

QUARTERLY REPORT

Quarter Ending 31 December 2011



HIGHLIGHTS

- Solid progress with Molten Power in their raising of the required development funding for our advanced portfolio of near-term development opportunities in Indonesia. Panax is pleased with the progress to date by Molten in attracting quality investors to our portfolio of near term development projects;
- Continuing strong interest from a number of international parties wishing to partner with Panax on our advanced portfolio of near term development projects in Indonesia;
- Substantial progress towards finalising the Definitive Development Study for Sokoria Geothermal Project. This comprehensive study will be the basis for the forward development of the project towards production;
- Execution of the Shareholders Agreement for Ngebel Geothermal Project;
- Grant of the IUP Licence for Ngebel Geothermal Project;
- Progress in PPA negotiations with PT PLN (Persero) for the Ngebel Geothermal Project, which are expected to finalise in the coming quarter;
- Community meetings and meetings with Local Government for the Ngebel Project, and commencement of required exploration activities in the area;
- Significant advancement of discussions with PLN and other parties for supply of power to Dairi Prima, including finalising the final structure and terms for this supply arrangement;
- Significant advancement in the preparation of two detailed submissions for government funding aimed at further understanding the outcomes of the Salamander-1 well, and at finalising the necessary assessments required for remediation of this well. These two applications are being prepared with the support of a number of Australian educational institutions and semi-government organisations; and
- Advanced discussions with an international geothermal company in regard to remediation of the Salamander-1 well.



Locals, Sokoria Village, Ende



Sokoria Village, Ende



Water sampling at a hot spring, Sokoria

1.0 CORPORATE

1.1 Overall Strategy Review

Panax continues to implement its stated strategy of securing and developing advanced conventional geothermal projects (i.e. commercially proven styles) in, the Asia Pacific region, with current focus on our projects in Indonesia, Australia and India.

The Company's development is guided by a three pronged strategy, of:

- Minimising project exploration risk;
- Targeting commercially attractive attractive power tariffs; and
- Targeting regulatory regimes that are favourable for the development of renewable energy technologies.

Asia Pacific Region

- Classic, volcanic related geothermal projects;
- Advanced stage;
- Small to medium projects, albeit seeking participation in larger scale projects subject to capacity and capability of financing entry into these;
- Commercially attractive tariffs; and
- Diesel replacement - Indonesia and India.

Australia

- Advanced HSA projects (Measured Resources);
- Open file data base support (seismic, deep wells, etc.); and
- Current exposure to and focus on Penola and Hutton Projects.

1.2 Molten Power - Development Funding For Advanced Indonesian Portfolio

In August 2011, Panax announced the signing of a Heads of Agreement with Vancouver-based Molten Power Corporation ("Molten"), for the securing of significant development funding for Panax's advanced portfolio of near-term development projects in Indonesia.

Panax is in regular and on-going discussions with Molten, and the Panax Board has recently received a further formal and detailed written update from Molten on its progress.

While Panax remains sufficiently confident that Molten will be able to provide the total required funding for Panax's portfolio of advanced projects in Indonesia, it is clear that Molten will require some further time to enable it to fulfill those objectives.



Landscape near Sokoria Village, Ende, Flores



Landscape, Ende, Flores

On this basis, in December 2011, Panax and Molten agreed to an extension to the term of the Heads of Agreement, to allow Molten additional time to complete its required financing arrangements. Molten will now have until 29 February 2012 to fulfill the financing requirements.

As part of the agreement to the extension of time, Molten is seeking to bring forward a portion of the agreed share placement in Panax. Molten and Panax will also undertake further joint visits to Indonesia and the Asia Pacific region in January and February 2012.

Under the terms of the Head of Agreement between Panax and Molten:

- Molten will progressively contribute the first \$10 million in required exploration and development funding for Panax's Indonesian Projects, in return for which Molten will progressively earn into a 50% interest in the issued capital of Panax's wholly owned subsidiary, Panax Geothermal Singapore No.1 ("Panax Singapore");
- The 50% interest in Panax Singapore is to be earned progressively by Molten, based on expenditure being undertaken up to the amount of \$10 million;
- Molten will subscribe for \$1 million in equity capital in Panax at an issue price of 2 cents per share, with attaching listed options on a one for two basis with a strike price of 4 cents per share and a three year term;
- Following the first \$10 million in expenditures being incurred, each of Panax and Molten will then contribute to future costs on a 50-50 basis.

Panax is confident of building a strong working relationship with Molten and its teams, and is sufficiently satisfied with the work completed by Molten to-date in seeking financial close on this transaction.

It is pleasing that Molten has been able to easily see the long term economic value of the portfolio of projects that Panax had assembled in Indonesia.

About Molten Power and its People

Molten is a Vancouver-based geothermal power development company formed in 2010 by a group of experienced and dedicated geothermal professionals from Calpine, Chevron, Western Geopower and Sierra Geothermal. Molten's strategy is to initially target the acquisition of late-stage and proven conventional geothermal resources globally, and to develop to provide clean, renewable, baseload energy to consumers. Molten's mission is to create shareholder value through the acquisition, exploration, development and operation of geothermal power projects worldwide.

For further information relating to Molten Power, see www.moltenpower.com.

1.3 Other Capital Raising Initiatives

We are currently advancing a number of other capital raising initiatives, particularly in regard to our advanced portfolio of projects in Indonesia.

Panax continues to be approached, on a regular basis, by local and international investment groups who see the strong potential and commercial viability and long term economic value of the portfolio of projects that Panax had assembled in Indonesia.

We are hopeful of finalising these discussions to a favourable outcome for Panax during the coming quarter.

1.4 2011 Annual Report to Shareholders

Our Annual Report to Shareholders for the 2011 year and Notice of Annual General Meeting was released to ASX on Friday 14 October 2011.

A full copy of the 2011 Annual Report is available on our web-site at www.panaxgeothermal.com.au.

1.5 Annual General Meeting

The Annual General Meeting of the company was held on Wednesday 16 November 2011 at 10.00 am Brisbane time, at our Milton office. We thank those shareholders who were able to attend the meeting.

All resolutions put to the meeting were passed on a show of hands.

1.6 Change in Brisbane Corporate Office

In an effort to reduce our overall corporate operating costs, and taking into account that we have also established a small corporate office in Jakarta, we moved to a smaller sized Brisbane office, with effect from end of November 2011.

Our office address is now:

Unisys Building
Level 2
147 Coronation Drive
Milton, Qld 4064

Telephone, facsimile, post office box, and email addresses are unchanged.

1.7 Conferences and Trade Fairs

During the coming months, Panax has been invited to speak at and to participate in a number of geothermal and cleantech energy conferences across the Asia Pacific Region.

We were a major sponsor to the 2011 Australian Geothermal Energy Conference held in Melbourne in November 2011.

1.8 Business Development – Indonesia and Asia Pacific Region

During the quarter under review, Panax continued with an on-going review of potential geothermal development opportunities in Indonesia and the broader Asia-Pacific region.

A number of potential development projects (of varying megawatt capacity) were reviewed.

We are in advanced discussions with a third party on a large (circa 200 megawatts), close to grid advanced geothermal development opportunity in Java, Indonesia, which is underpinned by an attractive power purchase agreement. Further information is expected to be released in the coming weeks.

Panax continues to be on the lookout for additional near term development projects in these areas, particularly those that are characterized by attractive power purchase and pricing regimes, that are close to infrastructure, and where prior exploration and similar works have been completed.

There is enormous potential for geothermal development in the Asia Pacific Region. Indonesia has commercially attractive tariffs, abundant geothermal resources and incentives for geothermal energy generators.



View from Sokoria Village, Ende, Flores

2.0 Indonesia - Overview

Indonesia arguably has the best geothermal resources in the world. The National Geological Agency of Indonesia estimates that the total geothermal potential is about 27,000 megawatts. Its existing geothermal generating capacity totals approximately 1,200 megawatts.

To meet power demands of this fast-growing economy, the Indonesian Government has made plans to expand installed geothermal generating capacity by 240 per cent over the next four years, to more than 4,000 megawatts.

Panax has secured participation in what can be described as an historic wave of geothermal development in Indonesia. The Government has received strong international support from the United States and Europe for these projects.

Our position in Indonesia provides a strong foundation for the company's future development and growth as an international geothermal development and production company.

2.1 Why Indonesia is well-placed for geothermal investment

- The country has significant classic, conventional volcanic geothermal potential – about 27,000 megawatts;
- The shallow nature of geothermal resources (2,000 metres or less) means relatively low drilling costs, that are significantly less than the costs of drilling and completing a well in Australia;
- The Indonesian Government is committed to increase installed geothermal power capacity to more than 4,000 megawatts by 2014;
- Status of geothermal resources has been completed on most projects identified for development.
- Electricity tariffs are known before commencement of development works; and
- Tariffs are at commercially attractive and sustainable levels.

2.2 About Panax's portfolio of near-term development projects in Indonesia

Over the past 2 years, Panax has established an Alliance Agreement with PT Bakrie Power (part of the Indonesian Stock Exchange listed, PT Bakrie and Brothers Group) to work co-operatively on near-term geothermal development and production projects in Indonesia.

Panax's portfolio has the capacity to produce more than 300 megawatts of clean electricity generation, with approximately 165 megawatts net to Panax.

Each of Panax's advanced Indonesian projects, Sokoria, Ngebel and Dairi Prima, are underpinned by agreed, commercially attractive power tariffs with agreed power offtake arrangements.

Summary of Panax's current geothermal interests in Indonesia

Project	Location	Status	Panax Interest	Gross megawatts	Approximate net megawatts to Panax
Sokoria	Flores	Near term development	45%	30	15
Dairi Prima	Northern Sumatra	Near term development	51%	30	15
Ngebel	Java	Near term development	Earning into 35%	165	60
Jambi	Central Sumatra	Exploration	95%	80	75
TOTAL				305	165

2.3 Comparison to Australian geothermal projects

The following table provides an overview of typical power generation and costs for Indonesian geothermal projects in comparison to Australian geothermal projects.

Well Parameter	Typical Australian Geothermal Project	Typical Indonesian Geothermal Project
Typical well depth	4,000 to 4,500 metres, or more	Approximately 2,000 metres
Typical temperature	170°C to 200°C	240°C or more
Typical cost (\$US)	\$12 million to \$14 million	Approximately \$5 million
Typical output per well	Up to 5 megawatts per well	6 to 7 megawatts per well with some wells currently producing more than 30 megawatts

2.4 Geothermal Power Market, Indonesia

Indonesia is the third largest producer of geothermal power in the world, behind the USA and Phillipines. The country is attempting to reduce its dependence on fossil fuels for producing electricity with a heightened emphasis on increased development and production from geothermal sources.

The cumulative installed capacity of geothermal power in Indonesia in 2006 was 852 megawatts, which increased to 1,189 megawatts in 2010, at a Combined Annual Growth Rate (“CAGR”) of 8.7 per cent. The country is aiming to deploy low carbon technologies in the future and geothermal power is considered to be the most viable option. It is expected that the geothermal installed capacity will subsequently grow to reach 9,879 megawatts in 2020, at a CAGR of 23.6 per cent.

The power generation from geothermal sources reached 7,083 gigawatt hours in 2010 from 6,700 gigawatt hours in 2006 at a CAGR of 1.4 per cent. It is expected that the power generation from geothermal sources in Indonesia will grow to reach 60,570 gigawatt hours by 2020 at a CAGR of 23.9 per cent. Geothermal plants have a higher Plant Load Factor (“PLF”) compared to other renewable technologies. As a result, even though the contribution of geothermal installed capacity to the total renewable capacity is 45.7 per cent, the corresponding contribution to total generation is 66.0 per cent.

The geothermal sector in Indonesia is poised for substantial growth due to the supportive environment in the country. Some of the key drivers of this industry growth include:

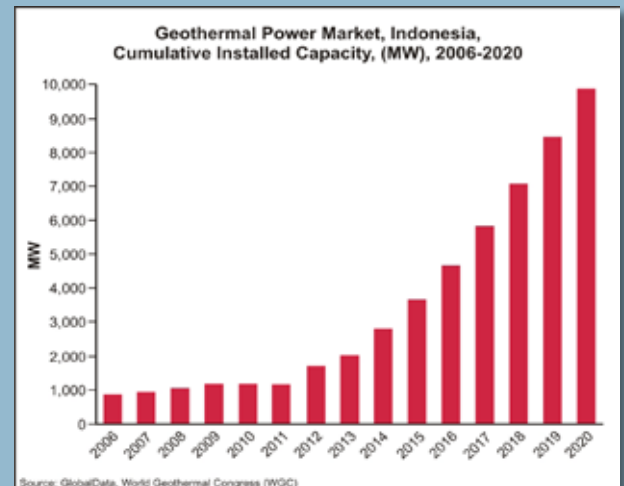
- **Energy Security** – Indonesia has abundant supplies of hydrocarbons and coal reserves that are limited as well as valuable – Indonesia will have far greater scope to export its fossil fuel based resources to other countries when it makes optimum use of the abundant geothermal resources that remain untapped;
- **Increased Role Of Private Players** – In order to provide financial assistance, the government has increased the role of the private sector. It is anticipated that 70 per cent of the new geothermal capacity additions will be contributed by private sector developers.
- **Increased Government Support** – The Government of Indonesia has extended its support for the geothermal sector by designing a framework for how and to what extent the government supports geothermal power projects in the country. This approach will vary based on the size and nature of the geothermal project. The government is currently creating a framework where the government will support Public Private Partnerships.

2.5 Indonesia’s Economic Outlook and Credit Rating

Indonesia recently won its second credit rating upgrade in five weeks as Moody’s Investors Service returned the country to investment level for the first time since the Asian financial crisis.

The foreign- and local-currency rating was increased to Baa3 from Ba1, Moody’s said in a statement in January 2012, with a stable outlook.

Emerging-market economies from Brazil to Turkey and the Phillipines are winning rating upgrades as governments take steps to contain budget deficits and bolster growth, even as Europe’s debt crisis prompted Standard & Poor’s to cut the credit ratings of nine members of the 17-nation euro area in



Geothermal Power Market Indonesia, Cumulative Installed Capacity



Geothermal Power Market Indonesia, Total Power Generated



Key Drivers - Geothermal Power Market, Indonesia

January 2012.

It is a positive development for the economy and backs the broader reform agenda rolled out by the government, which should also benefit rupiah-denominated assets and attract more investments into the country, thereby helping with the longer-term infrastructure-related demands.

Fitch Ratings brought Indonesia back to investment grade in December 2011 after 14 years of junk ratings. It raised the nation's long-term foreign and local currency rating to BBB-with a stable outlook on Dec. 15, citing "strong and resilient" growth and declining public-debt ratios.

In a recent statement by Moody's it was noted that "Indonesia's cyclical resilience to large external shocks points to sustainably high trend growth over the medium term. A more favorable assessment of Indonesia's economic strength is underpinned by gains in investment spending, improved prospects for infrastructure development following key policy reforms, and a well-managed financial system."

A planned currency reform, if successful, would be another notch up for Indonesia that is regaining its status as the "darling" for investors after years on the sidelines following the Asian Financial Crisis. Except for China, no other large developing economy in the region is growing as fast and has such a low level of debt.

Even more importantly, Indonesia's trade is not heavily dependent on any one country. It has both manufacturing and commodities to rely on for growth.

With an optimistic outlook for the future, growing domestic demand thanks to having the fourth largest population in the world, increasing returns from abundant natural resources and increasingly active capital markets, Indonesia is deservedly attracting both investment and attention.



Hot Spring near Toba Village



Signing of Ngebel Shareholders Agreement (L-R): Yusuf Suntoro - Bakrie Power; Pandam Pandyono - Bakrie Power; Ali Herman Ibrahim - Bakrie Power; Kerry Parker - Panax Geothermal; Chandra Devi Muharam - Bakrie Power.

3.0 SOKORIA GEOTHERMAL PROJECT (Flores, Indonesia)

Location:	Flores, Indonesia
Panax interest:	45%
Operator:	Panax Geothermal
Joint Venture Partner:	PT Bakrie Power
Project Status:	Near Term Development

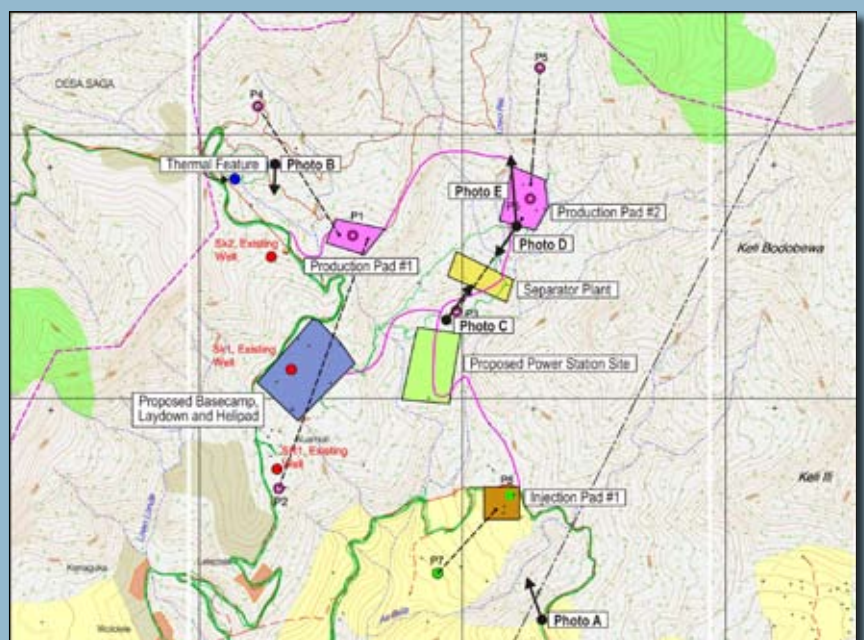
Likely Temperature	240 degrees Celcius
Likely Depth	< 2,000 metres
Estimated Output per Well	Up to 7 megawatts
Licence Area	Awarded in 2010
Resource Estimate	90–110 megawatts (JICA, Japan)
Estimated Cost per megawatt hour	US\$50 - US\$60
Power Purchase Agreement in Place?	Yes, with PT PLN (Persero)
Power Purchase Price	US\$125 per megawatt hour, indexed to CPI, plus CDM'S
Development Plan and Schedule	Prepared and underway

A 2008 report completed by the Japan International Cooperation Agency has estimated the Sokoria field has a potential of 90 megawatts. The Indonesia Government estimates Sokoria’s resource potential at 145 megawatts with a possible reserve of 25 megawatts.

This advanced geothermal project has an extensive data base, including three exploration wells as well as an extensive magneto-telluric survey (“MT”) covering the target area, as well as hot spring geochemistry.

Our activities and achievements during the quarter included:

- Significant progress towards finalising the Definitive Development Study document, as the basis of being the initial Development Plan for the project;
- Finalising the full well field layout and well site selection for the 30 megawatt project;
- Finalising plant site selection and detailed plant design and scoping of parameters and pricing;
- Site selection for camp site, warehouse, lay down areas;
- Reconnaissance, planning and costing of required infrastructure upgrades or “work around” for port, road, and bridge facilities;
- Significant progress towards finalising remaining matters with Federal Government relating to the boundary of the geothermal contract area. At the time of writing this has now been finalised; and
- Progress towards finalising the final Power Purchase Agreement (“PPA”) with PT PLN (Persero) which is expected to be executed shortly.



Proposed well field and plant site layout, Sokoria Geothermal Project

During the quarter, we also held a series of meetings with members of both Local Government and Central Government, in Ende (capital of Flores), and continuing planning and reconnaissance work currently being conducted on and adjacent to the Sokoria project site.

Focus for the coming months will continue to be on finalising the final version of the PPA, finalising project plans, and finalising detailed field and plant design and preparation for drilling. Required environmental assessments will also be completed during the coming quarter. We are also progressing towards lodgement of required documentation for registration and securing for sale of the carbon credits for the Sokoria Geothermal Project. At the time of writing, we are progressing arrangements towards securing a suitable drilling rig for the initial tranche of production wells.

Well and Plant Site Selection

In areas of difficult terrain/forest or cultivated areas where it is necessary to minimise social and environmental impacts as well as roading and infrastructure requirements, it is preferable to drill multiple wells from a single well pad. It is expected that the Sokoria Geothermal Reservoir will require wells of about 2,000 metres true vertical depth and up to five wells of this depth could be drilled as deviated wells from a single well pad.

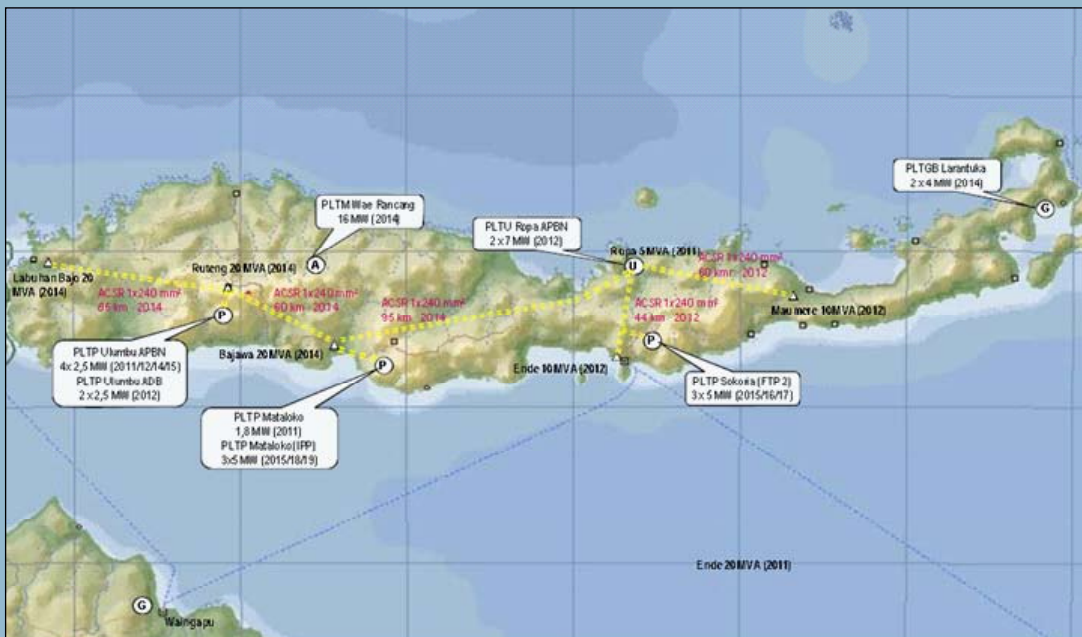
Planning for Sokoria indicates that sufficient production wells for the estimated steam requirements can be drilled from two well pads with up to four wells on each pad. A separate pad for reinjection wells is planned to the south. The production and reinjection well targets have been selected following consideration of geological and engineering requirements.

A Power Station site has been selected that is central to the production and injection pads so as to minimise piping costs and also that is below the production well pad elevations but above the proposed injection area so as to minimise or eliminate pumping requirements.

Electricity Supply Business Plan (Rencana Usaha Penyediaan Tenaga Listrik (RUPTL))

PLN have released the approved 2011–2020 RUPTL which has proved to be a valuable input into our Definitive Development Study document which is currently being finalised.

Details of the planned 70KV Trans Flores Electricity Distribution Network have also been released which show a 70KV branch connection to Sokoria from Roa on the Ropa to Ende transmission line.



70KV Flores Transmission Network

4.0 NGBEL GEOTHERMAL PROJECT (East Java, Indonesia)

Location:	East Java, Indonesia
Panax interest:	Panax earning into a 35% interest
Operator:	Panax Geothermal
Joint Venture Partner:	PT Bakrie Power
Project Status:	Near Term Development

Likely Temperature	240 degrees Celcius
Likely Depth	<2,000 metres
Estimated Output per Well	7 megawatts
Licence Area	Awarded in 2010
Resource Estimate	220 megawatt (JICA, Japan)
Estimated Cost per megawatt hour	US\$52
Power Purchase Agreement in Place?	Yes, with PT PLN (Persero)
Power Purchase Price	US\$90 per megawatt hour, including CDM'S
Development Plan and Schedule	Prepared and underway

The Ngebel Geothermal Project is a near-term development, in a strategic location that is underpinned by a guaranteed, commercially attractive power tariff. Panax will earn a 35 per cent working interest in the project, through funding of required exploration works before commercial development commences. Both companies will contribute to development costs.

Exploration has already been undertaken in the project area, including detailed geological mapping, geochemistry works for water and gas, thermal manifestation chemistry, heat flow modelling, heat flow mapping and geothermometry work.

Panax will be project operator during the exploration and feasibility stages, and fund the acquisition of existing data and reports about the project. This will include upper surface development planning, geological studies, geophysical studies, magnetotelluric data and a detailed feasibility study. This information will assist in the ongoing development of the project, and is anticipated to result in significant savings in both time and money.

The Ngebel Geothermal Project will supply geothermal energy to Indonesian state-owned power company PT PLN (Persero).



Hot spring area, Ngebel, East Java, Indonesia



Lake Ngebel, East Java

During the quarter we have made significant progress on the project including:

- Finalising and executing the Shareholders Agreement with PT Bakrie Power relating to the incorporated SPV Company that holds the rights to the Ngebel Project and will hold the Power Purchase Agreement (“PPA”) with PT PLN (Persero) for the 165 megawatt project;
- Establishment of strong Local and Federal Government support for the project through a series of government and community meetings in the general project area;
- Grant of the IUP Licence by the local government;
- Continuation of negotiations with PT PLN (Persero) for the Power Purchase Agreement for the project. This is expected to be finalised by end March 2012; and
- Advancement of the acquisition of the considerable prior exploration and appraisal works that have already been undertaken on the project by other parties.

Our focus during the coming quarter will be on:

- Finalising the Power Purchase Agreement with PT PLN (Persero) for the project;
- Completing the acquisition of the considerable prior exploration and appraisal works that have already been undertaken on the project;
- Continuation of on the ground exploration and testing works; and
- Continuing studies relating to the power transmission connection (of the order of about 30-35 kilometres) for the project, including transmission line route and environmental studies.

It is both very pleasing and very significant that Panax has been able to secure our position in this large and very commercially attractive geothermal development project, under strong competition for participation from some other very large players in the geothermal sector.

5.0 DAIRI PRIMA GEOTHERMAL PROJECT (Northern Sumatra, Indonesia)

Location:	Northern Sumatra, Indonesia
Panax interest:	51%
Operator:	Panax Geothermal
Joint Veture Partner:	PT Bakrie Power
Project Status:	Near Term Development

Likely Temperature	240 degrees Celcius
Likely Depth	<2,000 metres
Estimated Output per Well	7 megawatts
Licence Area	Discussions being finalised
Resource Estimate	60 megawatt (Panax internal)
Estimated Cost per megawatt hour	US\$52
Power Purchase Agreement in Place?	Binding Terms Sheet Agreement between Panax/Bakrie and PT Dairi Prima Minerals
Power Purchase Price	US\$150 per megawatt hour for first eight years, and US\$125 per megawatt hour thereafter, indexed to CPI, plus CDM's
Development Plan and Schedule	Prepared and underway

Panax and Bakrie have 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 megawatts of geothermal power for PTDPM’s underground Dairi Prima lead/zinc mine that is to be constructed in northern Sumatra.

During the quarter under review, PTDPM received their final mining licences and approvals for the project, and development of the project is expected to commence in May 2012.

During the quarter, Panax has made quite solid and continuing progress in respect of the Dairi Prima Geothermal Project, including, but not limited to:

- Advancing our discussions with PT PLN (Persero) in regard to a substantial number of electricity supply related issues, and infrastructure agreement related issues, and at the time of writing, substantial progress has been made towards finalising all required terms;
- Advancing discussions with the current tenement holder for the Sibayak and neighboring geothermal licence areas, for rights of access to and usage by Panax and Bakrie of these geothermal fields – active progress towards finalising these arrangements is well advanced;
- Detailed meetings in Jakarta between Panax and PTDPM, relating to development requirements, timings, schedules, and power plant design and associated requirements; and
- Substantial progress towards formalizing the Binding Terms Sheet Agreement into a formal and executed Power Purchase Agreement between the parties.

Significant progress was made on the advancement of this project during meetings in Jakarta in December 2011 and January 2012 by Panax/Bakrie with PT PLN (Persero) in conjunction with the current tenement holder, the current power station operator, and with PT Dairi Prima Minerals, and separately between Panax/Bakrie and PT Dairi Prima Minerals, whereby a revised proposal has been discussed and verbally accepted between the parties.



This revised proposal has now advanced further and is expected to be finalized to completion in the coming weeks. This is a major achievement in advancing this high value project forward. Our efforts and focus during the coming quarter will be on further advancing these matters.

The supply arrangement will see the geothermal power plant supply up to 25 megawatts of geothermal power to the Dairi Prima underground mine at \$US150 per megawatt hour for the first eight years and \$US125 per megawatt hour thereafter.

Receiving licence approval was the final hurdle before PTDPM were able to proceed to approval for the development of the project to commence.

Now that PT Dairi Prima Minerals has received this, Panax can finalise advanced project planning and timeframes to enable the development of the geothermal project to commence. This means that we are one step closer to achieving geothermal production and generating cash flow from this project.

The first production from PTDPM's underground mine is expected to occur by late calendar 2013.

Under the agreement between Panax Geothermal and PT Bakrie Power, both parties will be entitled to receive 50 per cent of all carbon credits generated from the project.



Construction camp and landscape area, Dairi Prima mine site

6.0 PENOLA GEOTHERMAL PROJECT (South Australia)

Location:	Limestone Coast, South Australia - GELs 170, 171, 172, 173, 184, 212, 223 and 484
Panax interest:	100%
Operator:	Panax Geothermal
Joint Venture partner:	100% Panax
Project Status:	Exploration and Appraisal

The Penola Project is part of Panax’s Limestone Coast Project, which targets Hot Sedimentary Aquifer reservoirs in four troughs or sub-basins in the Otway Basin in South Australia. The Penola Trough has an excellent open file data base comprising 28 deep petroleum wells, including logs and core bottom hole temperatures, as well as more than 600 kilometres² 3D seismic cover. The deepest petroleum exploration well is approximately 3,500 metres, which has intersected over 500 metres of the target reservoir, the Pretty Hill Sandstone.

During calendar year 2010, Panax completed the drilling and production testing of the pioneering Salamander-1, 4,025 metre deep geothermal well in the Penola Project, which recorded a bottom hole temperature in excess of 170 degrees celcius.

Since then, a significant amount of time has been spent reviewing the results of the drilling and production testing of Salamander-1. While the results to date on Salamander-1 were not entirely as we had hoped, the results achieved were also very historically significant in terms of developing and enhancing the total potential of the whole of the Otway Basin region of Australia for low-risk geothermal development, and need to be viewed in that light.

We continue to remain of the view that the Salamander-1 well remains a viable geothermal well that is capable of being remediated, and we are currently pursuing a number of potential remediation options.

Until such time as we see a substantial commitment of funding from the Australian Government towards developing Australia’s significant geothermal resources, Panax does not intend to commit any significant amount of its own funding towards progressing this project further. The feedback from the investment public – both in Australia and internationally – in regard to investment in Australian geothermal projects is clearly on this basis. The investment public view is that the Australian Government needs to commit significant and real funding towards the reservoir development aspects of geothermal projects in Australia, as a clear signal of support to the investment public.

The Hot Sedimentary Aquifer resources of the Otway Basin region of Australia are strategically located under the National and State transmission grids and are “prime location” sites for the development of clean, renewable, base-load power. These resources need to play a key role in Australia’s plans to meet it 20 per cent renewable energy target by 2020.

Panax is currently significantly advanced in the preparation of two detailed submissions for government funding aimed at further understanding the outcomes of the Salamander-1 well, and at finalising the necessary assessments required for remediation of this well and for a broader understanding of the extent of the generating capacity of the entire Otway Basin region. These two applications are being prepared with the support of a number of Australian educational institutions and semi-government organisations. Announcement of the details of these are expected to be made shortly.

Panax is currently in discussions with an international geothermal company in regard to remediation of the Salamander-1 well – with the aim of little or no cash contribution being required from Panax, in return for the international geothermal company earning equity in the initial Penola project development.



Mt Gambier landscape, Limestone Coast, South Australia

Limestone Coast Geothermal Systems Assessment

The Limestone Coast Project area lies at the western end of the Otway Basin, Australia's most prospective region for Hot Sedimentary Aquifer ("HSA") geothermal. Panax drilled and tested Salamander-1 in the Penola Trough within GEL 223. Salamander-1 produced steam and hot water to the surface, confirming the existence of viable reservoir temperatures.

The other troughs in Panax's portfolio remain relatively under-explored. Panax has engaged Hot Dry Rocks Pty Ltd to reappraise the whole of its Limestone Coast Project with a view to identifying and ranking the best places to focus further exploration effort.

Hot Dry Rocks is conducting an integrated Geothermal Systems Assessment ("GSA") across the full extent of the Limestone Coast Project. The GSA approach, a risk-based assessment framework developed by HDR, is a data collation and assessment exercise that provides the best estimate of geothermal power potential in a region, while highlighting critical data gaps for targeted exploration expenditure.

HDR is reviewing the known geology of the tenement area, all current thermal models of the target troughs including the Penola Trough, and bringing together all this relevant data into current geothermal models for the Limestone Coast Project.

The key outcome from the GSA will be indicative power generation potential for geothermal energy across Panax's Limestone Coast Project area. A targeted exploration program will be suggested to reduce the uncertainty ranges (risks).

Panax will use this information to rank the various prospects within the Limestone Coast Project and then decide how best to proceed in this highly prospective region.



Limestone Coast area, South East South Australia



Salamander-1 Well Site

7.0 JAMBI GEOTHERMAL PROJECT (Central Sumatra, Indonesia)

Location:	Central Sumatra, Indonesia
Panax interest:	95%
Project Status:	Earlier Stage Exploration

In March 2011, Panax announced the signing of a Memorandum of Understanding (“MOU”) with government-owned power company PT Petrogas Jambi Power (“Jambi Power”).

Under the terms of the MOU, Panax holds an initial 95 per cent interest in the project areas.

Panax and its partner intend to expedite the securing of required licences and permits to explore and develop potential geothermal resources with a target of up to 80 megawatts per project.

During the quarter we continued our efforts on attempting to secure the granting of the required licenses for exploration and development of the area to commence.

8.0 HUTTON GEOTHERMAL PROJECT (South Australia)

Location:	Cooper Basin, South Australia, GELs 220, 221, 281 and 502
Panax interest:	100%
Project Status	Exploration and Appraisal

Minimal works were conducted on this area during the quarter, due partly to previous wet weather conditions which have made the area inaccessible, and as a result of our funding being diverted to our more near-term geothermal development opportunities in Indonesia.

9.0 PUGA GEOTHERMAL PROJECT (Northern India)

Location:	Himalayan Geothermal Province, Northern India
Panax interest:	49%; Joint Venture with Geosyndicate Power Private, Mumbai, India
Project Status	Exploration and Appraisal

A definitive time frame for the issue of the final required development permits and approvals is still not currently available.

Panax continues to remain confident that these permits and approvals will be issued.

Meetings were held with our Joint Venture Partner (Geosyndicate Power Private) in October 2011, and site visits to the Puga Geothermal Project are planned for the coming quarter, in conjunction with a Board Meeting of the International Geothermal Association.



Ladakh District, Northern India

10.0 FINANCE AND ADMINISTRATION

At the end of the quarter, the Company's cash position stood at approximately \$1.55 million a decrease of approximately \$1.0 million over the previous quarter.

Major movements during the period resulted from:

- Costs associated with development and progression of our joint venture interests in Indonesia, including our Sokoria, Ngebel, and Dairi Prima Geothermal Projects;
- Business Development related costs associated with our search for new and advanced conventional geothermal projects, predominantly in Indonesia, but also throughout the Asia Pacific Region;
- Costs associated with seeking development capital for our portfolio of projects in Indonesia;
- Costs associated with our search for a Joint Venture Partner for the Penola Project;
- Review and development of capital raising initiatives for the Company; and
- regular corporate and administration costs.

Shareholder Information

The following provides a summary of Panax's issued capital structure as at the date of this report:

Total Listed Shares on issue	445,826,169
Total 4 cents Listed Options on issue	72,235,655
Total Unlisted Options on issue	20,700,000

During the quarter under review:

- a total of 51,995,312 listed options with a strike price of 25 cents per share lapsed;
- a total of 10,000,000 unlisted options lapsed; and
- a total of 11,000,000 listed options were granted to Directors.

Details of the unlisted options issued have been previously disclosed to ASX and were approved at the Annual General Meeting of the company in November 2011.

At the time of writing, the Company has approximately 2,442 shareholders, an increase of approximately 100 shareholders during the quarter.

Health, Safety, Environment and Community

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



Hot Springs West Java

CORPORATE DIRECTORY

DIRECTORS

Mr Greg Martyr Non Executive Chairman
Mr Kerry Parker Managing Director and Chief Executive Officer
Mr Stephen Evans Non Executive Director
Mr Ian Reid Non Executive Director

MANAGEMENT

Mr Kerry Parker Managing Director and Chief Executive Officer
Ms Kerry Angel Chief Financial Officer and Company Secretary
Mr David Jenson General Manager Geothermal Engineering
Mr John Bruce Senior Commercial Advisor
Mr Chris Matthews Chief Geologist
Mr Sjaiful Bahri Country Manager Indonesia

REGISTERED OFFICE AND CORPORATE OFFICE

Level 2, Unisys Building
147 Coronation Drive
Milton, Qld, 4064
ABN 89 122 203 196
Phone: +61 7 3512 7000
Fax: +61 7 3025 3391

POSTAL ADDRESS

PO Box 2142
Milton BC
Milton, Qld, 4064

JAKARTA OFFICE

Menara Duta Building
Jl. H.R. Rasuna Said
KAV B-9
Jakarta 12910
Phone: +61 417 731 014

AUDITOR

Johnston Rorke
Chartered Accountants
345 Queen Street
Brisbane, Qld, 4000

SOLICITORS

DLA Phillips Fox
Waterfront Place
1 Eagle Street
Brisbane, Qld, 4000

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

STOCK EXCHANGE LISTING

Australian Stock Exchange
Ordinary Shares – “PAX”
Listed Options – “PAXOA”

FURTHER INFORMATION

Kerry Parker
email: kparker@panaxgeothermal.com.au
mobile: 0417 731 014



WWW.PANAXGEOTHERMAL.COM.AU

The estimations quoted in this document relating to the geothermal potential of Panax's international projects do not constitute Resource or Reserve estimates under the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 edition).

The information in this document that relates to the estimation of Geothermal Resources in Australia has been compiled by Chris Matthews, an employee of Panax Geothermal Ltd. Mr Matthews has over 7 years experience in the measurement of heat flow, and estimation of crustal temperatures and stored heat for the style of geothermal play under consideration.

Mr Matthews qualifies as a Competent Person as defined in the First Edition (2008) of the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves. Mr Matthews has consented in writing to the public release of this announcement in the form and content in which it appears.

Panax advises that although the Second Edition of the Australian Geothermal Reporting Code was officially launched in November 2010, the Australian Geothermal Energy Group has not yet formed the administrative framework for implementing the Code.