

Remuneration Policies and Process

(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) Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the 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.

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.