PANAX GEOTHERMAL

20 May 2010 **ASX ANNOUNCEMENT**

Triple Boost for Penola Geothermal Project

Panax Geothermal Ltd ("Panax") is pleased to advise that the combination of new:

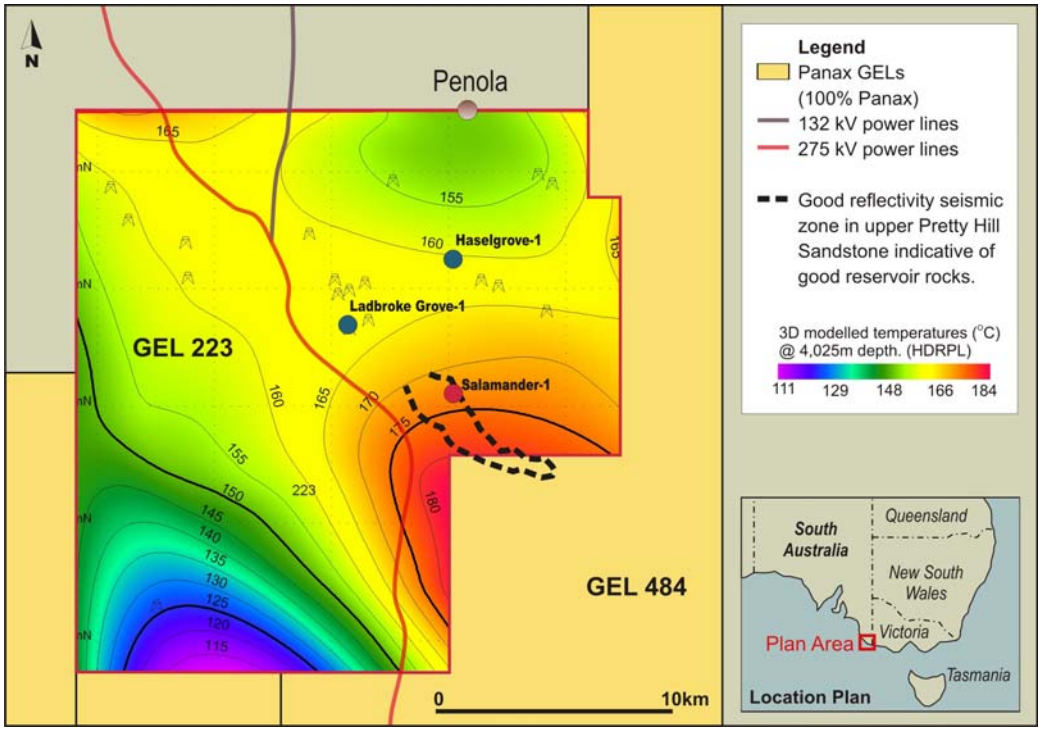
- Geothermal temperature data;
- 3D seismic data; and
- Well transmissivity estimates

have greatly enhanced the potential of the Penola Geothermal Project.

Well clean-up flows are continuing and further data will become available from the well productivity test planned for next month.

Geothermal Temperature Data

The recently announced 15.4°C increase in the measured bottom hole temperature ("BHT") of the Salamander-1 well, from 156°C to 171.4°C, has confirmed predictions of the regional 3D temperature data by Hot Dry Rocks Pty Ltd ("HDRPL"). The attached plan shows that the 3D modelled temperature at 4,025m for the Salamander-1 well of 172°C is very close to the recently measured BHT at 4,000m of 171.4°C. The attached plan also shows that projected temperatures at 4,000m increase to the south and south-east into Panax's GEL484, reaching 180°C within 4km of Salamander-1.



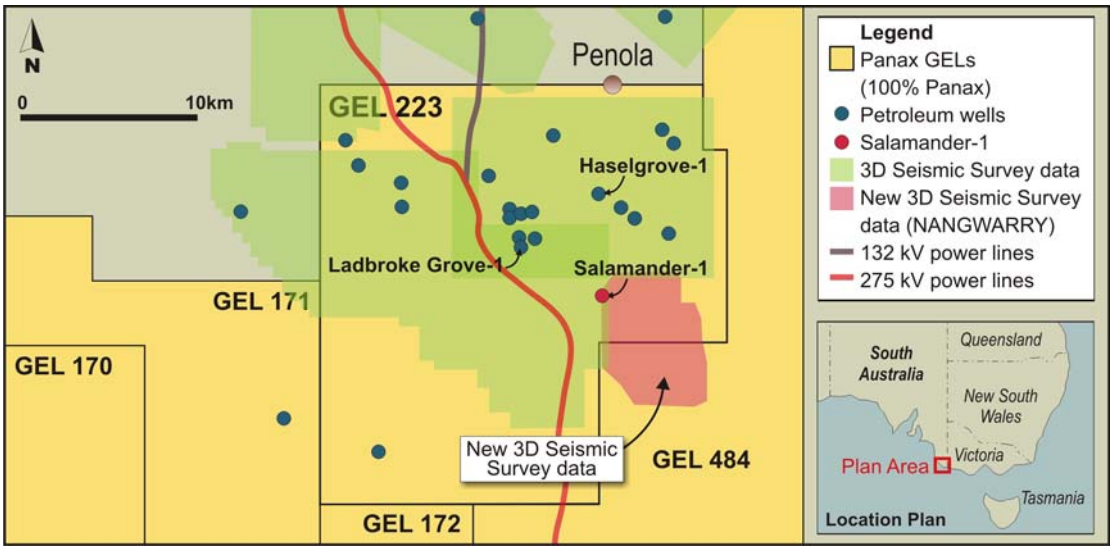
Penola Trough, 3D conductive heat flow modelling (HDRPL)
(Predicted @ 4,025m 172°C, actual measured 171.4°C)

The new BHT of Salamander-1 combined with the new 3D temperature data is likely to increase the geothermal resources of GEL223. More importantly, it upgrades the overall regional potential of the Penola Geothermal Project, with higher temperatures alleviating the pressure on high production rates.

New 3D and VSP Seismic Data

The South Australian Government Department of Primary Industries and Resources ("PIRSA") recently released the Nangwarry 3D seismic survey data for public use. This combined with the vertical seismic profile ("VSP") data acquired at the end of drilling Salamander-1, allows calibration of the well results with the existing 3D seismic data.

Interpretation has shown that a high reflectivity zone, which is interpreted to be associated with reservoir rocks drilled in Salamander-1, extends 6.5km to the south east, covering an area of approximately 12.5km^2. This zone is interpreted as having similar reservoir properties to Salamander-1 and coincides with the higher temperatures of 175°C to >180°C at 4,025m as mentioned above. This zone also demonstrates the potential extent of the reservoir zones intersected in Salamander-1.



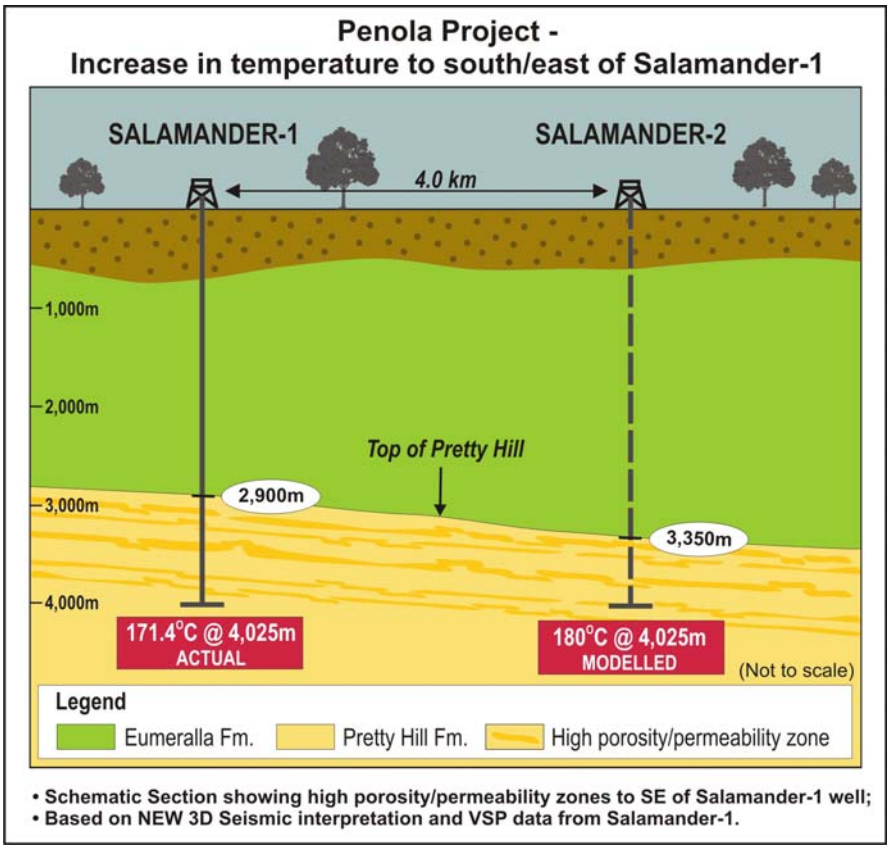
Transmissivity Estimates

A review of the wireline logging data of the open hole section of the Salamander-1 well (from 2,900m to 4,025m) for estimating the reservoir quality of the target reservoir rocks (the Pretty Hill Sandstone) has been completed by Down Under Geosolutions ("DUGEO") based in Perth. We have been advised that the combination of the "Lin-Log and MDT methods" are the most appropriate to estimate the "transmissivities" (≈ reservoir quality) of the intersected target reservoir rocks.

DUGEO has advised that the transmissivities in Darcy metres (Dm) of the Pretty Hill Sandstone in the open hole section of Salamander-1 well range from 6.7 Dm to 13.5 Dm as set out in the table below:

	Method	Transmissivity (Dm)
Most Likely Case	Average Lin-Log relationship	6.7
Maximum Case	Optimistic Lin-Log relationship	13.5

Transmissivity is loosely described as the capacity of the reservoir to flow water. The "Most Likely Case" of 6.7 Dm is lower than the minimum requirements of 10 Dm for a flow rate of 175l/sec @ 145°C. However, with higher geothermal temperatures now apparent, flow rates could be reduced as these two inputs are intimately linked. Also, the "Maximum Case" estimate provides the upside.



Summary

The new temperature-, seismic- and transmissivity data have boosted the overall potential of the Penola Geothermal Project. The regional setting and potential have been greatly enhanced, with higher temperatures coinciding with areas where the reservoir rocks identified in Salamander-1 are interpreted to be present.

As the demonstration plant comprises a production and an injection well, this leaves the option of drilling a production well in the hotter area, and thereby converting Salamander-1 into an injection well. Overall, it is too early for such decisions, but the opportunity for this has now been created.

Indications are that, subject to the well productivity tests planned for next month, the Salamander-1 well remains a candidate for producing clean base-load power for thousands of homes in the region.

Overall, the new results not only boosted the geothermal potential of the Penola Trough, but it also lifts the potential of the other three troughs of Panax's larger Limestone Coast Project.

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