ORION PETROLEUM LIMITED

ACN 125 394 667

Financial Report

For the year ended 30 June 2010

Financial Report

DIRECTORS' REPORT

The Directors present their report on Orion Petroleum Limited ("the Company") for the financial year ended 30 June 2010.

DIRECTORS

The Directors in office at any time during the financial year and up to the date of this report are:

Director	Role
Robert Willcocks	Chairman – Non-Executive (appointed 16 April 2010)
Russell Langusch	Managing Director (appointed 2 October 2009)
Dennis J Morton	Non-Executive Director (appointed 9 July 2007)
Ashley V Edgar	Non-Executive Director (appointed 24 October 2007)
David A Casey	Alternate Director to A V Edgar (appointed 23 October 2008)
Bun C Hung	Chairman – Non-Executive (appointed 9 July 2007 - ceased 2 October 2009)
Barry L Smith	Managing Director (appointed 9 July 2007 – ceased 2 October 2009)
W Guy Allinson	Non-Executive Director (appointed 9 July 2007 – ceased 2 October 2009)

Robert M Willcocks

Robert Willcocks has Bachelor of Arts and Bachelor of Laws degrees from the Australian National University and a Master of Laws degree from the University of Sydney. He joined the law firm Stephen Jaques & Stephen (now Mallesons Stephen Jaques) in 1974 and was a partner in that firm from 1980 until 1994. There he was a member of the Corporate Advisory Group with an emphasis on the mining and oil and gas sectors representing international clients. In 1994 he left Mallesons Stephen Jaques to become a corporate adviser and public company director. During the early and mid-1990s he was a member of the Australia-Vietnam Business Council and was appointed by the Australian Government to the Australian International Legal Advisory Committee. He has been a member of the Council of Bond University and a director and Chairman of a number of Australian Stock Exchange (ASX) listed public companies. In addition to Orion Petroleum Ltd, he is currently a director of ASX listed CBH Resources Ltd, Arc Exploration Limited, Mt Gibson Iron Ltd (Alternate Director) and Hong Kong Stock Exchange listed APAC Resources Ltd. He is also Chairman and director of Trilogy Funds Management Ltd, a Responsible Entity under Australian law. As a corporate advisor he has undertaken assignments in a range of industry sectors beyond resources to private equity and business process outsourcing. This has included facilitating transactions as well as representing the interests of clients from the Asian region as advisor and director. He is a member of the Audit and Risk Management Committee and Chairman of the Remuneration Committee.

Russell D Langusch

Russell Langusch holds the degrees of Bachelor of Engineering (Electrical – First Class Honours) and Master of Engineering Science from the University of Queensland, Brisbane. He is an independent energy consultant with over 35 years combined experience in the upstream oil & gas and finance industries. He commenced his career with Schlumberger working in many international locations in a multitude of roles including petroleum engineering, petrophysics, sales-marketing and management. He was then employed by Esso Australia as a senior reservoir engineer before joining the finance sector in 1987. Here he worked for a number of international investment banks undertaking company research and corporate advisory activities. He established his own successful consultancy business in 2001 providing independent research reports, project assessments, financial modelling, corporate advisory services and expert valuations for many domestic and international clients. During the period 2004 to early 2008 he was the founding Managing Director of Elixir Petroleum, a dual ASX and AIM-listed E&P company based in London with assets in the UK North Sea, Gulf of Mexico and West Africa. He is a member of the Society of Petroleum Engineers and the Australasian Institute of Mining & Metallurgy.

Dennis J Morton

Dennis Morton graduated in 1975 with First Class Honours in Geology from Macquarie University, Sydney and in the same year commenced work with Esso Australia Limited. Whilst employed by Esso, Dennis worked both in Australia and internationally. Following Esso he worked for 10 years with Hartogen Energy Limited and became Exploration Manager – Hartogen Group. He subsequently spent 3 years as resident Australian manager for Canadian listed Bow Valley Resources Inc., immediately prior to the parent being taken over. After a period as an executive director of Capital Energy NL and Stirling Resources NL, Dennis worked as a consultant and established the petroleum assets which formed the basis of Eastern Star Gas Limited's business when he listed Eastern Star Gas Limited on the ASX in 2001. Dennis was employed as Managing Director of Eastern Star Gas Limited from its formation until he retired in October 2007. He is a member of the Audit and Risk Management Committee and the Remuneration Committee. In April 2008 Dennis was appointed MD of ASX listed oil and gas explorer Gas2Grid Limited.

Ashley V Edgar

Ashley Edgar is a geologist with 25 years experience in petroleum exploration and development. From 1985 to 1994 he held various geological positions with Santos Limited, involved in conventional oil and gas exploration and development primarily in central and eastern Australia and offshore in the Northwest Shelf. Ashley spent the following 13 years with the Origin Energy Group occupying several key positions, including Exploration Manager, Coal Seam Gas, Manager, International Opportunities and New Ventures and Manager of Exploration and Production Geoscience for the company's conventional onshore and Coal Seam Gas areas. In August 2007 he was appointed General Manager of Exploration and New Ventures for Eastern Star Gas Limited. Ashley has a Bachelor of Applied Science in Applied Geology from the Queensland University of Technology and a Graduate Diploma of Environmental Studies from the University of Adelaide. Ashley was appointed a Non-Executive Director of Orion on incorporation in 2007 and is Chairman of the Audit and Risk Management Committee of Orion.

David A Casey

David Casey graduated with Honours in Geology from the University of Sydney in 1991 and in the same year joined specialist coal seam gas company In Situ (Australia) Pty Ltd. In 1996, he formed his own coal seam gas consultancy business, and subsequently was a founder of Multiphase Technologies Pty Ltd, a provider of coal seam testing services. David has over 15 years experience in the management and evaluation of all aspects of coal seam gas exploration and appraisal, from initial reservoir characterisation and fairway identification through to drilling, testing and production operations. Between April 2001 and October 2005 he was a director of Molopo Australia Limited. He was previously Executive Director - Operations and is presently the Managing Director of Eastern Star Gas Limited.

COMPANY SECRETARY

Allan B Freeman

Allan Freeman holds a Bachelor of Commerce degree in Accounting from the University of New South Wales and is a fellow of the Australian Certified Practicing Accountants (FCPA). Allan commenced his career as a commercial cadet with BHP and spanning a period of some 45 years has held senior financial executive and/or company secretarial roles with Boral, Hanimex Corporation, Nationwide Food Service/Spotless Group, Laporte Group Australia and finally with Australian Defence Industries, leading up to its privatisation. Since 2004 he has consulted to a number of small and medium sized Australian businesses covering a broad range of financial issues.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the exploration for oil and gas resources. There have been no significant changes in the affairs of the Company during the year.

OPERATING RESULTS

The net loss of the Company for the year was $4,632,000 (2009: $4,731,000). The result was arrived at after writing off deferred exploration expenditure of $3,101,000 (2009: $4,386,000).

FINANCIAL POSITION

The total assets decreased by $2,797,000 and total liabilities increased by $1,794,000 resulting in the decrease of net assets to $4,591,000 at 30 June 2010. The decrease in net assets arose predominately from payments for, and trade and other payables associated with, exploration and evaluation expenditure incurred during the year.

DIVIDENDS

No dividends have been paid or declared during the financial year.

STATE OF AFFAIRS

The state of affairs of the Company was not affected by any significant changes during the financial year other than the following:

(a) During the year the Company drilled the Toenda-1/ST1 exploration well in PEL 6, in northern NSW. The well, drilled to a total depth of 1,924m measured depth, was plugged and abandoned on 16 May 2010 after failing to return significant hydrocarbon shows.

(b) Also during the year Eastern Star Gas Limited completed its obligations in relation to its farm-in to coal seam gas rights in three of Orion's northern NSW licenses in the Surat-Bowen and Gunnedah Basins.

The Managing Director's Exploration Review in the Annual Report contains further details of business strategies and prospects for future financial years.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There has not arisen in the interval since 30 June 2010 and up to the date of this report, any matter that in the opinion of the Directors has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial periods.

ENVIRONMENTAL REGULATIONS

The Company's operations are subject to significant environmental and other regulations. The Company has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration activities. There have been no reports of breaches of environmental regulations in the financial period and at the date of this report.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Directors of the Company. Subject to the Corporations Act 2001, the Deed provides an indemnity in respect of liability that each of the Directors may incur in relation to the conduct of the business or affairs of the Company, acts or omission of the Directors in relation to the business or affairs of the Company or the performance, manner of performance or failure to perform the Directors responsibilities in relation to the business or affairs of the Company, in each case in the period during which each Director (respectively) holds office. The Company has not otherwise, during or since the end of the financial period, indemnified or agreed to indemnify an auditor of the Company against a liability incurred by such an auditor.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings held by the Directors of the Company during the financial year ended 30 June 2010 and the number of meetings attended by each Director:

	No. of meetings attended	**No. of meetings held while in office**
Robert M Willcocks	2	2
Russell D Langusch	7	7
Bun C Hung	3	3
Barry L Smith	3	3
Dennis J Morton	10	10
W Guy Allinson	3	3
Ashley V Edgar	9	10
David A Casey (Alternate)	0	10

The Audit & Risk Management Committee met four times during the financial year ended 30 June 2010.

	No. of meetings attended	No. of meetings held while in office
Robert M Willcocks	1	1
Dennis J Morton	4	4
W Guy Allinson	1	1
Ashley V Edgar	4	4

REMUNERATION REPORT

The remuneration report is set out under the following headings:

a) Directors and Executives
b) Remuneration Policy and Practices
c) Details of Remuneration

(a) Directors and Executives

The names and positions held of the Company Directors and Executives in office during the financial year ended 30 June 2010 are:

Directors

Mr Robert M Willcocks (Chairman Non-Executive from 16 April 2010), Mr Bun C Hung (Chairman Non-Executive to 2 October 2009), Mr R D Langusch (Managing Director Executive from 2 October 2010), Mr B L Smith (Managing Director Executive to 2 October 2010), Mr W G Allinson (Non-Executive to 2 October 2010), Mr D J Morton (Non-Executive), Mr A V Edgar (Non-executive) and Mr D A Casey – (Alternate to A V Edgar, Non-Executive)

Executive

Mr A B Freeman (Company Secretary and Chief Financial Officer)

(b) Remuneration Policy and Practices

The Company's policy for determining the nature and amount of emoluments of Board members and Executives is as follows:

Non-Executive Directors

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practices.

The base fee (inclusive of the 9% Superannuation Guarantee contributions) of each Non-Executive Director for all Board activities was at the rate of $35,000 per annum and the fee for the Chairman was at the rate of $52,500 per annum. The Superannuation Guarantee contributions where applicable are paid to each Non-Executive Director's personal retirement plan.

An annual retainer fee of $25,000 commencing from 12 December 2008 was payable to Mr W. G Allinson for 20 days of consultancy services and any additional days were payable at the rate of $1,250 per 8 hour day. This agreement was terminated on 2 October 2009.

Consultancy fees are payable to Mr D.J. Morton at the rate of $1,250 per 8 hour day in the event that he provides services to the Company in addition to the normal duties of a non-executive Director.

Consultancy fees of $300 per hour are payable to the non-executive Chairman in the event that he provides services to the Company other than the normal duties of a non-executive Chairman.

Executives

The remuneration structure for Executives, including Executive Directors, is based on a number of factors, including qualifications, particular experience and general past performance of the individual concerned, general human resources market pricing and is linked to the overall performance of the Company. There is no predetermined equity compensation element within the remuneration structure nor predetermined performance condition to be satisfied. The contracts for service between the Company and the Executives are on a continuing basis. Upon retirement Executive Directors and Executives are paid employee benefit entitlements accrued, in accordance with applicable legislation, to the date of retirement.

Executives are able to participate in the Orion Petroleum Employee Incentive Plan at the invitation of the Board where securities offered under the plan may be subject to predetermined performance conditions. Directors may participate in the Orion Petroleum Employee Incentive Plan subject to approval of shareholders.

(c) Details of remuneration

1 July 2009 to 30 June 2010	Short term salary & fees	Non-cash benefits	Post employment retirement benefits	Share based payments	Super - annuation	Total
Non-Executive Directors						
R.M. Willcocks	10,938	-	-	-	-	10,938
B.C. Hung	12,041	-	-	-	1,084	13,125
D.J. Morton	32,110	-	-	-	2,890	35,000
W.G. Allinson	8,028	-	-	-	722	8,750
A.V. Edgar	32,110	-	-	-	2,890	35,000
D.A. Casey (alternate)	-	-	-		-	-
Total	95,227	-	-	-	7,586	102,813
Executive Directors						
R.D Langusch	239,962	-	-	30,493	21,597	292,052
B.L. Smith	63,073	-	335,816	-	5,677	404,566
	303,035		335,816	30,493	27,274	696,618
Key Management						
A.B. Freeman	115,993	-	-	5,311	-	121,304
Total	**514,255**	**-**	**335,816**	**35,804**	**34,860**	**920,735**

1 July 2008 to 30 June 2009	Short term salary & fees	Non-cash benefits	Post employment retirement benefits	Share based payments	Super-annuation	Total
Non-Executive Directors						
B.C. Hung	48,165	-	-	-	4,335	52,500
D.J. Morton	32,110	-	-	-	2,890	35,000
W.G. Allinson	32,110	-	-	-	2,890	35,000
A.V. Edgar	32,110	-	-	-	2,890	35,000
D.A. Casey (alternate)	-	-	-	-	-	-
Total	144,495	-	-	-	13,005	157,500
Executive Directors						
B.L. Smith	252,293	-	-	-	22,704	274,997
Key Management						
A.B. Freeman	144,522	-	-	25,858	-	170,380
Total	**541,310**	**-**	**-**	**25,858**	**35,709**	**602,877**

The only portion of the above remuneration which is performance based is the share based benefit applicable to Mr R D Langusch in 2010. This is a non recourse loan expense.

Details of the Managing Director's service contract are contained in the section "Corporate Governance" which appears in the Annual Report.

On 26 February 2010 shareholders approved the issue of 5,000,000 Orion shares as Incentive Shares to the Managing Director, Mr Russell D. Langusch, at 13 cents each.

The terms on which the Incentive Shares were 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:
    - 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 current-planned exploration program which may be subject to amendment from time to time due to operational, technical and other factors;
- If the Incentive Shares are 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.

The Incentive Shares were formally issued to Mr Russell Langusch on 24 March 2010.

The assessed value of these shares has been allocated equally over the time period from issue date to vesting date and the amount is included in the remuneration tables above. Fair value at issue date is independently determined using a Black-Scholes pricing model that takes into account the issue price, the vesting term, the impact of dilution, the share price at date of issue and expected price volatility of the underlining share, the expected dividend yield and the risk free interest rate for the term.

The model inputs for these shares granted during the year ended 30 June 2010 included:

a) shares issued vest over a 18 month period
b) issue price: 13 cents
c) issue date: 26 February 2010 (shareholder approval)
d) share price at grant date: 7 cents
e) expected volatility: 116%
f) expected dividend yield: 0%
g) risk free interest rate: 5%

The following options were granted over unissued shares during the financial year by the Company to employees and eligible persons as part of their remuneration.

	Granted as compensation	Date granted	Exercisable on or before	Exercisable amount per share	Vested & exercisable	Unvested
A.B. Freeman	50,000	23/07/09	23/07/12	$0.15	-	50,000
S. Keenan	40,000	23/07/09	23/07/12	$0.15	-	40,000
S. Gray	10,000	23/07/09	23/07/12	$0.15	-	10,000

Since the end of the financial year no further options have been granted to employees and eligible persons as part of their remuneration.

The assessed value at grant date of the options granted to the individuals is allocated equally over the time period from grant date to vesting date and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlining share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 included:

a) options are granted for no consideration and vest over a 12 month period
b) exercise price:15c
c) grant date: 23 July 2010
d) expiry date: 3 years after grant date
e) share price at grant date: 15c
f) expected volatility: 116%
g) expected dividend yield: 0%
h) risk free interest rate: 5%

SECURITIES HOLDINGS

As at the date of this report, the relevant interests of the Company Directors in the securities of the Company were as follows:

Number of securities

Directors	Ordinary shares	Options (listed)	Options (unlisted)
R. M. Willcocks	-	-	-
D.J. Morton	1,500,000	1,000,000	500,000
R.D.Langusch	5,000,000	-	-
A.V. Edgar	550,000	-	500,000
D.A. Casey (alternate)	-	-	-
TOTAL	7,050,000	1,000,000	1,000,000

The Unlisted Options are each exercisable at $0.30 per share on or before 30 September 2012. The Listed Options are each exercisable at $0.30 per share on or before 30 September 2010.

AUDITORS

PKF was appointed by the Directors in accordance with the requirements of the Corporations Act 2001 on incorporation of the Company in July 2007.

NON AUDIT SERVICES

The Company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company are important.

Details of amounts paid or payable to the auditors, PKF, for the audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditors, set out below, did not compromise the auditors' independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality and objectivity of the auditors
- None of the services undermine the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditors:

	2010 $	2009 $
Audit services		
PKF – Audit and review of financial reports	43,000	41,000
Non-audit services		
PKF – General matters	3,000	7,000
Total	46,000	48,000

AUDITORS' INDEPENDENCE DECLARATION

The Auditors' Independence Declaration required under section 307C of the Corporations Act 2001 is set out on page 14 and forms part of the Directors' Report for the financial period ended 30 June 2010.

ROUNDING OF AMOUNTS

Amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars in accordance with Australian Securities and Investments Commission Class Order 98/100.

This report is made in accordance with a resolution of the Directors.

Russell D Langusch
Managing Director
23 September 2010

Chartered Accountants
& Business Advisers

Auditors' Independence Declaration

As lead engagement partner for the audit of Orion Petroleum Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

Bruce Gordon
Partner
23 September 2010

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Statement of comprehensive income

	Note	30 June 2010 $'000	30 June 2009 $'000
Interest income		533	891
Exploration and evaluation expenditure written off		(3,101)	(4,386)
Directors fees		(92)	(158)
Employee benefit expenses		(860)	(571)
Professional and consulting fees		(147)	(173)
Auditors remuneration		(46)	(48)
Depreciation and amortisation		(57)	(58)
Proposed Gas2Grid merger (terminated)		(320)	-
Octanex takeover defence (lapsed)		(230)	-
Other operating expenses		(312)	(228)
Loss before income tax		(4,632)	(4,731)
Income tax expense	5	-	-
Loss attributable to members of ORION PETROLEUM LIMITED		(4,632)	(4,731)
Other comprehensive income		-	-
Total comprehensive loss for the year		**(4,632)**	**(4,731)**
Loss per share from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic loss per share	21	(2.99)	(3.05)
Diluted loss per share	21	(2.99)	(3.05)

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

Statement of financial position
As at 30 June 2010

ASSETS	**Note**	**2010 $'000**	**2009 $'000**
Current assets			
Cash and cash equivalents	6	9,851	12,770
Inventories	7	200	198
Other current assets	8	397	124
Total current assets		10,448	13,092
Non-current assets			
Exploration and evaluation expenditure	9	1,578	1,676
Property, plant and equipment	10	126	181
Total non-current assets		1,704	1,857
Total assets		12,152	14,949
LIABILITIES			
Current liabilities			
Trade and other payables	11	1,968	188
Provisions	12	29	15
Total current liabilities		1,997	203
Non-current liabilities		-	-
Total liabilities		1,997	203
Net assets		10,155	14,746
EQUITY			
Contributed equity	13	21,282	21,282
Options reserve	14	110	69
Accumulated losses	15	(11,237)	(6,605)
Total equity		10,155	14,746

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

Statement of changes in equity

	Issued Capital	Options Reserve	Accumulated Losses	Total
Balance at 1 July 2008	21,282	-	(1,874)	19,408
Total comprehensive loss for the year	-	-	(4,731)	(4,731)
Other comprehensive income			-	-
Total comprehensive loss for the year	**-**		**(4,731)**	**(4,731)**
Transactions with owners in their capacity as owners				
Share based payments	-	69	-	69
Balance at 30 June 2009	**21,282**	**69**	**(6,605)**	**14,746**
Total comprehensive loss for the year	-	-	(4,632)	(4,632)
Other comprehensive income			-	-
Total comprehensive loss for the year	**-**	**-**	**(4,632)**	**(4,632)**
Transactions with owners in their capacity as owners				
Share based payments	-	41	-	41
Balance at 30 June 2010	**21,282**	**110**	**(11,237)**	**10,155**

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

Statement of cash flows

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Payments for exploration and evaluation		(1,577)	(6,468)
Payments to suppliers and employees (inclusive of goods and services tax)		(1,878)	(1,065)
Interest received		539	1,198
Net cash outflow from operating activities	20	(2,916)	(6,335)
Cash flows from investing activities			
Payments for property, plant and equipment		(4)	(5)
Proceeds on disposal of property, plant and equipment		1	-
Net cash outflow from investing activities		(3)	(5)
Net (decrease) increase in cash and cash equivalents		(2,919)	(6,340)
Cash and cash equivalents at beginning of the year		12,770	19,110
Cash and cash equivalents at end of year	6	9,851	12,770

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

Notes to the financial statements

1. Summary of significant accounting policies

The financial report covers Orion Petroleum Limited, a public listed company, incorporated and domiciled in Australia, for the year ended 30 June 2010.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Company Interpretations and the Corporations Act 2001.These financial statements comply in material respects with International Financial Reporting Standards (IFRS).

The financial statements are presented in Australian Dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that class order all financial information in the financial report has been rounded to the nearest one thousand dollars unless otherwise stated.

Financial statement presentation

The Company has applied the revised AASB101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Company has had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard where applicable.

Operating segments

The Company has applied the revised AASB 8 Operating Segments on its effective date. The Operating segments determined in accordance with AASB 8 disclosures are shown in note 4.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(c) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

(d) Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the Company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate
IT and office equipment	33.30%
Office furniture and fittings	20.00%
Leasehold improvements	20.00%

(e) Inventory

Inventories comprise consumables used in drilling of wells and are stated at the lower of cost and net realisable value.

Net realisable value is determined with reference to the replacement cost of the inventory.

(f) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(g) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(h) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(j) Share based payments

When goods or services received are acquired in a share-based payment transaction, they are recognised as expenses or assets, as determined by the nature of the goods or services received, over the vesting period attached to the equity instrument acquired in the transaction. A corresponding increase is recognised in equity.

The goods or services are measured by reference to the fair value of goods or services received, or where this is not possible, indirectly, by reference to the equity instrument acquired. The fair value of the equity instrument is measured at grant date.

The Company offers interest free loans to employees and eligible persons (including Directors) for terms of up to five years under the Employee Incentive Plan for subscription of shares, and under such loans, the Company holds a lien over the issued shares.

The issue of shares using the proceeds of any loan under the Employee Incentive Plan to employees and eligible parties (including Directors) has been treated as an option grant.

(k) Exploration and evaluation expenditure

Exploration and evaluation expenditures incurred are accumulated in respect of each identifiable area of interest and are carried forward in the statement of financial position where:

(i) rights to tenure of the area and participating interest are current; and

(ii) one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
- exploration and/or evaluation activities in the area of interest have not, at balance sheet date, yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relation to, the areas are continuing.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated expenditure on areas that have been abandoned, or are considered to be of no value is written off in the year in which such a decision is made.

Expenditure relating to pre-exploration activities (such as for new venture work) is written off to the statement of comprehensive income during the period in which the expenditure is incurred.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(l) Rehabilitation obligations

Where applicable, a provision for material rehabilitation obligations is recognised on a gradual basis over the life of the exploration licenses. The amount recognised includes costs of reclamation and site rehabilitation after taking into account restoration works that are carried out during exploration. Costs are determined from estimates of future costs on an undiscounted basis.

(m) Impairment

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

(n) Revenue recognition

Interest income

Revenue is recognised as interest accrued using the effective interest method.

(o) New accounting standards and interpretations

The following Australian Accounting Standards have been issued or amended and are applicable to the Company but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

Australian Accounting Standards

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Financial Instruments	Dec 2009	1 Jan 2013
2009 – 5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	May 2009	1 Jan 2010
2009 – 8	Amendments to Australian Accounting Strandards – Group Cash-settled Share-based Payment Transactions	Jul 2009	1 Jan 2010
2009 – 10	Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132]	Oct 2009	1 Feb 2010
2009 – 12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 6, 1039 & 1052]	Dec 2009	1 Jan 2011

Australian Interpretations

Int No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Extinguishing Financial Liabilities with Equity Instruments	Dec 2009	1 July 2010

Main Features of newly issued or amended Australian Accounting Standards

AASB 9 Financial Instruments

AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The IASB plans to complete its work on financial liabilities during 2010 and will issue requirements for financial liabilities that will be included in AASB 9 in due course.

The main changes from AASB 139 are described below:

(a) Financial assets are classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. Application guidance has been included in AASB 9 on how to apply the conditions necessary for amortised cost measurement.

(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Hybrid contracts with financial asset hosts are classified and measured in their entirety in accordance with the classification criteria. Embedded derivative assets that are separated from financial liability or non-financial hosts in accordance with AASB 139 are to be accounted for in accordance with AASB 9.

(e) Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value.

(f) Investments in contractually linked instruments that create concentrations of credit risk (tranches) are classified and measured using a 'look through' approach. Such an approach looks to the underlying assets generating cash flows and assesses the cash flows against the classification criteria (discussed in (a) above) to determine whether the investment is measured at fair value or amortised cost.

(g) Financial assets are reclassified when there is a relevant change in the entity's business model changes.

AASB 2009-5 Amendments Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]

AASB 2009-5 results from the International Accounting Standards Board's annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to accounting standards.

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The subjects of the principal amendments to the Standards are set out in the preface to the standard.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

AASB 2009-8 clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.

The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132]

The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments.

AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 6, 1039 & 1052]

The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.

These amendments have no major impact on the requirements of the amended pronouncements.

Main features of newly issued or amended Australian Interpretations

Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

This Interpretation addresses the following issues:

- The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 of AASB 139. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 39 of AASB 139.

- When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured.

- If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (e.g. a demand deposit), paragraph 49 of AASB 139 is not applied.

- If only part of the financial liability is extinguished, the entity shall assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If part of the consideration paid does relate to modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding. The entity shall consider all relevant facts and circumstances relating to the transaction in making this allocation.

- The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 41 of AASB 139. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.

- When only part of the financial liability is extinguished, consideration shall be allocated in accordance with above. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 40 of AASB 139.

- An entity shall disclose a gain or loss recognised as a separate line item in profit or loss or in the notes.

2. Financial risk management

The Company's only financial instruments consist of deposits with banks and accounts payable.

The Company does not presently have any bills, leases, preference shares, trade receivables, loans payable or receivable, or derivatives.

Market risk

The Company has no material exposure to foreign exchange risk.

Credit risk

The Company has no significant concentrations of credit risk.

Liquidity risk

Prudent liquidity risk management ensures the Company maintains sufficient cash flows to meet its requirements.

Liquidity risk table	**Non-interest bearing**	**1 Year or less**	**Over 1 to 5 years**	**More than 5 years**	**Floating interest rate**	**Total**	**Weighted average interest rate**
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**	
2010							
Financial liabilities							
Payables	1,918	1,918	-	-	-	1,918	-
Borrowings	-	-	-	-	-	-	-
	1,918	1,918	-	-	-	1,918	
2009							
Financial liabilities							
Payables	119	119	-	-	-	119	-
Borrowings	-	-	-	-	-	-	-
	119	119	-	-	-	119	

Cash flow and fair value interest rate risk

The Company's operations are currently exposed to interest rate risk. This risk is managed by the use of fixed term deposits over periods ranging from 30 to 180 days.

Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates and the effective weighted average interest rates on those financial assets, is as follows:

2010	**Average interest rate**	**Fixed interest rate maturity less than 1 year**	**Non-interest bearing**	**Total**
	%	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and cash equivalent	5.28	9,851	-	9,851
Other		-	363	363
Total financial assets		9,851	363	10,214
Financial liabilities				
Trade and other payables		-	1,918	1,918
Total financial liabilities		-	1,918	1,918

Financial instruments

(i) Derivative financial instruments

As at the date of this report, the Company does not have any derivative financial instruments.

(ii) Trade payables

Trade and sundry payables are expected to be paid as follows:

	2010 $'000	**2009 $'000**
Less than 6 months	1,918	119

(iii) Net fair values

The net fair values of all assets and liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Financial assets where the carrying amount exceeds net fair values have not been written down as the Company intends to hold these assets to maturity.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date. Fair values are materially in line with carrying values.

(iv) Sensitivity analysis

Interest rate risk and foreign currency risk

The Company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest rate sensitivity analysis

At 30 June 2010, the only item affected by a change in interest rate would be the cash on deposit.

Interest rate risk sensitivity analysis change in profit before tax	**2010 $'000**	**2009 $'000**
Increase in interest rates by 1%	97	128
Decrease in interest rates by 1%	(97)	(128)

Apart from a change to profit, a change in interest rates will have no impact on equity of the Company.

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

Capital management

Management controls the capital of the Company in order to provide the shareholders with adequate returns and ensure that the Company can fund its operations and continue as a going concern.

Due to the early stage nature of the Company's business, the Company's capital is limited to ordinary share capital.

There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Company since commencement of operations. The Company does not presently have any borrowings.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of the future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no current estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible assets

The Company tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1.

4. Segment information

Orion Petroleum Limited operates in one geographical area, Australia, within one business segment, exploration for oil and gas resources.

	2010 $'000	2009 $'000
5. Income tax		
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	4,632	4,731
Tax at the Australian tax rate of 30%	1,390	1,419
Tax effect of non-temporary differences	(7)	(22)
Tax effect of equity raising costs debited to equity	103	103
Tax losses and timing differences not bought to account	(1,486)	(1,500)
Income tax expense	-	-
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	13,437	9,000
Potential tax benefit @ 30%	4,031	2,700

No amounts have been recognised for deferred tax on income losses as it is not yet probable that future taxable amounts will be available against which to utilise losses.

6. Cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank and in hand	125	70
Deposits at call	9,726	12,700
Total cash balances per statement of cash flows	9,851	12,770

Deposits at call

The deposits are bearing floating interest rates ranging from 4.45% to 5.85% per annum. (These deposits have an average maturity of 90 days).

7. Inventories

	2010 $'000	2009 $'000
Consumables	200	198

The inventory consists of production casing (2,550 meters), a refurbished wellhead and a drilling bit 8½" GF30 ODPS.

8. Other current assets

	2010 $'000	2009 $'000
Sundry debtors	5	-
Prepayments	34	28
Interest receivable	66	73
Deposits	-	1
GST receivable	291	22
Fuel tax rebate receivable	1	-
	397	124

9. Exploration and evaluation expenditure

	2010 $'000	2009 $'000
Exploration and evaluation expenditure Opening balance 1 July	1,676	822
Additions during the year at cost	3,003	5,240
Amounts written off during the year	(3,101)	(4,386)
Closing balance 30 June	1,578	1,676

Recoverability of the carrying amount of the exploration and evaluation expenditure is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Management has considered whether indicators of impairment exist in relation to exploration and evaluation expenditure with reference to AASB 6 "Exploration for and Evaluation of Mineral Resources". Where no indicators of impairment are identified no impairment testing is performed. Where an indicator of impairment is identified, management policy is to impair the asset until such time as there is an indicator of reversal of impairment.

10. Property, plant and equipment

	IT and office equipment **$'000**	Furniture and fixtures **$'000**	Leasehold improvements **$'000**	Total **$'000**
As at 30 June 2010				
Cost or fair value	51	93	112	256
Accumulated depreciation and amortisation	(38)	(40)	(52)	(130)
Net book amount	13	53	60	126
Year ended 30 June 2010				
Reconciliation of movement in property, plant and equipment				
Opening net book amount	32	67	82	181
Additions	-	4	-	4
Disposals	(2)	-	-	(2)
Depreciation and amortisation charge	(17)	(18)	(22)	(57)
Closing net book amount	13	53	60	126

	IT and office equipment **$'000**	Furniture and fixtures **$'000**	Leasehold improvements **$'000**	Total **$'000**
As at 30 June 2009				
Cost or fair value	55	89	112	256
Accumulated depreciation and amortisation	(23)	(22)	(30)	(75)
Net book amount	32	67	82	181
Year ended 30 June 2009				
Reconciliation of movement in property, plant and equipment				
Opening net book amount	49	81	105	235
Additions	1	3	-	4
Depreciation and amortisation charge	(18)	(17)	(23)	(58)
Closing net book amount	32	67	82	181

	2010 $'000	2009 $'000
11. Trade and other payables		
Trade payables	1,723	25
Office fit-out incentive	50	69
Other payables	195	94
	1,968	188

All current liabilities are unsecured.

12. Provisions

	2010 $'000	2009 $'000
Provision for employee entitlements – opening balance	15	2
Charge to the statement of comprehensive income for the year	22	13
Benefits paid out	(8)	-
	29	15

This provision relates solely to employee annual leave entitlements.

13. Contributed equity

(a) Share capital

	2010 Shares	2009 Shares	2010 $'000	2009 $'000
Ordinary shares	160,000,000	155,000,000	21,282	21,282

(b) Movements in equity

Date	Details	Number of Shares	Issue Price	$'000
1 July 2009	Opening balance	155,000,000		21,282
24 March 2010	Issue ordinary shares under employee incentive plan	5,000,000	13 cents	650
	Treasury shares held under Employee Incentive Plan			(650)
30 June 2010	Closing balances	160,000,000		21,282

Treasury shares are shares held in Orion Petroleum Limited under the Employee Loan Plan. Refer to Section (c) of the Remuneration Report on page 10 for details of the loan plan.

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The fully paid ordinary shares have no par value.

(d) Treasury Shares

Treasury shares are shares held in Orion Petroleum Limited that are held in escrow under the Orion Petroleum Employee Incentive Plan.

(e) Options

Date	Details	Number of Options	Exercise Date	Exercise ($)
1 July 2009	Opening balance	119,950,000		
23 July 2009	Issue of options under employee incentive plan	100,000	23/07/12	$0.15
30 June 2010	Closing balance	120,050,000		

14. Options reserve

The options reserve comprises the fair value of incentive shares and options issued over ordinary shares of the Company and increased during the year as follows;

The Company has recognised an expense of $10,622 for employee services received during the year arising from the issue of 100,000 employee options as detailed in the Remuneration Report (2009: $69,240).

The Company has also recognised an expense of $30,493 for employee services received during the year arising from the issue of 5,000,000 incentive shares to the Managing Director as detailed in the Remuneration Report (2009: nil).

	2010 $'000	2009 $'000
15. Accumulated losses		
Opening balance 1 July	6,605	1,874
Net loss for the year	4,632	4,731
Closing balance 30 June	11,237	6,605

16. Key management personnel disclosures

(a) Directors

The following persons were Directors of Orion Petroleum Limited during the financial period:

Robert Willcocks	Chairman – Non-Executive (appointed 16 April 2010)
Russell Langusch	Managing Director (appointed 2 October 2009)
Dennis J Morton	Non-Executive Director (appointed 9 July 2007)
Ashley V Edgar	Non-Executive Director (appointed 24 October 2007)
David A Casey	Alternate Director to A V Edgar (appointed 23 October 2008)
Bun C Hung	Chairman – Non-Executive (appointed 9 July 2007 - ceased 2 October 2009)
Barry L Smith	Managing Director (appointed 9 July 2007 – ceased 2 October 2009)
W Guy Allinson	Non-Executive Director (appointed 9 July 2007 – ceased 2 October 2009)

(b) Other key management personnel compensation

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

Allan B Freeman *Company Secretary and Chief Financial Officer*

(c) Key management personnel compensation

Detailed remuneration disclosures can be found in sections (a) to (c) of the remuneration report which forms part of the Directors' Report.

(d) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms & conditions of the options, can be found in section (c) of the remuneration report on pages 7 to 11.

Option holdings

The number of unlisted options over ordinary shares in the Company held during the financial year by each Director of Orion Petroleum Limited are set out below. These options were released from escrow effective 12 December 2009.

Name	Balance at start of the year/or on appointment	Exercised	Issued	Balance at end of the year/or on vacating office *	Vested and exercisable	Unvested
R M Willcocks	-	-	-	-	-	-
R D Langusch	-	-	-	-	-	-
B C Hung	1,250,000	-	-	1,250,000*	1,250,000	-
B L Smith	1,500,000	-	-	1,500,000*	1,500,000	-
W G Allinson	500,000	-	-	500,000*	500,000	-
A V Edgar	500,000	-	-	500,000	500.000	-
DJ Morton	500,000	-	-	500,000	500,000	-
D A Casey (Alt)	-	-	-	-	-	-
	4,250,000	-	-	4,250,000	4,250,000	-

*balance on date ceased to be a Director, 2 October 2009.

In addition to the above Mr D J Morton, through Budisde Pty Ltd <Employees Super Fund> also holds 1,000,000 listed options, as detailed in the Remuneration Report on page 11.

Share holdings

The number of shares in the Company held during the financial year by each Director of Orion Petroleum Limited, including their personally related parties, are set out below. There were 5,000,000 shares issued to the Managing Director under the Employee Incentive Plan during the reporting period.

Name	Balance at start of the year/or on appointment	Purchased during the year	Sold during the period	Balance at the end of the year/or on vacating office*
R M Willcocks	-	-	-	-
R D Langusch	-	5,000,000	-	5,000,000
B C Hung*	1,550,000	-	-	1,550,000
Barry L Smith*	1,570,000	-	-	1,570,000
W Guy Allinson*	500,000	-	-	500,000
Ashley V Edgar	550,000	-	-	550,000
Dennis J Morton	1,500,000	-	-	1,500,000
David A Casey (Alt)	-	-	-	-
	5,670,000	5,000,000	-	10,670,000

***** ceased to be a director on 2 October 2009

(e) Loans to key management personnel

The only loan made to key management personnel by the Company during the year was a loan of $650,000 made to the Managing Director, Mr R D Langusch in March 2010 to enable him to take up 5,000,000 incentive shares in the Company, under the Employees Incentive Plan. Refer to Section (c) of the Remuneration Report on page 10 for details of the loan plan.

(f) Loans from key management personnel

There were no loans made by key management personnel to the Company during the year.

(g) Other transactions with key management personnel

(i) Dunraven Holdings Pty Ltd

Mr Robert M Willcocks, a director, is also a director of Dunraven Holdings Pty Ltd. Orion Petroleum Limited has engaged Dunraven Holdings Pty Ltd to provide corporate advisory consulting services from time to time, which include his normal duties of a non-executive Chairman. The contract is based on normal commercial terms.

	2010 $'000	2009 $'000
Amounts recognised as an expense or directly in equity		
Corporate advisory and associated services	11	-

(ii) Petrolex Pty Ltd

Bun C Hung, a director until 2 October 2009, is also a director of Petrolex Pty Ltd. Orion Petroleum Limited had engaged Petrolex Pty Ltd to provide consulting services from time to time, which were in addition to his normal duties of a non-executive Chairman. The contract was based on normal commercial terms and has now been terminated

Amounts recognised as an expense or directly in equity		
Corporate advisory and associated services	6	12

(iii) Petroleum Economics Pty Ltd

Guy Allinson, a Director until 2 October 2009, is also a Director of Petroleum Economics Pty Ltd. Orion Petroleum Limited had engaged Petroleum Economics Pty Ltd to provide consulting services from time to time which were in addition to his normal duties of a non-executive director. The contract was based on normal commercial terms and has now been terminated.

Amounts recognised as an expense or directly in equity		
Corporate advisory and associated services	13	25

(iv) Allan Freeman Consulting

Allan Freeman, a senior executive, is also the Principal of Allan Freeman Consulting. Orion Petroleum Limited has engaged Allan Freeman Consulting to provide Company secretarial and accounting services on a part-time basis. The contract is based on normal commercial terms.

	2010 $'000	2009 $'000
Amounts recognised as an expense		
Accounting and secretarial services	116	145

17. Contingencies

(a) Contingent liabilities

	2010	2009
Bankers' guarantees issued for the fulfilment of obligations under exploration licences	400	420
Obligations under a bank corporate credit card facility with the Commonwealth Bank of Australia	25	25
Bankers' guarantee issued as security for the performance by the Company of its obligations under a lease of office premises at Suite 303, 10 Bridge Street, Sydney	80	80
Total	505	525

(b) Contingent assets

The Company has no contingent assets to report as at 30 June 2010 (2009: nil).

18. Commitments

Exploration expenditure commitments

Orion Petroleum Limited is required to meet minimum committed expenditure requirements to maintain current rights of tenure to petroleum and mining licences. These obligations may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the statement of financial position. In addition, the Company has obligations in regard to Native Title. A summary of aggregate commitments is as follows:

	2010 $'000	2009 $'000
Within 1 year	1,530	780
1 year or longer, but not longer than 5 years	1,346	250
Longer than 5 years	-	-
Total	2,876	1,030

19. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor:

Audit services		
PKF – Audit and review of financial reports	43,000	41,000
Non-audit services		
PKF – General matters	3,000	7,000
Total	46,000	48,000

20. Reconciliation of loss after income tax to net cash inflow from operating activities

Loss for the year	(4,632)	(4,731)
Depreciation	57	58
(Increase) Decrease in other exploration and evaluation expenditure capitalised	98	(854)
(Increase) Decrease in inventory	(2)	(198)
(Increase) in other assets	(5)	(11)
(Increase) Decrease in other debtors	(268)	1,014
(Decrease) Increase in creditors and accruals	1,836	(1,613)
Net cash outflow from operating activities	(2,916)	(6,335)

21. Earnings per share

(a) Basic loss per share

	2010 $'000	2009 $'000
Loss from continuing operations attributable to the ordinary equity holders of the Company	4,632	4,731
Loss attributable to ordinary equity holders of the Company	4,632	4,731

(b) Diluted loss per share

Options issued to shareholders and related parties are considered to be potential ordinary shares and have been considered in the determination of diluted earnings per share. There are no options in the money and as such they do not have a material dilutive effect on earnings per share. The diluted earnings per share are not different from basic earnings per share. Details relating to the options are set out in the Director's Report on page 3 to 13.

(c) Reconciliation of earnings used in calculating earnings per share

Basic earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	4,632	4,731
Loss attributable to ordinary equity holders of the Company	4,632	4,731

(d) Weighted average number of shares used as the denominator

	2010 Number	2009 Number
Weighted average number of shares used as denominator in calculating:		
Basic earnings per share	155,000,000	155,000,000
Diluted earnings per share	155,000,000	155,000,000

22. Subsequent events

There has not arisen in the interval since 30 June 2010 any matter that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial periods.

23. Corporate information

The financial report of Orion Petroleum Limited for the period ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 23 September 2010 Orion Petroleum Limited is a Company limited by shares, incorporated in Australia, whose shares are publicly traded of the Australian Securities Exchange. The Directors have the power to amend and re-issue the financial report.

Directors' Declaration

The Directors of Orion Petroleum Limited declare that:

(a) In the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 14 to 40, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

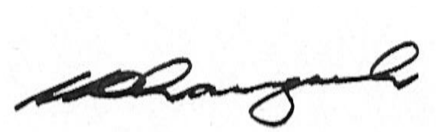
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in note 1; and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Managing Director and Chief Financial Officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors.



Russell D Langusch
Managing Director

Dated: 23rd September 2010

AUDITORS' REPORT

Chartered Accountants
& Business Advisers

To the members of Orion Petroleum Limited

Report on the Financial Report

We have audited the accompanying financial report of Orion Petroleum Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Auditors' Opinion

In our opinion:

(a) the financial report of Orion Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditors' Opinion

In our opinion the Remuneration Report of Orion Petroleum Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Acts 2001*.

PKF

Bruce Gordon
Partner
23 September 2010