#### **NOTICE OF MEETING**

Orion Petroleum Limited ACN 125 394 667

Notice is given a General Meeting of Shareholders of Orion Petroleum Limited to be held at Level 3, Suite 303, 10 Bridge Street, Sydney NSW 2000 on 27 January 2010 at 11.00 am.

#### **Business**

#### 1. Purchase of Shares in Gas2Grid Limited

To pass the following as an ordinary resolution:

For the purposes of Listing Rule 10.1 of the Listing Rules of the Australian Securities Exchange, and for all other purposes, the purchase by the Company of the following ordinary shares and listed options in Gas2Grid Limited pursuant to Schemes of Arrangements between Gas2Grid Limited and its ordinary shareholders and optionholders respectively (as are more particularly described in the Explanatory Notes accompanying this Notice of Meeting), be approved:

- (a) 3,242,188 ordinary shares and 4,234,066 listed options (expiring 30 November 2010) from Mr Dennis Morton, a director of the Company; and
- (b) 27,208,132 ordinary shares and 13,370,000 listed options (expiring 30 November 2010) from Budside Pty Limited, a company of which Mr Dennis Morton is a director and the sole shareholder.

The Company will disregard any votes cast on Resolution 1 by:

- Mr Dennis Morton and/or Budside Pty Limited; and
- any associate of either or both of Mr Dennis Morton and Budside Pty Limited.

However, the entity need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

#### 2. Issue of Incentive Shares to Mr Russell Langusch

To pass the following as an ordinary resolution:

For the purposes of Listing Rule 10.11 and for all other purposes, the issue of 5,000,000 Orion Shares at an issue price of 13 cents per Orion Share to Mr Russell Langusch on the terms summarized in the Explanatory Notes, be approved.

The Company will disregard any votes cast on Resolution 2 by:

- Mr Russell Langusch; and
- any associate of Mr Russell Langusch.

However, the entity need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with the direction on the proxy form to vote as the proxy decides.

By order of the Board

# Allan B Freeman

Company Secretary Sydney, 22 December 2009

#### **NOTES**

- 1. The Company has determined that for the purposes of the General meeting, all shares in the Company will be taken to be held by the persons who held them as registered shareholders at 7.00pm on Monday 25 January 2010.
- 2. A member entitled to attend and vote at the General Meeting has the right to appoint a proxy.
- 3. The proxy of a member does not need to be a member of the Company.
- 4. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of member's votes each proxy is entitled to exercise. If the appointment does not specify the proportion or number of the member's votes, each proxy may exercise one half of these votes.
- 5. Details for completion and lodgment of proxies are on the reverse side of the Form of Proxy. A proxy must be received by the Company C/- Registries Limited, Level 7, 207 Kent Street, Sydney, NSW, 2000 or GPO Box 3993, Sydney, NSW, 2001 by 11.00 am on 25 January 2010. A proxy form can be sent by fax to Registries Limited +612 9290 9655.
- 6. A member of the Company who is a body corporate and who is entitled to attend and vote at the General Meeting, or a proxy who is a body corporate and who is appointed by a member of the Company entitled to attend and vote at the General Meeting, may appoint a person to act as its representative at the General meeting by providing that person with:
  - (a) a letter or certificate, executed in accordance with the body corporate's constitution, authorising the person as the representative; or
  - (b) a copy of the resolution, certified by the secretary or a director of the body corporate, appointing the representative.

# ORION PETROLEUM LIMITED ACN 125 394 667 EXPLANATORY NOTES

#### Introduction

These Explanatory Notes have been prepared for the information of shareholders of Orion Petroleum Limited (the "**Company**" or "**Orion**") in connection with the business to be conducted at the General Meeting to be held on Wednesday, 27 January 2010 at 11.00 am at Level 3, 10 Bridge Street, Sydney NSW 2000.

These Explanatory Notes contain an explanation of, and information about, the resolutions to be considered at the General Meeting. It is given to Orion's shareholders to help them determine how to vote on the matters set out in the accompanying Notice of Meeting.

Shareholders should read these Explanatory Notes in full, because individual sections may not give a comprehensive review of the proposal contemplated in these Explanatory Notes. These Explanatory Notes form part of the accompanying Notice of Meeting and should be read with the Notice of Meeting. Words or expressions used in the Notice of Meeting and in these Explanatory Notes are defined in the Glossary.

#### **Resolution 1**

# **Background**

On 5 November 2009, Orion announced that it had entered into a Merger Implementation Agreement with Gas2Grid Limited ("**Gas2Grid**") whereby, subject to the requisite Gas2Grid shareholder, Gas2Grid optionholder and court approvals, Orion would merge with Gas2Grid via two Schemes of Arrangement. Under the proposed Schemes each Gas2Grid:

- shareholder will receive one Orion Share for every 2.25 Gas2Grid shares held; and
- optionholder will receive one Orion Option for every 2.25 Gas2Grid options held.

General meetings of Gas2Grid shareholders and optionholders to consider the merger with Orion are likely to be held on or about 28 January 2010.

It was a condition of the Merger Implementation Agreement that any necessary approval of Orion shareholders to the proposed merger be obtained.

The ASX has determined that Orion shareholder approval be obtained for the purposes of Listing Rule 10.1.

Listing Rule 10.1 provides that shareholder approval is required in circumstances where a company acquires a substantial asset from a director.

Mr Dennis Morton, a director of Orion, directly and indirectly holds in aggregate 30,450,320 ordinary shares in Gas2Grid and 17,604,066 listed options (expiring 30 November 2010) in Gas2Grid. The manner in which these ordinary shares and options are held is described in the resolution set out in the accompanying Notice of Meeting.

Under the proposed Schemes of Arrangement, along with the ordinary shares and options held by all other shareholders and option holders in Gas2Grid, Orion will be acquiring all of Mr Dennis Morton's shares and options in Gas2Grid pursuant to the Schemes of Arrangement. Because Mr Dennis Morton's shares and options comprise a Substantial Asset for the purposes of the ASX Listing Rules, shareholder approval for the acquisition of Mr Dennis Morton's shares and options in Gas2Grid by Orion is required.

Mr Dennis Morton currently holds 1,500,000 Orion Shares and 1,500,000 Existing Orion Options. Accordingly, upon implementation of the Merger, Mr Dennis Morton will hold directly or indirectly 15,033,476 Orion Shares together with 9,324,029 Orion options (comprising Existing Orion Options and Orion Options) which will represent a 6.5% fully diluted interest in the Merged Entity.

If Orion shareholders do not approve the acquisition by Orion of Mr Dennis Morton's shares and options in Gas2Grid pursuant to the Schemes of Arrangement, the Schemes of Arrangement cannot proceed and the proposed merger between Orion and Gas2Grid will not occur.

#### Independent Directors' Recommendation

The directors of Orion established a sub-committee of directors to attend to all matters relating to the proposed merger between Orion and Gas2Grid. The sub-committee comprises of Mr Russell Langusch and Mr Ashley Edgar, being all of the directors of Orion other than Mr Dennis Morton. They are directors who are independent of Mr Dennis Morton.

Both Mr Russell Langusch and Mr Ashley Edgar ("**Independent Directors**") recommend that shareholders vote in favour of the resolution for the following reasons:

- Mr Dennis Morton receives no benefits from the purchase by Orion of his shares and options in Gas2 Grid other than the same benefits received by all Gas2Grid shareholders and Gas2Grid optionholders.
- If the resolution is not passed, the proposed merger between Orion and Gas2Grid cannot occur. The Independent Directors believe that a successful merger between Orion and Gas2Grid is in the interests of all shareholders of Orion in that the Merged Entity will have:
  - o an expanded and more diversified portfolio of granted exploration licences located in prospective Australian and international petroleum basins without having to compete with much larger oil and gas companies to acquire or undertake the usually length process of applications;
  - o immediate exposure to planned exploration and appraisal drilling activities in NSW and the Philippines over the next 12 months;
  - o funds available to pursue the planned exploration activities without recourse to capital raising in a financial market that is difficult for small exploration companies;
  - o a board and management with complementary skills and extensive experience in the technical, commercial and financial aspects of the international upstream oil and gas industry.
- The Independent Expert has concluded that the Proposal is fair and reasonable from the perspective of Orion shareholders (excluding Mr Dennis Morton). Shareholders are referred to the next section in these Explanatory Notes which provides further details of the Independent Expert's views and are also encouraged to read the Independent Expert's Report attached to these Explanatory Notes.
- The acquisition by Orion of Mr Dennis Morton's Gas2Grid shares and options would be reasonable in the circumstances if Orion and Mr Dennis Morton were dealing at arm's length, as Orion and Mr Dennis Morton are in fact dealing at arm's length.

Shareholders are referred to the sections in these Explanatory Notes set out below which briefly describe Orion, Gas2Grid and the Merged Entity. A more detailed description of the assets of both companies is provided in the Independent Expert's Report attached to these Explanatory Notes.

In determining whether or not to vote in favour of the resolution, Orion shareholders should also take account of the following matters:

- That their percentage interests in the Merged Entity will be less than in Orion as a result of the dilutionary impact on Orion shareholders of the Merger; and
- There are a number of risk factors associated with Gas2Grid which Orion shareholders will become exposed to as a consequence of the Merger.

The Independent Directors nevertheless consider that the benefits of the Proposal to Orion shareholders substantially outweigh the factors outlined above.

## **Independent Expert's Report**

As required by Listing Rule 10.10 of the Listing Rules of the ASX, the Directors have commissioned an Independent Expert to prepare the Independent Expert's Report to analyse the Proposal.

The purpose of the Independent Expert's Report is to analyse whether the Proposal is fair and reasonable to the Orion shareholders other than Mr Dennis Morton and his associates.

The Independent Expert's Report, prepared by BDO is set out in full in Annexure D to these Explanatory Notes. Shareholders should read the full text of the Independent Expert's Report to assist them in determining how they wish to vote in respect of the Resolutions.

In summary, the Independent Expert's Report concludes that the Proposal is fair and reasonable.

#### Overview of Orion

Orion is an oil and gas explorer with its focus in northern New South Wales. It holds interests in seven exploration licences located in the Surat-Bowen, Gunnedah and Darling Basins.

The Orion board's primary strategy is to develop Orion through organic growth by discovering and developing petroleum resources in its licences and by the acquisition of appropriate interests in exploration and/or development opportunities in Australia and overseas.

Orion is pursuing its exploration program using equity funds raised by its initial public offering (in this section called **IPO**) on 12 December 2007 and will also seek farm-in participants to contribute to the costs of its exploration program as part of a prudent risk management strategy.

A detailed description of Orion's exploration portfolio is provided in the Independent Geologist's report which forms part of the Independent Expert's Report set out in Annexure D to these Explanatory Notes.

#### History and corporate structure

Orion listed on the ASX on 12 December 2007 (ASX code: OIP) after achieving maximum over subscription as part of its IPO. Petroleum assets acquired from Eastern Star Gas (**ESG**) formed the basis of the IPO. ESG remains as one of Orion's major shareholders with a stake of approximately 23%.

There are no subsidiary companies in the corporate structure with all assets and licence interests held by Orion.

#### **Principal activities of Orion**

Orion is an oil and gas exploration company with ambitions of becoming a petroleum producer. Orion operates seven conventional petroleum joint ventures in the Surat-Bowen, Gunnedah and Darling Basins of northern New South Wales and is exploring the coal seam gas (in this section called **CSG**) potential of its four licences in the Surat-Bowen and Gunnedah Basins. In the latter area Orion has interests in PEL's 6, 427, 428 and 455 and in the Darling Basin it holds a 100% interest in PEL's 422 and 424 and the newly awarded PEL 471.

In the two years since listing, Orion has drilled two exploration wells, acquired two seismic surveys and participated in the drilling of two coal seam gas coreholes. In May 2008, the Willaroo-1 exploration well in PEL 6 recovered a small amount of oil on test, which was the first of its kind in New South Wales. Later that year the Nyngynderry-1 well in PEL 8 was drilled to a total depth of 2266 m KB but was plugged and abandoned in October 2008 after failing to encounter hydrocarbons. PEL 8 was subsequently relinquished after post-drilling studies concluded that the licence contained limited remaining prospectivity for petroleum.

Orion's exploration licences are reasonably close to pipeline and transport infrastructure which should assist in field development in the event of a commercial discovery in any of its licences. The underutilised Moomba-Sydney gas line transects Orion's Darling Basin licences, and proximity to infrastructure in the Surat-Bowen area will further improve if the proposed Hunter-Wallumbilla pipeline is installed.

#### PEL 6, PEL 422 and PEL 424

PEL 6 expired on 8 December, 2009. Orion has applied for a renewal of PEL 6 for a further four years without any relinquishments, but is yet to receive confirmation of the approval. PEL 422 and PEL 424 are due to expire within three months of the date of these Explanatory Notes. In respect of PEL 422 and PEL 424, the revised work programs have been accepted by Industry and Investment NSW in July 2009, with the final year commitment still under negotiation and renewal work programs under preparation. Orion has advised Gas2Grid that it does not have any reason to believe the above application and requests would not be granted.

# Recent financial position and performance of Orion

On 22 October 2009, Orion lodged a copy of the 2009 Orion Annual Report with the ASX and it was considered at the Annual General Meeting held on 26 November 2009.

The 2009 Orion Annual Report contains more detailed information about Orion's assets, business and operations, structure and shareholders' profile. It also includes a copy of the audited financial statements of Orion for the year ended 30 June 2009.

Orion shareholders can view the 2009 Orion Annual Report on the Company's website (www.orionpetroleum.com.au) or on the ASX website (www.asx.com.au).

As at 30 September 2009, Orion's cash balance had decreased to approximately \$12.5 million. By the end of October 2009 the cash funds stood at approximately \$12.2 million following the payout of two former Orion directors for the sum of approximately \$343,000.

Apart from the movement in cash funds described above, there have been no other significant changes in assets or liabilities since the audited financial statements of Orion for the year ended 30 June 2009 were lodged as part of the 2009 Orion Annual Report.

# Recent public announcements by Orion

For details of documents lodged with the ASX by Orion since 30 June 2009, please refer to Annexure A. Orion shareholders can view the full text of all announcements made to ASX on the Orion website (www.orionpetroleum.com.au) or on the ASX website (www.asx.com.au).

On 5 November 2009 Orion made an announcement to the ASX in relation to the Merger proposal. A copy of that announcement is contained in Annexure B of these Explanatory Notes.

There have been no dividends declared by Orion since listing on the ASX on 12 December 2007.

#### Overview of Gas2Grid

Gas2Grid is an oil and gas exploration company incorporated in Australia on 22 December 2004 and listed on the ASX in May 2005. Gas2Grid has exploration licences in the Philippines, France and Australia.

## Recent financial position and performance of Gas2Grid

On 30 September 2009, Gas2Grid lodged a copy of its 2009 Annual Report with the ASX and it was considered at the Gas2Grid Annual General Meeting held on 27 November 2009.

The 2009 Gas2Grid Annual Report contains more detailed information about Gas2Grid's assets, business and operations, structure and shareholders' profile. It also includes a copy of the audited consolidated financial statements of the Gas2Grid group for the year ended 30 June 2009.

Orion shareholdes and optionholders can view the 2009 Gas2Grid Annual Report on the Gas2Grid website (www.gas2grid.com) or on the ASX website (www.asx.com.au).

# Recent public announcements by Gas2Grid

Since 30 June 2009 Gas2Grid has made a number of announcements to the ASX that may be relevant to its financial position. A summary of the material ASX disclosures by Gas2Grid is set out in Annexure C. Orion shareholders can view the full text of announcements made to the ASX on the Gas2Grid website (www. gas2grid.com) or on the ASX website (www.asx.com.au).

# Recent Gas2Grid share and option price performance

The latest recorded closing price of Gas2Grid shares on the ASX before the Merger announcement on 5 November 2009 was \$0.06 per share.

The latest recorded closing price of Gas2Grid shares on the ASX before the date on which this Notice of Meeting was lodged with the ASX was \$0.043 per share.

The highest recorded closing price of Gas2Grid shares on the ASX in the four months before the Merger announcement was \$0.081 per share.

The lowest recorded closing price of Gas2Grid shares on the ASX in the last four months before the Merger announcement was \$0.055 per share.

The closing price range of Gas2Grid shares since the announcement to the last trading date before the date of this Notice of Meeting was \$0.034 to \$0.058 per share.

No Gas2Grid options have been traded on the ASX since they were issued on 16 December 2008.

# Comments on various Gas2Grid assets **EP 453**

Gas2Grid notes that it has not yet been registered as the title holder in respect of EP 453 located in the Canning Basin of Western Australia. Although the sale and purchase agreement dated 28 March 2008 in respect of EP 453 was entered into by Gas2Grid, the application for approval, transfer form and executed title transfer instrument, as required by the WA Department of Mines and Petroleum, have not been lodged as at the date of the Notice of Meeting. Although the sale and purchase agreement provides that such approval from the Department of Mines is required to be obtained before taking effect, and the risks set out in the Risk Factors section below are to be noted, the transfer documents are currently being progressed for lodgement, and Gas2Grid has no reason to believe that the transfer would not be approved.

#### SC 44

Gas2Grid also notes that in respect of its Philippines licence, SC 44, it is likely the work obligations for the third sub-phase will not be met within the set timeframe. This has the potential consequence of Gas2Grid forfeiting the security bond of US\$1 million and jeopardising its position as contractor under SC 44. Please see the additional comments in the Risk factors section under the heading "Title to tenements" later in this document. Gas2Grid is of the view after discussion with the Philippine Department of Energy (**DOE**) that there is no concern from the Department regarding the late completion of the program and that Gas2Grid's tenure with respect to SC 44 is not at serious risk provided that a substantial portion of the revised work program is undertaken over the next 6 to 12 months.

#### Risk factors

#### General risks

The financial performance and operations of Gas2Grid's business will be influenced by a range of factors. Many of these factors are beyond the control of Gas2Grid.

The risks and uncertainties described below are not the only ones that may affect Gas2Grid's business. Additional risks and uncertainties not presently known to Gas2Grid or that Gas2Grid currently believes to be immaterial may also adversely affect Gas2Grid's business and operations. If any of the matters included in the following risks were to occur, Gas2Grid's business, financial condition, results of operations, cash flows or prospects could be materially adversely affected.

# Changes in regulatory environment

Changes to laws, regulations and accounting standards which apply to Gas2Grid from time to time could materially and adversely impact on the operating and financial performance and cash flows of Gas2Grid. Changes in attitudes of governmental authorities could mean that previously stated views or practices may change, which could lead to unexpected and detrimental consequences for any existing or pending applications for tenements for Gas2Grid,

Changes in the taxation laws of Australia and other countries in which Gas2Grid has an interest could also materially affect operating results of Gas2Grid.

#### General economic conditions

Economic conditions that could impact on Gas2Grid's operating costs, profit margins and the price of Gas2Grid shares include:

- movements in the Australian dollar and world commodity prices;
- economic conditions in Australia and overseas;
- movements in domestic and international interest rates, inflation and share markets; and
- changes in industrial production impacting on commodity demand.

#### Commodity prices

Gas2Grid's financial position, operating results and future growth depend closely on the market price of oil internationally and gas in the countries in which it operates. If Gas2Grid becomes a producer of petroleum products its future revenue stream will be dependent on prices realised for crude oil, natural gas and natural gas liquids. In many cases, particularly for crude oil and liquid hydrocarbons, global prices are commonly designated in US dollars.

Large fluctuations in response to changes in demand or supply of crude oil and to a lesser extent natural gas and various other factors, whether or not as a result of market uncertainty or industry and macroeconomic factors beyond the control of Gas2Grid, including actions taken by OPEC, political instability, governmental regulation, forward selling by producers, climate, inflation, interest rates and currency exchange rates, may affect Gas2Grid's financial position and financial performance.

#### Political risks

War, terrorist attacks and hostilities anywhere in the world can result in a decline in economic conditions worldwide or in a particular region, which could produce an adverse effect on the business, financial position and financial performance of Gas2Grid.

# Title to tenements

There is a risk Gas2Grid may lose title to petroleum tenements if conditions attached to licences are changed or not complied with. There is also a risk that regulatory authorities may exercise their discretion to reject applications for tenements that may be in progress, which could have detrimental consequences to the financial position or assets of Gas2Grid.

Gas2Grid is exposed to security of tenure risk for its Philippine licence due to not having met work program deadlines. However the Philippines Department of Energy in Manila has been kept fully informed of the various reasons for the slower than expected progress in meeting work commitments and has verbally accepted the program delays. Consequently the directors of Gas2Grid do not believe that licence SC 44 is in any imminent danger of being terminated by the DOE particularly given the commencement of workover activities in December 2009 and seismic acquisition scheduled in early 2010.

#### Native title

It is possible that a form of native title reflecting the entitlement of indigenous inhabitants to traditional lands may exist on Gas2Grid's tenements. In such cases exploration and/or mining restrictions may be imposed or claims for compensation could be forthcoming.

# Exchange rates

Gas2Grid may be exposed to rapid and material movements in exchange rates, in particular the A\$/US\$ exchange rate.

Adverse movements in exchange rates relating to equity investments, commodities or project operating costs, or increased price competitiveness in response to movements in exchange rates may materially adversely impact the operational and financial performance and cash flows of Gas2Grid.

# Financial and further funding requirements

In undertaking its business (including pursuing opportunities for future growth), Gas2Grid may undertake investments. To finance such investments, the Merged Group may incur debt or may seek to raise capital. Such actions and the terms on which such funding could be obtained may have a material adverse impact on Gas2Grid's financial position.

Further, the proposed use of funds may vary depending on the progress of Gas2Grid's work program, technical studies, business development, market prices, availability of material and services and general operational and logistical risks faced during project development. These variations may result in a shortfall in funding which will need to be met from working capital surpluses, further capital raisings or alternative funding sources.

Gas2Grid's business plan will require significant further investment of capital although the terms of any such further capital raisings are presently unknown. There is a risk that the Merged Group may not be able to raise such capital.

# Exploration, development and production risks

Petroleum production operations may be hampered by a variety of circumstances which may not be within the control of Gas2Grid. Exploration is a speculative endeavour which may not result in finding resources of economic value.

The business of petroleum exploration, project development and production by its nature contains elements of significant risk. Ultimate and continuous success of these activities is dependent on many factors such as:

- the timing of revenues;
- the discovery and/or acquisition of economically recoverable reserves and resources;
- successful conclusions to bankable feasibility studies;
- access to adequate capital for project development;
- design and construction of efficient production and processing facilities within capital expenditure budgets;
- obtaining consents and approvals necessary for the conduct of exploration and production;
- access to competent operational management and prudent financial administration, including
  the availability and reliability of appropriately skilled and experienced operators, employees,
  contractors and consultants;
- access to drilling and well equipment; and
- adverse weather conditions over a prolonged period that can adversely affect exploration and production operations.

#### Reliance on key management

The responsibility of overseeing the day-to-day operations and the strategic management of Gas2Grid is substantially dependent on its management and its key personnel. There can be no assurance given that there will be no detrimental impact on Gas2Grid if one or a number of these employees cease their employment.

Gas2Grid's future success also depends on its continuing ability to attract and retain highly qualified personnel. The ability to attract and retain the necessary personnel could have a material effect on Gas2Grid's business, operations and financial condition.

# Regulatory licences, approvals and applicable laws

Gas2Grid will from time to time require various government regulatory approvals for its operations and must comply with those approvals and applicable laws, regulations and policies. In particular, Gas2Grid may require licences and approvals in relation to production activities, environmental matters and the production of oil and gas. There is a risk that Gas2Grid may not obtain, or there may be delay in obtaining, the necessary licences and approvals. Stringent conditions may also be imposed on such licences and approvals. This may affect the timing and scope of work that can be undertaken. Further, a failure to comply with a licence, approval or applicable law may affect the timing and scope of work that can be undertaken. Failure to comply with work commitments may result in the forfeiture of security bonds or guarantees that could adversely affect the financial position of the Merged Group.

#### Environmental risks

Various environmental laws impact and influence Gas2Grid's operations in the jurisdictions in which it operates. As with the industry in general, compliance with existing and anticipated regulations increases the overall cost of business. Further, Gas2Grid may require approval from the relevant authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals will prevent Gas2Grid from undertaking the desired activities. Environmental regulations have historically been subject to frequent change and, therefore, one cannot predict with certainty the future costs or other future impacts of environmental regulations on future operations. If Gas2Grid fails to comply with environmental laws it may be subject to liabilities to the government and third parties, including civil and criminal penalties. New laws or regulations, or modifications of or new interpretations of existing laws and regulations, may increase substantially the cost of compliance or adversely affect oil and gas operations and financial conditions.

#### Operational and technical risks

The successful implementation of Gas2Grid's business plan and objectives could be adversely affected by the following factors:

- hazards encountered in the exploration and development of oil and gas properties such as unusual or unexpected formations, high formation pressures, adverse oceanographic conditions or other factors inherent in drilling and operating wells;
- industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormallypressured formations and environmental hazards, the occurrence of any of which could result in substantial losses to Gas2Grid;
- any liability for pollution, blow-outs or other hazards against which Gas2Grid or the operator does
  not insure or against which it may elect not to insure because of high premium costs or for other
  reasons; or
- hydrocarbon reserves estimates which are expressions of judgement based on knowledge, experience and industry practice. Estimates that were valid when made may change significantly when new information becomes available. In addition, reserve estimates are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate.

If any of these issues were to arise this could have a detrimental effect on Gas2Grid's operations.

#### Scheme specific risks

Shareholders of Orion may be exposed to the following specific risks:

- under the Schemes, Orion may issue a significant number of new Orion Shares. Some Gas2Grid Shareholders and Orion shareholders may not intend to continue to hold their Orion Shares and may wish to sell them on ASX. There is a risk that if a significant number of Gas2Grid Shareholders and/or Orion shareholders seek to sell their Orion Shares, there may be an adverse impact on the market price of Orion Shares;
- the Merger Group may only have sufficient cash reserves to fund necessary work programs with
  respect to its exploration licences in the immediate future (ie over the next twelve months) and
  may need to raise additional debt or equity funding to maintain its work programs involving
  significant ongoing capital expenditure after this period unless it is able to find parties willing to
  fund the cost of further work programs by farming into the exploration licences;
- the Merged Group may find it difficult to either raise additional debt or equity funding (either at all or on commercially acceptable terms) or find farmin partners (at all or on commercially acceptable terms) alternate funding;
- title to certain exploration licences may be revoked if the Merged Group cannot maintain the minimum work commitments necessary to maintain those licences in good standing under applicable laws, although at this stage neither Orion nor Gas2Grid anticipates this occurring; and
- Orion shareholders and optionholders may be exposed to risks associated with operating in the overseas jurisdictions that Gas2Grid is currently operating such risks being generally described as:
- sovereign or political risk, risk of avid commotion or disturbance which may result in loss or damage to permits or assets;
- foreign currency fluctuation risks which may result in negative or positive impact on the Orion's reported profits or losses which in time may impact on the values of its securities and the price at which they trade on ASX; and
- possible fluctuation in the trading price of Orion's securities on ASX depending on market sentiment on foreign sovereign/political risk, foreign currencies, and foreign economic conditions generally and specifically in the jurisdictions in which the Merged Group operates.

#### **Merged Entity**

# Post Merger intentions for the Group

This section sets out the Merged Group's intentions in relation to:

- the continuation of the business of Gas2Grid;
- any major changes to the business of Gas2Grid and any redeployment of the fixed assets of Gas2Grid;
   and
- the future employment of the present employees of Gas2Grid.

Final decisions will only be reached by the Merged Group in light of material facts and circumstances at the relevant time. Accordingly, the statements set out in this section are statements of current intentions only which may vary as circumstances require.

#### Intentions on Merger of Gas2Grid

# Work program

Based on the information available to Orion, Orion intends to use the Merged Group's combined cash funds to fund an active exploration program over the next 12 to 18 months in respect of the Merged Group's assets. In particular, Orion intends to undertake the following work program, subject to final board approval in light of all the material facts and circumstances at that time and availability of rigs, contractors and necessary permits and approvals.

	2009		20	10			20	11	
Work program	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Philippines									
Workover program									
Seismic program to establish new reservoir targets									
Exploration/appraisal wells									
Bowen-Surat Basin									
PEL 6: Toenda-1 exploration well									
PEL 455: Whalan Creek exploration well									
PEL 6: Potential Willeroo-1 followup									
Aquitaine Basin									
Seismic reprocessing									
Aero-gravity survey									
400km seismic survey to identify reservoir targets									
Exploration well									
Canning Basin									
Farm-out & undertake 2-well drilling program									
Coal Seam Gas									
PEL 6: 3 coreholes (Gwydir-1; Milguy-1; Willow Park-1)									
PEL 455: Desktop assessment for farm-out									
PEL 455: CSG coreholes									

# **Board and management**

Orion intends to offer Mr David Munns to become a non-executive director of Orion after the Schemes have become effective. If Mr David Munns consents and is appointed, the board of Orion will comprise:

- Dennis Morton Non-Executive Chairman;
- Russell Langusch Managing Director;
- David Munns Non-Executive Director; and
- Ashley Edgar Non-Executive Director.

After the Schemes have become effective, Orion intends to review the positions of all employees and service providers, including corporate and technical management, in light of its proposed work program and in all relevant circumstances at the time. Following the review and depending on the results of that review, it is possible some of Orion's employees and service providers may be made redundant or have their services terminated. However, at this stage and based on the information available to Orion on the date of this Notice of Meeting, Orion does not currently believe any employees or service providers of Orion will be made redundant or terminated after the implementation of the Merger.

#### **Business** integration

Orion also intends that essential corporate functions of Gas2Grid which includes company secretarial, share registry, finance, accounting, audit and payroll work which is currently outsourced by Gas2Grid, will be undertaken by Orion. Depending on the circumstances following the Scheme becoming effective, Orion does not intend to conduct major changes to the Gas2Grid business including any redeployment of fixed assets.

#### **Employees**

Gas2Grid has no employees at the date of these Explanatory Notes.

# Corporate activities and strategy

Orion intends that the Merged Group will continue the current exploration activities of Orion and Gas2Grid across a diverse geographic asset portfolio in petroleum regions. Specifically, it intends to have a clear focus on conventional oil and gas exploration through low risk initiatives aiming to deliver immediate value and thereby increase shareholder returns through share price appreciation.

#### **Synergies**

Orion expects that the Merged Group will result in some reduction of corporate overheads in the provision of services for share registry, company secretarial and audit. There will also be some savings in occupation of office premises as the business of Gas2Grid may be run from the offices of Orion. However, corporate overheads are not expected to be significant to the Merged Group and the cost saving is not considered a material factor for the Merger.

# Dividend policy

No dividends have been declared by Orion since listing on the ASX on 12 December 2007. The Merged Group does not anticipate paying a dividend for the financial year ending 30 June 2010. The Merged Group intends to review its dividend policy on an annual basis.

# **Capital structure of Merged Group**

Details of the share structure of the Merged Group showing the percentages of Orion being held by Gas2Grid shareholders following implementation of the Schemes are set out in the table below:

Capital Structure of Merged Group			
	Orion Shares	Orion Options	Total
Number of securities on issue in Orion at the date of the Notice of Meeting	155,000,000	120,050,000	275,050,000
Number of securities to be issued under the Scheme to Gas2Grid security holders (subject to effect of rounding)	81,359,703	17,148,632	98,508,335
Number of securities on issue after implementation of the Merger	236,359,703	137,198,632	373,558,335
Percentage of securities on issue in Orion held by Gas2Grid security holders after implementation of the Merger	34.422%	12.499%	26.4%

Details of some of the substantial shareholders of Orion showing the changes in shareholding from pre-Merger to post-Merger are set out below:

Substantial Shareholders in Merged Group							
Shareholders	Pre Merger Share Holdings		Merged Group Share	Orion Holdings as a percentage			
	Gas2Grid	Orion	Holdings	Pre Merger %	Post Merger %	Post Merger (fully diluted) %	
Eastern Star Gas Limited		35,750,000	35,750,000	23.1%	15.1%	9.6%	
Ingalls & Snyder LLC		22,700,000	22,700,000	14.6%	9.6%	15.1%	
Dennis Morton	30,450,320	1,500,000	15,033,476	1.0%	6.4%	6.5%	
Albers Group (Ernest G Albers) (1)	12,463,380	11,508,773	17,048,053	7.4% (1)	7.2%	4.6%	
David Munns	16,021,256	-	7,120,558	-	3.0%	2.7%	
Darren Reeder	10,000,000	-	4,444,444	-	1.9%	1.2%	

The Albers Group consists of Octanex NL, Gascorp Australia Pty Ltd and Sacrosanct Pty Ltd.

#### Proforma consolidated financial statements for the Merged Group

Basis of preparation

The unaudited consolidated proforma balance sheet of the Merged Group as at 30 June 2009 (**Proforma Balance Sheet**) has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards.

The historical financial information is based on the audited financial statements for Orion and Gas2Grid for the year ended on 30 June 2009. The Proforma Balance Sheet has been prepared for illustrative purposes and in summary form only to reflect the Proforma Balance Sheet of the Merged Group after the implementation of the Schemes, as if the Schemes were effective on 30 June 2009. Except as expressly noted, no adjustments have been made for transactions or actual financial results of Orion or Gas2Grid after 30 June 2009.

The Proforma Balance Sheet has been prepared in accordance with the accounting policies of Orion which are in material respects the same as those adopted by Gas2Grid as set out in their audited financial statements for the year ended 30 June 2009. Copies of the financial statements of Orion and Gas2Grid (on which the historical financial information was based), can be found at the Orion and Gas2Grid websites (www.orionpetroleum.com.au and www.gas2grid.com respectively).

The financial information in this section has been prepared by Orion and Gas2Grid, and the directors of both Orion and Gas2Grid take responsibility for this information. The Proforma Balance Sheet:

- is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information that are usually provided in an annual report under the Corporations Act;
- should be read in conjunction with the accounting policies of Orion and Gas2Grid and the risk factors outlined earlier in these Explanatoty Notes; and
- is subject to risks and uncertainties that may result in the actual financial position being significantly different than that stated in the Proforma Balance Sheet.

The key assumptions on which the Proforma Balance Sheet has been prepared are as follows:

- in respect of the acquisition accounting adjustments, the effective date of the Schemes is assumed to be on 30 June 2009 for the purposes of preparing the Proforma Balance Sheet;
- the fair value of Gas2Grid is assumed to be \$8,736,000 which is the value implied by the offer of 81,359,703 Orion shares and 17,148,632 Orion options;
- the number of Orion shares offered has been calculated on the basis of 183,059,332 Gas2Grid shares that are on issue at 30 November 2009 (after taking into account of 27,154,844 shares issued by Gas2Grid after 30 June 2009) and the offer ratio set out in these Explanatory Notes;
- the number of Orion options offered has been calculated on the basis of 38,584,422 Gas2Grid options on issue at 30 November 2009 and the offer ratio set out in these Explanatory Notes;
- none of the Gas2Grid options on issue at 30 November 2009 are exercised;
- the value of an Orion share (\$0.10) is the closing price on ASX on 5 November 2009 (the date of signing of the Merger Implementation Agreement);
- the fair value of an Orion Option (\$0.035) has been calculated using the Black-Scholes valuation methodology with the inputs set out below;

Issue date	Exercise price	Average share price	Life assumption	Expected dividend yield	Risk free rate	Expected price volatility of Orion's share
5 November 2009	\$0.18	\$0.10	13 months	Nil	4.77%	127.4%

an amount of \$660,000 has been estimated as the cost of implementing the Schemes.

The above assumptions have been adopted for illustrative purposes for the Proforma Balance Sheet only, and may differ from the accounting entries that are actually made following implementation of the Schemes, if the Schemes are implemented.

Totorria balarice siteet			
	Orion Audited Balance Sheet as at 30 June 2009* \$ 000	Gas2Grid Audited Consolidated Balance Sheet as at 30 June 2009*	Proforma Unaudited Consolidated Balance Sheet asat 30 June 2009* \$ 000
ASSETS	,	7	, , , , ,
Current Assets			
Cash and cash equivalents	12,770	784	(1)13,945
Trade and other receivables	-	132	132
Inventory	198	-	198
Other current assets	124	-	124
Other financial assets at fair value	-	3	3
Total Current Assets	13,092	919	14,402
Non-current Assets			
Plant and equipment	181	3	184
Exploration and evaluation expenditure		· ·	
and rights	1,676	6,018	<sup>(2)</sup> 10,244
Total Non-current Assets	1,857	6,021	10,428
Total Assets	14,949	6,940	24,830
LIABILITIES			
Current Liabilities			
Trade and other payables	188	338	(3) 197
Provisions	15	-	15
Total Current Liabilities	203	338	212
Non-current Liabilities			
Deferred tax liabilities	-	1,607	1,607
Trade and other payables	-	189	189
Total Non-current Liabilities	-	1,796	1,796
Total Liabilities	203	2,134	2,008
NET ASSETS	14,746	4,806	22,822
EQUITY			
Contributed equity	21,282	10,717	29,418
Reserves	69	(244)	<sup>(4)</sup> 669
Accumulated loss	(6,605)	(5,667)	<sup>(5)</sup> (7,265)
	14,746	4,806	22,822
		,,,,,	,

- \* Rounded to nearest thousand dollars
- Increased by the net cash proceeds of \$1,051,000 from 21,315,000 shares issued on 7 July 2009 less estimated merger transactions costs of \$660,000.
- Increased by \$2,550,000 being the fair value of Gas2Grid (\$8,736,000) implied by 81,359,703 Orion shares issued at \$0.10 per share issued to Gas2Grid shareholders and 17,148,632 Orion options at \$0.035 per option issued to Gas2Grid optionholders less the adjusted book value of Gas2Grid net assets of \$6,186,000 at 30 June 2009. The book value of Gas2Grid net assets has been adjusted by an increase in cash of \$1,051,000 from 21,315,000 shares issued on 7 July 2009, increase in accounts payable of \$45,000 for directors fees for the September 2009 quarter and reduction in account payables of \$374,000 satisfied by the issue of 5,839,844 shares on 30 November 2009.
- Reduced by fees payable to Gas2Grid directors Messrs Munns and Morton of \$373,750 (\$328,750 owing at 30 June 2009 plus fees of \$45,000 for September 2009 quarter) which were satisfied by issue of 5,839,844 Gas2Grid Shares on 30 November 2009.
- <sup>(4)</sup> Increased by \$600,000 from the issue of 17,148,632 Orion options at \$0.035 per option.
- Increased by estimated merger transaction costs of \$660,000 and fees to Gas2Grid directors of \$45,000 relating to the September 2009 quarter.

#### Acquisition Accounting

The excess of the assumed Gas2Grid fair value of \$8,736,000 over the carrying value of the underlying recognised assets and liabilities as at 30 June 2009, amounted to \$2,550,000 and is allocated to intangibles (Exploration and evaluation expenditure and rights) for the purposes of these Explanatory Notes. The fair value of the consideration transferred and the fair value of the identifiable assets and liabilities acquired will need to be determined at the acquisition date in line with AASB 3 Business Combinations (AASB 3). A final purchase price allocation has not been performed and is therefore not factored into this illustration.

AASB 3 requires that all business combinations are accounted for using the purchase method. This involves assigning fair values at the settlement date to the identifiable assets, liabilities and contingent liabilities, including intangible assets assumed.

A formal analysis of the fair value of the net assets acquired by Orion will be performed after implementation of the merger. Orion is permitted to adjust the assessment of fair values up to 12 months following the implementation of the merger with the amounts being classified as provisional during any interim reporting period. Any adjustments to these fair values will likely have an impact on the intangibles recorded and could have an impact on any potential depreciation and amortisation charges in future financial periods.

#### Notes

The actual balance sheet of the Merged Group as at the time the merger is implemented cannot be determined until the Merger is completed and the Orion Shares and Orion Options are issued in exchange for Gas2Grid shares and Gas2Grid options.

The actual intangibles amount will depend on:

- in respect of the valuation of the Orion Shares the closing price for Orion shares; and
- for assessing the fair value of the Orion Options using the Black-Scholes valuation methodology the Orion share price, the risk free rate, the expected volatility of Orion Shares and the remaining term of the Orion Options and Existing Orion Options,

at the time the Merger is implemented.

Market prices for Orion Shares and Existing Orion Options can fluctuate up or down as a result of market conditions. Accordingly, the actual goodwill amount may be less or more at the implementation of the Merger than recorded in the Proforma Balance Sheet.

Views may differ on the application of the Black-Scholes valuation model in particular circumstances, especially in respect of expected volatility of shares (in this case Orion Shares).

#### No material change

In accordance with the Listing Rules both Gas2Grid and Orion have issued quarterly cash flow reports for the financial quarter ended 30 September 2009. Copies can be found on the Orion and Gas2Grid websites at www.orionpetroleum.com.au and www.gas2grid.com respectively. Copies are also available on the ASX website at www.asx.com.au.

Other than as set out in the proforma adjustments and the 30 September 2009 cash flow reports, the directors of Gas2Grid and of Orion are not aware of any material change to the financial position of those companies respectively between 30 June 2009 and the date of this Notice of Meeting.

The Independent Expert was provided with the information in this section for use in the Independent Expert's Report included as an Annexure to these Explanatory Notes.

#### Financial forecasts

The boards of Gas2Grid and Orion believe they do not have a reasonable basis to provide an earnings forecast for the Merged Group. Accordingly, Gas2Grid and Orion believe that the inclusion of financial forecasts for the Merged Group would be unduly speculative and potentially misleading and have declined to include financial forecasts in these Explanatory Notes.

#### **Resolution 2**

The directors of Orion, excluding Mr Russell Langusch, have determined to issue subject to the passing of Resolution 2, 5,000,000 Orion Shares as Incentive Shares, at 13 cents per Orion Share to Orion's Managing Director, Mr Russell Langusch.

The terms on which the Incentive Shares are to be issued to Mr Langusch are summarised as follows: -

- The Company will make an interest free loan to Mr Russell Langusch for a term of five years for the sum of \$650,000 to enable him to acquire the Incentive Shares.
- The Company will hold a lien over the Incentive Shares to secure repayment of the Loan and until the Loan is repaid, the Incentive Shares will be subject to a trading lock;
- The Loan will become immediately due if Mr Russell Langusch ceases to be an employee, officer or consultant of Orion.
- The Incentive Shares will be sold under the lien if the Loan is not repaid when due or if the following conditions are not satisfied within 18 months of the date of issue of the Incentive Shares:
  - o Any of the Company's current exploration licences or those acquired over the next 18 months cease to be in good standing with the relevant granting authorities. In this context, "good standing" is defined as involuntary forfeiture of any licence during this period;
  - Orion ceases to have sufficient available funding to meet all planned exploration activity in the Company's licensed areas. "Planned activity" means the currently-planned exploration program which may be subject to amendment from time to time due to operational, technical and other factors:
- If the Incentive Shares sold by the Company pursuant to the lien, any surplus on sale will be retained by the Company and any shortfall on sale will be borne by the Company. In the event of a shortfall on sale, the Company will have no recourse for the balance to Mr Russell Langusch.
- The terms of the issue of the Incentive Shares will otherwise be the same as under the Company's Employee Incentive Plan, which was approved by the Company in General Meeting on 23 July 2007. Other information in connection with proposed issue of the Incentive Shares to Mr Russell Langusch is as follows: -
- The Incentive Shares will be issued to Mr Russell Langusch or his nominee not more than one month after the date of this Meeting.
- As Orion will be funding the acquisition of the Incentive Shares by way of loan to Mr Russell Langusch, there will be no net funds raised by the Company as a result of the Incentive Shares being issued.

Shareholder approval is sought for the issue of the Incentive Shares to Mr Russell Langusch as Listing Rule 10.11 requires that the issue of any shares by the Company to a director requires shareholder approval. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1 with the result that the shares issued to Mr Russell Langusch are not taken into account in determining whether the Company has capacity under Listing Rule 7.1 to issue shares – that is, whether it has issued more than 15% of its ordinary security during the 12 month period following the issue of the Incentive Shares to Mr Russell Langusch.

Mr Dennis Morton and Mr Ashley Edgar recommend that Orion shareholders vote in favour of Resolution 2, as they consider that the issue of the Incentive Shares to Mr Russell Langusch will further align Mr Langusch's interests with those of the Orion shareholders, and further incentivise him.

#### **GLOSSARY**

In the Notice of Meeting and Explanatory Notes the following expressions have the following meanings:

**ASX** means Australian Securities Exchange.

Company means Orion.

**Existing Orion Options** means options in Orion currently on issue.

**Explanatory Notes** means these Explanatory Notes.

Gas2Grid means Gas2Grid Limited ACN 112 138 780.

**General Meeting** means the General Meeting of Orion convened by the Notice of Meeting of which these Explanatory Notes form part.

**Incentive Shares** means 5,000,000 Orion Shares to be issued to Mr Russell Langusch in accordance with Resolution 2 set out in the Notice of Meeting.

Independent Directors means Mr Russell Langusch and Mr Ashley Edgar.

**Independent Expert** means BDO Securities (NSW-VIC) Pty Limited.

**Independent Expert's Report** means the Independent Expert's report prepared by BDO attached to these Explanatory Notes in Annexure D.

**Independent Geologist** means Mulready Consulting.

Listing Rules means the Listing Rules of the ASX.

**Loan** means the loan of \$650,000 to be made by Orion to Mr Russell Langusch to enable him to purchase the Plan Shares.

**Merged Entity or Merged Group** means Orion including Gas2Grid as a wholly-owned subsidiary of Orion, following implementation of the Schemes of Arrangement.

Merger means the combination of Orion and Gas2Grid pursuant to the Schemes of Arrangement.

**Merger Implementation Agreement** means the agreement entered into between Orion and Gas2Grid on 5 November 2009 pursuant to which Orion and Gas2Grid agreed to implement the Merger.

Notice of Meeting means the Notice of Meeting of which these Explanatory Notes form part.

Orion means Orion Petroleum Limited ACN 125 394 667.

**Orion Options** means options in Orion to be offered to Gas2Grid optionholders in accordance with the Schemes of Arrangement between Gas2Grid and its optionholders, the terms of which are set out in the Schedule to these Explanatory Notes.

Orion Shares means an ordinary share in Orion.

**Proposal** means the proposed acquisition by Orion of the Gas2Grid shares and options referred to in Resolution 1 set out in the Notice of Meeting, pursuant to the Merger.

**Schemes or Schemes of Arrangement** are the Schemes of Arrangement proposed to be entered into between Gas2Grid and its shareholders and Gas2Grid and its optionholders to give effect to the Merger

#### **SCHEDULE - TERMS OF ORION OPTIONS**

The terms and conditions of the Orion Options are as follows:

- Each Orion Option entitles the holder to subscribe for one fully paid ordinary share in the capital of Orion Petroleum Limited.
- 2. The Orion Options shall expire at 5.00pm New South Wales standard time in accordance with the Standard Time Act 1987 (NSW) on 30 November 2010 (**Expiry Date**). Any Orion Option which has not been exercised prior to the Expiry Date automatically lapses.
- 3. The Orion Options are exercisable at an exercise price of \$0.18 per share at any time on or before the Expiry Date.
- 4. The Orion Options are freely transferable.
- 5. All shares issued pursuant to the exercise of Orion Options will be allotted within 10 business days after the exercise of the Orion Options and will rank pari passu in all respects with the Company's then existing ordinary fully paid shares. The Company will apply for official quotation by ASX of all shares issued upon exercise of the Orion Option on or before the third business day on which ASX is open after the date of allotment of the shares.
- 6. There are no participating rights or entitlement inherent in the Orion Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Orion Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 business days after the issue is announced. This will give option holders the opportunity to exercise their Orion Options prior to the date for determining entitlements to participate in any such issue.
- 7. In the event of reorganisation (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of Orion Options or the exercise price of the Orion Options or both shall be reorganised (as appropriate) in the manner required by the Listing Rules.
- 8. If there is a pro-rata issue (except a bonus issue) to the holders of the ordinary shares, the exercise price of each Orion Option shall be reduced according to the following formula:

O' = O - 
$$\frac{E[P-(S-D)]}{N+1}$$

#### Where:

O' = the new exercise price of Orion Option

O = the old exercise price of Orion Option

E = the number of ordinary shares into which one Orion Option is exercisable

- P = the average market price per ordinary shares (weighted by reference to volume) of the ordinary shares during the 5 trading days ending on the day before the ex-rights or ex-entitlements date
- S = the subscription price for an ordinary share under the pro-rata issue
- D = the dividend due but not yet paid on the ordinary shares (except those to be issued under the pro-rata issue)
- N = the number of ordinary shares with rights or entitlements that must be held to receive a right to one new ordinary share.
- 9. If there is a bonus issue to the holders of ordinary shares, the number of securities over which the Orion Option is exercisable will be increased by the number of ordinary shares which the holder of Orion Option would have received if the Orion Option had been exercised before the record date for the bonus issue.
- 10. If and to the extent any of the preceding terms and conditions are inconsistent with the rules or requirements of any securities exchange on which the Company's shares are listed or are proposed to be listed from time to time, the rules of the relevant securities exchange will prevail in all respects to the extent of the inconsistency.
- 11. These terms and conditions are governed by the laws of the State of New South Wales and the holder of the Orion Options unconditionally submits to the jurisdiction of the courts of that State and courts of appeal from them.

# ANNEXURE A - ORION ASX ANNOUNCEMENTS SINCE 30 JUNE 2009

Date	Event
14/12/2009	Appendix 3B - Application to list Restricted Shares
01/12/2009	Gwydir-1 CSG corehole update
30/11/2009	Restricted Securities
27/11/2009	GGX: AGM Presentation
26/11/2009	Managing Director's Review at AGM
26/11/2009	Chairman's Address to Shareholders
26/11/2009	Results of Meeting
16/11/2009	Spudding of Gwydir-1 Corehole
09/11/2009	Spudding of Gwydir-1 Corehole
06/11/2009	Company Update - Merger with Gas2Grid
05/11/2009	Recommended Merger Proposal
05/11/2009	GGX: Orion to Acquire all Shares and Options in Gas2Grid
22/10/2009	Quarterly Activities Report
22/10/2009	Notice of General Meeting/Proxy Form
22/10/2009	Annual Report to shareholders
21/10/2009	Initial and Final Director's Interest Notices
15/10/2009	Proposed Transaction
15/10/2009	GGX: Proposed Transaction
09/10/2009	Appointment of Managing Director
02/10/2009	Director Appointment/Resignation
29/09/2009	CSG Drilling Update
24/09/2009	Full Year Statutory Accounts
02/09/2009	Managing Director's Presentation to Good Oil Conference 2009
23/07/2009	Quarterly Activities Report and Appendix 5B - 2Q09
06/07/2009	Response to ASX Price Query

5 November 2009

#### RECOMMENDED PROPOSAL FROM ORION TO ACQUIRE ALL SHARES AND OPTIONS IN GAS2GRID

Orion Petroleum Limited (**Orion**) (ASX: OIP) and Gas2Grid Limited (Gas2Grid) (ASX: GGX) have today entered into a Merger Implementation Agreement (**MIA**) whereby, subject to the requisite shareholder, optionholder and Court approvals, Orion will merge with Gas2Grid via two Schemes of Arrangement (**Schemes**). Under the proposed Schemes, each Gas2Grid:

- shareholder will receive 1 Orion share for every 2.25 Gas2Grid shares held; and
- optionholder will receive 1 Orion option for every 2.25 Gas2Grid options held.

The proposed share and option exchange ratios above approximate closely to the ratio of the volume-weighted average share prices (VWAP) of OIP to GGX over the last 90 day trading period. Notwithstanding the volatility of each individual share price over recent months, the VWAP ratios for the 90 day periods prior to the initial transaction announcement of 15 October 2009 and up to market close on 3 November 2009 both equate to a 2.26 equivalence.

General Meetings of Gas2Grid shareholders and optionholders to consider the merger with Orion are likely to be held in January 2010.

The proposed Schemes have the unanimous support of the directors of Gas2Grid without a material personal interest in the matter, and they intend to vote in favour of the proposed Schemes in the absence of a superior offer and recommend the Orion proposal in the absence of a superior offer.

The Boards of Orion and Gas2Grid believe that a successful merger will benefit all shareholders of the two companies with:

- An expanded and more diversified portfolio of granted exploration licences located in prospective Australian
  and international petroleum basins without having to compete with much larger oil and gas companies to
  acquire or undertake the usually lengthy process of applications;
- Immediate exposure to planned exploration and appraisal drilling activities in NSW and the Philippines over the next 12 months;
- Funds availability to pursue the planned exploration activities without recourse to capital raising in a financial market that is difficult for small exploration companies;
- A board and management with complementary skills and extensive experience in the technical, commercial and financial aspects of the international upstream oil and gas industry.

Key steps to be undertaken to implement the proposed transaction include:

- completion of satisfactory due diligence by each party on the other to be conducted over the next seven days
- lodging Scheme documents with the Australian Securities and Investments Commission (ASIC);
- obtaining court approval to hold shareholder and optionholder meetings to vote on the Schemes;
- Gas2Grid shareholder and optionholder approval at the Schemes meetings and any necessary Orion share holder approval; and
- if approval is obtained at the Gas2Grid shareholders' and optionholders' meetings and any necessary Orion shareholder meeting, the Court making orders approving the Schemes.

Gas2Grid shareholders and optionholders are not required to take any action in relation to this announcement or the proposed Schemes. Gas2Grid shareholders and optionholders will be provided with a Scheme booklet outlining the proposal in greater detail in due course.

Similarly, Orion shareholders are not required to take any action. If Orion shareholder approvals are required, a notice of meeting and explanatory material will be sent out in due course.

Key terms of the Merger Implementation Agreement entered into between Gas2Grid and Orion are set out in the attached Appendix.

#### Contacts:

## Orion Petroleum Limited:

Russell Langusch - Managing Director Telephone: +612 9254 9010 Mobile: 0411 725 858 Email:russell.langusch@orionpetroleum.com.au

## Gas2Grid Limited

Patrick Sam Yue – Director Telephone: +612 9250 1878 Mobile: 0407 376 688 Email: psy@gas2grid.com

Suite 303, Level 3, 10 Bridge Street Sydney NSW 2000 Australia T+612 9254 9000 F+612 9252 0255 E office@orionpetroleum.com.au W orionpetroleum.com.au

#### **BACKGROUND COMPANY INFORMATION**

#### **About Orion**

Orion is an oil and gas exploration company with ambitions to become a mid-size petroleum exploration and production company. Orion operates seven conventional petroleum licences in the Surat-Bowen and Darling Basins of northern and western NSW. It is also evaluating the coal seam gas (CSG) potential of its four licences in the Surat-Bowen Basin through a farm-in agreement with Eastern Star Gas announced in August 2008.

In the Surat and Bowen Basins the Company has interests in PEL's 6, 427, 428 and 455 and in the Darling Basin it holds a 100% interest in PEL's 422 and 424 and the newly-awarded PEL 471.

Since listing on the ASX in late 2007, Orion has drilled two exploration wells, acquired two seismic surveys and participated in the drilling of two CSG core-holes. In May 2008, Willaroo-1 (PEL 6) recovered a small amount of oil on test, which was the first of its kind in NSW. Later that year the Nyngynderry-1 well was drilled in PEL 8 to a total depth of 2,266 m but was plugged and abandoned in October 2008 after failing to encounter hydrocarbons. PEL 8 was subsequently relinquished after post-drilling studies concluded that the licence contained limited remaining prospectivity.

Orion's footprint in the frontier Darling Basin has recently been consolidated following the award of PEL 471 in June 2009. Existing hydrocarbon indications with little previous exploration in the Darling Basin and its proximity to the Moomba-Sydney gas pipeline make it an attractive new exploration area.

#### **About Gas2Grid**

Gas2Grid holds the following exploration assets in the Philippines, France and Australia:

Philippines – Gas2Grid has re-entered and tested an oil and gas discovery well within Service Contract 44 (Malolos-1: TD 2,748 metres) and drilled, cased and suspended a new evaluation well (**Nuevo Malolos-1**). Nuevo Malolos-1 was successfully drilled to a total depth of 1,945 metres testing small amounts of both oil and gas before the well was cased and suspended for further evaluation.

France - Gas2Grid as Operator, in conjunction with Australian Securities Exchange (ASX) listed Gippsland Offshore Petroleum (GOP), holds an exploration licence for an area of 1,238 square kilometres within the Aquitaine Basin, south-western France. The licence was issued on 21April 2008 for a period of six years to Gas2Grid (50%) and GOP (50%) as the St Griede licence. The licence commitment for the first two years includes seismic reprocessing and acquisition of an airborne gravity survey. The Company has commenced the committed exploration work.

Australia - In March 2008, Gas2Grid acquired 100% of Western Australian exploration licence EP 453, located in the Canning Basin. Existing seismic and well data has been re-processed and is being re-interpreted in order to identify new drilling prospects.

#### **APPENDIX**

#### **Merger Implementation Agreement - Key Terms**

The Merger Implementation Agreement (**MIA**) entered into by Gas2Grid and Orion imposes obligations on the parties to proceed with the proposed Schemes of Arrangement. This attachment summarises key points of the MIA.

#### 1. Scheme Proposal

Gas2Grid will propose Schemes of Arrangement (**Schemes**) pursuant to which Orion will acquire all of the issued share capital and all issued options on a scrip for scrip basis. Under the proposed Schemes, each Gas2Grid:

- 1.1 shareholder will receive 1 Orion share for every 2.25 Gas2Grid shares held; and
- 1.2 optionholder will receive 1 Orion option for every 2.25 Gas2Grid options held,

(the **Scheme Proposal**). Shareholders or optionholders that are domiciled in jurisdictions other than Australia, its external territories or New Zealand will be deemed ineligible to participate in the Scheme Proposal.

#### 2. Conditions

Completion of the Schemes is subject to conditions some of which are summarised below, with the full conditions to be set out in the scheme booklet:

- 2.1 the Gas2Grid directors without a material personal interest in the transaction unanimously stating that they intend to vote in favour of the Schemes and recommending the Scheme Proposal in the absence of a superior offer;
- 2.2 the obtaining of any approvals required from regulatory authorities (including ASIC and ASX) and government agencies which are necessary to implement the Schemes;
- 2.3 there being no orders made by a Court, the Takeovers Panel or regulatory authority that restrains implementation of the Schemes;
- 2.4 there being no event which could have a "material adverse effect" on Gas2Grid or Orion;
- 2.5 warranties or representations made by Gas2Grid or Orion under the MIA are true and correct.

The Schemes also require Court approval in accordance with section 411(4)(b) of the Corporations Act and the approval of shareholders and optionholders of Gas2Grid. If necessary, Orion shareholder approval will be sought.

#### 3. Break Fee

- 3.1 Gas2Grid has agreed to pay Orion a break fee if the following occur:
  - (a) any Gas2Grid director withdraws his/her recommendation of the Schemes and one or both of the Gas2Grid shareholders approval and optionholders are subsequently not obtained, unless Gas2Grid was entitled to terminate the MIA, or unless an independent expert appointed by Gas2Grid gives an opinion that any one or both of the Schemes are not in the best interests of the Gas2Grid shareholders and/or optionholders.
  - (b) any Gas2Grid director publicly recommends a competing proposal prior to the termination of the MIA;
  - (c) a third party takes control of Gas2Grid or a substantial part of its assets;
  - (d) Orion terminates the MIA under certain circumstances.

The break fee payable by Gas2Grid is \$100,000.

- 3.2 Orion has agreed to pay Gas2Grid a break fee if:
  - (a) Gas2Grid terminates the MIA for material breach by Orion;
  - (b) Orion causes the termination of the MIA except in certain circumstances; and
  - (c) a third party takes control of Orion or a substantial part of its assets.

The break fee payable by Orion is \$100,000.

#### ANNEXURE B - ORION ASX ANNOUNCEMENT RE MERGER (CONTINUED)

## **ORION PETROLEUM LIMITED**

#### 4. Termination

The MIA may be terminated in a number of circumstances, including:

- 4.1 by a party if the other party is in material breach of the MIA and has not rectified the breach within 7 business days after notice of the breach is given to it (or any shorter period ending at 5.00pm on the day before the second Court date); or
- 4.2 automatically, if the Court refuses to order the convening of the Schemes meetings and appeals are unsuccessful; or
- 4.3 automatically, if the shareholders and optionholders fail to approve the Schemes;
- 4.4 automatically, if the Schemes do not become effective on or before the nominated end date.

#### Confidentiality and Exclusivity – Key Terms

Under the terms of a separate confidentiality and exclusivity agreement, until the earlier of 14 December 2009 or implementation of the Schemes, Gas2Grid must not:

- 1. solicit, initiate, encourage, facilitate or invite any third party proposals;
- 2. participate in discussions or negotiations that may reasonably be expected to lead to a third party proposal;
- 3. enter into any agreement, arrangement or understanding that may reasonably be expected to lead to a third party proposal;
- 4. furnish any information that may assist a third party proposal; or
- 5. approve or endorse any third party proposal;

and must advise Orion of:

- 6. any approach by a third party;
- 7. any provision or request of information by a third party; and
- 8. the identity of the third party and details of all information provided.

However, the above obligations (other than the obligations not to solicit, initiate, encourage, facilitate or invite) are subject to a fiduciary carve-out.

# ANNEXURE C - GAS2GRID ASX ANNOUNCEMENTS SINCE 30 JUNE 2009

Date	Event
07/12/2009	Change in Substantial Holding
30/11/2009	Change of Director's Interest Notice
30/11/2009	Change of Director's Interest Notice
30/11/2009	Change in substantial holding
30/11/2009	Change in substantial holding
30/11/2009	Appendix 3B
27/11/2009	Results of Meeting
27/11/2009	Chairman`s Address to Shareholders
27/11/2009	AGM Presentation
05/11/2009	OIP: Recommended Merger Proposal
05/11/2009	Orion to Acquire all Shares and Options in Gas2Grid
29/10/2009	Quarterly Activities Report
29/10/2009	Quarterly Cashflow Report
26/10/2009	Notice of Annual General Meeting/Proxy Form
26/10/2009	2009 Annual Report
16/10/2009	Change in substantial holding
15/10/2009	OIP: Proposed Transaction
15/10/2009	Proposed Transaction
13/10/2009	Final Director's Interest Notice
13/10/2009	Initial Director's Interest Notice
09/10/2009	Board Changes
06/10/2009	Company Update October 2009
30/09/2009	Annual Report to shareholders
02/09/2009	Presentation to Good Oil Conference
31/07/2009	Quarterly Activities and Cashflow Reports
20/07/2009	Becoming a substantial holder
08/07/2009	Appendix 3B / Section 708A Notice
07/07/2009	Share Placement
01/07/2009	Company Update

# **INDEPENDENT EXPERT'S REPORT**Orion Petroleum Limited

22 December 2009





Level 19,2 Market Street Sydney NSW 2000 GPO Box 2551, Sydney NSW 2001 Australia

22 December 2009

The Directors
Orion Petroleum Limited
Suite 303, Level 3
10 Bridge St
SYDNEY NSW 2000

Dear Sirs

# Independent Expert's Report - Orion Petroleum Limited

#### INTRODUCTION

BDO Securities (NSW-VIC) Pty Limited has been engaged by the independent directors of Orion Petroleum Limited ("Orion") to prepare an Independent Expert's Report ("the Report") to express an opinion as to whether or not the proposed acquisition of the shares and options in Gas2Grid Limited ("Gas2Grid") owned by Mr Dennis Morton and by Budside Pty Limited, a company of which Mr Dennis Morton is a director and the sole shareholder, by Orion ("the Proposal") is fair and reasonable to Orion's shareholders not associated with Dennis Morton or Budside Pty Limited ("Orion Shareholders").

Orion and Gas2Grid have entered into a Merger Implementation Agreement whereby, subject to the requisite shareholder, optionholder and court approvals, Orion will merge with Gas2Grid via two Schemes of Arrangement ("Schemes"). As the Schemes will result in Orion obtaining 100% of all Gas2Grid shares and options, including the shares and options in Gas2Grid owned by Mr Dennis Morton and by Budside Pty Limited, ("Gas2Grid Securities") we have assessed the Proposal by assessing the Schemes in their entirety.

Our Report is to be included in the Explanatory Notes to be sent to all Orion Shareholders to assist them in deciding whether to approve certain resolutions relating to the Proposal.

#### **SUMMARY AND OPINION**

We have considered the terms of the Proposal as outlined in the body of this Report and have concluded that the Proposal is fair and reasonable to Orion Shareholders whose votes on the Proposal are not to be disregarded.

A summary of our analysis in forming the above opinion is provided below.

#### **Fairness**

In accordance with our basis of evaluation (set out in Section 2.2 of this Report) we have assessed whether or not the Proposal is fair to Orion Shareholders with reference to the value of the Gas2Grid Securities being acquired by Orion; and the consideration offered for the Gas2Grid Securities by Orion under the Schemes (being shares and options in Orion). The results of our analysis are summarised below.

Figure i: Comparison of Value of Gas2Grid Securities to consideration offered for Gas2Grid Securities

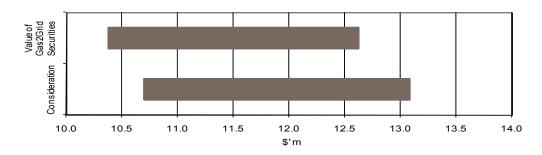
	Section	Low \$'000	High \$'000
Value of Gas2Grid Securities	10	10,383	12,618
Value of consideration offered for Gas2Grid Securities	10	10,699	13,079

Source: BDO



This comparison is also shown graphically in Figure ii.

Figure ii: Graphical comparison of value of Gas2Grid Securities to consideration offered for Gas2Grid Securities



Source: BDO

As demonstrated above, the value range of Gas2Grid Securities being acquired by Orion substantially overlaps the value range of the consideration being paid to the Gas2Grid shareholders and optionholders by Orion for the Gas2Grid Securities. Based on this, the Proposal is considered fair to Orion Shareholders.

#### Reasonableness

We have considered the analysis in Section 11 of this Report, in terms of both the advantages and disadvantages of the Proposal as well as consideration of the position of Orion Shareholders if the Proposal does not proceed.

In our opinion, the position of Orion Shareholders if the Proposal proceeds is more advantageous than the position if the Proposal does not proceed. Accordingly, we believe that the Proposal is reasonable for Orion Shareholders.

The respective advantages and disadvantages considered are summarised below.

Figure iii: Advantages and disadvantages of the Proposal

Advantages		Disadvantages		
	<ul> <li>Access to an expanded and more diverse range of projects</li> <li>Increase in size and potential liquidity</li> <li>Expertise of Gas2Grid director</li> </ul>	<ul> <li>Shareholding dilution</li> <li>Obligation to meet the requirements of Gas2Grid licences</li> </ul>		

Source: BDO

# Conclusion

Having considered the analysis at Sections 10 and 11 of this Report, we have concluded that the Proposal is fair and reasonable to Orion Shareholders whose votes on the Proposal are not to be disregarded.

Yours faithfully

**BDO SECURITIES (NSW-VIC) PTY LIMITED** 

David McCourt
Director

Vera Baumgartner Director

Nere Baiey Z



# **INDEPENDENT EXPERT'S REPORT**

# Contents

1	Outline of Schemes						
2	•	Report					
	2.1	Report Requirements					
	2.2	Basis of Evaluation					
3		f Gas2Grid					
	3.1	History					
	3.2	Overview of Assets					
	3.3	Capital Structure	4				
	3.4	Historical Balance Sheet					
	3.5	Historical Income Statements.					
	3.6	Cash Flow Statements					
4		f Orion					
	4.1	History					
	4.2	Overview of Key Project Areas	7				
	4.3	Capital Structure					
	4.4	Historical Balance Sheets					
	4.5	Historical Income Statements					
	4.6	Cash Flow Statements					
5		n Methodologies					
	5.1	Gas2Grid Shares					
	5.2	Gas2Grid Options					
	5.3	Orion Shares					
	5.4	Orion Options					
	5.5	Future Events					
6		n of Gas2Grid Shares					
	6.1	Overview					
	6.2	ASX Valuation					
	6.3	NTA Valuation					
	6.4	Conclusion as to Value of Gas2Grid Shares					
7		n of Gas2Grid Options					
	7.1	Options Valuation					
	7.2	ASX Listed Price					
	7.3	Conclusion as to Value of Gas2Grid Options	17				
8		n of Orion Shares					
	8.1	Overview					
	8.2	ASX Valuation					
	8.3	NTA Valuation					
	8.4	Conclusion as to Value of Orion Shares					
9		n of Orion Options					
	9.1	Binomial Valuation					
4.0	9.2	Value of Orion Options	23				
10							
11		Advantages of the Present					
	11.1	Advantages of the Proposal	24 عد				
	11.2	Disadvantages of the Proposal	25				
42	11.3	Position of Orion Shareholders if Proposal does not Proceed					
12 13		on of Proposal					
14	-	dence					
15	•	ers And Consents					

Appendix A - Financial Services Guide
Appendix B - Sources of Information
Appendix C - Valuation Methodologies - Businesses and Assets
Appendix D - Valuation Methodologies - Options
Appendix E - Valuation of Existing Orion Options
Appendix F - Mulready Consulting Report



#### INDEPENDENT EXPERT'S REPORT

# Glossary

ASIC Australian Securities and Investments Commission

ASX Australian Securities Exchange
BDO BDO Securities (NSW-VIC) Pty Ltd

CSG Coal Seam Gas

ESG Eastern Star Gas Limited

Existing Orion Options Five tranches of Orion options currently held by Orion optionholders

EXPLANATION EXPLANATION NOTES, being part F of the NoM

FMD Future Maintainable Dividends
 FME Future Maintainable Earnings
 FYxx Financial year ending 30 June xx

Gas2Grid Limited
Gas2Grid Shares Shares in Gas2Grid
Gas2Grid Options Options in Gas2Grid

Gas2Grid Securities Shares and options in Gas2Grid being acquired by Orion

IPO Initial Public Offering

MIA Merger Implementation Agreement

Mulready Consulting Mulready Consulting Services Pty Limited - independent geologist

Orion Options Orion options to be issued to Gas2Grid optionholders

NOM Notice of Meeting

NTA Net Tangible Assets

NRV Net Realisable Value

Proposal Proposed acquisition of the shares and options in Gas2Grid owned by Mr Dennis

Morton and by Budside Pty Limited, a company of which Mr Dennis Morton is a

director and the sole shareholder, by Orion

Orion Petroleum Limited

Orion Shareholders Shareholders in Orion not associated with the resolutions (all shareholders other

than Mr Dennis Morton and his associates)

Orion Shares Shares in Orion

Orion Options Options in Orion to be issued to Gas2Grid optionholders pursuant to the Scheme

Report This Independent Expert's Report prepared by BDO

RG ASIC Regulatory Guideline

Schemes Schemes of Arrangement between Gas2Grid and Orion

SC44 Service Contract (exploration and development) licence 44

The Act The Corporations Act 2001

Valmin Code Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets

and Securities for Independent Expert Reports

VWAP Volume weighted average share price



# 1 Outline of Schemes

Orion and Gas2Grid have entered into a MIA whereby, subject to the requisite shareholder, optionholder and court approvals, Orion will merge with Gas2Grid via two Schemes. Under the Schemes, each:

- Gas2Grid shareholder will receive 1 Orion Share for every 2.25 Gas2Grid Share held; and
- Gas2Grid optionholder will receive 1 New Orion Option for every 2.25 Gas2Grid Option held.

If the Schemes are implemented, Orion will acquire 100% of Gas2Grid's Securities by issuing approximately 81,359,703 Orion Shares and 17,148,632 Orion Options.

It is a condition of the MIA that Orion Shareholders approve all resolutions relating to the Proposal. For the reasons set out in Section 2.1 of the Report and in the EN, Orion Shareholders are required to approve the following resolutions:

- The purchase by Orion of 3,242,188 Gas2Grid Shares and 4,234,066 listed Gas2Grid Options (expiring 30 November 2010) pursuant to the Schemes from Mr Dennis Morton, a director of Orion; and
- The purchase by Orion of 27,208,132 Gas2Grid Shares and 13,370,000 listed Gas2Grid Options (expiring 30 November 2010) pursuant to the Schemes from Budside Pty Limited, a company of which Mr Dennis Morton is a director and the sole shareholder.

# 2 Scope of Report

# 2.1 Report Requirements

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires a substantial asset from a director, when the consideration to be paid on the acquisition constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts.

Orion is proposing to acquire 100% of the Gas2Grid Securities via the Schemes of Arrangements.

Mr Dennis Morton, a director of Orion, has an interest in 30,450,320 Gas2Grid Shares and 17,604,066 listed Gas2Grid Options.

Dennis Morton's Gas2Grid Shares and Gas2Grid Options comprise a substantial asset for the purposes of the ASX Listing Rule 10.1. The ASX has determined that Orion Shareholder approval be obtained for the purposes of Listing Rule 10.1 to enable Orion to purchase Dennis Morton's Gas2Grid Shares and Gas2Grid Options.

Listing Rule 10.10.2 requires the notice of meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction (non-associated shareholders).

Accordingly, an independent experts' report is required for the Proposal. The Report is to provide an opinion stating whether or not the Proposal is fair and reasonable to Orion Shareholders other than Dennis Morton and his associates.



#### 2.2 Basis of Evaluation

# 2.2.1 Regulatory Guidelines

In determining whether the Proposal are fair and reasonable, we have had regard to the views expressed by ASIC in their RG 111.

#### 2.2.2 Adopted Basis of Evaluation

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the consideration payable by Orion to Gas2Grid shareholders and optionholders (being Shares and Options in Orion) and the value of Gas2Grid's Securities (fairness); and
- An investigation into other significant factors to which Orion Shareholders might give consideration, prior to approving the Proposal, after reference to the value derived above (reasonableness). Such consideration includes a comparison of the likely advantages and disadvantages for Orion Shareholders of the Proposal with the advantages and disadvantages to those Orion Shareholders if they are not. We have assessed that in all cases the advantages and disadvantages of the Proposal proceeding are the inverse of the Proposal not proceeding. Thus, for simplicity and ease of evaluation, we have set out the significant factors in Section 11 only in the context of the Proposal proceeding.

As discussed in Sections 1 and 2.1 of the Report, the resolutions that Orion Shareholders are to vote on relate to the acquisition of Gas2Grid Securities owned by Dennis Morton and his associates. The terms on which the Gas2Grid Securities owned by Dennis Morton and his associates are being acquired are the same as the terms on which all Gas2Grid Securities are being acquired. Accordingly, in undertaking our assessment of fairness and reasonableness we have undertaken our analysis on the Schemes as a whole.

The Proposal could be considered "reasonable" if there are valid reasons for the Proposal to proceed, notwithstanding that it may not be regarded as "fair" to Orion Shareholders.

# 3 Profile of Gas2Grid

#### 3.1 History

Gas2Grid was incorporated as a public company on 22 December 2004 for the express purpose of prospecting for oil and gas in SC44 in the Philippines, as well as to evaluate other energy prospects of oil and gas resources.

G2G Pte Ltd, a subsidiary of Gas2Grid was awarded SC44 by the Philippines' Department of Energy on the 28th of January 2004 for a term of 7 years.

Gas2Grid has subsequently acquired two additional licences which are currently being assessed, one in Australia, and the other in France.

New Zealand Licence PEP 4826 was abandoned in FY09.

Gas2Grid's primary objective is to commercialise stranded energy resources in the hydrocarbons or geothermal domain.



#### 3.2 Overview of Assets

Gas2Grid has the following three primary assets.

## 3.2.1 SC44 in the Philippines

SC44 is located in the southern Philippines. A well workover program is scheduled to commence in late 2009. Gas has been recovered, and flowed to the surface at two wells.

In April 2009 Gas2Grid entered into a new agreement with the Philippine Department of Energy in relation to SC44. This agreement was subsequently amended. The revised agreement required Gas2Grid to perform the following:

- Planned well workovers to be completed by June 2009. This deadline has been extended;
- 100km of seismic data by December 2009;
- Drilling on one new well by June 2010; and
- Drilling of two new wells by December 2010.

Gas2Grid's management has stated that it is likely that the sandstone reservoirs were damaged during the drilling and completion process of Nuevo Malalos and Malalos 1 wells. As a result the wells have only produced a small amount of oil and gas.

According to Gas2Grid it is unlikely that the work obligations as set out in the amended agreement in relation to SC44 will be met within the required timeframe. This has the potential consequence of Gas2Grid forfeiting its security bond of US\$1 million and jeopardising its position as contractor under SC44. Gas2Grid Management have advised that they are of the view, after discussion with the Philippine Department of Energy, that there is no concern from the Department regarding the likely late completion of the program and that Gas2Grid's tenure with respect to SC44 is not at serious risk provided that a substantial portion of the revised work program is undertaken over the next 6 to 12 months.

#### 3.2.2 St. Griede Licence in France

This licence was awarded to Gas2Grid in April 2008 in a 50%/50% joint venture with Gippsland Offshore Petroleum Limited. The licence is located in the Aquitaine Basin in southwest France. The licence has been awarded for a 5 year term with an aggregate total work commitment of €4,351,300. An aero-gravity survey commenced in November 2009.

#### 3.2.3 EP453 in Australia

EP453 is located in the Canning Basin, Western Australia and contains a previously drilled exploration well which flowed gas to the surface. There are also numerous exploration leads and prospects. The licence requires Gas2Grid to acquire 200km of new seismic data by 17 January 2010.

Gas2Grid notes that it has not yet been registered as the title holder in respect of EP453 as the application for approval, transfer form and executed title transfer instrument, as required by the Western Australian Department of Mines and Petroleum, has not yet been lodged. Gas2Grid Management have confirmed that there is no reason to believe that this transfer will not be approved by the Western Australian Department of Mines and Petroleum.



# 3.3 Capital Structure

As at the date of this Report there were 183,059,332 Gas2Grid Shares on issue (this includes 3,242,188 new Gas2Grid Shares issued to Mr Dennis Morton and 2,597,656 new Gas2Grid Shares issued to Mr David Munns as payment of unpaid directors' fees totalling \$373,750 and approved by shareholders at Gas2Grid's Annual General Meeting held on 27 November 2009).

A capital raising of \$1.2 million via a rights issue was completed in December 2008. The rights issue was on the basis of one new Gas2Grid Share for every existing Gas2Grid Share held. Each new Gas2Grid Share was issued at 3 cents and had an attached 8 cent exercise price Gas2Grid Option. 38,584,422 new Gas2Grid Shares were issued under the rights issue.

On 11 May 2009 1.8 million Gas2Grid Shares were issued to Mr David King at 5 cents in lieu of outstanding directors fees totalling \$90,000.

Gas2Grid made a placement to sophisticated investors in July 2009 raising an additional \$1.065 million. The new Gas2Grid Shares were issued at 5 cents.

There are also 38,584,442 listed Gas2Grid Options on issue with an exercise price of \$0.08, expiring in November. The Gas2Grid Options were issued as a result of the terms of the rights issue that occurred in December 2008.

Figure 3.3a: Gas2Grid's ten largest shareholders

Name	No. of Shares Held	Percentage of Shares
Budside Pty Limited	22,468,132	12.7
David Munns	13,423,600	7.6
Darren Reeder	10,000,000	5.6
Seistend Pty Limited	8,363,788	4.7
Octanex NL	6,140,000	3.5
Gascorp Australia Pty Limited	6,000,000	3.4
Parkes Holdings Pty Limited	5,000,000	2.8
Custodial Services Limited	4,307,933	2.4
Budside Pty Limited	3,540,000	2.0
Pobelo Super Pty Limited	3,270,000	1.9
	77,513,453	46.6%

Source: Gas2Grid FY09 Annual Report

Figure 3.3b: Gas2Grid's ten largest optionholders

Name	No. of Options Held	Percentage of Options
Budside Pty Limited	11,000,000	28.5
David Munns	6,711,800	17.4
Dennis Morton	4,234,066	10.9
Seistend Pty Limited	3,164,933	8.2
Parkes Holdings Pty Limited	2,500,000	6.9
Budside Pty Limited	1,770,000	4.6
Discovery Investments Pty Limited	1,624,933	4.2
Parkes Holdings Pty Limited	1,000,000	2.6
WR Mobbs Superannuation Pty Limited	1,000,000	2.6
Custodial Services Limited	777,000	2.0
	33,782,732	87.9%

Source: Gas2Grid FY09 Annual Report



# 3.4 Historical Balance Sheet

The consolidated historical balance sheets of Gas2Grid are set out below.

Figure 3.4: Balance sheet

Figure 3.4: Balance sheet					
As at	30 June 2008 \$'000	30 June 2009 \$'000			
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	758	784			
Trade and other receivables	205	132			
Other financial assets at fair value	2	3			
Total Current Assets	966	919			
NON-CURRENT ASSETS					
Other financial assets	-	-			
Plant and equipment	1	3			
Exploration expenditure and rights	7,098	6,018			
Total Non-Current Assets	7,099	6,021			
TOTAL ASSETS	8,065	6,939			
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	581	358			
Total Current Liabilities	581	338			
NON-CURRENT LIABILITIES					
Deferred tax liabilities	1,352	1,607			
Trade and other payables	266	189			
Total Non-Current Liabilities	1,618	1,796			
TOTAL LIABILITIES	2,199	2,134			
NET ASSETS	5,867	4,806			
EQUITY					
Contributed equity	9,507	10,717			
Reserves	(798)	(244)			
Retained profits	(2,842)	(5,667)			
Total Equity	5,867	4,806			
Source: Gas2Grid FY09 Annual Report		<del></del>			

Source: Gas2Grid FY09 Annual Report

# 3.5 Historical Income Statements

The consolidated historical income statements for Gas2Grid are summarised below.

Figure 3.5: Income statement

For the Year Ended	30 June 2008 \$'000	30 June 2009 \$'000
Revenue from Continuing Operations	130	17
Expenditure	-	(2,286)
Administrative expense	(245)	(297)
Auditor's remuneration	(76)	(64)
Consultancy fees	(32)	-
Employee benefits expense	(91)	(94)
Depreciation and amortisation expense	(1)	(2)
Insurance costs	(26)	(27)
Rental expenses	(7)	(21)
Travelling expenses	(40)	(87)
Other expenses	(40)	(49)
Loss Before Income Tax	(428)	(2,811)
Income tax expense	(4)	(14)
Loss from continuing operations	(432)	(2,825)
Loss for the year	(432)	(2,825)
Loss attributable to members of Gas2Grid Limited	(432)	(2,825)

Source: Gas2Grid FY09 Annual Report



Revenue from continuing operations represents interest revenue on cash balances.

Expenditure includes exploration costs and rights written off in relation to New Zealand Licence PEP 4826 which is no longer being pursued by Gas2Grid of \$2.185 million. This write off has resulted in a decrease in the balance of exploration expenditure and rights in the FY09 balance sheet.

## 3.6 Cash Flow Statements

The consolidated historical cash flow statements for Gas2Grid are summarised below.

Figure 3.6: Cash flow statement

For the Year Ended	30 June 2008 \$'000	30 June 2009 \$'000
Cash Flows from Operating Activities		
Interest received	130	17
Receipts from customers (inclusive of goods and services tax)	-	-
Payment to suppliers and employees (inclusive of goods and services tax)	(540)	(441)
Net Cash (Outflow) from Operating Activities	(410)	(424)
Cash Flows from Investing Activities		
Exploration expenditure	(1,954)	(667)
Payments for plant and equipment	-	(3)
Additional investment in subsidiary	-	-
Net Cash Outflow from Investing Activities	(1,954)	(669)
Cash Flows from Financing Activities		
Proceeds from issues of shares	2,464	1,158
Share issue transaction costs	(111)	(28)
Share application money received/(refunded)	(1,354)	-
Repayment of borrowings	-	-
Net Cash Inflow from Financing Activities	1,000	1,129
Net (decrease)/increase in cash and cash equivalents	(1,364)	36
Cash and cash equivalents at beginning of the year	2,094	758
Effects of exchange rate changes on cash and cash equivalents	28	(11)
Cash and cash equivalents at the end of year	758	784

Source: Gas2Grid FY09 Annual Report

Gas2Grid incurred exploration expenditure of \$666,718 in FY09 compared to \$1,953,778 in FY08.

Net cash proceeds from Gas2Grid Shares issued during FY09 totalled \$1,129,447. These proceeds were a result of the rights issue that occurred in December 2008. We note that a placement of Gas2Grid Shares raising \$1.065 million occurred in July 2009.



# 4 Profile of Orion

# 4.1 History

Orion was incorporated on 9 July 2007 for the purpose of carrying out oil and gas exploration.

The assets of Orion initially consisted of exploration licenses previously held by ESG.

Orion listed on the ASX on 10 December 2007 pursuant to an IPO which raised \$23 million in cash. Subsequent to listing, ESG retained a 23% shareholding in Orion.

Orion currently has interests in seven conventional petroleum joint licences, four of which have coal seam gas potential. The exploration assets covering approximately 40,000 sq km located in northern NSW. Since its IPO, Orion has continued to progress the exploration of its assets through the drilling of two exploration wells, the acquisition of two seismic surveys, and the participation in the drilling of two CSG core-holes.

During October 2009 Messers Bun Hung, Barry Smith and Guy Allinson resigned as Directors of Orion. Russel Langusch was appointed as a director and has been named as Managing Director, Dennis Morton has been named Chairman. The resignations were a result of a disagreement between the directors and ESG (Orion's major shareholder) as to the direction of the Company, and the benefits of potential mergers.

# 4.2 Overview of Key Project Areas

Orion's key project areas are set out below.

Figure 4.2: Orion's key projects

Basin/State	Licence	Orion's Interest	Subject to Royalty Interest <sup>(1)</sup>
Surat-Bowen Basins New South Wales	PEL 6	Conventional petroleum JV	3.5%
		97.5% - Remainder	
		95% - Edendale Block	
		Coal seam gas JV	3.5%
		97.5% - Remainder (farming down to 22.5%)	
		95% - Edendale block (farming down to 20%)	
	PEL 427	Conventional petroleum JV	
		75%	
		Coal seam gas JV	
		75% (farming down to 25%)	
	PEL 455	100%	
Gunnedah Basin New South Wales	PEL 428	Conventional petroleum JV	
		60%	
		Coal seam gas JV	
		60% (farming down to 20%)	
- "	<b>5</b> =1 400	1000	201
Darling Basin New South Wales	PEL 422	100%	8%
	PEL 424	100%	8%
	PEL 471	100%	

Source: Orion FY09 Annual Report

Note (1): These royalties are in addition to the standard 10% well head royalty payable to the NSW State Government upon achieving production, subject to a royalty holiday in the first five years of production.



### 4.3 Capital Structure

As at the date of this Report there were 155,000,000 Orion Shares on issue.

There are also 120,050,000 Existing Orion Options with a range of terms on issue, as set out in Figure 4.3c.

Figure 4.3a: Orion Shares

Orion Shares	No. of Shares
Shares currently on issue	155,000,000
Source: Orion management	

Figure 4.3b: Orion's ten largest shareholders

Name	No. of Shares held	Percentage of Shares
Eastern Star Gas Limited	35,750,000	23.06
Merrill Lynch (Australia) Nominees Pty Limited	28,464,318	18.36
Octanex NI	10,972,923	7.08
National Nominees Limited	4,250,000	2.74
Fort Capital Pty Ltd	1,605,911	1.04
Ashabia Pty Ltd <superannuation a="" c="" fund=""></superannuation>	1,140,000	0.74
Budside Pty Ltd <employees a="" c="" fund="" super=""></employees>	1,000,000	0.65
Enmore Medical Centre < Iyer Super Fund A/C>	1,000,000	0.65
Lit Wick Enterprises Pty Ltd	1,000,000	0.65
Octan Energy Pty Ltd	975,475	0.63
	86,158,627	55.59%

Source: Orion management

Figure 4.3c: Existing Orion Options

Existing Orion Options	No. of Options
Exercisable at \$0.30 on or before 30 September 2010 (listed)	115,000,000
Exercisable at \$0.30 on or before 30 September 2012 (unlisted)	4,250,000
Exercisable at \$0.13 on or before 4 July 2011 (unlisted)	450,000
Exercisable at \$0.12 on or before 20 March 2012 (unlisted)	250,000
Exercisable at \$0.15 on or before 23 July 2012 (unlisted)	100,000

Source: Orion management

Figure 4.3d: Orion's ten largest optionholders

Name	No. of Options held	Percentage of Options
Merrill Lynch (Australia) Nominees Pty Limited	31,279,902	26.05
HSBC Custody Nominees (Australia) Limited	5,500,000	4.58
Lit Wick Enterprises Pty Ltd	5,000,000	4.16
National Nominees Limited	4,000,000	3.33
Jiapa Pty Ltd <cairns a="" c="" investment=""></cairns>	2,250,000	1.87
International Business Network (Services) Pty Ltd	1,500,000	1.25
Dennis J Morton	1,500,000	1.25
Barry L Smith	1,500,000	1.25
Bun Chong Hung	1,250,000	1.04
Clodene Pty Ltd	1,175,000	0.98
	54,954,502	45.76%

Source: Orion management



#### 4.4 Historical Balance Sheets

The consolidated historical balance sheets of Orion are set out below.

Figure 4.4: Balance sheet

As at 30 June	2008 \$'000	2009 \$'000
ASSETS	\$ 555	, 00C
CURRENT ASSETS		
Cash and cash equivalents	19,110	12,770
Inventory	-	198
Other current assets	1,127	124
Total Current Assets	20,237	13,092
NON-CURRENT ASSETS		
Exploration and evaluation expenditure	822	1,670
Property, plant and equipment	235	18
Total Non-Current Assets	1,057	1,85
TOTAL ASSETS	21,294	14,94
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,884	18
Provisions	2	1
Total Current Liabilities	1,886	20
TOTAL LIABILITIES	1,886	20
NET ASSETS	19,408	14,74
EQUITY		
Contributed equity	21,282	21,28
Option reserve		6
Accumulated losses	(1,874)	(6,605
Total Equity	19,408	14,74

Orion's major assets are cash (\$12.8m) and exploration assets (\$1.7m) as at 30 June 2009.

#### 4.5 Historical Income Statements

The consolidated income statements for Orion are summarised below.

Figure 4.5: Income statement

Period ended	9 July 2007 to 30 June 2008 \$'000	1 July 2008 to 30 June 2009 \$'000
Interest Income	865	891
Exploration and evaluation written off	(2,020)	(4,386)
Directors' fees	(87)	(158)
Employee	(221)	(571)
Professional and consulting fees	(137)	(173)
Auditors' remuneration	(38)	(41)
Depreciation and amortisation	(16)	(58)
Other operating expenses	(220)	(235)
Loss before income tax	(1,874)	(4,731)
Income tax expense	-	-
Loss from continuing operations	(1,874)	(4,731)
Loss attributable to members of Orion Petroleum Limited	(1,874)	(4,731)

Source: Orion FY09 Annual Report

Orion's only current source of revenue is interest on cash balances.

Orion's most significant expense is the write off of exploration and evaluation costs totalling \$6.4 million over the last two financial years. This compares to total exploration and evaluation costs incurred of \$8.1 million over the same two year period. Over FY08 and FY09 approximately 79% of the exploration and evaluation costs incurred by Orion have been written off.



#### 4.6 Cash Flow Statements

The consolidated historical cash flow statements for Orion are summarised below.

Figure 4.6: Cash flow statement

Period ended	9 July 2007	1 July 2008
	to 30 June	to 30 June
	2008	2009
	\$'000	\$'000
Cash Flows from Operating Activities		
Payments for exploration and evaluation	(1,479)	(6,468)
Payments to suppliers and employees (inclusive of goods and services tax)	(877)	(1,065)
Interest received	490	1,198
Net Cash Outflow from Operating Activities	(1,866)	(6,335)
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(276)	(5)
Net Cash Outflow from Investing Activities	(276)	(5)
Cash Flows from Financing Activities		
Proceeds from issues of shares and other equity securities	23,004	-
Share issue transaction costs	(1,752)	-
Proceeds from advances	250	-
Repayment of advances	(250)	-
Net Cash Inflow from Financing Activities	21,252	-
Net (decrease)/increase in cash and cash equivalents	19,110	(6,340)
Cash and cash equivalents at beginning of the year	-	19,110
Cash and cash equivalents at the end of year	19,110	12,770

Source: Orion FY09 Annual Report

Orion's major cash outflow is in relation to exploration and evaluation.

# **5** Valuation Methodologies

Valuation methodologies commonly used for valuing assets and businesses are summarised at *Appendix C*.

Valuation methodologies commonly used for valuing options are set out in Appendix D.

Our selected valuation methodologies for valuing Gas2Grid and Orion securities are discussed below.

#### **5.1** Gas2Grid Shares

To value the Gas2Grid Shares we have adopted the NTA and ASX valuation methodologies.

The NTA valuation is based upon the value of assets held by Gas2Grid. Mulready Consulting, independent geologists, has been engaged to value the licenses held by Gas2Grid for the purposes of the NTA valuation.

As Gas2Grid is listed on the ASX, we will consider the value at which shares in Gas2Grid trade. We will assess the level of trade and liquidity of Gas2Grid Shares in determining the appropriateness of this valuation approach.

The full details of the valuation of Gas2Grid Shares are included in Section 6.



### **5.2** Gas2Grid Options

To value the Gas2Grid Options we have used the binomial valuation methodology and have considered the ASX market price of the options.

The full details of the valuation of Gas2Grid Options are included in Section 7.

#### 5.3 Orion Shares

To value the Orion Shares we have adopted the NTA and ASX valuation methodologies.

The NTA valuation is based upon value of assets held by Orion. Mulready Consulting has been engaged to value the licenses held by Orion for the purposes of the NTA valuation.

As Orion is listed on the ASX, we will consider the value at which shares in Orion trade. We will assess the level of trade and liquidity of Orion Shares in determining the appropriateness of this valuation approach.

The full details of the valuation of Orion Shares are included in Section 8.

#### **5.4** Orion Options

To value the Orion options we have used the binomial valuation methodology.

The full details of the valuation of Orion Options are included in Section 9.

#### 5.5 Future Events

The businesses of Gas2Grid and Orion to be considered in both valuations are those that exist as at November 2009. Future growth potential, which may result from new business initiatives and the like (which are not capable of estimation), are not within the scope of our valuations.



# 6 Valuation of Gas2Grid Shares

#### 6.1 Overview

As detailed at Section 3 above, as at the date of our valuation Gas2Grid has 183,059,332 Shares on issue. We have valued Gas2Grid Shares using the ASX and NTA valuation methodologies.

#### 6.2 ASX Valuation

Figure 6.2a illustrates the monthly average trading prices and volumes in Gas2Grid Shares for 12 months to 14 October 2009, the day prior to the announcement of the Schemes on 15 October 2009.

6.000.000 0.07 0.06 5.000.000 0.05 4 000 000 Share Price (\$) 0.04 Volume 3 000 000 0.03 2.000.000 0.02 1.000.000 0.01 0.00 Jun-09 Oct-09 May-09 Total monthly volume traded on-market Weighted average on-market monthly share price

Figure 6.2a: 12 months trading activity of Gas2Grid Shares to 14 October 2009 (monthly basis)

Source: Bloomberg and BDO analysis of share price data

The price of Gas2Grid Shares from 15 October 2008 to 14 October 2009 has ranged from an intra-day high of \$0.085 on 12 October 2009 to a low of \$0.017 on 21 January 2009.

Figure 6.2b provides a detailed analysis of the 90 days trading up to and including 14 October 2009.

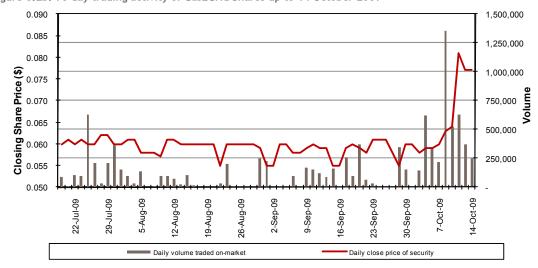


Figure 6.2b: 90 day trading activity of Gas2Grid Shares up to 14 October 2009

Source: Bloomberg and BDO analysis of share price data



As illustrated in Figure 6.2b, for the majority of the 90 days up to and including 14 October 2009 shares in Gas2Grid have consistently traded in the range between \$0.055 and \$0.065. We note in the 3 days immediately prior to 14 October 2009, the Gas2Grid Share price increased significantly, reaching the intra-day 12 month high of \$0.085 on 12 October 2009, and closing at \$0.077 on 13 and 14 October 2009.

We have also calculated the VWAP price of Gas2Grid Shares for 10, 30, 60 and 90 day periods up to and including 14 October 2009.

Figure 6.2c: Weighted average Gas2Grid Share price

	14 October 2009	10 Days	30 Days	60 Days	90 Days
Closing Price (\$)	0.077				
VWAP (\$)		0.066	0.064	0.062	0.062

**Source:** BDO analysis of share price data

The above weighted average prices are prior to the announcement of the Schemes on 15 October 2009. This illustrates that for the majority of the 90 days prior to the announcement of the Schemes, there has been little variability in Gas2Grid's Share prices.

#### 6.2.1 Liquidity

Our analysis indicates that Gas2Grid has traded 12.42% of its free float over the 90 trading day analysis period prior to and including 14 October 2009 (in our assessment of Gas2Grid's free float shares, we have excluded shares held by directors and related parties, as these shares not traded frequently).

Figure 6.2d indicates a level of liquidity in Gas2Grid's free float prior to and including 14 October 2009, however a large amount of this trading has occurred in the 5 days prior to the announcement of the Schemes of Arrangement.

Figure 6.2d: Free float trading

Number of shares on issue as at 14 October 2009	177,219,488
Number of shares controlled by directors and related parties	49,239,941
Free float	127,979,547
Number of shares traded over 90 trading days prior to 14 October 2009	15,901,293
% of free float traded	12.42%
Annualised	36.17%

Source: Bloomberg and BDO analysis of share price data

### 6.2.2 ASX Market Price Valuation Summary

Figure 6.2e indicates our assessed valuation range for Gas2Grid based on the ASX market based pricing methodology. In adopting our ASX market price valuation, we have placed a higher level of weighting on Gas2Grid's 30, 60 and 90 day VWAPs which provide a reasonable indication of Gas2Grid's Share price over the medium term prior to the announcement of the Schemes. We have not considered the 10 day VWAP given the volatility in Gas2Grid's Share price in the 3 days immediately prior to and including 14 October 2009.

Figure 6.2e: ASX Valuation of Gas2Grid Shares

0.060	0.064
	0.060

Source: BDO analysis



#### 6.3 NTA Valuation

As detailed in Section 5, the NTA methodology has been selected as an appropriate valuation methodology to value Gas2Grid Shares as at the date of this Report.

The net assets of Gas2Grid as at 30 June 2009, as disclosed in Gas2Grid's Annual Report, form the basis of our assessment of the NTA valuation of Gas2Grid. Under the NTA methodology, all assets and liabilities of the entity are valued at market value and this combined market value forms the basis for the entity's valuation. Accordingly, we have made adjustments to certain balances presented in the Annual Report to ensure that market value is reflected in our NTA valuation.

Figure 6.3 summarises the balance sheet of Gas2Grid per Annual Report as at 30 June 2009, our adjustments and our NTA valuation.

Figure 6.3: NTA valuation of Gas2Grid

rigure 6.3; NTA valuation of Gas2G	Note /	Balance	Low	High	Median
	Section	Sheet -30	NTA	NTA	NTA
	Ref.	June 09	Valuation	Valuation	Valuation
		\$'000	\$'000	\$'000	\$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	Note 1	784	1,324	1,324	1,324
Trade and other receivables		132	132	132	132
Other financial assets		3	3	3	3
Total Current Assets		919	1,459	1,459	1,459
NON-CURRENT ASSETS					
Other financial assets		-	-	-	-
Plant and equipment		3	3	3	3
Exploration expenditure and	Note 2		10,300	15,300	10,800
rights Total Non-Current Assets		6,018 <b>6,021</b>	10,300	15,300	10,803
TOTAL ASSETS		6,939	11,762	16,762	12,262
TOTAL ASSETS		0,939	11,762	10,702	12,202
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	Note 3	338	153	153	153
Total Current Liabilities	Note 5	338	153	153	153
Total Current Liabilities		330	133	133	133
NON-CURRENT LIABILITIES					
Deferred tax liabilities		1,607	1,607	1,607	1,607
Trade and other payables	Note 3	189	-	-	-
Total Non-Current Liabilities	Note 5	1,796	1,607	1,607	1,607
TOTAL LIABILITIES		2,134	1,760	1,760	1,760
NET ASSETS		4,806	10,002	15,002	10,502
		,	,	,	,
Less: Value of Gas2Grid Options	Note 4/		902	498	700
,	Section 7		902		700
Value of Gas2Grid Shares			9,099	14,504	9,802
V 1 60 00 1151					
Number of Gas2Grid Shares on issue	Note 3		183,059	183,059	183,059
issue					
Value per Gas2Grid Share		_	0.050	0.079	0.054
. a.a. per ouszonia snare			0.030	0.077	0,037

Source: Gas2Grid FY09 Annual Report and BDO analysis

Note 1: The cash balance is per Gas2Grid's Mining Exploration Entity Quarterly Report for the quarter ended 30 September 2009.

Note 2: Mulready Consulting has valued Gas2Grid's properties at between \$10.3 million and \$15.3 million with an optimal value of \$10.8 million. The optimal valuation is towards the lower end of the valuation range assessed by Mulready Consulting as greater reliance has been placed on the recent commercial transaction valuation of SC44.



Mulready Consulting's report has been prepared in accordance with the Valmin Code and is attached at *Appendix F*.

- Note 3: Gas2Grid's Annual General Meeting was held on 27 November 2009. At this meeting Gas2Grid Shareholders approved the issue 3,242,188 new Gas2Grid Shares to Mr Dennis Morton and 2,597,656 new Gas2Grid Shares to Mr David Munns as payment of unpaid directors' fees. As a result there are now 183,059,332 Gas2Grid Shares on issue while Gas2Grid's liabilities in relation to directors' fees have reduced by \$373,750.
- Note 4: The NTA valuation represents the value of all Gas2Grid Securities on issue, including options. In order to determine the value of Gas2Grid Shares we have deducted the value of Gas2Grid Options from the NTA valuation. Gas2Grid Options have been valued at Section 7 of this Report. The value of the Gas2Grid Options used in the median NTA valuation is the median of the high and low Gas2Grid Option valuations.

#### 6.4 Conclusion as to Value of Gas2Grid Shares

Based on the ASX and NTA valuations at Sections 6.2 and 6.3, we have determined the value of Gas2Grid's shares as follows.

Figure 6.4: Valuation of Gas2Grid Shares

Valuation of Gas2Grid Shares	Section	Low \$	High \$
ASX Valuation	6.2	0.060	0.064
NTA Valuation	6.3	0.050	0.079
Preferred Valuation		0.054	0.064
Gas2Grid Shares on issue		183,059,332	183,059,332
Value of 100% of Gas2Grid's Shares		9,885,204	11,715,797

Source: BDO Analysis

We have determined our valuation of Gas2Grid Shares after considering the following:

- Although lightly traded, Gas2Grid's Shares have traded in a stable range for the majority of the 90 days prior to 14 October 2009. This provides a reasonable indication of the price of Gas2Grid's Shares;
- Gas2Grid's NTA valuation represents the market value of Gas2Grid's tangible assets and provides a floor for any going concern valuation of Gas2Grid; and
- Ordinarily, in a takeover situation, RG111 requires fairness to be assessed assuming 100% ownership of the target. Investment fundamentals dictate that the value of 100% of a company is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings, which results in a premium being paid for control of a target. However, in the case of the Schemes, the transaction being undertaken is a scrip for scrip merger, with minority shareholders in each entity becoming minority shareholders in the combined entity. As a result, there is no change of control impact on minority shareholders. Accordingly, we do not consider it appropriate to adopt a premium for control in our valuation of Gas2Grid Shares.



# 7 Valuation of Gas2Grid Options

As detailed at Section 3.3, there are 38,584,422 Gas2Grid Options on issue. The Gas2Grid Options have an exercise price of 8 cents and expire on 30 November 2010.

Under the Schemes, Orion will acquire 100% of the Gas2Grid Options.

#### 7.1 Options Valuation

We have adopted the Binomial Option Pricing Model to determine the value of Gas2Grid Options. The Binomial Option Pricing Model requires consideration of the following variables:

- Exercise price of the option;
- Current valuation of the underlying stock;
- Volatility of underlying stock;
- Time to expiry;
- · Risk-free rate of return; and
- · Dividend rate of the underlying stock.

Tables 7.1 summarises the key information for the Gas2Grid Options.

Figure 7.1: Terms of Gas2Grid Options

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	7.1.1	0.08
Expiry Date	7.1.2	30 November 2010
Time to Expiry	7.1.3	1 year
Underlying Share Price (\$)	7.1.4	0.054 to 0.064
Volatility (%)	7.1.5	90% - 110%
Risk free Rate of Return (%)	7.1.6	4.15%
Dividend Rate (%)	7.1.7	Nil

Source: BDO Analysis and Management

#### 7.1.1 Exercise Price

The exercise price is the price at which the option allows the optionholder to purchase shares. The exercise price of the Gas2Grid Options is \$0.08.

### 7.1.2 Expiry Date

The options expire on 30 November 2010.

### 7.1.3 Time to Expiry

The time to expiry is the difference in years between the Report date and the expiry date. The time to expiry as at the Report date is approximately 12 months.

# 7.1.4 Underlying Share Price

We have valued Gas2Grid Shares at Section 6.4 above. We have used the valuation range of \$0.054 to \$0.064 in determining the value of the Gas2Grid Options.



#### 7.1.5 Volatility

Volatility is a measure of the degree to which an underlying asset's market price changes during a period of time. In order to determine an appropriate volatility to apply to the value of the Gas2Grid Options we have considered the observed standard deviation of returns on Gas2Grid Shares over the 12 month period to 14 October 2009.

The volatility of Gas2Grid's Shares after the date of the announcement of the Schemes may have been impacted by factors unique to a takeover situation and can therefore not be relied upon as an accurate indication of the true underlying volatility of Gas2Grid Shares.

#### 7.1.6 Risk Free Rate

The risk free rate of return for the Gas2Grid Options has been based on the 1-Year Government Bond Rate.

#### 7.1.7 Dividend Rate

Gas2Grid is an exploration company and does not have a history of paying dividends. We have assumed a dividend rate of zero for the purposes of the option valuation.

#### 7.2 ASX Listed Price

The Gas2Grid Options listed on the ASX on 9 December 2008. However there have been no trades of the Gas2Grid Options since they listed. Accordingly, we are unable to consider the ASX pricing in assessing our value of the Gas2Grid Options.

#### 7.3 Conclusion as to Value of Gas2Grid Options

Based on the binomial valuation at Sections 7.1, we have determined the value of Gas2Grid's Options as follows.

Figure 7.3: Valuation of Gas2Grid Options

Valuation of Gas2Grid Options	Section	Low \$	High \$
Value per Gas2Grid Option	7.1	0.013	0.023
Gas2Grid Options on Issue	3.3	38,584,422	38,584,422
Total Value of Gas2Grid Options		498,023	902,025

Source: BDO Analysis



# 8 Valuation of Orion Shares

#### 8.1 Overview

As consideration for the acquisition of 100% of Gas2Grid's Shares, Orion will issue 1 new Orion Share for every 2.25 Gas2Grid Shares. Gas2Grid has 183,059,332 shares on issue. Accordingly, Orion will issue 81,359,703 new Orion Shares as consideration for 100% of the Gas2Grid Shares.

#### 8.2 ASX Valuation

Figure 8.2a illustrates the monthly average trading prices and volumes in Orion Shares for 12 months to 14 October 2009, the last day prior to the announcement of the Schemes.

14,000,000 0.16 0.14 12,000,000 0.12 10,000,000 0.10 8,000,000 0.08 6,000,000 0.06 4,000,000 0.04 2,000,000 0.02 0.00 Jan-09 May-09 60 0ct Sep ■ Total monthly volume traded on-market Weighted average on-market monthly share price

Figure 8.2a: 12 months trading activity of Orion Shares to 14 October 2009 (monthly basis)

Source: Bloomberg and BDO analysis of share price data

The price of Orion Shares from 15 October 2008 to 14 October 2009 has ranged from a high of \$0.21 on 26 March 2009 to a low of \$0.035 on 27 October 2008.

Figure 8.2b provides a detailed analysis of the 90 days trading up to and including 14 October 2009.

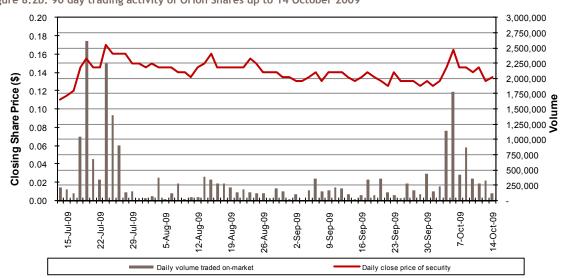


Figure 8.2b: 90 day trading activity of Orion Shares up to 14 October 2009

Source: Bloomberg and BDO analysis of share price data



We have also calculated the VWAP of Orion Shares for 10, 30, 60 and 90 day periods up to and including 14 October 2009.

Figure 8.2c: Orion weighted average Orion Share price

	14 October 2009	10 Days	30 Days	60 Days	90 Days
Closing Price (\$)	0.135				
VWAP (\$)		0.149	0.143	0.149	0.139

Source: BDO analysis of Orion Share price data

The above weighted average prices are prior to the announcement of the Schemes.

#### 8.2.1 Liquidity

Our analysis indicates that Orion has traded 25.12% of its free float over the 90 trading days prior to and including 14 October 2009 (in our assessment of Orion's free float shares, we have excluded Shares held by ESG, directors and related parties, as these shares are either in escrow or not traded frequently).

Figure 8.2d indicates a reasonably high level of liquidity in Orion's free float shares prior to and including 14 October 2009.

Figure 8.2d: Free float trading

	No. of Shares
Number of shares on issue	155,000,000
Number of shares controlled by directors and related parties	41,420,000
Free float	113,580,000
Number of shares traded over 90 trading days prior to 14 October 2009	28,534,425
% of free float traded	25.12%
Annualised	73.14%

Source: Bloomberg and BDO analysis of share price data

#### 8.2.2 ASX Market Price Valuation Summary

Figure 8.2e indicates the assessed valuation range for Orion based on an ASX market based pricing methodology. In adopting our ASX market price valuation, we have considered Orion's 10, 30, 60 and 90 day VWAPs which provide a reasonable indication of Orion's Share price in the medium term prior to the announcement of the Schemes.

Figure 8.2e: ASX Valuation of Orion Shares

	Low \$	High \$
ASX market price valuation	0.140	0.150
Source: BDO analysis		

# NTA Valuation

8.3

As detailed in Section 5, the NTA methodology has been selected as an appropriate valuation methodology to value Orion as at the date of this Report.

The net assets of Orion as at 30 June 2009, as disclosed in Orion's Annual Report form the basis of our assessment of the NTA valuation of Orion. Under the NTA methodology, all assets and liabilities of the entity are valued at market value and this combined market value forms the basis for the entity's valuation. Accordingly, we have made adjustments to certain balances presented in the Annual Report to ensure that market value is reflected in our NTA valuation.



Figure 8.3 summarises the balance sheet of Orion per the Annual Report as at 30 June 2009 and our NTA valuation.

Figure 8.3: NTA valuation of Orion Shares

Figure 8.3: NTA valuation of Orion S					AA 12-
	Report	Balance	Low	High	Median
	Section	Sheet	NTA	NTA	NTA
	Ref.	\$'000	Valuation	Valuation	Valuation
			\$'000	\$'000	\$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	Note 1	12,770	12,527	12,527	12,527
Inventory		198	198	198	198
Other current assets		124	124	124	124
Total Current Assets		13,092	12,849	12,849	12,849
NON-CURRENT ASSETS					
Exploration and evaluation		1,676			
expenditure	Note 2	1,070	5,100	9,400	7,700
Property, plant and equipment	11000 2	181	181	181	181
Total Non-Current Assets	_	1,857	5,281	9,581	7,881
TOTAL ASSETS	_	14,949	18,130	22,430	20,730
TOTAL ASSLIS		14,747	10,130	22,430	20,730
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables		188	188	188	188
Provisions		15	15	15	150
Total Current Liabilities	_	203	203	203	203
TOTAL LIABILITIES	_	203	203	203	203
	_				
NET ASSETS	-	14,746	17,927	22,227	20,527
Less: Value of Existing Orion	Note 3/				
Options on issue	Appendix				
•	E		3,218	1,607	2,413
Value of Orion Shares			14,709	20,619	18,114
Number of Orion Shares on issue			155,000	155,000	155,000
number of Orion Shares on issue			133,000	133,000	133,000
Value per Orion Share	00		0.095	0.133	0.117

Source: Orion FY09 Annual Report and BDO analysis

Note 1: The cash balance is per Orion's Mining Exploration Entity Quarterly Report for the quarter ended 30 September 2009.

Note 2: Mulready Consulting has valued Orion's properties at between \$5.1 million and \$9.4 million, with an optimal valuation of \$7.7 million.

Mulready Consulting's report has been prepared in accordance with the Valmin Code and is attached at Appendix F.

Note 3: The NTA valuation represents the value of all Orion equity securities on issue, including options. In order to determine the value of Orion Shares we have deducted the value of Existing Orion Options from the NTA valuation. Existing Orion Options have been valued at *Appendix E* of this Report. The value of the Existing Orion Options used in the median NTA valuation is the median of the high and low Existing Orion Option valuations.



#### 8.4 Conclusion as to Value of Orion Shares

Based on the ASX and NTA valuations at Sections 8.2 and 8.3, we have determined the value of the 81,359,703 Orion Shares to be issued to Gas2Grid shareholders as consideration as follows.

Figure 8.4: Valuation of Orion Shares to be issued

Valuation of Orion Shares to be issued	Section	Low \$	High \$
ASX Valuation	8.2	0.140	0.150
NTA Valuation	8.3	0.095	0.133
Preferred Valuation of Orion Shares		0.125	0.150
Number of Orion Shares to be issued	Note 1	81,359,703	81,359,703
Value of Orion Shares to be issued		10,169,963	12,203,955

Source: BDO Analysis and Management

Note 1: Calculated as 183,059,332 Gas2Grid Shares divided by 2.25

In determining our valuation of the Orion Shares to be issued as consideration we have considered:

- Orion's shares are reasonably liquid, creating a sufficiently deep market that enables ASX pricing to provide a meaningful market valuation of Orion's Shares; and
- Orion's NTA valuation represents the market value of Orion's tangible assets and provides a floor for any valuation of Orion.

# 9 Valuation of Orion Options

As consideration for the acquisition of 100% of Gas2Grid's options, Orion will issue to Gas2Grid optionholders 1 New Orion option for every 2.25 Gas2Grid Options held. There are 38,584,422 Gas2Grid Options on issue. Orion will therefore issue 17,148,632 Orion Options as consideration for 100% of the Gas2Grid Options.

#### 9.1 Binomial Valuation

We have adopted the Binomial Option Pricing Model to determine the value of the Orion Options. The Binomial Option Pricing Model requires consideration of the following variables:

- · Exercise price of the option;
- Current valuation of the underlying stock;
- Volatility of underlying stock;
- Time to expiry;
- Risk-free rate of return; and
- Dividend rate of the underlying stock.



Tables 9.1 summarises the key information for the Orion Options.

Figure 9.1: Terms of Orion Options

Terms/Valuation Inputs	Section	Terms/Valuation Inputs
Exercise Price (\$)	9.1.1	0.18
Expiry Date	9.1.2	30 November 2010
Time to Expiry	9.1.3	1 year
Underlying Share Price (\$)	9.1.4	0.125 - 0.150
Volatility (%)	9.1.5	90% - 100%
Risk free Rate of Return (%)	9.1.6	4.15%
Dividend Rate (%)	9.1.7	Nil

Source: BDO Analysis and Management

#### 9.1.1 Exercise Price

The exercise price is the price at which the option allows the optionholder to purchase shares. The exercise price has been set at \$0.18.

### 9.1.2 Expiry Date

The options expire on 30 November 2010.

### 9.1.3 Time to Expiry

The time to expiry is the difference in years between the Report date and the expiry date. The time to expiry as at the Report date is approximately 12 months.

#### 9.1.4 Underlying Share Price

We have valued the Orion Shares at Section 8.4 above. We have used the valuation range of \$0.125 to \$0.150 in determining the value of the Orion Options.

### 9.1.5 Volatility

Volatility is a measure of the degree to which an underlying asset's market price changes during a period of time. In order to determine an appropriate volatility to apply to the value of the Orion Options, we have considered the observed standard deviation of returns on Orion Shares over the 12 month period to 14 October 2009.

The volatility of Orion's Shares after the date of the announcement of the Schemes may have been impacted by factors unique to a takeover situation and can therefore not be relied upon as an accurate indication of the true underlying volatility of Orion Shares.

#### 9.1.6 Risk Free Rate

The risk free rate of return for the Orion Options has been based on the 1-Year Government Bond Rate.

#### 9.1.7 Dividend Rate

Orion is an exploration company and does not have a history of paying dividends. We have assumed a dividend rate of zero for the purposes of the option valuation.



### 9.2 Value of Orion Options

Based on the binomial option valuation at Section 9.1, we have valued the Orion Options to be issued to Gas2Grid optionholders as consideration as follows.

Figure 9.2: Valuation of Orion Options

Valuation of Orion Options	Section	Low \$	High \$
Value per Orion Option	9.1	0.031	0.051
Orion Options to be issued	Note 1	17,148,632	17,148,632
Valuation of consideration		529,833	874,603

Source: BDO Analysis

Note 1: Calculated as 38,584,422 Gas2Grid Options divided by 2.25

# 10 Fairness

A comparison of the value of 100% of the Gas2Grid Securities to the consideration offered is provided in Figure 10.1.

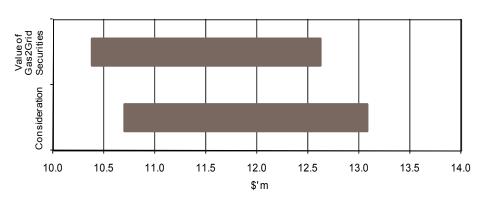
Figure 10.1: Comparison of value of Gas2Grid Securities to consideration offered

	Section	Low \$	High \$
100% of Gas2Grid Shares	6.4	9,885,204	11,715,797
100% of Gas2Grid Options	7.3	498,023	902,095
Total value of Gas2Grid Securities		10,383,227	12,617,892
Orion Shares to be Issued as consideration	8.4	10,169,963	12,203,955
Orion Options to be issued as consideration	9.2	529,833	874,603
Total value of consideration		10,699,796	13,078,559

Source: BDO Analysis

This comparison is also shown graphically in Figure 10.2.

Figure 10.2: Graphical comparison of value of Gas2Grid Securities to consideration offered



Source: BDO Analysis

As demonstrated above, the value of Gas2Grid Securities substantially overlap the consideration being paid to the Gas2Grid shareholders and optionholders. Based on this, the Proposal is considered fair to Orion Shareholders.



# 11 Reasonableness

RG111 considers an offer to be reasonable if:

- the offer is fair; or
- despite not being fair, but considering other significant factors, shareholders should approve the schemes.

Given our conclusion that the Proposal is fair, the Proposal is reasonable. Notwithstanding, in accordance with our basis of evaluation (Section 2.2) we have investigated other significant factors to which Orion Shareholders might give consideration in relation to the Proposal as set out in the following advantages and disadvantages.

### 11.1 Advantages of the Proposal

Figure 11.1 sets out potential advantages to the Orion Shareholders if the Proposal proceeds.

Figure 11.1: Advantages to Orion Shareholders of the Proposal

Advantage	Description
Access to an expanded and more diverse range of projects	The Proposal provides Orion Shareholders with exposure to Gas2Grid's exploration assets in Philippines, France and Western Australia. It is intended that a drilling campaign in relation to the Philippines' property be undertaken in the next 12 months. These assets complement Orion's existing assets in NSW.
Increase size and potential liquidity	After the Schemes are implemented, the merged entity will have approximately 240 million shares on issue.  The increased number of shares together with the increased scale and size could potentially increase the profile of the merged entity and the liquidity in trading of its shares.  This represents an advantage to Orion Shareholders.
Expertise of Gas2Grid director	After the Schemes are implemented, the current chairman of Gas2Grid, David Munns, will join the Orion board as a non executive director. Dennis Morton is a director of both Gas2Grid and Orion.  David Munns will bring extensive experience in drilling and engineering operations, particularly in relation to South East Asia and the Philippines, to the Orion board.  This represents an advantage to Orion Shareholders.

Source: BDO Analysis and Management



#### 11.2 Disadvantages of the Proposal

Figure 11.2 sets out potential disadvantages to the Orion Shareholders if the Proposal proceeds.

Figure 11,2: Disadvantages to Orion Shareholders of the Proposal

rigare 11,2, Disadvantages to orion	
Disadvantage	Description
Shareholding Dilution	After the Schemes are implemented, an additional approximately 81 million Orion Shares will be issued to Gas2Grid shareholders.  As a result, the voting power of current Orion Shareholders will reduce.
	This may represent a disadvantage to those Orion Shareholders who wish to maintain their respective voting power in Orion.
Obligation to meet the requirements of Gas2Grid licences	Orion will be required to fund ongoing exploration commitments for each of the Gas2Grid licenses. This will reduce the cash Orion has available for Orion to spend on its own licenses. Please refer to Section 3.2 and the Mulready Consulting report at <i>Appendix F</i> for further details on Gas2Grid's licenses.

Source: BDO Analysis and Management

#### 11.3 Position of Orion Shareholders if Proposal does not Proceed

In accordance with our basis of evaluation set out in Section 2.2, we have also considered the position of Orion Shareholders if the Proposal does not proceed. If the Proposal does not proceed, the proposed merger between Orion and Gas2Grid will not occur. Orion will continue to apply its cash resources towards exploring its NSW licenses and other opportunities.

# 12 Evaluation of Proposal

Based on our assessment of the fairness of the Proposal at Section 10 and the reasonableness issues set out in Section 11, we have concluded that the Proposal is fair and reasonable to Orion Shareholders whose votes on the Proposal are not to be disregarded.

# 13 Qualifications

BDO has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this Report were David McCourt and Vera Baumgartner of BDO. They have significant experience in the preparation of independent expert's reports, valuations and merger and acquisitions advice across a wide range of industries in Australia.



# 14 Independence

BDO is entitled to receive a total fee of \$40,000 (excluding GST and reimbursement of out of pocket expenses) for completion of this Report. Except for this fee, BDO has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this Report.

BDO is wholly owned by BDO, a member of BDO International. Prior to accepting this engagement BDO considered its independence with respect to Orion and Gas2Grid, and any of their respective associates with reference to the ASIC's RG112 "Independence of Experts". In BDO's opinion it is independent of Orion, Gas2Grid and their respective associates.

BDO do not have at the date of the Report, and have not had within the previous two years, any shareholding in or other relationship with Orion, Gas2Grid or any of their respective associates.

A draft of this Report was provided to Orion and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review.

# 15 Disclaimers And Consents

This Report has been prepared at the request of Orion for inclusion in the Explanatory Notes which will be sent to all Shareholders. The independent directors of Orion engaged BDO to prepare an independent expert's report to consider the Proposal on behalf of Shareholders.

BDO hereby consents to this Report being included in the above Explanatory Notes. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO.

BDO takes no responsibility for the contents of the Explanatory Notes other than this Report.

BDO has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of Orion or Gas2Grid. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

With respect to taxation implications it is recommended that individual shareholders obtain their own taxation advice, in respect of the Proposal, tailored to their own particular circumstances. Furthermore, the advice provided in this Report does not constitute legal or taxation advice to the shareholders of Orion, or any other party.

The taxation implications addressed are based on the Income Tax Assessment Act 1997 (Cth) (as amended), the Income Tax Assessment Act 1936 (Cth) (as amended), and the established interpretations of those Acts at the date of this Report.

BDO has also considered and relied upon independent geological valuations for licences held by Orion and Gas2Grid prepared by Mulready Consulting.

The valuers engaged for the geological valuations, Mulready Consulting, possess the appropriate qualifications and experience in the property industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuations are appropriate for this Report. We have received consents from the valuers for the use of their valuation reports in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO has no obligation to update this Report for events occurring subsequent to the date of this Report.



Tel: +61 2 9286 5555 Fax: +61 2 9286 5599 www.bdo.com.au Level 19,2 Market Street Sydney NSW 2000 GPO Box 2551, Sydney NSW 2001 Australia

Appendix A

### FINANCIAL SERVICES GUIDE

Dated 22 December 2009

BDO Securities (NSW-VIC) Pty Ltd ABN 82 065 203 492 ("BDO Securities (NSW-VIC)" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

#### 1 FINANCIAL SERVICES GUIDE

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees. This

The FSG includes information about:

- · Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 222438
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice:
- Any relevant associations or relationships we have: and
- Our complaints handling procedures and how you may access them.

#### 2 FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide general financial product advice to retail and wholesale clients on securities and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

#### 3 GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

# 4 FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement.

Except for the fees referred to above, neither BDO Securities, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

#### 5 REMUNERATION OR OTHER BENEFITS RECEIVED BY OUR EMPLOYEES

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

#### 6 REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

#### 7 ASSOCIATIONS AND RELATIONSHIPS

BDO Securities is a wholly owned subsidiary of BDO (NSW-VIC) Pty Ltd, which is a member of an Australian association of independent accounting and management consulting firms trading under the name of "BDO".

From time to time BDO Securities or BDO and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

#### 8 INDEPENDENCE

BDO Securities is independent of the entity that engages it to provide a report. The guidelines for independence in the preparation of reports are set out in the Regulatory Guide 112 issued by the Australian Securities and Investments Commission in October 2007. BDO Securities operates independently of the other members of BDO International in Australia.

#### 9 COMPLAINTS RESOLUTION

#### 9.1 Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Securities, GPO Box 2551, Sydney NSW 2001.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

#### 9.2 REFERRAL TO EXTERNAL DISPUTE RESOLUTION SCHEME

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOS"). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Securities is a member of FOS (Member Number 11281).

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited GPO Box 3 MELBOURNE VIC 3001

Toll free: 1300 78 08 08 Facsimile: (03) 9613 6399

#### 10 CONTACT DETAILS

You may contact us using the details set out at the top of our letterhead of this FSG.



# Appendix B **Sources of Information**

BDO has relied upon the following information for the purposes of this Report:

- a) Notice of General Meeting and Explanatory Notes dated 22 December 2009;
- b) Annual Reports for Gas2Grid and Orion for the years ended 30 June 2008 and 2009;
- c) Quarterly Activities and Cash Flow Reports for Gas2Grid and Orion for 30 September 2009;
- d) Independent Geologist Report prepared by Mulready Consulting Services Pty Limited independent geologist;
- e) Bloomberg;
- f) Discussions with Management; and
- g) Publicly available information including ASX announcements.



#### Appendix C

#### **Business and Asset Valuation Methodologies**

#### Capitalisation of FME

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach the most commonly applied valuation technique and is particularly applicable to businesses with relatively steady growth histories and forecast, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as EBIT or EBITDA. The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

#### **DCF**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate. DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### **NTA**

NTA is usually appropriate where the majority of assets consist of cash or passive investments. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall NTA valuation.

#### FMD

The FMD methodology applies particularly to minority holdings in private and unlisted public companies. FMD is similar in methodology to the FME and requires an estimation of the future maintainable dividends, a required rate of return and expected rate of dividend growth. While the use of benchmark methods is unwise in isolation, they can be helpful in providing a comparison or supporting valuation to the primary valuation methodology used.

#### **NRV**

NRV is usually appropriate when an asset or business is to be sold or wound up. The NRV should provide a realistic indication of the value that could be obtained in the event of an orderly realisation of assets.

#### **Quoted Market Price Basis**

Another alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed shares. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a share displays regular high volume trading, creating a "deep" market in that share.



#### Appendix D

### **Option Valuation Methodologies**

The valuation of an option is a function of the price of the underlying share to which the option may convert, the remaining life of the option, the exercise price, medium term interest rates and the anticipated yield of the underlying share.

The price of an option is the sum of its intrinsic value and its time value. Intrinsic value is based on the difference between the option's exercise price and the current price of the underlying instrument and time value is the residual value of the options premium above any intrinsic value.

An option can either be American style or European style:

- American style options can be exercised by the holder at any time from the date of purchase up until (and including) expiry date.
- European style options can be exercised by the holder only on the specified expiry date.

Methodologies commonly used for valuing options are detailed below.

#### **Binomial Trees Methodology**

This options valuation technique involves plotting possible paths that might be followed by the price of the underlying stock over the life of the option. The outcomes of the movements in the share price are discounted back to present value using the risk free rate.

#### Black & Scholes Option Pricing Methodology

The Black & Scholes Option Pricing Model is a formulaic approach which assumes that the options are European and considers the following variables:

- Exercise price of the option
- Current price of the underlying stock
- · Volatility price of the price of the underlying stock
- · Time to expiry of the option
- · Risk free rate of return
- · Dividends paid on the underlying stock



Appendix E Valuation of Existing Orion Options

	Tranche 1		Tranc	Tranche 2		Tranche 3	
	Low	High	Low	High	Low	High	
Spot Price (\$)	0.125	0.150	0.125	0.150	0.125	0.150	
Exercise Price(\$)	0.300	0.300	0.300	0.300	0.130	0.130	
Expiry Date	30/09/2012	30/09/2012	30/09/2010	30/09/2010	4/07/2011	4/07/2011	
Time to Expiry	2.83	2.83	0.83	0.83	1.59	1.59	
Risk Free Rate	4.76%	4.76%	4.15%	4.15%	4.45%	4.45%	
Volatility	90%	110%	90%	110%	90%	110%	
Value per Option (\$)	0.048	0.073	0.012	0.025	0.055	0.079	
Options on Issue	4,250,000	4,250,000	115,000,000	115,000,000	450,000	450,000	
Total Value of Options(\$)	203,554	309,128	1,356,272	2,840,641	24,683	35,642	

	Tranche 4		Tra	Tranche 5		Total	
	Low	High	Low	High	Low	High	
Spot Price(\$)	0.125	0.150	0.125	0.150			
Exercise Price(\$)	0.120	0.120	0.150	0.150			
Expiry Date	20/03/2012	20/03/2012	23/07/2012	23/07/2012			
Time to Expiry	2.31	2.31	2.65	2.65			
Risk Free Rate	4.76%	4.76%	4.76%	4.76%			
Volatility	90%	110%	90%	110%			
Value per Option (\$)	0.068	0.094	0.065	0.091			
Options on Issue	250,000	250,000	100,000	100,000			
Total Value of Options(\$)	16,950	23,428	6,535	9,149	1,607,994	3,217,989	

Each of these tranches of options have been valued using the Binomial Option Pricing Model.

In relation to each of the inputs:

- The exercise price is the price at which the option allows the optionholder to purchase shares.
- The time to expiry is the difference in years between the Report date and the expiry date.
- We have valued the Orion Shares at Section 8.4 above. We have used the valuation range of \$0.125 to \$0.150 in determining the value of the Existing Orion Options.
- Volatility is a measure of the degree to which an underlying asset's market price changes during a period of time. In order to determine an appropriate volatility to apply to the value of the Existing Orion Options, we have considered the observed standard deviation of returns on Orion Shares over the 12 month period to 14 October 2009.
- The risk free rate of return for the Existing Orion Options has been based on the Government Bond Rate consistent with the time to expiry of the option.
- Orion is an exploration company and does not have a history of paying dividends. We have assumed a dividend rate of zero for the purposes of the option valuation.



Appendix F *Mulready Consulting Report* 



Tel: (03) 9855 9803 Fax: (03) 9855 8717 Mobile: 0409 006 550 Email: mulcon@bigpond.com

# INDEPENDENT VALUATION

# PETROLEUM INTERESTS OF

# **GAS2GRID LIMITED**

&

# **ORION PETROLEUM LIMITED**

MULREADY CONSULTING SERVICES PTY LTD

28<sup>th</sup> November 2009

# 28<sup>th</sup> November 2009

The Directors
BDO Securities (NSW-VIC) Pty Limited
GPO Box 2551
Sydney NSW 2001

cc. Independent Directors
Orion Petroleum Limited
Suite 303, Level3
10 Bridge Street
Sydney NSW 2000

Dear Sirs,

At your request I have prepared the following assessment of the value of the petroleum assets of Gas2Grid Limited ("Gas2Grid") and Orion Petroleum Limited ("Orion"). Currency is expressed in Australian\$ unless otherwise specified.

The results may be summarised as follows:

PERMIT	VALUATION	OPTIMAL
		VALUE
PEL 6	\$3-6.6 million	\$5 million
PEL 427	\$0.244 - \$0.33 million	\$0.24 million
PEL 455	\$1.25-\$1.35 million	\$1.3 million
PEL 428	\$0.195 million	\$0.195 million
PEL s 422 & 424	\$0.136-\$0.2 million	\$0.17 million
PEL 471	\$0.35-\$0.75 million	\$0.75 million
Total Orion Properties	\$5.175- \$9.425 million	\$7.659 million
	Say \$5.1-\$9.4 million	say \$7.7 million
EP 453	\$1.26 -\$2.25 million	\$1.8 million
St Griede Licence	\$3.5 million	\$3.5 million
SC 44	\$5.5-\$9.5 million	\$5.5 million
Total Gas2Grid Properties	\$10.26- \$15.25	\$10.8 million

#### NOTES:

This Report has been prepared in compliance with the requirements of the Valmin Code as revised 2005.

Properties have been valued where possible by means of reference to both work commitments or recent commercial transactions. In some instances recourse has been made to hypothetical farmin terms in order to provide a realistic value.

Yours truly

Jack Mulready.

B.Sc., B.A., Dip. Ed., F.Dip. RMIT, MGSA, MPESA, Certified APPG Geologist #5321



### **CONTENTS**

# SUMMARY

- 1. INTRODUCTION
- 2. PETROLEUM ASSETS
- 3. WORK COMMITMENTS

**A Orion Work Commitments** 

PEL 6

PEL 427

**PEL 428** 

**PEL 455** 

PEL 422 & PEL 424

PEL 471

### **B** Gas2Grid Work Commitments

EP 453

SC 44

St Griede Licence

#### 4. PURPOSE OF VALUATION

#### 5. TENEMENTS

# A ORION PROPERTIES

PEL 6 Surat Bowen Basin NSW

PEL 427 Surat Bowen Basin NSW

PEL 455 Surat Bowen Basin NSW

PEL 428 Gunnedah Surat and Bowen Surat Basins NSW

PEL 422 Darling Basin NSW

PEL 424 Darling Basin NSW

PEL 471 Darling Basin NSW

### **B GAS2GRID PROPERTIES**

EP 453 Onshore Canning Basin W.A.

Service Contract 44, Cebu Island Philippines

St Griede Licence Aquitaine Basin, France

### 6. METHODOLOGY

A NPV, EMV

B Exploration Expenditure Commitment

C Recent Commercial Transactions

### 7. VALUATIONS

#### A ORION PROPERTIES

7.1 PEL 6

7.2 PEL 427

7.3 PEL 455

7.4 PEL 428

7.5 PEL 422

7.6 PEL 424

7.7 PEL 471

# **B GAS2GRID PROPERTIES**

7.8 EP 453

7.9 SC 44

7.10 St Griede Licence



- 8. SOURCES OF INFORMATION
- 9. TITLE
- 10. INSPECTION
- 11. PREVIOUS INDEPENDENT VALUATIONS
- 12. INDEPENDENCE
- 13. QUALIFICATIONS
- 14. COMPLIANCE
- 15. CONSENT
- 16. DATE OF REPORT
- 17. BIBLIOGRAPHY
- 18. GLOSSARY

### **FIGURES**

- 1 Gas2Grid Holdings Maps
  - Fig. 1(a) EP 453 Onshore Canning Basin W.A.
  - Fig. 1(b) SC 44 Onshore Visayan Basin, Cebu Island. Philippines
  - Fig. 1(c) St Griede Licence, Aquitaine Basin, France
- 2 Orion Petroleum Limited Acreage Holdings Map

#### **TABLES**

- 1 Orion Petroleum Acreage Portfolio
- 2 Gas2Grid Acreage Portfolio
- 3 PEL 6 Work Commitment
- 4 PEL 427 Work Commitment
- 5 PEL 455 Work Commitment
- 6 PEL 428 Work Commitment
- 7 PELs 422 and 424 Work Commitments
- 8 PEL 471 Work Commitment
- 9 EP 453 Work Commitment
- 10 Service Contract 44 Work Commitment
- 11 St Griede Licence Work Commitment
- 12 Summary of Valuations

# 1. INTRODUCTION

The Boards of each of Gas2Grid and Orion have agreed to, and voted to, merge their companies and assets. Under the merger proposal Orion will acquire Gas2Grid and merge that company into Orion. The proposed monetary terms for this take over and merger are the issuing of one (1) Orion share for every two and one quarter (2.25) Gas2Grid shares.



# Figure 1 Gas2Grid Holdings Maps

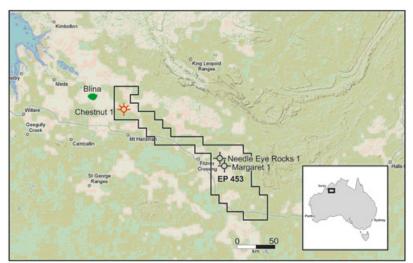


Fig. 1(a) EP 453 Onshore Canning Basin W.A.

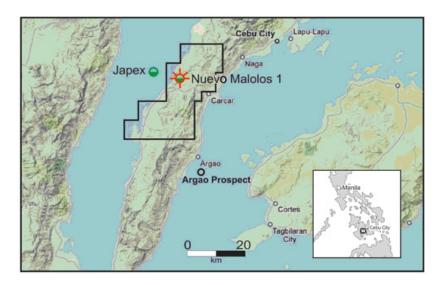


Fig. 1(b) SC 44 Onshore Visayan Basin, Cebu Island. Philippines

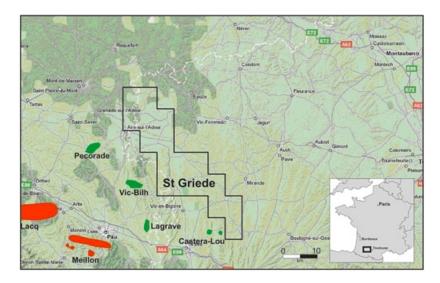
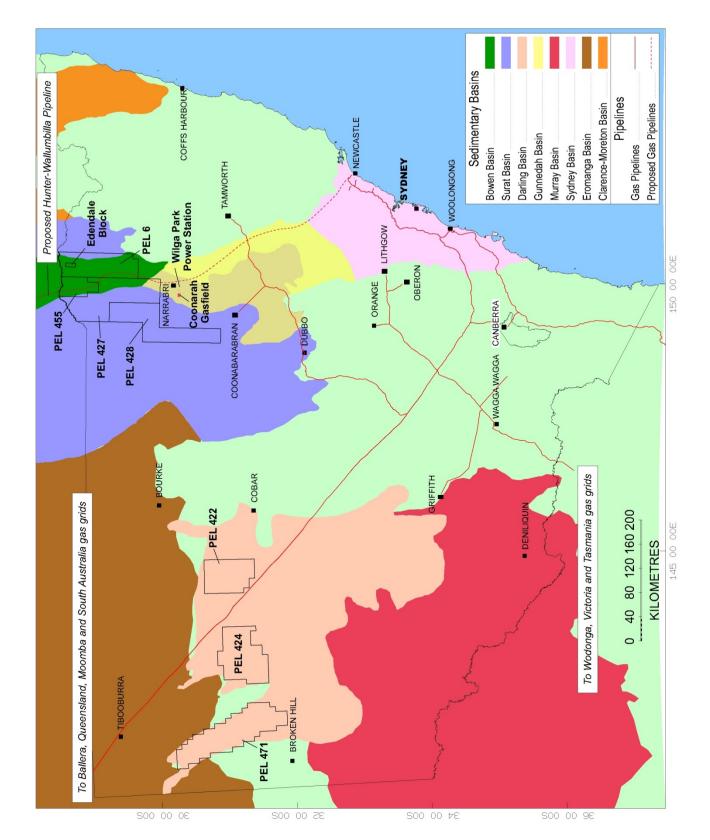


Fig. 1(c) St Griede Licence, Aquitaine Basin, France







### 2. PETROLEUM ASSETS

**Orion Petroleum** holds a number of petroleum assets in Australia. The interests held are summarised in the following table

**TABLE 1 Orion Petroleum Acreage Portfolio** 

COUNTRY	PERMIT	BASIN	INTEREST HELD	CBM JV INTEREST <sup>#</sup>
Australia	PEL 6 Edendale Sub-block	Surat Bowen NSW	95%**	20%**
	PEL 6 Remainder	Surat Bowen NSW	97.5%*	22.5%*
	PEL 427	Surat Bowen NSW	75%	25%
	PEL 455	Surat Bowen NSW	100%	100%
	PEL 428	Gunnedah NSW	60%	20%
	PEL 422	Darling NSW	100%***	
	PEL 424	Darling NSW	100%***	
	PEL 471	Darling NSW	100%	

<sup>#</sup> CBM interests post-completion of ESG farmin

Exploration equity in Orion's Bowen/Surat and Gunnedah/Surat tenements is complicated by the fact that two exploration joint ventures are operating in parallel in these blocks. The first is that of conventional hydrocarbon exploration, whilst the second is concerned with coal bed methane ('CBM' also known as 'CSG' = coal seem gas) drainage exploration. Orion is a member of both joint venture groups, but with different equity holdings. Orion is the exploration operator for conventional exploration but not that for CBM exploration. There is no CBM exploration in Orion's Darling Basin properties.

**Gas2Grid** holds interests in 3 permits, one in Australia, one in the Philippines and one in France.

**TABLE 2 Gas2Grid Acreage Portfolio** 

COUNTRY	PERMIT	BASIN	INTEREST HELD
Australia	EP 453	Onshore Canning WA	100%*
Philippines	Service Contract 44	Onshore Cebu Island	100%
France	St Griede Licence	Aquitaine	50%

<sup>\*3%</sup> royalty to private interests



<sup>\* 3.5%</sup> royalty to private interests

<sup>\*\* 1.75%</sup> royalty to private interests

<sup>\*\*\* 8%</sup> royalty to third parties

# 3. WORK COMMITMENTS

# **A ORION WORK COMMITMENTS**

# TABLE 3

# PEL 6 NSW

YEAR	MINIMUM WORK COMMITMENT	EST. COST
2007	Geological & Geophysical Studies	Completed
	100 km 2D seismic	
2008	Drill 1 well (Willaroo-1)	Completed
2009	Application for renewal without relinquishment	
2010	100 km 2D seismic or 1 well	\$2.7-3.95
	Drill/test 3 coal seam gas("CBM") coreholes	million
2011	100 km 2D seismic or 1 well	\$2.2-2.9
	100 km seismic in southern PEL 6	million
2012	Geological & Geophysical Studies	\$1.0-1.45
	Drill 2 CBM coreholes or 100 km 2D seismic	million
2013	100 km 2D seismic	\$1.65-2.1
	Drill 2 CBM coreholes or 100 km 2D seismic	million

# **TABLE 4**

### **PEL 427 NSW**

YEAR TO	MINIMUM WORK COMMITMENT	EST. COST
5/2009	Drill 1 corehole (Moree-4)	Completed \$235,000
5/2010	75 km 2D seismic	\$700,000
5/2011	Drill 1 corehole	\$400,000

# TABLE 5

# **PEL 455 NSW**

YEAR TO	MINIMUM WORK COMMITMENT	EST. COST
7/2008	100 km 2D seismic (Dongelly Survey 2009)	Completed \$847,990
7/2010	Drill 1 well 50km seismic reprocessing	\$400,000



# **TABLE 6**

# **PEL 428 NSW**

YEAR TO	MINIMUM WORK COMMITMENT	EST. COST
9/2009	Geological & Geophysical Studies Seismic reprocessing	Completed
9/2010	Drill 1 well or equivalent seismic (Kurrabooma-1)	Completed
9/2011	To be determined in consultation with DII	

### **TABLE 7**

# PEL s 422 & 424 NSW

YEAR	MINIMUM WORK COMMITMENT	EST. COST
1/2008	Geological & Geophysical Studies	Completed
	P-Transient Electromagnetic Survey	\$100,000
1/2009	Geological & Geophysical Studies	\$40,000
1/2010	Geological & Geophysical Studies	\$30,000
	75 km seismic reprocessing	

### **TABLE 8**

# **PEL 471 NSW**

YEAR	MINIMUM WORK COMMITMENT	EST. COST
5/2010	Geological & Geophysical Studies	\$75,000
5/2011	55 km 2-D seismic	\$250,000

# **B** GAS2GRID WORK COMMITMENTS

# **TABLE 9**

# **EP 453**

YEAR TO	MINIMUM WORK COMMITMENT	EST. COST
1/2008	Seismic reprocessing	Completed
		\$100,000
1/2010	200k seismic or 1 well (pending)	\$600,000
1/2011	Technical studies	\$100,000
1/2012	1 well	\$300,000
1/2013	1 well	\$300,000



#### TABLE 10

# SC 44 Philippines

YEAR TO	MINIMUM WORK COMMITMENT	EST. COST
12/2007	Geochemical Survey	Completed
2008	Reservoir study	
2009	Workover of Nuevo Malolos-1 well	\$1,500,000
	100 km 2D seismic	
1/2011	Drill three wells	\$2,500,000
	Aero-gravity survey	

### **TABLE 11**

#### St Griede Licence

YEAR	MINIMUM WORK COMMITMENT	EST. COST
2008-09	Geological & Geophysical studies	\$1,000,000
2009-10	Airborne Gravity Survey	\$500,000
2010-11	400 km seismic	\$2,500,000
2011-13	Drill well to minimum depth 2500 m	\$3,000,000

### 4. PURPOSE OF VALUATION

This valuation report dealing with the petroleum assets of Gas2Grid Limited ("Gas2Grid") and Orion Petroleum Limited ("Orion") has been prepared for the purpose of assisting BDO Securities (NSW-VIC) Pty Ltd in preparing a fair and reasonable statement in relation to a proposed transaction by Orion to acquire the issued capital of Gas2Grid, in accordance with the requirements of the Australian Stock Exchange.

#### 5. TENEMENTS

Gas 2 Grid and Orion hold different styles of acreage portfolios. The former company's acreage is internationally oriented and is located predominately in producing basins or basins in which oil seeps are known and where oil recoveries have been made from wells sited by rudimentary positioning methods, such as surface mapping.

The latter company's portfolio is nationally focussed and is evenly split between basins with some hydrocarbon production and shows and a frontier basin in which only minor hydrocarbon indications are known from the subsurface.

### **A ORION PROPERTIES**

Central eastern Australia contains a large Permo-Triassic sedimentary complex of three basins, namely the Bowen in southern Queensland and far northern NSW, the Gunnedah in north-western NSW and the Sydney Basin in central NSW. Mesozoic Surat Basin section overlies the southern Bowen Basin and the Gunnedah Basin.



Orion has seven exploration properties in NSW. Two of these are in the Bowen/Surat Basin which contains the major gas and oil producing horizons in the Queensland sector of the basin. Another two are located in the correlative Gunnedah/Surat basin, whilst the remaining three are located in the frontier Darling Basin.

# PEL 6 (Onshore Bowen/Surat Basin, New South Wales)

The tenement overlies the southern portion of the Permo-Triassic Bowen Basin, which is productive of both oil and gas, across the State border in southern Queensland. The Bowen Basin sequence is overlain by prospective Surat Basin section, which is oil productive at Moonie and other fields in nearby southern Queensland. Indications of and minor recoveries of oil and gas have been made from either the Bowen and/or Surat Basin sequences of many of the wells drilled in and around PEL 6. These early wells were not valid crestal tests.

The Willaroo 1 well, a valid crestal test drilled in May 2008, encountered an oil saturated sand in the Late Permian Back Creek Formation. A drillstem test of this tight unit produced 4 barrels of high quality 39° API light oil. The 4 metre thick oil sand is interpreted to be filled to the spill point.

Robust seismically defined structural traps have been identified in the area of the Willaroo Structure, some up dip of Willaroo 1 in a domain where better quality reservoir development can reasonably be expected on sedimentological grounds. Orion plan to test the best of these prospects, Toenda, in the near future.

The chances of discovering producible hydrocarbons, of a conventional nature, in the northern portion of this permit are quite reasonable. None-the less it should be noted that 50 years of (admittedly spasmodic) exploration has failed to yield a commercial discovery to date.

The tenement also has appreciable coal bed methane (CBM) drainage potential and a farmin by Eastern Star Gas Limited (ESG) is presently being consummated. Preliminary exploration, the drilling of coreholes and the acquisition of seismic data, directed towards this potential has commenced and several areas have been high-graded.

CBM potential in the Permian aged Maules Creek and Triassic aged Moolayember Formations, respectively, have been recognized in the far south-east of the tenement.

More work needs to be undertaken to fully assess the CBM potential of PEL 6

A significant discovery of conventional gas, CBM or oil, all of which have a reasonable chance, in this tenement, should be marketable. Oil is always readily marketable and the proposed Hunter-Wallumbilla Gas Pipeline, for which some of the pipeline licences have been awarded, will pass through PEL 6, as well as Orion's other two tenements in the Bowen/Surat Basin and Gunnedah/Surat Basin acreage, PEL 427 and PEL 455 respectively.



# PEL 427 (Onshore Gunnedah/Surat Basins, New South Wales)

The Bowen and Surat Basins are productive of both oil and gas, whereas the Gunnedah and Sydney Basins produce CBM.

The CBM farm in operator, ESG, has completed the Moree 4 corehole, fulfilling the Year one work program and an earlier commitment of Orion as well as partially earning equity in the permit. Work is continuing on assessing recently acquired CBM field data.

The tenement has three corridors of CBM potential, the first in the north-west, of Cretaceous age, discussed in the previous sector. The second sector in the east and calibrated by the Moree 4 well has both Cretaceous and Triassic Moolayember Formation, as mentioned in the section on PEL 6. The third and probably the best area is located in the far south-east of the tenement, and it has Maules Creek Formation of the Gunnedah Basin CBM potential as calibrated by the Edgeroi 1 well, drilled by ESG in the adjacent tenement PEL 238, located adjacent to and immediately south of PEL 427. CBM exploration will be prioritized in the eastern portion of the tenement. The Maules Creek Formation net coal intersections are several times, in order of magnitude, of those of the Coreena- Moree Cretaceous aged coals.

Orion have advised their exploration efforts in the foreseeable future will not include conventional exploration.

The comments regarding markets and pipelines for PEL 6, apply equally to this tenement.

# PEL 455 (Onshore Bowen/Surat Basin, New South Wales)

Like PEL 6 the northern boundary of this tenement abuts the Queensland border and is an area from which several oil and gas shows have been encountered from non-optimally sited wells of both the Bowen and Surat Basin sequences. In a similar vein to PEL 6 an established petroleum system is operational in the northern sector, at least, of PEL 455, as confirmed by these oil and gas shows.

The OP09D (Dongelly) Seismic Survey recorded to investigate anomalies identified on a previously acquired Passive Transient Electro Magnetics (P-TEM) survey has confirmed the presence of the large Whalan Creek Prospect, a conventional oil and gas target. Potential undiscovered resource determinations, using geologically reasonable parameters, indicate that the structure could contain an undiscovered potential resource of order 20 MMbbls of oil in place in a Permian aged Back Creek Formation sandstone.

Investigative CBM studies have identified two areas of promise within the Cretaceous aged Coreena-Moree Coal Measures of the Surat Basin Sequence. The first area, in the south-east of the tenement, is calibrated by the Moree-4 CBM well, which was drilled in the central eastern portion of PEL 427. This prospective corridor is located in parts of PEL's 455 and 427 and the central western portion of PEL 6.

The second prospective area for Cretaceous CBM is located in the south-west, extending into PEL427, to the west. Not as much quantitative data is known about this corridor.



# PEL 428 (Onshore Gunnedah/Surat Basin and Bowen/Surat Basin, New South Wales)

This is the most south-western and least explored of Orion's four tenements in north-western NSW. Prior to the Kurrabooma 1 cored CBM well recently drilled by ESG in the permit, the only drilling that had been done were three stratigraphic wells drilled by the Geological Survey of NSW. No indications of hydrocarbons were reported from these stratigraphic wells, drilled quite a while ago.

Kurrabooma 1, located in the north-west of the permit, like Moree 4 in PEL 427, encountered a thin interval of Cretaceous aged Coreena-Moree (=Bungil-Coreena) coals. More work needs to be undertaken to assess the CBM potential of this tenement.

Seismic data recorded in 2007 was designed to address some fundamental exploration goals, namely;-

- To identify structural leads
- Delineate known leads
- Investigate the extent of Permian Gunnedah Basin deposition in the permit
- Extend sub-surface knowledge from well control in adjacent permits
- Investigate extent of CBM potential within permit

Work is progressing on this tenement in terms predominantly of CBM prospectivity. Orion have advised their exploration efforts in the foreseeable future will not include conventional exploration

# PEL 422 (Onshore Darling Basin New South Wales)

The Darling Basin in far western NSW is a sparsely explored frontier basin. Much of the drilling that has been conducted in the basin was done in the 1960's, in the first major wave of exploration in Australia. Much of the drilling was stratigraphic or sited on gravity or magnetic structures, hence it has little relevance to the basin's hydrocarbon prospectivity. Very little seismic data has been recorded and much of what has is low resolution reflection data. The techniques and equipment used in seismic acquisition, seismic processing data interpretation, drilling, logging and formation evaluation, whilst then the state of the art, are by today's standards quite rudimentary. Hence the basin has not been definitively evaluated.

The major attraction of the basin is that it is of essentially Devonian genesis and is a correlative of the Adavale Basin of central western Queensland, a productive basin. That basin contains the Gilmore Gas Field, It should be noted that oil has been recovered from an appraisal well in the Gilmore Field and that minor amounts of oil recovered from several exploration wells in central western Queensland, with drainage access to Devonian rocks, has been typed to Devonian source rocks. The basin is well sited with regards to infra-structure as the Moomba- Sydney gas pipeline

Much of the recent exploration in the basin has been reconnaissance geochemical sampling, which has very little relevance to the definitive siteing of exploration wells.

#

The last well Nyngynderry 1 drilled in the basin was spudded by Orion in 2008 in PEL 8 in the Blantyre Trough in the south of the basin. The well was plugged and abandoned without any significant hydrocarbons in the Snake Cave Formation at a depth of 2266 m kb. No indications of hydrocarbons were encountered whilst drilling, this was confirmed by post drill logging. No competent seals were encountered and the sandy section was tight and devoid of reservoir development.

As a result of this well Orion surrendered PEL 8, their acreage in the southernmost Sub-basin of the Darling Basin. Disappointingly no marine section was encountered. The results of this well do not contribute markedly to the basin's prospectivity, raising the risk of exploration in the Basin. However it is an areally large basin, and sedimentary patterns vary with distance from the paleo emergent areas.

No previous drilling has been undertaken in PEL 422, is located over the Nelyambo and most eastern of the Darling Basin sub-basins. The seismically defined Burramwood Prospect is ready to drill, although it would benefit from an additional seismic line to more accurately define the crest. However the existing seismic coverage proves that fault dependent structural closure is present. This prospect will require a deep and costly well to evaluate it. Burramwood is set up on the southwestern and up-thrown side block of a high angle reverse fault. The well will drill through a shallow very late high angle reverse fault above, but independent of the structural integrity, of the trap.

If successful this very large prospect could discover an undiscovered potential oil resource of some 350 MMbbls in place in the primary target, the Snake Cave Formation.

The large Kinindee Lead, which requires seismic delineation, is also present in this tenement, to the north-east of the Burramwood Prospect.

Given the lack of success in previous drilling, and more especially the results of the Nyngynderry-1 well in the former permit PEL 8, these prospects must be regarded as high risk.

# PEL 424 (Onshore Darling Basin, New South Wales)

The same general comments on the Darling Basin above apply to PEL 424.

This tenement overlies the Pondie Range Sub-basin in the north central sector of the basin. One prospect, Netallie, and three leads, Goona Goona, The Avenue and Polpah have also been identified in the north of the permit, and north of Netallie.

The prospect is sited on the northern and downthrown block of an east-west trending normal fault, and the crest is defined. The structure has been affected by later compressive faulting, which has amplified the closure and vertical relief of the structure. Netallie 1 will essentially twin, but penetrate, deeper section than the old Pondie Range 1 well. Pondie Range 1 did not penetrate the Snake Cave Formation, the primary target in the basin. The proposed well will intersect the Snake Cave Formation at a shallower depth than at Nyngynderry1. Deeper targets are also identified.



If successful this large prospect, which covers a huge area, could host significant hydrocarbons in the Snake Cave Formation, the primary target.

Again, given the lack of success in previous drilling, and more especially the results of the Nyngynderry-1 well in the former permit PEL 8, this prospect must be regarded as high risk.

# PEL 471 (Onshore Darling Basin, New South Wales)

The same general comments on the Darling Basin above apply to PEL 471

The Darling Basin is one of Australia's largest sedimentary basin covering approximately 100, 000 km<sup>2</sup>. It contains in the order of 12 km of sedimentary section of Silurian to Devonian age.

PEL 471 is located over the Bancannia Trough, the most westerly of the sub-basins located within the Basin. It is was awarded to Orion in May 2008 . This permit exhibits the most numerous and most significant hydrocarbon shows recorded from the basin.

Exploration currently, in the tenement, is at an early stage: however recently reprocessed seismic data shows the several leads, one of them being Jupiter North which is located up-dip of the previously drilled Jupiter 1 well, spudded in 1969. This well was not a valid structural test and no hydrocarbon shows are reported from the well. It reached total depth in the Late Devonian Snake Cave Formation. Marine sediments including evaporite, limestone, shale and glauconitic sandstones were intersected, these are correlated to the possible oil source interval reported from Bancannia 1.

Several leads are also identified in the north of the permit in the vicinity of Bancannia South 1, drilled in 1968. High gas detector readings, methane cut water and oil staining are reported from this well. Large intervals of porous and permeable section was also reported from the Late Devonian section of the well. Fluid inclusion and soil gas sampling indicate the presence of source rocks within the Darling Basin, particularly the Bancannia Trough (=Sub – basin).

The virtually unexplored Bancannia Sub-basin appears to be the most prospective and promising sector of the Darling basin. Organic Cambrian rocks are also known to be present in the Bancannia Trough.

Further detailed work is required in this tenement, however it appears to be the area of the Darling Basin most likely to produce a discovery, although the acreage is undoubtedly of high risk category.



# A GAS2GRID PROPERTIES Hydrocarbon Prospectivity and Recent Drilling Results

# **EP 453 (Onshore Canning Basin, Western Australia)**

This tenement, which covers 5,799 km<sup>2</sup>, was awarded jointly to Pobelo P/L and Budside P/L in January 2007, after a Native Title Access Agreement was successfully negotiated. In March 2008 Gas2Grid acquired a 100 percent working interest in this block in consideration for 6 million Gas2Grid shares. An over-riding royalty interest of 3 percent is held by private interests.

The tenement is located in the Fitzroy Sub-basin of the Canning Basin of onshore WA. This sub-basin sustains all of the Canning Basin's production. The block is located near to, and south-east of, the Blina Oil Field, the best performing Canning Basin oil field. Hence in the event of an oil discovery, infra-structure is nearby. A number of pinnacle reef structural targets have been identified, and are being mapped, on recently reprocessed 1980's seismic data.

The postulated targets are Late Devonian aged sandstones which exhibit better reservoir quality than does the previous targets, Devonian carbonates. Two such clastic units showed indications of non-commercial accumulations of gas in the Chestnut 1 well, drilled in 1994, which is located in EP 453.

It should be noted that in Australian terms the onshore Canning Basin is regarded as high risk exploration territory, yielding no commercial discoveries over the last 20+ years.

# SC 44 (Onshore Visayan Basin, Cebu Island, The Philippines)

Service Contract 44, which covers 750 km<sup>2</sup>, is located in the onshore sector of the Visayan Basin on the island of Cebu. The Visayan Basin, a Tertiary to Recent aged basin of back arc genesis, is one of sixteen sedimentary basins in the Philippines. It is centred on Cebu Island, with the onshore sector of the basin constituting thirty percent of the total basin, forming the island of Cebu. In a similar vein to most South-east Asian basins extensive structuring caused by thrusting is present in the Visayan Basin.

Like Indonesia, the Caucuses, parts of the Middle East, Mexico and North America, oil seeps were the harbinger of rudimentary drilling on Cebu. The first well was drilled beside the Toledo oil seep in the late 1800's and it produced several barrels of oil per day from a depth less than 268 metres. An appraisal well drilled approximately 0.5 km away also produced oil.

An appreciable amount of drilling, based only on seeps and surface mapping, was conducted, with many reports of oil flows, until the mid 1970's when the Chinese Petroleum Corporation (CPC) of Taiwan recorded some widely spaced seismic data. They then drilled several wells, some guite shallow, several of which encountered oil shows and minor recoveries. Some later drilling was undertaken by western companies with similar results. A total of 41 wells, of which 9 are located in SC 44, have been drilled in the onshore Visayan Basin. All of this exploration was



quite rudimentary and did not have the benefit of today's improved seismic, drilling and formation evaluation techniques, yet many reports of oil are recorded.

The most important wells are the Malolos 1-4 wells drilled in the area of SC 44 in the 1960's. Malolos 1, the deepest well at 2748 metres, flowed gas to surface at rates, reported to be as high as 12 MMCFD from several sandstone reservoirs within the Malubog and Toledo Formations, and the Maingit Clastics of the Barili Formation. These formations are of Early, Middle and Late Miocene age respectively. Oil was also recovered from the Malubog Formation. The drill stem charts of the tests are no longer available.

Gas2Grid twinned Malolos 1, with its good hydrocarbon intersections, with Nuevo Malolos 1 in 2006. Unfortunately the same drilling, caving washouts and plugging that occurred at Malolos 1 happened at Nuevo Malolos 1 and the well had to be abandoned above the Malubog Formation. In spite of the drilling difficulties and hole integrity excellent oil shows were encountered in Nuevo Malolos 1, excellent porosity and permeability was encountered in the reservoir sections, so good that the "sand pile" collapsed on drilling and plugged up the tool on testing.

Gas2Grid believe that the shows in Nuevo Malolos 1 were so good and that the near well bore damage was so great that the well warrants remedial work, such as nitrogen cleanout, coiled tubing work-over, side tracking or a small fracture stimulation. Any of these options are possible as Nuevo Malolos 1 is cased to total depth, 1945 metres. Gas2Grid plan to re-enter Nuevo Malolos 1 and if the proposed remedial activities are successful then to re-enter Malolos 1, which is also cased to a deeper total depth of 2748 metres.

This tenement appears to have potential for hydrocarbons, primarily oil production.

# St Griede Licence (onshore Aquitaine Basin, France)

The St Griede Licence, which covers an area of 1,238 kms² of the eastern onshore portion of the Aquitaine Basin of France, north and east of the city of Pau, was awarded to Gas2Grid and Gippsland Offshore Petroleum, in equal parts in April 2008. The tenement overlies the north-eastern portion of the basin, margin-ward of both oil and gas pools. Whilst no hydrocarbons have been discovered in the area of the St Griede Licence, the permit appears to be prospective and warrants further exploration.

Whilst the Mesozoic aged Aquitaine Basin is gas prone, producing approximately seventy percent of France's indigenous gas, it does produce oil. The spatial distribution of the gas and oil accumulations in the area is very promising, with the discovered hydrocarbons located immediately west of the St Griede Licence being oil, whereas further westward and basin-ward they are gas. This appears to be an empirical confirmation of Gussow's Principle, whereby late generated dry gas expels previously generated oil up dip and to the basin margins. Should this be the case then the tenement is more prospective for oil than for gas. Oil is more readily able to be developed and transported than is gas, it is more readily saleable and more profitable.



The Aquitaine Basin is one of France's most hydrocarbon productive basins, however very little, if any, exploration activity has occurred in the last decade. The basin has produced in excess of 13 TCF of gas and 450 MMbbls of oil. The consortium exploring the Licence is planning to review all appropriate data, acquire airborne gravity data, then seismically delineate any gravity induced structures and finally to drill the best delineated prospect.

There are many attractive features of exploration in France in general and the Aquitaine Basin in particular. The first is that there are minimal Government royalties and only a thirty percent tax on profits, nearby infra-structure, ready markets and gas prices several times those of Australia. The basin has been subjected to much thrusting and salt tectonism, hence it is known that structural traps exist.

#### 6. METHODOLOGY

Any valuation of exploration acreage must deal with the problems of uncertainty and risk inherent in the very nature of the exploration sector of the petroleum industry. A variety of methods may be employed; these include:

### (a) NPV, EMV

This is a valuation based on a financial model. The inputs are technical and economic assumptions which yield a series of cash flows; these are then discounted in order to recognise opportunity cost and the time value of money. The series of discounted cash flows are then summed in order to derive a net present value. This method is generally applicable when key variables have been determined in the lead up to a fully fledged feasibility study. These variables include resource size, contract terms including price and quantities, transport costs, capital expenditure and operating expenses. It is necessary to discount the derived value in order to allow for the degree of risk in the estimates or assumptions – this yields an 'expected monetary value' or EMV.

None of the Orion or Gas2Grid permits under consideration adequately meet these criteria.

# (b) Exploration Expenditure Commitment Method

This is a crude technique which sums the value of the commitment program. The assumption implicit in this method is that the work program represents the minimum premium placed on the acreage by the permit holder. It may also be interpreted as the opportunity cost for a participant wishing to enter into exploration within the Basin concerned – in effect an 'entry cost'. In most cases it will be determined by market conditions at the time of application: these may vary markedly over time, and caution must be employed in applying terms which may be well out of date at the time of valuation. With the exception of periods of major industry downturn, or highly competitive bidding rounds, this technique will normally provide a conservative estimate.

#### (c) Recent Commercial Transactions

This method analyses and compares recent commercial transactions, ideally involving the property which is the subject of the valuation, or alternatively adjacent or nearby permits or prospects with similar prospectivity. Key assumptions are an arm's length transaction involving both a willing buyer and seller. Note that the value



is established by calculation of the premium the farminee pays, which is implicit in the terms of the farmout. This is different from the 'gross' amount paid by the farminee in earning its interest

Whilst such an approach is subject to prevailing market sentiment, it frequently provides the most realistic valuation available.

Where recent comparable transactions are not available or applicable the valuer may have recourse to an 'hypothetical farmout agreement', which draws on his knowledge of the prevailing market to arrive at a 'mostly likely' estimate of contract terms.

#### 7. VALUATIONS

# A ORION PETROLEUM PROPERTIES

7.1 PEL 6 Surat Bowen Basin NSW

(Orion 95-97.5% Conventional, 20-22.5% CBM)

(a) Exploration Expenditure Commitment Method

PEL 6 expires in early December of this year but an application for renewal has been lodged with the Authority for renewal without relinquishment. The renewal commitment consists of a 2 year program valued at between \$4.7 and \$7.3 million, with a contingent programme for years 3 and 4 of between \$2.65 and \$3.15 million. I anticipate Orion will need to farmout part of their substantial working interest, particularly with respect to the conventional programme.

Assessing only the firm programme, this yields a value of between \$4.5 and \$6.9 million for Orion's 95% interest. However I have applied a 10% discount to factor in the effect of the 5% royalty applying to most of the acreage.

This yields a value of between \$4.2 million and \$6.6 million

# (b) Recent Commercial Transactions

The most recent commercial transaction relates to the coal seam gas potential, in August of 2008. This involved Eastern Star gas undertaking \$2.05 million of exploration expenditure in order to earn a 75% working interest in the permit. The premium implicit in these terms values Orion's 25% interest in the coal bed methane potential at \$683 thousand.

I have valued the remaining conventional acreage by means of a hypothetical farmin assuming an incoming party would earn between 40% and 50% interest by meeting the cost of 75 Km seismic and one well. This seems reasonable in view of the fact a drillable prospect, Toenda, has already been identified, (see above). Assuming the cost of the seismic at \$650k and the well at \$2million, this yields a value for the conventional acreage portion of between \$2.65 and \$4 million. The total conventional and CBM value would thus lie in the range \$3.3 million to \$4.7 million. However I have applied a 10% discount to factor in the effect of the 5% royalty applying to most of the acreage.

This yields a value of between \$3 million and \$4.2 million.

The values therefore range between \$3 million and \$6.6 million.

I have elected to select a near mid-range value of \$5 million for the optimal value of Orion's interest in PEL 6



# **7.2 PEL 427 Surat Bowen Basin NSW** (Orion 75% Conventional, 25% CBM)

# a. Exploration Expenditure Commitment Method

PEL 427 was recently renewed for a 3 year period expiring 20 May 2011. The total work commitment is estimated at \$1.335 million, of which \$235,000 has been spent on the drilling of the Moree-4 corehole. It is intended that virtually all of this will be spent on CBM exploration, hence the 'conventional' portion becomes irrelevant.

Hence Orion's 25% interest of this portion equates to \$333,375, say \$333k

#### b. Recent Commercial Transactions

Again, Orion advise they will be pursuing CBM potential rather than conventional targets. Hence the terms of the farmin by ESG is the most relevant in setting the value of PEL 427. ESG paid 75% of the well cost of the Moree-4 well to earn a 50% interest. The well cost \$650,000, hence EGS paid \$488k for its 50% interest, i.e. \$9760 per percentage point.

This values Orion's 25% working interest at \$244k.

# The values thus range between \$244k and \$333k

Of the two methods the commercial transactions are by far the hardest set of figures. The Eastern Star farmin is recent, and applies directly to the permit, and I have therefore allocated a value of \$244k for the optimal value PEL 427, reflecting the lower relevance of the conventional potential.

# 7.3 PEL 455 Surat Bowen Basin NSW (Orion 100%)

# (a) Exploration Expenditure Commitment Method

This permit was renewed for two years with a total work commitment of approximately \$1.25 million.

There are no royalties applicable: accordingly the value of Orion's 100% interest calculates as \$1.25 million by this method.

#### (b) Recent Commercial Transactions

The recent farmin to CBM potential in the adjacent permit PEL 6 (see above) valued the CBM component of the permit at \$2.7 million, i.e. \$27,000 per percentage point. However PEL 455 is one third the size of PEL 6, and even a smaller percentage of the CBM fairway. Accordingly I have elected to ascribe a value of \$9,000 per %age point, thus valuing the CBM acreage at \$0.9 million.

Although Orion considers the conventional acreage to host several targets these present moderate to high risk potential, and the current exploration programme is focussed on CBM targets. Accordingly I have assigned only half the value of the CBM value to conventional exploration, i.e. \$450k, giving a total value of \$1.35 million.

I have elected to assign a optimal value equivalent to the mid point value between the two methods, i.e. \$1.3 million.



# 7.4 PEL 428 Gunnedah Basin NSW

Orion 60% (Conventional targets) 20% CBM targets

# (a) Exploration Expenditure Commitment Method

PEL 428 was recently renewed for a 2 year term expiring 14 September 2010. The work programme has not yet been finalised.

# (b) Recent Commercial Transactions

This is a marginal permit, with lower prospectivity than the other Orion Surat-Bowen Basin permits. Once again Orion do not intend pursuing conventional exploration, preferring to concentrate on the CBM potential.

ESG farmed in to PEL 28 by contributing 60% of the cost of the Kurrabooma-1 corehole to earn 40%. The well cost was approximately \$650k.

Thus ESG paid \$390k to earn its 40% working interest.

The terms of such a farmin would thus value Orion's 20% interest in the permit at \$195,000

In the absence of any additional data I have allocated a value of \$195k to the permit.

# 7.5 PEL 422 Darling Basin NSW & PEL 424 Darling Basin NSW Orion 100%

# (a) Work Commitment Method

A joint renewal programme was submitted covering both these permits in January 2007, extending these permit terms by 3 years to January 2010. The total work commitment was costed at \$170,000.

This yields a value for Orion's 100% interest in both permits of \$170,000. However I have applied a 20% discount to this figure to allow for the royalty factor, yielding a figure of \$136,000 or \$68,000 per permit.

# (b) Recent Commercial Transactions

I am unaware of any commercial transactions relating to these permits or similar permits in the vicinity. Both these permits are at a very early stage of exploration, with an industry perception of high risk. Accordingly I have not attempted to construct a hypothetical farmin for valuation purposes. None-the-less it can be argued that the \$680 per percentage point value derived from the work commitment method is somewhat conservative. Given the high risk nature of this acreage it would seem unlikely to demand more than \$1,000 per percentage point, i.e. \$100,000 per permit. Although this assessment is subjective and arbitrary, I consider it be a reasonable estimate of the higher end of the value range.

The valuation of each permit thus ranges between \$68,000 and \$100,000. Accepting a mid range value of \$84,000 per permit yields a value of \$168,000, say \$170,000 for the optimal value of the combined permits.

# 7.6 PEL 471 Darling Basin NSW Orion 100%

#### (a) Work Commitment Method

PEL 471 is a new permit granted in May 2009 for a two year term. The work commitment totals \$325,000.



# (b) Recent Commercial Transactions

The PEL 471 acreage of the Bancannia Trough has lain dormant for many years, and no commercial transactions relating to it or nearby acreage are available. However of all the Darling Basin permits PEL 471 would appear to have the best chance of being farmed out as a result of the prevalence of hydrocarbon shows. Accordingly I have attempted an hypothetical farmout.

I assume an incoming partner would wish to undertake seismic (55 km costing \$250,000) to earn a 25% working interest. An option to earn an additional interest would then be appropriate, assuming the seismic matures a prospect. This would value the Orion interest (75% after farmout) at \$750,000

The valuation thus ranges between \$0.325 million and 0.75 million

I consider the Commitment value to be excessively conservative for this key permit, and have elected to allot the figure of \$750,000 to PEL 471.

#### B GAS2GRID

# 7.7 EP 453 Offshore Canning Basin (Gas2Grid 100%)

# (a) Exploration Expenditure Commitment Method

At the renewal of EP 435 in 2007, the submitted work commitment was \$1.4 million for a 5 year term.

This method thus values Gas2Grid's 100% interest in the permit at \$1.4 million. I have, however, discounted this value by 10% in order to factor in the effect of the royalty, thus *yielding a value of \$1.26 million*.

# (b) Recent Commercial Transactions

The Canning Basin has not proved to be a popular area with petroleum explorers in the last decade, despite the occurrence of some encouraging but thus far noncommercial hydrocarbon shows (e.g. Point Torment)

The latest farm-in to Canning acreage reached agreement on terms of \$3 million of expenditure (well and seismic) for a 75% interest, i.e. \$40,000 per percentage point. Acceptance of such terms would value EP 435 at \$4 million.

EP 435 has a good address in Canning Basin terms, being located close to the Blina field and associated infrastructure. However additional seismic will be required to mature drilling targets, and the exploration targets are now likely to be shallower Devonian sandstones, rather than the pinnacle reefs previously targeted. Accordingly I have adopted a more conservative figure of \$2.5 million, which I have further discounted by 10% in order to factor in the effect of the royalty (3% GORR).

This yields a value of \$2.25 million, acknowledging that this may increase in the future, depending on the results of seismic reprocessing and acquisition.

The values derived thus range between \$1.26 and \$2.25 million.

Again taking a mid point sum yields an optimal value of \$1.755 million, say \$1.8 million.



# 7.8 Service Contract 44 Philippines

# (a) Exploration Expenditure Commitment Method

In 2008 Gas2Grid drilled the Nuevo Malolos-1 well, twinning the Malolos-1 well which recovered oil during testing in 1968. Expenditure to date has been \$4.5 million, related to drilling the Nuevo Malolos-1 well, the rest on technical studies and administration. This year's workover programme comes in 2 phases, the first in workover of the Malolos-1 well, with an estimated cost of \$300,000. Phase 2 involving more extensive workover, possibly involving the Nuevo Malols-1 well, will follow, at an estimated cost of \$700,000. The 100 km seismic programmed for this year has been delayed due to lack of an available contractor.

In the next two years Gas2Grid are committed to the seismic, with an airborne gravity survey as an option, and 3 wells, at an estimated total cost of \$2.5 million. This is a substantial programme totalling just on \$9.5 million, which Gas2Grid have been pursuing vigorously, reflecting their faith in the prospectivity of the licence. In effect Gas2Grid are convinced they have a commercial discovery, which presents considerable challenges before it can be brought into production.

# This method values the permit at \$9.5 million

# (b) Recent Commercial Transactions

Gas2Grid have been pursuing a farmin to adjacent acreage, thus far without success. The ability of the Gas2Grid to farmout would obviously depend on the success of the technical team's efforts to achieve commercial production. At this early stage Gas2Grid would seem unlikely to farmout on terms less than they have undertaken, provided they have the funds to maintain the exploration momentum. (I note that the merger would provide sufficient funds for the project). This would suggest minimum farmout terms would be around A\$5.5 million to earn 50%, reflecting Gas2Grid's perception of the prospectivity of the permit.

# This would value the permit at \$5.5 million.

I am aware of a current farmin offer, (which cannot be identified for reasons of commercial confidence) which valued the permit involved at \$US5 million

At the current rate of exchange (0.90 as at 28.11.09) this is equivalent to A\$5.5 million, virtually identical with case (i) above.

# The range of values is thus \$ \$5.5 million- \$9.5 million

I consider the work commitment valuation to be excessive in this case, and unable to be realised in a farmout unless there is success in the current workover programme.

Accordingly I have chosen to select a more realistic optimal value for this permit of A\$5.5 million, whilst acknowledging that success in bringing the reservoir in SC 44 into production would increase the value markedly, whilst conversely failure would have the opposite effect.



The range of values is thus \$ \$5.5 million - \$9.5 million

I consider the work commitment valuation to be excessive in this case, and unable to be realised in a farmout unless there is success in the current workover programme.

Accordingly I have chosen to select an optimal value for his acreage of \$5.5 million, whilst acknowledging that success in bringing the reservoir in SC 44 into production would increase the value markedly, whilst conversely failure would have the opposite effect.

# 7.9 St Griede Licence Aquitaine Basin France

# (a) Exploration Expenditure Commitment Method

The work commitment for the St Griede licence is \$7 million, spread over 5 years from this year, an appropriate figure for a licence located in a productive basin, although no production is located within its boundaries at this stage. The airborne gravity scheduled for 2009-10 is currently being acquired, and should prove crucial in identifying salt structuring prior to acquiring seismic.

Gas2Grid's 50% interest in this permit is thus valued at \$3.5 million by this method.

# (b) Recent Commercial Transactions

None available.

At this stage of exploration in the St Griede licence I am compelled to rely on the work commitment as the most reliable indicator of value.

Accordingly I have assigned a value of \$3.5 million to Gas2Grid's 50% interest.

TABLE 12

**Summary of Valuations** 

PERMIT	VALUATION	OPTIMAL
		VALUE
PEL 6	\$3-6.6 million	\$5 million
PEL 427	\$0.244 - \$0.33 million	\$0.24 million
PEL 455	\$1.25-\$1.35 million	\$1.3 million
PEL 428	\$0.195 million	\$0.195 million
PEL s 422 & 424	\$0.136-\$0.2 million	\$0.17 million
PEL 471	\$0.35-\$0.75 million	\$0.75 million
Total Orion Properties	\$5.175- \$9.425 million	\$7.659 million
	Say \$5.1-\$9.4 million	say \$7.7 million
EP 453	\$1.26 -\$2.25 million	\$1.8 million
St Griede Licence	\$3.5 million	\$3.5 million
SC 44	\$5.5-\$9.5 million	\$5.5 million
Total Gas2Grid Properties	\$10.26- \$15.25	\$10.8 million



# 8. SOURCES OF INFORMATION

In preparing this report I have relied on technical and financial information supplied by Orion and Gas2Grid, together with public domain data. Refer bibliography below.

#### 9. TITLE

Verification of title was not within the brief of Mulready Consulting Services Pty Ltd in relation to this valuation.

#### 10. INSPECTION

As is normally the case for exploration properties where there are no production faculties involved, no inspection of the petroleum properties included in this Report were undertaken.

# 11. PREVIOUS INDEPENDENT VALUATIONS

I have been advised in writing by the directors of Gas2Grid and Orion that they have not previously commissioned an independent valuation of any of these properties, other than a private valuation of EP 453 undertaken for Gas2Grid in early 2008.

#### 12. INDEPENDENCE

Mulready Consulting Services Pty Ltd is not operating under an Australian financial services licence in giving this report.

\$20,350 (GST inclusive) plus any out of pocket expenses is all the remuneration (including commission) or other benefits that might reasonably be expected to be or have been capable of influencing Mulready Consulting Services Pty Ltd in providing the advice. In this context, a nominated person is any of

- (i) Mulready Consulting Services Pty Ltd
- (ii) a related body corporate of Mulready Consulting Services Pty Ltd
- (iii) a director or employee of Mulready Consulting Services Pty Ltd or a related body corporate of Mulready Consulting Services Pty Ltd
- (iv) a director or employee of Mulready Consulting Services Pty Ltd or a related body corporate of Mulready Consulting Services Pty Ltd
- (v) an associate of any of the above

Mulready Consulting Services Pty Ltd has for a total fee of \$18,500 (GST exclusive) plus out of pocket expenses provided a valuation report concerning the value of petroleum assets held by Gas2Grid and Orion

#### Otherwise there are

- no other interests, whether pecuniary or not and whether direct or indirect, of Mulready Consulting Services Pty Ltd or any associate of Mulready Consulting Services Pty Ltd
- no other associations or relationships between Mulready Consulting Services
   Pty Ltd or any associate of Mulready Consulting Services Pty Ltd and Orion or Gas2Grid

that might reasonably be expected to be or have been capable of influencing Mulready Consulting Services Pty Ltd in providing this report.

Neither Mulready Consulting Services Pty Ltd nor any of its directors or employees has any beneficial interest in Gas2Gris or Orion, nor in any of the permits which are the subject of this valuation, nor in any adjacent permits.



# 13. QUALIFICATIONS

Jack N. Mulready graduated from the University of Melbourne with a B.Sc. (Geology) 1963, Dip. Ed.(1966) and B.A. (1999) and from R.M.I.T. with a Fellowship Diploma in Management in 1978. He has over 40 years of experience in both technical and management roles within the petroleum exploration and production industry in Australia, New Zealand, USA, Canada, Indonesia, China and PNG, and is currently a director of ASX registered company Fall River Resources Limited. He is a member of the Petroleum Exploration Society of Australia, the Geological Society of Australia and the American Association of Petroleum Geologists (Certified APPG Geologist No. 5321), and is subject to the code of ethics of these organisations.

Hover the last 24 years he has prepared numerous independent geologist's reports and valuations for a variety of Australian companies in accordance with the requirements of the Australian Stock Exchange.

He has undertaken the valuations included in this report and takes overall responsibility for the content and conclusions of the Report.

Accordingly he is the designated 'competent person' as reqired by section 5.11 of the ASX Listing Rule

All My

Jack Mulready

B.Sc., B.A., Dip. Ed., F.Dip. RMIT, MGSA, MPESA, Certified AAPG Geologist #5321.

Roger Meaney, Associate Consultant Petroleum Geologist, graduated from LaTrobe University with a B.Sc. (Honours) in Physics and a Diploma of Education in 1973. He later completed the requirements for a B.Sc. in Geology from the same institution, part time. He has more than 28 years experience in oil and gas exploration. He was employed as a Petroleum Geophysicist by Esso Australia Limited, AAR Limited and Santos Limited and worked in all facets of hydrocarbon exploration. He has extensive technical experience in both the onshore and offshore sectors of the industry in Australia and some in the United States of America, Canada and Papua New Guinea and in management. Roger also has experience in the coal bed methane drainage industry.

He is a member of the Society of Exploration Geophysicists and of the Petroleum Exploration Society of Australia, and is subject to the code of ethics of these bodies. Roger has completed several independent geologist's reports for Australian companies in accordance with the requirements of the Australian Stock Exchange. He prepared the summaries of geological description of the permits included in this Report.

R.A. Meaney

B.Sc. (Hon), Dip. Ed., MSEG, MPESA

# 14. COMPLIANCE

This Report has been prepared in accordance with the requirements of the Valmin Code as revised 2005.



# 15. CONSENT

Mulready Consulting Services Pty Ltd gives consent to include this Valuation Report being attached to BDO Securities (NSW-VIC) Pty Limited's Independent Expert's Report, to be issued around December 2009, in the form and context in which it is presented.

#### DATE OF REPORT

This Report is dated 28<sup>th</sup> November 2009.

#### 17. BIBLIOGRAPHY

Most of the technical data used to review these properties were "in house' technical notes provided by both of the companies, or material displayed on the Web pages of both Gas2Grid and Orion. The major sources of information were:-

"New Oil in Old Basins". Presentation by Russel Langusch, then of Gas2Grid Limited, to the Good Oil Conference, September 2009.

Philippines Project., Gas2 Grid Web page

Philippine Sedimentary Basins. Philippines Department of Energy Web site.

EP 453, onshore Canning Basin, Western Australia. Gas2Grid's Web page

Service Contract 44('SC44") Onshore Cebu, Philippines. In-house Technical Report. Gas2Grid Limited

Aguitaine Basin (geology). Wikipedia

Highlights of oil and gas exploration and production in France, DGEMP-DIREM, November 2007.

French Petroleum Basins and their main Geological Features, DGEMP-BEPH, May 2006.

A French Affair Ric Wilkinson, PNN Premium.

St Griede Licence onshore Aquitaine Basin France. Projects France, Gas2Grid Web page

Gas2Grid Annual Report 2009

Orion Petroleum Prospectus, 2007.

Asset Areas. Orion Petroleum Web page.

Surat/Bowen Basin PEL 6. Orion Petroleum Web page

Surat/Bowen Basin PEL 455. Orion Petroleum Web page



Surat/Bowen & Surat/Gunnedah Basins PEL's 427 &428. Orion Petroleum Web page

Darling Basin PEL's 422, 424 & 471. Orion Petroleum Web page

Farm-in Opportunities. Orion Petroleum Limited Web page

In-house summaries of Petroleum tenement tenures . Orion Petroleum.

# 18. GLOSSARY

	2009	
Aeromagnetic Survey	a programme whereby the magnetic	
,	character of the rocks in a given area is	
	measured by means of an airborne	
	instrument	
	a programme whereby the magnetic	
Aerogravity Survey	character of the rocks in a given area is	
	measured by means of an airborne	
	instrument	
Anticline	a convex upwards fold in rocks	
Basement	Unprospective rocks underlying a	
	sedimentary basin	
Basin	a depocentre for sediments resulting	
	from local downwarping of the earth's	
DOE (b. C	crust	
BCF (bcf)	one thousand million standard cubic	
	feet. A measure of gas in place or	
CBM	recoverable gas	
CDIVI	Coal Bed Methane – gas derived from coals	
Cretaceous	a period in geological history about	
Ciciaceous	65 to 141 million years past	
Electric logs	a graphic representation of physical	
Liound logo	aspects of formations penetrated in a	
	well	
Farmin	an agreement by which an interest	
	is acquired in an exploration permit	
Fault	a fracture or fracture zone in rocks	
	along which rocks on either side have	
	moved relative to each other	
Formation	a stratigraphic (rock) unit	
Jurassic	a period in geological history about	
	141 to 205 million years past	
MCF (mcf)	one thousand standard cubic feet.	
	A measure of gas in place or	
1405/D ( 5/1)	recoverable gas	
MCF/D (mcf/d)	one thousand standard cubic feet	



per day. A measure of flow rate

**MMCFD** one million standard cubic feet per day (mmcf/d) a measure of flow rate mmbbls one million barrels Value of a work programme agreed Notional cost of a work with government. This cost is not a programme commitment: the commitment is the work itself which must be completed by the company or Joint Venture a period in geological history about Ordovician 440 to 505 million years past Palaeozoic a period in geological history about 251 to 545 million years past a period in geological history about Phanerozoic 545 million years past to the present the pore space between grains in a **Porosity** rock which is available for entrapment of fluids. Expressed as a percentage the ability of a rock to allow fluids to Permeability pass through it. Unit of measurement the darcy, more commonly expressed as millidarcy (md) a period in geological history about Permian 251 to 285 million years past Quantities of economically Reserves recoverable hydrocarbons estimated to be present within a trap a subsurface volume of rock that Reservoir has sufficient porosity and permeability to act as host for an hydrocarbon accumulation Seal an impervious layer of rock which prevents the escape of hydrocarbons from a reservoir a means of surveying subsurface Seismic rock structure utilising reflection of artificially created seismic waves Self Sourcing Reservoir A self sourcing reservoir is part of a continuous oil pool which is sufficiently ("SSR") fractured to allow production of hydrocarbons from the source rock itself Silurian a period of geological history ranging from about 416 to 422 million vears ago. Source A rock capable of generating hydrocarbons The study of the composition, age, Stratigraphy distribution and correlation of rocks Structure Features displayed by rock strata

due to movement and consolidation

Subcrop

**Tertiary** 

Triassic

Work commitment

after deposition

The 'outcrop' of a rock which has subsequently been buried and concealed by a younger formation

A period in geological history about 1.78 to 65 million years past

A period in geological history about

205 to 251 million years past

Work programme for the term of a licence as agreed between partners in a Joint Venture or between a company/Joint Venture and a government authority

