PANAX GEOTHERMAL

ANNUAL REPORT **2010**

earthpowered

CORPORATE DIRECTORY

Directors	Mr Gregory Martyr, **Chairman** Dr Lambertus de Graaf , **Chief Executive Officer and Managing Director** Mr Kerry Parker, **Executive Director and Chief Financial Officer** Mr Stephen Evans, **Non-Executive Director** Mr Ian Reid, **Non-Executive Director**
Company Secretary	Mr Kerry Parker
Notice of annual general meeting	The annual general meeting of Panax Geothermal Ltd **will be held at** Earl of Inchcape Room Brisbane Polo Club Naldham House 1 Eagle Street Brisbane QLD 4000 **time** 10.00 a.m. **date** Wednesday 24 November 2010
Principal registered office in Australia	Ground Floor, 20 Railway Terrace Milton QLD 4064 Telephone: (07) 3512 7000
Share registry	**Computershare Investor Services Pty Limited** Level 19, 307 Queen Street Brisbane QLD 4000 Phone: 1300 552 270 Overseas Callers: 61 3 9415 4000 Facsimile: 61 7 3237 2152
Auditor	**Johnston Rorke** Central Plaza One, 345 Queen Street Brisbane QLD 4000
Solicitors	**DLA Philips Fox** Waterfront Place 1 Eagle Street Brisbane QLD 4000
Stock exchange listings	**Australian Securities Exchange Ltd** PAX – Ordinary Shares PAXO – Listed Options Over Ordinary Shares
Website address	www.panaxgeothermal.com.au

The information in this Annual 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 organization.

Dr Beardsmore qualifies as a Competent Person as defined by the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2009 Edition). Dr Beardsmore consents to the public release of this announcement in the form and content in which it appears.

PANAX GEOTHERMAL

ANNUAL REPORT 2010

CONTENTS

PANAX GEOTHERMAL 1

ABOUT PANAX

Panax is a Brisbane based geothermal exploration and development company. The nature of our business is the exploration and development of geothermal resources and their conversion into bankable geothermal reserves for the development of clean, geothermal power generation. The process of converting "resources" into "bankable reserves" is currently the main wealth creator for the Company. This is because "proven reserves" have a commercial value many times greater than that of resources. In turn, proven geothermal reserves are the basis for the development of geothermal power plants, which are capable of generating zero emission, base-load electricity.

Background

Panax is targeting only conventional geothermal resources, which means its focus is only on naturally occurring hot water or brine which is contained in existing reservoir rocks. Such geothermal resources are commercially proven, with more than 10,000 MWe generation capacity (equivalent to 15-20 coal fired power stations), already installed around the world.

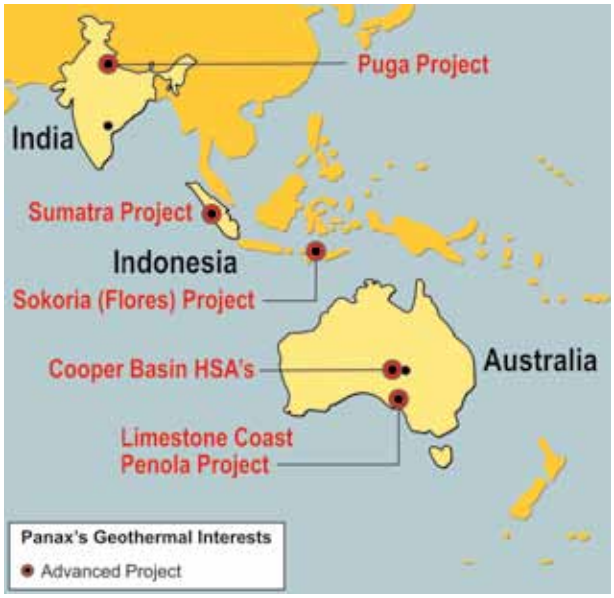
In Australia, Panax is the pioneer in developing geothermal resources contained in Hot Sedimentary Aquifers ("HSAs"). This dates back to December, 2007, when Panax acquired the large Limestone Coast HSA project located close to the national electricity grid in the Otway Basin, in South Australia. Since that time, HSA geothermal resources have gained recognition in Australia, and several other companies have followed our lead and are focussing on these targets elsewhere in Australia. The Australian Government also recognised the potential of the HSAs, when it ranked HSA geothermal as the cheapest clean power generation option for the future (see attached bar chart, p. 9).

In order to maximise success and minimise risk, Panax expanded the Limestone Coast Project with the acquisition of the Penola Project in December, 2008. This project area is associated with a unique and comprehensive geological database, comprising well logs and extensive 3D seismic cover. As part of this acquisition, Panax also owns a number of geothermal tenements near Moomba, targeting shallow HSAs in the rocks of the Great Artesian Basin in the Cooper Basin region of South Australia.

From the outset it was recognised that to enhance the Company's development, Panax would need to balance its portfolio of interests in Australia by acquiring advanced conventional geothermal projects overseas. This is because Australian geothermal resources on average occur much deeper in the Earth's crust (approximately double the depth) and are generally cooler as compared to geothermal resources located in countries associated with active volcanism (e.g. New Zealand, Philippines, Indonesia).

Salamander-1 clean-up flow test, May 2010.

The combination of expensive drilling costs and lower temperatures results in relatively expensive geothermal power generating costs. Despite this, economic analyses show that the cost of geothermal power generation in Australia can compete with wind power but both need carbon incentives to succeed. Volcanic related geothermal resources in surrounding countries are considerably more attractive targets and are commercially robust.



Progress and Achievements

The 2009/10 financial year was dominated by the drilling of the 4,025m deep Salamander-1 well, testing the Penola project, in the Limestone Coast region of South Australia. At the same time we managed to make tangible progress in Indonesia where we now have secured two advanced geothermal projects.

Panax raised $8 million prior to the start of drilling Salamander-1 and benefitted greatly from the $7 million Geothermal Drilling Programme grant allocated by the Commonwealth Government in April, 2009.

Salamander-1 – Penola Project

The 4,025m deep Salamander-1 well was completed without a single serious incident, in a record drilling time of 44 days and produced the first ever steam from a HSA in Australia. The well met its primary objectives intersecting more than 1,000m of water saturated porous target reservoir sandstones. Well testing commenced in April and was completed in early July. Results indicate that conditions in the 1,100m open hole section restrict communication with the reservoir rocks and initiatives are underway to overcome this problem.

Hutton Project – Cooper Basin

The Hutton Sandstone, which are part of the Great Artesian Basin ("GAB"), overlie the hot granites of the Cooper Basin of Central Australia. As a consequence, water in these well known reservoir rocks reaches temperatures of 140°C-150°C at depths of less than 2,500m. The combination of well recorded highly porous/permeable Hutton Sandstone and economic temperatures at shallow depths makes this project an attractive development target.

The location of this project is remote from the grid but work by Panax has shown that this project could provide power for local generation requirements at nearly half the cost of locally used diesel generation.

Indonesia

The geothermal energy sector in Indonesia is undergoing a historical wave of expansion. Panax has secured a position in this country through partnering with a local power generating company, PT Bakrie Power. As a result Panax has acquired a 45% interest in the 30 MW Sokoria Project, Flores and a 51% interest in the 25 MW Dairi Prima project in Northern Sumatra. Financial analyses have shown that both projects are robust and commercially attractive. Panax will continue its efforts to expand its interests in Indonesia.

India – Puga Project

This advanced and commercially attractive 60 MW geothermal project is located in the Indian Himalayan zone in Northern India. The local government has commenced developing a transmission line from the district capital Leh to within 30-40km of the Puga Project (49% Panax with Panax as operator). Site activities remain shelved until development permits are issued.

Volcanic region, N. Sumatra, Indonesia

Carbon Free Electricity is our Mission

The basis of our business is the fact that Australia and the world at large are interested in carbon free electricity generation, as part of a mix of measures to stall global warming. Carbon free power generation comes at a cost, and is considerably more expensive than using fossil fuels. To make investment in clean power generation commercial, a reliable, long term "price of carbon" is required. In other words, carbon and a commercial price for carbon are at the root of clean power generation.

Over the last 10 years, successive Australian Governments have retreated from their commitments and pledges to deliver a long term regulatory framework for carbon pricing. Early this century, the Australian investment market was supportive of clean energy initiatives, but this has more or less collapsed due to a successive lack of commitment.

The development of Australian geothermal resources is still in its pioneering phase. These resources occur generally quite deep and are therefore relatively costly to drill. In contrast, volcanic related resources occur at approximately half the depth of those in Australia, resulting in much lower power generating costs. The commercial development of volcanic related resources dates back to early last century, pre-dating any carbon incentives. Panax is now securing participation in such commercially attractive projects in Indonesia and India.

Global warming cannot be postponed as CO_2 levels in the world's atmosphere continue to rise, year after year. There will come a moment in time in the near future, when dangerous global climate events will manifest themselves, leaving Australia and the world no option but to act. In other words, the potential benefits (environmental and commercial) of e.g. Panax's geothermal assets in Australia will not gain widespread recognition until the market at large is actively seeking investments in clean MWs of power, because it makes commercial sense.

PANAX GEOTHERMAL 2

ABOUT GEOTHERMAL ENERGY

"Geothermal energy represents the "Holy Grail" of clean power generation as, unlike any other clean power technologies, it can provide zero emission, base-load power, 24 hours/day, seven days/week. As such, it has the capacity to replace fossil fuel generation.

Geothermal power generation is commercially proven, with first electricity generation dating back to early last century."

Geothermal energy represents the "Holy Grail" of clean power generation as, unlike any other clean power technologies, it can provide zero emission, base-load power, 24 hours/day, seven days/week. As such, it has the capacity to replace fossil fuel generation.

Geothermal power generation is commercially proven, with first electricity generation dating back to early last century. That was in Italy in 1904 and the geothermal field in question (Larderello) is still in operation. The world's installed geothermal power generation capacity totals approximately 10,000 MW, which is equivalent to the capacity of about 15-20 coal fired power stations. It is worth noting that the bulk of the currently installed geothermal capacity was developed well before "carbon credits" were part of the commercial considerations, i.e. geothermal could and can compete with fossil fuel power generation without special incentives, especially in countries not well endowed with coal or gas.

Apart from a small geothermal power plant in Birdsville Queensland (0.25 MW) which operates on hot water from a bore in the Great Artesian Basin ("GAB"), Australia has not been a geothermal power producer. Australia has no active volcanic regions and ample cheap coal has traditionally been the fuel for power generation. Global warming concerns has changed the equation and clean power will now start attracting a premium.

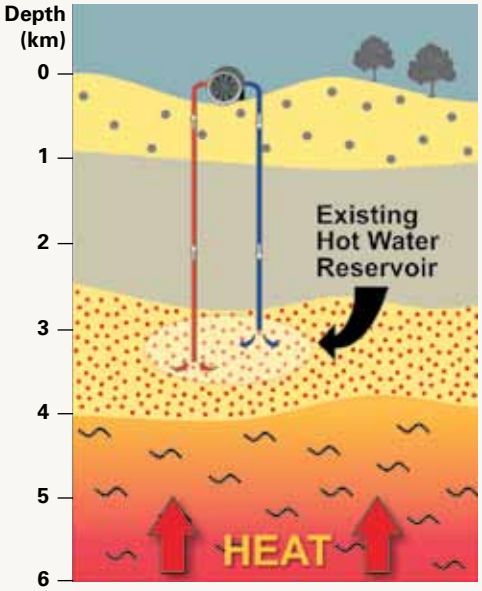
A large part of the Australian continent is underlain by hot crustal rocks, with temperatures reaching approximately 250°C-275°C at 5,000m depth. There are principally two ways to extract this heat to power a geothermal power plant:

Geothermal plant, northern Sumatra, Indonesia.

1. **HSA -** Locate water saturated reservoir rocks in a sedimentary basin (sandstone or limestone) in an area with high geothermal gradients. Drill into the reservoir rocks and produce hot water for power generation followed by re-injecting the cooled down water into the reservoir some distance away. This is known as a hot sedimentary aquifer ("HSA"). Many bores sunk in Australia's GAB obtain their water from a HSA. Commercial HSA power generation has been in operation for more than 25 years in the Imperial Valley in Southern California, well before carbon incentives were in place.
2. **HFR -** Drill into the hot rocks followed by the development of an artificial underground reservoir or heat exchanger. By pumping cold water in an artificial, engineered reservoir, hot water can be produced for power generation with the cooled down water being returned to the reservoir. This style is known as hot fractured rocks ("HFR") or engineered geothermal systems ("EGS"). The potential of this style is large, but it is still in the experimental phase across the world and has not yet been commercially proven.

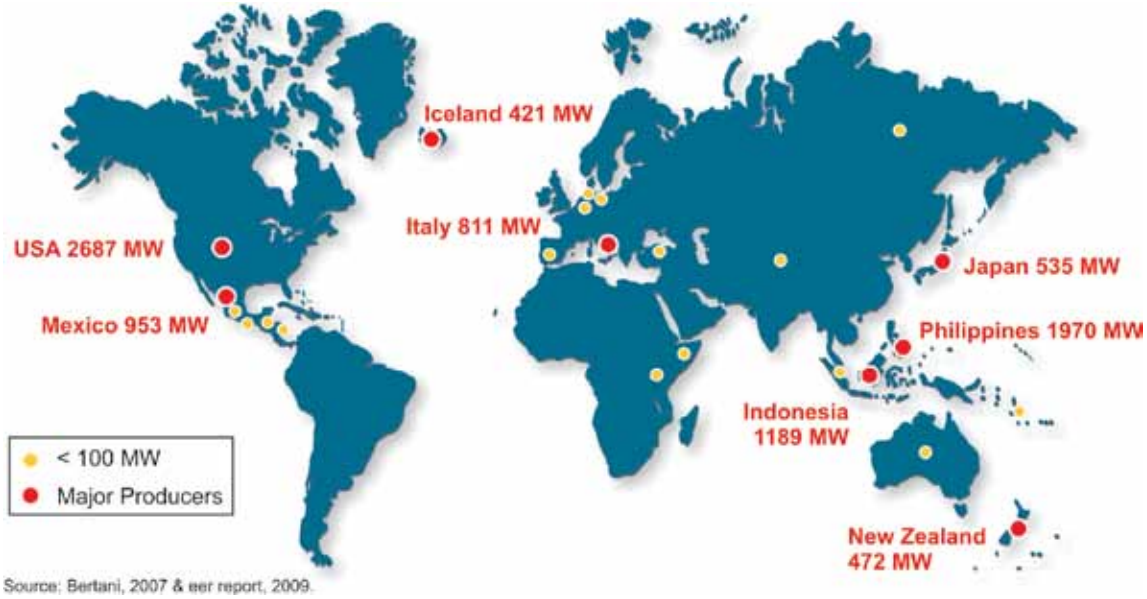
Conventional Geothermal System

Hot Sedimentary Aquifer (HSA)



- **Heat stored in water (brine) in existing reservoir;**
- **Fast development;**
- **Low costs;**
- **Commercially proven (>25 years).**

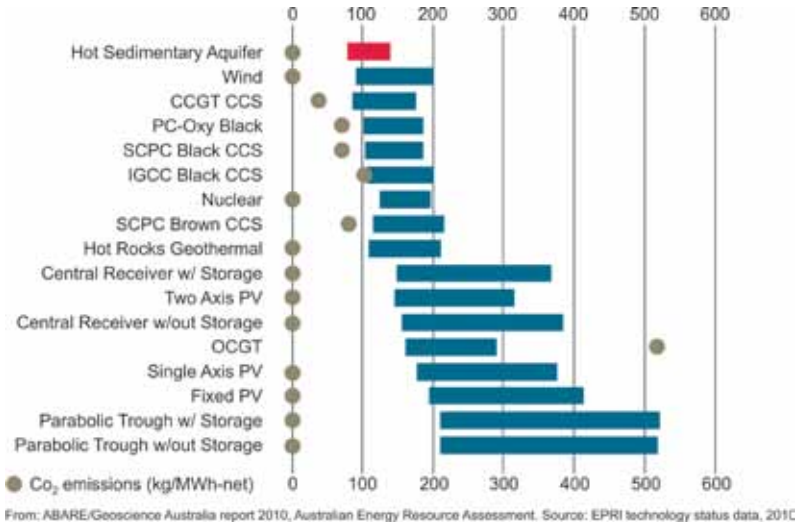
Total Installed Global Capacity of Conventional Geothermal Power Generation in 2009



Source: Bertani, 2007 & eer report, 2009.

Panax is the pioneer of HSAs in Australia with projects in the Limestone Coast (Penola) and Cooper Basin (Hutton).

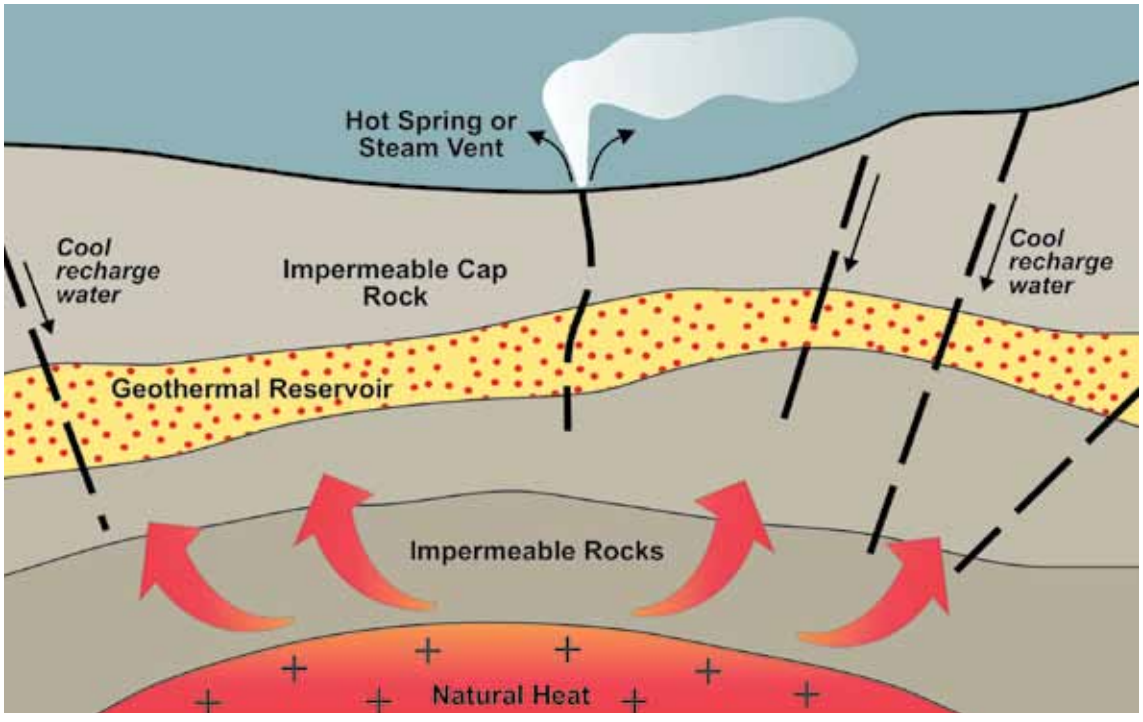
Australia's geothermal conditions are not ideal but can be economically competitive if a long term framework of incentives for clean energy (e.g. carbon framework) is in place. Without such a framework coal-fired power generation will always be cheaper.



Technology Ranking 2030 – Zero or low CO_2 power generation options.

Levelised cost of technology (2009 A$MWh).

Conventional Geothermal System



- **Heat source (red) heats up overlying rocks;**
- **This in-turn heats up water in permeable rocks (reservoir);**
- **Hot spring or steam vents discharge via faults;**
- **Meteoric water (rain) seeps into reservoir along fault lines to make up for water lost in hot spring/vent and is heated up.**

PANAX GEOTHERMAL 3

CHAIRMAN'S LETTER

"We continue to be long term believers in the future of geothermal energy in Australia and internationally. It remains the only viable source of truly renewable energy for the provision of clean, sustainable base load power".

"Our ownership interests and advanced knowledge of our conventional geothermal projects in Australia, Indonesia and India should place Panax well for the future in which the world will increasingly grapple with energy and global warming issues."

Greg Martyr

Chairman

Dear Shareholder

It is with much pleasure that I am once again able to provide you with an overview of Panax and its achievements since our last annual report and of our immediate and long term goals.

We continue to be long term believers in the future of geothermal energy in Australia and internationally. It remains the only viable source of truly renewable energy for the provision of clean, sustainable base load power.

Whilst agreement in Australia on the approach to the reduction of carbon emissions remains disappointingly unresolved, we believe as a country there is no choice but to follow the positive lead of many other countries throughout the world where a framework of incentives to promote clean power generation has been in place for many years.

In Australia we achieved a milestone in March 2010, when the pioneering Salamander-1 well in the Penola Project reached its designed depth of 4,025m, on time and without lost time incidents; a great achievement. The well met its primary objectives of drilling into the first hot sedimentary aquifer in Australia with encouraging temperature recordings. Further work is required on well completion in the aquifer before the project's full potential can be clearly established.

In Indonesia, we made good progress in securing a position to participate in commercially attractive geothermal projects in Northern Sumatra and Flores through collaboration with a local Indonesian power generation company. The value of these initiatives, comprising the development of 55 MW of power generation, as well as a number of others we are working on will increasingly become apparent in a country which is actively seeking to grow their power generation capacity from known resources to become the largest generator of geothermal power in the world in this decade.

Our ownership interests and advanced knowledge of our conventional geothermal projects in Australia, Indonesia and India should place Panax well for the future in which the world will increasingly grapple with energy and global warming issues.

I would like to thank the executive team for their enormous efforts and achievements during the year. Their focus on achieving our immediate goals and setting the groundwork for our longer term vision has been exemplary.

I would also like to personally thank each of you for your support of Panax and its plans during the year. I look forward to your continuing support and to reporting back to you all on some very significant milestones in the coming year.

Yours sincerely

Greg Martyr

Chairman

Salamander-1 Well plaque, unveiled by the Hon. Martin Ferguson, Minister for Resources, Energy and Tourism.
L-R: Hon. Paul Holloway – Minister for Mineral Resources & Development S.A, Kerry Parker – Executive Director Panax, Hon. Martin Ferguson, Bertus de Graaf – Managing Director Panax, Greg Martyr – Chairman Panax.

PANAX GEOTHERMAL 4

MANAGING DIRECTOR'S REPORT

"It is very pleasing to note that the Penola Project has gained the support from the local community and that the Salamander-1 well was completed on time without any safety or environmental incidents."

"The challenges for the future are clear. We have to overcome completion issues in the open hole section of the Salamander-1 well before we can demonstrate the potential of the Penola Project.....

We are committed to advancing our interests in Indonesia and to progress the Hutton Project in the Cooper Basin."

Lambertus de Graaf

Managing Director and CEO

The 2009/10 financial year was a stimulating and challenging one for the Company.

Stimulating because:

- Panax successfully drilled its first deep geothermal well in the Penola Trough, South Australia, bringing geothermal heat from a 3,000m-4,000m deep hot sedimentary aquifer to the surface, a first for Australia;
- Panax gained a position to participate in the unprecedented wave of geothermal developments in Indonesia, through teaming-up with an Indonesian power generating company, thereby securing participation in two projects;
- Panax raised $8 million in November, 2009, leaving it in a sound financial position following completion of drilling its first deep geothermal well.

Challenging because of:

- Continuous delays over six months in drill rig availability, which was costly in terms of time as well as in holding- and opportunity costs;
- Prevailing adverse market conditions for renewable energy investments in Australia, due to the lack of a regulatory framework for carbon pricing. Without a clear "carbon signal", market support for Australian renewable energy projects has more or less disappeared. The geothermal index (measuring share price performance of Australian listed geothermal companies) in Australia lost 57% in the 2009/10 financial year, which followed a loss of 34% in the year before. However, global warming cannot be postponed as will increasingly become apparent;

Salamander-1 well test, May 2010.

- Despite considerable efforts, Panax failed to secure a Joint Venture Partner for the Penola Project; it is felt that the absence of a regulatory framework played a role in this.

Following drilling and testing its first deep geothermal well, Panax has sufficient funds to pursue its programme for the 2010/11 financial year. Interest in Panax increased over the year as is evidenced by a 56% increase in shareholder numbers to 2,340.

Strategy and Progress

From the outset 2½ years ago (Dec. 2007), Panax adopted a two pronged strategy to avoid "having all its eggs in one basket". This strategy is based on pursuing HSA projects in Australia and advanced and commercially attractive conventional geothermal projects outside Australia.

- Panax now owns large HSA geothermal resources in Australia (Limestone Coast, including the Penola Project and the Moomba region), with two of its geothermal resources independently classified in the "Measured" category;
- Panax succeeded in drilling and testing a 4,025m deep geothermal well in record time and is currently completing the interpretation of the test results. It also gained a good understanding of the economics of the HSAs in the Cooper Basin, which are much shallower and can therefore be developed at considerably lower costs;
- Panax has secured participation in advanced "brown fields", commercially attractive conventional geothermal projects in Indonesia (Sokoria, Flores and Northern Sumatra) and in India, with a total combined initial generating potential of 120 MW.

Our portfolio of interests was rebalanced and our interests in Kyrgyzstan and Slovakia were relinquished as these projects did not meet our risk/reward ratio criteria.

In summary, we have secured a sound foundation for future development and growth. Whilst Australia is hesitating to make the hard decisions to curb CO_2 emissions, global warming cannot be postponed, i.e. Panax is well placed for the future.

Penola Project, Salamander-1 – Limestone Coast

Much of the 2009/10 financial year was dominated by the planning, preparation and the actual drilling and testing of the 4,025m deep Salamander-1 well. In addition, further detailed pre-feasibility studies and interpretation of new regional 3D seismic and temperature data enhanced the commercial potential of this promising project.

The pioneering well was designed to convert part of the known "Measured Geothermal Resources" of the Penola Trough into "Geothermal Reserves". Following success, the well would function as a production well for a demonstration plant. After considerable delays in drill rig availability, the 4,025m deep well was completed in record time during the March, 2010 quarter. First steam was released as part of discharge tests in early April and the well testing programme continued intermittently until July, 2010. At the time of writing, the final well testing reports are awaited.

Petrophysical logs and geological logs show that the well met its primary objectives,

intersecting more than 1,000m of water saturated porous sandstones, with a bottom hole temperature at 4,025m of 171.4°C, exceeding projections by 10°C.

Evaluation of the petrophysical logs indicates that the intersected target reservoir rocks should have the potential to produce sufficient flow for a demonstration plant. However, the well testing programme indicates that conditions in the 1,100m open hole section at the bottom of the well restrict communication with the adjacent reservoir rocks. This likely reflects that the selected drilling completion methods applied were not appropriate for this well. This is not entirely surprising as in many ways Salamander-1 is a pioneering HSA geothermal well. Panax has recently engaged specialist reservoir engineers who have successfully solved similar problems in the coal bed methane industry. We remain optimistic that we will identify appropriate well completion methods e.g. perforation, stimulation, "stim gun", etc, which will restore communication with the reservoir rocks and which in turn will allow the Salamander-1 well to be completed as a production well.

Contract drilling rig (Weatherford) Salamander-1.

Indonesia

Panax secured a position to participate in the development of advanced, "brown fields" geothermal developments in probably the best endowed geothermal country in the world, our near neighbour Indonesia. Indonesia is experiencing a major economic expansion and needs power to develop it. The Government has recently adopted plans to expand the installed geothermal operating capacity by 250% to 4,600 MW by 2014. This would make Indonesia the No.1 geothermal country in the world, even if only part of this target were to be achieved.

Panax has entered into an alliance with PT Bakrie Power, which potentially opens the door for future participation in the development of 100s of MW of geothermal power generation. The initial focus will be on the 30 MW Sokoria Project, Flores (Panax 45%) and the Dairi Prima Project, Northern Sumatra (Panax 51%).

The Future

The challenges for the future are clear. We have to overcome completion issues in the open hole section of the Salamander-1 well before we can demonstrate the potential of the Penola Project. Following this we can start planning for the development of a demonstration plant. When that stage is reached, it is expected that the large geothermal resources of the Penola Project, as well as those in the other troughs of the Limestone Coast Project, will gain widespread market recognition.

We are committed to advancing our interests in Indonesia and to progress the Hutton Project in the Cooper Basin.

Funds

In anticipation of the start of drilling the Salamander-1 well, Panax raised $8 million through a combination of a $3.75 million share placement and a $4.25 million shareholder purchase plan. The Commonwealth's $7 million Geothermal Drilling Program ("GDP") grant which was allocated to Panax in April, 2009, is gratefully acknowledged. At the end of the financial year and post drilling of the Salamander-1 well, the Company has sufficient funds to meet its programme for the current financial year.

The Hon. Martin Ferguson, Federal Minister for the Department of Resources, Energy and Tourism, and the Hon. Paul Holloway, South Australian Minister for Mineral Resources Development, Urban Development and Planning, and Small Business, at the Salamander-1 well site.

"The potential of the geothermal industry in Australia is truly staggering. Geoscience Australia estimates that if just one percent of Australia's geothermal energy was extracted, it would equate to 26,000 times Australia's total annual energy consumption"

Martin Ferguson, Federal Energy Minister

Staff and Expertise

Panax's progress is driven by a small team of dedicated professionals, including:

- Mr David Jenson, General Manager Geothermal Engineering, who joined us in August last year and who has spent a lifetime in the geothermal industry; and
- Mr Sjaiful Bahri, a geothermal geoscientist of 30 years experience, who is based in Jakarta, where he is heading-up our activities in Indonesia.

Panax also has a number of specialist consultants who are on retainer contracts or with whom we have a long term relationship, such as Mr William Cumming (ex Chief Scientist, Unocal, at this time the world's largest geothermal company) and Mr Ralph Spinks, a Senior Drilling Engineer. In addition, Panax has consultancy arrangements in place with geothermal specialists, including Dr Subir Sanyal of GeothermEx (USA), who is an advisor on the Penola Project. The drilling of the Salamander-1 well (including detailed well design) was managed by AGR.

Our Commitments

We are committed to meet and maintain high standards in safety and environmental management and to maintain open communication with our stakeholders, namely employees, shareholders and the local communities in which we operate. It is very pleasing to note that the Penola Project has gained the support of the local community and that the Salamander-1 well was completed on time without any safety or environmental incidents.

Lambertus de Graaf

Managing Director and CEO

Field visit Sokoria Project, Flores. From L-R: Mr Pandam Pandyono (Director PT Bakrie Power), Mr Sjaiful Bahri (Technical Manager, Panax, Indonesia), Mr Maximus Deki (local Government M.P.), Mr Kerry Parker (Executive Director Panax).

OPERATIONS

"The Salamander-1 well met its primary objectives by intersecting more than 1,100m of target reservoir rocks, the Pretty Hill Sandstone. Over the interval 2,900m–3,570m, it intersected a total thickness of 675m of reservoir sandstones with an average estimated porosity of 13.2%. This was followed by 411m of reservoir sandstones, over the interval from 3,570m–4,000m, with an estimated porosity of 10.2%. The down hole geothermal temperature at 4,000m was measured at 171.4°C, exceeding the projected target temperature by more than 10°C."

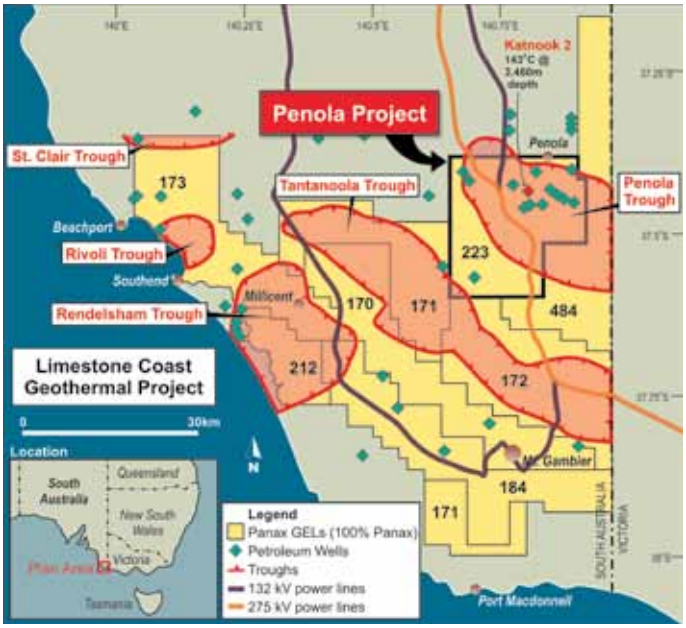
Limestone Coast – Penola Project

(GELs 170, 171, 172, 173, 184, 212, 223, 484 – 100% Panax)

This large project covers the bulk of the Otway Basin in South Australia and targets hot sedimentary aquifers (HSAs), the Pretty Hill Sandstone, in four troughs or sub-basins. It has excellent infra-structure, with the national grid crossing the leases. The Penola Project, covering GELs 223 and 484, was acquired in December, 2008, as the Penola Trough has an excellent open file data base, comprising logs and core of 28 petroleum wells as well as an extensive 3D seismic cover. The deepest petroleum well is approximately 3,500m and has intersected approximately 800m of the target Pretty Hill Sandstone.

In-house pre-feasibility studies (PFS) based on prevailing reservoir qualities (geothermal temperature and permeability) and reservoir modelling has shown that the Penola Project could generate power at a total cost of A$83/MWh (= 8.3 cents/kWh), which is lower than the cost of wind power.

Excellent Infrastructure



These studies were signed off by an external consultant (Dr Subir Sanyal of GeothermEx, USA) and were independently fully audited. The studies were based on a flow rate of 175 litres/sec and a temperature of 145°C with a net output of 5.9 MW per production well.

Main power transmission lines crossing Panax's Penola Project Licences.

Limestone Coast Geothermal Resources*)					
Trough	**Measured (PJ)**	**Indicated (PJ)**	**Inferred (PJ)**	**Total (PJ)**	**Report Date**
Tantanoola	-	-	130,000	130,000	31/03/09
Penola	11,000	32,000	89,000	132,000	23/02/09
Rivoli & St Clair	-	-	53,000	53,000	28/01/09
Rendelsham	-	-	17,000	17,000	28/02/09
Total	**11,000**	**32,000**	**289,000**	**332,000**	

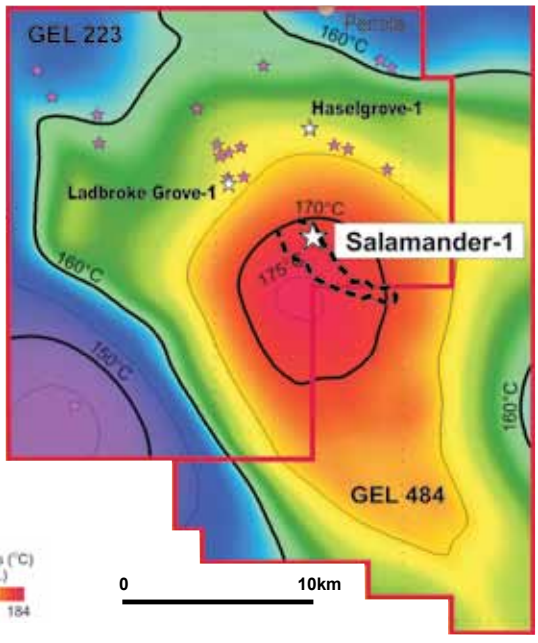
*) The figures quoted in this table are summarised from resource statements presented to the ASX on the dates shown. Readers are referred to the original reports for details of the resource estimates.

Salamander-1 Well

Using the extensive open file data base, the drill site selection was based on targeting high porosity/permeability zones in the Pretty Hill Sandstone at 3,000m-4,000m in depth, with a projected bottom hole temperature of 160°C. Salamander-1 was designed to convert part of the estimated "Measured Geothermal Resources" to "Geothermal Reserves" and following success, function as the production well for a demonstration geothermal power plant. The cost of the well was budgeted at approximately A$15 million and Panax was fortunate in being awarded a A$7 million grant from the Commonwealth Government's Geothermal Drilling Programme in April, 2009.

Salamander-1 was spudded on 31 January, 2010 and reached its total depth (TD) of 4,025m in record time of 44 days, using only six drill bits. First steam was produced in late March/ early April, 2010, as part of the initial discharge test. The SKM (NZ) designed and managed well testing programme was completed in July, 2010.

2,000 hp contract drilling rig.



Penola Trough, 3D conductive heat flow modelling (HDRPL) (Predicted @ 4,025m 172°C, actual measured 171.47°C).

Legend
Panax GELs (100% Panax)
Good reflectivity seismic zone in upper Pretty Hill Sandstone indicative of good reservoir rocks.
3D modelled temperatures (°C) @ 4,025m depth. (HDRPL)
111 129 148 166 184

Salamander-1 well site, with rig mast (55m) still on the ground. The large lined pond (14Ml) is constructed for the well testing programme.

Results

The Salamander-1 well met its primary objectives by intersecting more than 1,100m of target reservoir rocks, the Pretty Hill Sandstone. Over the interval 2,900m–3,570m, it intersected a total thickness of 675m of reservoir sandstones with an average estimated porosity of 13.2%. This was followed by 411m of reservoir sandstones, over the interval from 3,570m–4,000m, with an estimated porosity of 10.2%. The down hole geothermal temperature at 4,000m was measured at 171.4°C, exceeding the projected target temperature by more than 10°C.

Interpretation of the wireline logging data (Petrophysical logs) from the more than 1,100m 8½ inch open hole section in the target reservoir indicates that the total thickness of the intersected permeable zones, or "transmissivity" of the target rocks, would meet the requirements for the development of a demonstration plant.

The well testing programme comprised five discharge tests and a single injection test. An acid "clean-up" treatment was conducted after the first four discharge tests. The final well test report is awaited but preliminary results show that transmissivities (= capacity to flow) decreased following each succeeding discharge test, indicating that communication between the intersected reservoir rocks and the 1,100m open hole section of the well bore is restricted.

The well drilling programme had anticipated such potential problems and special water based muds were employed to prevent reservoir communication problems. However, results show that the adopted methods did not prevent restricted communication in the open hole section.

In this context it is worth pointing out that the drilling of the Salamander-1 well had to comply with the prevailing regulations for petroleum wells. This implied that "overweight" drilling fluids had to be used to prevent potential well blowouts. Following the completion of Salamander-1 it has been demonstrated that overpressured and/or gas bearing zones are absent and this will leave more "degrees of freedom" for remedial work in the future.

In many ways, Salamander-1 is a pioneering well and Panax has now engaged reservoir engineers, who successfully solved similar problems in the coal bed methane industry. We remain optimistic that appropriate well completion methods, e.g. perforation, stimulation, "stim gun", etc will be identified to restore communication with the reservoir rocks, which in turn will allow the Salamander-1 well to be completed as a production well.

Installing mud pumps.

Community meeting, Salamander-1 well site, February, 2010. Mr Gordon Wakelin-King explaining drilling techniques.

Cooper Basin – The Hutton Project

GELs 220, 221, 281 and 502 (100% Panax)

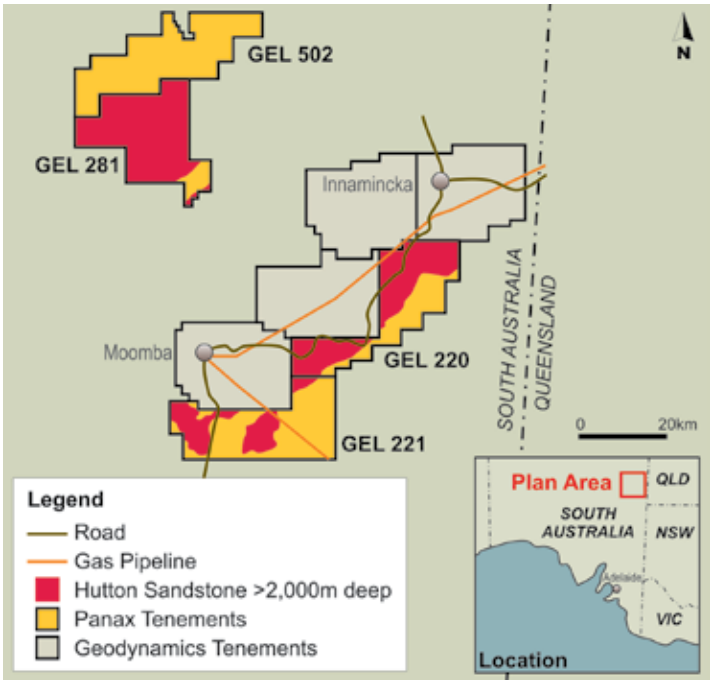
These licences are located remote from the grid and target HSAs at depths of less than 2,500m for the supply of geothermal power to replace local diesel generation (Moomba gas hub and Tirrawarra oil field). The Tirrawarra project (GEL 281 and 502) is associated with a "Measured Geothermal Resource" totalling 11,000PJ, but our focus is currently on the Hutton Project which targets superior quality reservoir rocks at relatively shallow levels, in the well documented Hutton Sandstone.

The Hutton Sandstone, which is part of the Great Artesian Basin, is well known to produce water at high flow rates from bores under artesian pressure (e.g. the recent 1,500m deep Mt Gason bore, S.A, has artesian flows of 155litres/sec).
The combination of shallow depth (<2,500m) and the outstanding and well documented reservoir quality of the Hutton Sandstones translate to low cost drilling and a low risk project.

Studies carried out on behalf of Panax indicate that the Hutton Sandstone reaches temperatures of 130°C–140°C at depths between 2,000m and 2,400m. In-house pre-feasibility studies have shown that at these temperatures, the Hutton Sandstone HSAs can be utilised to generate power at modest scale (e.g. 1 MWe), at costs much lower than local diesel generation.
At relatively modest flow rates (e.g. 50litres/sec), total costs could be less than A$100 per MWe net plant. This could provide savings of up to 50% to local diesel power users.

Our current focus is on obtaining accurate temperature estimates, of the Hutton Sandstone HSAs based on re-logging existing petroleum wells in GELs 220 and 221.

Panax's geothermal exploration licences ("GELs") in the Moomba region in Central Australia.



Indonesia

Indonesia

Panax made good progress in advancing its geothermal interests in Indonesia during the year. This country is well endowed with geothermal resources and reserves and hosts commercially attractive development opportunities (see box, p. 26).

Panax recently announced the execution of a "Binding Terms Sheet Agreement" with PT Bakrie Power ("Bakrie") regarding a Joint Venture for the exploration, development and generation of power from geothermal resources across the Republic of Indonesia.

The Joint Venture includes:

- Geothermal project areas that have already been awarded to Bakrie;
- Geothermal areas that Bakrie has already tendered for in Indonesia;
- Additional geothermal areas that Panax and Bakrie will jointly identify as suitable for geothermal development.

Panax and Bakrie have also completed a "Binding Terms Sheet Agreement" with PT Dairi Prima Minerals ("PTDPM") for the supply of up to 25 MW of geothermal power for PTDPM's Dairi Prima underground lead/zinc mine in northern Sumatra.

The Joint Venture will initially focus on:

- The development of known geothermal resources of the Sokoria Project located on the Island of Flores, for the development of a 30 MW geothermal power plant; and
- On the direct supply of approximately 25 MW of base-load geothermal power to PT Dairi Prima's planned underground zinc/lead mine in northern Sumatra.

The combined potential of both project areas is in excess of 100 MW and recently completed financial analyses show that both projects are robust and commercially attractive.

Sokoria Project, Flores

(Panax 45% working interest; Panax is Operator of current exploration and pre-development program)

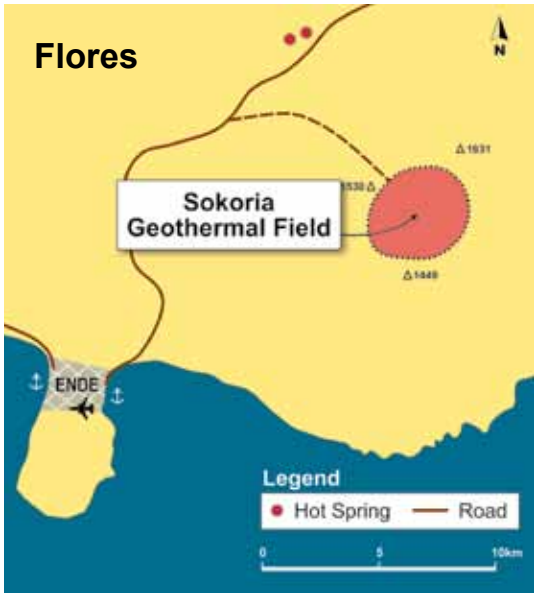
The Sokoria Geothermal Project is distinguished by the following four factors:

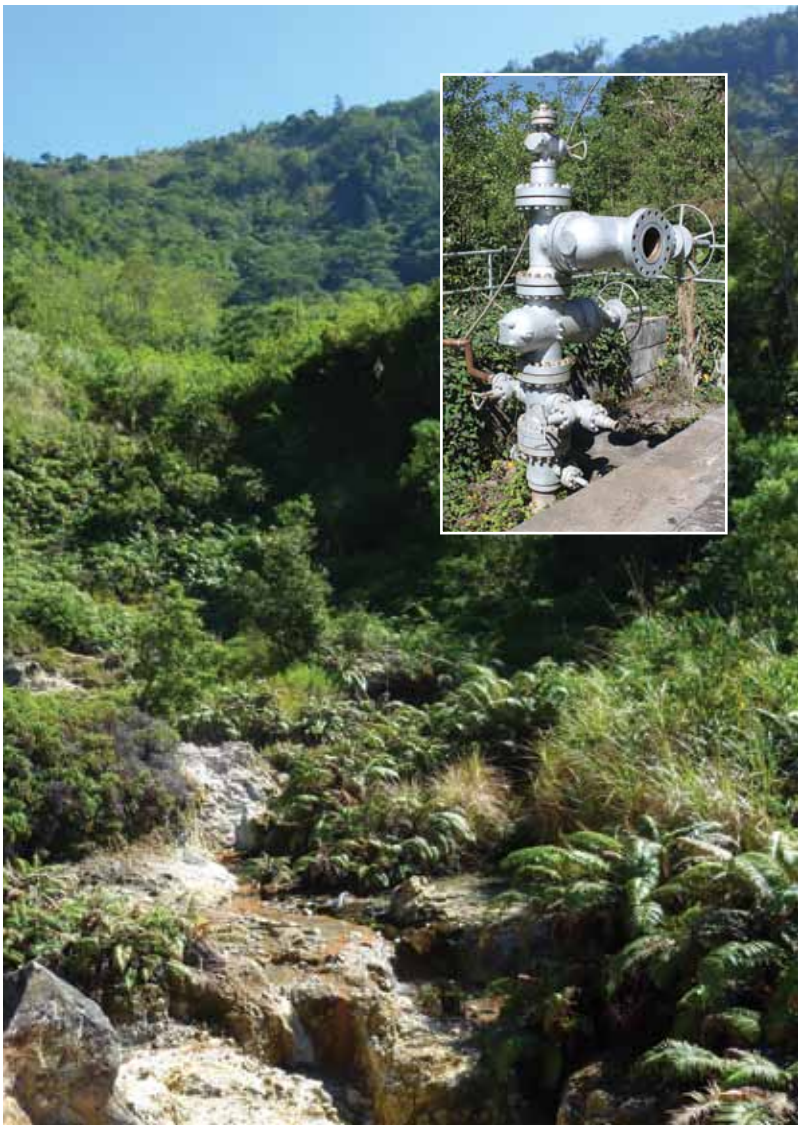
- The geothermal field is well known from extensive previous work (1974 – present) including a number of existing wells;
- The project has an agreed power price of USD12.5¢/kwh ($USD125/MWh) for the first 30 MW generating capacity;
- Strong support from local government as well as from the local community as the island is currently fully dependent on diesel power generation; and
- The infrastructure is excellent, being within 16km of the capital of Flores, Ende, which is well serviced by regular airline services and a sea port.

The advanced Sokoria Project has an extensive exploration data base, including three exploration wells as well as magneto-telluric ("MT") surveys. Geothermal reservoir temperatures at depths of 1,500m-2,000m are estimated at >230°C. A 2008 report completed by JICA has estimated that the Sokoria field has an "Exploitable Resource Potential" of 90 MW. The Indonesian Government estimates Sokoria's resource potential at 145 MW with a current "Possible Reserve" of 25 MW.

Field exploration activities at Sokoria are likely to commence in December, 2010.

Sokoria Project Location Map





Sokoria Project, Flores, field location. (inset: existing geothermal well site)

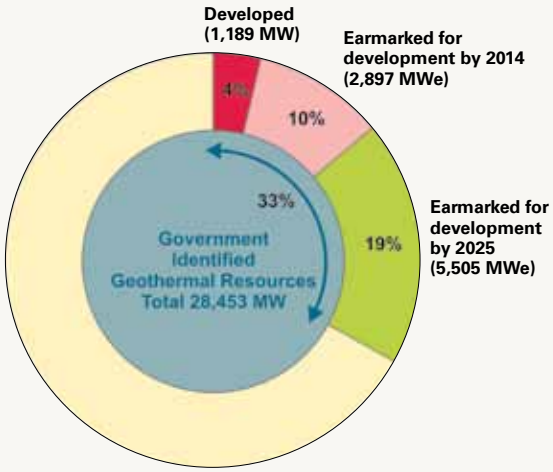
Indonesia

Indonesia arguably hosts the largest geothermal resources in the world and major international companies are now competing to take part in a new wave of geothermal developments. The current total installed geothermal power capacity in Indonesia is approximately 1,200 MW (third largest in the world), with an identified geothermal resource potential in excess of 28,000 MW.

The Indonesian Government has plans to increase the currently installed capacity to more than 4,000 MW by 2014 (an increase of 250%) and by 2025 to nearly 10,000 MW. In an effort to meet these ambitious targets, the Indonesian Government has commenced tendering geothermal resource projects across the country. Indonesia is set to become the largest geothermal power generator in the world.

The Indonesian Government's plans have gained international support as is evidenced by the US Government EXIM Bank's recent decision to commit US$1 billion in credit to 11 Indonesian Banks, solely for geothermal development in Indonesia.

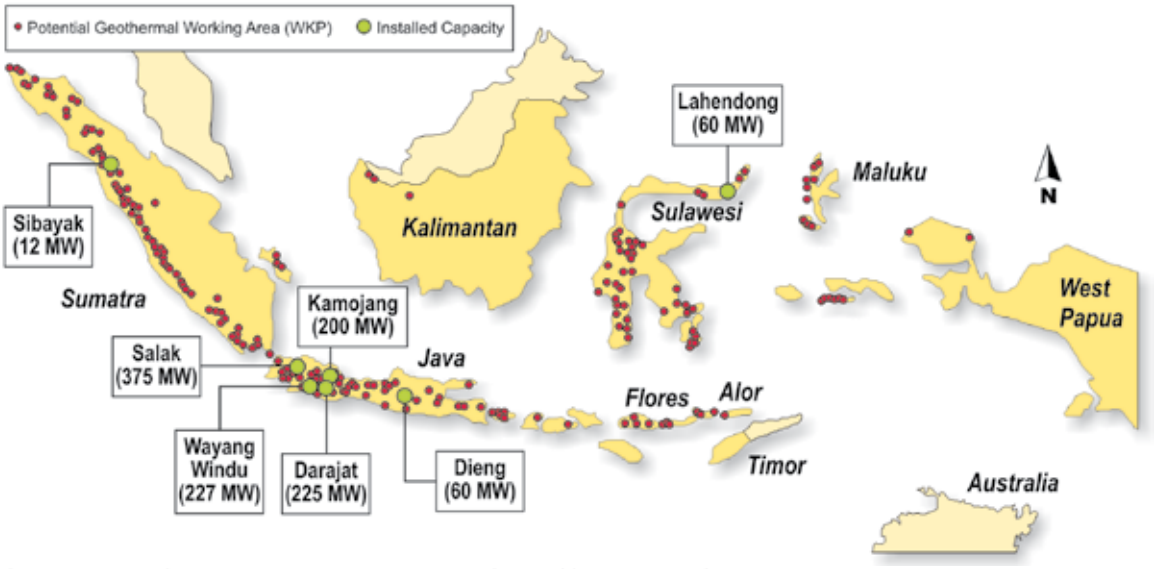
Indonesian Government Plan for Development of Geothermal Resources



Geothermal in Indonesia

Geothermal Potential: 28,453 MW Geothermal Installed Capacity: 1,189 MW

Government Plan: >4,000 MW by 2014
>9,500 MW by 2025



Source: Department of Energy and Mineral Resources. Directorate General of Coal, Mineral and Geothermal.

Dairi Prima Project

(Panax 51% working interest; Panax is Operator of current exploration and pre-development program)

Panax and Bakrie have agreed a "Binding Terms Sheet Agreement" with PT Dairi Prima Minerals ("PTDPM"), a subsidiary of the listed Bumi Resources Group, for the supply of up to 25 MW of geothermal power for PTDPM's underground Dairi Prima lead/zinc mine that is to be constructed in northern Sumatra. Under the terms of the "Binding Terms Sheet Agreement", the electricity tariff in the first eight years of the Agreement will be USD15c/kW/h ($US150/MWh) and USD12.5c/kW/h (or $US125/MWh) for the remainder of the term of the Agreement. In addition to this, Panax and Bakrie will be entitled to receive 50% of all carbon credits generated from the project. Panax and Bakrie also have the right to provide additional geothermal power to PTDPM to meet future mine expansions. First production from the Dairi Prima mine is expected to occur in late 2012.

Sibayak Indonesia

The geothermal areas surrounding the Dairi Prima Mining Project host numerous geothermal prospects associated with Quaternary volcanic centres along the Sumatran transcurrent fault. The relatively shallow geothermal resources can be accessed via 2,000m deep wells, some of which are known to have the potential to produce up to 30 MW per well.

The northern Sumatra region currently hosts one operating geothermal power plant at the Sibayak geothermal field. This field is underutilised and discussions are currently underway regarding the development of spare capacity for supplying power to the Dairi Prima Mine.

Volcanic fumarole precipitating sulphur, Northern Sumatra.

Puga

(Panax has the right to earn a 49% interest, with Panax as Operator)

The 60 MW Puga project is part of the Himalayan geothermal province, a belt of high heat flows which extends east into Tibet, where the Yangbajing geothermal project is already in operation (35 MWe). A number of hot springs occur along the bed of the Indus River and in a tributary valley where the Puga geothermal resource is located. A number of shallow holes drilled by the United Nations Development Programme (UNDP) in the mid 1970s, identified a large shallow geothermal reservoir (<400m) with temperatures exceeding 140°C.

Our target is a deeper geothermal reservoir as delineated by a magnetotelluric survey conducted by the National Geophysical Research Institute of India (NGRI) at a depth of approximately 2,000m. The temperature in this geothermal reservoir is expected to be in excess of 260°C. Power generated will be supplied to the district capital Leh, which currently relies on diesel power that cannot meet the local demands. The 60 MW project will be developed in a staged manner.

Our Joint Venture Partner Geosyndicate Power Private Ltd ("GPP") has advised that construction of a 100km transmission line from Puga to Leh (central town of the Ladakh district) has commenced. This would bring the Puga Project to within 30km-40km of a transmission line.

GPP has confirmed that despite the considerable delays encountered to date, it has good reasons to expect that the development permit for the Puga Project will be issued in the near future. The Puga development permit will not only provide the framework for development, but will also contain the electricity tariff structure, including contracts of a future power purchase agreement.

For an informative video on the Puga Project, please refer to the Panax website.

Puga Valley - Boiling geothermal well, 2008.

PANAX GEOTHERMAL 6

ANNUAL FINANCIAL REPORT

for the financial year ended 30 june 2010

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the "Group" or "Panax") consisting of Panax Geothermal Ltd and its controlled entities for the year ended 30 June 2010.

Directors

The following persons were directors of Panax Geothermal Ltd during the whole of the financial year and up to the date of this report:

Mr Gregory Martyr	Chairman – Non-Executive
Dr Lambertus de Graaf	Managing Director and Chief Executive Officer
Mr Kerry Parker	Executive Director and Chief Financial Officer
Mr Stephen Evans	Non-Executive Director
Mr Ian Reid	Non-Executive Director

Company Secretary

Mr Kerry Parker acted in the position of Company Secretary for the whole of the financial year and up to the date of this report.

Principal Activities

The principal activity of the group during the course of the financial year was the exploration of geothermal opportunities in Australia, India, Indonesia, Kyrgyz Republic and Slovakia.

Dividends

The directors recommend that no dividend be paid or declared at this point in time. No amounts have been paid or declared by way of dividend during the year.

Review of operations

The following provides a summary of Panax's activities and achievements during the course of the financial year:

Australia – Penola Geothermal Project

- Drilling of the Salamander-1 well at the Penola Geothermal Project in the south-east of South Australia, drilled in record time and with no lost time injuries being encountered;
- New detailed financial analysis of the Penola Geothermal Project, confirming the financial attractiveness of the project;
- Continuing joint venture discussions for participation in the Penola Geothermal Project;
- New reservoir modelling confirms that "no major cooling is detected over a period of thirty years";
- The primary objectives of drilling Salamander-1 were achieved;
- There remains sufficient grounds to further advance the Penola Geothermal Project;
- Petrophysical logs indicate 637 metres of clean sandstones with an average porosity of 13.2%, and most likely transmissivities of 6.68Dm, in principle sufficient to support a geothermal power plant;
- The well testing program was completed but we are awaiting the final report. Indications of very low measured transmissivities are not in line with the petrophysical logs. Severe reservoir damage in the well bore is not unlikely; and
- New 3D temperature modelling and newly released 3D seismic data enhances the regional potential of the Penola Geothermal Project.

Australia – Cooper Basin Region

- Further work on the Cooper Basin tenements highlights the potential of the region for Hot Sedimentary Aquifer geothermal;
- Hot Sedimentary Aquifers associated with GEL's 220 and 221 are projected to reach 143^{O}C at 2,000 metres;
- Completion of a Memorandum of Understanding with Santos Limited; and
- Financial modelling demonstrates that the Hutton Geothermal Project could deliver competitive power for the region. The Hutton Project presents a low risk opportunity to liberate the large recognised geothermal potential, contained in the Great Artesian Basin, in this "off-the-grid" region. Through demonstrating the economic viability of generating zero-emission base load power from hydrothermal energy resources, the Hutton Project will augment the geothermal potential as represented by the Hot Fractured Rock ("HFR") geothermal resource of this region.

Indonesia

- Indonesia has one of the best, if not the best, geothermal endowments in the world. The Indonesian Government has plans to accelerate the development of its geothermal resources that is likely to result in Indonesia ranking No.1 in the world in geothermal power generation in the current decade. Through collaborations with a local company, Panax has secured an attractive position to participate in this new development phase;
- Completion of a "Binding Terms Sheet Agreement" with PT Bakrie Power ("Bakrie") regarding a Joint Venture for the exploration, development and generation of power from geothermal resources across the Republic of Indonesia. The new agreement replaces the previous "Memorandum of Understanding" ("MOU") between Panax and Bakrie, as announced in June 2010;
- The Joint Venture includes:
  - Geothermal project areas that have already been awarded to Bakrie;
  - Geothermal areas that Bakrie has already tendered for in Indonesia;
  - Additional geothermal areas that Panax and Bakrie will jointly identify as suitable for geothermal development; and
- Panax and Bakrie have also completed a "Binding Terms Sheet Agreement" with PT Dairi Prima Minerals ("PTDPM") for the supply of up to 25 MW of geothermal power for PTDPM's Dairi Prima proposed underground lead/zinc mine in northern Sumatra.

India

- Panax is still awaiting the granting of final development permits for the Puga Project prior to works commencing in India. While a definitive time frame for the issue of these final permits and approvals is not currently available, Panax, on the basis of recent discussions as well as review of documentary evidence, remains confident that these permits and approvals will be issued. Our discussions have indicated the continuing support of the provincial government, the local governing council, and the local community.

Kyrgyz Republic

- Panax announced its withdrawal from its geothermal interests in Kyrgyz Republic during the financial year.

Slovakia

- During the year, Panax continued its review of the prospectivity of this area. An initial three application areas were offered to Panax by our Joint Venture Partner (Geopark) during the year, however these three application areas were not accepted by Panax, due to the lack of sufficient underlying technical data for the areas selected (i.e. lack of deep drill holes in the target reservoir from prior oil and gas drilling, and / or lack of seismic data). This decision was made as a result of the early exploration stage of the three areas offered to Panax, and the inherent exploration risks associated with such green-field tenement areas.

Corporate

- Panax was successful in raising approximately $10.3 million in new equity capital during the year (prior to capital raising costs);
- Appointment of Mr David Jenson strengthened the Panax management team with geothermal engineering expertise;
- Visits to geothermal power plants in Southern California confirm the economic viability of low to medium temperature Hot Sedimentary Aquifer geothermal; and
- ABARE ranks Hot Sedimentary Aquifer geothermal as lowest long term, clean, renewable energy option.

Significant changes in the nature of activities

Other than as otherwise disclosed in this report, there were no other changes in the nature of activities that occurred during the course of the financial year.

Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs, in subsequent financial years other than as disclosed in Note 29 in the accompanying financial report.

Likely Developments and Expected Results of Operations

The Group proposes to continue its exploration program and investment activities across its various geothermal interests, both in Australia and internationally.

Further information in relation to likely developments and the impact on the operations of the Group has not been included in this report, as the directors believe it would result in unreasonable prejudice to the Group.

Environmental Regulation

The Group is required to carry out its activities in accordance with regulations determined by statute and regional entities in the areas in which it undertakes its exploration, development and production activities. The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

Significant Changes in State of affairs

Other than as disclosed in this report and the accompanying financial report, there were no other significant changes in the Group's state of affairs during the course of the financial year.

Information on directors

GREGORY MARTYR

Chairman – Non-Executive
Qualifications BEc LLB
Age 46

Experience and expertise Mr Martyr has significant experience over more than 20 years in resources investment banking as well as the management and corporate development for international mining companies. He has been a partner of Gryphon Partners, a boutique resources corporate advisory firm, since 2003 and worked in investment banking from 1988 to 1994 mainly with the Deutsche Bank Group, focusing on mergers and acquisitions and capital raisings, predominantly in the resources sector. He was with the Normandy Mining Group from 1994 to 2003 in several roles aimed at growing Normandy's asset base throughout the world. He has also acted as a director on the boards of several international listed companies, including TVX Gold Inc.

Other current directorships	Nil
Former directorships in last 3 years	WCP Resources Ltd (from 2006 to 2008)
Special responsibilities	Chairman of the Board Chairman of the Remuneration Committee Member of the Audit Committee
Interests in shares and options	1,175,000 ordinary shares in Panax Geothermal Ltd 2,000,000 unlisted options at $0.20 106,819 listed options at $0.25

LAMBERTUS DE GRAAF

Managing Director – Chief Executive Officer
Qualifications B.Sc (Hons), Ph.D (Univ. of Bristol, UK) FAusIMM, MGSA
Age 64

Experience and expertise Bertus co-founded and was the Managing Director and Chief Executive Officer of Geodynamics Limited for 6 years to July 2006. Bertus has 30 years of international experience in mineral exploration and mine development. He began his career with Shell Metals, (later known as Shell Billiton) in 1972 and completed assignments in Europe, Africa, South America, Asia and Australia. After staying with the Shell/Billiton Group for 14 years, he became the founding Managing Director of Ross Mining NL in 1986, a company which was listed on the ASX in 1987. During his 14 year tenure to 2000, Ross Mining developed 4 gold mines, paying dividends for the last consecutive 7 years with the company attaining a market capitalization in excess of $200M. He also was a founding Director of the Australian Gold Council.

Following a friendly merger in 2000, Bertus focused on the formation and stock exchange listing (ASX) of Geodynamics Limited, a company focused on developing a known, world class Hot Fractured Rock (HFR) geothermal resource in the Cooper Basin, South Australia for the generation of large scale, zero-emission base-load power.

Other current directorships	Nil
Former directorships in last 3 years	Nil
Special responsibilities	Managing Director and Chief Executive Officer
Interests in shares and options	10,283,515 ordinary shares in Panax Geothermal Ltd 4,500,000 unlisted options at $0.20 972,870 listed options at $0.25

KERRY PARKER

Executive Director – Company Secretary – Chief Financial Officer
Qualifications BBus (Acct), ACA, MAICD
Age 43

Experience and expertise Kerry is a chartered accountant and has over 20 years experience in various business advisory and commercial roles, both in Australia and internationally.

During his extensive career, Kerry has had significant experience and involvement in management of the accounting and finance functions including systems implementation, debt and equity raisings (in total, of the order of $AUD 750 million), treasury management, and government and commercial negotiations. He has also had significant experience in management of significant joint venture interests (both exploration and operating), and in the negotiation of significant sale and purchase agreements, and power purchase agreements.

Other current directorships	Nil
Former directorships in last 3 years	Nil
Special responsibilities	Member of the Audit Committee Company Secretary Chief Financial Officer
Interests in shares and options	3,809,254 ordinary shares in Panax Geothermal Ltd 2,000,000 unlisted options at $0.20 1,000,000 unlisted options at $0.30 750,000 unlisted options at $0.13 500,000 unlisted options at $0.25 385,210 listed options at $0.25

STEPHEN EVANS

Director – Non-Executive
Qualifications BA(Acc), FAICD
Age 50

Experience and expertise Stephen is the Managing Director of a leading Adelaide based accounting firm (RJC Evans & Co) which was established in 1920. Stephen has over 25 years experience in advising small, medium and large corporations in relation to tax, accounting, financial and business related matters. He is a member of the Taxation Institute of Australia, National Institute of Accountants and a fellow of the Institute of Company Directors.

Other current directorships	Director and Non-Executive Chairman of Chesser Resources Limited (from 29 March 2007) Director of Newport Mining Ltd (from 31 October 2007) Director of Innovance Ltd (from 4 June 2007)
Former directorships in last 3 years	Director of WCP Resources Limited (2005 to 2009)
Special responsibilities	Chairman of the Audit Committee Member of the Remuneration Committee
Interests in shares and options	1,000,000 unlisted options at $0.20c

IAN REID

Director – Non-Executive
Qualifications B.Sc (Hons) ARSM, AAPG
Age 48

Experience and expertise Ian was trained as a Petroleum Geologist (B.Sc Hons) Royal School of Mines, Imperial College London, UK and has had an extensive career with Shell International (UK, Australia, Norway, The Netherlands, Vietnam, New Zealand and Oman) as well as being an independent consultant on sedimentary basins. Ian was a co-founder of the geothermal consultancy Hot Dry Rocks Pty Ltd and one of the two founding directors of Osiris Energy Limited.

Other current directorships	Nil
Former directorships in last 3 years	Nil
Special responsibilities	Nil
Interests in shares and options	27,696,364 ordinary shares 2,530,519 listed options at $0.25

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director are as follows:

	Full meetings of directors		Meetings of committees			
			Audit		Remuneration	
	A	B	A	B	A	B
Gregory Martyr	10	10	3	3	1	1
Stephen Evans	10	10	3	3	1	1
Ian Reid	10	10	*	*	*	*
Lambertus de Graaf	10	10	*	*	*	*
Kerry Parker	10	10	3	3	*	*

A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended
* = Not a member of the relevant committee

Shares under option

Unissued ordinary shares of Panax Geothermal Ltd under option at the date of this report are as follows:

Grant Date	Vest Date	Expiry Date	Exercise Price	Number of options
30/06/2007	30/06/2007	30/06/2011	$0.20	2,000,000
30/06/2007	30/06/2007	30/06/2011	$0.20	1,500,000
30/06/2007	30/06/2007	30/06/2011	$0.20	1,000,000
30/06/2007	30/06/2007	30/06/2011	$0.20	2,000,000
21/10/2007	21/10/2007	21/10/2011	$0.20	3,000,000
21/10/2007	21/10/2007	21/10/2011	$0.20	3,000,000
21/10/2007	21/10/2007	21/10/2011	$0.20	4,000,000
01/07/2007	01/07/2007	01/07/2012	$0.20	500,000
15/11/2007	15/11/2007	15/11/2012	$0.20	1,000,000
15/11/2007	15/11/2008	15/11/2012	$0.20	1,000,000
15/11/2007	15/11/2009	15/11/2012	$0.30	1,000,000
19/11/2007	19/11/2007	19/11/2012	$0.20	100,000
04/02/2008	04/02/2008	04/02/2013	$0.20	300,000
04/02/2008	04/02/2009	04/02/2013	$0.20	200,000
01/07/2008	04/02/2009	04/02/2013	$0.20	100,000
01/06/2008	01/06/2008	01/06/2012	$0.20	500,000
30/06/2008	30/06/2008	30/06/2013	$0.20	100,000
30/06/2008	30/06/2009	30/06/2013	$0.20	100,000
30/07/2009	30/07/2010	30/07/2014	$0.18	400,000
25/11/2009	22/05/2010	25/11/2012	$0.13	750,000
25/11/2009	22/05/2011	25/11/2012	$0.25	500,000
21/12/2009	21/12/2009	20/12/2011	$0.25	(listed options) 52,012,611
				75,062,611

No option holder has any right under the options to participate in any other share issue of the Group or any other entity.

Shares issued on the exercise of options

No ordinary shares of Panax Geothermal Ltd were issued during the year ended 30 June 2010 or since year end on the exercise of options.

Remuneration Report

(a) Policy for determining the nature and amount of key management personnel remuneration

The remuneration committee of Panax Geothermal Ltd is responsible for determining and reviewing compensation arrangements for the Directors, Chief Executive Officer and the Executive Team. The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Group.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

(I) Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

Remuneration of non-executive directors is determined by the Board, within the maximum amount approved by the shareholders from time to time (currently set at an aggregate of $200,000 per annum). The Board intends to undertake an annual review of its performance and the performance of the Board committees against goals set at the start of the year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Group. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

The remuneration of non-executive directors for the year ended to 30 June 2010 is detailed in this Directors' Report.

(II) Senior Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives for Group and individual performance against targets set by reference to appropriate benchmarks;
- Align the interest of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Board has had regard to market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with all senior executives.

(III) Variable Remuneration – Short and Long Term Incentives

Objective

The objectives of the incentive plan are to:

- Recognise the ability and efforts of the employees of the Group who have contributed to the success of the Group and to provide them with rewards where deemed appropriate;
- Provide an incentive to the employees to achieve the long term objectives of the Group and improve the performance of the Group; and
- Attract persons of experience and ability to employment with the Group and foster and promote loyalty between the Group and its employees.

Structure

No formal plan has been implemented at this time. It is proposed that long term incentives granted to senior executives will be delivered in the form of options in accordance with an Employee Share Option Plan, subject to shareholder approval. At the commencement of each financial year, the Group and each senior executive will agree upon a set of financial and non-financial objectives related to the senior executive's job responsibilities. The objectives will vary but all will be targeted directly to the Group's business and financial performance and thus to shareholder value.

(b) Remuneration, Group performance and shareholder wealth

The development of remuneration policies and structure are considered in relation to the effect on Group performance and shareholder wealth. They are designed by the Board to align Director and Executive behaviour with improving Group performance and ultimately shareholder wealth.

The Board considers at this stage in the Group's development, that share price growth itself is an adequate measure of total shareholder return.

Executives are currently remunerated by basis of remuneration and options. The options granted are considered by the Board to provide an alignment between the employees and shareholders interests.

The options issued during the current and prior year have exercise prices of between 13 cents and 25 cents. As at 30 June 2010 the Group's share price was 8 cents.

(c) Key management personnel

Unless otherwise stated, the following persons were key management personnel of Panax Geothermal Ltd during the financial year:

Name	Date Appointed	Date Resigned	Position Held
Gregory Martyr	30/04/2007		Non-Executive Chairman
Lambertus de Graaf	16/10/2007		Managing Director/Chief Executive Officer
Kerry Parker	01/11/2007		Executive Director/Chief Financial Officer/Company Secretary
Stephen Evans	30/04/2007		Non-Executive Director
Ian Reid	04/12/2008		Non-Executive Director
Ron Palmer	01/02/2009	06/08/2010	Chief Operating Officer
David Jenson	01/08/2009		General Manager Geothermal Engineering
Donna Gallaher	04/02/2008	06/11/2009	Finance Manager

(d) Details of remuneration

Compensation paid payable or provided by the Group or on behalf of the Group, to key management personnel is set out below. Key management personnel include all directors of the Group and certain executives who, in the opinion of the Board and Managing Director, have authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly.

The following also includes the five most highly remunerated executives of the Group.

2010

Name	Short-term employee benefits	Post-employment benefits	Share-based payments	Total	Proportion of remuneration that is performance based %
	Cash salary and fees $	Super-annuation $	Options $	Total $	
Non-executive directors					
Gregory Martyr	60,000	5,400	-	65,400	-
Stephen Evans	30,000	2,700	-	32,700	-
Ian Reid	25,000	2,250	-	27,250	-
Total non-executive directors	**115,000**	**10,350**	**-**	**125,350**	**-**
Executive directors					
Lambertus de Graaf	275,000	24,750	-	299,750	-
Kerry Parker	225,000	20,250	120,091	365,341	-
Total executive directors	**500,000**	**45,000**	**120,091**	**665,091**	**-**
Other key management personnel					
Ron Palmer	225,000	20,250	-	245,250	-
David Jenson	215,700	-	40,299	255,999	-
Donna Gallaher (resigned with effect from 06/11/09)	56,213	4,601	-	60,814	-
Total other key management personnel	**496,913**	**24,851**	**40,299**	**562,063**	**-**
Total key management personnel compensation	**1,111,913**	**80,201**	**160,390**	**1,352,504**	**-**

No bonuses were paid in 2010.

2009

Name	Short-term employee benefits	Post-employment benefits	Share-based payments	Total	Proportion of remuneration that is performance based %
	Cash salary and fees $	Super-annuation $	Options $	Total $	
Non-executive directors					
Gregory Martyr	60,000	9,450	-	69,450	-
Stephen Evans	30,000	4,793	-	34,793	-
Ian Reid (from 04/12/2008)	14,266	563	-	14,829	-
Total non-executive directors	**104,266**	**14,806**	**-**	**119,072**	
Executive directors					
Lambertus de Graaf	275,000	24,750	-	299,750	-
Kerry Parker	225,000	20,250	35,433	280,683	-
Total executive directors	**500,000**	**45,000**	**35,433**	**580,433**	
Other key management personnel					
Donna Gallaher	145,000	13,050	12,882	170,932	-
Rob Heath (from 25/8/2008 to 31/12/2008)	79,326	7,139	-	86,465	-
Ron Palmer (from 01/02/2009)	93,750	8,437	-	102,187	-
Total Other Key Management Personnel	**318,076**	**28,626**	**12,882**	**359,584**	
Total key management personnel compensation	**922,342**	**88,432**	**48,315**	**1,059,089**	**-**

No bonuses were paid in 2009.

Superannuation paid to Non-Executive Directors in 2009 includes payments for superannuation relating to the 2008 and 2009 years.

(e) Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with Panax Geothermal Limited in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Managing Director, Executive Director, and the other key management personnel are also formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses. Major provisions of the agreements relating to remuneration are set out below.

Lambertus de Graaf, Chief Executive Officer

- Term of agreement – open ended commencing 16 October 2007
- Base salary, inclusive of superannuation, of $299,750.
- Bonus is payable on the achievement of such key performance indicators as the Group and the executive may agree from time to time.
- Contract may be terminated by the Group with one months notice and paying the executive an amount equal to the base remuneration that the executive would have earned had he remained employed by the Group from the end of the 1 month notice period for a further 12 months. The executive may terminate employment with six months notice.
- Payment of benefit of change on control of Group equal to twelve months base salary.

Kerry Parker, Executive Director

- Term of agreement – open ended commencing 1 November 2007.
- Base salary, inclusive of superannuation, of $245,250.
- Bonus is payable on the achievement of such key performance indicators as the Group and the executive may agree from time to time.
- Contract may be terminated by either party with six months notice or payment in lieu thereof.
- Payment of benefit on change of control of Group equal to six months base salary.

Ron Palmer, Chief Operations Officer (Position was made redundant with effect from 6 August 2010)

- Term of agreement - open ended agreement commencing 1 February 2009.
- Base salary, inclusive of superannuation, of $245,250.
- Bonus is payable on the achievement of such key performance indicators as the Group and the executive may agree from time to time.
- Contract may be terminated by either party with three months notice or payment in lieu thereof.
- Payment of benefit on change of control of Group equal to six months base salary.

David Jenson, General Manager Geothermal Engineering (commenced 1 August 2009)

- Term of agreement – fixed term contract for 18 months, with option by Panax to extend for additional period.
- Day rate of $1,000 per day, inclusive of all costs.
- Contract may be terminated by either party with 30 days notice or payment in lieu thereof.

(f) Share-based compensation

Details of options over ordinary shares in the Group provided as remuneration to each director of Panax Geothermal Ltd and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Panax Geothermal Ltd.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date (cents)	% Vested
15/11/2007	15/11/2009	18/11/2012	$0.30	3.3	100%
25/11/2009	22/05/2010	25/12/2012	$0.13	12.4	100%
25/11/2009	22/05/2011	25/12/2012	$0.25	10.7	-
20/07/2009	30/07/2010	30/07/2014	$0.18	11.0	-

Options are granted to attract and retain key management personnel.

The board has rules that contain restrictions on removing the 'at risk' aspect of the options granted to executives. Executives may not enter into any transactions designed to remove the 'at risk' aspect of an instrument before it vests.

There are no performance hurdles attaching to the options granted other than service vesting conditions. In the event of termination (specified circumstances) only vested options are entitled to be exercised. Unvested options are forfeited.

During the year there were no alterations to the terms and conditions of options granted since their grant date.

Details of options over ordinary shares in the Group provided as remuneration to each director of Panax Geothermal Limited and each of the key management personnel of the group are set out below. Further information on the options is set out in note 24 to the financial statements.

	Grant date	No. options granted	No. options vested	Fair value per option at grant date (cents)	Number of options lapsed during the year	Value at lapse date
Directors of Panax Geothermal Ltd						
K Parker	25/11/2009	750,000	750,000	12.44	-	-
	25/11/2009	500,000	-	10.65	-	-
Other key management personnel						
D Jenson	30/07/2009	400,000	-	10.98	-	-

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Further information on options granted during the year is discussed in Note 24 of the financial report.

For each grant of options, the percentage of the grant that vested in the financial year, and the percentage that was forfeited because the person did not meet the service performance criteria is set out below. The options usually vest after 2-3 years. No options will vest if the service conditions are not satisfied, hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Year Granted	Vested %	Forfeited %	Financial years in which the options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
G Martyr	2007	100%	-	-	-	-
S Evans	2007	100%	-	-	-	-
K Parker	2008	100%	-	-	-	-
	2010	60%	-	30/06/2011	-	31,960
D Jenson	2010	-	-	30/06/2011	-	3,609
D Gallaher	2008	100%	-	-	-	-
	2009	100%	-	-	-	-

(g) Additional information

The table below shows for the current financial year and previous two financial years the total remuneration cost of the key management personnel, earnings per ordinary share (EPS), dividends paid or declared, and the closing price of ordinary shares on ASX at year end.

Financial Year	Total Remuneration $	EPS Cents	Dividends Cents	Share Price Cents
2010	1,352,504	(1.3)	-	8
2009	1,059,089	(1.1)	-	14
2008	737,906	(2.2)	-	19

Insurance of Officers

During or since the end of the year, the Group has not given any indemnity to a current or former officer or auditor against a liability or made any agreement under which an officer or auditor may be given any indemnity of the kind covered by the Corporations Act 2001.

During the year, the Group paid premiums in respect of directors' and officers' indemnity insurance contracts for the period ended 30 June 2010. The insurance contracts offer continuing indemnity to officers of the Group where the person is no longer an officer at the time the claim is made. The Group paid a premium of $33,000 to insure the directors of the Group during the financial year. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on Behalf of the Group

The Group is not aware that any person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings in which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the court under section 237 of the Corporations Act 2001.

Non-audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and/or the Group are important.

The Board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Details of the amounts paid or payable to the auditor, Johnston Rorke, for audit services provided during the year are set out in Note 19 in the financial report.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2010 $	2009 $
Taxation services		
Johnston Rorke		
Tax compliance services	15,400	10,000
Total remuneration for non-audit services	**15,400**	**10,000**

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on Page 44.

Auditor

Johnston Rorke continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

Lambertus de Graaf
Director

Kerry Parker
Director

Brisbane
10 September 2010

JOHNSTON RORKE
CHARTERED ACCOUNTANTS

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Website www.jr.com.au
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The Directors
Panax Geothermal Ltd
Ground Floor
20 Railway Terrace
MILTON QLD 4064

Dear Sirs

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Panax Geothermal Ltd for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Panax Geothermal Ltd and the entities it controlled during the period.

JOHNSTON RORKE
Chartered Accountants

J. J. EVANS
Partner

Brisbane, Queensland
10 September 2010

Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Panax Geothermal Ltd ('the Company) is responsible for the corporate governance of the Company and is committed to achieving and demonstrating the highest standards of corporate governance.

Panax Geothermal Ltd's Corporate Governance Statement is structured with reference to the Australian Securities Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations" as revised in August 2007 the Principles of which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

The Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, the fact is disclosed, together with reasons for the departure.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of Board and management.

The board of directors

The board operates in accordance with the broad principles set out in this charter which is available from the corporate governance information section of the Company website at **www.panaxgeothermal.com.au**. The charter details the board's composition and responsibilities.

Board composition

The charter states:

- the board will comprise a suitable mix of non-executive directors and executive directors. Non-executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the board's role in supervising the activities of management, it is preferred that the Chairman should be an independent non-executive director, the board must be independent of management and all directors are required to bring independent judgement to bear in their board decision making;
- the Chairman is elected by the full board and is required to meet regularly (either formally or informally) with the Managing Director;
- the Company is to maintain a mix of directors on the board from different backgrounds with complementary skills and experience; and
- the board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring :
  - organisational performance and the achievement of the Group's strategic goals and objectives;
  - compliance with the Company's Code of Conduct; and
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation; and
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

2. STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board with an effective composition, size and commitment to adequately discharge it's responsibilities and duties.

Board members

There are three non-executive directors, two of whom are deemed independent under the principles set out below, and two executive directors.

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or "fresh" perspective; and
- the size of the board is conducive to effective discussion and efficient decision making.

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group;
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and / or
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Non-executive directors

The non-executive directors are encouraged to meet regularly without the presence of management or executive directors, to discuss the operation of the board and a range of other matters. Relevant matters arising from these meetings are shared with the full board.

Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re election, subject to attaining the age of 70 years when a director will retire, by agreement, at the next AGM and will not seek re-election.

Chairman and Managing Director (MD)

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Company's senior executives.

The Managing Director is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

The board is scheduled to meet formally on approximately six occasions during each calendar year, and more regularly and informally by telephone. This is considered adequate given the Company's current size and scale of operations.

Non-executive directors are expected to spend an appropriate portion of time per year preparing for and attending board and committee meetings and associated activities.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior advice to and agreement by the board.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Any and all potential conflicts of interest (whether relating to non executive directors, or to executive directors) are to be notified by the individual director concerned, prior to the matter being formally discussed between Directors. In accordance with the board charter, the directors concerned declare their interests in those dealings to the Company and take no part in decisions relating to them or the preceding discussions. In addition, these directors do not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this is not to be unreasonably withheld.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making.

The Company supports and has adopted the Code of Conduct published by the Australian Institute of Company Directors in 2005. The code recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics and its commitment to ensuring compliance with the insider trading laws.

The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors and executives and it has been agreed that this will be a continuing policy on a regular basis. Directors have all entered into agreements to notify the Company within three days of any dealing in the Company's securities and it is an employment condition that all executives notify the Company within three days of any dealing in the Company's securities.

Performance assessment

The board is encouraged to undertake an annual self assessment of its collective performance, the performance of the Chairman and of its committees. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman is encouraged to undertake an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

4. SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Corporate reporting

The Managing Director and Chief Financial Officer, at the end of each six month period, make the following certifications to the board:

1. that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
2. that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Audit committee

The audit committee consists of the following directors:

Stephen Evans (Chairman)
Greg Martyr
Kerry Parker

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee operates in accordance with a charter which is available on the Company website. The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market;
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations;
  - reliability of financial reporting;
  - compliance with applicable laws and regulations;
- determine the scope of potential internal audit requirements;
- oversee the effective operation of the risk management framework;
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors;
- meets with external auditors at least twice each year, or more frequently if necessary;
- reviews the processes the MD and CFO have in place to support their certifications to the board;

- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors as required without the presence of management; and
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Johnston Rorke, Chartered Accountants were appointed as the external auditor for the financial year 2008 onwards. It is Johnston Rorke policy to rotate audit engagement partners on listed companies at least every five years.

It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5. MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Continuous disclosure and shareholder communication

The Company has policies and procedures on continuous information disclosure that focus on timely and balanced disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the Company's website.

The company secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders currently receive a copy of the Company's annual report and quarterly reports. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all Company announcements, media briefings, details of Company meetings, press releases for the last three years and financial reports for the last five years available on the Company's website.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on Company matters.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are provided with all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

a. The Annual Report, which will be distributed to all shareholders (unless shareholders specifically indicate otherwise);

b. Quarterly Reports to all shareholders (to be issued within four weeks of the end of the quarter);

c. The Annual General Meeting, and other meetings called to obtain approval for Board action as appropriate; and

d. The Company's Corporate Internet site at **www.panaxgeothermal.com.au**. This web site is actively maintained and includes all market announcements, research reports from analysts, briefings to shareholders, full texts of notices of meeting and explanatory material and compliance reports such as the quarterly cash flow report and annual report.

Shareholders are actively encouraged to become "online shareholders" by registering electronically with the Company to receive an email notification of announcements as they are made. The Company endeavours to respond to all shareholder queries on a prompt and courteous basis.

All information disclosed to the ASX is automatically posted on the Company's website as soon as it is disclosed to ASX.

7. RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight, management and internal control.

Board committees

The board has established two sub-committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the Remuneration and Audit Committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent committee meeting and are available to other directors. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

Risk assessment and management

The board is responsible for ensuring there are adequate policies in place in relation to risk management, compliance and internal control systems. In summary, the Company policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. A formal delegation of authority document exists and is operational.

The Company risk management policy and the operation of the risk management and compliance system are regularly reviewed by the executive directors.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

In addition, the board requires that each major proposal submitted to the board for decision is accompanied by an appropriate review of risks and, where required, management's proposed mitigation strategies.

The environment, health and safety management system (EHSMS)

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the EHSMS is currently being finalised to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner. This system will allow the Company to:

- monitor its compliance with all relevant legislation;
- continually assess and improve the impact of its operations on the environment;
- encourage employees to actively participate in the management of environmental and OH&S issues;
- work with trade associations representing the Group's businesses to raise standards;
- use energy and other resources efficiently, and
- encourage the adoption of similar standards by the Group's principal suppliers, contractors and distributors.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Remuneration committee

The remuneration committee consists of the following directors:

Greg Martyr (Chairman)
Stephen Evans

The remuneration committee operates in accordance with its charter which is available on the Company website. The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members have regard to external remuneration sources on recent developments on remuneration and related matters as required.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

Annual Financial Report - 30 June 2010

CONTENTS **PAGE**

These financial statements cover the consolidated entity consisting of Panax Geothermal Ltd and its subsidiaries. The financial report is presented in Australian currency.

Panax Geothermal Ltd is a listed public company limited by shares, incorporated and domiciled in Australia and listed on the Australian Securities Exchange. Its registered office and principal place of business is:

Ground Floor, 20 Railway Terrace
Milton Qld 4064

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 30 to 32.

The financial statements were authorised for issue by the directors on 9 September 2010. The company has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: **www.panaxgeothermal.com.au**.

PANAX GEOTHERMAL LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Revenue and other income from continuing operations	5	635,521	431,210
Employee benefits expense		(919,609)	(856,096)
Finance costs		(13,967)	-
Consulting and advisory fees		(804,381)	(389,467)
Office running costs		(298,739)	(200,605)
Travel		(308,004)	(208,742)
Reporting expenses		(248,836)	(126,301)
Office rentals		(129,327)	(93,392)
Accounting and audit fees		(148,656)	(78,988)
Depreciation and amortisation		(42,931)	(60,452)
Legal fees		(46,216)	-
Capitalised tenement costs written-off	12	(1,339,351)	-
Other expenses		(122,981)	(92,490)
Loss before income tax		(3,787,477)	(1,675,323)
Income tax expense	7	-	-
Loss for the year		**(3,787,477)**	**(1,675,323)**
Other comprehensive income		-	-
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income		**(3,787,477)**	**(1,675,323)**
Loss attributable to:			
Owners of the parent		(3,787,477)	(1,675,323)
Non-controlling interests		-	-
		(3,787,477)	(1,675,323)
Total comprehensive income attributable to:			
Owners of the parent		(3,787,477)	(1,675,323)
Non-controlling interests		-	-
		(3,787,477)	(1,675,323)
Earnings per share for loss attributable to ordinary equity holders of the company			
		Cents	**Cents**
Basic and diluted (loss)	23	(1.3)	(1.1)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

PANAX GEOTHERMAL LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Notes	2010 $	2009 $
Current Assets			
Cash and cash equivalents	8	4,653,948	10,194,863
Trade and other receivables	9	293,908	88,290
Other financial assets	10	1,188,089	1,294,036
Total current assets		**6,135,945**	**11,577,189**
Non current assets			
Property, plant and equipment	11	125,022	145,988
Exploration and evaluation expenditure	12	28,930,318	16,351,590
Intangible assets	13	4,065	5,227
Total non current assets		**29,059,405**	**16,502,805**
TOTAL ASSETS		**35,195,350**	**28,079,994**
Current liabilities			
Trade and other payables	14	2,341,858	1,264,044
Borrowings	15	70,859	-
Provisions	16	70,780	51,918
Total current liabilities		**2,483,497**	**1,315,962**
Non-current liabilities			
Provisions	16	277,093	96,914
Total non-current liabilities		**277,093**	**96,914**
TOTAL LIABILITIES		**2,760,590**	**1,412,876**
NET ASSETS		**32,434,760**	**26,667,118**
EQUITY			
Contributed equity	17	38,934,184	29,539,455
Reserves	18	1,708,290	1,547,900
Accumulated losses	18	(8,207,714)	(4,420,237)
TOTAL EQUITY		**32,434,760**	**26,667,118**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

PANAX GEOTHERMAL LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Contributed Equity $	Share-based Payments Reserve $	Accumulated Losses $	Total $
2010				
Balance at 1 July 2009	29,539,455	1,547,900	(4,420,237)	26,667,118
Loss for the year	-	-	(3,787,477)	(3,787,477)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(3,787,477)	(3,787,477)
Transactions with owners in their capacity as owners				
Shares issued during the year	10,353,741	-	-	10,353,741
Cost of share issue	(959,012)	-	-	(959,012)
Share based payments	-	160,390	-	160,390
Balance at 30 June 2010	**38,934,184**	**1,708,290**	**(8,207,714)**	**32,434,760**

2009				
Balance at 1 July 2008	15,825,820	1,491,435	(2,744,914)	14,572,341
Loss for the year	-	-	(1,675,323)	(1,675,323)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(1,675,323)	(1,675,323)
Transactions with owners in their capacity as owners				
Shares issued during the year	14,160,556	-	-	14,160,556
Cost of share issue	(446,921)	-	-	(446,921)
Share based payments	-	56,465	-	56,465
Balance at 30 June 2009	**29,539,455**	**1,547,900**	**(4,420,237)**	**26,667,118**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

PANAX GEOTHERMAL LTD

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $	2009 $
Cash flows from operating activities			
Interest received		435,751	410,757
Interest paid		(13,967)	-
R&D tax concession received		199,680	-
Payments to suppliers and employees (inclusive of GST)		(3,067,576)	(1,638,934)
Net cash outflow from operating activities	22	**(2,446,112)**	**(1,228,177)**
Cash flows from investing activities			
Payments for property, plant and equipment		(20,803)	(162,498)
Payments for exploration and evaluation assets		(19,280,035)	(2,880,130)
Payments for intangible assets		-	(1,320)
Acquisition of subsidiaries (net of cash acquired)	21	-	94,780
Proceeds from term deposits		115,947	5,705,964
Government grants received		6,650,000	-
Net cash inflow / (outflow) from investing activities		**(12,534,891)**	**2,756,796**
Cash flows from financing activities			
Proceeds from borrowings		410,181	-
Repayment of borrowings		(339,322)	-
Proceeds from share issues		10,328,241	6,974,651
Share issue costs		(959,012)	(446,920)
Net cash inflow from financing activities		**9,440,088**	**6,527,731**
Net increase / (decrease) in cash and cash equivalents		(5,540,915)	8,056,350
Cash and cash equivalents at the beginning of the year		10,194,863	2,138,513
Cash and cash equivalents at the end of the year*	8	**4,653,948**	**10,194,863**

* The Group classifies term deposits with maturity dates greater than three months and term deposits which are held as securities for bank guarantees as other financial assets. As at 30 June 2010 the Group held, in addition to cash and cash equivalents above, $1,178,089 (2009: $1,294,036) in term deposits.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements relate to the consolidated entity consisting of Panax Geothermal Limited and its subsidiaries. Separate financial statements of Panax Geothermal Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. Limited financial information for the parent entity, however, is disclosed in Note 25. It has been prepared on the same basis as the consolidated financial statements, as set out below.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001.

Compliance with IFRS

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Changes in accounting policies

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current period:

Financial Statement Presentation

The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Segment Reporting

The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change of reported segments (refer note 4). In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no other impact on the measurement of the company's assets and liabilities. Comparatives for 2009 have been restated.

Business Combinations

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition.

The changes were implemented prospectively from 1 July 2009 and did not have any impact on the Group.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Panax Geothermal Ltd ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Panax Geothermal Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Panax Geothermal Ltd.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

(d) Revenue and other income recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest revenue

Interest is recognised on a time proportion basis using the effective interest method.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are accounted for by deducting the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of the asset as a reduced amortisation expense. In the absence of amortisation, no benefit from the government grant is recognised in profit or loss.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amounts and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Panax Geothermal Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group, using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts referred to in the following section. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustment to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements.

(f) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(g) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

(h) Cash and cash equivalents

For cash-flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest or by its sale; or

(ii) activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the geothermal activity in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to property and development assets within property, plant and equipment.

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration and evaluation phases that give rise to the need for restoration. Accordingly, these costs will be recognised gradually over the life of the project as the phases occur.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days.

(k) Investments and other financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the assets were acquired.

The Group has no financial assets at fair value through profit and loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets.

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method. The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset. Where there is no reasonable certainty that the lessee will obtain ownership, the asset is depreciated over the shorter of the lease term and the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of assets is calculated on the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. The depreciation rates used for each class of depreciable asset are:

Classification	Rate	Depreciation Basis
Plant and equipment	5 – 33%	Straight Line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(p) Employee benefits

(I) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(II) Other long-term employee benefits

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of

the reporting period using the projected unit credit method. Consideration is given to expect future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(III) Superannuation

The Group makes contributions to defined contribution superannuation funds. Contributions are recognised as an expense as they become payable.

(IV) Share-based payments

Share-based compensation benefits are provided to employees.

The fair value at grant date is determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(q) Earnings per share

(I) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(II) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(s) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(t) New accounting standards and interpretations

Relevant accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2010, are as follows:

Standard/Interpretation	Application date*	Application date for the Group *
AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 Jan 2010	1 Jul 2010
AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*	1 Jan 2010	1 Jul 2010
AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*	1 Feb 2010	1 Jul 2010
AASB 2010-3 *Amendments to Australian Accounting Standards Arising from the Annual Improvements Project*	1 Jul 2010	1 Jul 2010
AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 Jan 2011	1 Jul 2011
Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 Jul 2010	1 Jul 2010

* Application date is for annual reporting periods beginning on or after the date shown in the table above.

The Directors anticipate that the adoption of these standards and interpretations in future periods may have the following impacts:

- *AASB 2009-5* – These amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments are not expected to have a significant impact on the financial statements.
- *AASB 2009-8* – Introduces amendments to incorporate the requirements previously included in Interpretation 8 and Interpretation 11. The amendments require an entity that receives goods and services in share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments are not expected to have a significant impact on the financial statements.
- *AASB 2009-10* – Clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments are not expected to have any significant impact on the financial statements.
- *AASB 2010-3 and AASB 2010-4* – These amendments introduce various changes to IFRS. The Directors have not yet assessed the further impact of the amendments, if any.
- *Interpretation 19* – This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It is not expected to have any impact on the Group's financial statements since it only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(u) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(v) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(w) General

Panax Geothermal Ltd is a publicly listed company limited by shares, incorporated and domiciled in Australia and listed on the Australian Stock Exchange (ASX: PAX). Its registered office is:

Ground Floor
20 Railway Terrace
MILTON QLD 4064

2. Financial risk management

The Group's principal financial instruments comprise cash and term deposits. The main purpose of these financial instruments is to manage the finances for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in speculative financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk and foreign currency risk (during the financial period and up to the date of this report).

During the year the Group has had some transactional currency exposures, principally to the US dollar. The Group has not entered into forward currency contracts to hedge these exposures due to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

Primary responsibility for identification and control of financial risk rests with the board of directors. However, the day-to-day management of these risks is under the control of the Managing Director and Chief Financial Officer. The board agrees the strategy for managing future cash flow requirements and projections.

(a) Financial instruments

The Group holds the following financial instruments:

	2010 $	2009 $
Financial Assets		
Cash and cash equivalents *	4,653,948	10,194,863
Trade and other receivables *	293,908	88,290
Other financial assets *	1,188,089	1,294,036
	6,135,945	11,577,189
Financial Liabilities		
Trade and other payables **	2,341,858	1,264,044
Borrowings **	70,859	-
	2,412,717	1,264,044

* Loans and receivables category

** Financial liabilities at amortised cost category

(b) Market risk

(I) Foreign exchange risk

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures. The Group's policy is to convert its local currency to the foreign currency at the time of the transaction. Foreign exchange risk arises from future commercial transactions and recognised financial liabilities denominated in a currency that is not the Group's functional currency (which is the Australian dollar).

The Group manages foreign exchange risk on an as-needs basis. The risk is measured using sensitivity analysis and cash-flow forecasting.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2010 NZD $	2009 USD $
Trade and other payables	86,949	30,140

(II) Price risk

The Group is not exposed to any significant equity security or commodity price risk.

(III) Interest rate risk

The Group's exposure to interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates, as the Group intends to hold any fixed rate financial assets to maturity. At the end of the reporting period the Group maintained the following variable rate accounts:

	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Cash and cash equivalents	1.9%	4,653,948	3.0%	10,194,863

At the end of the reporting period, if the interest rates had changed, as illustrated in the table below, with all other variables remaining constant, after-tax profit and equity would have been affected as follows:

	After-tax profit higher / (lower)		Equity higher / (lower)	
	2010 $	2009 $	2010 $	2009 $
+1% (100 bp)	46,539	101,949	46,539	101,949
-1% (100bp)	(46,539)	(101,949)	(46,539)	(101,949)

(c) Credit risk

Credit risk primarily arises from cash and cash equivalents and term deposits deposited with banks. Cash and cash equivalents and term deposits are currently placed with Westpac Banking Corporation, which has an independently rated credit rating of AA. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in the table above.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents in order to meet the Group's forecast requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in bank deposits. At reporting date, the Group did not have access to any undrawn borrowing facilities.

Maturity of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

30 June 2010	Less than 3 months $	Total contractual cash flows $	Carrying amount $
Trade and other payables	2,341,858	2,341,858	2,341,858
Borrowings	70,859	70,859	70,859

30 June 2009	Less than 3 months $	Total contractual cash flows $	Carrying amount $
Trade and other payables	1,264,044	1,264,044	1,264,044

(e) Fair value estimation

The carrying amount of financial assets (net of any provision for impairment) and financial liabilities as disclosed above is assumed to approximate their fair values primarily due to their short maturities.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Exploration and evaluation expenditure

Exploration and evaluation activities have not reached a stage to allow a reasonable assessment to be made regarding the existence of economically recoverable reserves. Accordingly, exploration and evaluation assets may be subject to impairment in the future.

Rehabilitation

The Group assesses rehabilitation requirements at each reporting date by evaluating costs both for close down and restoration and for environmental clean up costs. Provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

4. Operating segments

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on a geographic basis that is the location of the respective areas of interest (tenements). Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and meet the other aggregation criteria of AASB 8 Operating Segments.

Activity by segment

Penola Trough

The activities in this area focus on the company's activities in the GEL 223 and GEL 484 area in the south-east of South Australia.

This area has been the main focus of the company's activities during the year with the completion of the drilling of the Salamander-1 well in the Penola Trough of GEL 223.

These tenements are all 100% owned by the Panax group.

Other Limestone Coast

The activities in this area focus on the company's activities in the GEL's 170, 171, 172, 173, 184, and 212 in the south-east of South Australia.

These tenements are all 100% owned by the Panax group.

Cooper Basin

The activities in this area focus on the company's activities in the GEL's 220, 221, 281 and 502 in the Cooper Basin region of South Australia.

These tenements are all 100% owned by the Panax group.

International

The activities in this area focus on the Group's activities in:

India	Puga Geothermal Project in the Himalayan Geothermal Province of Northern India, in a joint venture between Panax and Geosyndicate Power Private, under which Panax is earning up to a 49% interest. Panax is the Operator of this Project.
	Krishna Godivari Project on the east coast of India, in a joint venture between Panax and Geosyndicate Power Private, under which Panax is earning up to a 32% interest. Panax is the Operator of this Project.
Kyrgyz Republic	Up to April 2010, Panax was in a Joint Venture with ASX listed Kentor Gold Limited (ASX : KGL) under which Panax was earning up to a 51% interest in various exploration licences in Kyrgyz Republic. Panax was the Operator of those Projects. In April 2010, Panax advised Kentor Gold Limited of its intention to withdraw from the Joint Venture, effective from April 2010.
Slovakia	Panax has entered into a Memorandum of Understanding with Geopark Limited under which Panax has access to the large and comprehensive data base of prior oil and gas drilling to assist in the selection of optimum geothermal licence areas in Slovakia, under which Panax will hold a 75% interest and will be Operator of these Projects.
Indonesia	Panax has entered into a "Binding Terms Sheet Agreement" with PT Bakrie Power ("Bakrie") in respect of a Joint Venture for the exploration, development and generation of power from geothermal resources across the Republic of Indonesia. The Joint Venture includes: • Geothermal project areas that have already been awarded to Bakrie; • Geothermal areas that Bakrie has already tendered for in Indonesia; and • Additional geothermal areas that Panax and Bakrie will jointly identify as suitable for geothermal development. The Panax/Bakrie Joint Venture will initially focus on the Sokoria Project, located on the Island of Flores, Indonesia, where a 30 MW geothermal project is being targeted. In addition to this, Panax and Bakrie have also completed a "Binding Terms Sheet Agreement" with PT Dairi Prima Minerals ("PTDPM") for the supply of up to 25 MW of geothermal power for PTDPM's Dairi Prima proposed underground lead/zinc mine in northern Sumatra.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the board of directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

As at 30 June all operating activities of the Group relate to the exploration and evaluation of its geothermal exploration tenements. Except for impairment losses in relation to exploration and evaluation expenditure, income and expenditure as per the statement of comprehensive income consist of incidental revenue including interest and corporate overhead expenditure which are not allocated to the Group's operating segments.

Accordingly only exploration and evaluation expenditure assets are allocated to the Group's operating segments. All other assets and liabilities relate to corporate activities and are not allocated to operating segments.

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

(i) Segment performance

	Penola Trough $	Other Limestone Coast $	Cooper Basin $	International $	Total $
30 June 2010					
Total segment revenue	-	-	-	-	-
Capitalised tenement costs written-off	-	-	-	(1,339,351)	(1,339,351)
Segment result	-	-	-	(1,339,351)	(1,339,351)
Reconciliation of segment result to Group loss before tax					
• Interest and other income					635,521
Total group revenue					635,521
• Employee benefits expense					(919,609)
• Finance costs					(13,967)
• Corporate advisory fees					(804,381)
• Office running costs					(298,739)
• Travel					(308,004)
• Reporting expenses					(248,836)
• Office rentals					(129,327)
• Accounting and audit fees					(148,656)
• Depreciation and amortisation					(42,931)
• Other					(169,197)
Group loss before tax					(3,787,477)

30 June 2009

There were no segment revenues or segment results for the year ended 30 June 2009.

(ii) Segment assets and liabilities

	Penola Trough $	Other Limestone Coast $	Cooper Basin $	International $	Total $
30 June 2010					
Segment assets	22,603,696	4,062,144	99,200	2,165,278	28,930,318
Reconciliations of segment assets to Group assets					
Unallocated assets					
- Cash and cash equivalents					4,653,948
- Trade and other receivables					293,908
- Other financial assets					1,188,089
- Property, plant and equipment					125,022
- Intangible assets					4,065
Total Group assets					35,195,350
Segment asset movements for the year:					
• Capital expenditure	19,559,530	569,864	53,386	385,299	20,568,079
• Government grant receipts relating to segment assets	(6,650,000)	-	-	-	(6,650,000)
• Write-offs	-	-	-	(1,339,351)	(1,339,351)
	12,909,530	569,864	53,386	(954,052)	12,578,728

	Penola Trough $	Other Limestone Coast $	Cooper Basin $	International $	Total $
30 June 2009					
Segment assets	9,694,166	3,492,280	45,814	3,119,330	16,351,590
Reconciliations of segment assets to Group assets					
Unallocated assets					
- Cash and cash equivalents					10,194,863
- Trade and other receivables					88,290
- Other financial assets					1,294,036
- Property, plant and equipment					145,988
- Intangible assets					5,227
Total Group assets					28,079,994
Segment asset movements for the year:					
• Capital expenditure	2,531,588	350,000	45,814	660,463	3,587,865
• Transfers from property, plant and equipment	159,534	-	-	-	159,534
• Acquisitions	7,003,044	-	-	-	7,003,044
	9,694,166	350,000	45,814	660,463	10,750,443

5. Revenue and other income

	2010 $	2009 $
Interest revenue	435,841	431,210
R&D tax concession	199,680	-
	635,521	431,210

6. Expenses

Loss before income tax includes the following specific expenses:

	2010 $	2009 $
Rental expenses relating to operating leases – minimum lease rentals	107,880	66,206
Defined contribution superannuation expense	85,165	93,267

7. Income tax

(a) Income tax expense

	2010 $	2009 $
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Deferred income tax/(revenue)

Deferred income tax/(revenue) included in tax expense comprises:

	2010 $	2009 $
(Increase)/decrease in deferred tax assets	(4,099,700)	(3,873,087)
Increase/(decrease) in deferred tax liabilities	4,099,700	3,873,087
	-	-

(c) Reconciliation of income tax expense to prima facie income tax

	2010 $	2009 $
Loss before income tax	(3,787,477)	(1,675,323)
Tax at the Australian tax rate of 30% (2009: 30%)	(1,136,243)	(502,597)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Sundry items	56,048	50,378
	(1,080,195)	(452,219)
Deferred tax asset not recognised	1,080,195	452,219
Income tax expense	-	-

(d) Deferred tax assets / liabilities comprise

	2010 $	2009 $
Interest receivable	(1,865)	(6,136)
Exploration & evaluation – Geothermal	(8,038,055)	(3,934,084)
Property, plant and equipment	7,765	7,765
Accruals	-	17,100
Provision – rehabilitation	81,372	28,454
Provision – employee benefits	22,990	16,195
S 40-880 capital raising expenses	404,409	294,862
S 40-880 legal fees	6,087	-
Tax losses available for offset against future taxable income [1]	10,734,068	5,424,716
Net deferred tax assets	3,216,771	1,848,872
Deferred tax assets not recognised	(3,216,771)	(1,848,872)
	-	-

(1) Includes capital losses of $401,805 (2009: $nil).

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2010 $	2009 $
Temporary differences and tax losses at 30% (2009: 30%)	3,216,771	1,848,872

Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from the deferred tax assets.

(f) Tax consolidation legislation

Panax Geothermal Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(e).

No amounts were recognised during the year (2009: $nil) as tax consolidation contributions by, or distributions to, equity participants.

8. Cash and cash equivalents

	2010 $	2009 $
Cash at bank and on hand	4,653,948	10,194,863

Cash which is held mainly in at call bank accounts, bears variable interest rates of on average 3.0% (2009: 3.0%).

9. Trade & other receivables

	2010 $	2009 $
Current		
Other receivables and prepayments	293,908	88,290

Other receivables mainly represent prepaid expenditure. None of the balances within other receivables and prepayments are past due or contain impaired assets. Other receivables as at 30 June 2009 financial year mainly represent the Group's entitlement to recoverable GST amounts paid during the period.

10. Other financial assets

	2010 $	2009 $
Current		
Term deposits [(i)]	1,178,089	1,294,036
Other	10,000	-
	1,188,089	1,294,036

(i) Term deposits are held as security by Westpac Banking Corporation for the bank guarantees provided by the bank in favour of Margot Harris (Railway Terrace Premises) and AGR Asia Pacific (Drilling Manager for Salamander 1 Well).

11. Property, plant and equipment

	2010 $	2009 $
Plant and equipment		
At cost	209,866	189,063
Accumulated depreciation	(84,844)	(43,075)
	125,022	145,988
Carrying amount at beginning of year	145,988	117,944
Additions	20,803	322,032
Disposals	-	(74,002)
Transfers to exploration and evaluation expenditure	-	(159,534)
Depreciation	(41,769)	(60,452)
Carrying amount at end of year	125,022	145,988

12. Exploration and evaluation expenditure

Tenements and information - geothermal energy

	2010 $	2009 $
At cost	28,930,318	16,351,590
Carrying amount at beginning of year	16,351,590	5,601,147
Additions	20,568,079	3,587,865
Government grants received	(6,650,000)	-
Exploration and evaluation expenditure written-off [1]	(1,339,351)	-
Transfers from property, plant and equipment	-	159,534
Acquisitions of subsidiaries (refer note 21)	-	7,003,044
Carrying amount at end of year	28,930,318	16,351,590

The ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(1) During the year the Group withdrew from the joint venture with Kentor Gold Limited in relation to the Kyrgyz Republic area of interest. As a result the Group lost its legal right to explore the area and all expenditure previously capitalised for the area has been written-off.

13. Intangible assets

	2010 $	2009 $
Trademarks – at cost	4,065	5,227
Carrying amount at beginning of year	5,227	4,488
Additions – acquisition	-	1,320
Amortisation charge	(1,162)	(581)
Carrying amount at end of year	4,065	5,227

The trademark has a useful life of 10 years and was registered in June 2008.

14. Trade and other payables

	2010 $	2009 $
Trade payables	1,275,372	1,134,019
Accruals	911,153	130,025
GST payable	155,333	-
Total trade and other payables	2,341,858	1,264,044

Trade payables and accruals are generally unsecured, non-interest bearing and due 30 days from the date of recognition.

15. Borrowings

	2010 $	2009 $
Insurance premium funding	70,859	-

Insurance premium funding has a fixed interest rate of 3.97% and are carried at amortised cost. It is therefore not subject to interest rate risk.

16. Provisions

	2010 $	2009 $
Current		
Employee benefits	70,780	51,918
Non-current		
Rehabilitation	271,241	94,848
Employee benefits	5,852	2,066
	277,093	96,914

Movement in each class of provision, other than employee provisions, during the year:

	Rehabilitation $
Carrying amount at 1 July 2008	100,000
Arising during the year	-
Utilised	(5,152)
Carrying amount at 30 June 2009	94,848
Arising during the year	176,800
Utilised	(407)
Carrying amount at 30 June 2010	271,241

The provision for rehabilitation relates to the Group's tenement interests that the group may be required to rehabilitate land and surrounding environment to its original condition.

17. Contributed equity

	2010 $	2009 $
Ordinary shares – fully paid	38,934,184	29,539,455

(a) Movements in equity

	No. of Shares	$
Balance at 1 July 2008	**111,000,100**	**15,825,820**
Share placement – Acquisition of Osiris Energy Limited (refer note 21)	70,107,669	7,010,766
Payment of creditors	987,587	148,137
Issue of shares for the provision of professional services	150,000	27,000
Share placement – institutional entitlement offer	27,651,164	3,594,653
Share placement – institutional placement	26,000,000	3,380,000
Share issue expenses	-	(446,921)
Balance at 30 June 2009	**235,896,520**	**29,539,455**
Share placement – retail placement	17,910,180	2,328,323
Share placement – institutions and sophisticated investors placement	25,000,000	3,750,000
Share placement – Share purchase plan	28,332,787	4,249,918
Issue of shares for the provision of professional services	155,000	25,500
Share issue expenses	-	(959,012)
Balance at 30 June 2010	**307,294,487**	**38,934,184**

The issue of shares to acquire entities during the period was based on the published price at the date of exchange.

Effective 1 July, 1998 the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent does not have authorised capital no par value in respect of its issued shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern and to maintain a structure that ensures the lowest cost of capital available and to ensure adequate capital is available for exploration and evaluation of tenements.

In order to maintain or adjust the capital structure, the Group may seek to issue new shares.

Consistent with others in the industry, the Group monitors capital on the basis of forecast exploration and exploration expenditure required to reach a stage which permits a reasonable assessment of the existence or otherwise of an economically recoverable reserves. Total capital is calculated as 'equity' as shown in the statement of financial position.

(c) Share options

At 30 June 2010, the following options for ordinary shares in Panax Geothermal Ltd were on issue:

	2010 Number	2009 Number
Employee options (refer note 24)	12,550,000	10,900,000
Options issued for acquisitions [(i)]	10,500,000	10,500,000
Listed options (ASX: PAXO) [(ii)]	52,012,611	-
	75,062,611	21,400,000

(i) The options were issued on 16 October 2007 forming part of the acquisition consideration to acquire 100% of the issued share capital of Scopenergy Pty Ltd and Panax Holdings Pty Ltd. The options are vested and exercisable at an exercise price of $0.20. 10,000,000 of the options expire on 23 November 2011 and 500,000 expire on 1 June 2012.

(ii) The options were issued on 21 December 2009. 14,181,987 options were issued to participants of the share purchase plan. 25,330,624 options were issued to shareholders of the Group as at 8 December 2009 whereby 1 option was issued for every 11 shares held, and 12,500,000 options were issued to institutions and sophisticated investors which participated in the placement. The options have an exercise price of $0.25, vest at the time of issue and have an expiry date of 20 December 2011.

18. Reserves and accumulated losses

(a) Reserves

	2010 $	2009 $
Share based payments reserve	1,708,290	1,547,900

Movements:

	2010 $	2009 $
Share based payments reserve		
Balance at beginning of year	1,547,900	1,491,435
Share-based payments expense	160,390	56,465
Balance at end of year	1,708,290	1,547,900

(b) Accumulated losses

Movements:

	2010 $	2009 $
Balance at beginning of year	(4,420,237)	(2,744,914)
Net profit / (loss) for the year	(3,787,477)	(1,675,323)
Balance at end of year	(8,207,714)	(4,420,237)

(c) Nature and purpose of reserves

Share based payments reserve

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

19. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the group:

1. Audit services

	2010 $	2009 $
Johnston Rorke:		
Audit and review of financial reports	45,000	40,000
Other assurance service	5,300	-
Total remuneration for audit services	50,300	40,000

2. Non-audit services

	2010 $	2009 $
Johnston Rorke:		
Tax compliance services	15,400	10,000
Total remuneration for non-audit services	15,400	10,000

20. Key management personnel

(a) Key management personnel compensation

	2010 $	2009 $
Short-term employee benefits	1,111,913	922,342
Post-employment benefits	80,201	88,432
Share-based payments	160,390	48,315
	1,352,504	1,059,089

(b) Equity instruments disclosures relating to key management personnel

(I) Unlisted option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Panax Geothermal Ltd and other key management personnel of the Group, including their personally related parties, are set out below:

2010

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Panax Geothermal Ltd							
G Martyr	2,000,000	-	-	-	2,000,000	2,000,000	-
L de Graaf	4,500,000	-	-	-	4,500,000	4,500,000	-
K Parker	3,000,000	1,250,000	-	-	4,250,000	3,750,000	500,000
S Evans	1,000,000	-	-	-	1,000,000	1,000,000	-
I Reid	-	-	-	-	-	-	-
Other key management personnel of the Group							
R Palmer	-	-	-	-	-	-	-
D Gallaher (2)	600,000	-	-	-	600,000	600,000	-
D Jenson (1)	-	400,000	-	-	400,000	-	400,000

(1) Mr Jenson was appointed KMP on 1 August 2009.
(2) Mrs Gallaher resigned on 6 November 2009.

2009

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Panax Geothermal Ltd							
G Martyr	2,000,000	-	-	-	2,000,000	2,000,000	-
L de Graaf	4,500,000	-	-	-	4,500,000	4,500,000	-
K Parker	3,000,000	-	-	-	3,000,000	2,000,000	1,000,000
S Evans	1,000,000	-	-	-	1,000,000	1,000,000	-
I Reid	-	-	-	-	-	-	-
Other key management personnel of the Group							
R Palmer	-	-	-	-	-	-	-
D Gallaher	500,000	100,000	-	-	600,000	600,000	-
R Heath (3)	-	2,000,000	-	(2,000,000)	-	-	-

(3) Options were forfeited on resignation on 31 December 2008.

(II) Share holdings

The number of shares in the company held during the financial year by each director of Panax Geothermal Ltd and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation (2009: nil).

2010

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Panax Geothermal Ltd				
Ordinary shares				
G Martyr	1,175,000	-	-	1,175,000
L de Graaf	10,190,615	-	92,900	10,283,515
K Parker	3,716,354	-	92,900	3,809,254
S Evans	-	-	-	-
I Reid	27,665,398	-	30,966	27,696,364
Other key management personnel of the Group				
Ordinary shares				
R Palmer	27,365,398	-	153,846	27,519,244
D Gallaher	-	-	-	-
D Jenson	-	-	-	-

2009

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Panax Geothermal Ltd				
Ordinary shares				
G Martyr	1,050,000	-	125,000	1,175,000
L de Graaf	9,680,000	-	510,615	10,190,615
K Parker	1,741,725	-	1,974,629	3,716,354
S Evans	-	-	-	-
I Reid [1]	-	-	27,665,398	27,665,398
Other key management personnel of the Group				
Ordinary shares				
R Palmer [2]	-	-	27,365,398	27,365,398
D Gallaher	-	-	-	-

(1) 27,365,398 issued on acquisition of Osiris Energy Limited (refer note 21) and an additional 300,000 acquired during 2009.
(2) 27,365,398 issued on acquisition of Osiris Energy Limited (refer note 21).

(III) Listed option holdings (ASX: PAXO)

2010

Name	Balance at the start of the year	Granted as compensation	Other changes during the year*	Balance at the end of the year
Directors of Panax Geothermal Ltd				
Ordinary shares				
G Martyr	-	-	106,819	106,819
L de Graaf	-	-	972,870	972,870
K Parker	-	-	385,210	385,210
S Evans	-	-	-	-
I Reid	-	-	2,530,519	2,530,519
Other key management personnel of the Group				
Ordinary shares				
R Palmer	-	-	2,501,749	2,501,749
D Gallaher	-	-	-	-
D Jenson	-	-	-	-

* Other changes reflect options issued during the year. There were no listed options on issue during the 2009 financial year.

(c) Loans to key management personnel

There were no loans to key management personnel at any time during the financial year.

(d) Other transactions with key management personnel

There were no other transactions with key management personnel other than reimbursement of expenses incurred by them in performing their respective duties.

21. Business combinations

2009

Summary of acquisition

On 9 September 2008, Panax Geothermal Ltd announced that it had reached agreement to acquire 100% of Osiris Energy Limited ("Osiris"), a Melbourne based unlisted geothermal exploration company. This was approved at the Extraordinary General Meeting of shareholders on 4 December 2008.

The proposal involved issuing ordinary shares to the owners of Osiris, the developer of the Penola Project. The owners of Osiris collectively received 70,107,669 ordinary shares in Panax Geothermal Ltd.

The acquired entity did not directly contribute to the Group revenue or group net loss for the period 5 December 2008 to 30 June 2009 as related exploration and evaluation expenditure was capitalised during the period. Similarly, if the acquisition had occurred on 1 July 2008, there would have been no change to Group revenue or Group net loss.

Details of the fair value of the assets and liabilities acquired are as follows:

(a) Purchase consideration

	Total $
Direct costs relating to the acquisition	78,737
Issue of fully paid ordinary shares:	
70,107,669 shares at $0.10*	7,010,766
Total purchase consideration	7,089,503
Fair value of net identifiable assets acquired (refer below)	**7,089,503**
Goodwill	**-**

* $0.10 represents market value at 5 December 2008

(b) Inflow of cash

	Total $
Outflow of cash to acquire subsidiaries, net of cash acquired	
Direct costs relating to acquisition	78,737
Less: Balances acquired	
Cash	(173,517)
Inflow of cash	(94,780)

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's Carrying Amount $	Fair Value $
Cash and cash equivalents	173,517	173,517
Receivables	65,822	65,822
Creditors	(152,880)	(152,880)
Tenements and information – geothermal energy	48,434	7,003,044
Net assets	134,893	7,089,503

22. Cash flow information

(a) Reconciliation of loss after income tax to net cash outflow from operating activities

	2010 $	2009 $
Loss for the year	(3,787,477)	(1,675,323)
Write-off capitalised tenement costs	1,339,351	-
Non-cash employee benefits expense – share based payments	160,390	56,465
Shares issued for operating expenses	25,500	27,000
Depreciation and amortisation	42,931	61,033
Loss on disposal of assets	-	74,002
Change in operating assets and liabilities:		
(Increase)/decrease in trade or other receivables	(205,618)	63,531
(Increase)/decrease in other assets	(10,000)	-
Increase/(decrease) in trade and other payables	(33,430)	150,074
Increase/(decrease) in provisions	22,241	15,041
Net cash outflow from operating activities	(2,446,112)	(1,228,177)

(b) Non-cash investing and financing activities

	2010 $	2009 $
Acquisition of subsidiaries by issue of shares	-	7,010,766

23. Earnings per share

(a) Basic and diluted earnings per share

	2010 Cents	2009 Cents
Loss attributable to the ordinary equity holders of the company	(1.3)	(1.1)

(b) Weighted average number of ordinary shares used as the denominator

	2010 Number	2009 Number
Number used in calculating basic and diluted earnings per share	282,780,316	151,472,207

(c) Information concerning earnings per share:

Options granted are considered to be potential ordinary shares. Details relating to options are set out in notes 17 and 24. In 2009 and 2010 the options are anti dilutive and are therefore not included in the calculation of diluted earnings per share. The options could potentially dilute basic earnings per share in the future.

24. Share based payments

Options have been issued to all new staff who have commenced with Panax. The number of options issued, the strike price of options issued and all other relevant terms have been set having regard to the persons position in the Group and level of experience. All employee options have a maximum life of 5 years. Such options vest according to the terms that are agreed at the time of grant between Panax and the employee. However options normally vest either immediately upon grant or progressively over the life of the option. Upon termination by either by Panax or by the employee, all vested options remain the property of the employee, with no change to the life of the option. Upon termination by either Panax or the employee, all unvested options normally lapse.

Set out below are summaries of options granted for share-based payments for services provided by directors and employees.

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2010								
30/06/2007	30/06/2011	$0.20	6,500,000	-	-	-	6,500,000	6,500,000
01/07/2007	01/07/2011	$0.20	500,000	-	-	-	500,000	500,000
15/11/2007	15/11/2012	$0.20	2,000,000	-	-	-	2,000,000	2,000,000
15/11/2007	15/11/2012	$0.30	1,000,000	-	-	-	1,000,000	1,000,000
19/11/2007	19/11/2012	$0.20	100,000	-	-	-	100,000	100,000
04/02/2008	04/02/2013	$0.20	500,000	-	-	-	500,000	500,000
30/06/2008	30/06/2013	$0.20	200,000	-	-	-	200,000	200,000
01/07/2008	04/02/2013	$0.20	100,000	-	-	-	100,000	100,000
30/07/2009	25/12/2012	$0.18	-	400,000	-	-	400,000	-
25/11/2009	25/12/2012	$0.13	-	750,000	-	-	750,000	750,000
25/11/2009	25/12/2012	$0.25	-	500,000	-	-	500,000	-
			10,900,000	**1,650,000**	**-**	**-**	**12,550,000**	**11,650,000**
Weighted average exercise price			$0.21	$0.18	-	-	$0.21	$0.20

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2009								
30/06/2007	30/06/2011	$0.20	6,500,000	-	-	-	6,500,000	6,500,000
01/07/2007	01/07/2011	$0.20	500,000	-	-	-	500,000	500,000
15/11/2007	15/11/2012	$0.20	2,000,000	-	-	-	2,000,000	2,000,000
15/11/2007	15/11/2012	$0.30	1,000,000	-	-	-	1,000,000	-
19/11/2007	19/11/2012	$0.20	100,000	-	-	-	100,000	100,000
04/02/2008	04/02/2013	$0.20	500,000	-	-	-	500,000	500,000
25/08/2008	25/02/2013	$0.20	-	1,000,000	-	(1,000,000)	-	-
25/08/2008	25/02/2013	$0.30	-	1,000,000	-	(1,000,000)	-	-
30/06/2008	30/06/2013	$0.20	200,000	-	-	-	200,000	200,000
01/07/2008	04/02/2013	$0.20	-	100,000	-	-	100,000	100,000
			10,800,000	**2,100,000**	**-**	**(2,000,000)**	**10,900,000**	**9,900,000**
Weighted average exercise price			$0.22	$0.24	-	$0.25	$0.21	$0.20

No options had expired during the reporting period.

The assessed fair value at grant date of options issued is determined using the Black Scholes option pricing model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

In respect of the options issued to directors and employees during the year, the model inputs were as follows:

Consideration	Nil
Life	3 to 5 years
Share price at grant date	$0.14 - $0.20
Expected volatility	47% - 110%
Expected dividend yield	0%
Risk free interest rate	4.91% - 6.67%

The weighted average fair value of options granted was $0.0671 (2009: $0.0576). The expected price volatility is based on the historical volatility of a number of similar entities (based on a period with a similar life of the options).

	2010 $	2009 $
Expenses arising from share-based transactions		
Options issued to directors and employees	160,390	56,465

25. Parent entity disclosures

As at and throughout the financial year ending 30 June 2010 the parent entity of the Group was Panax Geothermal Limited.

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregations.

	Panax Geothermal Limited	
Results		
Loss for the year	(3,787,477)	(1,657,651)
Total comprehensive income for the year	(3,787,477)	(1,657,651)
Financial Position		
Current assets	6,135,945	11,577,189
Non-current assets	29,077,077	16,520,477
	35,213,022	28,097,666
Current liabilities	2,483,497	1,410,810
Non-current liabilities	277,093	2,066
	2,760,590	1,412,876
Net Assets	32,452,432	26,684,790
Contributed equity	38,934,184	29,539,455
Share-based payments reserve	1,708,290	1,547,900
Accumulated losses	(8,190,042)	(4,402,565)
	32,452,432	26,684,790

(b) Guarantees entered into by the parent entity

Panax Geothermal Ltd and its subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of the group companies. Refer note 30.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

(d) Contractual commitments for capital expenditure

The parent entity did not have any contractual commitments for capital expenditure as at 30 June 2010 (2009: $nil).

26. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of shares	Equity holding [1]	
			2010 %	2009 %
Panax Holdings Pty Ltd	Australia	Ordinary	100	100
Scopenergy Pty Ltd	Australia	Ordinary	100	100
Scopenergy Petroleum Pty Ltd [2]	Australia	Ordinary	100	100
Osiris Energy Ltd	Australia	Ordinary	100	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.
(2) A 100% controlled entity of Scopenergy Pty Ltd.

27. Related parties

(a) WCP Resources Limited

Management Fee

In accordance with the Deed between Panax Geothermal Ltd and WCP Resources Limited, Panax Geothermal Ltd will pay WCP Resources Limited a management consulting and advisory fee of $25,000 per month commencing 1 November 2007 and concluding on 31 October 2009. As at 30 June 2010 $nil (2009: $25,000) was owing to WCP Resources Limited. The total fee paid for the year was $125,000 (2009: $300,000). This agreement is no longer effective as at year end.

(b) Terra Firma Technology Pty Ltd

Terra Firma Technology Pty Ltd is a 100% owned entity of non-executive director Ian Reid. In accordance with a retainer agreement between Panax Geothermal Ltd and Terra Firma Technology, Panax Geothermal Ltd can contract Ian Reid as a consultant as per the terms of this agreement for the provision of seismic, geological and geophysical interpretation . As at 30 June 2010 $502 (2009: $19,573) was owing to Terra Firma Technology Pty Ltd. The total fees paid for the year was $126,923 (2009: $116,927).

(c) Hot Dry Rocks

Non-executive director Ian Reid and Chief Operating Officer Ron Palmer are directors of Hot Dry Rocks Pty Ltd. Hot Dry Rocks is contracted to undertake reservoir modelling, geothermal resources estimates and other work for Panax. This work (including estimated costs) is approved in writing in advance prior to the work commencing by either Bertus de Graaf or Kerry Parker and is paid for at commercial rates. As at 30 June 2010 $nil (2009: $50,395) was owing to Hot Dry Rocks Pty Ltd. The total fees paid for the year was $115,439 (2009: $254,148).

(d) Lorotech Pty Ltd

Prior to joining Panax as Chief Operating Officer Ron Palmer was employed in accordance with a retainer agreement between Panax Geothermal Ltd and Lorotech Pty Ltd, Panax Geothermal Ltd was able to contract Ron Palmer as a consultant as per the terms of the agreement. This agreement ceased once Ron Palmer was employed as chief operating officer. As at 30 June 2010 (2009: $nil) there were no amounts owing to Lorotech Pty Ltd. There were no fees paid during the year (2009: $35,840).

28. Commitments

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2010 $	2009 $
Within one year	138,572	133,641
Later than one year but not later than five years	81,059	265,397
	219,631	399,038

The operating leases primarily relate to a lease of premises. The lease of premises is due to expire 1 December 2011 with an option for renewal. The operating leases are under normal commercial operating lease terms and conditions.

Exploration expenditure

In order to maintain an interest in the exploration tenements in which the Group is involved, the Group is committed to meet the conditions under which the tenements were granted. The timing and amount of exploration expenditure and obligations of the Group are subject to the minimum expenditure requirements of the relevant regulatory bodies and may vary significantly from the forecast based on the results of the work performed, which will determine the prospectivity of the relevant area of interest. The obligations are not provided for in the financial statements.

Commitments in relation to minimum statutory expenditures with respect to tenements:

	2010 $	2009 $
Within one year	200,000	1,479,167
Later than one year but not later than five years	1,600,000	-
Later than five years	12,000,000	-
	13,800,000	1,479,167

29. Subsequent events

a) On 16 August 2010, Panax announced that it had completed a "Binding Terms Sheet Agreement" with PT Bakrie Power ("Bakrie") regarding a Joint Venture for the exploration, development and generation of power from geothermal resources across the Republic of Indonesia. The new agreement replaces the previous "Memorandum of Understanding" ("MOU") between Panax and Bakrie, as announced in June 2010.

The Joint Venture includes:

- Geothermal project areas that have already been awarded to Bakrie;
- Geothermal areas that Bakrie has already tendered for in Indonesia;
- Additional geothermal areas that the Panax and Bakrie will jointly identify as suitable for geothermal development.

Panax and Bakrie have also completed a "Binding Terms Sheet Agreement" with PT Dairi Prima Mineral ("PTDPM") for the supply of up to 25 MW of geothermal power for PTDPM's Dairi Prima mine in northern Sumatra.

The JV will initially focus on:

- The development of known geothermal resources of the Sokoria Project located on the Island of Flores, for the development of a 30 MW geothermal power plant; and
- On the direct supply of approximately 25 MW of base-load geothermal power to PT Dairi Prima's planned underground zinc/ lead mine in northern Sumatra.

b) On 30 August 2010, Panax announced substantial progress on the Sokoria Geothermal Project, Flores, Indonesia. Following the recent completion of "Binding Terms Sheet Agreements" with PT Bakrie Power ("Bakrie") regarding joint geothermal developments across Indonesia (as announced on 16 August, 2010), Panax and Bakrie recently carried out a joint visit to the Sokoria Geothermal Project in Flores, Indonesia.

The Sokoria Geothermal Project is distinguished by four factors:

- The Sokoria geothermal field is well known from extensive previous work (1974 – present) including drilling;
- The Sokoria Project has an agreed power price of USD12.5¢/kwh (USD125/Mwh) for the first 30 MW generating capacity;
- Strong support from local government as well as from the local community;
- The infrastructure is excellent, being within 16km of the capital of Flores, Ende, which is well serviced by regular airline services and sea port.

The advanced Sokoria Project has an extensive exploration data base, including three exploration wells as well as magneto-telluric (MT) surveys. Geothermal reservoir temperature at depths of 1,500m to 2,000m are estimated at >230°C. A 2008 report completed by JICA has estimated that the Sokoria field has an "Exploitable Resource Potential" of 90 MW. The Indonesia Government ("DGMCG") estimates Sokoria's resource potential at 145 MW with a current "Possible Reserve" of 25 MW.

30. Deed of cross guarantee

Panax Geothermal Ltd, Panax Holdings Pty Ltd, Scopenergy Pty Ltd, Scopenergy Petroleum Pty Ltd and Osiris Energy Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Panax Geothermal Ltd, they also represent the 'extended closed group'.

PANAX GEOTHERMAL LTD

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the attached financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(ii) giving a true and fair view of the group's financial position as at 30 June 2010 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(d) At the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 30 will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 30.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of directors.

Lambertus de Graaf

Director

Kerry Parker

Director

Brisbane

10 September 2010

JOHNSTON RORKE JR
CHARTERED ACCOUNTANTS

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Independent Auditor's Report to the Members of Panax Geothermal Limited

Report on the financial report

We have audited the accompanying financial report of Panax Geothermal Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Panax Geothermal Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report contained on pages 37 to 43 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the Remuneration Report of Panax Geothermal Ltd for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.

JOHNSTON RORKE

Chartered Accountants

J. J. EVANS

Partner

Brisbane, Queensland
10 September 2010

Shareholder information

The shareholder information set out below was applicable as at 30 September 2010.

A. Equity security holders – listed ordinary shares

Twenty Largest Quoted Equity Security Holders – Listed Ordinary Shares

The names of the 20 largest holders of ordinary shares are listed below:

	Name	Number	Percentage
1	WCP RESOURCES LIMITED	37,500,125	12.20%
2	TERRA FIRMA TECHNOLOGY PTY LTD	27,696,364	9.01%
3	ZNOWY NOMINEES PTY LTD	27,365,398	8.91%
4	GRYPHON PARTNERS PTY LTD	12,000,000	3.91%
5	J P MORGAN NOMINEES AUSTRALIA	10,583,334	3.44%
6	DR LAMBERTUS DE GRAAF	9,000,000	2.93%
7	MR ROBERT BRYAN	5,155,639	1.68%
8	GILBY RESOURCES PTY LTD	4,980,365	1.62%
9	NEFCO NOMINEES PTY LTD	2,464,000	0.80%
10	BENSON MICROPROPAGATION PTY LTD	2,200,000	0.72%
11	PARKER AMBOR FAMILY PTY LTD	2,020,354	0.66%
12	WATERFORD ATLANTIC PTY LTD	1,980,364	0.64%
13	MS ZHAOTING HUO	1,748,888	0.57%
14	HSBC CUSTODY NOMINEES	1,575,000	0.51%
15	ANZ NOMINEES LIMITED	1,565,684	0.51%
16	GILBY RESOURCES PTY LTD	1,550,000	0.50%
17	GRYPHON PARTNERS PTY LTD	1,500,000	0.49%
18	EUREKA CAPITAL PARTNERS PTY LTD	1,500,000	0.49%
19	MR DARREN ROBERTS	1,500,000	0.49%
20	MR KJ AND MRS TL PARKER	1,468,500	0.48%
		155,354,015	50.56%

The Company has no Restricted Securities.

The Company is not currently conducting an on-market buy-back.

B. Equity security holders – listed options over ordinary shares

Twenty Largest Quoted Equity Security Holders – Listed Options Over Ordinary Share

The names of the 20 largest holders of listed options over ordinary shares are listed below:

	Name	Number	Percentage
1	WCP RESOURCES LIMITED	3,409,102	6.55%
2	TERRA FIRMA TECHNOLOGY PTY LTD	2,530,519	4.87%
3	ZNOWY NOMINEES PTY LTD	2,487,763	4.78%
4	MR CHRISTIAN THOMAS	2,387,890	4.59%
5	J P MORGAN NOMINEES AUSTRALIA	1,628,788	3.13%
6	GILBY RESOURCES PTY LTD	1,352,760	2.60%
7	NATIONAL NOMINEES LIMITED	1,091,192	2.10%
8	GRYPHON PARTNERS PTY LTD	1,090,908	2.10%
9	COGENT NOMINEES PTY LIMITED	1,016,147	1.95%
10	MR ADAM JOHN BUNDERLA	1,000,000	1.92%
11	MR ROBERT BRYAN	833,333	1.60%
12	DR LAMBERTUS DE GRAAF	818,182	1.57%
13	DUSTALITE PTY LTD	736,450	1.42%
14	MR PETER MARCUS FERRIS	721,858	1.40%
15	MS ELAINE TREVILYAN	681,877	1.31%
16	MR HUGH GRAHAM EDWARDS	631,439	1.21%
17	MISS JOANNE STANOJEVIC & MR JOSEPH GAUCI	553,206	1.06%
18	MR ROBERT BRYAN	506,699	0.97%
19	CONRAD JOSEPH LAWRENCE	458,727	0.88%
20	MR ANDREW MARTYR & MRS NICOLA TOWNSEND	456,499	0.88%
		24,393,339	46.91%

The Company has no Restricted Securities.

The Company is not currently conducting an on-market buy-back.

C. Names of substantial holders in the company and the number of shares in which they have an interest

Name of Shareholder	Holding	Date of Notice
WCP Resources Limited	37,500,125	23/07/2009
Terra Firma Technology Pty Ltd (a)	27,665,398	30/06/2009
Znowy Nominees Pty Ltd (a)	27,365,398	30/06/2009

D. Unquoted equity securities

	No. of Options on Issue	No. of Holders
Options issued to Directors and Employees	12,550,000	11
Options Issued via Business Acquisition Gryphon Partners Pty Limited	3,000,000	1
Options Issued via Business Acquisition Eureka Capital Partners Pty Limited	3,000,000	1
Options Issued via Business Acquisition Lambertus De Graaf	4,500,000	1
	23,050,000	

E. Distribution of equity securities

Distribution of Share Holdings – Listed Ordinary Shares

Analysis of numbers of optionholders by size of holding:

Size of Holdings	No. of Options	No. of Optionholders
1 – 1,000	6,877	178
1,001 – 5,000	1,122,456	312
5,001 – 10,000	3,152,485	354
10,001 – 100,000	48,582,900	1,148
100,001 and over	254,429,769	383
	307,294,487	2,375

Number of shareholders holding less than a marketable parcel – 632

Distribution of Share Holdings – Options Over Listed Ordinary Shares

Analysis of numbers of optionholders by size of holding:

Size of Holdings	No. of Options	No. of Optionholders
1 – 1,000	347,344	747
1,001 – 5,000	1,428,411	517
5,001 – 10,000	1,245,504	164
10,001 – 100,000	15,912,148	426
100,001 and over	33,079,204	70
	52,012,611	1,924

F. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary Shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options
No voting rights

Largest Unlisted Option Holders
The names of the largest holders of unlisted options are listed below.

Name of Option Holder	No. of Options Held
Eureka Capital Partners Pty Limited	3,000,000
Gryphon Partners Pty Limited	3,000,000
Lambertus De Graaf	4,500,000
	10,500,000

GLOSSARY

Electricity

- Watt – the primary measure of power in the metric system.
- Megawatt Hour – standard unit of electricity representing consumption of one megawatt over one hour.

Units

- kW kilo watt = 1,000 watt
- MW mega watt = 1,000 kilo watt
- GW giga watt = 1,000 mega watt
- MWe = mega watt electricity
- MWth = mega watt thermal
- MWh = mega watt/hour
- PJ = Peta Joule (1,015 Joule)
- 1J = 1Ws (one Joule = one Watt sec)
- 3.6kJ = 1kWh (3.6 kilo Joule = 1 kilo Watt hour
- 1PJ = 278 GWh (one Peta Joule = 278 Giga Watt hour)

Australia's Electricity Consumption Per Capita

- 24.7 kWh/day
- 9,006 kWh/year = 9 MWh/year

Carbon dioxide (CO_2)

- Greenhouse gas produced as a by-product of oil and gas production and when burning fossil fuels and biomass.

Carbon Dioxide Emissions Equivalents

- Brown Coal 1.2 tonne CO_2 per 1 MWh
- Black Coal 0.85 tonne CO_2 per 1 MWh
- Oil 0.80 tonne CO_2 per 1 MWh
- Natural Gas 0.55 tonne CO_2 per 1 MWh

Reservoir Rocks

- Transmissivity is the capacity water to flow through rock
- kh or Dm is the permeability thickness of reservoir rocks

Climate Change

- Any change in climate over time, whether due to natural variability or as a result of human activity.

Geothermal

- Energy that is generated by converting hot water or steam from deep beneath the Earth's surface into electricity.

Geothermal Resources

- Conventional Geothermal Systems, containing naturally occurring hot water in porous and permeable rocks, also known as 'hot wet rocks' or hydrothermal systems.
- Engineered Geothermal Systems, heat stored in rocks but lacks a reservoir to extract the geothermal heat. A reservoir has to be artificially engineered for 'mining' the heat. Also referred to as 'hot fractured rocks', or hot dry rocks.

RET & RECs

- RET = Renewable Energy Target (Commonwealth legislation)
- REC = Renewable Energy Certificate
- One REC = 1 MWh with zero CO_2 emissions

Selected Conversions (Temperature and Volume)

- 145°C = 293°F
- 160°C = 320°F
- 200°C = 392°F
- 175kg/sec = 2,775 gallons per minute (gpm)

Heatflow

- Most of the energy produced by radioactive decay in the Earth escapes as heat and eventually radiates into space. Heat flowing out of the Earth is not uniform. Most of it is released by volcanism, active mountain belts, hot spots, etc. Heatflow measurements are expressed in mW/m2 (milli watt per m2).

Panax

- Greek derivative of the word "panacea" or "universal remedy".

PANAX GEOTHERMAL

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