Panax Geothermal Ltd

ABN 89 122 203 196

Interim Financial Report for the half-year ended 31 December 2010

PANAX GEOTHERMAL

Panax Geothermal Ltd ABN 89 122 203 196
Interim Financial Report – Half-Year Ended 31 December 2010

Contents

This interim financial report does not include all of the notes and other disclosure information of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the financial year ended 30 June 2010 and any public announcements made by Panax Geothermal Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

The directors present their report on the consolidated entity consisting of Panax Geothermal Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

Directors

The following persons were directors of Panax Geothermal Ltd during the whole of the half-year under review and up to the date of this report, unless otherwise stated:

Mr Gregory Martyr	Chairman – Non-Executive
Mr Kerry Parker[1]	Managing Director and Chief Executive Officer
Dr Lambertus de Graaf[2]	Non-Executive Director (resigned)
Mr Stephen Evans	Non-Executive Director
Mr Ian Reid	Non-Executive Director

[1]Mr Kerry Parker resigned as Executive Director and Chief Financial Officer with effect from 31 January 2011 and was appointed Managing Director and Chief Executive Officer on the same day.

[2]Dr Lambertus de Graaf resigned as Managing Director and Chief Executive Officer with effect from 31 January 2011 and was appointed a Non-executive Director on the same day. On 2 March 2011, Dr Lambertus de Graaf resigned as a non-executive director.

Company Secretary

Mr Kerry Parker was Company Secretary of Panax Geothermal Ltd during the whole of the half-year ended 31 December 2010. Mr Parker resigned on 31 January 2010 when he was appointed Managing Director and Chief Executive Officer and Ms Kerry Angel was appointed as Company Secretary on a part-time basis, on 1 February 2011

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 half-year period under review.

Review and Results of Operations

The consolidated entity realised a loss after tax for the half-year of $1,348,539.

	Half-Year ended 31 December 2010 $
Loss after income tax expense	(1,348,539)
Net loss attributable to the members of Panax Geothermal Ltd	(1,348,539)
Earnings per Share	**(cents)**
Basic and diluted loss per share	(0.4)

The key achievements and highlights for the six months to December 2010 were as follows:

Corporate

- As part of a long standing retirement and succession plan, Dr Bertus De Graaf resigned from his role as Managing Director with effect from 31 January 2011. He was succeeded by Mr Kerry Parker, who was an Executive Director of the Company and who has been with Panax since 2007;

- At the Annual General Meeting of the Australian Geothermal Energy Association ("AGEA"), which was held in mid-November 2010, Mr Kerry Parker (incoming Managing Director of Panax) was elected to the Executive Committee of the AGEA for the coming year; and

- With the aim of enhancing the current Panax Management team, a number of new staff and contractor appointments have been announced in February and March 2011.

- The Directors are confident of securing funds if and when necessary to meet the Group's obligations through a successful future capital raising or alternative funding arrangements. Considerable attention is being applied to capital raising initiatives at present and the Directors remain confident that additional required funding will be able to be sourced.

Indonesia

- Establishment of an Alliance Agreement with PT Bakrie Power ("Bakrie") relating to the joint exploration and development of geothermal projects across the whole of Indonesia;

- Panax greatly advanced its position in Indonesia, though the acquisition of 45% equity in PT Sokoria Geothermal Indonesia ("SGI"), the owner of the 30 MW Sokoria Geothermal Project, Flores, with Panax being the operator for the first phase. The Sokoria Geothermal Project is associated with an agreed power tariff of $US 125 / MWh, plus applicable carbon credits;

- Panax and Bakrie also executed a Binding Terms Sheet Agreement with PT Dairi Prima Minerals for the supply of up to 25 MW of geothermal power to the Dairi Prima underground lead/zinc mine that is to be constructed in Northern Sumatra; and

- Panax continues to seek participation in additional geothermal development projects in Indonesia, including the 165 MW Ngebel project on Java.

Penola Geothermal Project

- Panax has good reason to remain fully committed to the Penola Project in the Limestone Coast region. A review (in progress) of the Salamander-1 well testing data throws new light on the reservoir quality and further studies to determine the best method of enhancing well productivity remain fully justified. This, combined with the excellent "under the national grid" project location as well as our deep understanding of the geology (data-base) and economics of this project form the basis of our commitment. At the same time, current market conditions are not favourable for local renewable energy developments and as such we have to pace our financial commitments until these conditions improve or until a suitable JV partner and/or further government financial support has been secured.

Hutton Project

- Panax in-house studies have shown that the Hutton Sandstone (which is part of South Australia's Great Artesian Basin or GAB) presents an attractive target for hosting hot sedimentary aquifer ("HSA") geothermal resources for the supply of local power, at rates highly competitive with local diesel power. This HSA target is now also receiving interest from other companies in the region.

Puga Project

- This advanced and commercially attractive 60 MW geothermal project is located in the Indian Himalayan zone in Northern India. The local government continues with the development and construction of a transmission line from the district capital Leh to within 30-40km of the Puga Project. The project has an attractive power tariff of approximately $US108/MWh (or approximately $US10.8 c/kWh) for the 30 year life of the agreement.

- During the quarter, Panax continued discussions with our Joint Venture Partner, Geosyndicate Power Private, and with relevant government officials, in relation to the timing for the granting of final development permits for the Puga Geothermal Project and

- While a definitive time frame for the issue of these final permits and approvals is still not currently available, Panax continues to remain 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.

Business Development

- Panax continues to review advanced geothermal development opportunities with attractive electricity tariffs in Indonesia as well as in the Pacific.

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 6.

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

Mr Kerry Parker
Managing Director

Brisbane
11 March 2011

JOHNSTON RORKE
CHARTERED ACCOUNTANTS

Level 30, Central Plaza One
345 Queen Street Brisbane Q 4000
GPO Box 1144 Brisbane Q 4001
Ph 07 3222 8444 / Fax 07 3221 7779
Website www.jr.com.au
Email jr@jr.com.au

The Directors
Panax Geothermal Ltd
Ground Floor
20 Railway Terrace
MILTON QLD 4064

Dear Sirs

Auditor's Independence Declaration

As lead engagement partner for the review of the interim financial report of Panax Geothermal Ltd for the half-year ended 31 December 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 review; and
(ii) no contraventions of any applicable code of professional conduct in relation to the review.

JOHNSTON RORKE
Chartered Accountants

J. Evans

J. J. EVANS
Partner

Brisbane, Queensland
11 March 2011

Consolidated Statement of Comprehensive Income

		Half-Year	
		2010	2009
	Note	$	$
Revenue and other income from continuing operations	4	52,298	383,598
Employee benefits expense		(382,501)	(420,031)
Corporate advisory fees		(53,723)	(238,200)
Travel and entertainment		(90,095)	(142,490)
Reporting expenses		(106,623)	(200,139)
Office rental		(79,849)	(64,687)
Office running costs		(269,014)	(121,033)
Accounting and audit fees		(66,370)	(88,376)
Depreciation		(23,508)	(20,721)
Legal fees		(3,492)	(35,120)
Capitalised tenement costs written-off	5	(284,858)	-
Other expenses		(40,804)	(81,398)
Loss before income tax		(1,348,539)	(1,028,597)
Income tax expense		-	-
Loss for the half-year		(1,348,539)	(1,028,597)
Other comprehensive income		-	-
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		(1,348,539)	(1,028,597)
Loss attributable to:			
Owners of the parent		(1,348,539)	(1,028,597)
Non-controlling interests		-	-
		(1,348,539)	(1,028,597)
Total comprehensive income attributable to:			
Owners of the parent		(1,348,539)	(1,028,597)
Non-controlling interests		-	-
		(1,348,539)	(1,028,597)
Earnings per share for loss attributable to the shareholders of the company		**Cents**	**Cents**
Basic and diluted (loss)		(0.4)	(0.4)

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

Consolidated Statement of Financial Position

	Notes	31 December 2010 $	30 June 2010 $
ASSETS			
Current assets			
Cash and cash equivalents		1,878,222	4,653,948
Trade and other receivables		187,666	293,908
Other financial assets		178,089	1,188,089
Total current assets		2,243,977	6,135,945
Non-current assets			
Property, plant and equipment		105,706	125,022
Exploration and evaluation expenditure	5	29,277,128	28,930,318
Intangible assets		3,484	4,065
Total non-current assets		29,386,318	29,059,405
TOTAL ASSETS		31,630,295	35,195,350
LIABILITIES			
Current liabilities			
Trade and other payables		141,636	2,341,858
Borrowings		40,539	70,859
Provisions		59,980	70,780
Total current liabilities		242,155	2,483,497
Non-current liabilities			
Provisions		280,271	277,093
Total non-current liabilities		280,271	277,093
TOTAL LIABILITIES		522,426	2,760,590
NET ASSETS		31,107,869	32,434,760
EQUITY			
Contributed equity	6	38,934,184	38,934,184
Reserves	6	1,729,938	1,708,290
Accumulated losses		(9,556,253)	(8,207,714)
TOTAL EQUITY		31,107,869	32,434,760

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

Consolidated Statement of Changes in Equity

	Contributed Equity	Share-Based Payments Reserve	Accumulated Losses	Total
	$	$	$	$
2010				
Balance at 30 June 2010	38,934,184	1,708,290	(8,207,714)	32,434,760
Loss for the half-year	-	-	(1,348,539)	(1,348,539)
Total comprehensive income for the half-year	-	-	(1,348,539)	(1,348,539)
Transactions with equity holders in their capacity as equity holders				
Share-based payments	-	21,648	-	21,648
Balance at 31 December 2010	38,934,184	1,729,938	(9,556,253)	31,107,869
2009				
Balance at 30 June 2009	29,539,455	1,547,900	(4,420,237)	26,667,118
Loss for the half-year	-	-	(1,028,597)	(1,028,597)
Total comprehensive income for the half-year	-	-	(1,028,597)	(1,028,597)
Transactions with equity holders in their capacity as equity holders				
Share-based payments	-	46,428	-	46,428
Shares issued during the half-year	10,328,241	-	-	10,328,241
Cost of share Issue	(867,335)	-	-	(867,335)
Balance at 31 December 2009	39,000,361	1,594,328	(5,448,834)	35,145,855

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

Consolidated Statement of Cash Flows

	Half-year 2010 $	Half-year 2009 $
Cash flows from operating activities		
Interest received	58,515	180,060
Income tax credit received	-	199,680
Payments to suppliers and employees	(1,634,221)	(1,780,927)
Net cash inflows/(outflows) from operating activities	(1,575,706)	(1,401,187)
Cash flows from investing activities		
Proceeds from other financial assets	1,010,000	-
Payments for other financial assets	-	(4,100,000)
Payments for property, plant and equipment	(3,611)	(16,021)
Payments for exploration and evaluation expenditure	(2,206,409)	(4,338,630)
Government grants received	-	2,450,000
Net cash inflows/(outflows) from investing activities	(1,200,020)	(6,004,651)
Cash flows from financing activities		
Issue of shares	-	10,328,241
Share issue costs	-	(855,813)
Net cash inflows/(outflows) from financing activities	-	9,472,428
Net increase (decrease) in cash and cash equivalents	(2,775,726)	2,066,590
Cash and cash equivalents at the beginning of the half-year	4,653,948	10,194,863
Cash and cash equivalents at the end of the half-year (i)	1,878,222	12,261,453

(i) The consolidated entity classifies term deposits with maturity dates greater than 3 months as Other Financial Assets – Term Deposits. As at 31 December 2010, the consolidated entity held, in addition to the cash and cash equivalents above, $178,089 (31 December 2009:$5,394,036) in term deposits.

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

Notes to the Financial Statements

1 Significant Accounting Policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting.

This interim financial report is intended to provide users with an update of the latest annual financial statements of Panax Geothermal Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in its consolidated financial statements as at and for the year ended 30 June 2010.

2 Ongoing Operations

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared on a going concern basis. The ability of the Group to continue to adopt the going concern assumption will depend on future successful capital raisings. Should the Group not be successful in raising additional funding by capital raisings or other alternative funding arrangements fail to eventuate, there is uncertainty as to whether the group will be able to continue to operate as a going concern. If the Group is unable to continue to operate as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts that may be different to those stated in the financial statements.

The Directors are cognisant of the fact that future exploration and administration activities are constrained by available cash assets. The Directors are confident of securing funds if and when necessary to meet the Group's obligations as and when they fall due, and consider the adoption of the going concern basis to be appropriate in the preparation of these financial statements. Considerable attention is being applied to capital raising initiatives at present and the Directors remain confident that additional required funding will be able to be sourced.

3 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 Group's activities in the GEL 223 and GEL 484 area in the south-east of South Australia.

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

Other Limestone Coast

The activities in this area focus on the Group'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.

3 Operating Segments (continued)

Cooper Basin

The activities in this area focus on the Group'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 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 till 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 these Projects. In April 2010 Panax advised Kentor Gold Limited of its intention to withdraw from the Joint Venture, effective from April 2010.
Slovakia	Panax had 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. Panax has advised Geopark Limited that it has withdrawn from the Joint Venture.
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. Panax has now acquired 45% of the Sokoria Porject in Flores, Indonesia, through the execution of a Share Sale and Purchase Agreement between Panax and PT Bakrie Power, with Panax now owning 45% of PT Sokoria Geothermal Indonesia (SGI). Sokoria is a near term Geothermal development project with the target reservoir at approximately 2000m depth. Indications are that the overall potential is >100 MW generating capacity. SGI has already been awarded the concessions to generate power for the first 30 MW. Panax and Bakrie have 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 31 December all operating activities of the Group relate to the exploration and evaluation of its geothermal exploration tenements. 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.

3 Operating Segments (continued)

(i) Segment performance

	Penola Trough $	Other Limestone Coast $	Cooper Basin $	International $	Total $
Half-year 31 December 2010					
Total segment revenue	-	-	-	-	-
Segment result	-	-	-	(284,858)	(284,858)
Reconciliation of segment result to Group loss before tax					
• Interest and other income					52,298
• Employee benefits expense					(382,501)
• Corporate advisory fees					(53,723)
• Travel and entertainment					(90,095)
• Public company running costs					(106,623)
• Depreciation and amortisation					(23,508)
• Other					(459,529)
Group loss before tax					(1,348,539)
Half-year 31 December 2009					
Total segment revenue	-	-	-	-	-
Segment result	-	-	-	-	-
Reconciliation of segment result to Group loss before tax					
• Interest and other income					383,598
• Employee benefits expense					(420,031)
• Corporate advisory fees					(238,200)
• Travel and entertainment					(142,490)
• Public company running costs					(110,966)
• Depreciation and amortisation					(20,721)
• Other					(479,787)
Group loss before tax					(1,028,597)

3 Operating Segments (continued)

(ii) Segment assets

	Penola Trough $	Other Limestone Coast $	Cooper Basin $	International $	Total $
31 December 2010					
Segment assets	22,745,550	4,102,626	143,895	2,285,057	29,277,128
Segment asset increases for the period:					
• capital expenditure	141,854	40,482	44,695	404,637	631,668
• Capitalised tenement costs written-off	-	-	-	(284,858)	(284,858)
	141,854	40,482	44,695	119,779	346,810

	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
Segment asset increases for the period ended 31 December 2009:					
• capital expenditure	4,799,960	551,399	44,996	251,776	5,648,131
• Government grant receipts relating to segment assets	(2,450,000)	-	-	-	(2,450,000)
	2,349,960	551,399	44,996	251,776	3,198,131

4 Revenue and Other Income

	Half-year 2010 $	Half-year 2009 $
Interest	52,298	183,918
R&D tax concession	-	199,680
	52,298	383,598

5 Non-current Assets – Exploration and evaluation expenditure

	31 December 2010 $	30 June 2010 $
Tenements and information - geothermal energy		
At cost	29,277,128	28,930,318

Movements	Half-year 2010 $	Half-year 2009 $
Carrying amount at beginning of period	28,930,318	16,351,590
Additions	631,668	5,648,131
Capitalised tenement costs written-off	(284,858)	-
Government grants received (i)	-	(2,450,000)
Carrying amount at end of period	29,277,128	19,549,721

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

(i) 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.

6 Issued Capital and Reserves

Issued Capital	31 December 2010 $	30 June 2010 $
Ordinary shares – fully paid	38,934,184	38,934,184

Movements

	Half-year 2010		Half -year 2009	
	No. of Shares	$	No. of Shares	$
Balance at the start of the half-year	307,294,487	38,934,184	235,896,520	29,539,455
Issue of shares – Capital raising	-	-	71,242,967	10,328,241
Issue costs	-	-	-	(867,335)
Balance at the end of the half-year	307,294,487	38,934,184	307,139,487	39,000,361

6 Issued Capital and Reserves (continued)

	31 December 2010 $	30 June 2010 $
Reserves		
Share-based payments reserve	1,729,938	1,708,290

	Half-year	
	2010 $	2009 $
Movements		
Balance at the start of the half-year	1,708,290	1,547,900
Options issued to directors and employees	21,648	46,428
Balance at the end of the half-year	1,729,938	1,594,328

	Half-year	
	2010 Number	2009 Number
Share Options on Issue		
Balance at the start of the half-year	75,062,611	21,400,000
Options issued to directors and employees	-	1,650,000
Balance at the end of the half-year	75,062,611	23,050,000

No options had expired during the reporting period.

7 Contingent Liabilities

There have been no material changes in contingent liabilities from those disclosed in the June 2010 annual report.

8 Commitments

There are no other material new commitments to the Group other than those disclosed in the June 2010 annual report.

9 Events Occurring After Balance Sheet Date

Other than the matters discussed in this report, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

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 Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable. In reaching this conclusion, the directors have considered the information contained in Note 2.

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

Mr Kerry Parker
Managing Director

Brisbane
11 March 2011

JOHNSTON RORKE
CHARTERED ACCOUNTANTS

Level 30, Central Plaza One
345 Queen Street Brisbane Q 4000
GPO Box 1144 Brisbane Q 4001
Ph 07 3222 8444 / Fax 07 3221 7779
Website www.jr.com.au
Email jr@jr.com.au

Independent Auditor's Review Report

To the Members of Panax Geothermal Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Panax Geothermal Ltd, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Panax Geothermal Ltd are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Panax Geothermal Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Liability limited by a scheme approved under Professional Standards legislation.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Panax Geothermal Ltd is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of Matter
Without qualification to the conclusion expressed above, we draw attention to Note 2 to the financial report, which indicates that the continuation of the Group's normal business activities is dependent upon the Group's ability to successfully raise additional capital source other alternative funding arrangements. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets (particularly capitalised exploration and evaluation expenditure of $29,277,122) and discharge its liabilities in the normal course of the business, and at the amounts stated in the financial statements.

JOHNSTON RORKE
Chartered Accountants

J. Evans

Brisbane, Queensland
11 March 2011

J. J. EVANS
Partner