penola Project. The latter is part of the larger Limestone Coast Geothermal Project, which has an established, large geothermal resource potential. Also, the Puga Project in India represents an attractive commercial development opportunity. In Slovakia, we are focusing on "Penola look-alikes" but with electricity tariffs more than three times higher than in Australia.

## Future of Geothermal Energy

A recent article by Melissa A Schilling from the Stern School of Business, NY University, USA, on Energy Policy shows that "geothermal energy is poised to become more economical than fossil fuels within a relatively short time frame."

## Safe Climate Australia

Panax has decided to support "Safe Climate Australia" which is a non-Government organisation recently formed and steered by a group of concerned scientists, community and business leaders on a call for action on Global Warming.



**CORPORATE**

**Equity Raising**

Panax successfully completed an underwritten capital raising totalling approximately \$9.3 million (before costs), via the issue of approximately 71.6 million new shares in Panax at an issue price of \$0.13 per share.

The equity raising was managed and underwritten by Wilson HTM Corporate Finance Limited. This completes our fundraising efforts which were commenced in September, 2008, only to be interrupted by the Global Financial Crisis.

The take-up of the total Entitlement Offer (i.e. the combined Institutional Entitlement Offer and Retail Entitlement Offer) totalled approximately \$4.76 million, or a take-up rate of 82%, with the remainder taken up by the underwriter.

The offer comprised:

Component	No. of Shares	\$ Raised
Placement to Institutional Holders within 15% Placement Limited	26,000,000	\$3,380,000
Accelerated Entitlement Offer	27,651,164	\$3,594,651
Retail Entitlement Offer	17,910,175	\$2,328,323
<b>Total</b>	<b>71,561,339</b>	<b>\$9,302,974</b>

The proceeds of the equity raising from the Placement and Entitlement Offer will be utilised in conjunction with existing cash reserves and the \$7 million drilling grant, to fund the drilling and production testing of the Salamander-1 well at the Penola Project in South Australia, as well as for working capital requirements.

Panax aims to establish the first geothermal reserve in Australia, bringing the Penola Project a step closer to becoming the first Australian

grid-connected geothermal power plant.

The offer received strong support from new institutional shareholders with high demand for the Placement and Accelerated Entitlement components of the offer. Support from current shareholders for the Entitlement Offer was likewise very strong.

### **\$7 million Grant – Geothermal Drilling Programme**

As reported in the previous quarterly report, on 20 April, 2009, Panax was advised that it had been awarded a \$7 million grant under the Commonwealth's Department of Resources, Energy and Tourism "Geothermal Drilling Programme" ("GDP"), for drilling a production well, Salamander-1, in the Penola Project in the Limestone Coast area of South Australia. The award of this grant is a confirmation of the overall merits of the Penola Project, which is underpinned by the largest established

"Measured Geothermal Resource" in Australia and is located close to the national grid.

Following the formalisation of the terms and conditions of the GDP grant, Panax has been advised that it will shortly receive the first two milestone payments, amounting to \$2.45 million. An additional \$1.75 million is expected to be received prior to the spudding of Salamander-1.

### **World Bank – Geofund Grant Application – Central Asia**

In May 2009, Panax (in conjunction with its joint venture partner, Kentor Gold Ltd (ASX:KGL), submitted two grant applications for geothermal exploration projects in Central Asia:

- "Inylchek" in eastern Kyrgyz Republic for a grant of US\$3.5 – US\$4.0 million for drilling two 500m wells and two 2,000m wells;
- The Tajikistan General Geothermal



Unloading of "Lightning Rig 828" after arrival in Australia, April 2009.

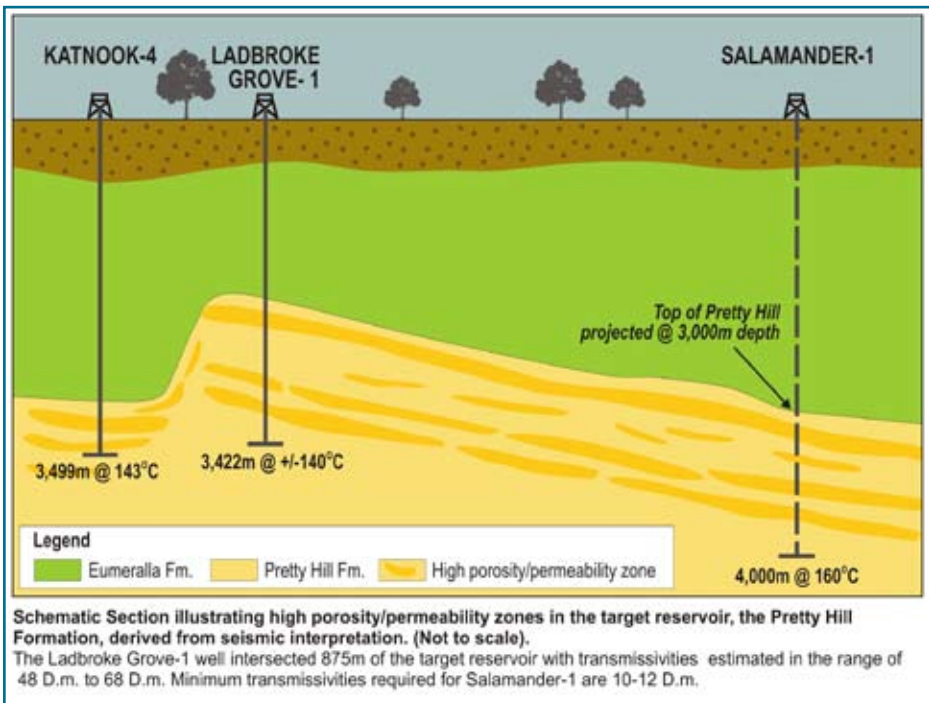
Exploration Programme, for a grant of US\$2.0 million including the drilling of a 2,000m deep exploration well.

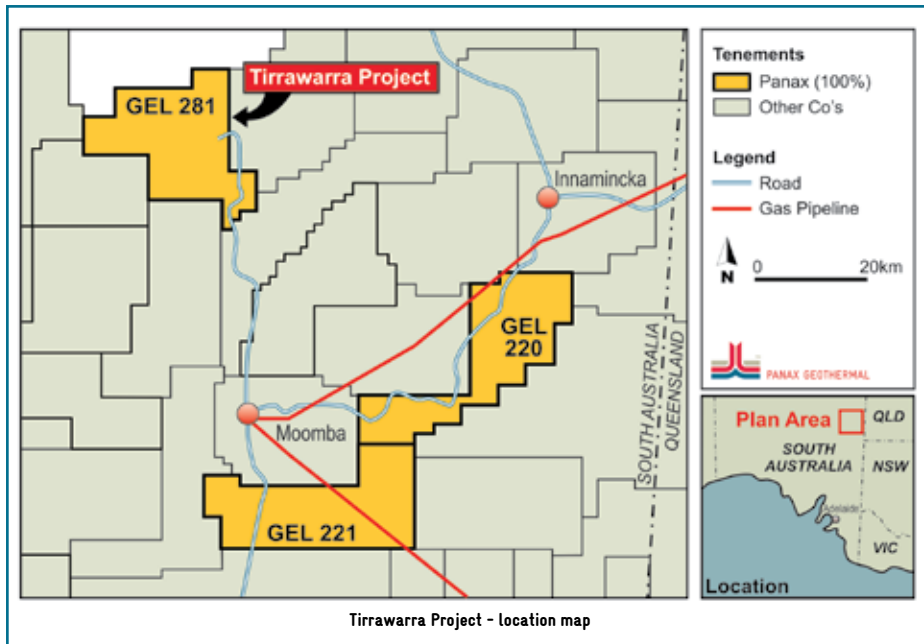
Subsequent to the lodgment of the grant applications, a supplementary report, summarising a recently completed reconnaissance survey in Tajikistan, was submitted to the Geofund. The outcomes of our Geofund grant applications are expected to be known before the end of the current quarter.

### Penola Project – Joint Venture Partner Search

Following the allocation of the \$7 million drilling grant and the subsequently completed \$9.3 million equity raising, the cost of drilling

Salamander-1 can be fully met by Panax. However, from a broader perspective, the development of the Penola Project would greatly benefit from a Joint Venture (“JV”) partner with power generating expertise (e.g. electricity marketing) as well as with a robust balance sheet. As such, Panax has stepped up its search for a JV Partner by appointing Wilson HTM Corporate Finance to assist and manage this process. As part of this new effort, detailed financial modeling of the Penola Project, based on the previous “high level” Pre-Feasibility Study, as well as a detailed and comprehensive report on the quality of the target reservoir has been completed.





Tirrawarra Project - location map

**“Tirrawarra” (GEL281) \$7 million Grant Application**

GEL281 – “Tirrawarra” – is located in the Cooper Basin, South Australia. Hot Dry Rocks Pty Ltd (“HDRPL”) was commissioned to undertake a geothermal resource assessment of this licence, which has a comprehensive data base of the target reservoirs, comprising more than 100 deep petroleum wells as well as extensive 3D and 2D seismic data. As a result “Measured-” and “Indicated Resources” of respectively 11,000 PJ and 30,000 PJ were announced to the market in early July, 2009.

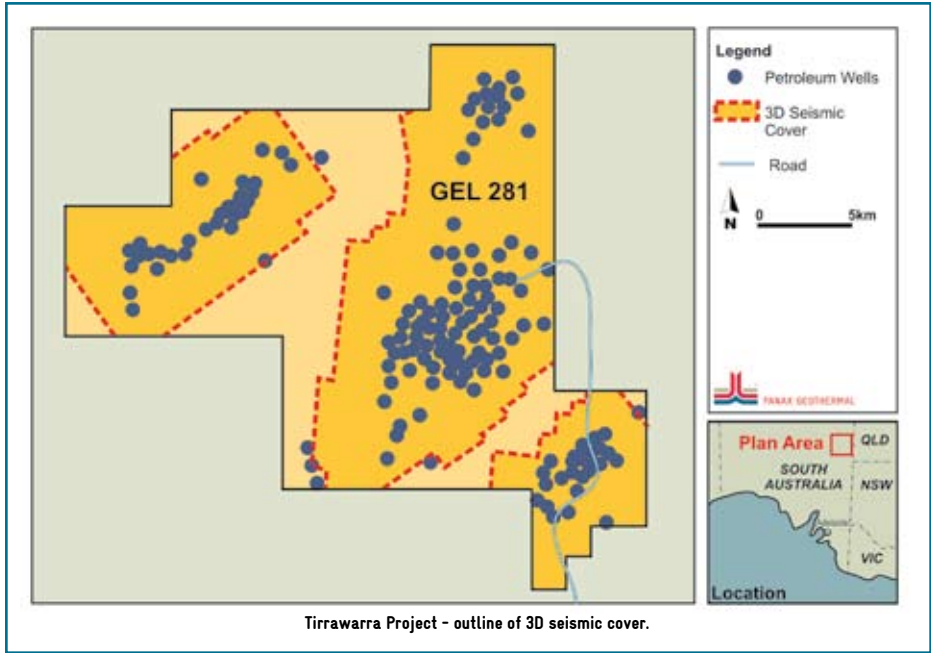
Panax is currently completing a full review of the reservoir quality and temperature data of the Tirrawarra Project as part of the preparation for an application for a \$7 million grant from

the second round of the Commonwealth’s Geothermal Drilling Programme (“GDP”) which closes in early August, 2009.

For further details please refer to the Operations section.

**Broker Review of Geothermal Sector in Australia**

Wilson HTM recently completed a comprehensive review of the Australian geothermal sector. This review covers an assessment of the two main geothermal models being pursued in Australia as well as a detailed review of the public and private companies involved in this sector. A copy of the detailed report will shortly be available on Panax’s website.



## OPERATIONS

### Limestone Coast Geothermal Project

Activities during the quarter were focused principally on the Penola Project, in particular on preparations for drilling the first production well, Salamander-1. In addition, a detailed “state of the art” report on the quality of the target reservoir, based on a 3D seismic interpretation and well log data, was completed. Also, preparations for a comprehensive financial analysis to determine the economic viability of an initial 59 MW geothermal power plant at Penola were commenced.

In addition to the above, the Limestone Coast geothermal tenement area was expanded following the grant of GELA484, now GEL484. The latter fills the gap between GEL223 – Penola and the Victorian border.

### - Penola Project – Salamander-1

The rig contracted for drilling Salamander-1 arrived in Australia in April, 2009. This brand new Le Tourneau – Lightning Rig, Rig 828, is owned by Weatherford Drilling International and is currently deployed to drill a well elsewhere in South Australia. Following completion of this well, the drilling rig will be mobilised to the Penola Project for drilling Salamander-1. A total of approximately 135 semi-trailer loads are required to transport this 2,000 hp rig and the associated 45 man camp. On current estimates, the rig is expected to arrive in late September-early October, 2009, to spud Salamander-1 shortly thereafter.

The Salamander-1 well and drilling design has benefitted from off-take data from 27 previously drilled petroleum wells. The historical drilling performances show that the average drilling times for the deeper wells rarely exceed 25

days, e.g. the deepest well, Katnook-4, was drilled to 3,499m in 24 days. Total drilling time for drilling Salamander-1 to a maximum depth of 4,000m has been budgeted at 60 days including contingency. It is not unlikely that based on drilling results, operations will be terminated at a shallower depth (e.g. 3,750m). To ensure a smooth start to the drilling operations, a senior drilling engineer from AGR has joined the Panax office on a full time basis.

The permitting for drilling Salamander-1 is on schedule, with well site preparation to commence shortly.

### **- Salamander-1 Logging and Testing Programme**

Salamander-1 will be the first drill test of a conventional geothermal aquifer in Australia.

The primary objective of drilling Salamander-1 is to carry out a testing programme to establish an initial geothermal reserve with a decision to commence development of a grid-connected 6.7 MW (gross) demonstration geothermal power plant.

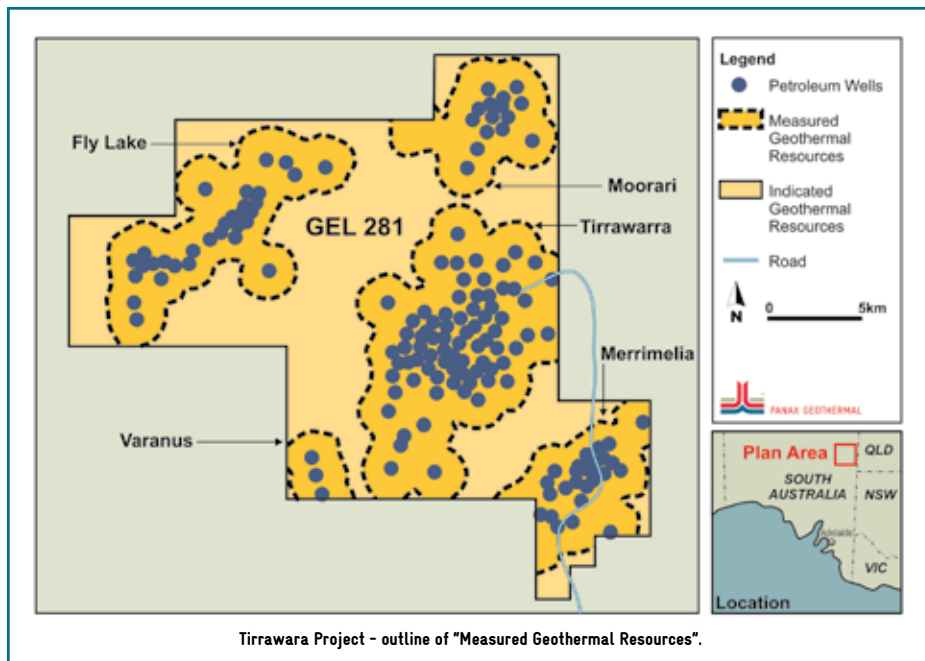
During the quarter, further work was carried out to optimise both the well logging and well testing programmes. The latter was developed by SKM New Zealand and reviewed and endorsed by GeothermEx, USA.

### **- Penola Project – Target Reservoir Evaluation**

A comprehensive “state of the art” report on the seismic interpretation of the objective Pretty Hill Formation, the target reservoir, with a description of all the work done to evaluate the transmissivity (permeability metres) of



Unloading of “Lightning Rig 828” after arrival in Australia, in April 2009.



the target reservoir has been completed. The predicted transmissivity of the Salamander-1 well is estimated at approximately 41 D.m, or approximately four times greater than required to achieve the desired flow rate.

**- Penola Project – Detailed Financial Modelling**

As a follow-up to the “high level” Pre-Feasibility Study completed in the previous quarter, Panax, with the input from Wilson HTM Corporate Finance, is in the process of completing detailed financial modelling of the Penola Project.

**Moomba Region (Cooper Basin) Tenements – GEL281 “Tirrawarra”**

A geothermal resource assessment of GEL281 “Tirrawarra” by Dr Graeme Beardsmore of Hot Dry Rocks Pty Ltd was completed during the

quarter. Following sign-off, Panax announced in early July, 2009, that this licence is underlain by “Measured-” and “Indicated Geothermal Resources” totaling 41,000 PJ as follows:

<b>Tirrawarra (GEL281) – Geothermal Resources</b>			
Measured (PJ)	Indicated (PJ)	Inferred (PJ)	Total (PJ)
11,000	30,000	0	41,000

Tirrawarra’s “Measured-” and “Indicated Resources” are hosted by Permian and Triassic Sandstones. Target HSA temperatures are in the range of 155°C (275°F) to 160°C (320°F) at depths of 2,750m – 3,500m. The highest measured down-hole temperature in existing petroleum wells is 157°C @ 2,919m.

Tirrawarra represents a Hot Sedimentary Aquifer (“HSA”) project which is relatively simple to develop. GEL281 is part of Australia’s

largest on-shore oil fields and as such it has a large data base from more than 100 existing petroleum wells as well as extensive 2D and 3D seismic data

The “Measured Geothermal Resource” is sufficiently large to be of national significance for the generation of zero-emission base load power. However, until the development of future transmission lines across the centre of Australia occurs, Panax’s focus will be on developing small to medium geothermal power plants to meet local power demands currently met by costly diesel power generation. To realise this, the Company has commenced discussions with a number of companies who have operations in the region. In the meantime, Panax is completing a submission for a \$7 million drilling grant from the Commonwealth’s Geothermal Drilling Program (2nd round) for drilling a production well in the Tirrawarra Licence (GEL281).



Central Asia - location map.

### Kyrgyz Republic & Tajikistan

(Panax earning up to 65%)

During the quarter, a field survey, comprising temperature logging of existing boreholes, was completed in the Akshirak licence, with co-operation from the Kyrgyz Geophysical Expedition. This organisation provided both equipment and expertise to carry out this activity. The collected data, combined with newly collected rock samples, will form the basis for conducting a 3D heat flow analysis. Also, a reinterpretation of an existing magnetotelluric survey confirms that Inylchek is a highly prospective area.

Following a joint review with our Joint Venture Partner, Kentor Gold Limited, the South Inylchek and Kyzolumpul licences were relinquished during the period.

A delegation of Kentor staff, based in Bishkek (capital city of Kyrgyz Republic), travelled to Tajikistan for meetings with local officials and to carry out a geothermal reconnaissance trip. The reconnaissance visit confirmed the considerable geothermal potential of this country. A summary of the findings of this trip was forwarded to the World Bank as a follow-up to the previously lodged application for a Geofund grant.



Marking the spot for Salamander-1; from left to right: Ron Palmer (Panax), Geoff Teagle (Teagle Contracting), Chris Annear (Land Liason) & Paul Bagshaw (Teagle Contracting).



Hot spring on the edges of the upper Indus River, Indian Himalayas.

## India

### Puga Project – Himalayan Geothermal Province

(49% Panax, with Panax as the Operator)

Our Joint venture Partner Geosyndicate Power Private Ltd (“GPP”) has advised that following the recent national elections, the local Government has confirmed that it will construct the 100km transmission line from Leh (central town of Ladakh district) along the upper Indus Valley towards Puga. This would bring the Puga Project within 30km - 40 km of a transmission line.

GPP has further confirmed that it has good reasons to expect that the development permit for the Puga Project will be issued during the current quarter. The Puga development permit will not only provide the framework

for development, but will also contain the electricity tariff structure, plus a future power purchase agreement.

## Slovakia

(Panax earning up to 75%)

During the quarter, Panax (in conjunction with Hot Dry Rocks Pty Ltd) completed a detailed review and assessment of all of the technical information that has been accumulated to date in respect of our activities in Slovakia, via our exclusive access to the comprehensive database of historical petroleum activities in the region.

The purpose of the review and assessment was both to rank the selected areas that were initially identified as being most prospective for geothermal exploration and development, and to complete a “gap” analysis to assist in identifying those areas where additional

information was required to fully assess the geothermal potential. A “search and review” of the existing data base is currently in progress.

Our Joint Venture Partner, Geopark, has made formal application for three geothermal licence areas in Slovakia. Under the terms of the Memorandum of Understanding between Panax and Geopark, Panax will have the right to farm-in to these three tenement areas for a working interest of up to 75%.

Slovakia is characterised by a high supply/demand gap for electricity, with very attractive electricity tariffs in place to encourage the development of Slovakia’s geothermal generating potential. Slovakia has an excellent power transmission grid in place, with the Slovakian Government and the European Community encouraging geothermal development by providing electricity tariffs

of €200 (approximately \$A385) per MWh. To put this into context, the high tariffs mean that a Slovakian geothermal project would be economical with input flow rates at a fraction of those required in Australia, thereby reducing demands on the target reservoir quality.

## FINANCE AND ADMINISTRATION

At the end of the quarter, the Company’s cash position stood at \$11.5 million, an increase of \$5.3 million over the previous quarter.

Major movements during the period resulted from :

- Cash funds received (amounting to \$6.9 million) relating to the Placement and Accelerated Entitlement components of the recently completed capital raising (component received prior to end of quarter);



The town of Kosice in Eastern Slovakia. Inset: Kerry Parker (second from right) with members of Geopark.

- Costs relating to the recently completed equity raising;
- Costs associated with our search for a Joint Venture Partner for the Penola Project;
- On-going well design, procurement, pre-drilling, and other associated costs for long lead items relating to the drilling of Salamander 1;
- Experts' reports required for the establishment of the Measured Geothermal Resource and Inferred Geothermal Resource over the Tirrawarra area; and
- Regular corporate and administration costs.

## Shareholder Information

Following the recent equity raising, a summary of Panax's issued capital structure as at the date of this report is as follows:

Shares on issue – unrestricted	198,925,899
Share on issue – restricted (a)	54,730,796
Total shares on issue	253,656,695

(a) these shares are subject to Mandatory Restriction until 4 December 2009, and Voluntary Restriction from 5 December 2009 to 4 June 2010

Since the issue of the last quarterly report, a total of 71,561,339 new shares have been issued – all of which relate to the equity raising that has recently been completed, as referred to elsewhere in this Quarterly Report.

During the quarter, 30,000,100 ordinary shares were released from Mandatory Escrow.

No options over ordinary shares have been exercised.

At the end of the quarter, Panax had 23,400,000

unlisted options on issue.

At the time of writing, the Company has approximately 1,375 shareholders, an increase of approximately 600 shareholders or approximately 75% over the last 12 months.

## HEALTH, SAFETY, ENVIRONMENT & COMMUNITY

During the quarter under review, there were no reported incidents relating to health, safety, environment or community related matters.

A number of community, planning and reconnaissance visits to the Penola area during the quarter, were undertaken in the lead-up to the drilling of Salamander-1 later this year.

In the lead up to the drilling of the Salamander-1 well later this year, all required documentation relating to Safety, Environmental, and



"Lightning Rig 828" in transport after customs clearance.

Community-related matters is being completed and implemented.

Formal workshops relating to the identification of potential hazards and risks have been undertaken and will continue during the lead-up to the start of the drilling program.

Also, formal Crisis Management procedures are being documented and implemented, and a “dry run” of these procedures will be undertaken during the next few weeks.



Dr Bertus de Graaf  
Managing Director/ Chief Executive Officer

If you have any questions, I would be pleased to assist.

Ph: 07 3512 7000

Email: [bdegraaf@panaxgeothermal.com.au](mailto:bdegraaf@panaxgeothermal.com.au)

**The information in this Quarterly Report that relates to the estimation of Geothermal Resources has been compiled by Dr Graeme Beardsmore, an employee of Hot Dry Rocks Pty Ltd. Dr Beardsmore has over 15 years experience in the measurement and estimation of crustal temperatures and stored heat for the style of geothermal play under consideration. He is a member of the Australian Society of Exploration Geophysicists and abides by the Code of Ethics of that organisation.**

**Dr Beardsmore qualifies as a Competent Person as defined by the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition). Dr Beardsmore consents to the public release of this report in the form and context in which it appears.**

