PANAX GEOTHERMAL

Panax Geothermal Ltd ABN 89 122 203 196
Level 5, 11 Finchley Street (PO Box 2142) Milton QLD 4064 Australia
ph +61 7 3512 7000 fax +61 7 3512 7099
info@panaxgeothermal.com.au www.panaxgeothermal.com.au

24 April 2008

Mr Allan Kane
Environmental Compliance Officer
Petroleum & Geothermal Group
Primary Industries and Resources SA
GPO BOX 1670
Adelaide SA 5001

Dear Allan

RE: GEL's 170, 171, 172, 173, 184, and 212 – On-Shore Otway Basin – South Australia
Annual Report – Permit Year 3 – 22 November 2006 to 21 November 2007

Panax Geothermal Ltd ("Panax") has pleasure in submitting its Annual Report for GEL's 170, 171, 172, 173, 184, and 212 for Permit Year 3 (being the year from 22 November 2006 to 21 November 2007).

1 Background on Panax Geothermal Ltd

The Company originally listed on the ASX under the name of "Uranoz Limited". This Company was incorporated in late 2006, and listed on the Australian Securities Exchange ("ASX") in June 2007.

An Extraordinary General Meeting of shareholders on 16 October 2007 approved the 'geothermal transaction', being the acquisition of 100% of the issued shares in Scopenergy Pty Ltd – the owner and developer of the advanced and ready to drill Limestone Coast Geothermal Project and the acquisition of 100% of the issued shares in Panax Geothermal Pty Ltd (subsequently renamed Panax Holdings Pty Ltd) – owner of the Company's geothermal interests in both India and Kyrgyzstan.

Thus – on 16 October 2007, Panax became the owner of 100% of the issued capital of Scopenergy Pty Ltd, and thus (via its acquisition of Scopenergy Pty Ltd) became the 100% title holder and operator of GEL's 170, 171, 172, 173, 184, and 212.

The Annual General Meeting of shareholders on 26 November, 2007 unanimously approved the Company's name change to "Panax Geothermal Ltd", which became effective on 14 December, 2007. The Company started trading under the ASX code: PAX on 18 December, 2007. As part of these changes the Company's head office was relocated from Sydney to Milton, Brisbane.

2 Report Overview

Geothermal Exploration Licences numbered 170, 171, 172, 173, 184, and 212 ("the GEL's) are situated in the South Australian sector of the on-shore Otway Basin. The third year of the licence covers the period from 22 November 2006 to 21 November 2007.

This report outlines the work performed by Scopenergy Pty Ltd ("Scopenergy") during the third year of the licence in accordance with Section 33 of the Petroleum Regulations 2000 (S.A.).

3 Background on the Limestone Coast Project

The Limestone Coast Project is designed to deliver the first proof of a significant and viable conventional geothermal system within Australia's sedimentary basins.

Existing conventional geothermal energy is currently reliant on active or dormant volcanic provinces for a heat source, with adjacent aquifers acting as the reservoir. While conventional geothermal energy is well established elsewhere in the world, it is yet to be proven in Australia, mainly because Australia does not have active volcanic regions.

A volcanic province however is not essential for the generation of power from geothermal energy. Any sedimentary aquifer with the appropriate characteristics can be a geothermal reservoir if it is located in an area of relatively high heat flow, and has a thermally insulating blanket to contain the heat. The Limestone Coast Project is developing the concept that regardless of the source of heat (e.g. recent volcanism, high heat producing granites, or crustal thinning as part of the development of the Otway Basin), commercially viable geothermal reservoirs can be developed in deep sedimentary basins with overlying insulators.

Panax has geothermal exploration tenements in the Limestone Coast part of the onshore Otway Basin (Figure 1) where extensive preliminary work has indicated new geothermal energy exploration targets characterised by the combination of:

- A target reservoir comprising a porous and permeable sandstone (Pretty Hill Formation) in which the energy is contained in the water (brine) within the rock pore space and the rock fabric itself;
- Regionally elevated heat flow with potential for high heat flow locally;
- A thick insulating layer of clay rich sediments (Eumeralla Formation) that has trapped the heat (see Figure 2).

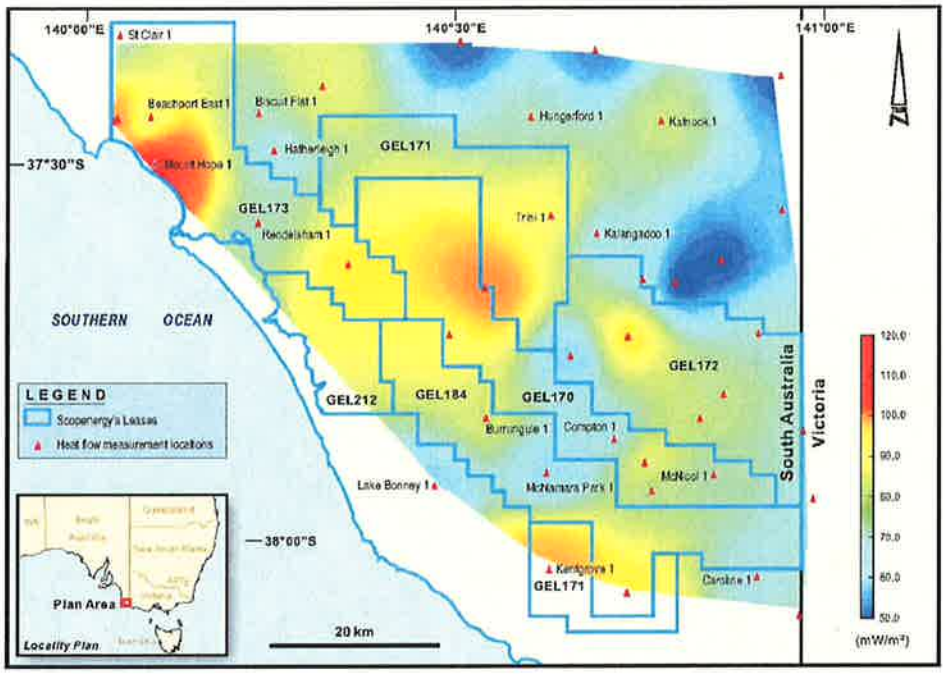


Figure 1 - *Panax's Geothermal Exploration Licence (GEL's) areas in the Limestone Coast section of the onshore Otway Basin, showing the areas of high heat flow (yellow to red).*

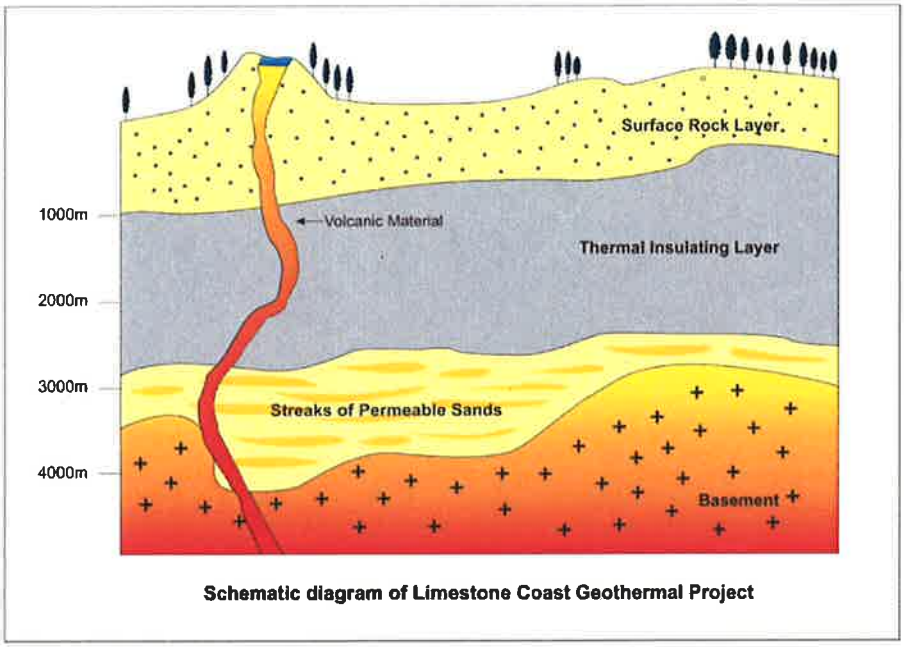


Figure 2 - *The permeable sands (Pretty Hill Formation) comprise the target for a conventional geothermal (hydrothermal) reservoir that has been heated by the elevated heat flow in the basement. The insulating layer (Eumeralla Formation) has trapped heat so that temperatures in the Pretty Hill Formation are expected to be around 180 °C.*

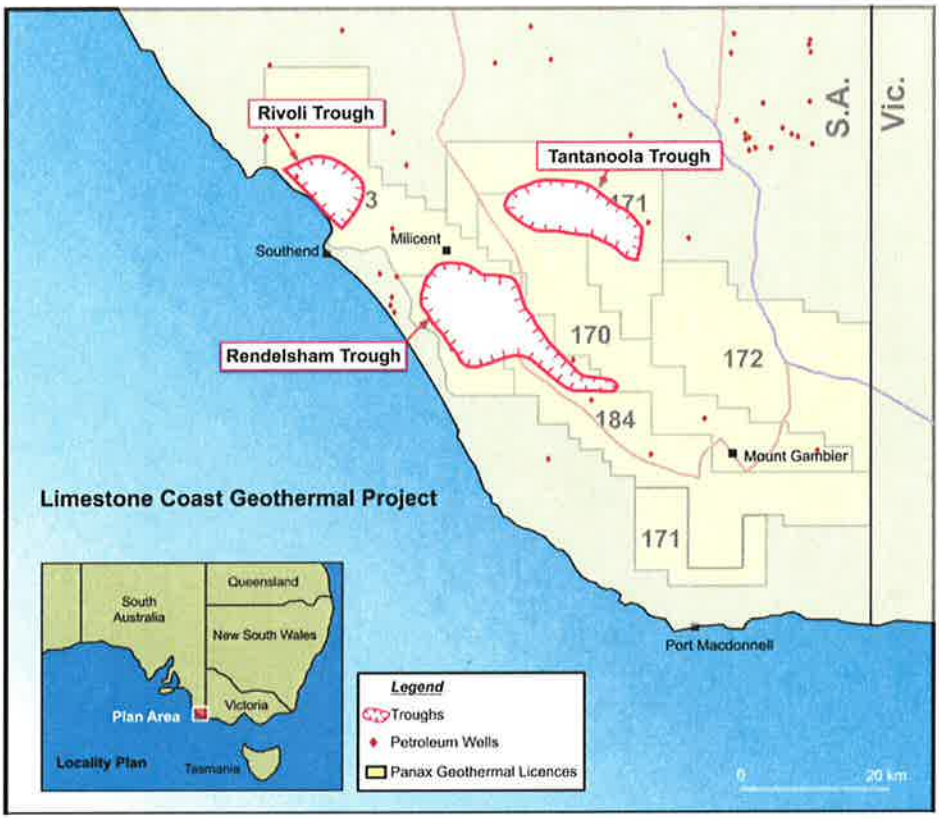


Figure 3 - *Trough locations in Panax's Limestone Coast Geothermal area.*

The concept being applied in the Limestone Coast Project is substantially different to many of the other geothermal projects (eg Hot Fractured Rock) being pursued in Australia at the present time.

An independent review (by GeothermEx Inc) of work and modelling conducted to date has indicated a generating potential of around 1,500 MW within three sedimentary troughs, or sub-basins, within the Otway Basin: the Rivoli, Tantanoola and Rendelsham troughs. The St Clair Trough also partly exists within Panax's tenements, but has not been fully evaluated and is not a priority at this point in time but continues to be assessed.

Stage 1 of Panax's Limestone Coast plan, which comprises the preliminary work is now complete. The proof of concept project comprises Stage 2.

Panax is in a strong position to commence this project mid 2008, as:

- It has the required cash resources in place; and
- It has secured an opportunity for a drilling rig from Century Resources from December 2008.

4 Permit Summary

Scopenergy holds 100% of each of the GEL's.

The agreed work commitments for Year 3 were as follows :

- Reprocess available seismic data for detailed resolution of target areas; and / or
- Conduct geophysical surveying.

5 Overview of Work Completed During Permit Year 3

Little work was completed during Permit Year 3 by Scopenergy, due to the intention of the former owners of the Company (being Eureka Capital Partners) having undertaken early during the Permit Year 3 to dispose of its interest in the GEL's.

In this regard, since the acquisition of Scopenergy by Panax in October 2007, momentum has increased with renewed vigour to re-commence works on the GEL's.

In connection with this, Panax commissioned Hot Dry Rocks Pty Ltd ("HDRPL") to complete a detailed assessment and review of all works completed on the GEL's and associated findings and conclusions. This report is included at Appendix A. **PLEASE NOTE THAT THIS REPORT AS INCLUDED AT APPENDIX A IS NOT FOR PUBLIC DISCLOSURE OR DISTRIBUTION. PLEASE ADVISE IS THIS IS NOT ABLE TO BE ACHIEVED.**

6 Work Proposed To Be Completed

In connection with the matters noted in the above section "Overview Of Work Completed During Permit Year 3", Panax has committed to an enhanced and accelerated work program for the GEL's. Panax has committed to a ""Proof Of Concept Project" which has commenced.

The objective of this project is to prove the concept that there are good quality conventional geothermal resources within Australia's sedimentary basins that can be used to generate competitively priced, zero-emission, base-load power.

The focus for this project will be the Pretty Hill Sandstones in the Rendelsham Trough, as concluded by Hot Dry Rock Pty Ltd (HDRPL), and to be confirmed by 2D seismic analysis.

The trough is characterised by:

- high regional heat flows in conjunction with the potential for a thick sequence of the key thermally insulating unit;
- the presence of a thick sequence of the Pretty Hill Formation, which is inherently capable of producing high flow rates; and
- the proximity to transmission lines.

Success with this project will prove a new geothermal energy play, and:

a) For Panax, provide the basis for a decision to proceed with a 10 MW module geothermal plant (generating by 2011) as the first step in a 50 MW development (2013) and a subsequent 250 MW development (2017). Further exploration in the other troughs will then proceed and be followed by expansion to fully develop the resource. Independent (GeothermEx[1]) estimates of the potential of the tenements suggest 1,580 MW for 30 years.

b) For the Australian geothermal energy industry, it will open up new exploration targets for reservoirs that are close to population centres or transmission grid connections. It may also open up new exploration concepts in other parts of the world, for example in the Great Basin formations in the U.S.

The works planned to be completed by Panax will include, but not be limited to those items outlined in Appendix A to this LOI.

In addition, Appendix B to this report seeks to outline, from Panax's perspective, the key Milestone Events and Deliverable Items for the Limestone Coast Geothermal Project.

Panax, jointly in conjunction with a number of other geothermal industry participants, is in discussion with Century Drilling, a division of MB Century, in relation to the procuring of a drilling rig suitable for the drilling of an initial appraisal well for the Limestone Coast Geothermal Project, and for use on other geothermal projects within Australia. The rig being sourced will be more than capable of drilling to the depth and specifications required on the Limestone Coast Project.

The basis of the negotiations is to ensure that a suitable program of work is able to be co-ordinated amongst the various parties to allow the rig to be secured, and to allow for an appropriate sharing mechanism to be implemented in respect of procurement and mobilization costs.

Panax is confident that these negotiations will be completed during the current quarter, and that the rig will be available for the commencement of works on the Limestone Coast Geothermal Project late in the December 2008 quarter.

In addition, a data sharing arrangement is currently being confirmed with Rawson Resources Limited over areas of overlapping title.

7 Data Submissions

There were no data submissions during Permit Year 3.

8 Incidents

There were no incidents reported or reportable to the Minister under the Act in respect of the Licence Areas during Permit Year 3.

9 Threat Prevention - Environmental

There were no environmental threats identified that were not addressed in the SEO adopted by Scopenergy and approved by PIRSA in respect of the drilling operations.

10 Threat Prevention - Safety

There were no OHS threats identified that were not covered by the licensee's and its contractors OHS systems, plans, and procedures. There were no formal HAZOP's undertaken during the year.

11 Threat Prevention - Other

There were no other threats identified and reportable in accordance with Regulation 33(2)(g).

12 Expenditure Statement

This is included at Appendix C.

13 Additional Information For PPL (Production Licence) Reports

Not applicable.

14 Additional Information For PL (Pipeline Licence) Reports

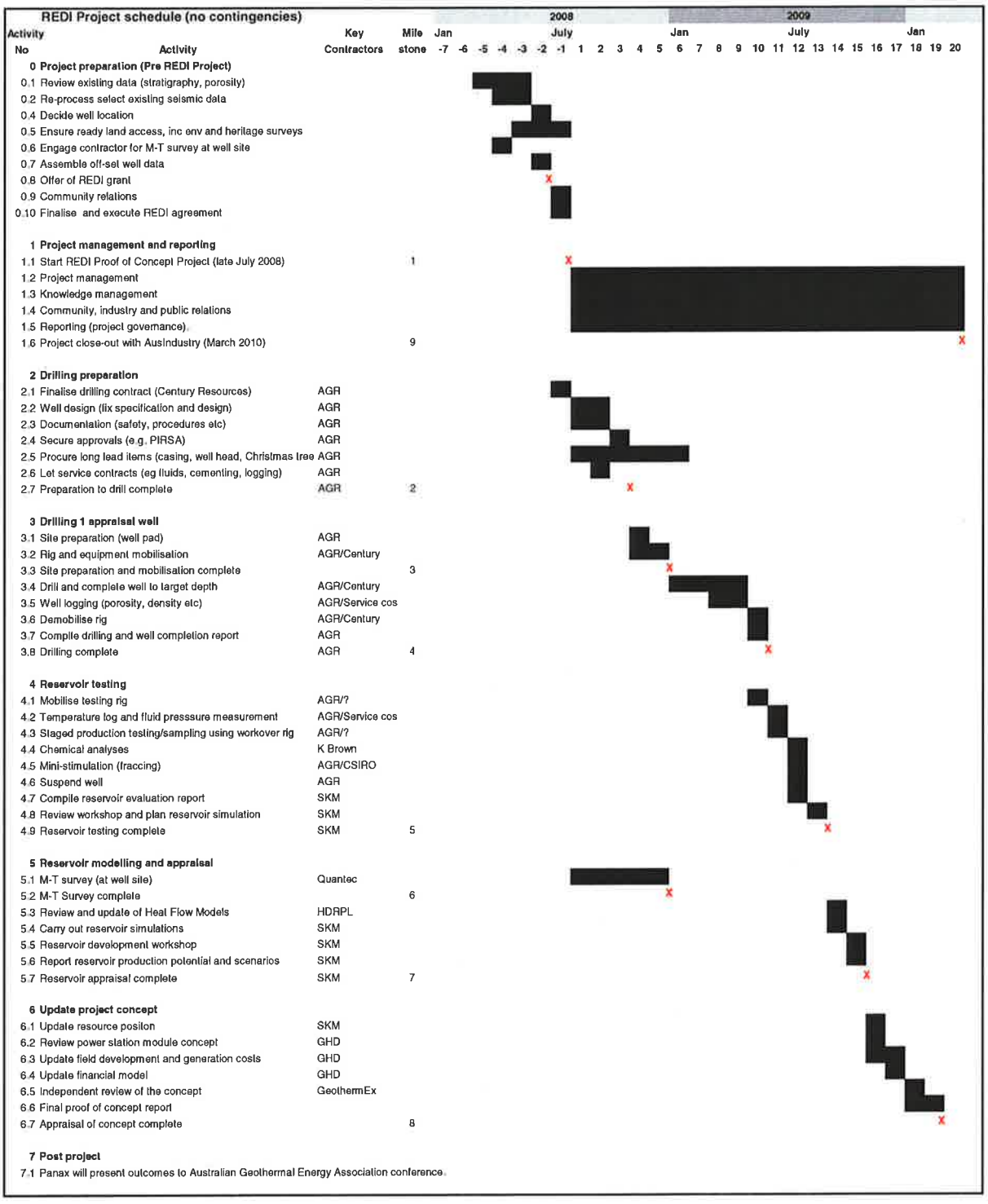
Not applicable.

We thank you for the opportunity of presenting our report to you.Please do not hesitate to contact us should you require any additional information or clarification.

Yours faithfully

Kerry J Parker
Executive Director

Appendix A – Project Timeline and Allocation of Responsibilities



REDI Project schedule (no contingencies)

Activity No	Activity	Key Contractors	Mile stone
	0 Project preparation (Pre REDI Project)		
0.1	Review existing data (stratigraphy, porosity)		
0.2	Re-process select existing seismic data		
0.4	Decide well location		
0.5	Ensure ready land access, inc env and heritage surveys		
0.6	Engage contractor for M-T survey at well site		
0.7	Assemble off-set well data		
0.8	Offer of REDI grant		
0.9	Community relations		
0.10	Finalise and execute REDI agreement		
	1 Project management and reporting		
1.1	Start REDI Proof of Concept Project (late July 2008)		1
1.2	Project management		
1.3	Knowledge management		
1.4	Community, industry and public relations		
1.5	Reporting (project governance)		
1.6	Project close-out with AusIndustry (March 2010)		9
	2 Drilling preparation		
2.1	Finalise drilling contract (Century Resources)	AGR	
2.2	Well design (fix specification and design)	AGR	
2.3	Documentation (safety, procedures etc)	AGR	
2.4	Secure approvals (e.g. PIRSA)	AGR	
2.5	Procure long lead items (casing, well head, Christmas tree	AGR	
2.6	Let service contracts (eg fluids, cementing, logging)	AGR	
2.7	Preparation to drill complete	AGR	2
	3 Drilling 1 appraisal well		
3.1	Site preparation (well pad)	AGR	
3.2	Rig and equipment mobilisation	AGR/Century	
3.3	Site preparation and mobilisation complete		3
3.4	Drill and complete well to target depth	AGR/Century	
3.5	Well logging (porosity, density etc)	AGR/Service cos	
3.6	Demobilise rig	AGR/Century	
3.7	Compile drilling and well completion report	AGR	
3.8	Drilling complete	AGR	4
	4 Reservoir testing		
4.1	Mobilise testing rig	AGR/?	
4.2	Temperature log and fluid presssure measurement	AGR/Service cos	
4.3	Staged production testing/sampling using workover rig	AGR/?	
4.4	Chemical analyses	K Brown	
4.5	Mini-stimulation (fraccing)	AGR/CSIRO	
4.6	Suspend well	AGR	
4.7	Compile reservoir evaluation report	SKM	
4.8	Review workshop and plan reservoir simulation	SKM	
4.9	Reservoir testing complete	SKM	5
	5 Reservoir modelling and appraisal		
5.1	M-T survey (at well site)	Quantec	
5.2	M-T Survey complete		6
5.3	Review and update of Heat Flow Models	HDRPL	
5.4	Carry out reservoir simulations	SKM	
5.5	Reservoir development workshop	SKM	
5.6	Report reservoir production potential and scenarios	SKM	
5.7	Reservoir appraisal complete	SKM	7
	6 Update project concept		
6.1	Update resource positon	SKM	
6.2	Review power station module concept	GHD	
6.3	Update field development and generation costs	GHD	
6.4	Update financial model	GHD	
6.5	Independent review of the concept	GeothermEx	
6.6	Final proof of concept report		
6.7	Appraisal of concept complete		8
	7 Post project		
7.1	Panax will present outcomes to Australian Geothermal Energy Association conference		

Appendix B – Project Milestones and Deliverables

Milestone 1: Project initiated	
Description of activities	• Project launch • Deposit on rig
Technical challenges	Nil
Method of overcoming technical challenge	NA

Milestone 2: Preparation to drill complete	
Description of activities	• Well design and documentation • Approvals and filings/lodgement of any required applications • Drilling contracts finalised • Long lead items ordered
Technical challenges	Designing the well with sufficient flexibility and low risk to manage the actual down-hole conditions and to ensure that the required testing can be undertaken.
Method of overcoming technical challenge	Data from off-set wells in the Katnook gas field some km's away will be used. Early discussions with PIRSA and suppliers of long lead items (casing, well head and Christmas tree) and with service contractors. Many of these discussions have been initiated.

Milestone 3: Site preparation and mobilisation complete	
Description of activities	• Drilling pad, site works and offices/accommodation • Rig mobilisation
Technical challenges	Rig mobilisation as contracted
Method of overcoming technical challenge	Good relationship with Century Resources and monitoring. However, the availability of the rig is contingent on it finishing its prior contract.

Milestone 4: Drilling and well construction complete	
Description of activities	• Drilling • Porosity and other down-hole logs • Completion with Christmas tree • Rig demobilisation • Well completion report submitted to PIRSA
Technical challenges	While many wells have been drilled in the Katnook area, the drilling of a 4,000 m deep well is a significant undertaking and few have been drilled to this depth. The hot down-hole conditions will impact drilling fluids and logging equipment. High permeability zones are anticipated, imposing risks of loss of drilling fluid or of formation damage (damage to permeability). The fluid pressure in the Pretty Hills formation at the site is not known, and that requires a drilling strategy that can accommodate over-pressures.
Method of overcoming technical challenge	Maximum use of off-set wells (including Katnook wells(Thorough planning of the well construction operation, including HS&E. Drilling the Pretty Hills formation will aim to use mud densities that result in down-hole pressures close to the insitu pressure i.e. "near balance", or standard oil industry clean-up practices will be applied.

Milestone 5: Reservoir testing complete	
Description of activities	• Down-hole logging (temperature, porosity) • Production testing and fluid sampling • Mini-frac stimulation • Well suspension • Reservoir evaluation report • Review workshop and modelling planned
Technical challenges	1. Accurate temperature logging requires that temperatures have stabilised in the well after being disturbed by drilling. 2. The production testing can only be designed once the down-hole pressure and porosity conditions have been determined. A particular uncertainty concerns whether the down-hole fluid is over-pressured as has been found in the Cooper Basin, in which case the well will flow naturally as hot pressured brine, or whether it is under-pressured and requires pumping.

Milestone 5: Reservoir testing complete	
	3. Flow rates are critical and may be less than desired. 4. It is anticipated that the Pretty Hills formation will have variable porosity and permeability, so that careful selection of the zones to be tested and correlation with reservoir properties will be critical. 5. The mini-frac stimulation requires that a section of the well be isolated. The usual straddle packer system used by CSIRO will not be suitable in the temperatures anticipated, so that either a high temperature packers will be needed or, more likely, the testing will need to be done with a single packer in the bottom of the lowest casing and a short section of open hole. 6. Good quality reservoir modelling is critical. There will be many views regarding how the reservoir should be described and modelled for subsequent production simulation.
Method of overcoming technical challenge	1. A period of at least four weeks has been provided between drilling completion and temperature logging. It will be possible to access the well after production testing to re-run temperature logs if any doubt exists. 2. The down hole pressures will be measured during drilling and sufficient time has been allowed to finalise the well testing program accordingly. 3. There are several options to improve flow rates. For example, an acid treatment may be used to dissolve the calcite cement that holds the silica grains of the Pretty Hill Sandstone together may be used to remove any skin effect close to the well bore, the potential for hydraulic stimulation will be assessed (see mini-frac), and may include an acid frac. It is also possible that natural fractures with higher permeability exist and these fractures can be identified through the M-T survey and down-hole logging (for example fracture logs, porosity logs) and targeted for testing. 4. The magneto-telluric survey has been planned prior to drilling, and that is expected to indicate porosity variations and the planning of production testing. It may be necessary to carry out limited production tests during drilling with the main test post drilling as shown in the schedule. The correlation of properties will be undertaken by FrOG Tech. 5. Careful assessment of the options and risks will be undertaken in conjunction with CSIRO and AGR's drilling engineers. 6. The planned workshop to review testing and decide the basis for modelling the reservoir is very important. It is intended to include CSIRO's Dr Paterson who is expert in describing heterogeoeus reservoirs to join with SKM reservoir engineers and FrOG Tech geoscientists in this task.

Milestone 6: Magneto-telluric survey complete	
Description of activities	• MT survey over the target area • Re-processing existing seismic data
Technical challenges	The MT survey and re-processing of selected existing seismic data is designed to assist with the final selection of well location and particularly to image porosity variations in the Pretty Hills Formation. MT is a type of electrical survey which images areas of higher conductivity that commonly result from the development of clay alteration associated with the hydrothermal system. The interpretation of the results of an MT survey can be varied depending on the geological assumptions used. Seismic data may be of varied quality
Method of overcoming technical challenge	A geological model will be built using all of the datasets available to assist in interpretation of MT. Seismic data will be ranked according to quality and given appropriate weighting proportional to this.

Milestone 7: Reservoir modelling and appraisal complete	
Description of activities	• Refinement of heat flow model • Reservoir modelling and production simulation • Reservoir development workshop • Report reservoir production potential and scenarios
Technical challenges	Separation of convective and conductive heat flow mechanisms. The interaction between reservoir modelling and the development of the field and production scenarios will be important. This is a challenging task given that this will be the first analysis of such a geothermal field in Australia.
Method of overcoming technical challenge	Careful temperature profile logging. The task will consider several scenarios and include Monte-Carlo simulations. Comparisons will be made with the East Mesa and Heber fields in the U.S. and of production from the Pretty Hills formation in the Katnook gas field.

Milestone 8: Update of concept complete	
Description of activities	• Update resource position • Review power station concept • Update field development and generation costs • Update financial model • Independent review • Final proof of concept report
Technical challenges	At present there is no industry accepted routine method of assessing reserves and resources, although consultants such as SKM and GeothermEx have developed their own approaches.
Method of overcoming technical challenge	Australia's geothermal industry is finalising its Geothermal Code for assessing resources and reserves, and both SKM and GeothermEx are involved in that process.

Milestone 9: Project close-out with AusIndustry complete	
Description of activities	• Lodge final reports / audit of costs • Ensure satisfaction, and address public relations and post project dissemination
Technical challenges	None expected
Method of overcoming technical challenge	N/A