

9 December 2011

PROGRESS REPORT

Petrel Energy's Barnett Shale Project

Orion Petroleum Limited (ASX: OIP) ("**Orion**") is pleased to provide a market update of the latest progress in the Barnett Shale Gas Project in which Petrel Energy Pty Ltd ("**Petrel**") owns a 25% working interest. As announced on 23 November 2011, Orion is proposing to merge with Petrel by issuing existing Petrel share and option holders with Orion securities such that Petrel becomes a wholly-owned subsidiary of Orion. A shareholder meeting to approve the proposed transaction is scheduled for 10 January 2012.

The first phase of development drilling commenced in early November. It is being operated by Petrel's joint venture partner and experienced Barnett Shale operator, The Cumming Company, Inc ("**CCI**"). The initial program consists of one salt water disposal well, which will service many production wells, plus three gas development wells.

The water disposal well, Stewart SWD #1, has been drilled and cased in preparation for later completion. The first of the producers, GW Stewart #1, has also been drilled and cased. Drilling of the remaining two development wells, M Stewart #1 and GW Stewart #2, should be finished by the end of this month.

Installation of production infrastructure including pipeline hookups is planned to take place during January 2012 prior to stimulation and completion of the three producers in February. The early performance of the three wells will provide guidance to the commercial viability of the project which is supported by existing commercial production under CCI operatorship adjacent or close to the Petrel JV leases.

The short cycle time from acreage leasing through to actual gas sales is a major attraction of the proven Barnett Shale play, and is probably unmatched anywhere else in the world. Several factors contribute to this rapid progress, including extensive shale gas activity since about 2000, ready access to equipment and services plus well established operating practices including well stimulation and handling of produced water.

The JV's field activities are focussed within the so-called Extension Area of the greater Barnett Shale play within the Fort Worth Basin where, although the shales are thinner than in the historic core area to the east, they are encountered at much shallower depths. Consequently there are significant savings on well costs with development wells drilled and completed for less than US\$1 million compared with equivalent costs of US\$3-4 million in the deeper areas of the basin.

In addition development wells in the Extension Area produce a greater proportion of liquids and gas of higher calorific value thereby enhancing the project economics. Typically the produced gas from the area has an energy content of around 1,300 Btu/cf. Hence when the Henry Hub gas price, which is based upon 1,000 Btu/cf gas from the Gulf Coast, is trading at (say) \$4/Mcf, the richer Barnett Shale gas will attract a 10-20% premium to this marker price before accounting for any produced oil or condensate.

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Further updates on Petrel's first shale gas project will be provided in due course.

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