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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sino Oil and Gas Holdings Limited (formerly known as Genesis Energy Holdings Limited) (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire purchase or subscribe for securities of the Company.



Sino Oil and Gas Holdings Limited
中國油氣控股有限公司

(formerly known as Genesis Energy Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock code: 702)

**MAJOR TRANSACTION RELATING TO
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
POWER GREAT LIMITED**

Financial Adviser to the Company


Optima Capital Limited

A notice convening the special general meeting of the Company to be held at Macau Jockey Club, 1/F., Function Room, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 13 October 2010 at 11:00 a.m. is set out from pages 191 to 192 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy to the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting of the Company. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting of the Company should you so wish.

27 September 2010

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DEFINITIONS

In this circular, the following terms shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the entire issued share capital in the Target Company by the Company pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 16 July 2010 entered into among the Vendor, the Company, Mr. Yang, Major Port Limited, ORION Energy Holding, Inc. and Petromic Corporation with respect to the Acquisition as amended by a supplemental agreement among the same parties dated 24 September 2010
“associates”	has the meaning ascribed to it in the Listing Rules
“Beijing Orion”	北京奧瑞安能源技術開發有限公司(Beijing Orion Energy Technology & Development Inc.*)
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	Central Clearing and Settlement System
“ChinaCoal”	China National Coal Group Corp. which is a state-owned enterprise established in the PRC
“Company”	Sino Oil and Gas Holdings Limited (formerly known as Genesis Energy Holdings Limited) (stock code: 702), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Competent Evaluator”	Mr. Alexander N. Lopatnikov, who undertook the valuation contained in the Valuation Report
“Competent Person”	Netherland, Sewell & Associates, Inc., which prepared the Competent Person’s Report
“Competent Person’s Report”	a report on the estimated proved reserves and proved plus probable reserves of the coalbed methane field (which is the subject of the Production Sharing Contract) attributable to OEI as of 30 April 2010 issued by the Competent Person for inclusion in this circular
“Completion”	completion of the Acquisition Agreement
“connected persons”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Consideration Shares”	the 1,560,000,000 new Shares to be allotted and issued to the Vendor at the Issue Price, credited as fully paid at Completion in accordance with the terms of the Acquisition Agreement
“Contract Area”	a total exploration area of approximately 461.74 square kilometers subject to reduction in accordance with the Production Sharing Contract located in Sanjiao Block in Shanxi and Shaanxi Provinces in the PRC
“Conversion Share(s)”	the new Share(s) falling to be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds by the holder(s) thereof at the conversion price prevailing at the time the conversion notice is given by the relevant holder of the Convertible Bonds
“Convertible Bonds”	the non-interest bearing bond(s) of principal amount of HK\$780 million in aggregate carrying right to convert into new Shares at the initial conversion price of HK\$0.50 per Share, subject to adjustments, to be issued by the Company to satisfy part of the consideration under the Acquisition
“CUCMCL”	中聯煤層氣有限責任公司 (China United Coalbed Methane Corporation Limited*), a company incorporated in the PRC with limited liability and a wholly owned subsidiary of ChinaCoal
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group immediately after Completion
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Incentive Shares”	312,000,000 new Shares to be issued at the Issue Price on adjustment of the consideration in circumstances described in paragraph headed “Adjustment to the consideration” in the section headed “The Acquisition” in the letter from the Board to this circular
“Independent Third Parties”	independent third party(ies) who is (are) not connected person(s) of the Company and is (are) independent of the Company and connected persons of the Company
“Issue Price”	the issue price of each Consideration Share and each Incentive Share of HK\$0.50 per Share

DEFINITIONS

“Joint Management Committee”	a joint management committee formed as required under the Production Sharing Contract to which each of the Operator and PetroChina may appoint two to five representatives as members
“Last Trading Day”	13 July 2010, being the last day on which the Shares were traded on the Stock Exchange prior to suspension of trading in the Shares pending release of the Company’s announcement dated 20 July 2010 in relation to the Acquisition
“Latest Practicable Date”	22 September 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the third anniversary of the date of the issue of the Convertible Bonds
“Minimum Possible Placing Price”	HK\$0.53 being the minimum price for each Placing Share that may be agreed between the Company and the Placing Agent under the Placing Agreement
“Mr. Yang”	Mr. Yang Lu Wu
“OEI”	Orion Energy International Inc., a company incorporated in the Cayman Islands with limited liability
“Operator”	the entity responsible for the performance of the coalbed methane operations under the Production Sharing Contract, currently being OEI
“Overall Development Program”	a plan to be developed by OEI for the development of a coalbed methane field or part of a coalbed methane field (phased development) for the approval of the Joint Management Committee under the Production Sharing Contract and for the approval of the National Development and Reform Commission. The date of approval of the Overall Development Program by the National Development and Reform Commission marks the commencement of the development period of the relevant coalbed methane field under the Production Sharing Contract
“PetroChina”	PetroChina Company Limited (stock code: 857), a joint stock limited company incorporated in the PRC under the Company Law of the PRC, and listed on the Shanghai Stock Exchange and Main Board of the Stock Exchange with American depository shares listed on the New York Stock Exchange, and its subsidiaries

DEFINITIONS

“Placing”	the placing of up to 4,415,000,000 Placing Shares by the Placing Agent pursuant to the Placing Agreement, details of which were set out in the announcement of the Company dated 3 July 2010 and circular of the Company dated 30 July 2010
“Placing Agent”	Cantor Fitzgerald (Hong Kong) Capital Markets Limited, a corporation licensed under the SFO to carry out Type 1 regulated activities
“Placing Agreement”	the conditional placing agreement dated 3 July 2010 between the Company and the Placing Agent in relation to the Placing
“Placing Shares”	up to 4,415,000,000 new Shares to be placed by the Company under the Placing Agreement
“PRC”	The People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Partner”	being (i) CUCMCL before the completion of the transfer by CUCMCL all of its interests and associated obligations with respect to certain gas fields (including those in the Contract Area) to PetroChina as approved by the State-owned Assets Supervision and Administration Commission of the State Council, and (ii) PetroChina after completion of such transfer
“Production Sharing Contract”	the production sharing contract dated 28 March 2006 entered into between OEI and the PRC Partner in relation to the exploration, development, production and sale of the coalbed methane and other related or derivative products that may exist in the Contract Area
“Sale Loan”	the aggregate sum of US\$3,274,478 (or approximately HK\$25.54 million), representing the outstanding interest-free unsecured loan advanced by the shareholders of the Target Company to the Target Company or OEI as at 30 April 2010
“Sale Share”	the 1 share of US\$1.00 in the share capital of the Target Company as at the date of the Acquisition Agreement
“SFO”	The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at 11:00 a.m. on Wednesday, 13 October 2010 at Macau Jockey Club, 1/F., Function Room, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong to approve the Acquisition Agreement and transactions contemplated thereunder
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Target Company”	Power Great Limited, a company incorporated in the Cayman Islands with limited liability
“Target Group”	the Target Company and its subsidiary, OEI
“VALMIN Code”	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (2005 edition), as prepared by the VALMIN Committee, a joint committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association as amended from time to time
“Valuation Report”	the valuation report on the coalbed methane reserves in the Contract Area in which OEI is interested as of 31 May 2010 in accordance with the reporting standards of the VALMIN Code issued by the Competent Evaluator and the Valuer for the inclusion in this circular
“Valuer”	American Appraisal China Limited, an independent valuer
“Vendor”	Ocean Glory Limited, a company incorporated in the Cayman Islands with limited liability, which is an Independent Third Party
“bcf.”	billion cubic feet
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For illustration purpose only, the exchange rates of US\$1:HK\$7.8 and RMB1: HK\$1.144 have been adopted in this circular.

** for identification purposes only.*

LETTER FROM THE BOARD



Sino Oil and Gas Holdings Limited 中國油氣控股有限公司

(formerly known as Genesis Energy Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock code: 702)

Executive Directors

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Mr. Dai Xiaobing

Mr. Wang Ziming

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Hong Kong

Independent Non-executive Directors

Dr. Di Lingjun

Mr. Wong Kwok Chuen Peter

Dr. Wong Lung Tak Patrick

27 September 2010

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER GREAT LIMITED

INTRODUCTION

The Company and the Vendor entered into a binding heads of agreement on 13 July 2010, followed by the acquisition agreement on 16 July 2010, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, or procure the sale of the Sale Share (representing the entire issued share capital of Target Company) and the Sale Loan at an aggregate price of HK\$2,340,000,000, subject to adjustment by the issue of Incentive Shares if certain increase in reserves can be shown as described below. On 24 September 2010, the parties to the Acquisition Agreement entered into a supplemental agreement by which the parties clarified (i) the exact minimum threshold of reserves which trigger the issue of the Incentive Shares, based on the reserves estimated in the Competent Person's Report; and that (ii) the delivery of a Cayman Islands legal opinion with respect to the Vendor (the scope of the Cayman Islands legal opinion is set out in the paragraph headed "Conditions precedent of the Acquisition Agreement" below) and the obtaining of approvals of the Company's independent shareholders, the Bermuda Monetary Authority and the Listing Committee of the Stock Exchange for the issue and listing of the Incentive Shares and the Conversion Shares as also conditions precedent to Completion. As at the Latest Practicable Date, the direct wholly-owned and sole subsidiary of Target Company, OEI, enjoys a 70% interest in the joint exploration, development and production of a coalbed methane field in Sanjiao Block located in Shanxi and Shaanxi Provinces in the PRC pursuant to the Production Sharing Contract with the PRC Partner.

LETTER FROM THE BOARD

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules which requires approval of the Shareholders at the SGM by way of poll. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, neither the Vendor nor its associates hold any Shares and no Shareholder is required to abstain from voting for the relevant resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition Agreement; (ii) financial and other information of the Group; (iii) financial information of the Target Group; (iv) unaudited pro forma financial information of the Enlarged Group; (v) Competent Person's Report; (vi) Valuation Report; and (vii) a notice of SGM at which a resolution will be proposed to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder.

THE ACQUISITION

The Acquisition Agreement

Date

16 July 2010 (as supplemented on 24 September 2010)

Parties

Vendor:	Ocean Glory Limited
Purchaser:	the Company
Guarantors:	(i) Mr. Yang;
	(ii) Major Port Limited;
	(iii) ORION Energy Holding, Inc.; and
	(iv) Petromic Corporation

The principal business activities of the Vendor, Major Port Limited, ORION Energy Holding, Inc., and Petromic Corporation are investment holding. The Vendor is owned as to 60% by ORION Energy Holding, Inc., 10% by Major Port Limited (which is a 75% owner of ORION Energy Holding, Inc.) and the remaining 30% by Petromic Corporation. To the best of the Directors, knowledge, information and belief having made all reasonable enquiries, Mr. Yang who has extensive experience in coalbed methane reserve assessment, drilling technology applications and commercial development in the PRC, wholly-owns Major Port Limited and is a 57.5% owner of Beijing Orion, which is one of the leading service suppliers in the coalbed methane industry in the PRC which provides well drilling, well testing, pumping, repair and maintenance services for the coalbed methane field and facilities to the coalbed methane industry in the PRC (including to OEI). Details of the outstanding contracts between OEI and Beijing Orion for the procurement of aforesaid services are set out in the paragraph headed "Procurement of well drilling and related services" below. Mr. Yang has confirmed that he does not have any shareholding

LETTER FROM THE BOARD

interest in Petromic Corporation. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Yang, Major Port Limited, ORION Energy Holding, Inc., and Petromic Corporation and the respective ultimate beneficial owners of the corporate guarantors are Independent Third Parties.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell or procure the sale of, the Sale Share (representing the entire issued share capital of Target Company) and the Sale Loan. Pursuant to the Production Sharing Contract with the PRC Partner, OEI, the direct wholly-owned and sole subsidiary of Target Company, is entitled to (as at the Latest Practicable Date) a 70% interest in the joint exploration, development, production and sale of coalbed methane and related or derivative products in Sanjiao Block located in Shanxi and Shaanxi Provinces in the PRC. Further information on the Production Sharing Contract is described under the section headed "Information on the Target Group's business operations" below.

Consideration

Pursuant to the Acquisition Agreement, the aggregate consideration for the Acquisition is HK\$2,340,000,000, subject to adjustment as described below. This consideration is apportioned as follows:

- (i) as to an amount equal to the face value of the Sale Loan amounting to, as at 30 April 2010, US\$3,274,478 (or approximately HK\$25.54 million); and
- (ii) as to the balance of the consideration (i.e. approximately HK\$2,314.46 million, based on the face value of the Sale Loan as at 30 April 2010) to the Sale Share.

The consideration for the Acquisition shall be satisfied by the Company in the following manner within six Business Days following Completion:

- (i) as to HK\$780 million (which includes the consideration for the Sale Loan) by payment in cash;
- (ii) as to HK\$780 million by the allotment and issue, at the Issue Price of HK\$0.5 per Share, of 1,560,000,000 Consideration Shares credited as fully paid; and
- (iii) as to HK\$780 million by the issue of the Convertible Bonds.

It is proposed that of the total net proceeds of the proposed Placing announced by the Company on 3 July 2010, HK\$780 million will be used for funding the cash consideration of the Acquisition.

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Adjustment to the consideration

Pursuant to the Acquisition Agreement, if OEI produces within one year of Completion a competent person's report (as that term is defined in the Listing Rules) issued by a competent person (as that term is defined in the Listing Rules) confirms that the aggregate of the proved reserves, probable reserves and possible reserves of the coalbed methane attributable to OEI under the Production Sharing Contract shows at least a 15% increase over the aggregate of such reserves in the competent person's report in this circular by being not less than 664 bcf. (or in other words, the aggregate of such reserves of the entire Sanjiao Block under the Production Sharing Contract amounts to not less than 1,014 bcf.), then the consideration for the Acquisition will be increased by HK\$156 million, to be satisfied by the issue and allotment of 312,000,000 Incentive Shares at the Issue Price per Incentive Share within one month after the production of such report. The cost of such competent person's report will be borne by the Company. The Directors consider it to be appropriate to make adjustment to the consideration if the reserves or possible reserves are shown within one year from Completion to be of a higher amount when more information could be obtained from the Contract Area.

Basis of the consideration

The consideration of the Acquisition was determined after arm's length negotiations between the Company and the Vendor and with reference to (i) the preliminary valuation of the coalbed methane reserves in the Contract Area in which OEI is interested; (ii) the business potential of the Target Group; and (iii) the future prospect of coalbed methane industry as mentioned in the paragraph headed "Reasons for and benefits of the Acquisition" below. The preliminary valuation valued the OEI's participating interest in the Contract Area at a range of US\$327 million (or approximately HK\$2.55 billion) to US\$527 million (or approximately HK\$4.11 billion). The final valuation valued the coalbed methane reserves in the Contract Area in which OEI is interested at US\$375 million (or approximately HK\$2.93 billion). Details of the Valuation Report, including all relevant assumptions and the reasons why the particular valuation methods are chosen, are set out in Appendix V to this circular.

Consideration Shares and Incentive Shares

Each Consideration Share and Incentive Share is proposed to be issued at HK\$0.50 per Share. The Issue Price:

- (i) is equivalent to the closing price of HK\$0.50 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) represents a premium of approximately 2.04% over the average of the closing prices of HK\$0.49 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) represents a discount of approximately 2.15% to the average of the closing prices of HK\$0.511 per Share for the last ten trading days up to and including the Last Trading Day; and

LETTER FROM THE BOARD

- (iv) represents a premium of approximately 6.38% over the closing price of HK\$0.47 per Share on the Latest Practicable Date.

The Consideration Shares, being 1,560,000,000 new Shares, represent (i) approximately 23.33% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 18.91% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Incentive Shares, being 312,000,000 new Shares, represent (i) approximately 4.67% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.46% of the issued share capital of the Company as enlarged by the allotment and issue of the Incentive Shares.

The Issue Price was determined with reference to the prevailing market price of the Shares prior to the suspension of trading in the Shares prior to the date of the announcement of the Company dated 20 July 2010 in relation to the Acquisition.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are set out below:

Aggregate principal amount:	HK\$780,000,000
Interest:	Non-interest bearing
Maturity:	The day falling on the third anniversary of the date of issue of the Convertible Bonds
Conversion price:	The initial conversion price is HK\$0.50 (subject to adjustments for subdivision or consolidation of Shares only) for each Conversion Share
Ranking:	The Conversion Shares will when issued rank pari passu in all respects among themselves and with all other Shares then in issue in respect of the right to any dividends and distributions declared

LETTER FROM THE BOARD

- Conversion period: (A) holder(s) of Convertible Bonds shall have the right at any time and from time to time during the period commencing on and including the first anniversary of date of issue of the Convertible Bonds up to and including the date which is 7 days prior to the Maturity Date to convert the whole or part (in the amount or integral multiples of HK\$10,000,000) of the principal amount of the Convertible Bonds into Conversion Shares on each conversion, provided that no Convertible Bonds may be converted, to the extent that following such exercise (a) the minimum 25% public float requirement of the Company as required under the Listing Rules cannot be satisfied; or (b) a holder of the Convertible Bonds and parties acting in concert with it for the purposes of the Takeovers Code will incur any obligation to make any mandatory offer under Rule 26 of the Takeovers Code
- Cash election on conversion: On receipt of a conversion notice, the Company may choose to pay cash in the amount equal to 100% of the principal amount of the Convertible Bonds being converted, instead of issuing Conversion Shares
- Redemption: Unless previously converted, purchased or redeemed in accordance with the terms of the Convertible Bonds, the Company shall redeem the Convertible Bonds on the Maturity Date at the redemption amount which is 100% of the principal amount of the Convertible Bonds then outstanding which the Company may elect to satisfy in cash or by the issue of Conversion Shares at the conversion price or a combination of both
- Listing: No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange
- Transferability: The Convertible Bonds may not be transferred, without the prior written consent of the Company, (i) to any connected persons of the Company other than a person who is an associate of the holder of Convertible Bonds; or (ii) to any person who is not a direct or indirect shareholder of the bondholder on the date of transfer form. The Company undertakes to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company
- Voting: Holder(s) of the Convertible Bonds shall not be entitled to receive notices of, attend or vote at any meetings of the Company by virtue of its being a holder of Convertible Bond

LETTER FROM THE BOARD

The initial conversion price of HK\$0.50 per Conversion Share:

- (i) is equivalent to the closing price of HK\$0.50 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) represents a premium of approximately 2.04% over the average of the closing prices of HK\$0.49 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) represents a discount of approximately 2.15% to the average of the closing prices of HK\$0.511 per Share for the last ten trading days up to and including the Last Trading Day; and
- (iv) represents a premium of approximately 6.38% over the closing price of HK\$0.47 per Share on the Latest Practicable Date.

Based on the initial conversion price of HK\$0.50 per Conversion Share, the Convertible Bonds are convertible into 1,560,000,000 Conversion Shares, which represent approximately 23.33% of the issued share capital of the Company as at the Latest Practicable Date and approximately 15.91% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds at the initial conversion price of HK\$0.50 per Conversion Share.

Specific mandate

The Company will seek the grant of a special mandate at the SGM for the allotment and issue of the Consideration Shares, the Incentive Shares and the Conversion Shares.

Listing application

An application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Consideration Shares, the Incentive Shares and the Conversion Shares and necessary arrangements will be made for the Consideration Shares, Incentive Shares and Conversion Shares to be admitted into CCASS.

Conditions precedent of the Acquisition Agreement

Completion of the Acquisition is conditional upon fulfillment of the following conditions:

- (i) the Company having completed and being satisfied with the results of its due diligence review on the legal, financial and operation of the Target Group and there being no material adverse change to the legal, financial and operation of the Target Group from the date of the Acquisition Agreement up to and including the date of Completion;

LETTER FROM THE BOARD

- (ii) the Company having received a PRC legal opinion in form and substance satisfactory to the Company on matters including the following:
 - (a) the Production Sharing Contract and OEI's obligations thereunder comply with the requirements under PRC law and are legally binding and enforceable on the contracting parties;
 - (b) the binding effect and enforceability of the Production Sharing Contract against PetroChina;
 - (c) the validity of exploration licence of PetroChina in the Sanjiao Block located in Shanxi and Shaanxi Provinces, the PRC; and
 - (d) the continued valid existence of the branch of OEI in the PRC;
- (iii) the Company having received a Cayman Islands legal opinion in form and substance satisfactory to the Company on matters including the following:
 - (a) the due incorporation and valid existence of the Vendor, the Target Company and OEI under the Cayman Islands laws;
 - (b) the Vendor, the Target Company and OEI not having applied for winding up, and is not in receivership or liquidation and no application has been made by any third party for the appointment of receiver or liquidator; and
 - (c) the Vendor being the registered holder of the Sale Share and has the power to enter into and perform the Acquisition Agreement;
- (iv) the Company having obtained the approval of the independent shareholders of the Company in respect of the Acquisition Agreement, construction services agreement relating to the Contract Area (if necessary) and transactions contemplated under the Acquisition Agreement including the issue of the Consideration Shares, the Incentive Shares and the Conversion Shares;
- (v) if applicable, the Company having obtained the approval of Bermuda Monetary Authority of the allotment and issue of the Consideration Shares, the Incentive Shares and the Conversion Shares;
- (vi) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in the Consideration Shares, the Incentive Shares and the Conversion Shares;

LETTER FROM THE BOARD

- (vii) the listing status of the Shares on the Stock Exchange have not been withdrawn and there having been no suspension in trading of Shares, save for any temporary suspension not exceeding 10 consecutive trading days or any suspension in connection with temporary suspension pending the release of the announcement relating to the Acquisition, and no indication being received by the Company on or before Completion from the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to (or be subject to such conditions other than those reasonably acceptable to the Vendor) after Completion or as a result of Completion;
- (viii) the Company having received a competent person's report in compliance with the requirements under Chapter 18 of the Listing Rules, and in form and substance satisfactory to the Company, which confirms that the aggregate of proved reserves and probable reserves of the coalbed methane field at the Contract Area attributable to OEI is not less than 200 bcf.;
- (ix) the Company having received a valuation report issued by an independent competent evaluator in form and substance satisfactory to the Company which concludes that the fair market value of the Target Company is not less than HK\$2.73 billion;
- (x) the Company having received duly executed service agreements entered into between the Target Group and the senior management and technical staff of OEI and in form and substance satisfactory to the Company; and
- (xi) the approvals, consents and permission granted by the relevant PRC government authorities relating to the validity of the Production Sharing Contract, OEI and PetroChina having obtained, and the continued validity of, all consents, authorisations, licences and permissions from relevant government authorities as the Company may consider necessary.

If the conditions precedent as set out in the Acquisition Agreement have not been fulfilled or waived on or before 31 December 2010 (or such other date as the parties to the Acquisition Agreement may agree), the Acquisition Agreement will lapse and all obligations and liabilities of all parties thereunder will cease except for antecedent breaches. As at the Latest Practicable Date, conditions (viii) and (ix) have been fulfilled.

Completion

Subject to all conditions precedent being fulfilled or waived (to the extent waivable), Completion shall take place on the fifth Business Days after the fulfillment or waiver of the conditions precedent (iv), (v), (vi), (viii), (ix), (x) and (xi) of the Acquisition Agreement.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURES OF THE COMPANY

The table below contains a summary of the shareholding structure of the Company and illustrates the effect of Completion, the Placing, the issue of the Incentive Shares and the conversion of the Convertible Bonds on the shareholding structure of the Company.

	As at the Latest Practicable Date	Immediately after the allotment and issue of the Consideration Shares (assuming the Placing had not completed upon Completion)	Upon completion of the Placing and immediately after the allotment and issue of the Consideration Shares (assuming all the Placing Shares were issued)	Immediately after the allotment and issue of the Consideration Shares and the Incentive Shares (assuming the Placing had not completed upon Completion)	Upon completion of the Placing and immediately after the allotment and issue of the Consideration Shares and the Incentive Shares (assuming all the Placing Shares were issued)	Immediately after the allotment and issue of the Consideration Shares and assuming full conversion of the Convertible Bonds and the Placing had not completed upon Completion (Note 5)	Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares with the conversion restrictions under the terms of the Convertible Bonds and assuming the Placing had not completed upon Completion (Note 5)	Upon completion of the Placing and immediately after the allotment and issue of the Consideration Shares and assuming full conversion of the Convertible Bonds
	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares	Number of Approximate Shares
	%	%	%	%	%	%	%	%
SHAREHOLDERS								
Hong Chang China Limited (Note 1)	792,795,650	792,795,650	792,795,650	792,795,650	792,795,650	792,795,650	792,795,650	792,795,650
Chen Hua	390,000,000	390,000,000	390,000,000	390,000,000	390,000,000	390,000,000	390,000,000	390,000,000
Chang Yim Yang	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000
Dai Xiaobing (Note 2)	330,000,000	330,000,000	330,000,000	330,000,000	330,000,000	330,000,000	330,000,000	330,000,000
Xing Xiao ling (Note 1)	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000
Vendor (Note 3)	-	1,560,000,000	1,560,000,000	1,872,000,000	1,872,000,000	2,852,638,165	3,120,000,000	3,120,000,000
PUBLIC SHAREHOLDERS								
Places	-	-	4,415,000,000	-	4,415,000,000	-	-	4,415,000,000
Other public shareholders	4,794,162,054	4,794,162,054	4,794,162,054	4,794,162,054	4,794,162,054	4,794,162,054	4,794,162,054	4,794,162,054
Sub-total	4,794,162,054	4,794,162,054	9,209,162,054	4,794,162,054	9,209,162,054	4,794,162,054	9,209,162,054	9,209,162,054
Total	6,687,937,704	8,247,937,704	12,662,937,704	8,539,937,704	12,974,937,704	9,807,937,704	14,222,937,704	14,222,937,704

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Notes:

1. 792,795,650 Shares are owned by Hong Chang China Limited, a company wholly owned by Hong Chang Group Limited which in turn is wholly and beneficially owned by Ms. Xing Xiao Jing. In addition, Ms. Xing Xiao Jing also beneficially owns 41,000,000 Shares.
2. Mr. Dai Xiaobing is the executive Director as at the Latest Practicable Date.
3. Under the terms of the Convertible Bonds, Conversion Shares will not be issued to the Vendor if it will immediately after the issue of Conversion Shares hold 30% or more of the voting rights in the Company or such other percentages of voting rights that will result in a change of control of the Company which incur an obligation to make a mandatory offer under the Takeovers Code.
4. The illustration above is based upon the assumption that there will be no other changes to the issued share capital of the Company and the shareholding structure, between the Latest Practicable Date and the date of Completion.
5. As mentioned in note 3 above, this scenario is for illustration purpose only. The Convertible Bonds will not be converted to the extent that the Vendor as holder of the Convertible Bonds and parties acting in concert with it for the purposes of the Takeovers Code will incur any obligation to make a mandatory offer under the Takeovers Code. Absent a waiver, a person and parties acting in concert with it will incur such an obligation upon acquisition of 30% or more voting rights in the Company.

The Company, having consulted the Placing Agent, proposes to commence marketing of the Placing Shares as soon as practicable after the despatch of this circular. The aim is to have the Placing completed on or before 31 October 2010. As the Placing is on a “best efforts” basis, the number of the Placing Shares to be issued and allotted could only be ascertained shortly before completion. **If not all Placing Shares were issued, the shareholdings of the above parties in the Company upon Completion would be subject to material changes. If the proceeds of the Placing are insufficient to fund the cash consideration of the Acquisition, the Company will consider seeking alternative sources of financing.**

INFORMATION ON THE TARGET GROUP

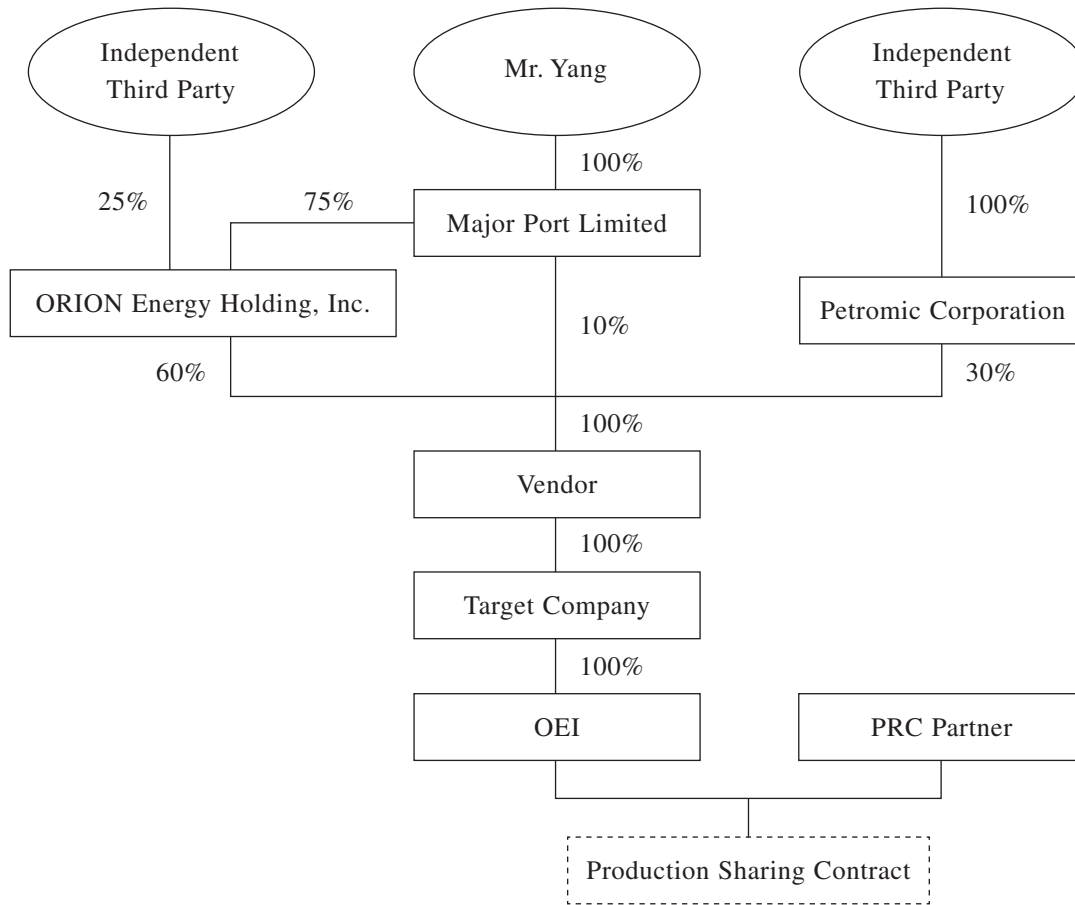
The Target Company was incorporated in the Cayman Islands on 8 January 2010 and is wholly-owned by the Vendor as at the Latest Practicable Date. The principal business activity of the Target Company is investment holding. Save for holding the Sale Share, the Target Company does not have any other investment or operations. Based on the accountants’ report of the Target Company prepared under the Hong Kong Financial Reporting Standards, the Target Company did not generate any turnover for the period since its date of incorporation to 30 April 2010. The audited net assets of the Target Company amounted to US\$1 as at 30 April 2010.

OEI was incorporated in the Cayman Islands on 5 January 2006 and is wholly-owned by the Target Company. The principal business activities of OEI are, among others, exploration, development and production of coalbed methane in the PRC. Pursuant to the Production Sharing Contract, OEI can exploit the coalbed methane resources in the Sanjiao Block located in Shanxi and Shaanxi Provinces, the PRC for a term of 30 years from the date of commencement of the implementation of the Production Sharing Contract. Details of the Production Sharing Contract are mentioned in the paragraph headed “Information on the Target Group’s business operations” below.

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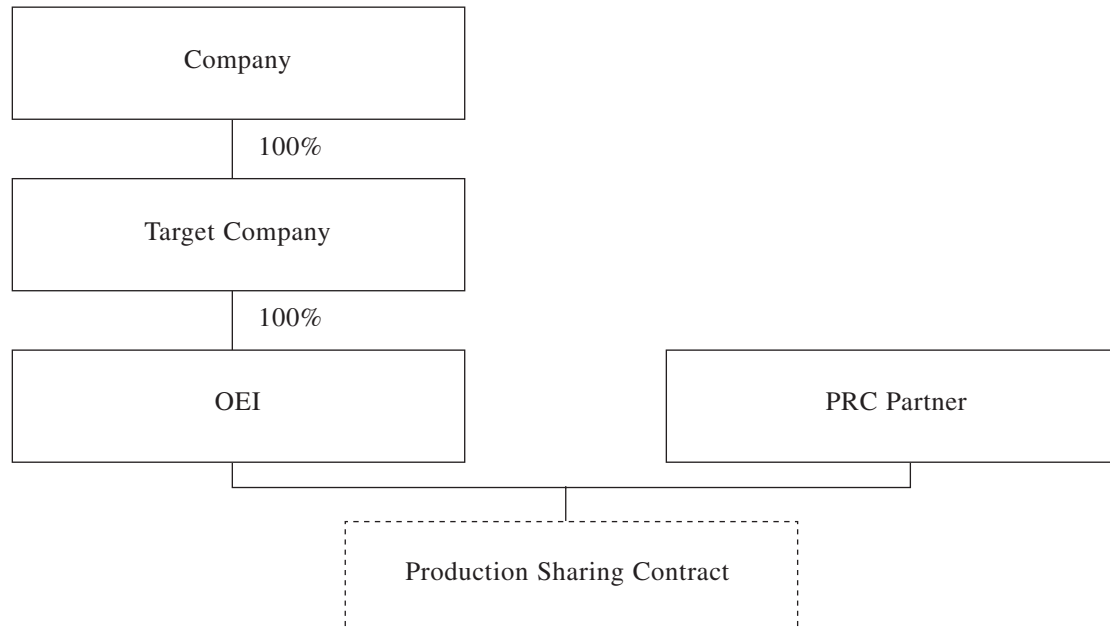
Based on the accountants' report of OEI prepared under the Hong Kong Financial Reporting Standards, OEI did not generate any turnover for the years ended 31 December 2007, 2008 and 2009 and four months ended 30 April 2010 respectively. OEI recorded audited net loss (both before and after taxation and extraordinary items) of RMB4,482,062 (or approximately HK\$5.13 million), RMB3,095,019 (or approximately HK\$3.54 million), RMB3,779,592 (or approximately HK\$4.32 million) and RMB2,837,216 (or approximately HK\$3.25 million) for the years ended 31 December 2007, 2008 and 2009 and four months ended 30 April 2010 respectively. The audited consolidated net assets of OEI amounted to approximately RMB66,574,757 (or approximately HK\$76.16 million) as at 30 April 2010.

Ownership structure of the Target Group immediately before the Completion



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Ownership structure of the Target Group immediately after the Completion



Information on the Target Group's business operations

PRC government policy

The PRC government encourages and supports exploration and exploitation of coalbed methane. Article 35 of the Law of the PRC on the Coal* (中華人民共和國煤炭法) states that the State encourages coal mining enterprises to explore coalbed methane. The exploitation and exploration of coalbed methane has been classified as encouraged category in the Guiding Catalogue of Industrial Structure Adjustment* (產業結構調整指導目錄) (2005 version) by the National Development and Reform Commission (directive of the National Development and Reform Commission No.40).

Background

The principal asset of the Target Group is the Production Sharing Contract and the rights OEI enjoys thereunder. On 28 March 2006, OEI and the PRC Partner entered into the Production Sharing Contract, pursuant to which OEI was engaged as a foreign partner and the Operator to provide relevant technology and assign its competent experts to explore, develop, produce and sell coalbed methane or coalbed methane products extracted from the Contract Area which covers a total of 461.74 square kilometers in the Ordos Basin of Shanxi and Shaanxi Provinces in the PRC.

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Pursuant to the Production Sharing Contract, OEI as the Operator was required to commence the exploration phase within six months after the date of commencement of the implementation of the Production Sharing Contract on 1 July 2006 and provide a minimum annual funding of US\$580,000 for the operations in the exploration phase. The role of the PRC Partner was, among others, to facilitate local approvals and liaise with local and government bodies and assist OEI to recruit PRC employees. OEI has confirmed that it has complied with material contractual terms of the Production Sharing Contract including its annual funding requirements.

The Joint Management Committee has been formed as required under the Production Sharing Contract to which each of the Operator and the PRC Partner may appoint two to five representatives as the members. The Production Sharing Contract requires quarterly meetings to be held among the committee members who were authorised to represent their respective parties for the approval of, among others, the annual work programme and budget, operating expenses incurred by the Operator and the exclusion of any coalbed methane field within the Contract Area as the Contract Area may be adjusted to exclude (i) any coalbed methane field within that area that the Operator decides to abandon production in circumstances where the PRC Partner does not wish to do so; and (ii) any area relinquished by the Operator in accordance with the Production Sharing Contract. The profit sharing ratio between OEI and the PRC Partner is 70:30 which will be adjusted according to their respective actual participating interests in the coalbed methane field if the PRC Partner's participation in the development of the coalbed methane field is less than 30%. On 27 June 2006, OEI and the PRC Partner obtained approval from the Ministry of Commerce of the PRC and the Production Sharing Contract became effective on the same date.

With the approval of the State-owned Assets Supervision and Administration Commission of the State Council and the acknowledgment of the Ministry of Land and Resources, CUCMCL has agreed pursuant to a block allocation agreement between ChinaCoal and PetroChina to transfer all of its interests and associated obligations with respect to certain gas fields in areas located in various provinces in the PRC (including those in the Contract Area) to PetroChina. The formalities and regulatory approvals and consents necessary for the completion of such transfer of interests (including the Production Sharing Contract) are in progress. The Company has been advised by its PRC legal advisers that given that CUCMCL and PetroChina are large state-owned enterprises and the fact that formalities and regulatory approvals involve liaison with a number of Ministries, such as the Ministry of Commerce and the Ministry of Land and Resources, the completion of such formalities and regulatory approvals tends to take time. In the meantime pursuant to the aforesaid block allocation agreement, PetroChina has already commenced participation (in place of CUCMCL) in the Joint Management Committee under the Production Sharing Contract. PetroChina's role in the Production Sharing Contract is to be the same as that of CUCMCL immediately before the transfer, including the right to apply for extension for the exploration period as well as key operating licenses.

The Contract Area

The Contract Area is located at Sanjiao Block in Shanxi and Shaanxi Provinces in the PRC. The total exploration area of the Contract Area is approximately 461.74 square kilometres, subject to reduction in accordance with the Production Sharing Contract. The Contract Area is under exploration phase.

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Phases of the project

Pursuant to the Production Sharing Contract, the development of the Contract Area can be divided into three phases:

1. Exploration phase

During the exploration phase, OEI will conduct core testing and run pilot production to ascertain the potential commercial value of the coalbed methane field in the planned exploration area. Pursuant to Production Sharing Contract, OEI shall commence the exploration phase within six months after the date of commencement of the implementation of the Production Sharing Contract. The exploration phase under the Production Sharing Contract has an initial term of four years which expired on 1 July 2010. The PRC Partner has the contractual obligation to apply for an extension of the exploration period under the Production Sharing Contract, and PetroChina has acknowledged its obligation to do so. OEI, being the foreign party under the Production Sharing Contract, is not obliged or qualified to apply for such extension. The Company has been informed by the Joint Management Committee that the PRC Partner plans to apply to the Ministry of Commerce for the extension of the exploration phase under the Production Sharing Contract for two additional years until 30 June 2012. OEI expects this application will be made in or around October 2010, and the Company has been informed by OEI that PetroChina has been in communication with the Ministry of Commerce with respect to such proposed application on a number of occasions. Therefore, the Company considers that the risk of PetroChina refusing to make an extension application to be low. The Company has been advised by its PRC legal advisers that in the meantime the validity of the Production Sharing Contract will not be affected.

The Company has been advised by its PRC legal advisers that the relevant government authorities will not require termination of the exploration work currently undertaken by OEI between the expiry of the exploration phase and the date of revocation of the application for an extension of the exploration period and the exploration permit, further information in relation to which is set out under the sub-section headed “Key operating licences” below.

Beginning 1999, more than 200 coal cores and coalbed methane exploration wells were drilled in the Sanjiao Block to evaluate the coal and coalbed methane potential. Since the Production Sharing Contract became effective in June 2006, seven additional multilateral directional wells were drilled to gather more reservoir data. Gas production from those wells commenced in May 2009. As at 30 April 2010, six of the multilateral directional wells were under trial production at commercial rates.

2. Development phase

During the development phase, the Operator shall carry out the realisation of coalbed methane production from the date of approval of the Overall Development Program for any coalbed methane field, including planning, design, construction, installation, drilling, developing transportation systems, and the related research work as well as production activities, before starting the commercial production. Once the Operator ascertains the potential commercial value in the coalbed methane field, the Operator shall formulate the Overall Development Program of such coalbed methane field. The Overall Development Program prepared by the Operator requires

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the approval of the Joint Management Committee before it is submitted by the PRC Partner to the National Development and Reform Commission for approval. The Overall Development Program for the fields is currently under preparation by the Operator. As advised by OEI, their plan is for the Overall Development Program to be submitted by the end of 2010 to the National Development and Reform Commission for approval. Pursuant to the Production Sharing Contract, the development phase will start from the date of approval of the Overall Development Program by the National Development and Reform Commission and end on the date as stated in the Overall Development Program.

The commercial development potential of coalbed methane in the Contract Area has been ascertained by the drilling and the reserve report and on this basis, OEI believes it is unlikely that National Development and Reform Commission's timely approval on the Overall Development Program cannot be obtained. Further, in the opinion of PRC legal advisors, they do not foresee any materially insurmountable hurdles that would prevent approval for the Overall Development Program being obtained. If the Overall Development Program is not approved before 30 June 2012, an application for the further extension for exploration phase will need to be made to the Ministry of Commerce for approval. If such protracted delays do materialise, the operation of the Enlarged Group can be adversely affected.

3. Production phase

During the production phase, the Operator shall carry out, including but not limited to, the extraction, injection, stimulation, treatment, storage, transportation and lifting of each coalbed methane field. The production phase of any coalbed methane field shall have an initial term of 20 years beginning the date of commencement of its commercial production of the coalbed methane field, unless production is suspended or abandoned in accordance with the Production Sharing Contract or the period is extended in special circumstances with the approval of the government department designated by the State Council.

Supply arrangement

OEI has not initiated gas sales from the Sanjiao Block as at the Latest Practicable Date. On 11 March 2010, OEI entered into a non legally binding letter of intent with a local enterprise, which is an Independent Third Party and which the Vendor and guarantors of the Acquisition Agreement have confirmed is independent of them and the PRC Partner. Pursuant to the non legally binding letter of intent, OEI agreed to supply to the local enterprise the coalbed methane from the Contract Area. As the local enterprise possesses numerous downstream customers for coalbed methane, it intends to have OEI as its coalbed methane supplier and re-sell the coalbed methane to its downstream customers.

The local enterprise owns the Linyuan Pipeline from Linxian to Baode to Yuanping in Shanxi province. Linyuan Pipeline mainly supplies coalbed methane to local industrial customers and can also connect to the West to East main pipeline for distribution of coalbed methane to other provinces. An extended section of the Linyuan Pipeline connecting to the Sanjiao Block namely the LinBao Line of around 40 km will be constructed. When the LinBao Line construction is completed, the pipeline is expected to have a capacity of not less than 96.7 million ft³ per day, or 1 billion m³ per year. In the first year of production from the Contract Area, some 100 million m³ of coalbed methane gas is expected to be supplied via the pipeline. Based on the development plan approved by the Joint Management Committee

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with drilling of 150-180 wells in the next 3 years, the supply is anticipated to increase to 500 million – 800 million m³ per year in the third year. The ratio of the annual supply capacity under the letter of intent to the total planned production in 2012 would be approximately 70% – 80%. Subject to the approval of Overall Development Program by the National Development and Reform Commission, OEI is of the opinion that the estimate of the annual supply capacity is achievable.

Under the terms of the letter of intent, the sale price of coalbed methane to be supplied by OEI to the local enterprise in the first year was preliminarily agreed at RMB1.50 per m³ and the sale price would be adjusted annually by reference to the market situation thereafter. There is ongoing active negotiation of the formal agreement for the sale and purchase of coalbed methane which will ascertain the agreed sale price. That agreement will have to be signed before the approval of the Overall Development Program by the National Development and Reform Commission. The term of supply is preliminarily determined as twenty years, subject to the execution of the formal sales and purchase agreement.

Apart from supplying via the provincial pipeline, OEI is also considering transporting and selling its coalbed methane as compressed natural gas or liquefied natural gas as alternative distribution channel. PetroChina has completed the construction of a gas compression plant in the vicinity of the Contract Area with a daily capacity of 30,000 m³.

Procurement of well drilling and related services

As at the Latest Practicable Date, there were 12 outstanding contracts between OEI and Beijing Orion for the provision of well drilling and related services by Beijing Orion to OEI, further particulars relating to which are set out below:–

Name of contract	Date of Contract	Term of contract	Services to be provided under the contract	Contract Price
5 contracts for the drilling of multilateral horizontal wells in Sanjiao Block	Ranging from 22 March 2009 to 19 July 2010	Not specified	Drilling of 1 to 23 wells	From RMB58 million to RMB110 million payable in stages depending on the progress of completion of services
7 contracts for pumping service contracts in relation to coalbed methane wells	Ranging from 5 January 2010 to 30 July 2010	Generally for a period of 12 months from the date of commencement of pumping service, except for one contract where the term is not specified	Construction (in respect of 7 contracts) and operation of pumping system for 2 to 10 wells	<ol style="list-style-type: none"> 1. Construction fees for the pumping system ranging from RMB840,000 to RMB8.4 million payable before commencement of the construction work 2. Pumping service fee of RMB80,000 per month 3. RMB30,000 per inspection of pumps and sand bailing 4. RMB50,000 per change of pumps and sand bailing or RMB20,000 per change of pumps

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As at 31 July 2010, the total capital commitments in relation to the aforesaid contracts to be borne by OEI was approximately RMB160.77 million (equivalent to HK\$184.89 million). It is expected that the Target Group will continue to engage Beijing Orion as service supplier after Completion. The Company will comply with the relevant provisions of the Listing Rules as and when necessary.

Profit sharing mechanism under the Production Sharing Contract

Pursuant to the Production Sharing Contract, all the costs incurred in the exploration phase shall be borne by OEI. When the Overall Development Program is submitted to and approved by the National Development and Reform Commission, the project will enter the development phase, on the commencement of which, all the development and operating costs shall be borne as to 70% by OEI and 30% by the PRC Partner, except if the PRC Partner chooses not to participate in a particular site. If the PRC Partner chooses not to participate in a particular site, all the development and operating cost will be fully borne by OEI. Also, the PRC Partner's participation can be less than 30% for certain wells in respect of which the PRC Partner will not need to bear the development costs or at a specifically agreed percentage. As a result, the profit sharing ratio will be adjusted according to their actual participating interests in the coalbed methane field. Further details of the profit sharing mechanism are set out in the section headed "Production Sharing Contract" contained in the Valuation Report in Appendix V to this circular. As CUCMCL has transferred its interests and obligations in the Production Sharing Contract to PetroChina, the terms of the Production Sharing Contract in respect of the profit sharing mechanism attributable to PetroChina are to remain unchanged.

Key operating licences

As the Operator at the Contract Area, OEI is required under PRC laws to register with the Beijing Administration for Industry and Commerce and to ensure that its business registration is valid during the exploration phase, development phase and production phase of the Contract Area. It has made such registration on 12 June 2006 and its term of operation expired on 11 September 2010. Application has been made for extension of term of operation. OEI has informed the Company that it expects to obtain a three months extension of its term of operation on or about 25 September 2010 since the Beijing Administration of Industry and Commerce has indicated it is inclined to extend OEI's term of operation. OEI will in any event apply for an extended business licence as soon as practicable after the Overall Development Program is approved by National Development and Reform Commission. The Company has been advised by its PRC legal advisers that there is no material legal impediment for OEI to obtain extension of its term of operation because OEI has already been able to renew with the Beijing Administration of Industry and Commerce for three months when it expired earlier this year on 11 June 2010, at a time when the extension of the exploration phase under the Production Sharing Contract and the transfer of interest from CUCMCL to PetroChina has not yet been approved by the Ministry of Commerce, and the circumstances of the present extension are not materially different. Further, the Company has been advised that pursuant to the Administrative Licensing Law (行政許可法), until OEI's application for renewal has been rejected, the continued operations of OEI is not considered illegal.

PRC laws require that the mining right owner (specified in exploration or mining permits) of coalbed methane fields that are to be explored and/or exploited under sino-foreign co-operation arrangements to be the PRC partner. The PRC Partner should hold the exploration permit during the exploration phase of the Contract Area. An exploration permit (勘查許可證) in respect of the Contract Area has been issued to PetroChina in which OEI is named as the operator. That exploration permit

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has expired since 7 January 2010. The Company's PRC legal advisers have advised that PetroChina has made an application for the renewal of its exploration permit and the application is under review by the Ministry of Land and Resources of the PRC, and that (a) the current exploration permit is not revoked automatically and the relevant government authorities will not require termination of the exploration work currently undertaken by OEI during period between the expiry of the exploration permit and the date of revocation of the renewal application; and (b) there is no substantial obstacle for PetroChina to obtain renewal of this exploration permit.

Approval of the Overall Development Program by the National Development and Reform Commission is required for the commencement of the development phase of the Contract Area. The PRC Partner is required to hold the mining permit during the development phase and production phase of the Contract Area. An application for the mining permit (採礦許可證) in respect of the Contract Area will be made in due course after (a) the renewed exploration permit has been obtained by PetroChina; (b) the Overall Development Program has been approved by the National Development and Reform Commission; and (c) the applicable laws and regulations including environmental protection and safety have been complied with.

Land rights

The Land Administration Law of the People's Republic of China* (中華人民共和國土地管理法) (effective on 1 January 1999 and revised on 28 August 2004) requires that approval should be obtained beforehand from the competent land administrative departments of the people's government at county level or above, for the temporary use of land owned exclusively by the state or collectively by farmers for construction and geological exploration purposes. According to such law, the land user should also sign a temporary land use contract with relevant land administrative department or rural collective economic organization as well as villager committee and pay compensation according to such contract for using the land temporarily.

During the exploration phase of the Contract Area, OEI has entered into temporary land use contracts in relation to the use of collectively owned land (集體土地) in the Contract Area for access to public roads, bridges and water. OEI has not obtained approval from the local land bureau for the use of collectively owned land pursuant to the Land Administration Law and applicable laws and regulations. The Company's PRC legal advisers have advised that since the applicable laws and regulations do not provide for penalty for failing to obtain approval from the local land bureau for temporary use of collectively owned land, most of the temporary land use contracts signed by OEI have already expired and the collectively owned land subject thereto have been reinstated and returned to the relevant land owners, (i) it is unlikely for OEI to be subject to penalty under the applicable laws and regulations and (ii) OEI would obtain approval from the local land bureau for the use of collectively owned land because the PRC government gives priority to use of land for exploration and exploitation of coalbed methane. As the temporary land use contracts in respect of the collectively owned land were intended for the exploration phase only and that OEI will apply for use of land pursuant to relevant laws and regulations once the Contract Area is under development phase, the Company's PRC legal advisers take the view that the above temporary land use arrangement will not have a material adverse effect on the future development of the Contract Area.

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The Production Sharing Contract provides that the Contract Area will enter the development phase when the Overall Development Program is approved by the National Development and Reform Commission. OEI can then apply for the necessary grant of land use rights (and enter into land grant contracts) from the local land bureau, and land premium is payable for the grant of land. OEI intends to make such application as soon as practicable after it becomes entitled to do so. The Company has been advised by its PRC legal advisers that (i) given that PRC State policy supports the energy sector and as the Overall Development Program will have been approved by the National Development and Reform Commission, there should not be material legal impediment to obtain relevant approvals for land use rights and (ii) the amount of the land premium cannot be ascertained at present as that would be determined by both the PRC State and the local government by reference to a number of factors, including the term and use of the land, plot ratio and land restoration rate and independent PRC valuation at the time. There is no assurance that the Enlarged Group will have available or be able to raise the necessary cash for the payment of land premium.

Environmental and safety

The Company's PRC legal advisers have advised that facilities for environmental protection and safety must be in place on the date when production in the Contract Area commences, and the following are the key environmental and safety laws applicable to the Target Group's business:

- The Environmental Protection Law of the PRC* (中華人民共和國環境保護法) (effective on 26 December 1989), Law of the PRC on Environmental Impact Assessment* (中華人民共和國環境影響評價法) (effective on 1 September 2003) and the Categorised Management Catalogue of Construction Project Environmental Impact Assessment* (建設項目環境影響評價分類管理名錄) (directive of the Environmental Protection Department No.2) require the preparation of environmental assessment report in respect of the Contract Area. Such environmental assessment report is being prepared by the PRC Partner for approval.
- Pursuant to the Water Pollution Prevention and Control Law of the PRC* (中華人民共和國水污染防治法) (effective on 1 June 2008) and its Detailed Rules for Implementation* (實施細則) (directive of the State Council No.284), the PRC Partner is required to register with the local environmental protection administrative department and provide information on prevention and control of water pollution within the specified time period. Application for pollutant discharge licence is being prepared by the PRC Partner pursuant to applicable laws and regulations.
- Application for a safety production permit in respect of the Contract Area is being prepared by the PRC Partner pursuant to the Production Safety Law of the PRC* (中華人民共和國安全生產法) (effective on 1 November 2002).
- Pursuant to the Law of the PRC on Water and Soil Conservation* (中華人民共和國水土保持法) (promulgated on 29 June 1991, revised on 27 August 2009), before commencing production, a water and soil conservation proposal in respect of the Contract Area is to be prepared and submitted by the PRC Partner to the relevant government authorities for approval.

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- On completion of exploitation of coalbed methane, land reclamation must be done in the Contract Area pursuant to the Land Reclamation Regulations* (土地復墾規定) (directive of the State Council No.19, promulgated on 8 November 1988).

Taxation

The Company has been advised by its PRC legal advisers that the following are the key tax policies and subsidies applicable to the business of exploration and exploitation of coalbed methane in PRC:

1. OEI is required to pay fees for using mining area pursuant to the Notice on the Issue of Tax Policies Suitable for Foreign Petroleum Companies Engaged in Coalbed Methane Exploitation* (關於外國石油公司參與煤層氣開採所適用稅收政策問題的通知) (document of the Ministry of Finance and the State Administration of Taxation No. [1996] 62) and the Provisional Regulations on Payment of Fees for Using Mining Area For Sino-foreign Cooperative Exploitation of Land Petroleum Resources* (中外合作開採陸上石油資源繳納礦區使用費暫行規定) (directive of the Ministry of Finance [1990] 3 and its reversion No. [1995] 63 on 28 July 1995). The fees for using a mining area are calculated with reference to the total output of natural gas per calendar year per gas field in the following manner:

Total output of natural gas per calendar year per gas field	Rate
For the portion not exceeding 1 billion standard cubic meters	Exempt
For the portion exceeding 1 billion standard cubic meters up to 2.5 billion standard cubic meters	1%
For the portion exceeding 2.5 billion standard cubic meters up to 5 billion standard cubic meters	2%
For the portion exceeding 5 billion standard cubic meters	3%

2. It is required to pay stamp duty at the rate of (a) 0.03% for purchase and sale contracts; (b) 0.03% for construction and installation project contracts; (c) 0.1% for property lease contracts and (d) 0.005% for loan contracts the following relevant tax policies pursuant to the Provisional Rules of the People's Republic of China on Stamp Duty* (中華人民共和國印花稅暫行條例) (directive of the State Council No. [1988] No.11).
3. It enjoys a "full exemption from enterprise income tax for the first two years and 50% exemption from enterprise income tax for the next three years" (兩免三減半) which as advised by the PRC legal advisors to the Company, commence from 2008 and will expire in 2012 pursuant to the Notice about Implementation of Preferential Policies of the State Council on Transition of Enterprise Income Tax* (國務院關於實施企業所得稅過渡優惠政策的通知) (document of the State Council No.[2007] 39). As no profit has been recorded as at the Latest Practicable Date, no enterprise income tax has been paid in respect of the Contract Area.
4. While it is required to pay value added tax at the rate of 13% on the revenue realised from the production of coalbed methane, such tax will be refunded after collection pursuant to the Notice of the Issue Regarding the Acceleration of Tax Policies for Coalbed Gas Extraction and Exploitation* (關於加快煤層氣抽採有關稅收政策問題的通知) (document of the Ministry of Finance and the State Administration of Taxation No. [2007]16). No time limit has been set on the refund of value added tax.

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5. It is not required to pay resource tax in respect of land coalbed methane extraction and exploitation. Such tax concession is not subject to any time limit.
6. The central Ministry of Finance subsidizes the coalbed methane extraction and exploitation enterprises on the basis of RMB0.2 per cubic meter of coalbed methane (net). The local Ministry of Finance in Shanxi province provides further subsidies on the basis of RMB0.05 per cubic meter of coalbed methane (net). No time limit has been set for providing such subsidies.

Legal proceedings

To the best of the Company's knowledge having made due enquiries, there submits no legal claims or proceedings against OEI or that otherwise may affect the exploration right or mining right in respect of the Contract Area.

RISK FACTORS

To the best of the Directors' knowledge, the Directors consider the following risks and other factors to be the most significant in respect of the Target Group for the Shareholders and potential investors of the Company. However, the risks listed do not purport to comprise all those risks associated with the Target Group and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Target Group's business. If any of the following risks actually occurs, the Enlarged Group's business, financial condition, capital resources, results or future operations could be materially adversely affected.

RISKS RELATING TO THE BUSINESS

Development and operational risks

The Enlarged Group will be exposed to general exploration and hydrocarbon appraisal and development risks. These include unusual and unexpected geological formations, high formation pressures and other conditions involved in the exploration for and extraction of hydrocarbons, any of which could result in the damage to, or even destruction of, wells and or other production facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk will be taken, operations are subject to hazards which may result in environmental pollution and consequent liability which could have an adverse impact on the business, operations and financial performance of the Enlarged Group.

Exploration drilling to establish productive reserves is inherently speculative. The techniques presently available to technical specialists to identify the existence and location of resources are indirect and subject to a wide variety of variables which are subjective in nature.

The production phase by its nature also involves significant risks and hazards, including environmental hazards, industrial incidents, labour disputes, discharge of toxic chemicals, fire, drought, flooding and other occurrences outside the Enlarged Group's control. The occurrence of any of these hazards can delay or interrupt production, increase production costs and result in liability to the Enlarged Group. The Enlarged Group could become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past activities for which it was not responsible.

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The reserve figures presented in this circular are from the estimations prepared by the Competent Person for the purpose of inclusion in this circular. The estimation of reserves is inherently imprecise and the accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, judgment, production, cost and sales projections and other uncertainties inherent in estimating recoverable coalbed methane. There is no assurance that the Contract Area will in fact produce the volume of coalbed methane as estimated in the Competent Person's Report.

Government regulations, licences and consents

The exploration, development and production of coalbed methane by the Enlarged Group depend on a number of governmental approvals, licences, permits and consents which are subject to discretion of the applicable governmental authorities and some of which must be applied through the PRC Partner. The Enlarged Group must comply with standards, laws and regulations which are subject to interpretation by the relevant authorities and may result in unexpected costs or delays in the Enlarged Group's production of coalbed methane. New laws and regulations, and amendments to or more stringent of enforcement of existing laws and regulations may be implemented in the future. Any failure or delay in obtaining the required approvals, licences, permits or consents for the Enlarged Group's business may make it difficult or even impossible for the Enlarged Group to complete its exploration and development work programmes and to begin commercial production of coalbed methane. In addition there can be no certainty that any approvals, licences or permits once granted will not be withdrawn or will be renewed.

Ability to implement work programmes

Under the Production Sharing Contract, OEI and the PRC Partner must mutually agree on an annual work programme and budget. The Joint Management Committee will annually submit the annual work programme and budget to the PRC Partner for approval. OEI and the PRC Partner should discuss, and agree thereon, any proposed amendment by the PRC Partner on a timely basis and the annual work programme and budget shall become effective immediately thereafter. If the PRC Partner does not respond to the proposed annual work programme and budget submitted by the Joint Management Committee within 15 days of the submission, the annual work programme and budget will be deemed to be agreed by the PRC Partner. In the event that no agreement can be reached by both parties, the proposal of OEI should be adopted. The implementation of the work programme is therefore conditional upon obtaining the approval of the PRC Partner and any disagreement on the work programme and/or the budget may result in delay or failure of the work programme which may have a material adverse impact on the Enlarged Group.

The Overall Development Program is a plan to be developed by OEI for the development of the coalbed methane field in the Contract Area and has also to be approved by the relevant state authorities in order to move from exploration (or preparation) stage into development stage. Application for such approval is to be made by the PRC Partner after the Overall Development Program is approved by the Joint Management Committee. The Overall Development Program submitted for approval can be revised from time to time to accommodate the comments from the relevant authorities so as to facilitate the approval process. In order for regulatory approval of the Overall Development Program to be available, OEI will need to have in place transportation and sales arrangement, which themselves will entail negotiations with relevant third parties. If the Overall Development Program is not submitted or approved on a timely basis, the Target Group may experience delay in the development plan. For instance, if the Overall Development Program is not approved before 30 June 2012, an application for further extension of the exploration phrase will be made to the Ministry of Commerce for approval, which may have a material adverse impact on the operation of the Enlarged Group.

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Land rights

During the exploration phase of the Contract Area, OEI has entered into temporary land use contracts in relation to the use of collectively owned land in the Contract Area for access to public roads, bridges and water. OEI has not obtained approval from the local land bureau for the use of collectively owned land pursuant to the Land Administration Law and applicable laws and regulations. The Production Sharing Contract provides that the Contract Area will enter the development phase when the Overall Development Program is approved by the National Development and Reform Commission. OEI can then apply for the necessary grant of land use rights (and enter into land grant contracts) from the local land bureau, and land premium is payable for the grant of land. OEI intends to make such application as soon as practicable after it becomes entitled to do so. However, there is no assurance that the Enlarged Group will be able to secure the land grants on a timely basis which is at the discretion of the local land bureau or that it will have available or be able to raise the necessary cash for the payment of land premium that is assessed to be payable.

Volatility of energy resource prices and currency risks

Historically, energy resource prices have fluctuated widely and affected by numerous factors over which the Enlarged Group does not have any control, including, among others, world production level, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict with any degree of certainty.

Price regulation

Currently, the price of coalbed methane is not regulated in the PRC. There is no assurance that the Chinese government will not introduce price regulation in the future which may have a material adverse impact on the Enlarged Group.

Environmental risks

The Enlarged Group's operations are subject to the environmental risks inherent in the exploration and production industry. In particular it is subject to environment laws and regulations in connection with all of its operations. Although the Company intends that the Enlarged Group be in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances, that could subject the Enlarged Group to extensive liability.

Further, the Enlarged Group 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 the Enlarged Group from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the cost of doing business or affect the Enlarged Group's operations in any area.

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Competition

There are a number of coalbed methane companies which operate in the PRC. Similar to the Target Group, these potential competitors entered the coalbed methane market in the PRC in the form of production sharing contracts. Some of these potential competitors are international companies listed in overseas markets with market capitalization significantly higher than that of the Company. Some of these foreign companies also have longer operational history than the Company which only started oil and gas business in 2001. Larger companies which have access to greater resources may have competitive advantages over the Enlarged Group in competition for resources, facilities and in marketing for coalbed methane produced. Moreover, there may be competition for skilled manpower which may be in short supply due to the rapid growth in demand in the industry. Any of these factors may have a material adverse impact on the Enlarged Group.

RISKS RELATING TO THE PRC

Economic, political and social conditions and government policies in the PRC

The economic system of the PRC is very different from the economies of developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the economy of the PRC has been transitioning from a planned economy to a more market-oriented economy in the past 20 years, the Chinese government continues to play a significant role in regulating industry development. It also exercises significant control over the PRC's economic growth through allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any changes to the political, economic and social conditions in the PRC or in the policies of the Chinese government may have a material adverse impact on the Enlarged Group's business.

Chinese tax rules and regulations

The taxation system in the PRC is still developing, which may result in inconsistent enforcement at state and municipal levels. The Chinese government has enacted a favourable tax regime to encourage the development and use of coalbed methane. Any future changes in legislation, regulation or enforcement may have a material adverse impact on the Enlarged Group.

The Chinese legal system

The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited presidential value. Since 1979, the Chinese government has promulgated laws and regulations dealing with financial and economic matters such as foreign investment, financing and provision of security, corporate organisation and governance, commerce, taxation and trade. As such, many of the laws that govern private and foreign investment, securities transactions, creditors' rights, intellectual property rights and contractual and other relationships in the PRC are relatively new, unsophisticated, unproven and continue to evolve, at times in an uncertain manner. As a result, the Enlarged Group may be subject to a number of unusual risks related to laws and regulations, particularly those involving taxation, foreign investment, trade, mining rights, title to property, securities, transfer of

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title and protection of intellectual property. The Enlarged Group may be subject to inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, a lack of established or effective avenues for legal redress, including an underdeveloped judicial system and, a lack of standard practices characteristics of developed markets and a lack of enforcement of existing regulations. Accordingly, there may be difficulty and uncertainty in the Enlarged Group's ability to protect and enforce its rights against Chinese state and private entities in the PRC.

Chinese foreign exchange regulations

The Target Group's revenues will be denominated in RMB. In order to pay dividends to shareholders of the Company, the cash available for this purpose must be converted into Hong Kong dollars. The Enlarged Group is subject to significant foreign exchange controls and conversion generally will require the approval of or registration with the State Administration of Foreign Exchange. There is no assurance that the requisite approval or registration can be maintained and as a result, the Company may not be able to pay dividends in Hong Kong dollars to its shareholders, despite the existence of distributable profits.

RISKS RELATING TO THE COMPANY

Dependence on key personnel and service supplier

The Company's success depends to a significant extent on the continued services of the core senior management team from the Target Group and the service provided by Beijing Orion. If one or more of these individuals were unable or unwilling to continue in his present position or Beijing Orion ceases to provide service to the Target Group, the Enlarged Group's business could be disrupted. The Company might not be able to find replacements of senior management or service supplier with the same level of skill and experience on a timely basis. Finding and hiring any such replacements of senior management could be costly and might require the Company to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

Future capital requirements

Reference is made to the announcement of the Company dated 3 July 2010 in relation to the Placing Agreement, pursuant to which the Placing Agent agreed amongst other things to procure, on a best efforts basis, places to subscribe in cash for up to 4,415,000,000 Placing Shares. Assuming all the Placing Shares have been fully placed at the Minimum Possible Placing Price of HK\$0.53 per Placing Share, the gross proceeds from the Placing will be approximately HK\$2,340 million, and the net proceeds from the Placing will be approximately HK\$2,222 million. It is proposed that HK\$780 million will be used for funding the cash consideration of the Acquisition and the remaining balance will be used to meet the Enlarged Group's future work commitments under the Production Sharing Contract. If the Placing does not complete, the Group will seek other equity and/or debt financing to fund the future work commitments. In the event that other financing is not available, or available only on terms that are not acceptable to the Company, it may be unable to finance its future work commitments under the Production Sharing Contract and hence risks a breach of the terms of the Production Sharing Contract. It may also be unable to attract qualified personnel, promote its brand name, take advantage of business opportunities or respond to competitive pressures. Any of these events may harm the Company's business.

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Limited operational history

The Target Group's operations are at early stage of development and do not have established operating or trading records upon which its performance and prospects can be evaluated. Cash operating costs for development projects are, to a large extent, estimations and as a result, actual cash operating costs and economic return may differ from those estimated.

Force majeure

The Enlarged Group's projects may be adversely affected by risks outside the control of the Enlarged Group including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, acts of God, explosions or other catastrophes or epidemics.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in the business of development of oil and gas fields, oil and gas exploitation and extraction.

As the crude oil price in the international market has been showing a volatile upward trend recently, the Directors believe that investment in the clean energy sector can bring significant returns to the Company. When evaluating the Acquisition, the Directors consider that it enables the Company to enter the coalbed methane supply market, being a clean energy sector, which is supported by the PRC government with reference to the Eleventh Five-Year Plan adopted by the National Development and Reform Commission of the PRC in 2006 and to explore a new income source for the Company by expanding its existing business. The PRC has a huge potential for the growth of coalbed methane industry. The country may have about 1,000 trillion cubic feet of coalbed methane resources in place. These resources are distributed mainly in the Shanxi and Shaanxi provinces, Inner Mongolia and the Yunnan-Guizhou Plateau, particularly in the Ordos, Qinshui, Junggar and Erlian basins. By the end of 2009, Chinese-proven coalbed methane reserves in place grew to about 6 trillion cubic feet and the total number of coalbed methane wells reached 3,600. The PRC has produced 24.5 billion cubic feet of gas from coalbed methane projects and has the potential to increase production significantly.

According to the announcement regarding the statistics of economic and social development in the PRC (2008 & 2009) (2008年國民經濟和社會發展統計公報及2009年國民經濟和社會發展統計公報) issued by the National Bureau of Statistics of China, the PRC was one of the fastest growing economies in the world with an annual GDP growth rate ranging from 8.7% to 13.0% from 2004 to 2009 and had the third largest GDP in 2008 in the world. The PRC currently relies heavily on crude oil and coal as prime energy sources. According to Ms. Erica S. Downs, the China energy fellow who is experienced in energy and mining sectors with research mainly focuses on a complex of issues related to, among other things, the emergence of Chinese State-owned energy and mining companies as major buyers, owners and operators of natural resources around the globe at the John L. Thornton China Center, the reason is that the prices for diesel fuel, gasoline, and electricity are set by the state while prices for crude oil and coal are determined by the market. The failure of the state-set prices to keep pace with the soaring increasing in crude oil and coal prices has contributed to domestic shortages of refined products and electricity as those refiners and power generators have suspended or stopped their operations in order to trim their losses. Another reason for current power shortage is the coal shortage in parts of China and difficulties delivering coal and power suppliers to where they are needed. As a result, this prompts the PRC government to adopt energy diversification policies to boost the production of other sources of energy such as wind power,

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solar power, natural gas and even coalbed methane. Taking into account the experienced management team of OEI, the assistance of Beijing Orion's expertise and extensive experience in coalbed methane reserve assessment, multilateral drilling technology applications, well testing, repair and maintenance of the mine and mining facilities in the Contract Area and the partnership with the state-owned enterprise, PetroChina, for the facilitation and liaison of the approvals from the relevant government authorities, the Directors believe the aforesaid strengths would outweigh the development and operation risks and other risks relating to the Target Group's business including those set out in the section headed "Risk factors" above. The Directors are of the view that the Placing would strengthen the Enlarged Group's financial position and provide sufficient funding to finance the Target Group's operations and work commitments, diminishing larger companies' competitive advantages over the Enlarged Group in competition for resources, facilities and in marketing for coalbed methane produced in a long run. The proposed supply arrangement with the local enterprise (which was not legally binding as at the Latest Practicable Date) is an important milestone for the Target Group towards securing a distribution channel of the Target Group's coalbed methane in anticipation of future product.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Taking into account the conditions precedent as set out in the paragraph headed "Conditions precedent of the Acquisition Agreement" above, Completion may or may not proceed. In the event that the Acquisition cannot proceed, the Company will consider other investment opportunities so that the cash level of the Company will be reduced and the Company will not become a cash company under Rule 14.82 of the Listing Rules.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, members of the Target Group will become wholly-owned subsidiaries of the Company and their results will be consolidated with that of the Group. In light of the (i) valuation of the coalbed methane reserves in the Contract Area in which OEI is interested as set out in the Valuation Report; (ii) the business potential of the Target Group; and (iii) the future prospect of coalbed methane industry, the Directors are of the view that the Acquisition would widen the earnings base of the Enlarged Group.

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effect of the Acquisition on the assets and liabilities of the Group assuming Completion had taken place on 30 June 2010. Based on the unaudited pro forma financial information in Appendix III to this circular, the total assets of the Group would increase to HK\$2,205.20 million from HK\$603.48 million; and its total liabilities would increase to HK\$110.53 million from HK\$64.45 million, as a result of the Acquisition. Shareholders should note that the earnings contribution from the Target Group after Completion will depend on the future performance of OEI, and the actual effect of the Acquisition on the assets and liabilities of the Group will depend on the financial position of the Target Group as at the date of Completion, which cannot be quantified as at the Latest Practicable Date.

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FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group was renamed “Sino Oil and Gas” in August 2010, signifying its strategic focus on the development of oil and gas businesses in China. Since 2007, the Group has acquired four oil and gas assets in the United States and China, thereby accumulating a degree of industry experience. During this period, the Group has continued to strengthen its management and expert teams, and has actively invited the participation of operators and investors with a strong energy industry background. The Group aims to become one of the leading non-state-owned enterprises listed in Hong Kong with its focus on oil and gas businesses in China.

Besides pursuing business opportunities in respect of coalbed methane exploration in China through the Acquisition, as a means to mitigate the fluctuations in the price of oil and to expand the Group’s revenue base, the Group continues to expand its oil and gas businesses in the Ordos Basin to complement the coalbed methane project. On 20 July 2010, the Group signed a memorandum of understanding for the acquisition of a 90% economic interest in a production sharing contract for an oil field in Jinzhuang District, Ganquan County, Shaanxi Province (“Jinzhuang Oilfield”). Jinzhuang Oilfield is close to the Liuluoyu Oilfield (also located in the Ordos Basin) which the Group acquired in early 2009. The zone is found to be surrounded by tight gas reservoirs. The acquisition will aid the Group’s plan to integrate its oil and gas businesses in the area in order to achieve an operational scale with greater efficiency and synergistic benefits.

Looking to the future, the Enlarged Group will continue to identify high-quality oil and gas acquisition targets in the Ordos Basin, with a view to further enhancing shareholders’ investment value. The Board is confident of the Enlarged Group’s future developments, and expects to attain a more efficient operational scale as the various acquisitions are completed. The commencements of the new projects will support the Enlarged Group’s long-term profitability.

The Company received net proceeds of HK\$172.8 million raised in the placing of new shares completed in April 2010 of which approximately HK\$50 million have been utilised. It also raised total net proceeds of HK\$169.7 million from the subscription and placing of new shares and warrants in June 2010 which have not been utilised. With the existing internal resources, the Company currently intends to apply HK\$210 million to its capital investment in drilling new wells for existing oil and gas fields of the Group in the PRC and US, which are proposed to be made over the next twelve months.

On 3 July 2010, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent agreed amongst other things to procure, on a best efforts basis, places to subscribe in cash for up to 4,415,000,000 Placing Shares. Assuming all the Placing Shares have been fully placed at the Minimum Possible Placing Price of HK\$0.53 per Placing Share, the gross proceeds from the Placing will be approximately HK\$2,340 million, and the net proceeds from the Placing will be approximately HK\$2,222 million. It is proposed that of the total net proceeds, HK\$780 million will be used for funding the Acquisition, with the balance to be substantially used to fund the operating and capital expenditure of the Target Group. The Company, having consulted the Placing Agent, proposes to commence marketing of the Placing Shares as soon as practicable after the despatch of this circular. The aim is to have the Placing completed on or before 31 October 2010. As the Placing is on a “best efforts” basis, the number of the Placing Shares to be issued and allotted could only be ascertained shortly before completion.

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Having said the above, it should be noted that the Group's business is capital intensive and capital investment requirements are subject to changes in operations, market and regulatory environments. It is therefore possible that the Company's business plan in the next 12 to 24 months will need to be constantly adjusted to take into account changing conditions. This may include adjusting the number of new wells to be drilled for existing oil and gas fields of the Group since the above business plan has not taken into account the Acquisition and the Placing. As the Acquisition and the development of the gas field of the Target Group is a capital intensive project and in light of the size of the Acquisition and the Placing, the Company's business plan may change.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules which requires approval of the Shareholders at the SGM by way of poll. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, neither the Vendor nor its associates hold any Shares and no Shareholder is required to abstain from voting for the relevant resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder.

THE SGM

The SGM will be held at Macau Jockey Club, 1/F., Function Room, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 13 October 2010 at 11:00 a.m. to consider and, if thought fit, to approve the ordinary resolution in connection with the Acquisition Agreement and the transactions contemplated thereunder.

A notice convening the SGM is set out on pages 191 to 192 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM should you so wish.

RECOMMENDATION

The Directors consider that the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and accordingly recommend that the Shareholders should vote in favour of the ordinary resolution in the notice of SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to the circular.

By Order of the Board
Sino Oil and Gas Holdings Limited
Dai Xiaobing
Executive Director

A. AUDITED CONSOLIDATED FINANCIAL INFORMATION

The audited consolidated financial information of the Group (i) for the year ended 31 December 2009 is disclosed in the annual report of the Company for the year ended 31 December 2009 published on 27 April 2010, from pages 36 to 136; and (ii) for the year ended 31 December 2008 is disclosed in the annual report of the Company for the year ended 31 December 2008 published on 27 April 2009, from pages 40 to 152. All of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://www.sino-oilgas.hk>).

B. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP

The unaudited interim financial information of the Group for the six months ended 30 June 2010 is disclosed in the interim report of the Company published on 30 August 2010, from pages 3 to 25. The aforesaid interim report of the Company have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://www.sino-oilgas.hk>).

C. INDEBTEDNESS STATEMENT

At the close of business on 31 July 2010, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

Borrowings

As at the close of business on 31 July 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarge Group had HK\$26,743,000 due to a shareholder. The amount due to a shareholder is unsecured, interest-free and expected to be settled within one year.

Capital commitment

The Enlarged Group had capital commitments in respect of the Production Sharing Contract in OEI amounted to HK\$184,890,000.

Contingent liabilities

The Group has oil exploitation operation in the United States. The United States has adopted environmental laws and regulations that affect the operation of the oil industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, management believes that there are no probable liabilities that will have a material adverse effect on the financial position of the Group.

The Target Group may have obligations to make payments for restoration and rehabilitation of the land after the mining sites have been extracted, since the consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. However, such amount cannot be measured reliably during this preliminary stage, accordingly no provision is made by the Target Group in this regard.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Enlarged Group had outstanding at the close of business on 31 July 2010 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any finance lease commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

E. WORKING CAPITAL

The Directors are of the opinion that, after due and carefully enquiry, after taking into account the Enlarged Group's internal resources, available banking facilities, the effect of the Acquisition and the Placing and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its present requirements for a period of twelve months from the date of this circular.

A. ACCOUNTANTS' REPORT ON THE TARGET GROUP

The following is the text of accountants' reports on the Target Group received from the independent reporting accountants, BDO Limited Certified Public Accountants, for the purpose of inclusion in this circular.

(i) Accountants' report on Target Company

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香港干諾道中111號
永安中心25樓

27 September 2010

The directors

Sino Oil and Gas Holdings Limited

(Formerly known as Genesis Energy Holdings Limited)

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Power Great Limited ("Power Great") for the period from 8 January 2010 (date of incorporation) to 30 April 2010 (the "Relevant Period") for the inclusion in the circular of Sino Oil and Gas Holdings Limited (the "Company") dated 27 September 2010 (the "Circular") issued in connection with the Company's proposed acquisition of Power Great (the "Acquisition").

Power Great was incorporated on 8 January 2010 in the Cayman Islands with limited liability. Power Great was an inactive company during the Relevant Period. There is no statutory requirement for the preparation of financial statements for the Relevant Period and no audited financial statements have been issued previously.

For the purpose of this report, the directors of Power Great have prepared the financial statements of Power Great for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements") on the basis set out in note 2 of section B for which the directors of Power Great are solely responsible for. We have carried out independent audit procedures on the Underlying Financial Statements of Power Great for the Relevant Period in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the directors of Power Great. The directors of the Company are responsible for the contents of the Circular in which this report is included.

In our opinion, the Financial Information, for the purpose of this report, give a true and fair view of the state of affairs of Power Great as at 30 April 2010 and of the results of Power Great for the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

A. Financial Information

Statement of comprehensive income

	<i>Notes</i>	For the period from 8 January 2010 (date of incorporation) to 30 April 2010
		<i>USD</i>
Results and total comprehensive income for the period	5	–
		<u> </u>

Statement of financial position

	<i>Notes</i>	At 30 April 2010
		<i>USD</i>
Current assets		
Amount due from the immediate parent	8	1
		<u> </u>
Total assets		<u> </u>
		<u> </u>
Capital		
Share capital	9	1
		<u> </u>
Total equity		<u> </u>
		<u> </u>

Statement of changes in equity

	Share capital
	<i>USD</i>
Issuance of ordinary share on 8 Jan 2010 (date of incorporation)	1
	<u> </u>
At 30 April 2010	1
	<u> </u>

B. Notes to the Financial Information

1. GENERAL INFORMATION

Power Great is a limited company incorporated in the Cayman Islands.

Power Great was inactive during the Relevant Period.

The address of the registered office of Power Great is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The address of the principal place of business of the Power Great is Room 1601-1605, Tower C, Raycon Information Technology Park, No.2 Kexueyuan South Road, Zhongguancun, Beijing 100190, the PRC.

The financial statements are presented in United States dollar (“USD”), which is the same as the functional currency of Power Great.

Power Great does not have any cash flow transaction during the Relevant Period and thus no statement of cash flows is presented.

The directors of Power Great consider that the ultimate and immediate parent to be Offshore Incorporations (Cayman) Limited, a company incorporated in Cayman Islands.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by disclosure requirements of the Hong Kong Companies Ordinance.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

3. POTENTIAL IMPACT ARISING ON THE NEW HKFRSs WHICH ARE NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to Power Great’s operations, have been issued but are not yet effective and have not been early adopted by Power Great.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
Amendments to HKAS 32	Classification of Rights Issues ²
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 for First-time Adopters ³
Amendment to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

Power Great's directors are in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of Power Great.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Financial instruments

(i) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally contractual monetary asset. They are initially measured as fair value plus transactions costs that are directly attributable to the acquisition of the financial assets. At each reporting date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Equity instruments

Equity instruments issued by Power Great are recorded at the proceeds received, net of direct issue costs.

(b) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Power Great has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5. RESULTS FOR THE PERIOD

Power Great was inactive during the Relevant Period and had not earned any income or incurred any expenditure.

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

No remuneration was paid to the directors of Power Great during the Relevant Period.

There was no arrangement under which a director of Power Great waived or agreed to waive any remuneration during the Relevant Period.

7. INCOME TAX EXPENSE

No income tax has been provided for in the statement of comprehensive income as there was no estimated assessable profit derived for the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

8. AMOUNT DUE FROM THE IMMEDIATE PARENT

The amount is unsecured, interest-free and repayable on demand.

9. SHARE CAPITAL

(a) Authorised and issued share capital

	At 30 April	
	2010	2010
	<i>Number</i>	<i>USD</i>
Authorised:		
1 ordinary share of US\$1	1	1
	<u> </u>	<u> </u>
Issued and fully paid		
1 ordinary share of US\$1	1	1
	<u> </u>	<u> </u>

On 8 Jan 2010 (date of incorporation), Power Great issued 1 ordinary share at an issue price of US\$1.

(b) Capital management policy

Power Great's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

Power Great manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Power Great may issue new shares or ask for financial support from the immediate parent.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Power Great is not exposed to any significant financial risks. The nominal value less estimated credit adjustments of receivable is assumed to approximate its fair value.

11. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	At 30 April
	2010
	<i>USD</i>
Financial assets	
Loans and receivables	1
	<u> </u>

C. Subsequent financial statements

On 27 May 2010, Power Great acquired the entire share of Orion Energy International Inc. (“Orion Energy”) at nil consideration. Orion Energy is engaged in the exploration, development and production of coalbed methane in the People’s Republic of China.

Yours faithfully,
BDO Limited
Certified Public Accountants

Shiu Hong Ng
Practising Certificate Number P03752
Hong Kong

25th Floor Wing On Centre
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Hong Kong

(ii) Accountants' report on OEI



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永安中心25樓

27 September 2010

The directors

Sino Oil and Gas Holdings Limited

(formerly known as Genesis Energy Holdings Limited)

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Orion Energy International Inc. (“Orion”) for each of the three years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 (the “Relevant Periods”), together with the unaudited financial information of Orion including the statement of comprehensive income, statement of cash flows and statement of changes in equity for the four months ended 30 April 2009 (the “30 April 2009 Corresponding Information”), prepared for inclusion in the circular of Sino Oil and Gas Holdings Limited (the “Company”) dated 27 September 2010 (the “Circular”) issued in connection with the Company’s proposed acquisition of the 100% equity interest in Power Great Limited (“Power Great”) by the Company (the “Acquisition”).

Orion was incorporated in the Cayman Islands with limited liability. There is no statutory requirement for the preparation of financial statements for the Relevant Periods. The financial statements for each of the years ended 31 December 2007 and 2008 have been previously prepared in accordance with the International Financial Reporting Standards for the sole purpose of the management of Orion. The financial statements have been audited by Shinewing (HK) CPA Limited. No audited financial statements have been prepared for the year ended 31 December 2009 and the four months ended 30 April 2010.

For the purpose of this report, the directors of Orion have prepared the financial statements of Orion for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (the “Underlying Financial Statements”) on the basis set out in note 2 of section B for which the directors of Orion are solely responsible for.

The Underlying Financial Statements for the Relevant Periods are the first financial statements that comply with HKFRSs. HKFRS 1 “First-time Adoption of Financial Reporting Standards” sets out the procedures that Orion must follow when it adopts HKFRSs for the first time as the basis for preparing its financial statements. Orion is required to establish its HKFRS accounting policies for the Relevant Periods and, in general, applies these

retrospectively to determine the opening HKFRS statement of financial position at its date of transition, i.e. 1 January 2007 and Orion prepared its opening HKFRS statement of financial position at that date. The reporting dates of these financial statements are 31 December 2007, 2008 and 2009 and 30 April 2010. Orion's HKFRS adoption date is 1 January 2007.

For the purpose of this report, we have carried out independent audit procedures on the Underlying Financial Statements of Orion for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The directors of Orion are responsible for the preparation of the Underlying Financial Statements which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included.

In our opinion, the Financial Information, for the purpose of this report, give a true and fair view of the state of affairs of Orion as at 31 December 2007, 2008, 2009 and 30 April 2010 and of the results and cash flows of Orion for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 2(b) to the Financial Information which indicates that as at 30 April 2010, Orion's current liabilities exceeded its current assets by RMB46,756,742 and had capital commitment of RMB87,500,000 as shown in Note 23. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

For the purpose of this report, we have also reviewed the 30 April 2009 Corresponding Information. The directors of Orion are responsible for the preparation and presentation of the 30 April 2009 Corresponding Information in accordance with HKFRSs. Our responsibility is to express a conclusion on the 30 April 2009 Corresponding Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the 30 April 2009 Corresponding Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 April 2009 Corresponding Information.

Based on our review, nothing has come to our attention that causes us to believe that the 30 April 2009 Corresponding Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

A. Financial Information

Statement of comprehensive income

		Year ended 31 December			Four months ended 30 April	
		2007	2008	2009	2009	2010
	<i>Notes</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
					(unaudited)	
Turnover	5	-	-	-	-	-
Other revenue	7	9,668	11,800	14	7	14
Other gains and losses	8	(255,065)	705,124	308,786	1,264,428	311,496
Administrative expenses		(4,236,665)	(3,811,943)	(4,088,392)	(856,129)	(3,148,726)
Finance costs	9	-	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit before income tax expense	10	(4,482,062)	(3,095,019)	(3,779,592)	408,306	(2,837,216)
Income tax expense	13	-	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(Loss)/profit and total comprehensive income for the year/period		<u>(4,482,062)</u>	<u>(3,095,019)</u>	<u>(3,779,592)</u>	<u>408,306</u>	<u>(2,837,216)</u>
(Loss)/earnings per share (cents) – Basic and diluted	14	<u>(8.96)</u>	<u>(6.19)</u>	<u>(7.56)</u>	<u>0.82</u>	<u>(4.93)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Statement of financial position

	<i>Notes</i>	At 31 December		At 30 April	
		2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
Non-current assets					
Gas exploration and evaluation assets	15	20,834,106	51,047,012	111,736,429	113,331,499
Current assets					
Other receivables		280,130	1,249,097	1,657,382	2,542,100
Amount due from immediate parent	16	295,988	273,448	273,128	–
Amounts due from related companies	16	4,760,723	4,574,867	220,885	227,172
Amounts due from shareholders	16	73,997	68,362	68,282	6,287
Cash and cash equivalents		22,242,795	559,543	4,793,219	9,065,340
Total current assets		27,653,633	6,725,317	7,012,896	11,840,899
Total assets		<u>48,487,739</u>	<u>57,772,329</u>	<u>118,749,325</u>	<u>125,172,398</u>
Current liabilities					
Trade and other payables	17	41,798,856	46,516,479	32,710,861	33,875,765
Amounts due to related companies	18	14,449,402	22,111,388	100,673,594	24,721,876
Total current liabilities		56,248,258	68,627,867	133,384,455	58,597,641
Net current liabilities		<u>(28,594,625)</u>	<u>(61,902,550)</u>	<u>(126,371,559)</u>	<u>(46,756,742)</u>
Net (liabilities)/assets		<u>(7,760,519)</u>	<u>(10,855,538)</u>	<u>(14,635,130)</u>	<u>66,574,757</u>
Capital and reserves					
Share capital	19	390,435	390,435	390,435	731,750
Reserves		(8,150,954)	(11,245,973)	(15,025,565)	65,843,007
Total (deficit)/equity		<u>(7,760,519)</u>	<u>(10,855,538)</u>	<u>(14,635,130)</u>	<u>66,574,757</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Statement of changes in equity

	Share capital RMB	Share premium RMB (note)	Accumulated losses RMB	Total RMB
At 1 January 2007	390,435	–	(3,668,892)	(3,278,457)
Total comprehensive income for the year	–	–	(4,482,062)	(4,482,062)
At 31 December 2007	390,435	–	(8,150,954)	(7,760,519)
Total comprehensive income for the year	–	–	(3,095,019)	(3,095,019)
At 31 December 2008	390,435	–	(11,245,973)	(10,855,538)
Total comprehensive income for the year	–	–	(3,779,592)	(3,779,592)
At 31 December 2009	390,435	–	(15,025,565)	(14,635,130)
Total comprehensive income for the period	–	–	(2,837,216)	(2,837,216)
Issuance of ordinary shares (note 19)	341,315	83,705,788	–	84,047,103
At 30 April 2010	<u>731,750</u>	<u>83,705,788</u>	<u>(17,862,781)</u>	<u>66,574,757</u>
At 1 January 2009	390,435	–	(11,245,973)	(10,855,538)
Total comprehensive income for the period	–	–	408,306	408,306
At 30 April 2009 (unaudited)	<u>390,435</u>	<u>–</u>	<u>(10,837,667)</u>	<u>(10,447,232)</u>

Note:

Share premium represents amount subscribed for share capital in excess of nominal value.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Statement of cash flows

	Year ended 31 December			Four months ended 30 April	
	2007 RMB	2008 RMB	2009 RMB	2009 RMB	2010 RMB
				(unaudited)	
Cash flows from operating activities					
(Loss)/profit before income tax expense	(4,482,062)	(3,095,019)	(3,779,592)	408,306	(2,837,216)
Adjustment for:					
Interest income	(9,668)	(11,800)	(14)	(7)	(14)
Operating (loss)/profit before working capital changes	(4,491,730)	(3,106,819)	(3,779,606)	408,299	(2,837,230)
Decrease/(increase) in other receivables	40,558	(968,967)	(408,285)	(5,294,262)	(884,718)
Increase/(decrease) in trade and other payables	37,720,545	4,717,623	(13,805,618)	11,404,894	1,164,904
Net cash (used in)/generated from operations	33,269,373	641,837	(17,993,509)	6,518,931	(2,557,044)
Interest received	9,668	11,800	14	7	14
Net cash (used in)/from operating activities	33,279,041	653,637	(17,993,495)	6,518,938	(2,557,030)
Net cash used in investing activities					
Payments for gas exploration and evaluation assets	(16,692,804)	(29,279,272)	(59,547,407)	(12,921,679)	(1,595,070)
Financing activities					
Proceeds from issue of ordinary shares (note 19)	-	-	-	-	84,047,103
Interest paid	(295,921)	(933,634)	(1,142,010)	(380,670)	-
(Advances to)/repayment from related companies	(4,760,723)	185,856	4,353,982	4,342,858	(6,287)
Repayment from immediate parent	16,360	22,540	320	448	273,128
Repayment from shareholders	4,090	5,635	80	112	61,995
Advances from/(repayment to) related companies	10,419,168	7,661,986	78,562,206	2,811,463	(75,951,718)
Net cash from financing activities	5,382,974	6,942,383	81,774,578	6,774,211	8,424,221
Net increase/(decrease) in cash and cash equivalents	21,969,211	(21,683,252)	4,233,676	371,470	4,272,121
Cash and cash equivalents at beginning of year/period	273,584	22,242,795	559,543	559,543	4,793,219
Cash and cash equivalents at end of year/period, represents cash and bank balances	22,242,795	559,543	4,793,219	931,013	9,065,340

B. Notes to the Financial Information**1. GENERAL INFORMATION**

Orion is a limited company incorporated in the Cayman Islands. The address of the registered office of Orion is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The address of the principal place of business of the Orion is Room 1601-1605, Tower C, Raycon Information Technology Park, No.2 Kexueyuan South Road, Zhongguancun, Beijing 100190, the People's Republic of China (the "PRC").

The principal activities of Orion is exploration, development and production of coalbed methane in the PRC. The coalbed methane operation in the PRC is conducted through production sharing arrangements with PetroChina, a company established in the PRC and indirectly controlled by the PRC government, whereby Orion is entitled to a fixed percentage of production output in accordance with the respective coalbed methane production sharing contract entered into with PetroChina. Further details in relation to this contract are shown in Note 20.

The financial statements are presented in Reminbi ("RMB"), which is the same as the functional currency of Orion.

The directors of Orion consider that the ultimate and immediate parent to be Orion Energy Holding, Inc., a company incorporated in Cayman Islands.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

As at 30 April 2010, Orion's current liabilities exceeded its current assets by RMB46,756,742 and had capital commitment of RMB87,500,000 as shown in Note 23. The shareholders have confirmed their intention to provide sufficient financial support to Orion so as to enable Orion to meet their liabilities as and when they fall due and to enable Orion to continue operating for the foreseeable future. Consequently, the Financial Information has been prepared on a going concern basis.

3. POTENTIAL IMPACT ARISING ON THE NEW HKFRSs WHICH ARE NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to Orion’s operations, have been issued but are not yet effective and have not been early adopted by Orion.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
Amendments to HKAS 32	Classification of Rights Issues ²
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 for First-time Adopters ³
Amendment to HK(IFRIC)	
– Interpretation 14	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

Orion is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of Orion.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Accounting for production sharing contracts

Production sharing contracts constitute jointly controlled operations. Orion’s interests in production sharing contracts are accounted for in the financial statements on the following bases:

- (i) the assets that Orion controls and the liabilities that Orion incurs; and
- (ii) the share of expenses that Orion incurs and its share of income from the production according to the terms stipulated in these contracts.

(b) Gas exploration and evaluation assets

Exploration and evaluation costs are initially capitalised. Such exploration and evaluation costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to profit or loss as they are incurred.

Tangible assets was acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting the consumption is recorded as part of the cost of the intangible asset.

Intangible exploration and evaluation assets related to each exploration license/prospect are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. Orion’s definition of commercial reserves for this purpose is proven and probable reserves on an entitlement basis including obtaining approval from the relevant PRC authorities in respect of the “overall development program” related to each license/prospect.

If commercial reserves have been discovered, the related exploration and evaluation assets are assessed for impairment as set out below and any impairment loss is recognised in profit or loss. The carrying value, after any impairment loss, of the relevant exploration and evaluation assets is then reclassified as development and production assets within property, plant and equipment.

Intangible exploration and evaluation assets that relate to exploration and evaluation activities that have resulted in the discovery of commercial reserves remain capitalised as intangible exploration and evaluation assets at cost less accumulated amortisation, subject to meeting impairment test. Such exploration and evaluation assets are amortised on a unit of production basis. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the exploration and evaluation assets concerned fall within the scope of an established full cost, the exploration and evaluation assets are tested for impairment together with all development and production assets associated with that cost, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the exploration and evaluation assets to be tested fall outside the scope of any established cost, there will generally be no commercial reserves and the exploration and evaluation assets concerned will generally be written off in full.

Any impairment loss is recognised in profit or loss as additional depreciation and separately disclosed.

(c) **Financial instruments**

(i) *Financial assets*

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade debtors), and also incorporate other types of contractual monetary asset. They are initially measured as fair value plus transactions costs that are directly attributable to the acquisition of the financial assets. At each reporting date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

Orion assesses, at the end of each reporting period, whether there is any objective evidence that the asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) *Financial liabilities at amortised cost*

Orion's financial liabilities at amortised cost, including trade and other payables, and other short-term monetary liabilities, are initially recognised at fair value, net of directly attributable transaction costs incurred and are subsequently measured at amortised cost, using the effective interest method. The related interest expenses are recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Equity instruments*

Equity instruments issued by Orion are recorded at the proceeds received, net of direct issue costs.

(v) *Derecognition*

Orion derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(vi) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(d) Income taxes

Income taxes for the Relevant Periods comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the reporting date.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(e) Foreign currency

Transactions entered into by Orion in currencies other than the currency of the primary economic environment in which it operates (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

(f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Orion has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(h) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(j) Revenue recognition

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

5. TURNOVER

Orion did not generate any turnover during the Relevant Periods.

6. SEGMENT INFORMATION

Orion's principally activity is exploration, develop and produce coalbed methane in the PRC. Accordingly, no business and geographical segment information is presented.

7. OTHER REVENUE

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
				(unaudited)	
Interest income	9,668	11,800	14	7	14

8. OTHER GAINS AND LOSSES

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
				(unaudited)	
Exchange (loss)/gain, net	(255,065)	705,124	308,786	1,264,428	311,496

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

9. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				(unaudited)	
Interest expenses on loans from related companies repayable on demand	295,921	933,634	1,142,010	380,670	–
Less: amount capitalised	(295,921)	(933,634)	(1,142,010)	(380,670)	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Borrowing costs capitalised during the Relevant Periods arose on the specific borrowings to expenditure on the gas evaluation and exploration assets.

10. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(Loss)/profit before income tax expense is arrived at after charging:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				(unaudited)	
Operating lease rental expenses	733,661	812,861	1,462,443	315,663	568,795
Staff costs (<i>note 11</i>)	2,185,435	1,848,919	2,175,814	522,306	2,151,070
	<u>2,185,435</u>	<u>1,848,919</u>	<u>2,175,814</u>	<u>522,306</u>	<u>2,151,070</u>

Auditor's remuneration for the years ended 31 December 2007 and 2008 was borne by Orion's immediate parent.

11. STAFF COSTS

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				(unaudited)	
Staff costs (including directors' remuneration) comprise:					
Salaries and bonus	2,112,260	1,818,884	2,083,369	503,859	2,038,399
Contributions to defined contribution pension plans	73,175	30,035	92,445	18,447	112,671
	<u>2,185,435</u>	<u>1,848,919</u>	<u>2,175,814</u>	<u>522,306</u>	<u>2,151,070</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) directors' remuneration

No remuneration was paid to the directors of Orion during the Relevant Periods.

There was no arrangement under which a director of Orion waived or agreed to waive any remuneration during the Relevant Periods.

(b) Employees' remuneration

None of the five highest paid individuals were directors of Orion. The emoluments of the five highest paid individuals were as follows:

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
				(unaudited)	
Basic salaries, other allowances and benefits in kind	1,986,200	541,598	499,218	56,056	633,985
Contributions to defined contribution pension plans	7,236	2,808	19,651	4,695	18,958
	<u>1,993,436</u>	<u>544,406</u>	<u>518,869</u>	<u>60,751</u>	<u>652,943</u>

All the employees' emoluments during the Relevant Periods fell within the band between nil to RMB860,000 (equivalent to HK\$1,000,000), except for one employee whose emoluments during the year ended 31 December 2007 fell within the band between RMB860,000 (equivalents to HK\$1,000,000) to RMB1,290,000 (equivalents to HK\$1,500,000).

13. INCOME TAX EXPENSE

PRC enterprise income tax has not been provided for in the statement of comprehensive income as there was no estimated assessable profit derived for the Relevant Periods.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the enterprise income tax rate of Orion in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The income tax expense for the Relevant Periods can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
				(unaudited)	
(Loss)/profit before income tax expense	(4,482,062)	(3,095,019)	(3,779,592)	408,306	(2,837,216)
Tax (credit)/charge calculated at the PRC enterprise income tax of 25% (2007: 33%)	(1,479,080)	(773,755)	(944,898)	102,077	(709,304)
Tax effect of income not taxable for tax purposes	(3,191)	(179,231)	(77,200)	(316,109)	(77,877)
Tax effect of deductible temporary difference not recognised	1,482,271	952,986	1,022,098	214,032	787,181
Income tax expense	-	-	-	-	-

14. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of Orion is based on the following data:

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
				(unaudited)	
<i>(Loss)/earnings</i>					
(Loss)/earnings for the purposes of basic (loss)/earnings per share	(4,482,062)	(3,095,019)	(3,779,592)	408,306	(2,837,216)
<i>Number of shares</i>					
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	50,000,000	50,000,000	50,000,000	50,000,000	57,500,000
Basic (loss)/earnings per share (cents)	(8.96)	(6.19)	(7.56)	0.82	(4.93)

There were no potential dilutive shares in existence during the Relevant Periods and therefore, the amounts of diluted earnings per share are the same as basic earnings per share.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

15. GAS EXPLORATION AND EVALUATION ASSETS

RMB

Cost	
At 1 January 2007	3,845,381
Additions	16,692,804
Interest capitalised	295,921
	20,834,106
At 31 December 2007	20,834,106
Additions	29,279,272
Interest capitalised	933,634
	51,047,012
At 31 December 2008	51,047,012
Additions	59,547,407
Interest capitalised	1,142,010
	111,736,429
At 31 December 2009	111,736,429
Additions	1,595,070
	113,331,499

As at 30 April 2010, the major compositions of gas exploration and evaluation assets were exploratory drilling and trenching costs. The directors have assessed whether the gas exploration and evaluation assets of Orion has impaired in accordance with the criteria under HKFRS 6 and by reference to the progress in the implementation of the Production Sharing Contract during the Relevant Periods, competent person's report prepared by Netherland Sewell & Associates, Inc. set out in Appendix IV of the Circular and valuation report prepared by the American Appraisal China Limited set out in Appendix V in the Circular. The directors concluded that there are no facts or circumstances which may indicate that the carrying amount of the gas exploration and evaluation assets has exceeded the recoverable amount during the Relevant Periods and up to the reporting date.

16. AMOUNT(S) DUE FROM IMMEDIATE PARENT, SHAREHOLDERS AND RELATED COMPANIES

The balances are unsecured, interest-free and repayable on demand.

17. TRADE AND OTHER PAYABLES

	At 31 December			At 30 April
	2007	2008	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Trade payables				
– third party	1,086,920	2,814,194	1,582,442	1,582,439
– a related party (<i>note</i>)	13,926,509	39,431,479	31,002,862	31,882,869
	15,013,429	42,245,673	32,585,304	33,465,308
	26,785,427	4,270,806	125,557	410,457
Other payables and accruals	26,785,427	4,270,806	125,557	410,457
	41,798,856	46,516,479	32,710,861	33,875,765

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

At the end of each of the reporting period, the ageing analysis of the trade payables was as follows:

	At 31 December			At 30 April
	2007 <i>RMB</i>	2008 <i>RMB</i>	2009 <i>RMB</i>	2010 <i>RMB</i>
Within 3 months	13,926,509	1,269,745	30,766,364	880,004
3 months to 6 months	–	–	–	–
6 months to 1 year	824,345	15,412,691	–	30,766,364
1 years to 2 years	262,575	25,563,237	1,582,440	–
Over 2 years	–	–	236,500	1,818,940
	<u>15,013,429</u>	<u>42,245,673</u>	<u>32,585,304</u>	<u>33,465,308</u>

Note:

At 31 December 2007, 2008 and 2009 and 30 April 2010, trade payables included amounts of RMB13,926,509, RMB39,431,479, RMB31,002,862 and RMB31,882,869 respectively, payable to Beijing Orion Energy Technology & Development Inc. (“Beijing Orion”). Mr. Yang Luwu, a director of Orion, is also a director of Beijing Orion. Amount due to Beijing Orion is unsecured, interest-free and repayable on demand.

18. AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies included amounts of RMB7,073,943, RMB12,579,472 and RMB1,862,200 as at 31 December 2007, 2008 and 2009 respectively which bore interest at 8% to 10% per annum, the remaining balances were interest-free. All amounts are unsecured and repayment on demand.

19. SHARE CAPITAL

(a) Authorised and issued share capital

	2007		At 31 December			At 30 April		
	<i>Number</i>	<i>RMB</i>	2008 <i>Number</i>	2008 <i>RMB</i>	2009 <i>Number</i>	2009 <i>RMB</i>	2010 <i>Number</i>	2010 <i>RMB</i>
Authorised:								
Ordinary shares of USD\$0.001	50,000,000	390,435	50,000,000	390,435	50,000,000	390,435	100,000,000	731,750
Issued and fully paid								
Ordinary shares of USD\$0.001								
At beginning of the year/period	50,000,000	390,435	50,000,000	390,435	50,000,000	390,435	50,000,000	390,435
Issues additional shares capital during the year/period	–	–	–	–	–	–	50,000,000	341,315
At end of the year/period	<u>50,000,000</u>	<u>390,435</u>	<u>50,000,000</u>	<u>390,435</u>	<u>50,000,000</u>	<u>390,435</u>	<u>100,000,000</u>	<u>731,750</u>

By a special resolution passed on 13 April 2010, the authorised share capital of Orion was increased from USD50,000 divided into 50,000,000 ordinary shares of USD0.001 each to USD100,000 by the creation of a further 50,000,000 ordinary shares of USD0.001 each. All new shares rank pari passu in all respects with the existing shares of Orion. At the same date, Orion issued 50,000,000 ordinary shares to the existing shareholders at an issue price of USD0.25 per shares. The premium on the issue of these new shares amounted to RMB83,705,788 was credited to share premium account. The shares were issued for the purposes of providing additional working capital.

(b) Capital management policy

Orion classified the share capital and reserves as the capital of Orion. Orion's objectives when managing capital are:

- to safeguard Orion's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

Orion sets the amount of capital in proportion to risk. Orion manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

20. PRODUCTION SHARING CONTRACT

Orion currently has a production sharing contract ("PSC") in the PRC.

On 28 March 2006, Orion entered into a PSC with China United Coalbed Methane Corporation Ltd ("CUCMCL") (the "PRC Partner") to explore, develop and produce methane in Sanjiao block in the location of Ordos Basin of Shanxi and Shaanxi Provinces in the PRC. Pursuant to the PSC, all the costs incurred in the exploration phase shall be borne by Orion. When the Overall Development Programme is submitted to and approved by the National Development and Reform Commission, the project will enter into development phase, on the commencement of which, all the development and operating costs shall be borne as to 70% by Orion and 30% by the PRC Partner, except if the PRC Partner chooses not to participate in a particular site. If the PRC Partner chooses not to participate in a particular site, all the development and operating cost will be fully borne by Orion. Also, the PRC Partner's participation can be less than 30% for certain wells in respect of which the PRC Partner will not need to bear the development costs or at a specifically agreed percentage. As a result, the profit sharing ratio will be adjusted according to their actual participating interests in the coalbed methane field.

The PSC has a term of thirty years, with production period not more than twenty consecutive years beginning from the date of commencement of commercial production to the expiry date of the production period as specified in the overall development program, unless production is suspended or abandoned in accordance with the PSC or under special circumstances, the production period can be extended with the approval of the relevant PRC authority. Pursuant to the PSC, the Joint Management Committee is responsible to oversee the operation in the contracted area. Currently, Sanjiao block covered by the PSC is in the exploration stage.

In April 2009, CUCMCL transferred all of its interests and associated obligations with respect to certain gas fields (including the areas covered by the PSC) to PetroChina. The transfer has been approved by the State-owned Assets Supervision and Administration Commission of the State Council. The formalities and regulatory approvals and consents necessary for the completion of such transfer of interests are in progress and in the meantime PetroChina (in place of CUCMCL) has already commenced participation in the joint management of the project under the PSC.

The consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. Orion may have obligations to make payments for restoration and rehabilitation of the land after the sites have been extracted. However, such amount cannot be measured reliably during this preliminary stage, accordingly no provision is made by Orion in this regard. Management of Orion will assess the likelihood and amount of such payments at the end of each reporting period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Orion is exposed through its operations to the market risk (foreign exchange risk and interest rate risk), liquidity risk and credit risk from its use of financial instruments in the normal course of business.

Management manages and monitors these risk exposure to ensure appropriate measures are implemented on a timely and effective manner. The policy for each of the above risks is described in more detail below.

Market risks

(a) Foreign exchange risk

Certain financial assets and liabilities, such as amounts due to related companies are denominated in United States dollar ("USD"), which expose Orion to foreign currency risk. Orion currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Orion's monetary financial assets and liabilities denominated in USD at the reporting date are as follows:

	Assets			
	At 31 December			At 30 April
	2007	2008	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
USD	<u>24,944,266</u>	<u>2,723,275</u>	<u>1,752,534</u>	<u>7,047,861</u>
	Liabilities			
	At 31 December			At 30 April
	2007	2008	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
USD	<u>29,767,979</u>	<u>24,216,849</u>	<u>23,627,026</u>	<u>22,859,681</u>

The sensitivity analysis on foreign exchange risk includes monetary financial assets and liabilities that are denominated in USD. It is estimated that an appreciation or depreciation of 3% in USD against RMB as at 31 December 2007, 2008 and 2009 and 30 April 2010, with all other variable held constant, would increase/decrease the loss of Orion for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 by RMB144,711, RMB644,807, RMB656,235 and RMB474,355 respectively. There is no change in the methods and assumptions used in Relevant Periods.

(b) Interest rate risk

Orion is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. However, such exposure is minimal to Orion as the bank balances are all short term in nature.

Orion is exposed to fair value interest rate risk in relation to fixed rate amounts due to related companies during the Relevant Periods. Orion currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

As at 30 April 2010, Orion's current liabilities exceeded its current assets by RMB46,756,742. The shareholders have confirmed their intention to provide sufficient financial support to Orion so as to enable Orion to meet their liabilities as and when they fall due and to enable Orion to continue operating for the foreseeable future.

Orion's policy is to maintain sufficient cash and cash equivalents and have available funding through funds from related companies to meet its working capital requirements, where necessary. Orion's financial liabilities mature in less than one year and their contractual undiscounted payments approximate their carrying amount included in the statement of financial position.

Credit risk

Orion's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each of the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Orion has no significant credit risk on other receivables since the amount is minimal. Orion has monitored and understood the potential credit quality of amounts due from immediate parent, shareholders, and related companies to ensure that its credit risk is monitored.

Fair value

The fair values of all financial assets and liabilities are not materially different from their carrying value.

22. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, during the Relevant Periods, Orion entered into the following transactions with related parties:

	Year ended 31 December			Four months ended 30 April	
	2007 RMB	2008 RMB	2009 RMB	2009 RMB	2010 RMB
Construction services fee charged by Beijing Orion	13,667,312	25,764,168	55,042,332	11,089,397	31,882,864
Loan interests charged by related companies	295,921	933,634	1,142,010	380,670	–

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Note:

Mr. Yang Luwu, one of the directors of Orion is also a director of the above related parties.

Key management personnel are the directors of Orion and the details of directors' remuneration are set out in note 12(a) to the financial statements.

23. COMMITMENTS

Operating leases commitments – lessee

Orion leases its office under operating leases. The leases are negotiated for a term of two to three years and rental are fixed during the lease period.

The future aggregate minimum lease payments under non-cancelable operating leases in respect of the office to follows:

	2007	At 31 December 2008	2009	At 30 April 2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Not later than one year	324,000	855,360	2,798,340	2,798,340
Later than one year and not later than five years	–	1,211,760	1,165,975	233,195
	<u>324,000</u>	<u>2,067,120</u>	<u>3,964,315</u>	<u>3,031,535</u>

Capital commitments

	2007	At 31 December 2008	2009	At 30 April 2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Commitments in respect of the PSC				
– contracted but not provided for	26,756,829	–	–	87,500,000
	<u>26,756,829</u>	<u>–</u>	<u>–</u>	<u>87,500,000</u>

24. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of coalbed methane resources

Orion tests the exploration and evaluation assets for impairment according to accounting policies stated in note 4(b). The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates. While conducting an impairment review of the assets, Orion makes certain judgements in making assumptions about the future gas prices and production costs, changes in these estimates may result in significant variance to the statement of comprehensive income.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

25. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2007	At 31 December	2009	At 30 April
	<i>RMB</i>	<i>2008</i>	<i>RMB</i>	<i>2010</i>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Financial assets				
Loans and receivables (including cash and bank balances)	27,653,633	6,725,317	7,012,896	11,840,899
	<u>27,653,633</u>	<u>6,725,317</u>	<u>7,012,896</u>	<u>11,840,899</u>
Financial liabilities				
Financial liabilities measured at amortised cost	56,248,258	68,627,867	133,384,455	58,597,641
	<u>56,248,258</u>	<u>68,627,867</u>	<u>133,384,455</u>	<u>58,597,641</u>

C. Subsequent financial statements

No audited financial statements have been prepared by Orion in respect of any period subsequent to 30 April 2010.

Yours faithfully,
BDO Limited
Certified Public Accountants

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Practising Certificate Number P03752
Hong Kong

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Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP**1. For the year ended 31 December 2007***(a) Business review*

OEI was incorporated in the Cayman Islands on 5 January 2006. The principal business activities of OEI are, among others, exploration, development and production of coalbed methane in the PRC. On 28 March 2006, OEI and the PRC Partner entered into the Production Sharing Contract, pursuant to which OEI was engaged as a foreign partner to provide relevant technology and assign its competent experts to explore, develop, produce and sell coalbed methane or coalbed methane products extracted from the Contract Area which covers a total of 461.74 square kilometers in the Ordos Basin of Shanxi and Shaanxi Provinces in the PRC. The Contract Area may be adjusted to exclude (i) any coal bed methane field within that area that the Operator decides to abandon production in circumstances where the PRC Partner does not wish to do so; (ii) any area relinquished by the Operator in accordance with the Production Sharing Contract. The PRC Partner shall, among others, facilitate local approvals and liaison with local and government bodies and assist OEI to recruit PRC employees. The profit sharing ratio between OEI and the PRC Partner is 70:30. On 27 June 2006, OEI and the PRC Partner obtained approval from the Ministry of Commerce of the PRC and the Production Sharing Contract became effective on the same date. Pursuant to the Production Sharing Contract, OEI can exploit the coalbed methane resources in the Sanjiao Block located in Shanxi and Shaanxi Provinces, China for a term of 30 years from the date of commencement of the implementation of the Production Sharing Contract. The development of the Contract Area can be divided into three phrases: exploration period, development period and production period. For the year ended 31 December 2007, OEI did not initiate gas sales from the Sanjiao Block as it was in the exploration period that OEI conducted core testing and run pilot production to ascertain the potential commercial value of the coalbed methane field in the planned exploration area.

(b) Financial result, financial position and capital structure

As mentioned, OEI did not initiate gas sales from the Sanjiao Block during the year ended 31 December 2007. Exploration and evaluation costs of approximately RMB20.83 million (equivalent to approximately HK\$23.83 million) were capitalised. Such costs included costs of license acquisition, technical services and studies, exploration drilling and testing. Administrative expenses of approximately RMB4.24 million (equivalent to approximately HK\$4.85 million) were recorded in the income statement of OEI which recorded a net loss of approximately RMB4.48 million (equivalent to approximately HK\$5.13 million) for the year ended 31 December 2007. The net liabilities of OEI were approximately RMB7.76 million (equivalent to approximately HK\$8.88 million) as at 31 December 2007.

Capital expenditures were funded by OEI's related companies and its shareholders. There was no change in capital structure during the year and no financial instrument was used for hedging purposes during the period.

There were no material acquisitions and disposals of subsidiaries and associated companies during the period.

OEI had capital commitments in respect of the Production Sharing Contract contracted but not provided for RMB26,756,829 as at 31 December 2007. The Target Group may have obligations to make payments for restoration and rehabilitation of the land after the mining sites have been extracted, since the consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. However, such amount cannot be measured reliably during this preliminary stage and accordingly, no provision was made by the Target Group in this regard.

(c) Employment and remuneration policy

As at 31 December 2007, the number of employees was 12. Total staff costs for the period were approximately RMB2.19 million. The remuneration policy was review in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

Since the Production Sharing Contract became effective in June 2006, OEI intended to drill additional multilateral directional wells in order to gather more accurate reservoir data in the Contract Area. In light of this, Beijing Orion was engaged by OEI to handle the well drilling, well testing, repair and maintenance of the mine and mining facilities in the Contract Area. With the assistance of Beijing Orion's expertise, OEI targeted to commence initial production from the wells in 2009.

(e) Details of charges on assets

OEI had no charge on its assets as at 31 December 2007.

(f) Borrowings and gearing ratio

OEI did not have any external borrowings as at 31 December 2007 and the gearing ratio of OEI was nil.

(g) Foreign exchange exposure

The operations of OEI are in PRC and the transactions, monetary assets and liabilities are primarily denominated in RMB. Certain financial assets and liabilities, such as amounts due to related companies are denominated in United States dollar, exposing OEI to foreign currency risk. OEI currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

2. For the year ended 31 December 2008*(a) Business review*

With the approval of the State-owned Assets Supervision and Administration Commission of the State Council and the acknowledgement of the Ministry of Land and Resources, CUCMCL agreed to transfer all of its interests and associated obligations with respect to certain gas fields (including those in the Contract Area) to PetroChina. The formalities and regulatory approvals and consents necessary for the completion of such transfer of interests are in progress and in the meantime PetroChina has already commenced participation (in place of CUCMCL) in the joint management of the project under the Production Sharing Contract. During the year, additional wells were drilled to gather more reservoir data in the Contract Area.

(b) Financial result, financial position and capital structure

OEI did not initiate gas sales from the Sanjiao Block during the year ended 31 December 2008. Exploration and evaluation costs of approximately RMB51.05 million (equivalent to approximately HK\$58.40 million) were capitalised. Such costs included costs of license acquisition, technical services and studies, exploration drilling and testing. Administrative expenses of approximately RMB3.81 million (equivalent to approximately HK\$4.36 million) were recorded in the income statement of OEI which recorded a net loss of approximately RMB3.10 million (equivalent to approximately HK\$3.55 million) for the year ended 31 December 2008. The net liabilities of OEI were approximately RMB10.86 million (equivalent to approximately HK\$12.42 million) as at 31 December 2008.

Capital expenditures were funded by OEI's related companies and its shareholders. There was no change in capital structure during the year and no financial instrument was used for hedging purposes during the period.

There were no material acquisitions and disposals of subsidiaries and associated companies during the period.

The Target Group may have obligations to make payments for restoration and rehabilitation of the land after the mining sites have been extracted, since the consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. However, such amount cannot be measured reliably during this preliminary stage and accordingly, no provision was made by the Target Group in this regard.

(c) Employment and remuneration policy

As at 31 December 2008, the number of employees was 18. Total staff costs for the period were approximately RMB1.85 million. The remuneration policy was review in line with the market conditions, current legislation and the performance of the individual.

(d) *Future plan and prospects*

Since the Production Sharing Contract became effective in June 2006, OEI intended to drill additional multilateral directional wells in order to gather more accurate reservoir data in the Contract Area. In light of this, Beijing Orion engaged by OEI had been handling the well drilling, well testing, repair and maintenance of the mine and mining facilities in the Contract Area since 2007. OEI targeted to commence initial production from the wells in 2009.

(e) *Details of charges on assets*

OEI had no charge on its assets as at 31 December 2008.

(f) *Borrowings and gearing ratio*

OEI did not have any external borrowings as at 31 December 2008 and the gearing ratio of OEI was nil.

(g) *Foreign exchange exposure*

The operations of OEI are in PRC and the transactions, monetary assets and liabilities are primarily denominated in RMB. Certain financial assets and liabilities, such as amounts due to related companies are denominated in United States dollar, exposing OEI to foreign currency risk. OEI currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

3. For the year ended 31 December 2009

(a) *Business review*

The coalbed methane potential was more confirmed after years of well drilling and testing. OEI proposed to submit the Overall Development Program for approval in 2010. Once the approval of the Overall Development Program was granted by the National Development and Reform Commission, OEI would be able to transit to the development phase. In the meantime, OEI was considering the form of supply of coalbed methane including by way of provincial pipeline. Apart from supplying via the provincial pipeline, OEI was also considering transporting and selling its coalbed methane as compressed natural gas or liquefied natural gas as alternative distribution channel.

(b) Financial result, financial position and capital structure

OEI did not initiate gas sales from the Sanjiao Block during the year ended 31 December 2009. Exploration and evaluation costs of approximately RMB111.74 million (equivalent to approximately HK\$127.83 million) were capitalised. Such costs included costs of license acquisition, technical services and studies, exploration drilling and testing. Administrative expenses of approximately RMB4.09 million (equivalent to approximately HK\$4.68 million) were recorded in the income statement of OEI which recorded a net loss of approximately RMB3.78 million (equivalent to approximately HK\$4.32 million) for the year ended 31 December 2009. The net liabilities of OEI were approximately RMB14.64 million (equivalent to approximately HK\$16.75 million) as at 31 December 2009.

Capital expenditures were funded by OEI's related companies and its shareholders. There was no change in capital structure during the year and no financial instrument was used for hedging purposes during the period.

There were no material acquisitions and disposals of subsidiaries and associated companies during the period.

The Target Group may have obligations to make payments for restoration and rehabilitation of the land after the mining sites have been extracted, since the consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. However, such amount cannot be measured reliably during this preliminary stage, accordingly no provision was made by the Target Group in this regard.

(c) Employment and remuneration policy

As at 31 December 2009, the number of employees was 26. Total staff costs for the period were approximately RMB2.18 million. The remuneration policy was review in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

Taking into account of the tremendous capital expenditures, OEI considered to commence trial production and submit the Overall Development Program for approval in the forthcoming year. OEI expected to generate some sales from the coalbed methane field in 2010.

(e) Details of charges on assets

OEI had no charge on its assets as at 31 December 2009.

(f) Borrowings and gearing ratio

OEI did not have any external borrowings as at 31 December 2009 and the gearing ratio of OEI was nil.

(g) *Foreign exchange exposure*

The operations of OEI are in PRC and the transactions, monetary assets and liabilities are primarily denominated in RMB. Certain financial assets and liabilities, such as amounts due to related companies are denominated in United States dollar, exposing OEI to foreign currency risk. OEI currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

4. For the four months ended 30 April 2010

(a) *Business review*

The Target Company was incorporated in the Cayman Islands on 8 January 2010. The principal business activity of the Target Company is investment holding. Save for holding the entire share capital of OEI, the Target Company does not have any other investment or operations. The Target Company did not generate any turnover for the period since its date of incorporation to 30 April 2010. The audited net assets of the Target Company amounted to US\$1 as at 30 April 2010. The Overall Development Program for the coalbed methane field was being prepared by OEI. OEI had entered into a non legally binding letter of intent with a local enterprise, pursuant to which, OEI agreed to supply to the local enterprise the coalbed methane from the Contract Area. The construction of a provincial pipeline which is owned by the local enterprise was underway. When the pipeline construction is completed, the pipeline would have an annual supply capacity of 1 billion m³ per year. Apart from supplying via the provincial pipeline, OEI was also considering transporting and selling its coalbed methane as compressed natural gas or liquefied natural gas as alternative distribution channel.

(b) *Financial result, financial position and capital structure*

OEI did not initiate gas sales from the Sanjiao Block during the four months ended 30 April 2010. Exploration and evaluation costs of approximately RMB113.33 million (equivalent to approximately HK\$129.65 million) were capitalised. Such costs included costs of license acquisition, technical services and studies, exploration drilling and testing. Administrative expenses of approximately RMB3.15 million (equivalent to approximately HK\$3.60 million) were recorded in the income statement of OEI which recorded a net loss of approximately RMB2.84 million (equivalent to approximately HK\$3.25 million) for the four months ended 30 April 2010. OEI changed from a net liability position to a net asset position and had net assets of approximately RMB66.57 million (equivalent to approximately HK\$76.16 million) as at 30 April 2010 primarily because 50,000,000 new shares of OEI were issued to the existing shareholders of OEI at an issue price of about US\$0.25 per share.

Capital expenditures were funded by OEI's related companies and its shareholders. Save for the aforesaid new issue of 50,000,000 new shares of OEI, there was no change in capital structure during the year and no financial instrument was used for hedging purposes during the period.

Saved for the incorporation of the Target Company, there were no material acquisitions and disposals of subsidiaries and associated companies during the period.

OEI had capital commitment in respect of the Production Sharing Contract contracted but not provided for of RMB87,500,000 as at 30 April 2010. The Target Group may have obligations to make payments for restoration and rehabilitation of the land after the mining sites have been extracted, since the consequence of the coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. However, such amount cannot be measured reliably during this preliminary stage and accordingly, no provision was made by the Target Group in this regard.

(c) Employment and remuneration policy

As at 30 April 2010, the number of employees was 32. Total staff costs for the period were approximately RMB2.15 million. The remuneration policy was review in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

Taking into account of the tremendous capital expenditures, OEI considered to commence trial production and submit the Overall Development Program for approval in the fourth quarter of 2010 so that sales could be generated from the coalbed methane field soon after.

(e) Details of charges on assets

OEI had no charge on its assets as at 30 April 2010.

(f) Borrowings and gearing ratio

OEI did not have any external borrowings as at 30 April 2010 and the gearing ratio of OEI was nil.

(g) Foreign exchange exposure

The operations of OEI are in PRC and the transactions, monetary assets and liabilities are primarily denominated in RMB. Certain financial assets and liabilities, such as amounts due to related companies are denominated in United States dollar, exposing OEI to foreign currency risk. OEI currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

1. INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated statement of financial position, have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of Power Great and its subsidiary (collectively the “Target Group”) by the Group as if the Acquisition had been taken place on 30 June 2010.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the unaudited statement of financial position of the Group as at 30 June 2010, which has been extracted from the interim report of the Company for the six months ended 30 June 2010; and the audited statement of financial position of Orion Energy International Inc. (“OEI”) as at 30 April 2010 are extracted from the accountants’ report thereon as set out in Appendix II to this Circular, after giving effect to the pro forma adjustments described in the accompanying notes. Power Great was dormant with only share capital of US\$1 as at 30 April 2010. Accordingly, it was not included in the preparation of the unaudited pro forma financial information. Narrative descriptions of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

(I) Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	Unaudited consolidated statement of financial position of the Group as at 30 June 2010 <i>HK\$'000</i> <i>Note 1</i>	Audited statement of financial position of OEI as at 30 April 2010 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 4,5</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 6</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 7</i>	Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2010 <i>HK\$'000</i>
Assets						
Non-current assets						
Goodwill	4,230	–				4,230
Property, plant and equipment	112,214	–				112,214
Gas exploration and evaluation assets	–	130,116	2,238,016			2,368,132
Intangible assets	95,700	–				95,700
Interest in a jointly controlled entity	9,037	–				9,037
Pledged deposits	1,130	–				1,130
Deposits paid	2,276	–				2,276
	<u>224,587</u>	<u>130,116</u>				<u>2,592,719</u>
Current assets						
Inventories	705	–				705
Trade and other receivables, deposits and prepayment	8,479	2,919			268	11,666
Amounts due from related companies	–	261			(261)	–
Amount due from a shareholder	–	7			(7)	–
Cash and cash equivalents	369,706	10,408	(780,000)			(399,886)
	<u>378,890</u>	<u>13,595</u>				<u>(387,515)</u>
Total current assets	<u>378,890</u>	<u>13,595</u>				<u>(387,515)</u>
Total assets	<u>603,477</u>	<u>143,711</u>				<u>2,205,204</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	Unaudited consolidated statement of financial position of the Group as at 30 June 2010 <i>HK\$'000</i> <i>Note 1</i>	Audited statement of financial position of OEI as at 30 April 2010 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 4,5</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 6</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 7</i>	Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2010 <i>HK\$'000</i>
Liabilities						
Current liabilities						
Accounts payable and accruals	11,832	38,893		4,350	2,834	57,909
Convertible note	16,824	–				16,824
Amount due to a shareholder	22,997	–				22,997
Amounts due to related companies	–	28,383	(25,549)		(2,834)	–
Provision	338	–				338
	<u>51,991</u>	<u>67,276</u>				<u>98,068</u>
Total current liabilities						
Net current assets/(liabilities)	<u>326,899</u>	<u>(53,681)</u>				<u>(485,583)</u>
Total assets less current liabilities	<u>551,486</u>	<u>76,435</u>				<u>2,107,136</u>
Non-current liabilities						
Deferred tax liabilities	12,461	–				12,461
	<u>64,452</u>	<u>67,276</u>				<u>110,529</u>
Total liabilities						
Total net assets	<u><u>539,025</u></u>	<u><u>76,435</u></u>				<u><u>2,094,675</u></u>
Capital and reserves attributable to owners of the Company						
Share capital	64,736	840	14,760			80,336
Reserves	474,178	75,595	1,468,805	(4,350)		2,014,228
	<u>538,914</u>	<u>76,435</u>				<u>2,094,564</u>
Equity attributable to owners of the Company						
Minority interests	<u>111</u>	<u>–</u>				<u>111</u>
Total equity	<u><u>539,025</u></u>	<u><u>76,435</u></u>				<u><u>2,094,675</u></u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes to unaudited pro forma financial information:

1. The financial information of the Group is extracted from the published interim report of the Group for the six months ended 30 June 2010.
2. The financial information of OEI is extracted from the accountants' report thereon as set out in Appendix II to this Circular and is translated from its presentation currency, Renminbi to Hong Kong dollar at the rate of RMB1: HK\$1.1481, which is the prevailing exchange rate as at 30 April 2010.
3. The Acquisition is to be accounted for as a purchase of assets and liabilities as the operation of the Target Group proposed to be acquired does not constitute a business for the accounting purposes. The Target Group solely engages in coalbed methane exploration, development and currently they are still in exploration stage.
4. The total consideration of the Acquisition is HK\$2,340,000,000, which is to be satisfied as to:
 - (a) HK\$780,000,000 in cash;
 - (b) HK\$780,000,000 by the issue of 1,560,000,000 new shares of par value HK\$0.01 at HK\$0.5 per share ("Issued Price"); and
 - (c) HK\$780,000,000 by issue of convertible bonds ("Convertible Bonds").

The consideration includes the assignment of amount due to a related company of HK\$25,549,000 to the Group. The amount is therefore eliminated.

Upon Completion, the share capital and share premium of the Company would be increased by HK\$15,600,000 and HK\$764,400,000, respectively. The fair value of the shares issued for the Acquisition is assumed, for the purpose of the preparation of unaudited pro forma financial information, as equal to the Issue Price times the number of shares to be issued.

Fair value of the consideration shares shall be reassessed on the date of Completion and is therefore subject to change upon completion of the Acquisition.

The Convertible Bonds bears zero coupon interest and has a maturity date in the third anniversary of the date of issuance of the Convertible Bonds. The conversion price is HK\$0.5 per conversion share and an aggregate of 1,560,000,000 shares will be issued upon full conversion (subject to adjustment in accordance with the terms of the Convertible Bonds). In accordance with the terms of the Convertible Bonds, the Company shall redeem the Convertible Bonds on the maturity date at the redemption amount which is 100% of the principal amount of the Convertible Bonds then outstanding. The Company may elect to satisfy the redemption in cash or by the issue of conversion shares at the conversion price or a combination of both. In the opinion of the directors, the Convertible Bonds is an equity instrument as the Company has the option to issue share at the conversion price on maturity date, the Company has no obligation to settle in cash. Accordingly, the entire amount is credited to the convertible bond equity reserve on issuance of the Convertible Bonds. The fair value of the Convertible Bonds will have to be reassessed at the date of completion.

As the Acquisition is considered as a purchase of net assets and part of the consideration is to be settled by the Company's equity instruments, the Acquisition is an equity settled share-based payment transaction. According to HKFRS 2, the fair value of the equity instruments should be recognised based on the fair value of the net assets acquired. After taking into account the advice from the professional valuer that the value of OEI's participating interest in the Production Sharing Contract arrived at the preliminary valuation falls within a rather wide range (approximately HK\$2.55 billion to HK\$4.11 billion) as disclosed in the announcement dated 20 July 2010 and the final fair value of approximately HK\$2.93 billion as reported in the Valuation Report set out in Appendix V of this circular, the directors of the Company consider that it would be more prudent and appropriate to measure the fair value of the net assets acquired by reference to the fair value of the equity instruments to be issued.

Pursuant to the agreement entered into among the vendors and the Company, the Company has agreed to acquire the entire interests of the Power Great and a loan of HK\$25,549,000 at a consideration of HK\$2,340,000,000, if the reserves of the coalbed methane field which are the subject of the production sharing contract reach a specified level, the consideration for the Acquisition will be increased by HK\$156,000,000. For the purposes of this unaudited pro forma financial information, in the opinion of the directors of the Company, the chance of having to pay the contingent consideration is remote which amount is therefore ignore.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

5. For the purpose of this unaudited pro forma financial information, in the opinion of the directors of the Company, in accordance with the accounting policy of the Group, the excess of the fair value of the net total consideration paid over the net assets and liabilities acquired of HK\$2,238,016,000 (HK\$2,314,451,000 less HK\$76,435,000) is allocated to the value of gas exploration and evaluation assets on the basis that the fair values of other identifiable assets and liabilities of the Target Group equal their respectively carrying amounts.

In assessing whether or not there is any impairment in the above fair value of gas exploration and evaluation assets, the directors of the Company have considered the criteria under HKFRS 6 and are of the view that:

- (i) whilst the period for the right to explore has expired, the PRC Partner of the Production Sharing Contract plans to apply to the Ministry of Commerce in or around October 2010 for the extension of the exploration phrase under the Production Sharing Contract for two additional years until June 2012. The Company has also been advised by the PRC legal advisers that in the meantime the validity of the Production Sharing Contract will not be affected;
- (ii) there is no indication of any substantial unbudgeted or unplanned expenditure on further exploration and evaluation of coalbed methane resources in areas specified in the Production Sharing Contract;
- (iii) the exploration work carried out so far have not led to the discovery of non commercially viable quantities of mineral resources such that OEI should discontinue such exploration activities; and
- (iv) the data and information obtained so far indicates that the development of the coalbed methane resources in the areas specified in the Production Sharing Contract is likely to enable OEI to recover in full the carrying amount of the exploration and evaluation assets.

Based on the above, in the opinion of the directors of the Company, there are no facts or circumstances which may indicate that the carrying amount of the gas exploration and evaluation assets may be impaired for the purpose of this unaudited pro forma financial information.

The directors of the Company have consulted the Company's auditors, who are also the reporting accountant for this transaction. The auditors advised that based on the information currently available, they would not object to (1) the accounting policy adopted by the Group in accounting for the gas exploration and evaluation assets; (2) the principal assumptions currently adopted by the independent professional valuer in arriving at the valuation of the gas exploration and evaluation assets; and (3) the management using such valuation as the basis for impairment assessment of the gas exploration and evaluation assets, in their audit engagement on the Group's annual financial statements for the year ending 31 December 2010 in accordance with Hong Kong Standards of Auditing to be performed.

6. The adjustment represents the estimated legal and professional fees and other direct costs of HK\$4,350,000 directly attributable to the Acquisition. These direct costs are charged to the profit or loss and for the purpose of this unaudited pro forma information, these direct costs are assumed to be unsettled and included trade and other payables.
7. The adjustment reflects the re-classification of the amounts due from related companies and amount due from shareholder to other receivables and amounts due to related companies to other payables assuming the Acquisition had been completed on 30 June 2010, pursuant to which related companies and shareholder of OEI would become a third party of the Group thereafter.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**



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The Board of directors
Sino Oil and Gas Holdings Limited
(Formerly known as Genesis Energy Holdings Limited)
Room 3708, 37/F
West Tower, Shun Tak Centre
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Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of Sino Oil and Gas Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interest in Power Great Limited and its subsidiary (the “Target Group”) (together with the Group referred to as the “Enlarged Group”) might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed “Introduction” in Section 1 of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2010 or at any future date.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
BDO Limited
Certified Public Accountants

Shiu Hong NG
Practising Certificate Number P03752

Hong Kong, 27 September 2010

The following is the text of Competent Person's Report and project risk analysis addendum in respect of the estimate of reserves in the Contract Area received from the independent competent person, Netherland, Sewell & Associates, Inc., for the purpose of inclusion in this circular.

(i) *Competent Person's Report*

**ESTIMATE OF
RESERVES AND FUTURE REVENUE
and
ASSESSMENT OF
CONTINGENT RESOURCES
to the
ORION ENERGY INTERNATIONAL INC. INTEREST
in the
SANJIAO BLOCK
located in
SHANXI AND SHAANXI PROVINCES, CHINA
as of
APRIL 30, 2010**

Prepared in accordance with the
RULES GOVERNING THE LISTING OF SECURITIES
on the
STOCK EXCHANGE OF HONG KONG LIMITED

NSA
NETHERLAND, SEWELL
& ASSOCIATES, INC.
WORLDWIDE PETROLEUM
CONSULTANTS
ENGINEERING • GEOLOGY
GEOPHYSICS • PETROPHYSICS

NSAI NETHERLAND, SEWELL
& ASSOCIATES, INC.
WORLDWIDE PETROLEUM CONSULTANTS
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CHAIRMAN & CEO C.H. (SCOTT) REES III	EXECUTIVE COMMITTEE P. SCOTT ROST - DALLAS
PRESIDENT & COO DANNY D. SIMMONS	J. CARTER HENSON JR. - HOUSTON DAN PAUL SMITH - DALLAS
EXECUTIVE VP G. LANCE BINDLER	JOSEPH J. SPELLMAN - DALLAS THOMAS J. TULLA II - DALLAS

June 25, 2010

Mr. Terence S.T. Kong
Genesis Energy Holdings Limited
Unit 3708, West Tower, Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Dear Mr. Kong:

In accordance with your request, we have estimated the proved (1P) and proved plus probable (2P) reserves and future revenue as of April 30, 2010, to the Orion Energy International Inc. (Orion) interest in certain coalbed methane (CBM) properties located in the Sanjiao Block of Shanxi and Shaanxi Provinces, China. Also as requested, we have assessed the possible reserves and contingent resources, as of April 30, 2010, to the Orion interest in these properties. It is our understanding that Genesis Energy Holdings Limited (Genesis) is considering purchasing a portion of the Orion interest in the Sanjiao Block.

The reserves and resources shown in this report have been estimated using deterministic methods. Exploration, appraisal, and development economic analyses have been performed to estimate the cost recovery, royalty, and production allocations between Orion and China United Coalbed Methane Corporation Ltd. (CUCBM) as described in Orion's production sharing contract (PSC) for the block. This report has been prepared using Forecast Case price and cost parameters provided by Orion, as discussed in subsequent paragraphs of this letter. These parameters provide for the real growth of gas prices. Monetary values shown in this report are expressed in United States dollars (\$), thousands of United States dollars (M\$), or millions of United States dollars (MM\$).

This report has been prepared in accordance with Chapter 18, Rules 18.18 through 18.33, of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The estimates in this report have also been prepared in accordance with definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE); definitions are presented immediately following this letter. Following the definitions are certificates of qualification and a list of abbreviations used in this report.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Additional details regarding reserves categorization are presented in the definitions immediately following this letter.

As presented in the following table and in the accompanying summary projection, Table I, we estimate the 1P and 2P gross and net gas reserves and future net revenue to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:



Category	Gas Reserves (BCF)		Future Net Revenue ⁽¹⁾ (MM\$)			
			Before Income Tax		After Income Tax	
	Gross	Net	Total	Net Present Value at 10%	Total	Net Present Value at 10%
Proved (1P) ⁽²⁾	0.0	0.0	0.0	0.0	0.0	0.0
Proved + Probable (2P)	356.7	237.5	3,520.7	1,426.4	2,754.2	1,110.3

⁽¹⁾ The future net revenue shown should not be construed as being the fair market value of the properties.

⁽²⁾ If Orion had initiated gas sales as of April 30, 2010, 1P gas reserves would have been 66.6 BCF gross and 45.0 BCF net. Proved future revenue before income tax would have been 641.1 MM\$ total and 243.7 MM\$ discounted at 10 percent, and 1P future revenue after income tax would have been 515.2 MM\$ total and 199.6 MM\$ discounted at 10 percent.

Gas volumes are expressed in billions of cubic feet (BCF) at standard temperature and pressure bases. Gross gas reserves are 100 percent of the reserves attributable to the Sanjiao PSC before adjustments for fuel and shrinkage. Net gas reserves are Orion's share according to the terms of the Sanjiao PSC and after adjustments for fuel and shrinkage. The estimates of reserves and future revenue included herein have not been adjusted for risk.

There are no 1P reserves at this time because Orion had not initiated gas sales as of April 30, 2010. Existing well performance and economic conditions are sufficient to justify 1P reserves once Orion establishes gas sales. A regional pipeline that can be used to transport Orion's CBM gas to market is expected to be completed in the fourth quarter of 2010. Initially, Orion's dedicated capacity in the pipeline will be 9.7 million cubic feet of gas per day, or 100 million cubic meters per year. Orion is also considering transporting and selling its CBM gas as compressed natural gas (CNG) or liquefied natural gas (LNG).

For the purposes of this report, possible reserves are calculated as the difference between proved plus probable plus possible (3P) and 2P reserves because the PSC terms apply only to field-level calculations of net reserves and future net revenue. As presented in the following table, we estimate the possible gross and net gas reserves to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:

Possible Gas Reserves (BCF)	
Gross	Net
525.0	339.8

Reserves categorization conveys the relative degree of certainty. The estimates shown in this report are for proved, probable, and possible reserves. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves.

Future gross revenue in this report is Orion's share of the gross (100 percent) revenue from the Sanjiao Block. Future net revenue is revenue as received under the PSC; this revenue is after additions for cost recovery and deductions for value added taxes, future capital costs, and operating expenses. The future net revenue is presented before and after deduction of income taxes. The estimates of income taxes were prepared based on our simple understanding of Enterprise Income Tax laws of the People's Republic of China. The future net



revenue has been discounted at an annual rate of 10 percent to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

CONTINGENT RESOURCES

Contingent resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but for which the applied project or projects are not yet considered mature enough for commercial development because of one or more contingencies. The resources shown in this report are contingent upon demonstration of economic viability through evidence that shows (1) the coal can be dewatered and produced at commercial rates and (2) the coal seam saturation can support commercial ultimate recoveries of CBM gas. If these issues are resolved, some portion of the contingent resources estimated in this report may be reclassified as reserves.

As presented in the following table, we estimate the gross and net contingent gas resources to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:

Contingent Gas Resources (BCF)					
1C		2C		3C	
Gross	Net	Gross	Net	Gross	Net
281.0	186.8	352.3	233.3	431.7	284.5

Gross contingent gas resources are 100 percent of the contingent resources attributable to the Sanjiao PSC before adjustments for fuel and shrinkage. Net contingent resources are Orion's share according to the terms of the PSC.

The contingent resources shown in this report have been estimated using deterministic methods. For the purposes of this report, the volumes and parameters associated with the low, best, and high estimate scenarios for contingent resources are referred to as 1C, 2C, and 3C, respectively.

The contingent resources shown above have not been adjusted for commercial risk. The commercial risks associated with these contingent resources include technical performance risks such as (1) the inability to achieve commercial rates of gas production because the coals fail to dewater in a reasonable time period and (2) the inability to achieve favorable commercial factors such as gas prices and development costs once the project has been appraised. Nontechnical commercial risks include (1) the inability to obtain permitting and regulatory approvals, (2) the inability to secure project financing, and (3) the internal decision of Orion to forego project development. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revisions with further data acquisition or interpretation.

ECONOMIC PARAMETERS

Forecast Case price parameters used in this report have been provided by Orion. These price parameters are reasonable and are consistent with other price forecasts for the region while providing for the real growth of gas prices at growth rates between 5 and 20 percent from 2011 through 2016. Included in the Forecast Case prices



are the 0.20 renminbi (RMB) per cubic meter (m³) subsidy issued by the Ministry of Finance of the People's Republic of China (MOFC) in April 2007 and the 0.05 RMB per m³ subsidy issued by the Shanxi Provincial Government in June 2008. Forecast Case gas prices and subsidies used in this report are shown in the following table:

Period Ending	Regional Price (RMB/m ³)	MOFC Subsidy (RMB/m ³)	Shanxi Subsidy (RMB/m ³)	Wellhead Price (RMB/m ³)	Wellhead Price (\$/MCF)	Calculated Exchange Rate ⁽¹⁾ (RMB/\$)
12-31-2010	1.50	0.20	0.05	1.75	7.29	6.80
12-31-2011	1.85	0.20	0.05	2.10	8.75	6.80
12-31-2012	2.17	0.20	0.05	2.42	10.06	6.81
12-31-2013	2.53	0.20	0.05	2.78	11.57	6.80
12-31-2014	2.95	0.20	0.05	3.20	13.31	6.81
12-31-2015	3.11	0.20	0.05	3.36	13.97	6.81
12-31-2016	3.27	0.20	0.05	3.52	14.67	6.79

Starting in 2017, gas prices are escalated 6 percent on January 1 of each year through 2020 and then escalated 3 percent on January 1 of each year throughout the remainder of the PSC term.

⁽¹⁾ These exchange rates have been calculated using the RMB/m³ and \$/MCF prices provided by Orion.

Operating costs used in this report are based on the internal records of Orion and include direct well- and field-level costs and general and administrative overhead costs. After near term adjustments for increased efficiencies and economies of scale, all operating costs have been escalated 6 percent on January 1 of each year from 2016 through 2020 and then 3 percent on January 1 of each year throughout the remainder of the PSC term. Capital costs are included as required for new development wells, production equipment, and gas gathering and processing facilities. The future capital cost escalation parameters are described in the Technical Discussion.

GENERAL INFORMATION

As shown in the Table of Contents, this report includes a discussion of our evaluation methodology for the Sanjiao PSC area along with location maps, a stratigraphic column and type log, a production allocation flowchart, graphs of reservoir properties, summary projection graphs of net reserves, representative production profiles, and maps of reservoir properties.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. Based on the quality of information provided by Orion, it is our opinion that a field visit was not required and would not materially affect our evaluation. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability. Also, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

As set forth in the PRMS, petroleum accumulations can be classified, in decreasing order of likelihood of commerciality, as reserves, contingent resources, or prospective resources. Different classifications of petroleum accumulations have varying degrees of technical and commercial risk that are difficult to quantify; thus reserves and contingent resources should not be aggregated without extensive consideration of these factors. Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by



application of development projects from a given date forward under defined conditions. Reserves must be discovered, recoverable, commercial, and remaining as of the evaluation date based on the planned development projects to be applied. Contingent resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but for which the applied project or projects are not yet considered mature enough for commercial development because of one or more contingencies.

The reserves and contingent resources shown in this report are estimates only and should not be construed as exact quantities. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received, costs incurred, and actual production rates may vary from assumptions made while preparing this report. Also, estimates of reserves and contingent resources may increase or decrease as a result of future operations.

For the purposes of this report, we used technical and economic data including, but not limited to, well logs, geologic maps, core data, production data, historical price and cost information, and property ownership interests. The reserves and contingent resources in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with generally accepted petroleum engineering and evaluation principles. A substantial portion of the reserves and contingent resources are for undeveloped locations and therefore are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geologic and reservoir characteristics.

This report has been prepared in the context of our understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to Orion and the Sanjiao PSC. In evaluating the information at our disposal concerning this report, we have excluded from our consideration all matters as to which the controlling interpretation may be political, socioeconomic, legal, environmental, or accounting rather than engineering and geoscience. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The actual degree or type of interest owned has not been independently confirmed by NSAI. The data used in our estimates were obtained from Orion, public data sources, and the nonconfidential files of NSAI and were accepted as accurate. Supporting geoscience, field performance, and work data are on file in our office. Although certain information used in the preparation of this report has been provided by Orion, this report is an independent opinion.

Based on information provided by Orion, including a copy of the Sanjiao PSC executed on March 28, 2006, the competent persons responsible for this report are in a position to attest to the rights of Orion to explore, mine, or explore and mine the relevant resources and reserves. The technical persons responsible for preparing the reserves and contingent resources estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the SPE. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties, we are not employed on a contingent basis, and we are not officers or proposed officers of any group, holding, or associated company of Orion or Genesis. Furthermore, none of our staff or associates own shares or equity in Orion, Genesis, or CUCBM.

In connection with our engagement by Orion and Genesis to perform consulting petroleum engineering, geological, geophysical, petrophysical, or property evaluation work, Orion and Genesis indemnify and hold



harmless Netherland, Sewell & Associates, Inc. (NSAI), each person who controls it, and each employee of it and each consultant or contractor engaged by it from and against any and all losses, claims, damages, expenses, or liabilities, joint or several, to which they or any of them may become subject in connection with the performance of such consulting work or the preparation of such evaluations or the reliance thereon by Orion, Genesis, or any other party. Orion and Genesis do not indemnify NSAI with respect to losses, claims, damages, expenses, or liability arising from the gross negligence or willful misconduct of NSAI.

QUALIFICATIONS

NSAI performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-002699. We provide a complete range of geological, geophysical, petrophysical, and engineering services, and we have the technical expertise and ability to perform these services in any oil and gas producing area in the world. The staff is familiar with recognized industry reserves and resources definitions, specifically those promulgated by the U.S. Securities and Exchange Commission, those by the Alberta Securities Commission, and those by the Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers, World Petroleum Council, and American Association of Petroleum Geologists. The technical persons responsible for preparing the reserves and resources estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers in Rule 18.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

NSAI has prepared thousands of independent technical reports for clients including small privately owned oil and gas companies, major and independent oil and gas companies, national oil and gas companies, financial institutions, and investors. The firm has performed field characterization and reserves assessments that range from exploration areas and early appraisal drilling to fully developed fields. The staff has extensive worldwide experience in the geology and petrophysics of complex structural and stratigraphic fields and unconventional reservoirs such as fractured basement, tight gas, and CBM.

Our reservoir engineering experience includes reserves determination, reservoir simulation, material balance, production analysis, well test analysis, wellbore inflow/outflow modeling, probabilistic modeling, fluid analysis, and economic evaluation. The firm also has staff engineers who specialize in field operations, facilities planning and design, and drilling. The firm uses its in-house proprietary economics software along with other industry-standard software to estimate future producing rates, future net revenue, and the present value of such future net revenue in accordance with industry standards and other applicable regulatory provisions.

This evaluation has been led by Mr. Nathan C. Shahan and Mr. John G. Hattner. Mr. Shahan is a reservoir engineer in the firm's Dallas office at 1601 Elm Street, Suite 4500, Dallas, Texas 75201. He has 8 years of experience in the petroleum industry with 3 years at NSAI, is a registered Professional Engineer in the State of Texas (Texas Registration No. 102389), and is a member of the Society of Petroleum Engineers. Mr. Shahan has CBM experience in China, the United States, and Canada, with additional experience in tight gas and enhanced oil recovery in the United States.

Mr. Hattner is a Senior Vice President of NSAI and is a team leader in the firm's Dallas office at 1601 Elm Street, Suite 4500, Dallas, Texas 75201. He has over 30 years of experience in the petroleum industry, with over 18 years at NSAI. He is a registered Professional Geophysicist in the State of Texas (Texas Registration No. 559), a certified petroleum geologist and geophysicist with the American Association of Petroleum Geologists, and a member of the Society of Exploration Geophysicists. Mr. Hattner has extensive experience in CBM evaluations,



having evaluated numerous CBM properties located in China, the United States, Australia, Mexico, Switzerland, Canada, Botswana, and Israel.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.
Texas Registered Engineering Firm F-002699

/s/ C.H. (Scott) Rees III

By: C.H. (Scott) Rees III, P.E.
Chairman and Chief Executive Officer

/s/ Nathan C. Shahan

By: Nathan C. Shahan, P.E. 102389
Petroleum Engineer

/s/ John G. Hattner

By: John G. Hattner, P.G. 559
Senior Vice President

Date Signed: June 25, 2010

Date Signed: June 25, 2010

NCS:JDH

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PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

This document contains information excerpted from definitions and guidelines prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE).

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that this document will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

1.1 Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term "resources" as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "conventional" or "unconventional."

Figure 1-1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

The "Range of Uncertainty" reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the "Chance of

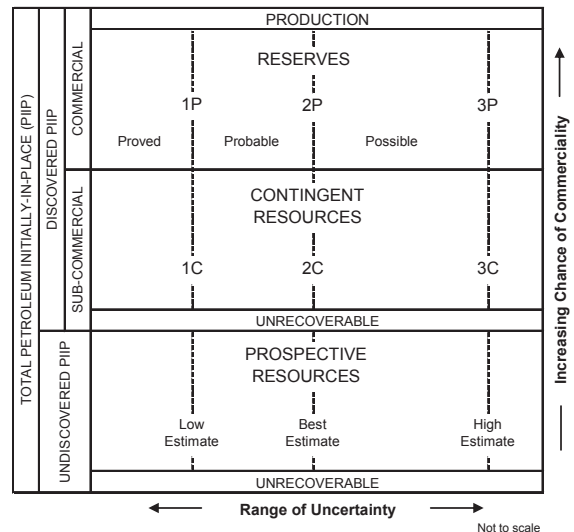


Figure 1-1: Resources Classification Framework.



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by
the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

Commerciality", that is, the chance that the project that will be developed and reach commercial producing status. The following definitions apply to the major subdivisions within the resources classification:

TOTAL PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

DISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

PRODUCTION is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage (see Production Measurement, section 3.2).

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

CONTINGENT RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

PROSPECTIVE RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

UNRECOVERABLE is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Estimated Ultimate Recovery (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

1.2 Project-Based Resources Evaluations

The resources evaluation process consists of identifying a recovery project, or projects, associated with a petroleum accumulation(s), estimating the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project, and classifying the project(s) based on its maturity status or chance of commerciality.

This concept of a project-based classification system is further clarified by examining the primary data sources contributing to an evaluation of net recoverable resources (see Figure 1-2) that may be described as follows:

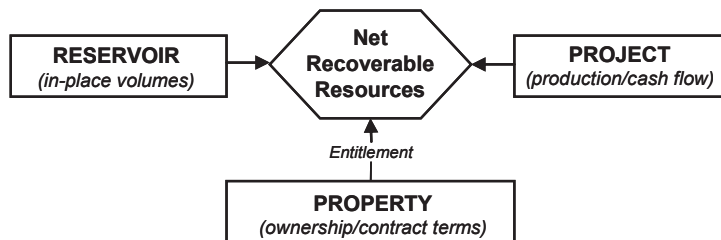


Figure 1-2: Resources Evaluation Data Sources.

- The Reservoir (accumulation): Key attributes include the types and quantities of Petroleum Initially-in-Place and the fluid and rock properties that affect petroleum recovery.
- The Project: Each project applied to a specific reservoir development generates a unique production and cash flow schedule. The time integration of these schedules taken to the project's technical, economic, or contractual limit defines the estimated recoverable resources and associated future net cash flow projections for each project. The ratio of EUR to Total Initially-in-Place quantities defines the ultimate recovery efficiency for the development project(s). A project may be defined at various levels and stages of maturity; it may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir.
- The Property (lease or license area): Each property may have unique associated contractual rights and obligations including the fiscal terms. Such information allows definition of each participant's share of produced quantities (entitlement) and share of investments, expenses, and revenues for each recovery project and the reservoir to which it is applied. One property may encompass many reservoirs, or one reservoir may span several different properties. A property may contain both discovered and undiscovered accumulations.

In context of this data relationship, "project" is the primary element considered in this resources classification, and net recoverable resources are the incremental quantities derived from each project. Project represents the link between the petroleum accumulation and the decision-making process. A project may, for example, constitute the development of a single reservoir or field, or an incremental development for a producing field, or the integrated development of several fields and associated facilities with a common ownership. In general, an individual project will represent the level at which a decision is made whether or not to proceed (i.e., spend more money) and there should be an associated range of estimated recoverable quantities for that project.

An accumulation or potential accumulation of petroleum may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.

In order to assign recoverable resources of any class, a development plan needs to be defined consisting of one or more projects. Even for Prospective Resources, the estimates of recoverable quantities must be stated in terms of the sales products derived from a development program assuming successful discovery and commercial development. Given the major uncertainties involved at this early stage, the development program will not be of the detail expected in later stages of maturity. In most cases, recovery efficiency may be largely based on analogous projects. In-place quantities for which a feasible project cannot be defined using current, or reasonably forecast improvements in, technology are classified as Unrecoverable.

Not all technically feasible development plans will be commercial. The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project's activities (see



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

Excerpted from the Petroleum Resources Management System Approved by the Society of Petroleum Engineers (SPE) Board of Directors, March 2007

Commercial Evaluations, section 3.1). "Conditions" include technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms, and taxes.

The resource quantities being estimated are those volumes producible from a project as measured according to delivery specifications at the point of sale or custody transfer (see Reference Point, section 3.2.1). The cumulative production from the evaluation date forward to cessation of production is the remaining recoverable quantity. The sum of the associated annual net cash flows yields the estimated future net revenue. When the cash flows are discounted according to a defined discount rate and time period, the summation of the discounted cash flows is termed net present value (NPV) of the project (see Evaluation and Reporting Guidelines, section 3.0).

The supporting data, analytical processes, and assumptions used in an evaluation should be documented in sufficient detail to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of recoverable quantities and their classification.

2.0 Classification and Categorization Guidelines

2.1 Resources Classification

The basic classification requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial and sub-commercial projects in known accumulations (and hence between Reserves and Contingent Resources).

2.1.1 Determination of Discovery Status

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons.

In this context, "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves. Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes; a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

2.1.2 Determination of Commerciality

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

- Evidence to support a reasonable timetable for development.
- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available.
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

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To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

2.2 Resources Categorization

The horizontal axis in the Resources Classification (Figure 1.1) defines the range of uncertainty in estimates of the quantities of recoverable, or potentially recoverable, petroleum associated with a project. These estimates include both technical and commercial uncertainty components as follows:

- The total petroleum remaining within the accumulation (in-place resources).
- That portion of the in-place petroleum that can be recovered by applying a defined development project or projects.
- Variations in the commercial conditions that may impact the quantities recovered and sold (e.g., market availability, contractual changes).

Where commercial uncertainties are such that there is significant risk that the complete project (as initially defined) will not proceed, it is advised to create a separate project classified as Contingent Resources with an appropriate chance of commerciality.

2.2.1 Range of Uncertainty

The range of uncertainty of the recoverable and/or potentially recoverable volumes may be represented by either deterministic scenarios or by a probability distribution (see Deterministic and Probabilistic Methods, section 4.2).

When the range of uncertainty is represented by a probability distribution, a low, best, and high estimate shall be provided such that:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

When using the deterministic scenario method, typically there should also be low, best, and high estimates, where such estimates are based on qualitative assessments of relative uncertainty using consistent interpretation guidelines. Under the deterministic incremental (risk-based) approach, quantities at each level of uncertainty are estimated discretely and separately (see Category Definitions and Guidelines, section 2.2.2).

These same approaches to describing uncertainty may be applied to Reserves, Contingent Resources, and Prospective Resources. While there may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable quantities independently of such a risk or consideration of the resource class to which the quantities will be assigned.

2.2.2 Category Definitions and Guidelines

Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods (see "2001 Supplemental Guidelines," Chapter 2.5). In many cases, a combination of approaches is used.

Use of consistent terminology (Figure 1.1) promotes clarity in communication of evaluation results. For Reserves, the general cumulative terms low/best/high estimates are denoted as 1P/2P/3P, respectively. The associated incremental quantities are termed Proved, Probable and Possible. Reserves are a subset of, and must be viewed within context of, the complete resources classification system. While the categorization criteria are proposed specifically for Reserves, in most cases, they can be equally applied to Contingent and Prospective Resources conditional upon their satisfying the criteria for discovery and/or development.



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For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within Contingent and Prospective Resources.

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves. All evaluations require application of a consistent set of forecast conditions, including assumed future costs and prices, for both classification of projects and categorization of estimated quantities recovered by each project (see Commercial Evaluations, section 3.1).

Based on additional data and updated interpretations that indicate increased certainty, portions of Possible and Probable Reserves may be re-categorized as Probable and Proved Reserves.

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the "best estimate" is considered the most realistic assessment of recoverable quantities. It is generally considered to represent the sum of Proved and Probable estimates (2P) when using the deterministic scenario or the probabilistic assessment methods. It should be noted that under the deterministic incremental (risk-based) approach, discrete estimates are made for each category, and they should not be aggregated without due consideration of their associated risk (see "2001 Supplemental Guidelines," Chapter 2.5).

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	<p>Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.</p> <p>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.</p> <p>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.</p> <p>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.</p>
On Production	The development project is currently producing and selling petroleum to market.	<p>The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%.</p> <p>The project "decision gate" is the decision to initiate commercial production from the project.</p>



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

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Class/Sub-Class	Definition	Guidelines
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.



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Class/Sub-Class	Definition	Guidelines
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Table 2: Reserves Status Definitions and Guidelines

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.



PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

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Status	Definition	Guidelines
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	(1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplate an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Table 3: Reserves Category Definitions and Guidelines

Category	Definition	Guidelines
Proved Reserves	Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.	<p>If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.</p> <p>The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.</p> <p>In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8).</p> <p>Reserves in undeveloped locations may be classified as Proved provided that:</p> <ul style="list-style-type: none"> • The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. • Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. <p>For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.</p>
Probable Reserves	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.	<p>It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.</p> <p>Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria.</p> <p>Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.</p>



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Category	Definition	Guidelines
Possible Reserves	Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.	<p>The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.</p> <p>Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project.</p> <p>Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.</p>
Probable and Possible Reserves	(See above for separate criteria for Probable Reserves and Possible Reserves.)	<p>The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects.</p> <p>In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area.</p> <p>Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources.</p> <p>In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.</p>

The 2007 Petroleum Resources Management System can be viewed in its entirety at <http://www.spe.org/spe-app/spe/industry/reserves/prms.htm>.



CERTIFICATE OF QUALIFICATION

I, Nathan C. Shahan, Registered Professional Engineer in the state of Texas (Texas Registration No. 102389), 4500 Thanksgiving Tower, 1601 Elm Street, Dallas, Texas 75201, hereby certify:

I am an employee of Netherland, Sewell & Associates, Inc., which prepared a detailed analysis of certain coalbed methane properties of Orion Energy International Inc. The effective date of this evaluation is April 30, 2010.

I do not have, nor do I expect to receive, any direct or indirect interest in the securities of Orion Energy International Inc. or its affiliated companies. I am independent of Orion Energy International Inc., its directors, its senior management, and its advisors in compliance with Rule 18.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

I attended Texas A&M University, I graduated in 2007 with a Master of Engineering Degree in Petroleum Engineering, and I graduated in 2002 with a Bachelor of Science Degree in Petroleum Engineering; I am a Registered Professional Engineer in the State of Texas, United States of America; and I have in excess of 8 years of experience in petroleum engineering studies and evaluations.

/s/ Nathan C. Shahan

By: _____

Nathan C. Shahan, P.E.
Petroleum Engineer
Texas Registration No. 102389

June 25, 2010
Dallas, Texas

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CERTIFICATE OF QUALIFICATION

I, John G. Hattner, Licensed Professional Geophysicist in the state of Texas (Texas Registration No. 559), 4500 Thanksgiving Tower, 1601 Elm Street, Dallas, Texas 75201, hereby certify:

I am an employee of Netherland, Sewell & Associates, Inc., which prepared a detailed analysis of certain coalbed methane properties of Orion Energy International Inc. The effective date of this evaluation is April 30, 2010.

I do not have, nor do I expect to receive, any direct or indirect interest in the securities of Orion Energy International Inc. or its affiliated companies. I am independent of Orion Energy International Inc., its directors, its senior management, and its advisors in compliance with Rule 18.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

I attended Saint Mary's College of California, and I graduated in 1989 with a Master of Business Administration Degree; I attended Florida State University, and I graduated in 1980 with a Master of Science Degree in Geological Oceanography; I attended the University of Miami, and I graduated in 1976 with a Bachelor of Science Degree in Geology; I am a Licensed Professional Geophysicist in the State of Texas, United States of America; and I have in excess of 30 years of experience in geological and geophysical studies and evaluations.

/s/ John G. Hattner

By: _____

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Senior Vice President
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June 25, 2010
Dallas, Texas

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ABBREVIATIONS

\$	United States dollars
ρ_c	density of coal
1C	low estimate scenario of contingent resources
2C	best estimate scenario of contingent resources
3C	high estimate scenario of contingent resources
1P	proved
2P	proved plus probable
3P	proved plus probable plus possible
A	drainage area per well
AEIT	after enterprise income tax
BCF	billions of cubic feet
BEIT	before enterprise income tax
CBM	coalbed methane
CNG	compressed natural gas
CUCBM	China United Coalbed Methane Corporation Ltd.
cc/g	cubic centimeters per gram
DAF	dry ash-free
EUR	estimated ultimate recovery
FTP	file transfer protocol
g/cc	grams per cubic centimeter
GC	gas content
h	net thickness of coal
ha	hectares
km	kilometers
km ²	square kilometers
LNG	liquefied natural gas
m	meters
M\$	thousands of United States dollars
m ²	square meters
m ³	cubic meters
MCF	thousands of cubic feet
MCFD	thousands of cubic feet per day
MLD	multilateral directional
MM\$	millions of United States dollars
MMCF	millions of cubic feet
MMCFD	millions of cubic feet per day
MOFC	Ministry of Finance of the People's Republic of China
MPa	megapascals
NSAI	Netherlands, Sewell & Associates, Inc.
NPV	net present value
OGIP	original gas-in-place
Orion	Orion Energy International Inc.
P	reservoir pressure
P _L	Langmuir pressure
PRMS	Petroleum Resources Management System
PSC	production sharing contract
psi	pounds per square inch
psia	pounds per square inch absolute
RMB	renminbi
Texaco	Texaco, Inc.
SPE	Society of Petroleum Engineers
VAT	value added tax
V _L	Langmuir volume



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SUMMARY PROJECTION OF RESERVES AND REVENUE
AS OF APRIL 30, 2009

SANJIAO BLOCK
SHANXI AND SHAAOXI PROVINCES, CHINA

PERIOD ENDING	GROSS GAS (BCF)		NET GAS (BCF)		COMPANY GROSS REVENUE (MMS)	ROYALTY ⁽²⁾ (MMS)	VALUE ADDED TAX (MMS)	NET INVESTMENT (MMS)	NET OPERATING EXPENSE (MMS)	PROVED + PROBABLE (2P) RESERVES		FUTURE NET REVENUE (MMS) ⁽¹⁾	
	GROSS GAS (BCF)		NET GAS (BCF)							BEFORE INCOME TAX		AFTER INCOME TAX	
	BEFORE INCOME TAX	AFTER INCOME TAX	BEFORE INCOME TAX	AFTER INCOME TAX						CUM NPV AT 10% ⁽³⁾	TOTAL	CUM NPV AT 10% ⁽³⁾	TOTAL
12-31-2010	0.131	0.103	0.103	0.0	0.8	0.0	0.0	20.6	0.9	(20.7)	(20.4)	(20.7)	(20.4)
12-31-2011	4.835	3.885	3.885	0.0	34.0	0.0	0.0	72.7	3.2	(41.9)	(57.9)	(41.9)	(57.9)
12-31-2012	20.325	13.513	13.513	0.0	135.9	0.0	0.0	63.2	4.7	68.0	(2.6)	56.8	(11.7)
12-31-2013	31.832	21.073	21.073	0.0	243.8	0.0	0.0	9.2	4.4	230.2	167.7	181.2	122.3
12-31-2014	30.439	20.164	20.164	0.0	268.4	0.0	0.0	49.7	4.4	214.3	311.7	161.2	230.6
12-31-2015	33.047	21.864	21.864	0.0	305.4	0.0	0.0	2.8	4.3	298.4	494.1	237.1	375.5
12-31-2016	30.011	19.886	19.886	0.0	291.7	0.0	0.0	14.0	4.7	273.0	645.8	215.3	495.2
12-31-2017	27.195	18.034	18.034	0.0	280.4	0.0	0.0	21.8	5.5	253.1	773.6	198.8	595.6
12-31-2018	25.167	16.699	16.699	0.0	275.3	0.0	0.0	15.7	6.4	253.1	889.8	200.5	687.7
12-31-2019	22.528	14.961	14.961	0.0	261.4	0.0	0.0	6.8	7.4	247.2	993.0	196.0	769.5
12-31-2020	19.805	13.169	13.169	0.0	243.9	0.0	0.0	0.8	7.9	235.2	1,082.3	186.1	840.1
12-31-2021	16.844	11.208	11.208	0.0	213.8	0.0	0.0	0.0	8.2	205.6	1,153.2	163.0	896.4
12-31-2022	14.287	9.507	9.507	0.0	186.8	0.0	0.0	0.0	8.4	178.4	1,209.1	140.4	940.4
12-31-2023	12.184	8.109	8.109	0.0	164.1	0.0	0.0	0.0	8.7	155.4	1,253.5	122.5	975.3
12-31-2024	10.457	6.961	6.961	0.0	145.1	0.0	0.0	0.0	8.9	136.2	1,288.7	107.2	1,003.1
12-31-2025	9.033	6.014	6.014	0.0	129.1	0.0	0.0	0.0	9.2	119.9	1,317.0	93.9	1,025.2
12-31-2026	7.853	5.229	5.229	0.0	115.6	0.0	0.0	0.0	9.5	106.2	1,339.7	82.8	1,042.9
12-31-2027	6.871	4.576	4.576	0.0	104.2	0.0	0.0	0.0	9.7	94.5	1,358.1	73.5	1,057.2
12-31-2028	6.045	4.026	4.026	0.0	94.5	0.0	0.0	0.0	10.0	84.4	1,373.1	65.7	1,068.9
12-31-2029	5.292	3.526	3.526	0.0	85.2	0.0	0.0	0.0	9.9	75.3	1,385.2	58.6	1,078.3
12-31-2030	4.675	3.115	3.115	0.0	77.5	0.0	0.0	0.0	9.8	67.7	1,395.1	52.7	1,086.0
12-31-2031	4.132	2.754	2.754	0.0	70.6	0.0	0.0	0.0	9.6	61.0	1,403.2	47.5	1,092.3
12-31-2032	3.561	2.373	2.373	0.0	62.7	0.0	0.0	0.0	8.5	54.2	1,409.8	42.2	1,097.4
12-31-2033	2.903	1.934	1.934	0.0	52.6	0.0	0.0	0.0	5.7	46.9	1,414.9	36.5	1,101.5
12-31-2034	2.585	1.722	1.722	0.0	48.2	0.0	0.0	0.0	4.8	43.5	1,419.3	33.8	1,104.8
12-31-2035	2.409	1.605	1.605	0.0	46.3	0.0	0.0	0.0	4.7	41.6	1,423.1	32.3	1,107.8
12-31-2036	2.256	1.503	1.503	0.0	44.7	0.0	0.0	0.0	4.8	39.9	1,426.4	31.0	1,110.3
TOTAL	356.700	237.512	237.512	0.0	3,862.1	0.0	0.0	277.3	184.1	3,520.7	1,426.4	2,754.2	1,110.3
CUM PROD	0.481												
ULTIMATE	357.181												

TOTALS MAY NOT ADD BECAUSE OF ROUNDING.

BASED ON FORECAST CASE PRICE AND COST PARAMETERS

DISCOUNT RATE (%)	PRESENT WORTH (MMS)
8	1,668.1
15	1,001.9
20	734.5
25	556.1
30	431.6

⁽¹⁾ THE FUTURE NET REVENUE SHOWN SHOULD NOT BE CONSTRUED AS THE FAIR MARKET VALUE OF THE SANJIAO BLOCK.
⁽²⁾ ROYALTY IS SHOWN FOR INFORMATIONAL PURPOSES ONLY; THE ANNUAL GROSS PRODUCTION DOES NOT REACH THE MINIMUM ROYALTY THRESHOLD.
⁽³⁾ THE MINIMUM ACCEPTABLE RATE OF RETURN FOR ORION IS 10 PERCENT.

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Table I

TECHNICAL DISCUSSION



**TECHNICAL DISCUSSION
ORION ENERGY INTERNATIONAL INC.
COALBED METHANE PROPERTIES
SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
AS OF APRIL 30, 2010**

1.0 OVERVIEW

Orion Energy International Inc. (Orion) owns a participating interest for coalbed methane (CBM) development in the Sanjiao Block located in Shanxi and Shaanxi Provinces, China, as shown in the summary table of assets and location maps in Figures 1 through 4. Orion is the operator of Sanjiao Block through a production sharing contract (PSC) that gives it the right to explore for, develop, produce, and sell CBM on the Sanjiao Block. The principal activities of Orion are exploration, development, and production of CBM in China. As of April 30, 2010, the Sanjiao Block is the only block in which Orion owns an interest. Based on our working experience with Orion we believe the technical staff is competent and able to perform all requirements related to the development of Sanjiao Block. We are not familiar with the staff of Genesis Energy Holdings Limited.

The Sanjiao Block covers an area of 461.7 square kilometers (km²) in the Ordos Basin of Shanxi and Shaanxi Provinces. Beginning in 1999, 14 exploration pilot wells were drilled by Texaco, Inc. (Texaco) in the Sanjiao Block to evaluate the CBM potential. Gas production commenced from the pilot wells in August 1999. Well logs, permeability measurements, and core data were gathered from these wells before Texaco abandoned the wells and canceled the contract because of the commercial risk of the project associated with the low price environment at the time. Since Orion executed its PSC in March 2006, additional exploration wells have been drilled to gather more reservoir data and 7 multilateral directional (MLD) wells have been drilled to test Coal Seams 3, 4, 5, 8, and 9 in the Shanxi and Taiyuan Formations. Gas production from Orion's wells commenced in May 2009. As of April 30, 2010, 6 of the MLD wells were producing at commercial rates, and the seventh was in the early dewatering stage. The data available from these wells indicate Coal Seams 4, 5, 8, and 9 are viable targets for CBM development.

Orion had not initiated gas sales from the Sanjiao Block as of April 30, 2010; however, pipeline construction is underway and expected to be completed in the fourth quarter of 2010. When completed, the pipeline will have a capacity of 96.7 million cubic feet per day (MMCFD), or 1 billion cubic meters (m³) per year, with 9.7 MMCFD, or 100 million m³ per year, dedicated to Orion. Orion's dedicated capacity is expected to increase to between 48.3 MMCFD (500 million m³ per year) and 77.4 MMCFD (800 million m³ per year) by the end of 2012. Orion is also considering transporting and selling its CBM gas as compressed natural gas (CNG) or liquefied natural gas (LNG).

As shown in the stratigraphic column in Figure 5, Coal Seams 4, 5, 8, and 9 are the target coal seams for CBM development in the Sanjiao Block. These coal seams have concurrent coal mining operations on the eastern edge of the block near the formation outcrop. Orion does not own an interest in the coal mining operations, nor does this report include any estimates that could be attributed to coal mining operations.

This report is based on data supplied to us by Orion. Whenever possible, data were transferred via email or a file transfer protocol (FTP) site. Periodic teleconferences were held with Orion personnel to better understand the data, contracts, and agreements and to discuss preliminary results during the



intermediate stages of our evaluation. Orion representatives visited our Dallas office in February 2010 to discuss this evaluation, the Sanjiao Block development status, and pertinent geologic data. Our estimates of reserves and contingent resources for the Sanjiao Block are based on the production data we received and the development activities in the block.

There is significant structural relief moving from the eastern edge of the block to the deepest areas on the western boundary where gas content and the potential for commercial development increase. Texaco's pilot wells and Orion's exploration wells and 7 producing MLD wells are located along this western edge in the southern half of the block where most of the reservoir core data were gathered. Orion's near-term development plan covers 234 km² in Coal Seams 4, 5, 8, and 9 in this southwestern core area of the block. Orion will evaluate additional development potential in the noncore area of the block in conjunction with the current development plan.

2.0 FISCAL TERMS

Orion owns a 70 percent participating interest in the Sanjiao Block, and China United Coalbed Methane Corporation Ltd. (CUCBM) owns the remaining 30 percent interest. The Sanjiao Block PSC was executed on March 28, 2006, in Beijing and has a 30-year term that will expire on March 31, 2036. The PSC is divided into three chronological phases: Exploration, Development, and Production, with the Exploration Phase beginning on the contract execution date. Orion estimates that the Overall Development Plan approval date, marking the beginning of the Development Phase, will be in October 2010. The Production Phase will begin on the date of initial commercial production.

Orion pays 100 percent of the costs until the Development Phase begins, and afterwards costs are shared between Orion and CUCBM in proportion to their participating interests. Orion's exploration costs incurred from the contract execution date will be eligible for cost recovery during the Development and Production phases; Orion's cost recovery balance as of April 30, 2010, is 19.0 million United States dollars. Cost recovery and production allocation between Orion and CUCBM are described in detail in the PSC and are summarized in the flowchart in Figure 6. A value added tax (VAT) rebate policy was adopted in 2007 by the Ministry of Finance of the People's Republic of China (MOFC) for revenues realized from CBM production. This rebate has been treated as a VAT exemption in the economic models. For the purposes of this report, volumes and cash flow attributable to Orion are referred to as net volumes and net revenue; in the PSC the net volumes and net cash flow are referred to as the company take.

3.0 GEOLOGY AND RESERVOIR CHARACTERIZATION

The Sanjiao Block is situated along the eastern margin of the Ordos Basin and encompasses parts of Shanxi and Shaanxi Provinces, China. The Ordos Basin is a north-south-elongated, rectangular-shaped basin. Tectonically, the Ordos is an asymmetric cratonic basin where Paleozoic and Mesozoic rocks were deposited over an area of 250,000 km², with sedimentary thicknesses up to 10,000 meters (m).

3.1 STRUCTURAL AND DEPOSITIONAL FRAMEWORK

The Ordos Basin has a thrust steeply dipping margin with an eastern margin that has gentle dips of only 5 to 8 degrees. The basin is composed of six major regional elements from east to west: the Jinxi fold belt, the Yishanan monocline, the Weibei uplift to the south, the Yimeng uplift to the north, the Tianhuan depression, and the Western thrust belt. The depocenter is asymmetrically located in the western part of the basin. The Sanjiao Block is bordered by an east-west-trending fault south of the



permit boundary, and surface outcrops of the target coal seams occur to the east of the permit boundary. Structural dip within the permit area is fairly uniform and downward to the west. Structural elevations for the target coal seams range from approximately 700 m above sea level on the east side of the block to approximately 200 m below sea level on the western portions of the block. Active coal mining areas are located to the east of the permit area.

Surface relief in the Sanjiao Block can reach up to 200 m between ridges. The Qiushui River roughly bisects the block as it runs through the area in a generally northeast-southwest orientation.

Coal-bearing formations occur along the eastern margin of the Ordos Basin. Within the Sanjiao Block, the two primary target zones are Coal Seams 4 and 5 of the Early Permian Shanxi Formation and Coal Seams 8 and 9 of the Late Carboniferous Taiyuan Formation.

3.2 COAL CHARACTERIZATION

Coal seams in both target zones are relatively continuous over the permit area and are separated by approximately 70 m of interburden sediments. The Late Carboniferous Taiyuan Formation thickness ranges from 78 to 108 m, with coal seam thicknesses typically ranging from 5 to 7 m but locally ranging up to 9 m. Coal Seams 8 and 9 are separated by both clastic and carbonate layers. Locally, Coal Seam 8 can be overlain by carbonate layers. Regionally, some of these carbonate layers can be water-bearing.

Lower Permian Shanxi Formation thickness ranges from 45 to 90 m. In some portions of the permit area Coal Seams 4 and 5 cannot be separated and are lumped together. Where Coal Seams 4 and 5 are distinguishable from each other, they are separated by clastic interbeds. For the purposes of our evaluation, the thicknesses of Coal Seams 4 and 5 were summed and mapped as a single coal seam. The combined thickness for Coal Seams 4 and 5 ranges from 1 to 8 m.

Coal Seams 4 and 5 were deposited in a deltaic environment where coal development was not continuous, while Coal Seams 8 and 9 were deposited in a lagoonal environment where coals were more laterally continuous. Both coal targets tend to have high ash content with an average of 15 percent. Coal rank using vitrinite reflectance indicates high to medium volatile bituminous coals.

3.3 COAL PERMEABILITY

Based on ash and vitrinite content, coal quality varies by coal seam, with lower delta plain coals having higher ash contents. Low vitrinite reflectance values indicate bituminous coals that generally have low permeabilities ranging from 0.01 to 7 millidarcies. Coal permeability is impacted by natural fractures; well and outcrop observations of the cleating in the target coals show Coal Seam 8 has the best overall cleating, while Coal Seam 9 generally has low to moderate cleating and Coal Seams 4 and 5 display moderate to good cleating in about half of the observations.

4.0 RESERVOIR PROPERTIES

Coal reservoir properties in Sanjiao's core and noncore areas are consistent with other commercial CBM development projects throughout the world, as shown in the following table:



Area/ Coal Seam	Geologic Formation	Average Depth (m)	Average Thickness (m)	Average In-Situ Gas Content ⁽¹⁾ (cc/g)	Average Initial Reservoir Pressure ⁽²⁾ (MPa)
Core					
4/5	Shanxi	444	4.7	12.4	4.92
8	Taiyuan	524	3.9	10.7	5.32
9	Taiyuan	524	3.6	10.1	5.36
Noncore					
4/5	Shanxi	481	3.8	6.7	3.23
8	Taiyuan	551	3.2	6.9	3.59
9	Taiyuan	551	3.3	6.7	3.79

⁽¹⁾ Dry ash-free gas (DAF) content has been adjusted for moisture and ash by 2 percent and 15 percent, respectively, to estimate in-situ gas content.

⁽²⁾ Average initial reservoir pressure has been calculated using a potentiometric surface of 720 m above sea level and a pressure gradient of 1.05 megapascals (MPa) per 100 m.

4.1 GAS CONTENT

DAF gas content correlations were developed for Coal Seams 4 and 5 combined and for Coal Seam 8 and Coal Seam 9 based on estimated reservoir pressures and saturation gradients. Reservoir pressure was estimated from the potentiometric surface derived from initial reservoir pressure measurements taken in the Texaco wells and Orion's core holes and development wells. These pressure data indicate that a common gradient of 1.05 MPa per 100 m exists in all coal seams with atmospheric pressure occurring at 720 m above sea level. These estimates are supported by the pressure-versus-depth data shown on the graph in Figure 7. Gas content correlation graphs are shown in Figures 8 through 10.

4.2 COAL DENSITY

Coal density estimates from logs and core analyses were available for Coal Seams 4, 5, 8, and 9. When these data were grouped by coal seam and analyzed statistically for representative values, data for all coal seams exhibited a lognormal distribution. Coal Seams 4 and 5 were grouped together with a resulting most likely density of 1.40 g/cc. The most likely densities from the lognormal analyses of Coal Seams 8 and 9 were 1.39 g/cc and 1.42 g/cc, respectively. These estimates were used across the entire block to calculate original gas-in-place (OGIP).

5.0 EVALUATION METHODOLOGY

During our evaluation of the Sanjiao Block, we relied on basic data supplied by Orion, including logs, core data, gas content data, production data, historical price and cost information, and property ownership interest information. These data provided well location, coal thickness, gas content, and log information from the wells in the Sanjiao Block. We calculated the coal volume and OGIP; estimated net coal thicknesses from well logs; mapped individual coal net thicknesses, overburden thicknesses, and subsea elevations; and derived gas content-pressure relationships for each coal seam evaluated in the Sanjiao Block. A potentiometric surface was calculated from initial reservoir pressure data so that gas content could be estimated based on the reservoir pressure across the block. Coal density measurements from core data and logs were used in our volumetric calculations.



5.1 MAPPING

Subsea elevations and net coal thicknesses were determined from well log data. The net coal thickness maps and depth structure maps for Coal Seams 4, 5, 8, and 9 are shown along with other maps in Figures 19 through 30. These maps were sampled on 1-km² spacing to provide input parameters for the calculation of OGIP.

Gas content saturation was estimated and mapped assuming a saturation gradient of zero at the basin outcrop and increasing to maximum saturations at elevations below 500 m above sea level. In the core area of the block, maximum saturations of 100 percent for Coal Seams 4 and 5, 80 percent for Coal Seam 8, and 75 percent for Coal Seam 9 are estimated at elevations below 500 m above sea level. An uncontrolled gas kick occurred while the SJ11-1V well was being drilled, and Orion has recently experienced other strong gas kicks while drilling that indicate saturated or oversaturated conditions exist at structure elevations below 500 m above sea level in Coal Seams 4 and 5 in the core area. The limited gas content data available for Coal Seams 8 and 9 indicate these coal seams are highly saturated as well, but no drilling kicks have occurred while drilling through these reservoirs. In the noncore area, the estimated maximum saturation for Coal Seams 4 and 5 is 85 percent. Gas saturation gradient maps for each coal seam are presented along with the other maps in Figures 19 through 30.

Based on Orion's development plan for drilling 1 MLD well and 2 vertical wells per 100 hectares (ha), a grid spacing of 1 kilometer (km) by 1 km was used for volumetric calculations. The drainage areas were assumed to be 80 ha per MLD well and 10 ha per vertical well based on the MLD well design and lateral spacing of approximately 150 to 250 m. Based on analogous CBM projects in China, this spacing is appropriate for full-field development. The average coal seam penetration in Orion's 6 producing MLD wells is 3,400 m, but Orion plans for future MLD wells to have approximately 5,000 m of coal seam penetration.

5.2 ORIGINAL GAS-IN-PLACE

The OGIP and estimated ultimate recovery (EUR) were calculated for each 1-km² grid using the following formulas:

$$OGIP = \rho_c * h * A * GC$$

$$GC = V_L * P / (P_L + P)$$

$$EUR = OGIP * \text{Recovery Factor}$$

Item	Description	Units
OGIP	Original gas-in-place	m ³
ρ_c	Density of coal	g/cc
h	Net thickness of coal	m
A	Drainage area per well	m ²
GC	Gas content	cc/g
V_L	Langmuir volume	cc/g
P	Reservoir pressure	MPa
P_L	Langmuir pressure	MPa

Langmuir constants V_L and P_L define the isotherm curve that was determined with laboratory adsorption/desorption tests. Gas content estimation includes an assessment of the saturation level of the coals.



The OGIP volumes for the development areas of the Sanjiao Block, as estimated using deterministic analysis, are shown in billions of cubic feet (BCF) in the following table:

Coal Seam	OGIP (BCF)	
	Reserves Area	Contingent Resources Area
4/5	569.5	234.2
8	424.0	250.1
9	351.0	281.4
Total	1,344.5	765.7

6.0 RESERVOIR ENGINEERING

Orion's development plan for each 1 km² of the Sanjiao Block includes one MLD well for each coal seam plus two vertical wells, with production commingled from all seams. Coal Seams 4 and 5 are conjoined into a single seam across much of the block; therefore, Orion plans to develop them together with a single MLD well for each 1-km² drilling unit. Although Coal Seams 8 and 9 are located very close together stratigraphically, they cannot be developed with a single MLD well. Instead, Orion plans to drill separate MLD wells for each of these seams but will commingle the Coal Seam 8 and Coal Seam 9 MLD wells into a common vertical production well. Additionally, two vertical wells in each 1 km² will be completed in Coal Seams 4, 5, 8, and 9, with all four coal seams produced under commingled conditions. As a result, in each 1 km² of development area there will potentially be the following wells:

- 1 MLD well completed in Coal Seams 4 and 5.
- 1 MLD well completed in Coal Seam 8 plus a separate MLD well completed in Coal Seam 9 sharing a common vertical (intersection) production well.
- 2 vertical production wells each completed in Coal Seams 4, 5, 8, and 9 with all coal seams fracture stimulated and commingled.

6.1 RESERVES AND CONTINGENT RESOURCES CATEGORIZATION

Six wells inside the Sanjiao Block are producing CBM from Coal Seams 4, 5, and 9. Although there is no production yet from Coal Seam 8, this coal seam has similar reservoir properties to Coal Seams 4, 5, and 9, including gas content and permeability. Orion has not yet initiated gas sales, but production at commercial rates has been reported from Coal Seams 4 and 5 from five MLD wells with peak gas rates ranging from 240 to 570 thousand cubic feet per day (MCFD) (6,796 to 16,141 m³/day). Coal Seam 9 contains a single MLD well producing at commercial rates with a peak rate of 230 MCFD (6,513 m³/day). Existing well performance and economic conditions are sufficient to justify proved (1P) reserves once Orion establishes gas sales through the regional pipeline currently under construction.

Reserves are categorized as probable in Coal Seams 4, 5, and 9 for locations within two spacing units of the six producing MLD wells. Additionally, we have extended probable reserves for Coal Seams 4 and 5 a third spacing unit from the SJ-P02-1V, SJP03-1V, SJ5-1, SJ8-1, and SJ11-1 wells, and estimated probable reserves for the area between these wells. Probable reserves cover an area of 166 km² for Coal Seams 4 and 5 and 25 km² for Coal Seam 9. Reserves in all other Coal Seam 4, 5, and 9 drilling



locations and all Coal Seam 8 drilling locations in Orion's 234 km² planned development area are categorized as possible.

Outside the 234 km² planned development area, the remainder of the Sanjiao Block potentially recoverable volumes are classified as contingent resources. Core holes and exploration wells have been used to verify the presence and continuity of the coal seams in this portion of the block, but the commerciality of the coal seams has not yet been confirmed.

6.2 PRODUCTION PROFILES

Existing production from the wells completed in Coal Seams 4, 5, and 9 in the Sanjiao Block suggests that a dewatering period of 4 months can be expected for the MLD wells and a dewatering period of 3 months can be expected for the vertical wells. Additionally, typical behavior from the six producing MLD wells suggests an increasing period to peak gas production of 3 months for MLD wells and an increasing period to peak gas production of 12 months for vertical wells. Because the existing Sanjiao MLD wells have been producing for less than a year, it is difficult to determine a typical plateau production period and a typical decline rate. For modeling future production, we have estimated a plateau period of 12 months for both MLD and vertical wells, and have estimated that after the plateau period MLD wells will decline exponentially at 12 percent to 25 percent per year and vertical wells will decline exponentially at 6 percent per year.

Peak gas production rates for wells in our economic model were determined from these estimated decline curve parameters and the EUR for each 1-km² spacing grid from our geologic model. The estimated drainage area for an MLD well in each 1-km² spacing unit is 0.8 km², and the vertical wells are estimated to drain 0.1 km² each. Our calculated MLD peak rates for Coal Seam 4/5 result in a median proved plus probable (2P) peak rate of 724 MCFD and a median proved plus probable plus possible (3P) peak rate of 987 MCFD. The median 2P peak rate is 464 MCFD for Coal Seam 9, and the median 3P peak rate for Coal Seams 8 and 9 combined is 537 MCFD.

While producing under constrained conditions, Orion's five existing Coal Seam 4/5 MLD wells have achieved an average peak rate of 404 MCFD and the existing Coal Seam 9 MLD well has reached a peak rate of 231 MCFD. Surface casing pressure and high liquid levels in the wellbores have combined to create a bottom-hole flowing pressure between 140 and 564 psi in these six existing MLD wells. Based on our deliverability analysis, we estimate that peak gas rates for these six wells can reach 831 MCFD if bottomhole flowing pressure is reduced to 100 psi and can reach 954 MCFD if bottomhole flowing pressure is reduced to 50 psi. To maximize the gas sales, Orion plans to remove the production constraints in these wells after the pipeline is completed.

For vertical wells, our calculated most likely peak rate is 65 MCFD for the projection of 2P reserves; this rate is similar to the actual average peak rate of 60 MCFD from the SJT2-2, SJ-EP001, and SJ-P001-2 wells. Our projections of 3P reserves have a most likely peak rate of 75 MCFD. Unlike the MLD wells, Orion's vertical wells are not producing under constrained conditions.

Summary graphs of 2P and possible net gas reserves for the Sanjiao Block are shown in Figures 11 and 12. Representative production profiles for MLD and vertical wells are included in Figures 13 through 18.

As development spreads from pilot areas to offsetting areas, it is typical for reservoir pressure to decrease because of interference. Reduced reservoir pressure may result in decreased dewatering times and accelerated gas production as wells offsetting the pilot areas are drilled and put on production.



6.3 ESTIMATED ULTIMATE RECOVERY AND PEAK RATES

Recovery factors vary by reserves and resources categories and are based on a range of anticipated abandonment reservoir pressure gradients. EURs have been estimated using the following formula:

$$\text{EUR} = \text{OGIP} * \text{Recovery Factor}$$

To achieve our EURs, average abandonment reservoir pressure gradients will have to be reduced from the current 1.05 MPa per 100 m. The estimated recovery factors for each coal seam and the estimated average abandonment reservoir pressure and pressure gradients required to achieve these recoveries are shown in the following tables:

Category/ Coal Seam	Recovery Factor (%)	Pressure Gradient at Abandonment ⁽¹⁾ (MPa/100 m)	Average Reservoir Pressure at Abandonment (MPa)
2P Reserves			
4/5	65	0.154	0.63
8	N/A	N/A	N/A
9	47	0.145	0.91
3P Reserves			
4/5	74	0.107	0.44
8	66	0.103	0.47
9	64	0.102	0.47
1C Contingent Resources			
4/5	49	0.184	1.01
8	45	0.176	1.01
9	41	0.174	1.01
2C Contingent Resources			
4/5	55	0.154	0.84
8	51	0.147	0.84
9	48	0.145	0.84
3C Contingent Resources			
4/5	66	0.107	0.59
8	63	0.103	0.59
9	60	0.102	0.58

⁽¹⁾ These abandonment pressure gradients assume no changes in potentiometric surface elevation.

The average EURs and peak rates for the 2P and 3P reserves and for the contingent resources are shown in the following tables:



Well Type/ Coal Seam	2P		3P	
	EUR Average (MMCF)	Peak Rate Average (MCFD)	EUR Average (MMCF)	Peak Rate Average (MCFD)
MLD				
4/5	1,383	713	1,423	883
8	N/A	N/A	934	584
9	901	463	788	494
Vertical				
Commingled	353	61	367	63

Well Type/ Coal Seam	1C		2C		3C	
	Average EUR (MMCF)	Average Peak Rate (MCFD)	Average EUR (MMCF)	Average Peak Rate (MCFD)	Average EUR (MMCF)	Average Peak Rate (MCFD)
MLD						
4/5	654	209	734	379	860	538
8	624	200	711	368	869	544
9	643	205	747	386	935	584
Vertical						
Commingled	243	44	279	49	341	59

Gas EURs are expressed in millions of cubic feet (MMCF).

7.0 ECONOMIC PARAMETERS

Although this project is not yet in the Development Phase, sales of CBM gas could commence from the Sanjiao Block before the end of 2010 if the pipeline is completed as planned. The economics of the project may change as additional data are obtained and analyzed from the continued appraisal of the acreage throughout the remainder of the Exploration Phase and into the Development Phase. The primary input variables for our economic model are the estimates of (1) per-well gas production profiles, (2) development timing, (3) capital costs for development wells and infrastructure, (4) gas prices, and (5) monthly operating costs. Monetary values shown in this report are expressed in United States dollars (\$), thousands of United States dollars (M\$), or millions of United States dollars (MM\$).

7.1 DEVELOPMENT TIMING AND CAPITAL COSTS

Orion supplied estimates of development timing for the Sanjiao Block based on its internal development schedule. Drilling locations have been scheduled in decreasing order of EUR such that economically robust locations are developed first and present value is maximized in our economic model. Scheduling preference was also given to locations near or adjacent to currently producing wells where reservoir parameters suitable for commercial development have been confirmed. According to Orion's development plan, development of reserves is ongoing and development of contingent resources will begin in 2019. Capital costs in this report were provided by Orion in renminbi (RMB) and converted to \$ using the March 31, 2010, exchange rate of 6.8263 RMB/\$. It is expected that Orion's wells and facilities



will have an operation lifespan extending beyond the PSC expiration; routine maintenance costs are included in the operating expense forecast.

Capital costs have been included in our estimates for each well for drilling, completion, and equipment costs based on Orion's 2010 estimated MLD costs of \$1,794,118 per well. As a comparison, Orion's actual costs for MLD wells in 2008 and 2009 were \$2,456,232 and \$1,834,077, respectively. Orion has a drilling contract for four of its eleven planned MLD wells for 2010 with a turnkey cost of \$1,830,700 and anticipates the remaining seven wells can be drilled for an average cost of \$1,773,214 per well.

Orion's 2010 estimate for drilling, completing, and fracture stimulating vertical wells is \$210,500 per well. Orion plans for its future vertical wells to have Coal Seams 4/5, 8, and 9 completed with separate stimulations and produced commingled afterwards. No vertical wells were drilled in 2009, but the average actual cost in 2008 was \$153,164 per vertical well. The 2008 wells did not have all four coal seams completed with commingled production.

Facility capital costs of \$410,000 per MCFD of incremental gas production are included for gas compression and gathering equipment at the central station. Beginning in 2016, the gas compression and facility costs are escalated 6 percent on January 1 of each year to the date of expenditure.

As shown in the table below, it is estimated that the cost to drill MLD wells can be reduced from 2010 through 2015 as activity levels increase and economies of scale are realized. MLD wells for Coal Seams 8 and 9 will be drilled from the same surface location, so the individual well costs have been reduced to reflect the shared costs for road and location construction, the shared vertical production well, and the shared cost of the top section of each MLD well above the Coal Seam 8 kickoff point.

Year	MLD Capital Costs Per Well (\$)		
	Coal Seam 4/5	Coal Seam 8	Coal Seam 9
2010	1,794,118	1,345,589	1,345,589
2011	1,617,647	1,213,235	1,213,235
2012	1,470,588	1,102,941	1,102,941
2013	0	0	0
2014	1,397,059	1,047,794	1,047,794
2015	1,397,059	1,047,794	1,047,794
2016-2020	+6% per yr	+6% per yr	+6% per yr
Thereafter	+3% per yr	+3% per yr	+3% per yr

We estimate that a total of 1,124 MLD wells and 752 vertical wells will be required to develop the reserves and contingent resources. The development timing and capital costs are shown in the following tables:

Year	2P Reserves			
	MLD		Vertical	
	Wells Drilled	Gross Capital (M\$)	Wells Drilled	Gross Capital (M\$)
2010	11	19,735	10	2,105
2011	52	82,498	76	15,998
2012	45	64,706	40	8,420
2013	0	0	0	0
2014	48	64,965	29	6,105
2015	1	1,048	8	1,684
2016	14	18,708	6	1,297



Year	2P Reserves			
	MLD		Vertical	
	Wells Drilled	Gross Capital (M\$)	Wells Drilled	Gross Capital (M\$)
2017	16	22,865	36	8,277
2018	3	3,975	76	18,513
2019	0	0	38	9,714
2020	0	0	4	1,076
2021	0	0	0	0
2022	0	0	0	0
Total	190	278,500	323	73,188

Year	3P Reserves			
	MLD		Vertical	
	Wells Drilled	Gross Capital (M\$)	Wells Drilled	Gross Capital (M\$)
2010	11	19,735	10	2,105
2011	122	173,828	76	15,998
2012	112	138,965	40	8,420
2013	0	0	0	0
2014	106	125,737	29	6,105
2015	30	31,434	8	1,684
2016	110	122,251	6	1,297
2017	85	115,889	36	8,277
2018	108	137,874	76	18,513
2019	14	23,503	60	15,497
2020	0	0	36	9,714
2021	0	0	59	16,390
2022	0	0	26	7,409
Total	698	889,215	462	111,409

Year	3C Contingent Resources			
	MLD		Vertical	
	Wells Drilled	Gross Capital (M\$)	Wells Drilled	Gross Capital (M\$)
2019	36	57,423	0	0
2020	118	166,462	0	0
2021	86	141,960	0	0
2022	118	176,598	6	1,739
2023	68	113,959	60	17,687
2024	0	0	36	10,932
2025	0	0	60	18,764
2026	0	0	36	11,599
2027	0	0	60	19,907
2028	0	0	32	10,920
Total	426	656,402	290	91,548

Totals may not add because of rounding.



Period Ending	Regional Price (RMB/m ³)	MOFC Subsidy (RMB/m ³)	Shanxi Subsidy (RMB/m ³)	Wellhead Price (RMB/m ³)	Wellhead Price (\$/MCF)	Calculated Exchange Rate ⁽¹⁾ (RMB/\$)
12-31-2010	1.50	0.20	0.05	1.75	7.29	6.80
12-31-2011	1.85	0.20	0.05	2.10	8.75	6.80
12-31-2012	2.17	0.20	0.05	2.42	10.06	6.81
12-31-2013	2.53	0.20	0.05	2.78	11.57	6.80
12-31-2014	2.95	0.20	0.05	3.20	13.31	6.81
12-31-2015	3.11	0.20	0.05	3.36	13.97	6.81
12-31-2016	3.27	0.20	0.05	3.52	14.67	6.79

Starting in 2017, gas prices are escalated 6 percent on January 1 of each year through 2020 and then escalated 3 percent on January 1 of each year throughout the remainder of the PSC term.

⁽¹⁾ The exchange rates were calculated using the RMB/m³ and \$/MCF prices provided by Orion.

7.3 OPERATING COSTS

Operating costs used in this report are based on the internal records of Orion and include direct well- and field-level costs and general and administrative overhead costs. After near term adjustments for increased efficiencies and economies of scale, all operating costs have been escalated 6 percent on January 1 of each year from 2016 through 2020 and then 3 percent on January 1 of each year throughout the remainder of the PSC term. A fuel and shrinkage factor of 5 percent has been applied to the gas volumes to reduce the volumes for compression and pipeline losses.

7.3.1 Vertical Wells

Fixed operating costs for vertical wells are \$735 per well per month through 2015. These costs are escalated 6 percent on January 1 of each year from 2016 through 2020 and then 3 percent on January 1 of each year throughout the remainder of the PSC term.

7.3.2 MLD Wells

Operating costs for MLD wells are assumed to decrease through 2015 as production efficiencies are realized and economies of scale are leveraged to reduce costs. Thereafter, these operating costs are escalated 6 percent on January 1 of each year from 2016 through 2020 and then 3 percent on January 1 of each year throughout the remainder of the PSC term. Operating costs through 2015 for the MLD wells, are shown in the table below:

Year	MLD Fixed Cost (\$/Well/Month)
2010	12,000
2011	9,000
2012	5,100
2013	3,500
2014	2,900
2015	2,200



7.3.3 Field-Level

Operating costs for corporate overhead and general administrative expenses are modeled separately from well-level costs in our economic model so that these expenses do not impact the economics of individual wells. Overhead and general administrative costs of \$110,000 per month are included at the summary level in the 2P reserves category. These costs are escalated 6 percent year on January 1 of each year from 2016 through 2020 and then escalated 3 percent on January 1 of each year throughout the remainder of the PSC term. Orion's overhead and general administrative costs for 2009 were \$109,641 per month.

7.4 ABANDONMENT COSTS AND ENVIRONMENTAL LIABILITY

For the purposes of this report, we did not find it necessary to perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability. Also, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

In accordance with the Sanjiao PSC, the current operator will, after the completion of various CBM operations, to the extent reasonable and practicable, level or restore or reclaim the land of the operating sites to the conditions existing at the commencement of implementation of the PSC in accordance with the relevant rules and regulations. Should Orion choose to abandon production from the Sanjiao Block, CUCBM will have the choice to either share the abandonment costs with Orion in proportion to the participating interests, or continue production as the operator and indemnify Orion of any future abandonment costs.

8.0 RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable from known accumulations by application of development projects from a given date forward under defined conditions. Reserves must be discovered, recoverable, commercial, and remaining as of the evaluation date based on the planned development projects to be applied. Reserves categorization conveys the relative degree of certainty. The estimates shown in this report are for proved, probable, and possible reserves. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. The estimates of reserves and future revenue included herein have not been adjusted for risk. The reserves shown in this report have been estimated using deterministic methods because sufficient data were available to estimate discrete volumetric parameters for each 1-km² grid.

Gas volumes presented in this report are expressed in BCF at standard temperature and pressure bases. Gross gas reserves are 100 percent of the reserves attributable to the Sanjiao PSC before adjustments for fuel and shrinkage, and net gas reserves and future net revenue are those attributable to Orion according to the terms of the Sanjiao PSC and after adjustments for fuel and shrinkage.

Future gross revenue in this report is Orion's share of the gross (100 percent) revenue from the Sanjiao Block. Future net revenue is revenue as received under the PSC; this revenue is after additions for cost recovery and deductions for value added taxes, future capital costs, and operating expenses. The future net revenue is presented before and after deduction of Chinese income taxes. The estimates of taxes were prepared based on our simple knowledge of Chinese income tax calculations. The future net



revenue has been discounted at an annual rate of 10 percent to determine its net present value, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

8.1 PROVED RESERVES

Since Orion had not initiated gas sales as of April 30, 2010, there are no 1P reserves at this time. A regional pipeline that can be used to transport Orion's CBM gas to market is expected to be completed in the fourth quarter of 2010. Initially, Orion's dedicated capacity in the pipeline will be 9.7 MMCFD, or 100 million cubic meters per year. Orion is also considering transporting and selling its CBM gas as CNG or LNG.

Existing well performance and economic conditions are sufficient to justify 1P reserves once Orion establishes gas sales. If Orion had initiated gas sales by April 30, 2010, 1P gas reserves would have been 66.6 BCF gross and 45.0 BCF net. Proved future revenue before income tax would have been 641.1 MM\$ total and 243.7 MM\$ discounted at 10 percent, and 1P future revenue after income tax would have been 515.2 MM\$ total and 199.6 MM\$ discounted at 10 percent.

8.2 PROVED PLUS PROBABLE RESERVES

We estimate the 2P gross and net gas reserves and future net revenue to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:

Category	Gas Reserves (BCF)		Future Net Revenue ⁽¹⁾ (MM\$)			
			Before Income Tax		After Income Tax	
	Gross	Net	Total	Net Present Value at 10%	Total	Net Present Value at 10%
Proved + Probable (2P)	356.7	237.5	3,520.7	1,426.4	2,754.2	1,110.3

⁽¹⁾ The future net revenue shown should not be construed as being the fair market value of the properties.

8.3 POSSIBLE RESERVES

For the purposes of this report, possible reserves are calculated as the difference between 3P and 2P reserves because the PSC terms apply only to field-level calculations of net reserves and future net revenue. We estimate the possible gross and net gas reserves to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:

Possible Gas Reserves (BCF)	
Gross	Net
525.0	339.8



9.0 CONTINGENT RESOURCES

Contingent resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from known accumulations, but for which the applied project or projects are not yet considered mature enough for commercial development because of one or more contingencies. The resources shown in this report are contingent upon demonstration of economic viability through evidence that shows (1) the coal can be dewatered and produced at commercial rates and (2) the coal seam saturation can support commercial ultimate recoveries of CBM gas. If these issues are resolved, some portion of the contingent resources estimated in this report may be reclassified as reserves.

We estimate the gross and net contingent gas resources to the Orion interest in the Sanjiao Block, as of April 30, 2010, to be:

Category	Contingent Gas Resources (BCF)	
	Gross	Net
1C	281.0	186.8
2C	352.3	233.3
3C	431.7	284.5

Gross contingent gas resources are 100 percent of the contingent resources attributable to the Sanjiao PSC before adjustments for fuel and shrinkage. Net contingent resources are Orion's share according to the terms of the PSC.

The contingent resources shown in this report have been estimated using deterministic estimates because sufficient data were available to estimate discrete volumetric parameters for each 1-km² grid. For the purposes of this report, the volumes and parameters associated with the low, best, and high estimate scenarios for contingent resources are referred to as 1C, 2C, and 3C, respectively.

The contingent resources shown above have not been adjusted for commercial risk. The commercial risks associated with these contingent resources include technical performance risks such as (1) the inability to achieve commercial rates of gas production because the coals fail to dewater in a reasonable time period and (2) the inability to achieve favorable commercial factors such as gas prices and development costs once the project has been appraised. Nontechnical commercial risks include (1) the inability to obtain permitting and regulatory approvals, (2) the inability to secure project financing, and (3) the internal decision of Orion to forego project development. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revisions with further data acquisition or interpretation. We estimate the probability that some portion of the contingent resources in the Sanjiao Block may eventually be classified as reserves to be 80 percent for Coal Seams 4 and 5 and 70 percent for Coal Seams 8 and 9.

FIGURES



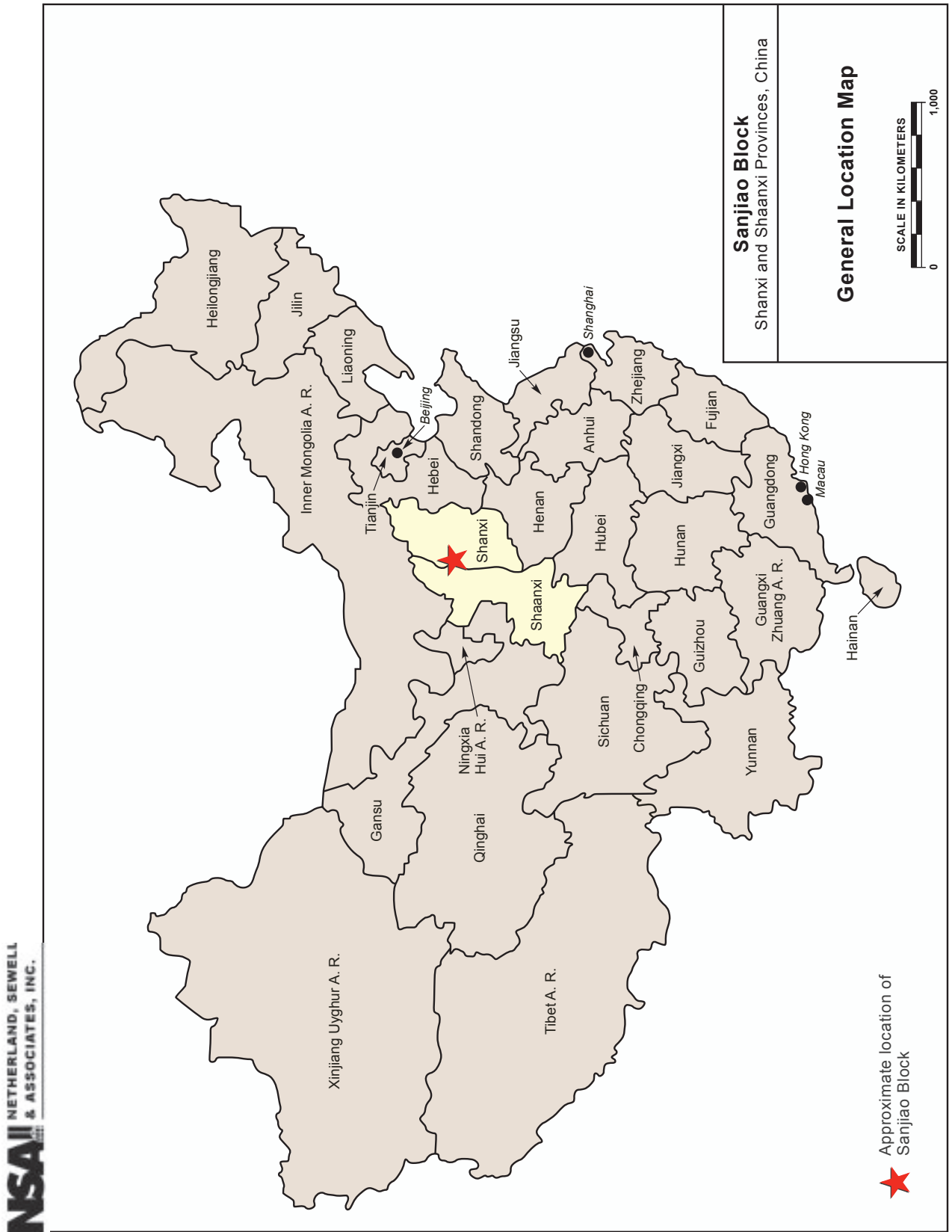
SUMMARY TABLE OF ASSETS
 ORION ENERGY INTERNATIONAL, INC.
 SHANXI AND SHAANXI PROVINCES OF CHINA

Asset (Block/Province)	Operator	Interest (percent)	Status	License Expiration Date	Gross Acreage (km ²)	Net Acreage ⁽¹⁾ (km ²)	Comments
Sanjiao Shanxi and Shaanxi	Orion	70	Exploration	March 31, 2036	461.7	323.2	ODP approval anticipated in 2010

⁽¹⁾ Net acreage is calculated as Orion's participating interest in the gross acreage according to the PSC contract.

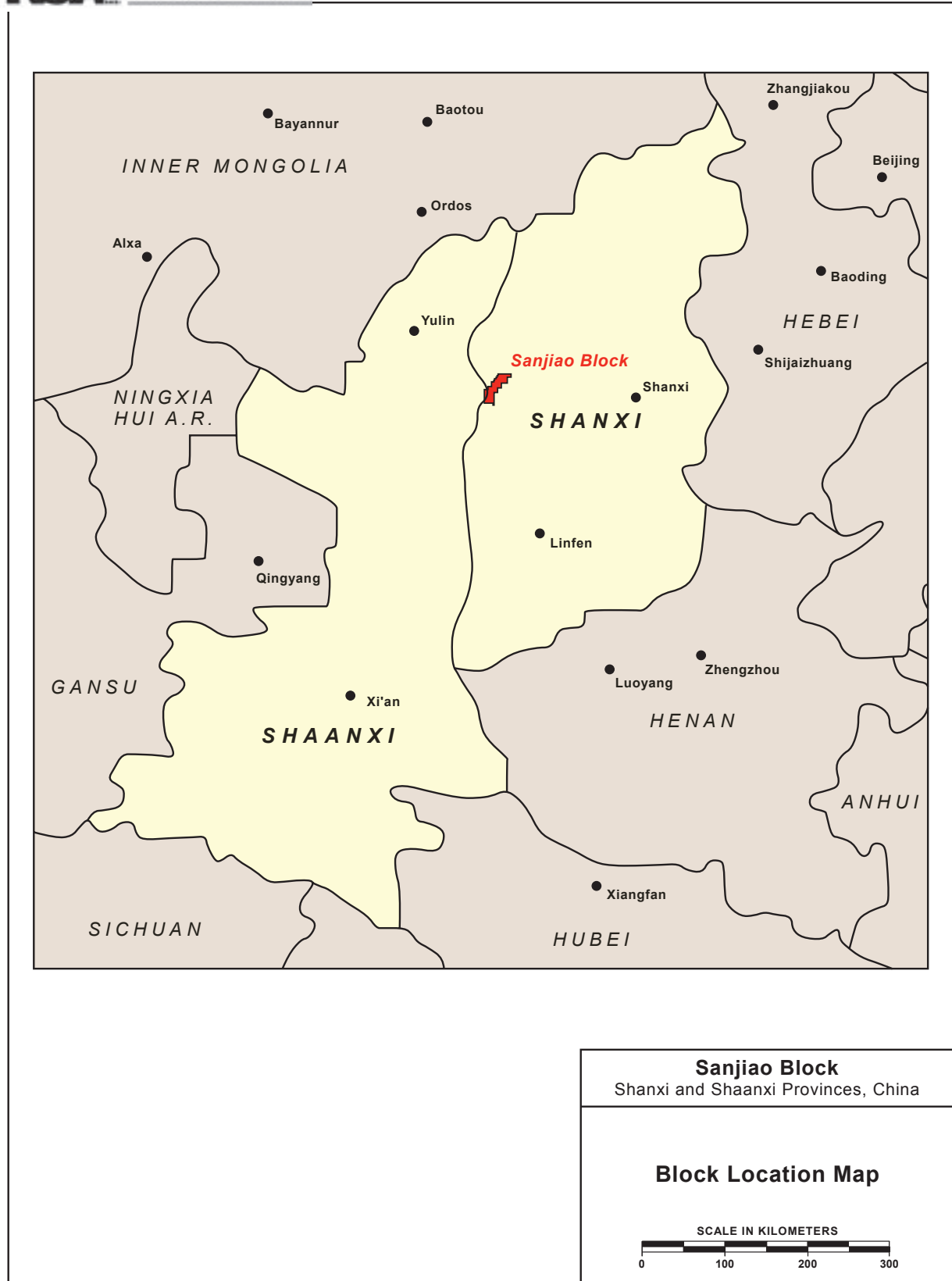
Figure 1

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.



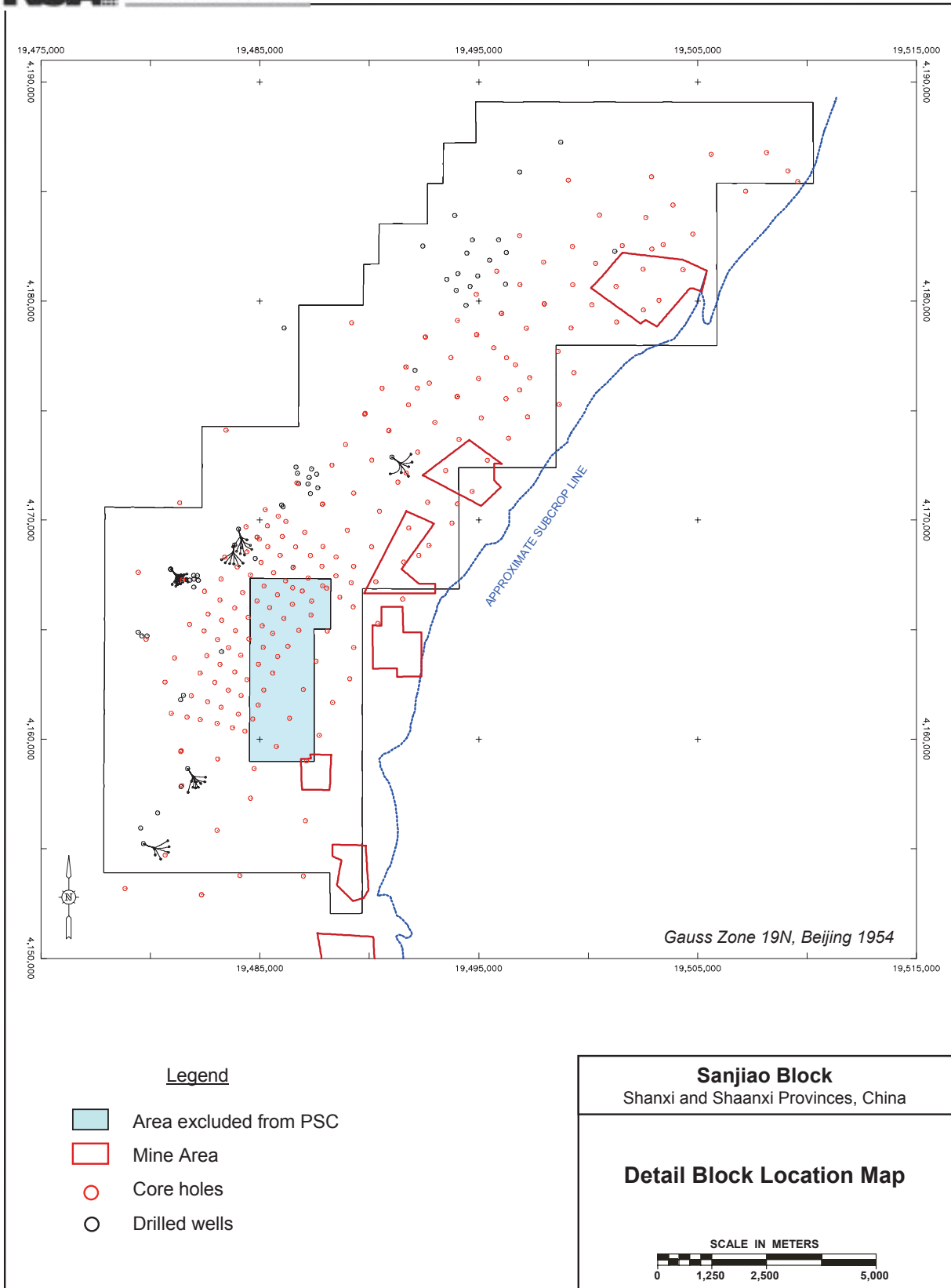
All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 2



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 3

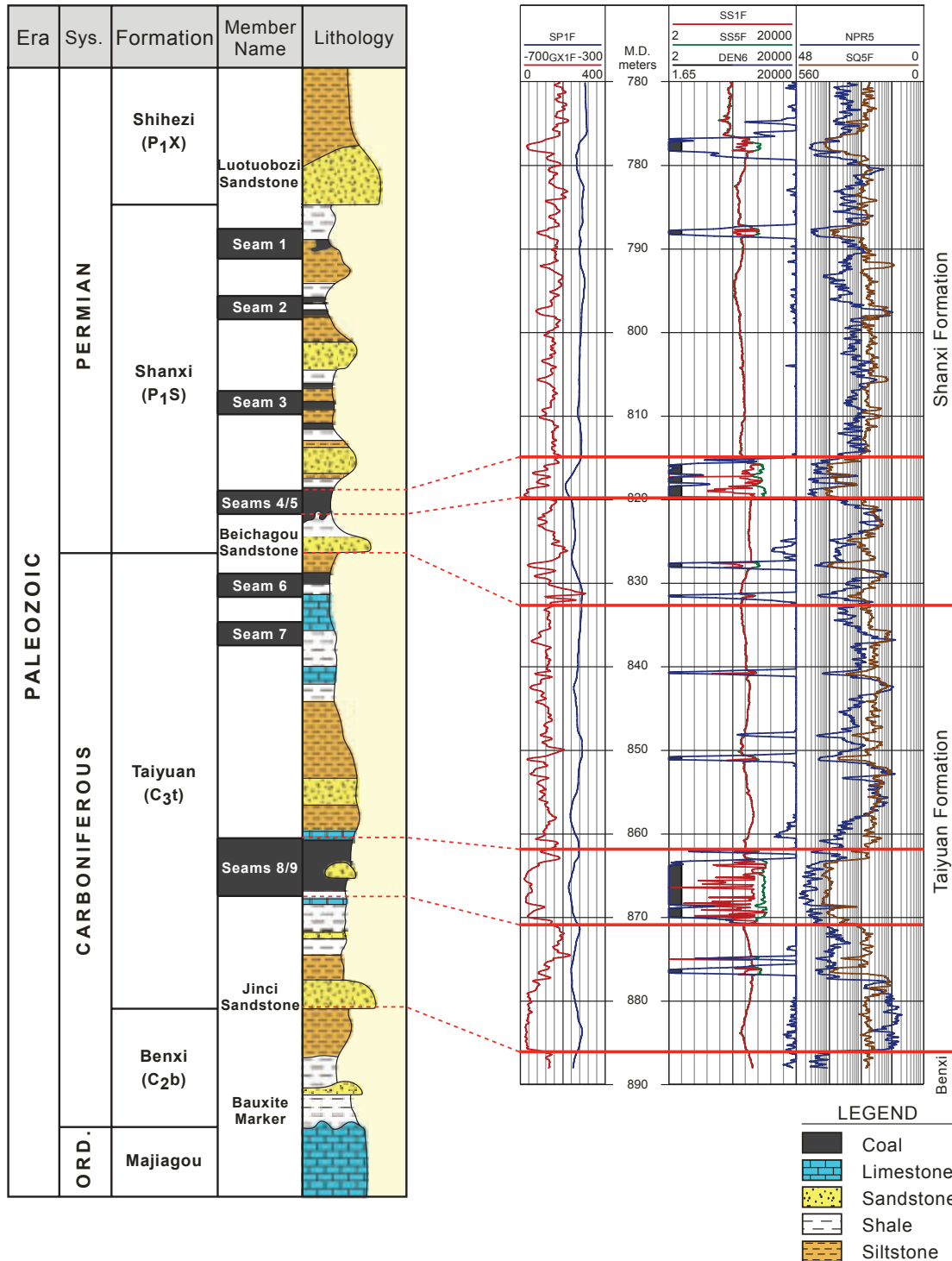


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 4

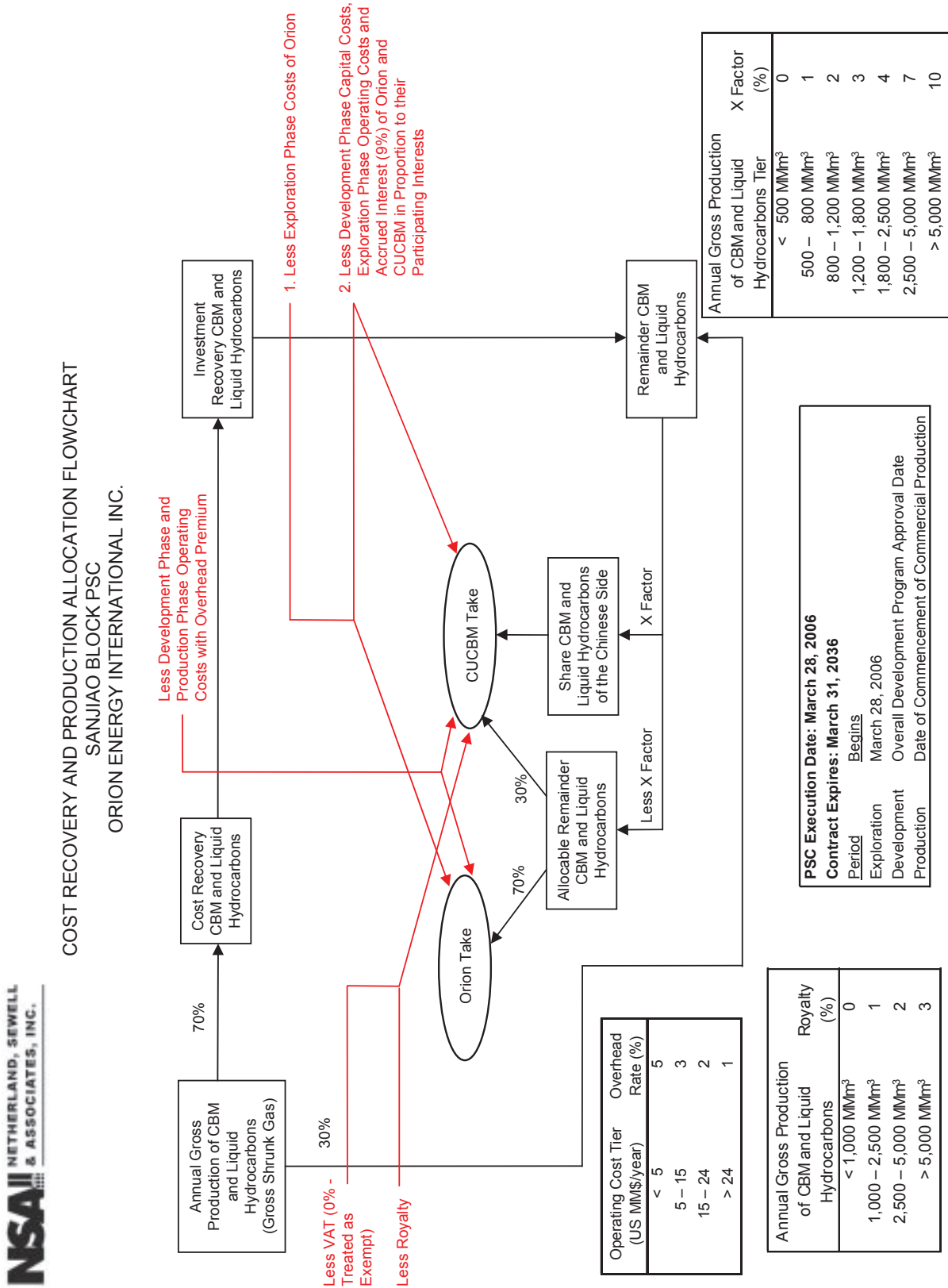


Stratigraphic Column and Type Log
Ordos Basin, China



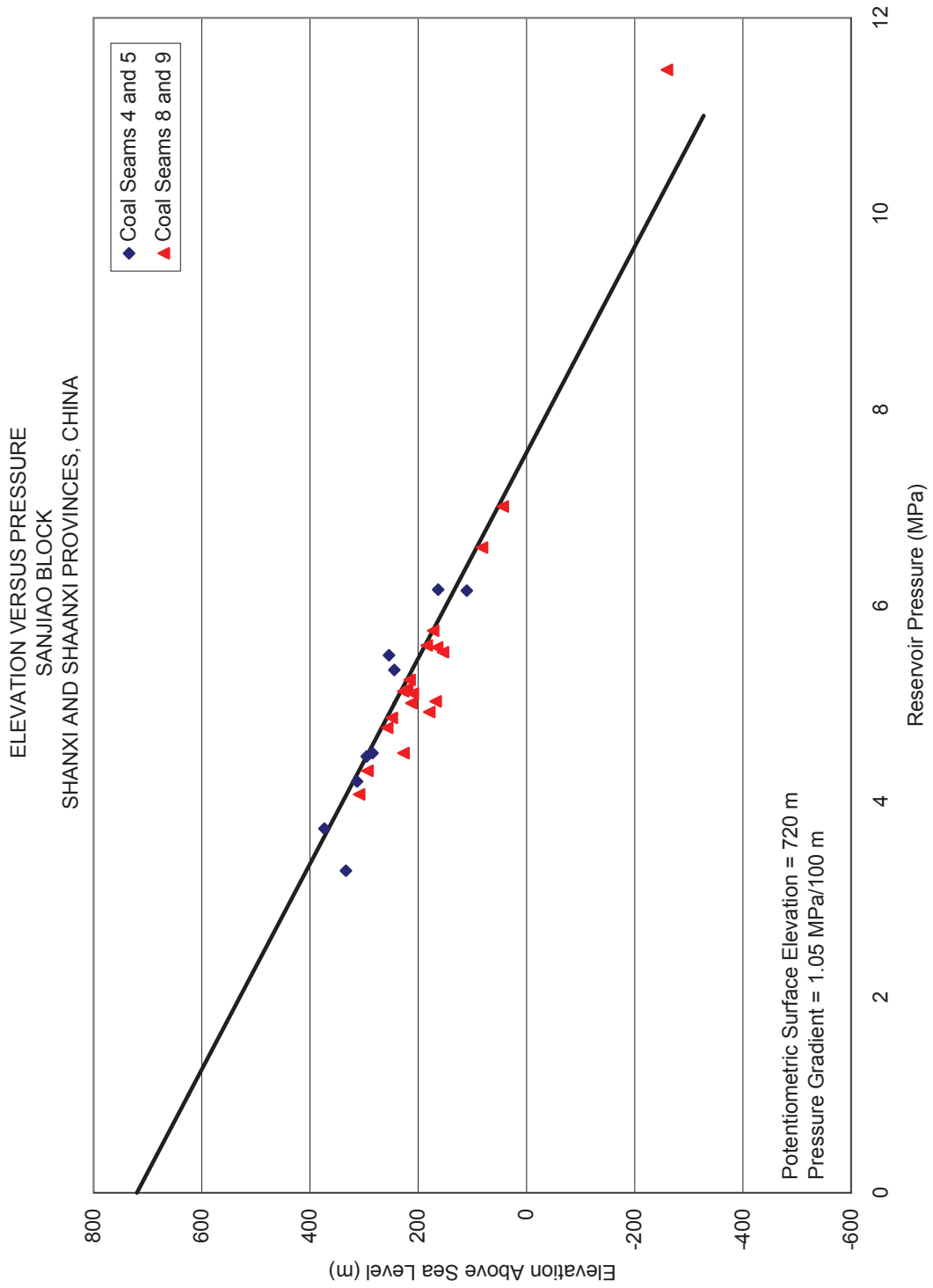
All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 5



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 6



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 7

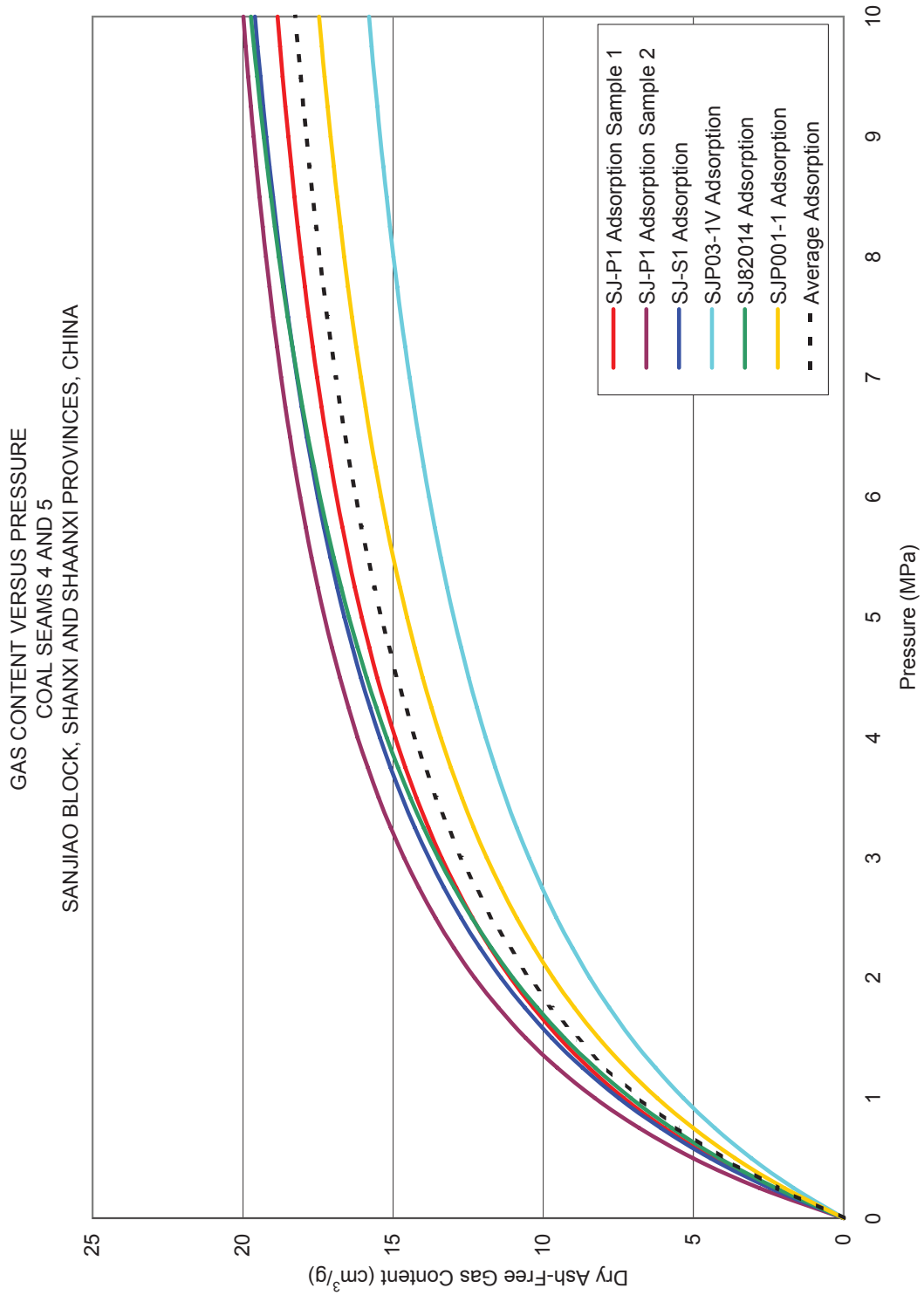


Figure 8 All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

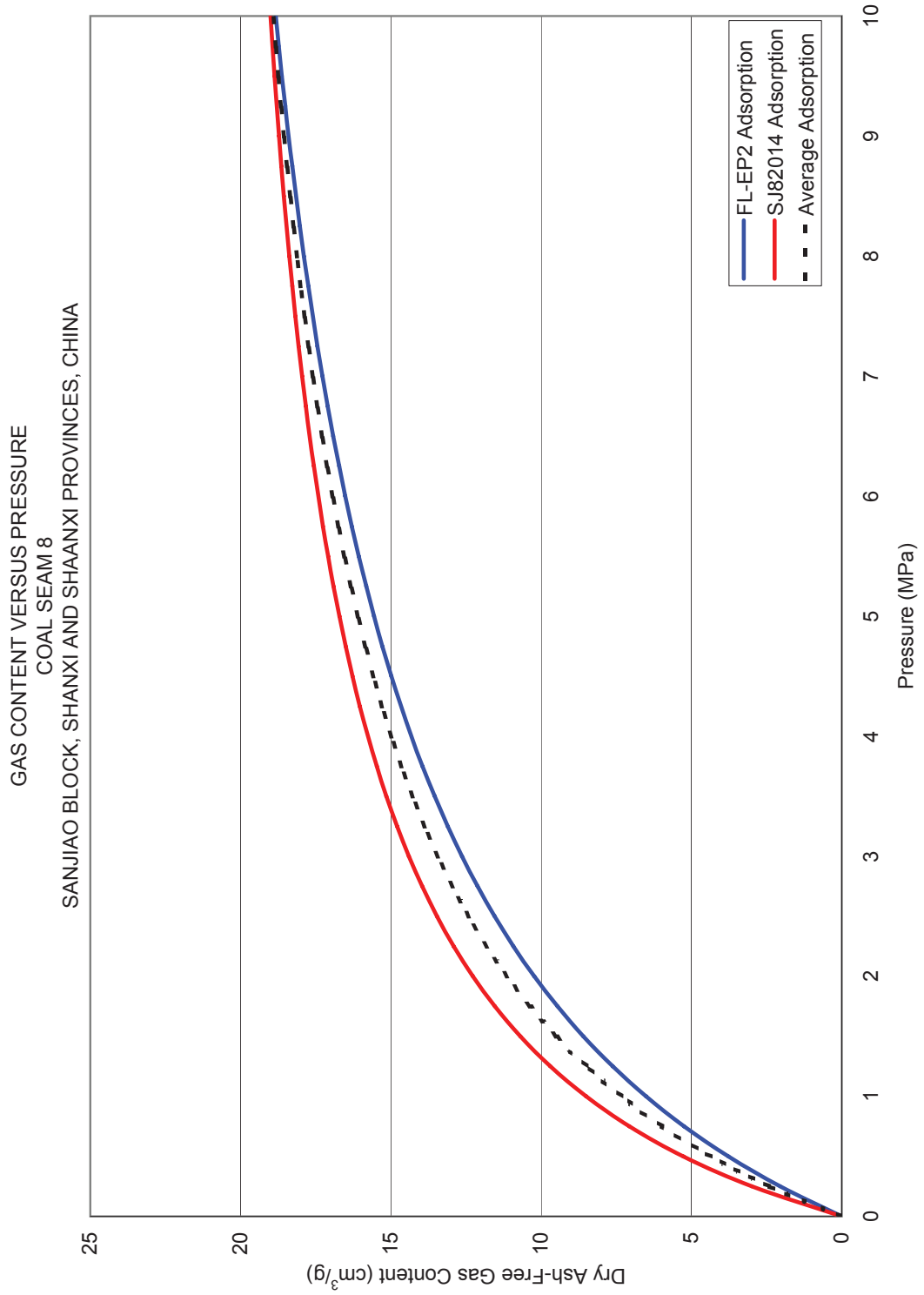
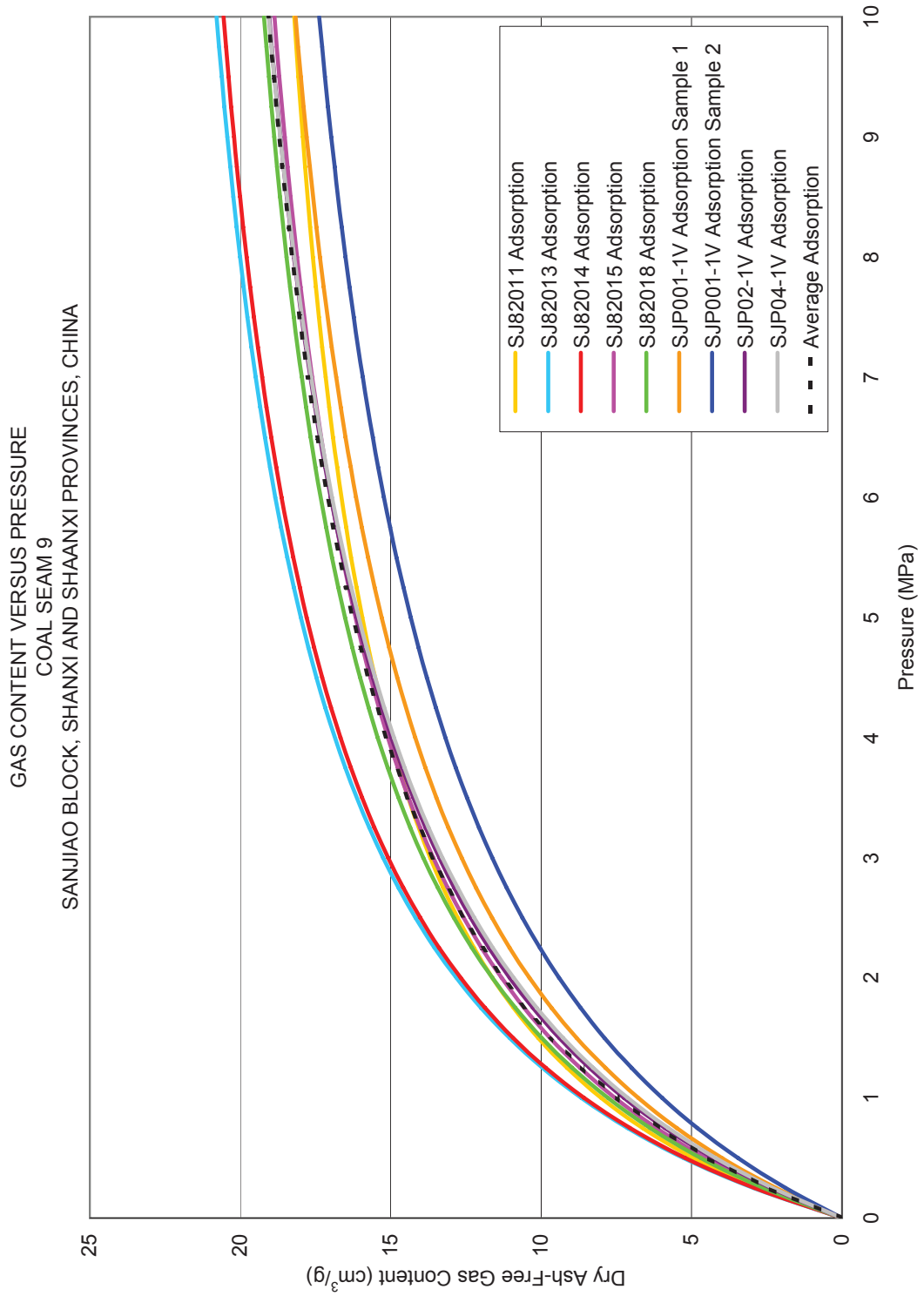


Figure 9 All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

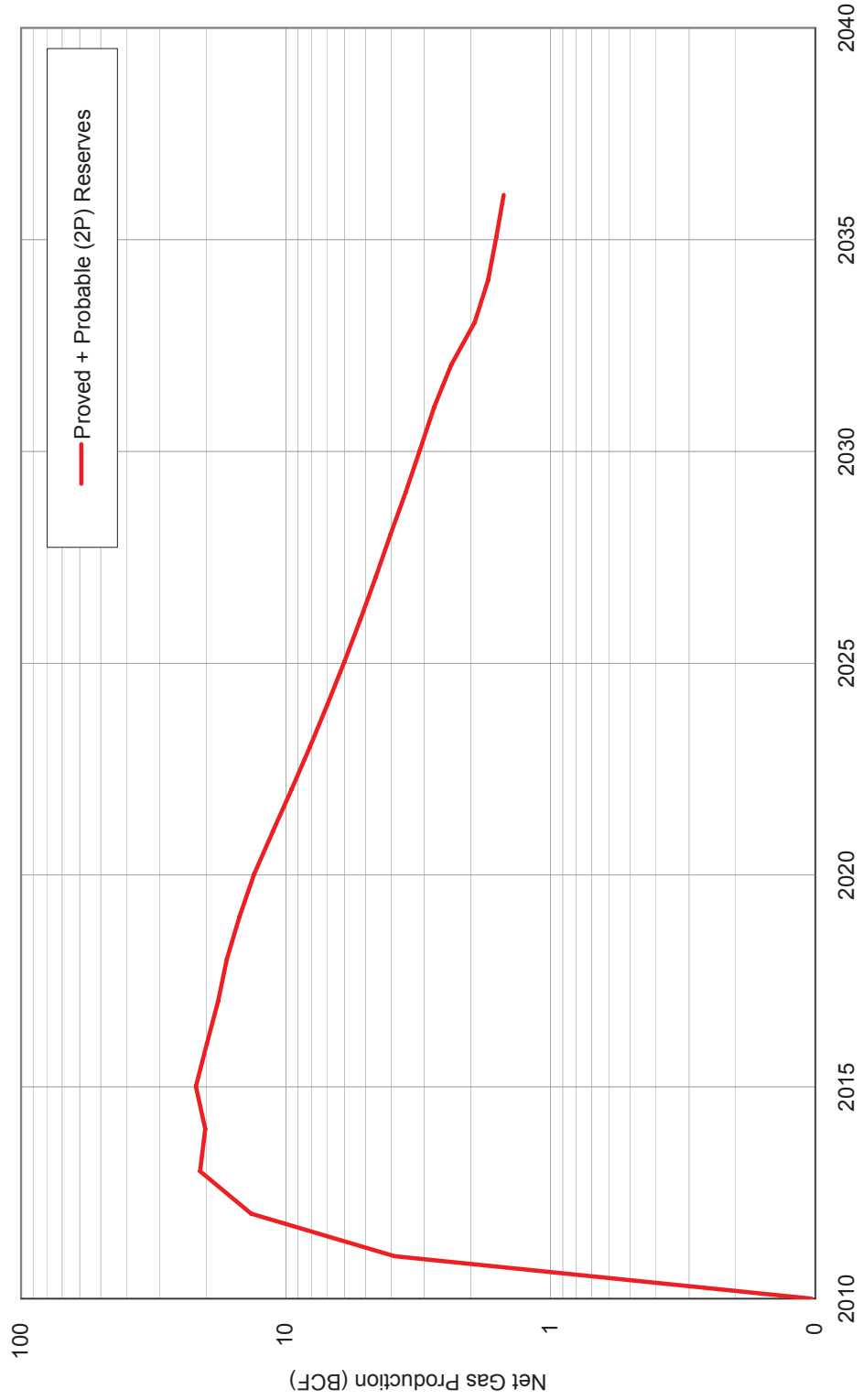


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 10



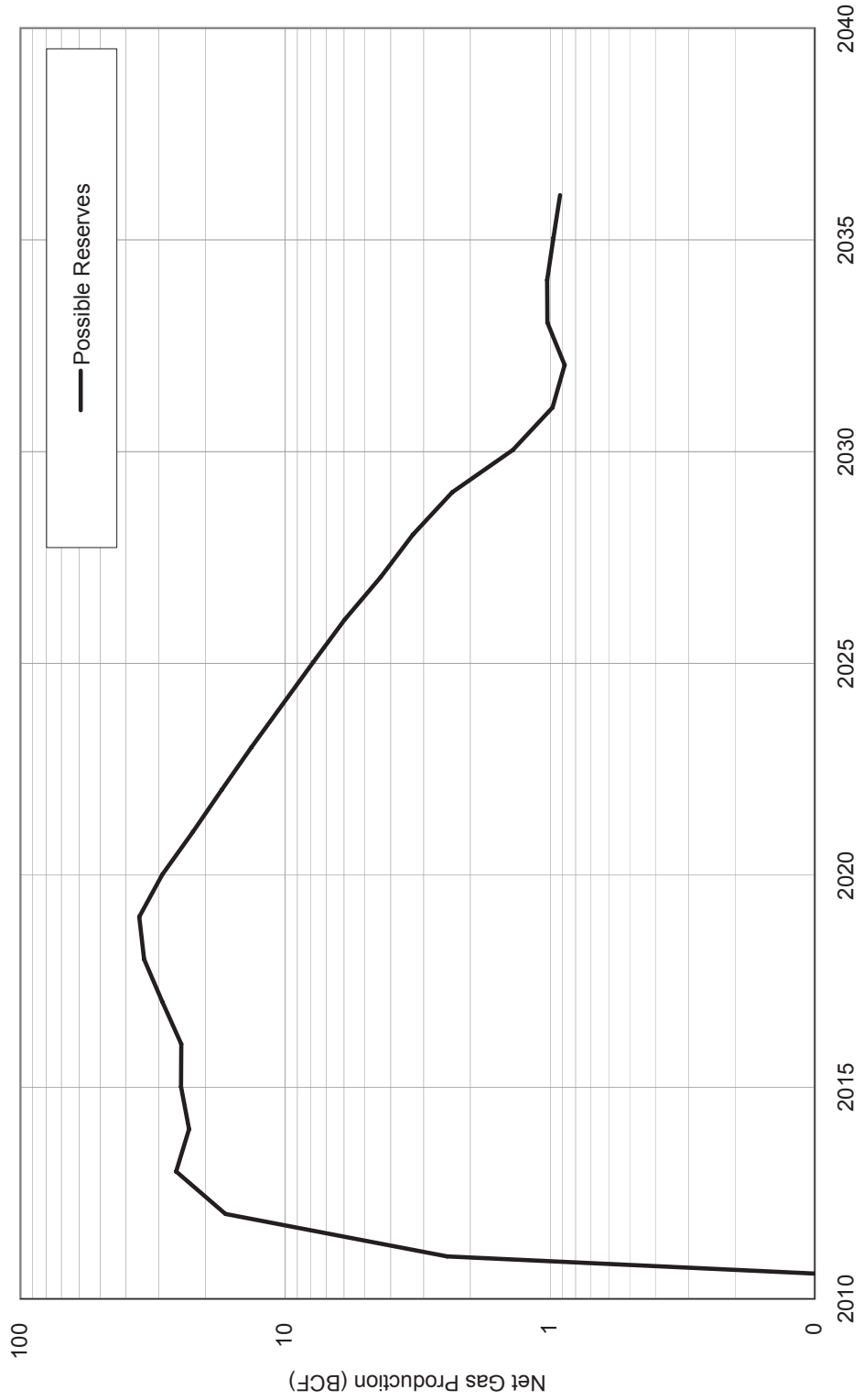
SUMMARY GRAPH OF 2P NET GAS RESERVES
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 ORION ENERGY INTERNATIONAL INC. INTEREST
 AS OF APRIL 30, 2010



All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 11

SUMMARY GRAPH OF POSSIBLE NET GAS RESERVES
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 ORION ENERGY INTERNATIONAL INC. INTEREST
 AS OF APRIL 30, 2010

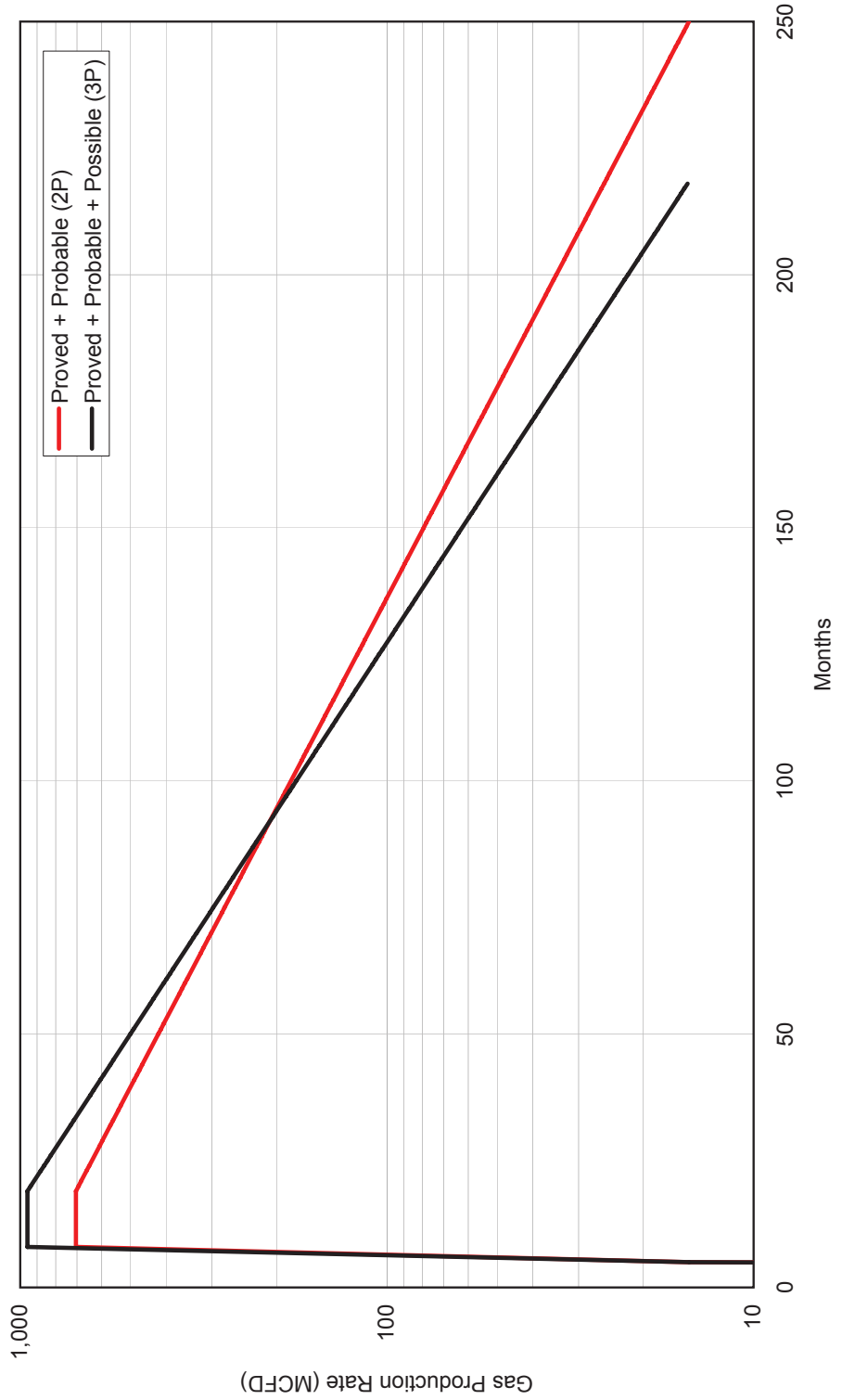


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 12



REPRESENTATIVE PRODUCTION PROFILE
 2P AND 3P RESERVES
 MULTILATERAL WELL – COAL SEAMS 4 AND 5
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 AS OF APRIL 30, 2010

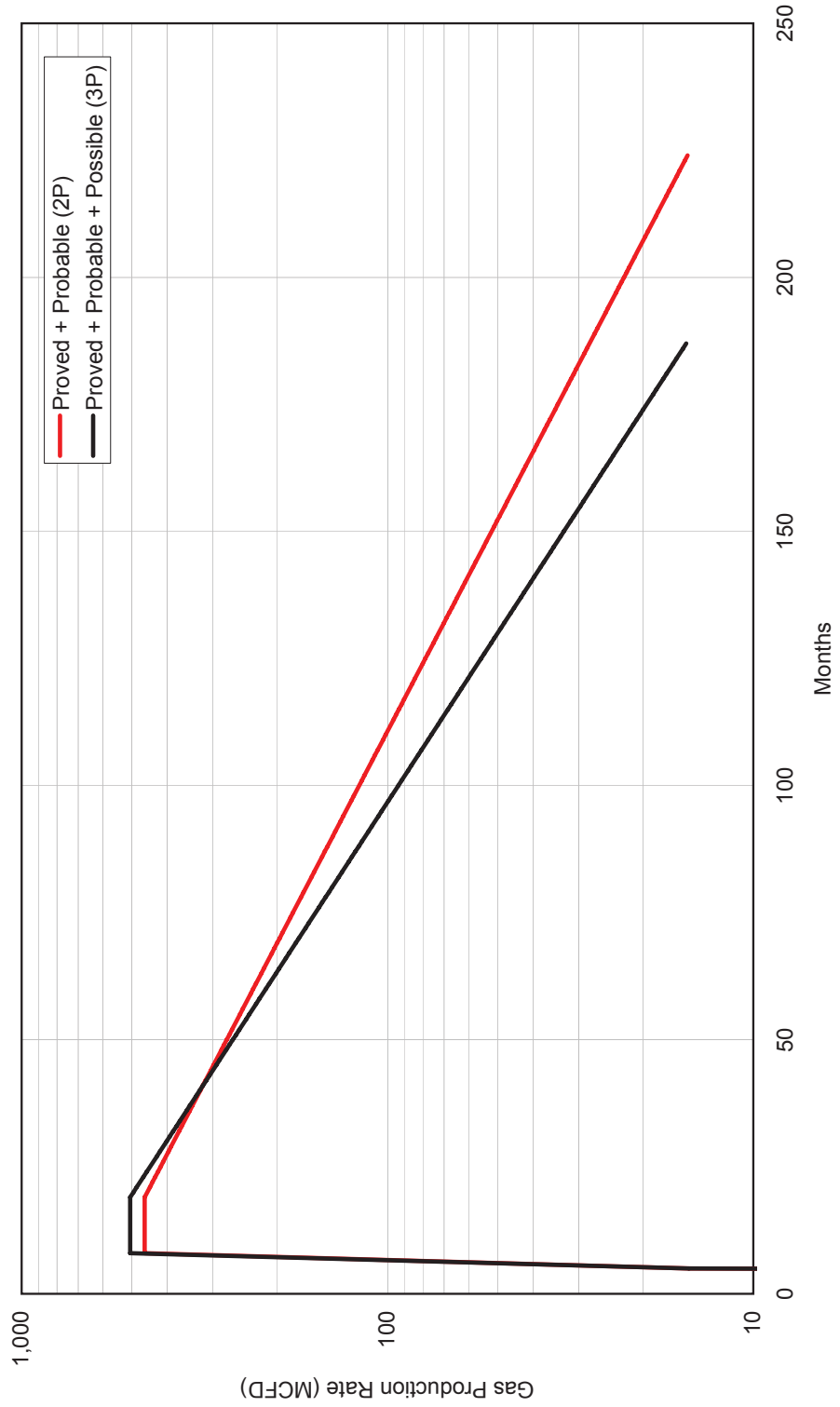


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 13



REPRESENTATIVE PRODUCTION PROFILE
 2P AND 3P RESERVES
 MULTILATERAL WELL – COAL SEAMS 8 AND 9
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 AS OF APRIL 30, 2010

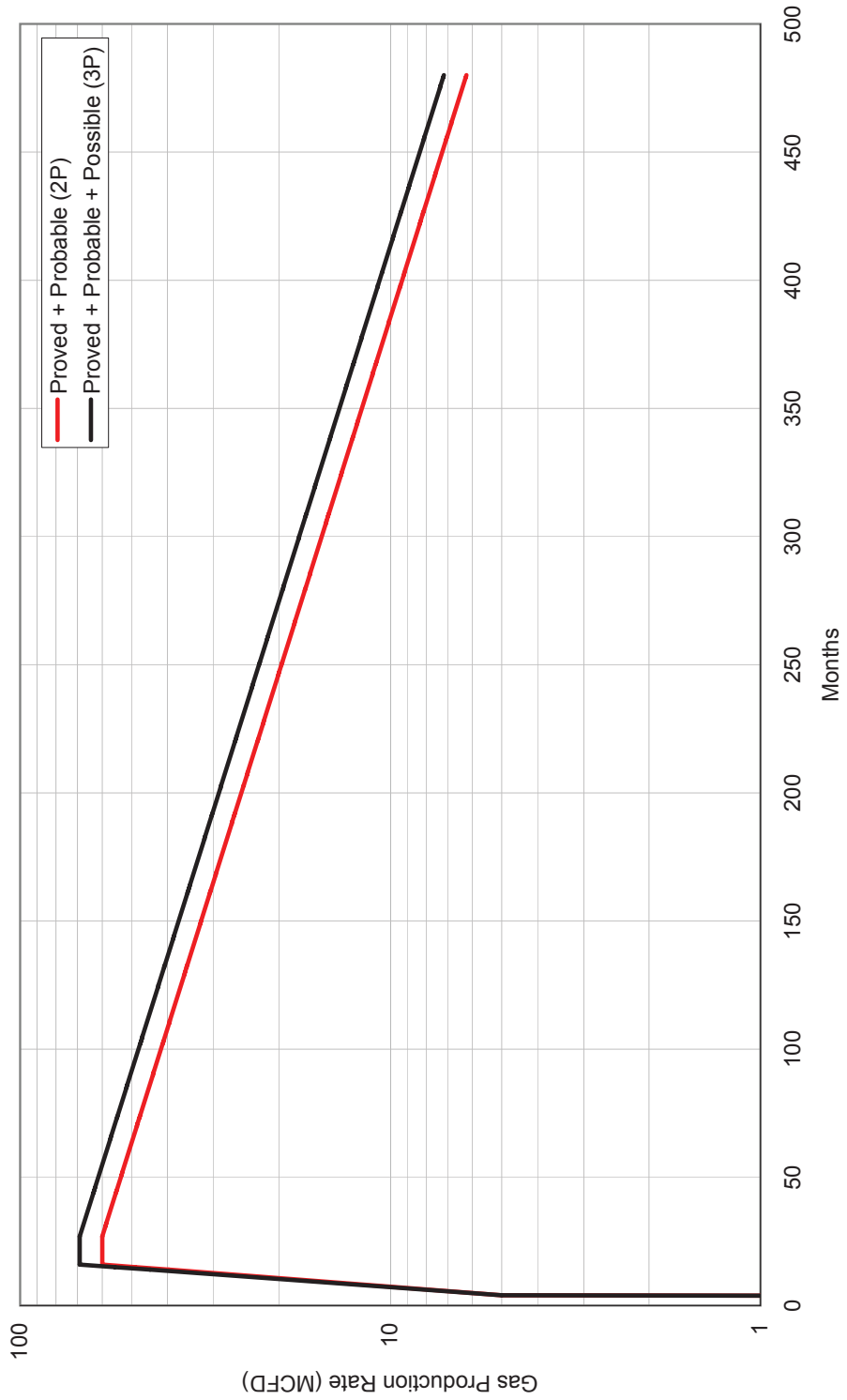


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 14



REPRESENTATIVE PRODUCTION PROFILE
 2P AND 3P RESERVES
 VERTICAL WELL – COAL SEAMS 4, 5, 8, AND 9
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 AS OF APRIL 30, 2010

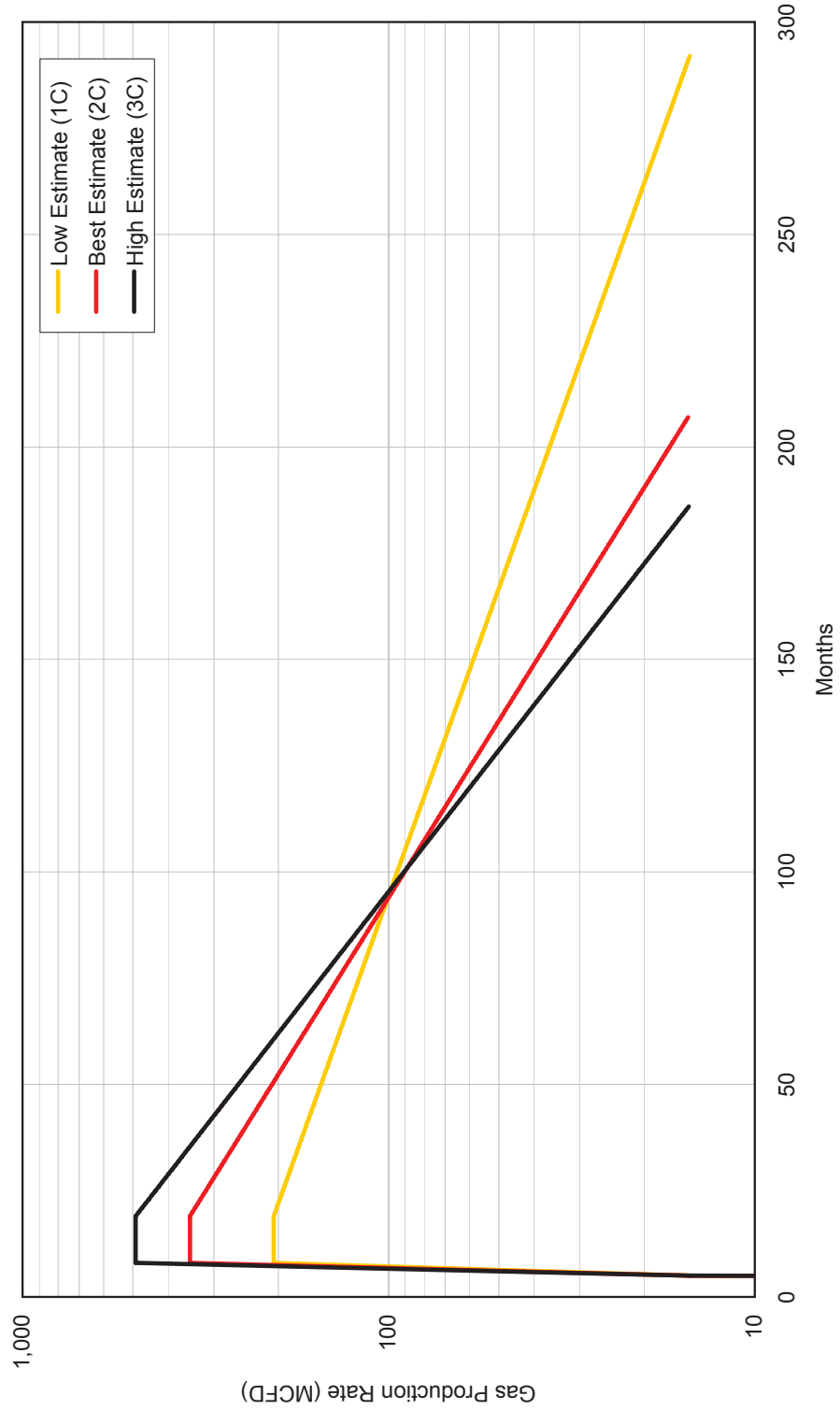


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 15



REPRESENTATIVE PRODUCTION PROFILE
1C, 2C, AND 3C CONTINGENT RESOURCES
MULTILATERAL WELL – COAL SEAMS 4 AND 5
SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
AS OF APRIL 30, 2010

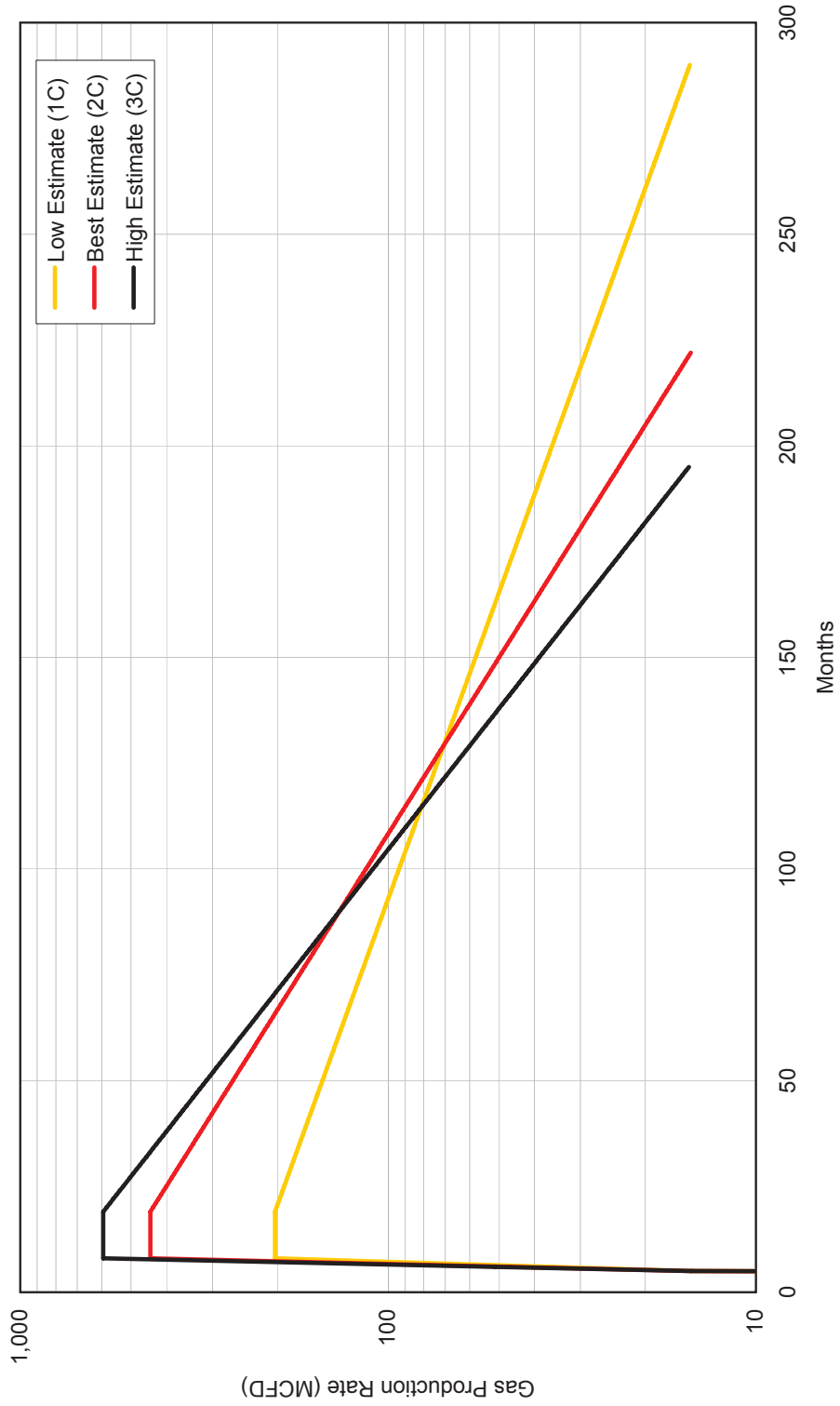


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 16



REPRESENTATIVE PRODUCTION PROFILE
 1C, 2C, AND 3C CONTINGENT RESOURCES
 MULTILATERAL WELL – COAL SEAMS 8 AND 9
 SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
 AS OF APRIL 30, 2010

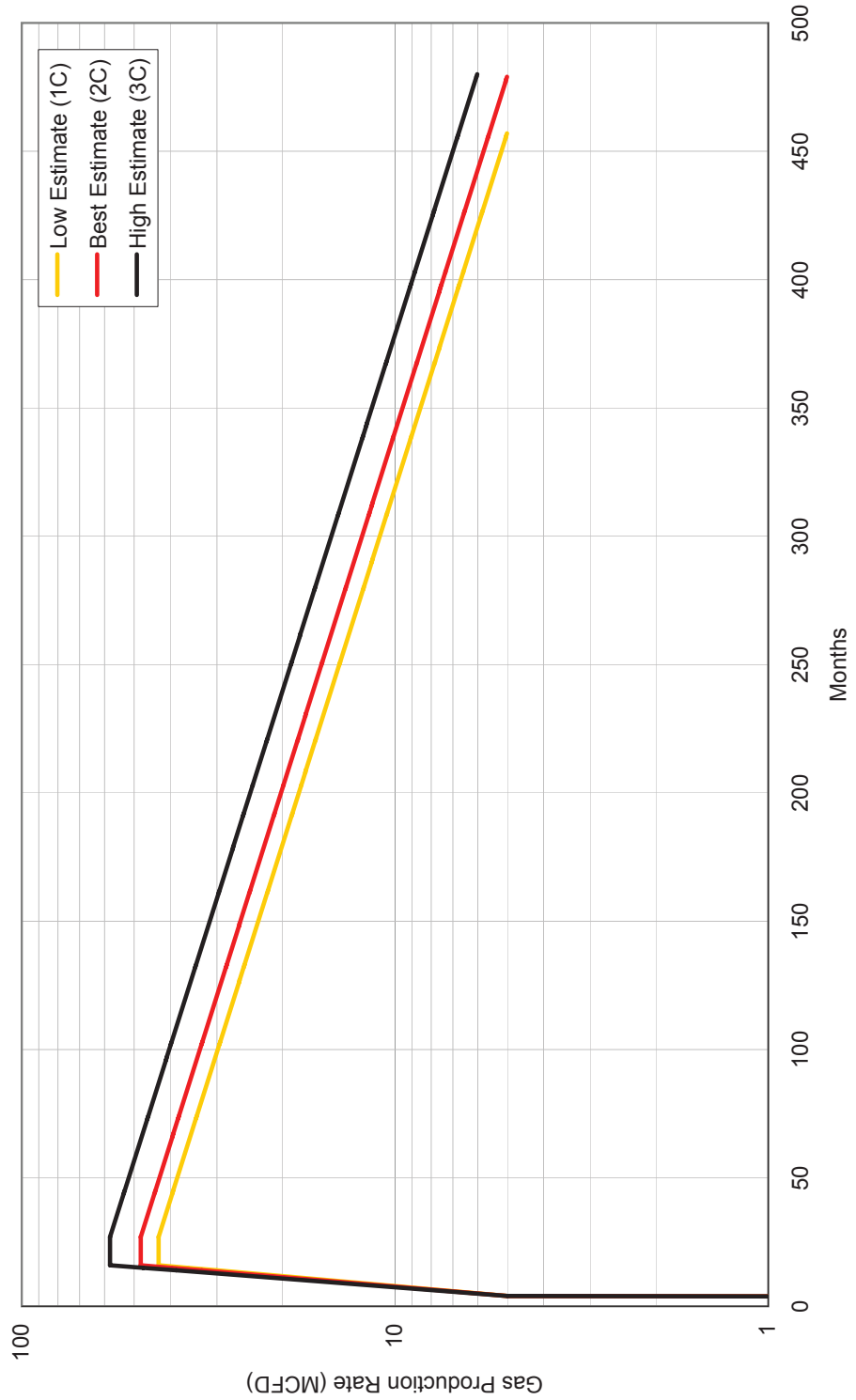


All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

Figure 17

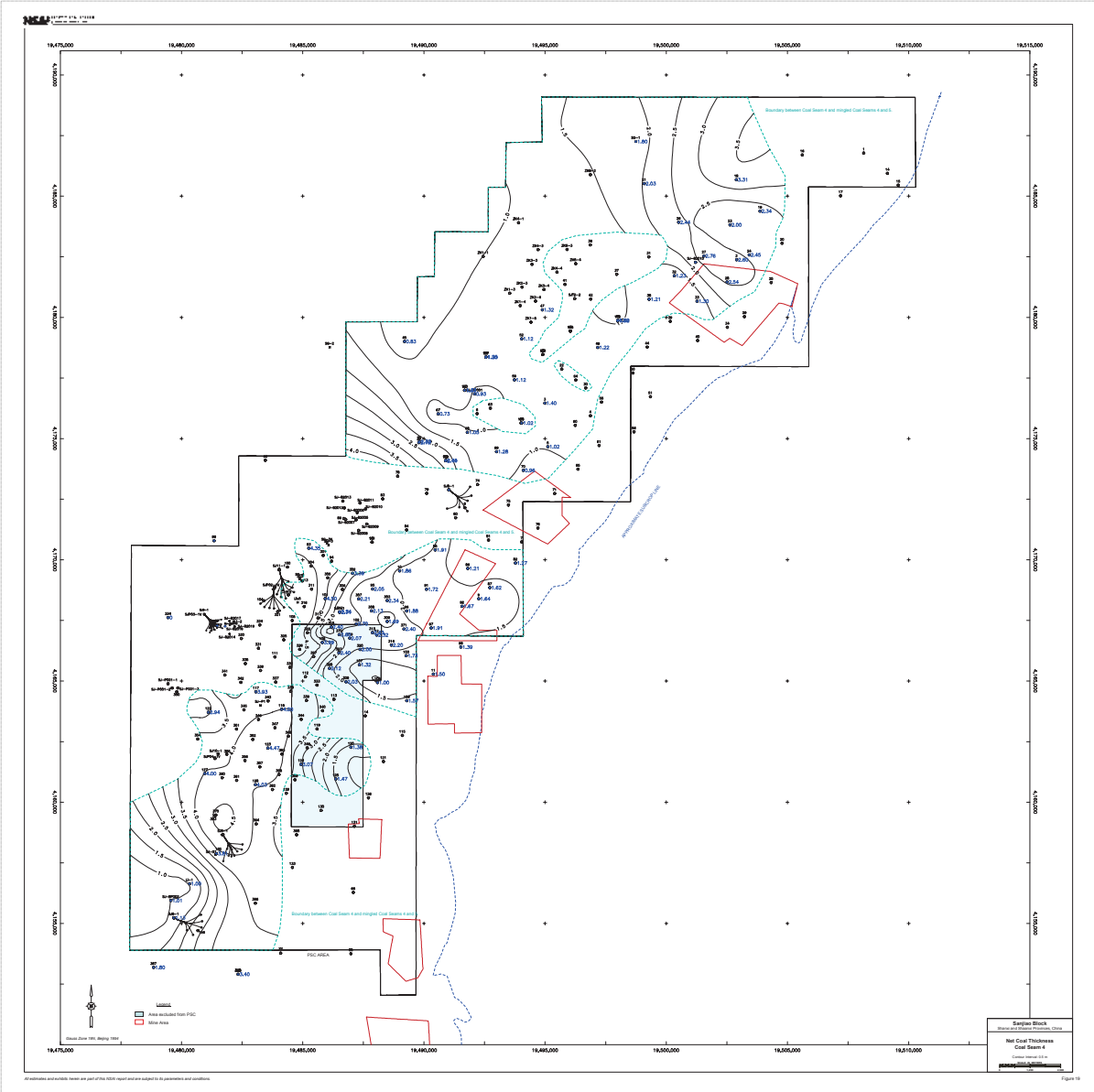


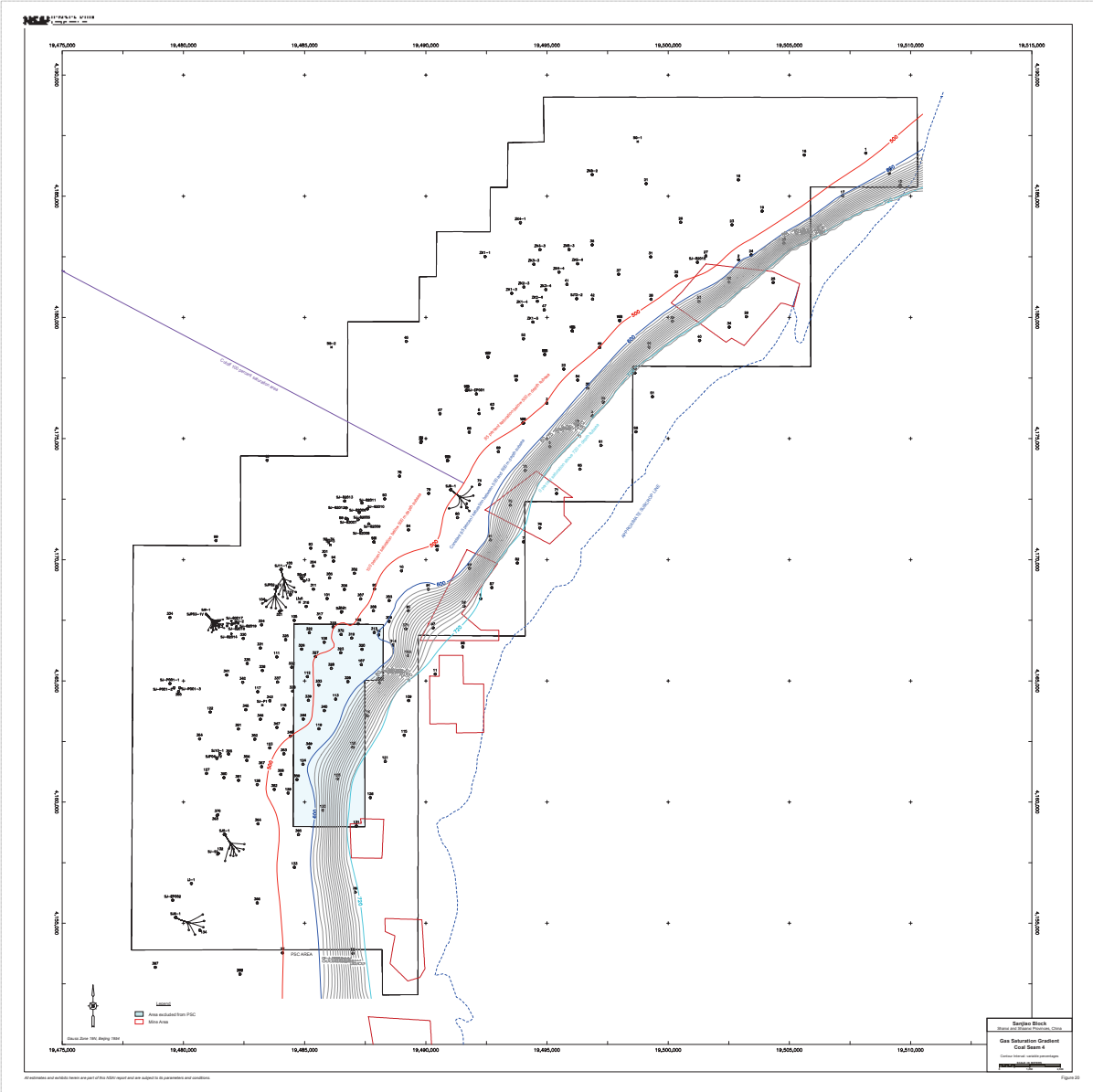
REPRESENTATIVE PRODUCTION PROFILE
1C, 2C, AND 3C CONTINGENT RESOURCES
VERTICAL WELL - COAL SEAMS 4, 5, 8, AND 9
SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
AS OF APRIL 30, 2010

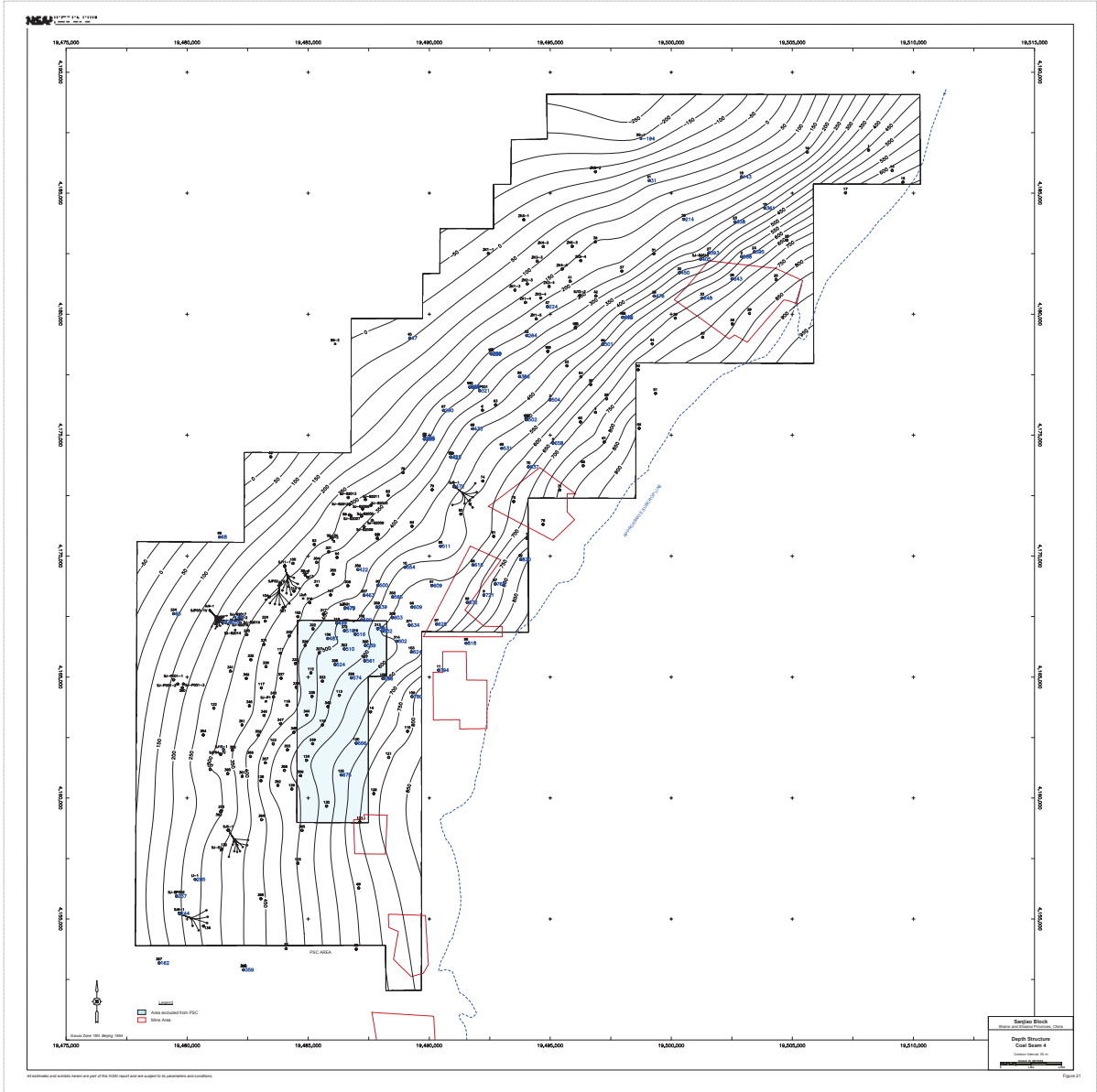


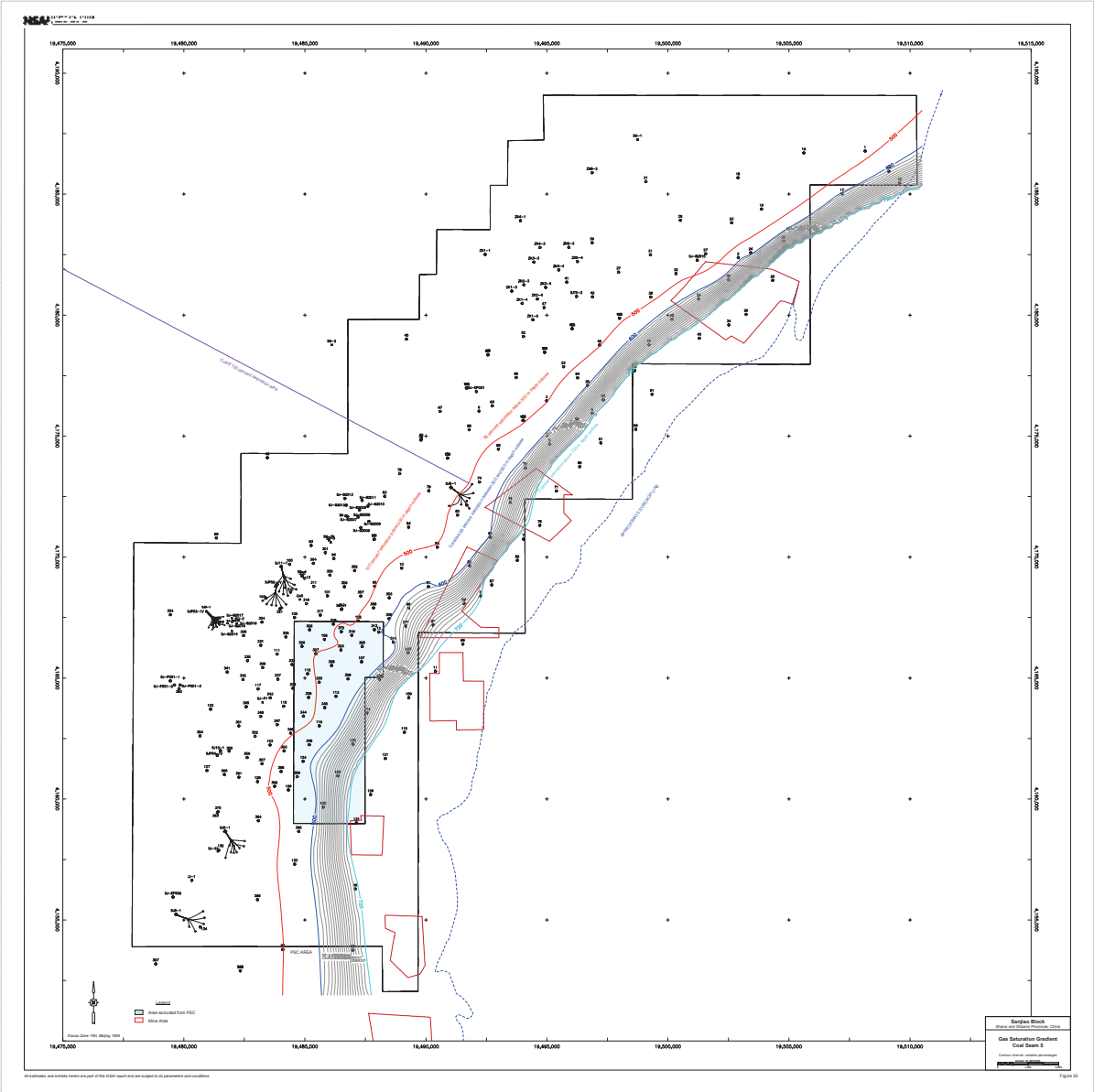
All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

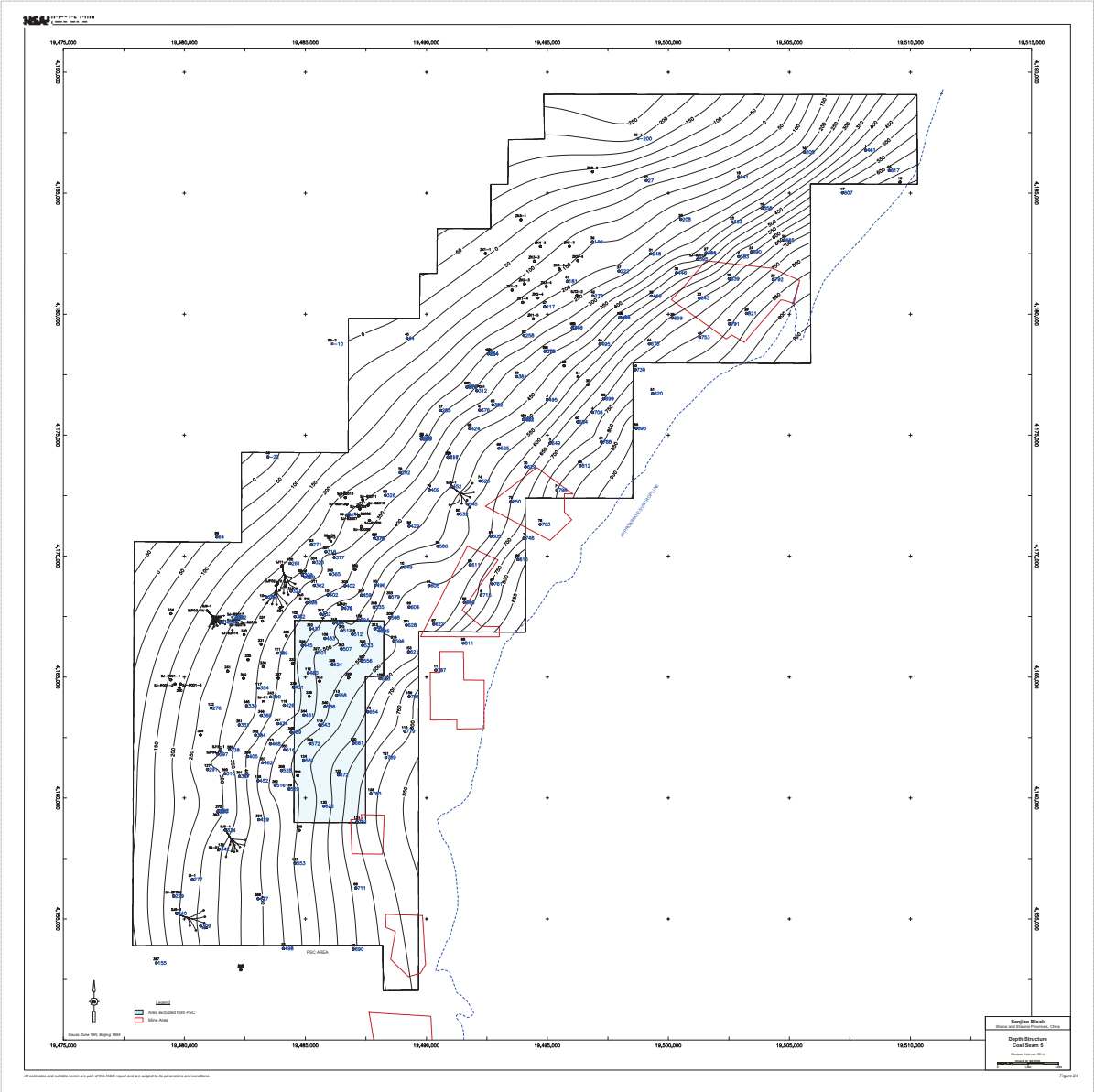
Figure 18

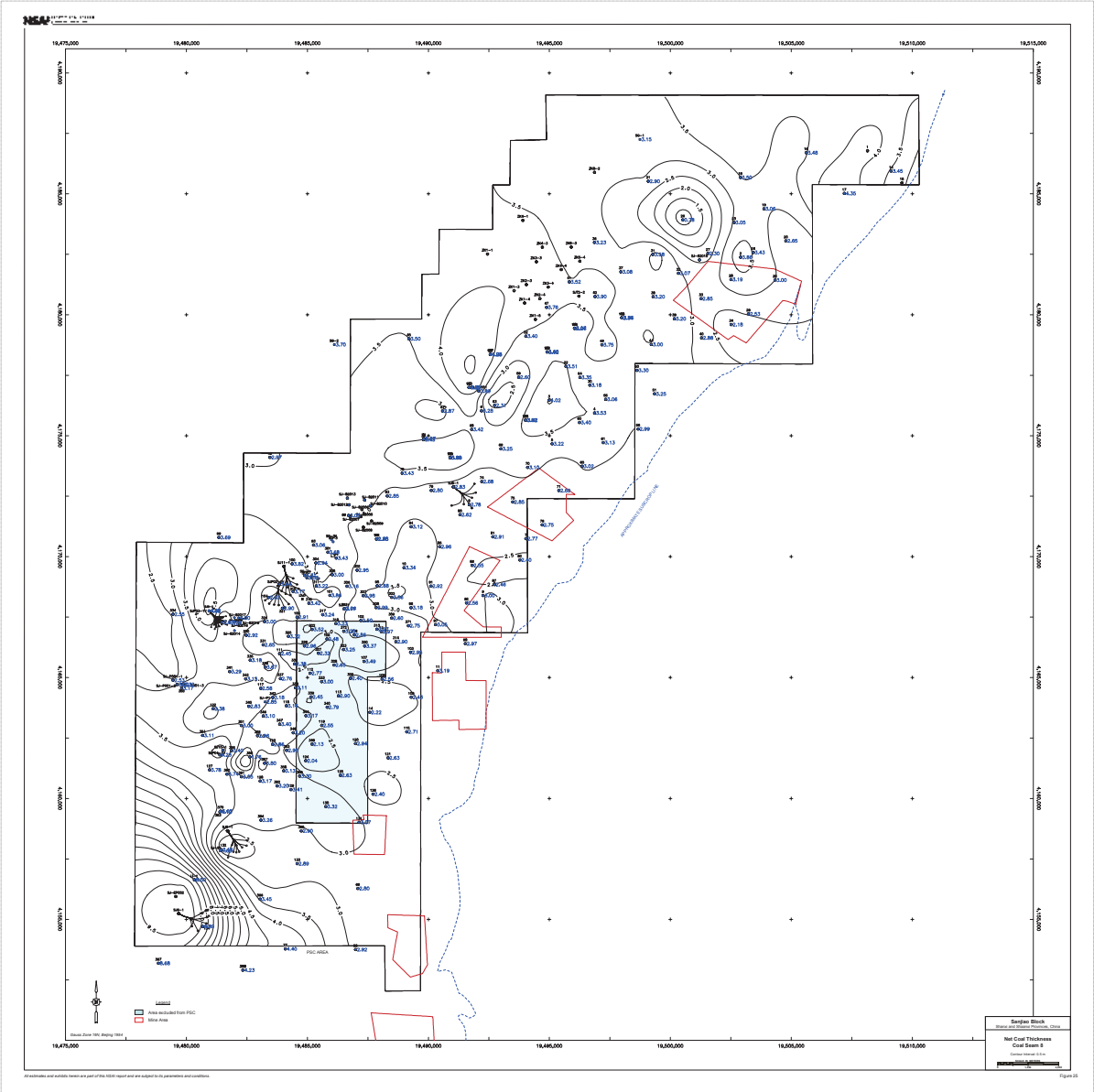


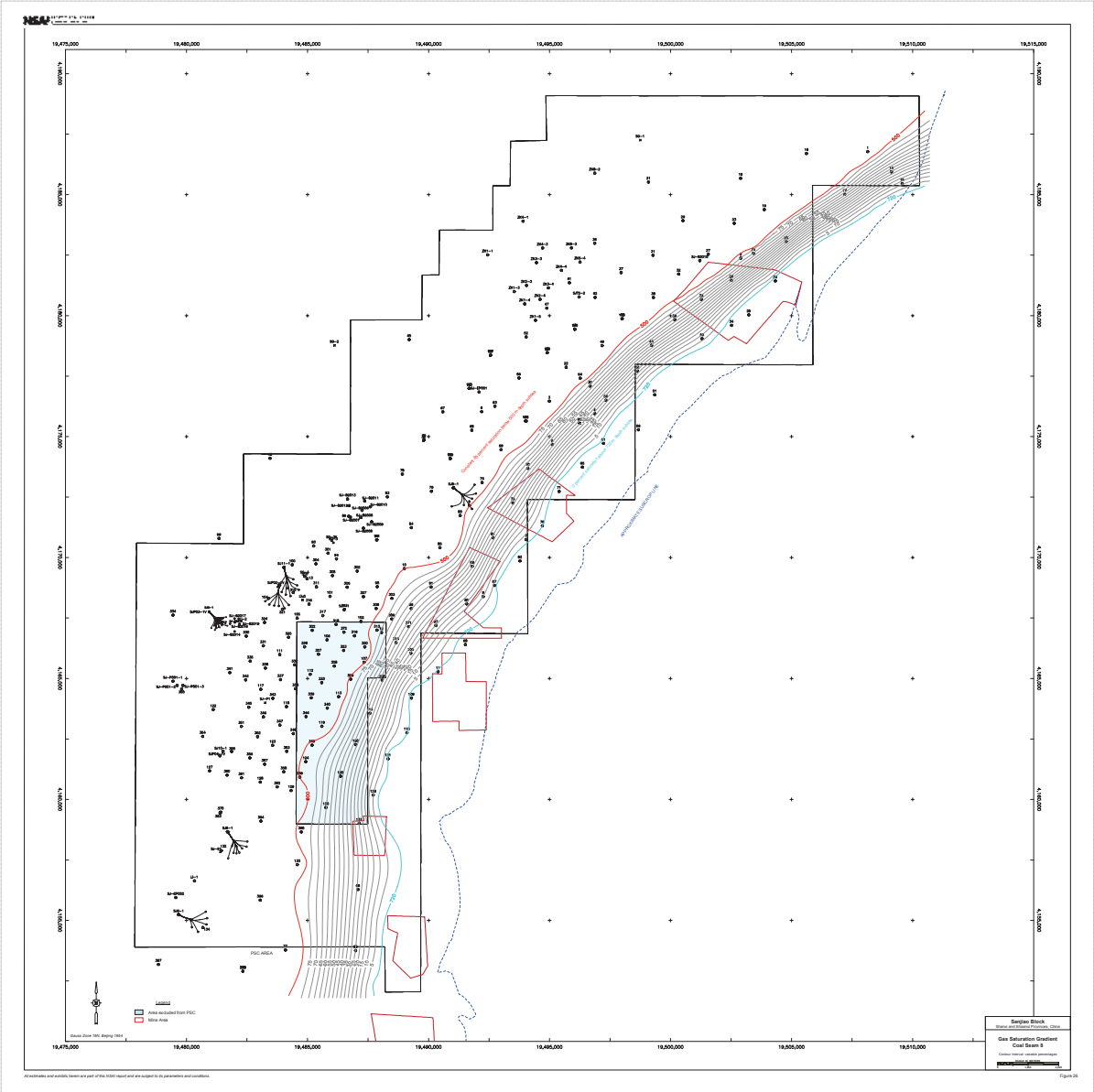


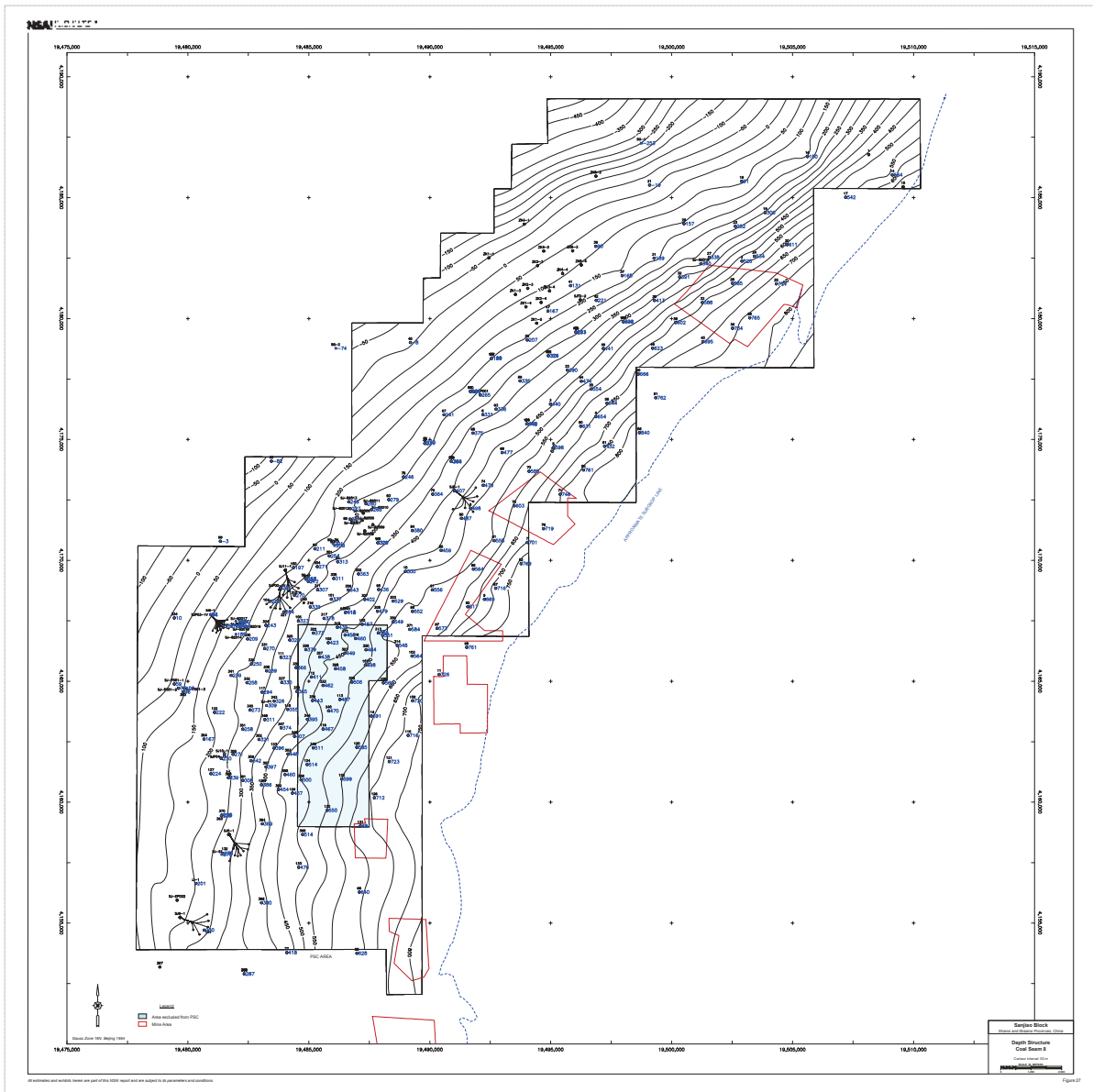


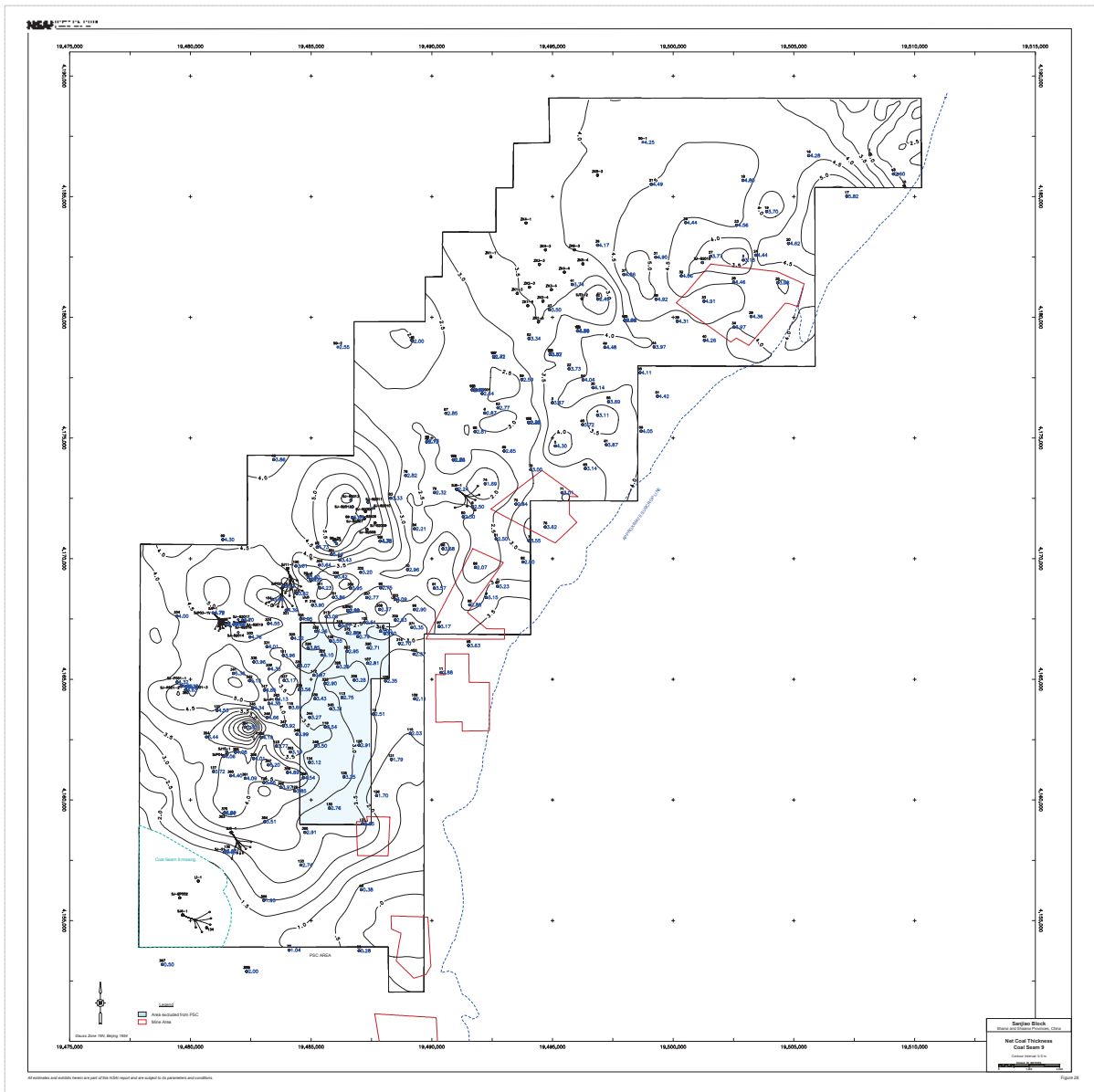


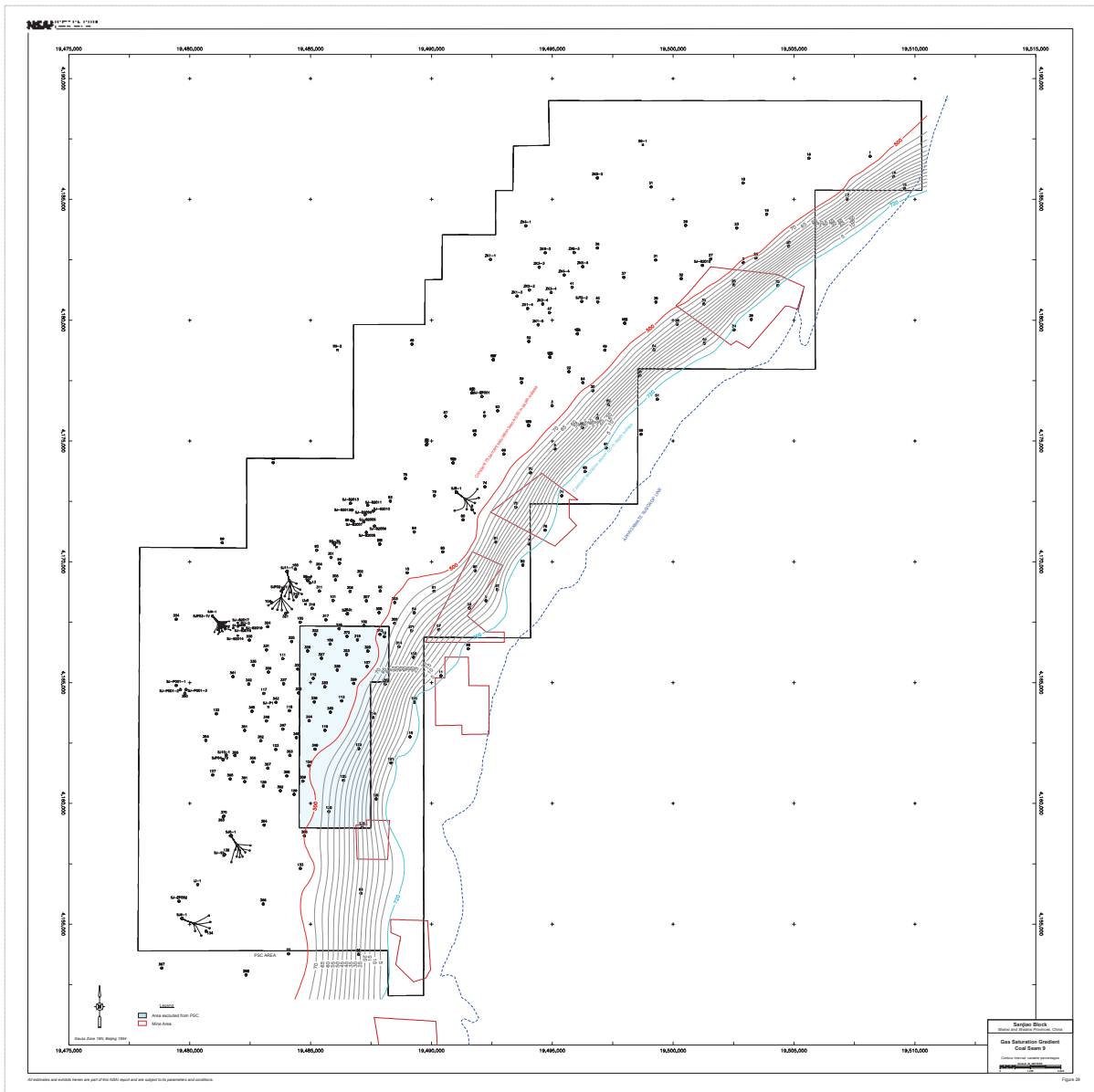


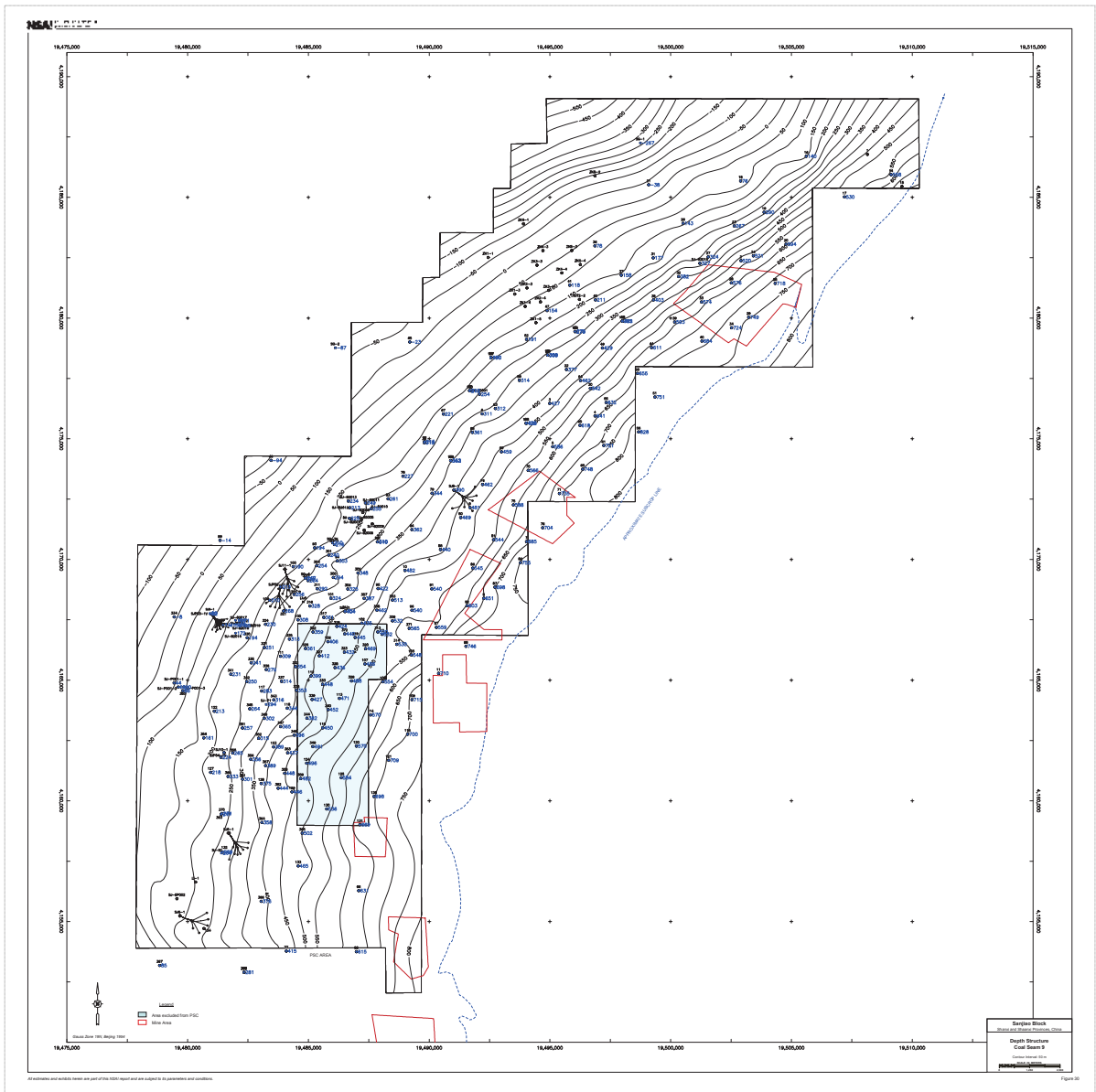












(ii) *Project risk assessment addendum*

NSAI NETHERLAND, SEWELL
& ASSOCIATES, INC.
WORLDWIDE PETROLEUM CONSULTANTS
ENGINEERING • GEOLOGY • GEOPHYSICS • PETROPHYSICS

CHAIRMAN & CEO C. H. (SCOTT) REES III	EXECUTIVE COMMITTEE P. SCOTT FROST - DALLAS
PRESIDENT & COO DANNY D. SIMONS	J. CAROL HINSON JR. - HOUSTON
EXECUTIVE VP G. LANCE BIRCH	DAN PAUL SMITH - DALLAS
	JOSEPH J. SPELLMAN - DALLAS
	THOMAS J. TITTA II - DALLAS

August 18, 2010

Mr. Terence S.T. Kong
Genesis Energy Holdings Limited
Unit 3708, West Tower, Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Dear Mr. Kong:

In accordance with your request, we are pleased to provide the attached project risk analysis addendum to our report dated June 25, 2010. The June 25 report contains our estimates of the proved and proved plus probable reserves and future revenue, as of April 30, 2010, to the Orion Energy International Inc. (Orion) interest in certain coalbed methane properties located in the Sanjiao Block of Shanxi and Shaanxi Provinces, China. The June 25 report also includes our assessment of the possible reserves and contingent resources, as of April 30, 2010, to the Orion interest in these properties.

Sincerely,



Nathan C. Shahan, P.E. 102389
Petroleum Engineer

NCS:JAK



PROJECT RISK ANALYSIS ADDENDUM TO NSAI REPORT DATED JUNE 25, 2010
ORION ENERGY INTERNATIONAL INC.
COALBED METHANE PROPERTIES
SANJIAO BLOCK, SHANXI AND SHAANXI PROVINCES, CHINA
AS OF APRIL 30, 2010

There are commercial and environmental risks associated with coalbed methane exploration and development. Commercial risk generally decreases as additional data become available, but environmental risk tends to be more constant throughout the development and production phases. Risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revisions based on additional data or interpretation. Our risk assessment for the Sanjiao Block is summarized in the following tables:

Risk Issue	Reserves	Likelihood	Consequence	Overall
Coal Quantity				
Lack of Coal		Unlikely	Major	Low
Poor Coal Quality (Rank and Maceral Composition)		Unlikely	Moderate	Low
Poor Seam Distribution (Multiseam vs. Single Seam)		Unlikely	Moderate	Low
Gas Content				
Insufficient Quantity		Unlikely	Major	Low
Insufficient Pressure (Underpressured)		Possible	Moderate	Medium
Low Saturation Levels		Possible	Moderate	Medium
Unfavorable Gas Composition		Unlikely	Moderate	Medium
Restricted Thermogenic Gas Generation (Primarily Biogenic)		Unlikely	Major	Low
Coal Permeability				
Insufficient Mobility of Hydrocarbons		Unlikely	Major	Low
Insufficient Cleat Development		Possible	Moderate	Medium
Detrimental Stress Orientation		Possible	Moderate	Medium
Detrimental Overburden Stress (Depth)		Unlikely	Minor	Low
Gas Producibility				
Inability to Depressurize Coal		Unlikely	Major	Low
Inefficient Completion Practice		Unlikely	Moderate	Low
Excessive Aquifer Recharge		Possible	Minor	Low
Insufficient Peak Gas Rates		Possible	Major	Medium
Insufficient EUR per Spacing Unit		Unlikely	Major	Low
Economic Development				
Inefficient Water Disposal Method		Unlikely	Moderate	Low
Excessive Gas Treating Requirements		Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price		Possible	Major	Medium
Unfavorable Fiscal Terms		Unlikely	Major	Low
Environmental				
Water Discharge Noncompliance		Unlikely	Minor	Low
Regulatory Nonconsent or Delays		Unlikely	Moderate	Low
Geological and Environmental Disasters		Possible	Moderate	Medium



Risk Issue	Contingent Resources		
	Likelihood	Consequence	Overall
Coal Quantity			
Lack of Coal	Unlikely	Major	Low
Poor Coal Quality (Rank and Maceral Composition)	Unlikely	Moderate	Low
Poor Seam Distribution (Multiseam vs. Single Seam)	Unlikely	Moderate	Medium
Gas Content			
Insufficient Quantity	Possible	Major	Medium
Insufficient Pressure (Underpressured)	Possible	Moderate	Medium
Low Saturation Levels	Possible	Moderate	Medium
Unfavorable Gas Composition	Unlikely	Moderate	Medium
Restricted Thermogenic Gas Generation (Primarily Biogenic)	Unlikely	Major	Low
Coal Permeability			
Insufficient Mobility of Hydrocarbons	Unlikely	Major	Low
Insufficient Cleat Development	Possible	Moderate	Medium
Detrimental Stress Orientation	Possible	Moderate	Medium
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Insufficient Peak Gas Rates	Possible	Major	Medium
Insufficient EUR per Spacing Unit	Possible	Major	Medium
Economic Development			
Inefficient Water Disposal Method	Unlikely	Moderate	Low
Excessive Gas Treating Requirements	Unlikely	Moderate	Low
Lack of Gas Market and Favorable Price	Possible	Major	Medium
Unfavorable Fiscal Terms	Unlikely	Major	Low
Environmental			
Water Discharge Noncompliance	Unlikely	Minor	Low
Regulatory Nonconsent or Delays	Unlikely	Moderate	Low
Geological and Environmental Disasters	Possible	Moderate	Medium

(iii) Statement from the Competent Person

The Competent Person confirms that no material changes have occurred since the effective date of the Competent Person's Report (i.e. 25 June 2010) to the Latest Practicable Date.

The following is the text of valuation report in respect of the estimate of reserves in the Contract Area issued by the Competent Evaluator and the Valuer for the purpose of inclusion in this circular.

American Appraisal China Limited
1506 Dah Sing Financial Centre
108 Gloucester Road / Wanchai / Hong Kong
美國評值有限公司
香港灣仔告士打道108號大新金融中心1506室
Tel +852 2511 5200 / Fax +852 2511 9626



Leading / Thinking / Performing

September 27, 2010

The Directors

Sino Oil and Gas Holdings Limited
3707-08 West Tower, Shun Tak Centre
168-200 Connaught Road, Central
Hong Kong

Our Ref.:10/1092

Dear Sirs,

Pursuant to the terms, conditions and purpose of an engagement agreement dated May 28, 2010 (“Engagement Agreement”) between Genesis Energy Holdings Limited which was renamed as Sino Oil and Gas Holdings Limited (“Company” or “Client”) and American Appraisal China Limited (“American Appraisal”), we have completed the valuation (“Valuation”) of the 70% participating interest in the coalbed methane properties (“CBM Project”) located in the Sanjiao Block of Shanxi and Shaanxi Provinces, China and owned by Orion Energy International Inc (“OEI”). We understand that the Company contemplates acquisition of the above mentioned interest. The valuation is as of May 31, 2010 (“Valuation Date”). Additionally, we have performed a scenario analysis (“Scenario Analysis”) using assumptions provided by the management of the Company (“Management”).

We understand that the Company, with our consent, discloses this letter in the circular to the shareholders and to the Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to the requirements of the Rules Governing the Listing of Securities on Stock Exchange.

This report identifies the property appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value developed in accordance with the reporting standards of the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (“VALMIN Code”). This letter is intended to present only a summary discussion of the data, reasoning, major assumptions and analyses that were used by American Appraisal to develop the opinion of value. Supporting documentation concerning these matters has been retained in our work papers.

Purpose of Valuation and Scenario Analysis

The Client intends to acquire the 70% participating interest in the CBM Project from OEI (“Proposed Transaction”). An independent technical assessment of the CBM Project (“Technical Report”) dated June 25, 2010 was undertaken by Netherland Sewell & Associates, Inc. (“NSAI”) in accordance with the Petroleum Resources Management System (“PRMS”) adopted by the Society of Petroleum Engineers (“SPE”). With the Client’s approval and as stipulated by the Engagement Agreement in formulating our opinion on the fair market value of the 70% participating interest in the CBM Project, we relied upon completeness and accuracy of geological, operational, and financial information provided by the Company, including the Technical Report.

Additionally and at the Client’s request, we have calculated the net present value (“NPV”) of the CBM Project as part of Scenario Analysis and based on the inputs provided by the Management.

The intended use of the Valuation and Scenario Analysis is to serve as an internal reference for the negotiation of the purchase price for the Proposed Transaction of the Client. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. Our valuations only form part of the information for the Client to consider and the responsibility for determining the fair market value and the acquisition price of the CBM Project rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

Basis of Value

As required by the VALMIN Code, the basis of value for the valuation of the CBM Project is fair market value. The VALMIN Code defines fair market value as the amount of money (or the cash equivalent of some other consideration) for which the mineral or petroleum asset of security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an “arm’s length” transaction, with each party acting knowledgeably, prudently and without compulsion.

The Scenario Analysis of the CBM Project was based on the NPV of the project estimated by applying procedures agreed upon with the Client and assumptions developed by the Management and available market research.

Technical Report

The Technical Report on the CBM Project was prepared by NSAI on June 25, 2010. It provides estimates of gas reserves of the CBM Project together with price and major cost parameters specified by OEI including outsourcing cost to develop and produce the gas, administrative expense, gas gathering cost, land leasing costs, land recovery cost and capital expenditures related to wells, equipment and project infrastructure. A discussion with NSAI has been conducted to understand the assumptions and conclusions of the Technical Report.

Description of OEI

OEI is engaged in exploration, development and production of CBM. Pursuant to the Production Sharing Contract (“PSC”) signed in March 2006, OEI obtained 70% participating interest in the coalbed methane properties (“CBM Project”) located in the Sanjiao Block of Shanxi and Shaanxi Provinces, China for a period of 30 years from the date of commencement of the implementation of the PSC. The remaining 30% was shared by China United Coalbed Methane Corporation Limited (“CUCMCL”).

As a foreign partner, OEI provided relevant technology and assigned its competent experts to explore, develop, produce and sell methane from the CBM Project, while CUCMCL facilitated local approvals, liaised with local and national government bodies and assisted OEI to recruit Chinese employees.

With the approval of the State-owned Assets Supervision and Administration Commission of the State Council and the acknowledgement of the Ministry of Land and Resources, CUCMCL has agreed pursuant to a block allocation agreement to transfer all of its interests and associated obligations with respect to certain fields in areas located in various provinces in China (including those in the Contract Area) to PetroChina. The formalities and regulatory approvals and consents necessary for the completion of such transfer of interests (including the Production Sharing Contract) are in progress (“PRC Partner”, being defined as CUCMCL before the completion of such transfer and PetroChina after the completion of such transfer).

According to the management account provided, the exploration cost spent as of the Valuation Date (capitalized as non-current assets on the balance sheet) was USD18.3 million. Current assets mainly included bank balance, cash and other receivable. Current liabilities mainly included the payables for construction, salary and social welfare. OEI continued to suffer loss in the first five months of 2010 incurring administrative expenses.

Description of the CBM Project

The CBM Project covers an area of 462 km², and it is situated along the eastern margin of the Ordos Basin and encompassed parts of Shanxi and Shaanxi Provinces, China. According to the Technical Report, the Ordos Basin is a north-south-elongated, rectangular-shaped basin. Tectonically, the Ordos is an asymmetric cratonic basin where Paleozoic and Mesozoic rocks were deposited over an area of 250,000 km², with sedimentary thicknesses up to 10,000 meters.

We understand that beginning in 1999 more than 200 coal cores and coalbed methane exploration wells were drilled in the Sanjiao Block to evaluate the coal and coalbed methane potential. Since the PSC became effective in June 2006, additional exploration wells have been drilled to collect more reservoir data and 7 multilateral directional (“MLD”) wells have been drilled to test Coal Seams 3, 4, 5, 8, and 9 in the Shanxi and Taiyuan Formations. As at April 30, 2010, six of the MLD wells were under trial production at commercial rates.

According to the Technical Report, the net amount of proven and probable (“2P”) gas reserves attributable to OEI was estimated at 237.457 billion cubic feet (“bcf”).

Pursuant to the PSC, the CBM project life is 30 years and it will include exploration phase, development phase and production phase briefly described below.

1. Exploration phase

During the exploration phase, OEI will conduct core testing and run pilot production to ascertain the potential commercial value of the CBM field in the planned exploration area. Pursuant to PSC, OEI shall commence the exploration phase within six months after the date of commencement of the implementation of the PSC. The exploration phase under the PSC has an initial term of four years which expired on 1 July 2010. The PRC Partner has the contractual obligation to apply for an extension of the exploration period under the PSC, and PetroChina has acknowledged its obligation to do so. The Company has been informed by Joint Management Committee that the PRC Partner plans to apply to the Ministry of Commerce in or around October 2010 for the extension of the exploration phase under the PSC for two additional years until June 30, 2012. OEI expects application will be made in around October 2010, and the Company has been informed by OEI that PetroChina has been in communication with the Ministry of Commerce with respect to such proposed application on a number of occasions. The Company has been advised by its PRC legal advisers that in the meantime the validity of the PSC will not be affected.

As of the Valuation Date, OEI has not started gas sales from the Sanjiao Block. We understand that OEI has signed a non legally binding letter of intent for distribution of CBM for a preliminary term of 20 years with an independent third party which owns Linyuan Pipeline from Linxian to Baode to Yuanping in Shanxi province. Formal sales and purchase agreement will be entered into before the approval of the Overall Development Program by the National Development and Reform Commission (“NDRC”) and the agreed sale price of CBM will be set out therein. Linyuan Pipeline is mainly to supply CBM to local industrial customers and can also connect to the West to East main pipeline for distribution of CBM to other provinces. An extended section of the Linyuan Pipeline connecting to the Sanjiao Block namely the LinBao Line of around 40 km will be constructed. When the LinBao Line construction is completed, the pipeline is expected to have capacity of not less than 96.7 million cubic feet (“Mmcf”) per day, or 1 billion m³ per year. In the first year of production from the Contract Area, some 100 million m³ of CBM gas is expected to be supplied via the pipeline. Based on the development plan approved by the Joint Management Committee with drilling of 150-180 wells in the next 3 years, the supply is anticipated to increase to 500 million – 800 million m³ per year in the third year. We understand that in addition to selling gas to the provincial pipeline, the Company is also contemplating alternative distribution channels such as transporting and selling CBM as compressed natural gas (CNG) or liquefied natural gas (LNG). We were informed by the Company that the construction of a gas compression plant has been completed by PetroChina in the vicinity of the CBM Project area with a daily capacity of 30,000 m³.

2. *Development phase*

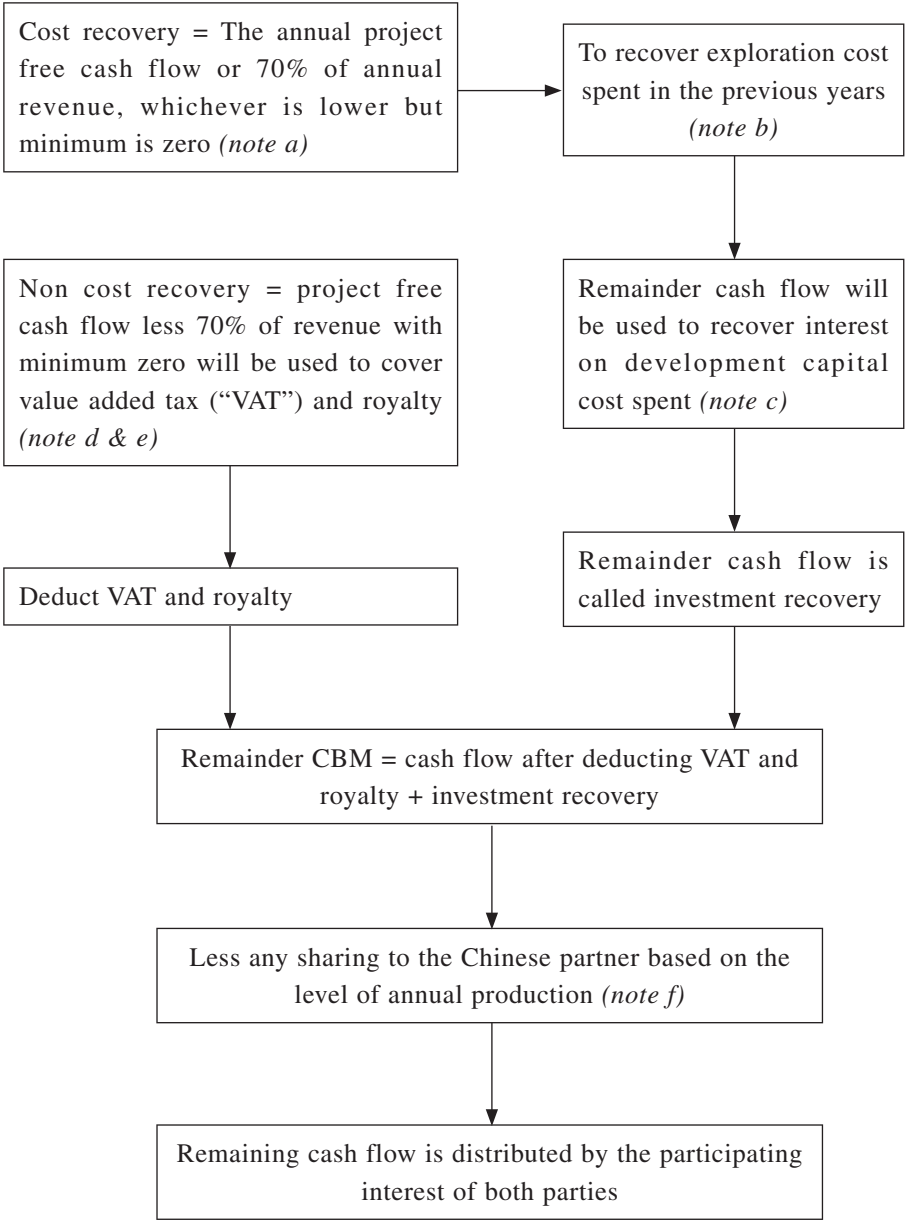
The development phase of around three years will start from the date of approval of the Overall Development Program by NDRC and end on the date as stated in the Overall Development Program. The Overall Development Program is still being prepared by OEI and is expected to be submitted by the end of 2010 to the NDRC for approval. OEI shall carry out the CBM Project including planning, design, construction, installation, drilling, developing transportation systems, and related research work as well as production activity, before starting the commercial production and marketing of gas.

3. *Production phase*

During the production phase, the Operator shall carry out, including but not limited to, the extraction, injection, stimulation, treatment, storage, transportation and lifting of each CBM field. The production phase of any CBM field shall have an initial term of 20 years beginning the date of commencement of its commercial production of the CBM field, unless production is suspended or abandoned in accordance with the PSC or the period is extended in special circumstances with the approval of the government department designated by the State Council.

Production Sharing Contract

OEI bears 100% of the costs during exploration period and afterwards, costs were shared between OEI and CUCMCL in proportion to their participating interests. OEI’s exploration costs incurred from the contract execution date will be eligible for cost recovery during the development and production periods. Cost recovery and production allocation between the Company and CUCMCL are described below:



Notes:

- a) Project free cash flow in each year was determined from the net income/loss, adjusted for noncash item, capital expenditure, working capital.
- b) The exploration cost spent as of the Valuation Date was USD18.3 million.
- c) The development capital cost includes the capital expenditure spent during the development period. Annual interest rate at 9% on the development capital cost was set in the PSC.
- d) A value added tax (VAT) rebate policy was adopted in 2007 by the Ministry of Finance of China (“MOFC”) for revenues realized from CBM production. This rebate has been treated as a VAT exemption.
- e) A schedule of the royalty payment based on the annual gross production of CBM was shown below.

Annual Gross Production of CBM and Liquid Hydrocarbons (million m³)	Royalty (%)
0 to 1,000	0
1,001 to 2,500	1
2,501 to 5,000	2
5,001 to Up	3

- f) Remainder CBM are to be deducted from share to PRC Partner based on the formula and schedule below:

$$= \min(\text{tier value} \times \text{unit selling price} \times 35.3146667, \text{remainder CBM})$$

Annual Net Production of CBM and Liquid Hydrocarbons (MMm³)	X Factor (%)	Tier (MMm³)
0 To 500.	0	0
500 To 800.	1	3
800 to 1,200.	2	8
1,200 To 1,800.	3	18
1,800 to 2,500.	4	28
2,500 to 5,000.	7	175
5,000 and up	10	

CBM Industry Overview

CBM is an unconventional methane gas stored within coal seams. The difference between CBM and other natural gas is how it occurs in nature. CBM is collected in the coal seam by bonding to the surface of coal particles, whereas other natural gas is stored in the pore spaces between grains of sandstone or similar rock¹. As an end-use product, CBM is the same as natural gas, and can be utilized in all natural gas appliances and commercial applications.

According to IHS, unlike North America and Australia where CBM has demonstrated and proven performance as a producing play, Asia is still exploring the potential of this unconventional resource. Asia has great potential for the commercialization of unconventional gas due to increasing demand and favorable geological factors. A brief overview of CBM industry in China is provided in the following sections.

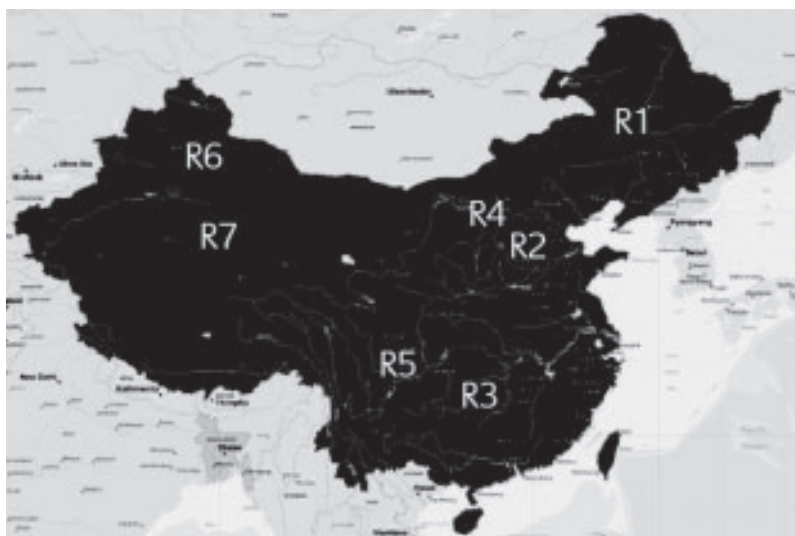
¹ Zhang Xinmin, Zhuang Jun, Zhang Suian (2002), “Geology and Resource Evaluation of Coalbed Methane in China” (in Chinese). Beijing, Science Press.

China has a significant potential for the growth of CBM industry. The country may have as much as 1,000 trillion cubic feet of CBM resources in place. By the end of 2009, Chinese-proven CBM reserves in place grew to about 6 trillion cubic feet and the total number of CBM wells reached 3,600. China has produced 24.5 billion cubic feet of gas from CBM projects and has the potential to increase production significantly.

Shanxi-Shaanxi-Inner Mongolia region (Marked R4 on the Map, Fig. 1) is one of the richest coal mine methane resource areas in China. It is located in the west side of Taihang Mountain in the North China area, ranging from the Helanshan-LiuPansan fault in the west to the west boundary of Hebei-Shandong-Henan-Anhui region in the east, and including the west section of the Yinshan-Yanshan fold in the north and the west section of Qinling-Dabieshan fold in the south.

Coal strata in this region are mainly in Carboniferous Permian and Middle-Lower Jurassic formations, with good gas content.

Fig. 1 China's coal-related methane resources by geographical region.



Source: China Energy and Environment Programme, Feasibility Study of Coalbed Methane Production in China, EU (Europe Aid) March 2008.

In terms of methane content, the Qinshui and Hosie belts are the best, with the Shanbei and Huanglong belts relatively poor in gas availability.

The government of China granted monopoly on CBM to CUCMCL, however in 2008 the State Council ceased CUCMCL's monopoly opening up the sector for the direct development by CNPC, which was formerly part of CUCMCL. Subsequent to CUCMCL restructuring China's miners may become more involved with the sector, given the presence of methane in coal seams. In May 2010 Jincheng Mining Corporation acquired several CBM licenses.

China's oil companies plan significant investments in the sector. PetroChina committed to a USD1.5 billion CBM investment aimed to produce 4 billion m³ of CBM gas a year by 2015 and 10 billion m³ in 2020. Sinopec expects to produce 2.5 billion m³ of CBM by 2015 in Shanxi and 4 billion m³ in 2020.

A recent report by Wood Mackenzie *China Gas Multi-Client Study* finds that CBM holds huge potential in meeting the country's long term gas supply needs, making up the second largest domestic unconventional gas supply to shale and accounting for 14 percent of total domestic supply by 2030. At the same time Wood Mackenzie expects that China will not meet the current '11th Five-Year Plan' target of 5 billion m³ per year (bcm/y) by 2010 as this year's production of 120 million cubic feet per day (mmcf) will be less than 25% of the target. The consultant believes that the next 12th Five-Year Plan (2011-2015) is likely to remain ambitious as CUCMCL and PetroChina aim to fast track development within their working areas and that it is unlikely that both state companies will meet their similar targets of 5 bcm/y by 2015 and 10 bcm/y by 2020.

Foreign groups have long been involved in China's CBM industry. PetroChina and BP recently announced a joint effort to look at a CBM field in Xinjiang province. Shell is working on a site in Ordos, Inner Mongolia. Several other foreign companies entered the CBM market in China in the form of PSC. Fortune Oil acquired Molopo Energy's 26.1% interest in the Liulin CBM block in Shanxi province in northern China, which gave Fortune Gas 100% ownership in the Liulin CBM block. Later, Fortune Oil built a strategic alliance with Arrow Energy, a large Australian CBM producer, to develop the Liulin CBM project. Another alliance that Arrow Energy has built is with Far East Energy to farm in a 75% interest in the Qinnan PSC.

Natural Gas Prices in China and Market Outlook

China was the fastest growing economy in Asia over the past 30 years in terms of Gross Domestic Products ("GDP) and energy consumption. Real GDP growth rate was above 9% from 2005 to 2009. Currently, China relies heavily on coal and crude oil as prime energy sources. According to Ms. Erica S. Downs, the China energy fellow at the John L. Thornton China Center, the reason is that the prices for diesel fuel, gasoline, and electricity are set by the state while prices for crude oil and coal are determined by the market. The failure of the state-set prices to keep pace with the soaring increasing in crude oil and coal prices has contributed to domestic shortages of refined products and electricity as those refiners and power generators have suspended or stopped their operations in order to minimize their losses. Another reason for current power shortage is the coal shortage in parts of China and difficulties delivering coal and power to where they are needed. As a result, this prompts the Chinese government to adopt energy diversification policies to boost the production of other sources of energy such as wind power, solar power, natural gas and CBM. Under the 11th Five Year Plan, China aims at increasing the portion of non-coal related consumption by 12% of total energy production and 9% of total energy consumption by 2010.

In order to meet the surging demand of gas, China started to import liquefied natural gas ("LNG") in the late 1990s. Guangdong was selected as the first site of China's LNG regasification terminal. China National Offshore Oil Corporation ("CNOOC"), negotiated with several suppliers and finally signed a long-term sales and purchase agreement ("SPA") with the seller of the Australian NWS project in 2003. According to the SPA, price ceiling was set at not exceeding USD 2.98 per thousand cubic feet ("mcf"). By the end of 2008, this terminal had received a total of 131 bcf of long-term contract-based LNG, and in addition, 28 bcf of spot LNG. CNOOC also bought spot cargoes from Oman, Algeria, Nigeria, Egypt, Ecuador and Equatorial Guinea despite high prices (USD 7.7 to USD 19.4 per mcf). Following an inter-governmental agreement between China and Turkmenistan in April 2006, China National Petroleum Corporation ("CNPC") and Turkmenistan signed two significant agreements in July 2007: a production

sharing contract (“PSC”) for the Bagtyiarlyk gas field in the Amu Darya River RightBank; and a 30-year SPA of 1,059 bcf of natural gas with Turkmenistan. In August 2008, both parties agreed to increase the sales volumes on the SPA to 1,412 bcf as offered by the Turkmen President on the occasion of his visit to the Beijing Olympics.

The spokesman of NDRC mentioned that due to rapid demand and an improper pricing mechanism, China’s natural gas shortage reached 3 billion m³ in 2008 and 9 billion m³ in 2009, and natural gas imports are expected to exceed 15 billion m³ in 2010. Data from the National Bureau of Statistics of China (“NBS”) indicated that in the first four months of 2010, consumption of natural gas was 35.14 billion m³, a rise of 22.8% year on year. Import of natural gas increased 206% to 4.51 billion m³ while domestic output was 31.8 billion m³. According to the data from China logistics industry portal, in June 2010, China imported 741,700 tons of LNG, an increase of 14% over the previous month.

China National Petroleum Corporation signed a framework agreement on June 11, 2010 to buy 10 billion m³ of natural gas per year from Uzbekistan’s national oil company Uzbekneftegaz. The chairman of PetroChina Company Limited said that the natural gas consumption would account for 10% of China’s annual total primary energy consumption by 2010 from current 3.9% level. PetroChina Company Limited produced 68.3 billion m³ of natural gas in 2009, accounting for 80% of China’s total production.

Effective June 1, 2010, NDRC adjusted the natural gas benchmark price upward to RMB 1,155 per mcf, or up 25%. This change of the benchmark price for natural gas is believed to reflect the longer term strategy of reducing the gap between domestic prices for natural gas and prices for other fuels. Fitch Rating, an international credit rating agency, believes the price increase will take the Chinese government one step closer to establishing a market-based natural gas pricing mechanism in the foreseeable future.

Information sources and Key Assumptions

Valuation in the extractive industries often must rely heavily on information provided by a technical expert or other accredited specialist specific to the industry.

Our investigation included discussions with the Management and NSAI with regard to the history, operations and prospects of the CBM Project, on-site inspection, an overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. Where appropriate the most current information obtained during our valuation due diligence was used. Specifically, certain adjustments were made to expected operating and cost data as provided in the Technical Report as will be detailed in the following sections.

We made reference to or reviewed the following major documents and data:

- Technical Report prepared by NSAI;
- Production Sharing Contract in March 2006;
- Information memorandum dated May 2010 provided by OEI;
- Sales and purchase agreement of the CBM Project

- Natural gas reform in China published by the State of Development and Reform Committee (“SDRC”) on May 31, 2010;
- Income tax policy in China applicable to the CBM industry;
- Letter of intent signed with the Linyuan Pipeline operator in Shanxi province for the delivery of CBM;
- One year outsourcing contract between OEI and Beijing Orion Energy Technology & Development Inc. (“Beijing Orion”) and comparable contract entered between Beijing Orion and other mine operator;
- Leasing agreement of the land with farmers for the six drills during the exploration of the CBM Project;
- Breakdown of historical exploration cost during 2006 and April 2010;
- Management account in 2009 and as of April 30, 2010 and May 31, 2010;
- Industry reports (e.g. Natural gas price forecasted by McDaniel & Associates Consultants, analytical report by Bernstein Research, Energy report in China from Goldman Sachs); and
- Financial projection and the breakdown of major operating expenses prepared by the Management.

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Company are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the CBM Project;
- the historical costs, current financial condition and prospective financial projections of the CBM Project;
- the Technical Report provided by NSAI;
- the economic outlook for China and specific competitive environments affecting the CBM industry;
- the legal and regulatory issues of the CBM industry in general and other specific legal opinions relevant to the CBM Project;
- the transaction prices of the best comparable mineral properties;

- the risks of the CBM Project;
- the experience of OEI's management team;

For the most part economic data from the Technical report was used in valuation of the CBM Project. After our discussion with the Management we made adjustments to certain forward-looking economic parameters referenced in the Technical report. The adjustments reflect most recent information collected during our valuation due diligence and they are listed below together with the rationale for the adjustment.

	Technical Report	Valuation	Reasons for adjustment
Schedule of production and sales	From 2010 to 2036	From 2011 to 2036 under Base Case	The expected date in the approval of Overall Development Program and pipeline construction is expected to be delayed from year end 2010 to the first quarter 2011.
Unit selling price	Follows the Management Case	Follows the Base Case	<p>Management Case uses natural gas wellhead price forecast from GS report. The report didn't take into account CBM price increase announced on the valuation date. Assumptions for the price growth rate for regulated natural gas as in the GS report may not hold for unregulated CBM as in the Management Case. Use of similar growth rates results in the ratio of gas to oil prices well above 60% indicated by NDRC as a possible target ratio.</p> <p>Our valuation base case selling price forecast was developed with consideration of the following key assumptions: (a) relationship between crude oil and natural gas prices which often sets basis of international supply contracts, and the target longer-term ratio for China as per the announcement of NDRC, and (b) the estimated period of time required to achieve domestic price convergence to the long term target ratio.</p>

	Technical Report	Valuation	Reasons for adjustment
Cost of revenue for MLD wells (USD/well/month) from year 2010 to 2015	12,000	12,000	The assumptions in the Technical Report are in real terms while our valuation uses 3% inflation rate adjustment to reflect the nominal terms price escalation.
	9,000	9,270	
	5,100	5,411	
	3,500	3,825	
	2,900	3,264	
	2,200	2,550	
Cost of revenue for vertical wells (USD/well/month) from year 2010 to 2015	735	735	
	735	757	
	735	780	
	735	803	
	735	827	
	735	852	
Operating expenses	USD 110, 000/ month from year 2010 to 2015 and grow by 6% from 2016 to 2020 and 3% thereafter	USD 110, 000/ month in year 2010 and grow by 3% annually	<p>The assumptions in the Technical Report are in real terms while our valuation uses 3% inflation rate adjustment to reflect the nominal terms price escalation in the years 2010 to 2015. After discussions with the Management, our valuation also included costs to reflect:</p> <ul style="list-style-type: none"> a) Depreciation and amortization; b) Compensation to farmers c) Land recovery costs d) Gas gathering costs <p>as mentioned in the previous sections.</p>
Income tax	N/A	Based on 25% applicable tax rate in China	

	Technical Report	Valuation	Reasons for adjustment
Capital expenditure for MLD wells in seam 4 & 5 from year 2010 to 2015 (in USD'000)	1,794 1,618 1,471 0 1,397 1,397	1,794 1,667 1,561 0 1,572 1,620	The assumptions in the Technical Report are in real terms while our valuation uses 3% inflation rate adjustment to reflect the nominal terms price escalation.
Capital expenditure for MLD wells in seam 8 & 9 from year 2010 to 2015 (in USD'000)	1,346 1,213 1,103 0 1,048 1,048	1,346 1,249 1,170 0 1,180 1,215	
Capital expenditure for vertical wells from year 2010 to 2015 (in USD'000)	211 over 6 years	211 217 224 231 238 245	
Facility cost for gas gathering and compression per incremental gross sales volume in million cubic feet from year 2010 to 2015 (in USD'000)	411	411 in year 2010 and grow at 3% annually before multiplying the incremental gross sales	
Replacement capital expenditure of pumpers	N/A	Added	As discussed with the Management, the pumps to pump the gas have a useful life of 10 years which needs to be replaced after 10 years to ensure continuous production.

Due to the changing environments in which the CBM Project is operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation:

- no major changes are expected in political, legal and economic conditions in China;
- regulatory environment and market conditions for CBM industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law in China;
- the CBM Project will not be constrained by the availability of finance;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- OEI will retain competent management, key personnel and technical staff to support their ongoing operations; and
- Access to the regional gas pipeline system will be provided timely and on reasonable terms

Valuation Methodology Overview

Mineral natural resource properties are valued primarily based on the presence of mineral reserves, and mineral resources, or the potential for discovery of resources. The quantity and quality of such reserves/resources may vary over time due to changing in economic and technical advances, as well as exploration success. Nevertheless, they are ultimately finite and will deplete over time. The value of mineral properties is directly related to the value of underground deposits of mineral, i.e. to the amount for which they might be bought or sold.

The method most commonly used by businesses for investment decision making within the extractive industries is NPV analysis/discounted cash flow analysis (NPV analysis/DCF analysis). In arriving at value estimates of the mining properties, most emphasis was given to the income approach, specifically DCF analysis.

Each natural resource accumulation is unique. Therefore direct comparison of natural resource property transactions is often difficult or inappropriate. However sales analysis is an important valuation tool. Sales adjustments or ratio analysis can frequently be applied for indirect sales comparison purposes. Selected key financial and operational data for the Company were taken into account as part of the analysis. Guideline companies analysis and guideline transactions analysis were carried out in order to check reasonableness of income approach estimates.

The cost approach is generally not appropriate to use in valuing mineral properties and the buyers in mining properties transactions seldom consider, or rely upon, cost approach indications of value. Specifically, International Accounting Standards Board research team observed that a cost approach is not expected to be able to be applied to estimate the fair value of the reserves and resource asset.

Income Approach

Discounted Cash Flow method of the income approach was used to value the CBM Project. This method explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future net cash flow to the present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

Reserves and production profile

According to the Technical Report, the net amount of proven and probable (“2P”) gas reserves attributed to OEI was estimated at 237.457 bcf. Due to the fact that the approval of the Overall Development Program and pipeline connection is expected to be delayed, the production schedule is expected to be delayed by one year. The net sales volume in each year is estimated by the management as follows:

Year	Sales volume <i>(million Cubic feet)</i>	Year	Sales volume <i>(million Cubic feet)</i>	Year	Sales volume <i>(million Cubic feet)</i>
2010	0	2019	23,824	2028	6,499
2011	257	2020	21,328	2029	5,717
2012	5,174	2021	18,751	2030	5,005
2013	19,303	2022	15,946	2031	4,419
2014	30,233	2023	13,523	2032	3,899
2015	28,930	2024	11,531	2033	3,367
2016	31,415	2025	9,896	2034	2,741
2017	28,467	2026	8,547	2035	2,442
2018	25,738	2027	7,429	2036	2,275

Unit selling price

The base case selling price forecast was developed with consideration of the following key assumptions: (a) relationship between crude oil and natural gas prices which often sets basis of international supply contracts, and the target longer-term ratio for China as per the announcement of NDRC, and (b) the estimated period of time required to achieve domestic price convergence to the long term target ratio.

The forecast of oil prices for the period of 2011-2020 was based on the publication of McDaniel & Associates Consultants. Oil prices were expected to grow at the inflation rate of 3% thereafter.

According to NDRC at present the ratio of wellhead natural gas prices to oil prices is only about 33% in China compared with worldwide average of 60% (in equal energy unit terms).

Our analysis indicated that this latter ratio of 60% compares reasonably with historical averages for Japan, US, Canada, UK and Western Europe for the period 2005-2009 as provided in the table below.

	Japan	Europe	UK	US	Canada	Average
median	69%	69%	64%	58%	52%	62%
mean	73%	72%	64%	62%	54%	65%

The ratio of CBM wellhead prices to oil prices was projected to increase linearly from 45% at present to the target level of 60% by 2020 when CBM prices and natural gas prices in China are expected to converge. Although it is difficult to reliably forecast specific timing and pattern of expected regulatory changes, it was deemed reasonable that such future changes may require time to implement in order for the economy to absorb the shocks from energy price increases given the differences between prices of various energy sources in China and internationally.

We also took into account the Company's management expectations that subsidies from FOMC and Shanxi government would cease in 2021.

Starting from 2021 and until the end of the PSC term CBM price was forecasted to increase at the expected inflation rate of 3%.

CBM price forecast applied in cash flow projection is presented in the table below.

	CBM price (USD per thousand Cubic feet) Base Case
2010	6.25
2011	6.74
2012	7.27
2013	7.82
2014	8.41
2015	9.02
2016	9.46
2017	9.90
2018	10.36
2019	10.85
2020	11.34
2021	11.68
2022 and thereafter	Grows at 3% annually

Note: RMB/USD is assumed to be fixed at 6.8 and 1 cubic meter is equivalent to 35.3146667 Cubic feet.

Hence, 1 USD per thousand Cubic feet = 1 RMB per cubic meters/35.3146667/6.8*1000

Cost of revenue

Cost of revenue refers to the cost of outsourced contract – well drilling, well testing, pumping, repair and maintenance of the facilities and field infrastructure. The outsourcing work will be performed by Beijing Orion. Cost of revenue for vertical wells is estimated as USD 735 per well per month and it is expected to grow at 3% each year. New wells costs are assumed to be incurred in the middle of the year. Operating costs for multilateral drilling (“MLD”) wells are estimated to be USD 12,000, USD 9,270, USD 5,253, USD 3,605, USD 2,987, and USD 2,266 per well per month during 2010 and 2015, assuming new wells costs will be incurred in the middle of the year. Per management, the reduction in cost comes from the economies of scales, i.e. completion of more MLD wells is expected to shorten the time needed for dewatering. Costs are estimated to increase 3% on January 1 of each year from 2016 throughout the remainder of the PSC term.

Operating expenses

Operating expenses include general administrative expenses, depreciation and amortization as well as overhead. With reference to the actual general administrative expenses (USD 109,641 per month) incurred by OEI in 2009, they are assumed to be USD 110,000 per month in 2010 with annual growth of 3%. Depreciation expenses are derived from the annual capital expenditure of wells, facility and equipment with the corresponding depreciable lives. Amortization expenses refer to the amortization of the exploration cost spent before the Valuation Date. Compensation to farmers (MLD well: RMB 5,000 per well per year; Vertical well: RMB 2,000 per well per year) with inflation adjustment is added. Land recovery cost based on RMB 8,000 per well is required when the well has been depreciated fully. Gas gathering cost is assumed at USD 0.04/thousand cubic feet, with inflation adjustment (3% per annum). Such cost refers to the electricity consumption to extract the gas from the well and transport to the gas storage plant before transferring to the pipeline. In addition, OEI is required to pay CUCMCL an overhead based on the sum of cost of revenue, general administrative expenses, depreciation and amortization, compensation to farmers, land recovery cost, gas gathering cost (together “Cost of revenue and operating expense”), multiplied by a percentage under different level.

Cost of revenue and operating expense <i>(USD'000/year)</i>	Overhead <i>(%)</i>	Tier <i>USD'000</i>
0 to 5,000.	5	250
5,000 to 15,000.	3	450
15,000 to 24,000.	2	480
24,000 and up	1	

Government take and Taxes

As previously mentioned according to the PSA terms the Company is to pay royalty. However since production is not expected to exceed 1 billion m³ no royalty is effectively payable.

According to the articles 33 and 99 of the Enterprise Income Tax Law and Implementation Rules of the People's Republic of China, enterprises utilize resources listed in the "Enterprise Income Tax Incentive Catalogue for Comprehensive Utilization of Resources" as main raw materials to manufacture non-restricted or non-prohibited products which meet relevant national and industry standards. In such cases, 10% of the revenue derived from such product sales may be recognized as a deduction for enterprise income tax purposes. In addition, pursuant to the notice about Implementation of Preferential Policies of the State Council on Transition of Enterprise Income Tax, OEI enjoys a zero income tax in 2008 and 2009, 12.5% income tax rate in 2010-2012. Income after 2012 is subjected to 25% income tax rate. Furthermore, the subsidies from FOMC and Shanxi government are not subjected to income tax. According to the Management, no other taxes or levies are applicable and were not taken into consideration.

Capital expenditures

Capital expenditure includes the cost to build the MLD wells, vertical wells, provision of facility and equipment such as gas station to collect and store the gas from each well before transmitting to the pipelines. The costs are set out below:

	Seam 4 & 5/well	Seam 8 & 9/well	Per vertical well	Facility capital unit cost per incremental gross sales volume in million cubic feet
	<i>(USD'000)</i>	<i>(USD'000)</i>	<i>(USD'000)</i>	<i>(USD'000)</i>
2010	1,794	1,346	211	410
2011	1,667	1,249	Grow by 3% annually	Grow by 3% annually
2012	1,561	1,170		
2013	0	0		
2014	1,572	1,180		
2015	1,620	1,215		
2016	Grow by 3% annually			

During the projection period, the total number of MLD wells for seam 4 & 5, seam 8 & 9 and vertical wells constructed are 174, 26 and 296 respectively. Seam 8 & 9 are close to each other and hence the unit cost is lower than seam 4 & 5. Per discussion with the Management, for tax purpose, depreciable lives of MLD wells and vertical wells are assumed to be 10 years, even though the actual lives can be longer. Although capital expenditures for a MLD well are higher than for a vertical well, MLD wells have higher production rate and efficiency. We understand that gas production per MLD well is some 4 times higher than that of a vertical well, implying more cash flow generated at the beginning of the well's life.

The exploration costs incurred before the Valuation Date, per Management, is amortized over 3 years. Capital expenditures to replace existing equipment are added. Replacement capital expenditure of pumps (to pump the gas from the MLD well to the vertical well) for MLD well is USD 100,000/well with estimation of depreciable life of 10 years. Replacement capital expenditure of pumps (to pump the gas from the vertical well to the gas storage plant) for vertical well is USD 35,000/well with estimation of depreciable life of 10 years.

Working capital

Working capital is estimated at around 9% of gross revenue based on the 30 and 45 turnover days for accounts receivable and accounts payable respectively, cash requirement for one month operating expenses as well as for value added tax (“VAT”). VAT is based on 13% of sales with 30 days for refunding.

Discount rate

The discount rate for the valuation was developed through the application of the Capital Asset Pricing Model (“CAPM”), which is the most commonly adopted method of estimating the cost of equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (“Beta”) of times equity market premium in general. In estimating the Beta, we have observed the share price movement relative to overall equity market index of several listed comparable companies in the CBM industry set out below. Companies in the CBM industry are regarded generally to be subjected to the same systematic risks as the CBM Project. Small-company premium of 2.85% was added to cost of equity, in view of the size of operation. Such premium was extracted from the study of Ibbotson Associates.

Bloomberg Comparative Companies	Code
Green Dragon Gas Ltd	GDG LN
Arrow Energy Ltd	AOE AU
Eastern Star Gas Ltd	ESG AU
Molopo Energy Ltd	MPO AU

The cost of debt was ignored based on nearly all equity financing nature so indicated by the comparable companies. The computation of the estimated discount rate is shown as follows:

$$K_e = R_f + \beta(ERP) + SCP$$

Where

K _e	=	Required return on equity		
R _f	=	Risk-free rate of return	= 4.36%	The R _f is based on the yield on China international government long-term bond denominated in USD (maturity in 2027) as of the Valuation Date.
β	=	Beta	= 1.08	Beta is a measure of the relationship between industry risk and the aggregate market. It is based on the betas of the selected comparable companies.

ERP	=	Equity risk premium	=	8.21%	The ERP is the expected return of the market (R_m) in excess of the risk-free rate (R_f), or, is based on US equity risk premium (extracted from Morningstar Inc. SBBI Yearbook 2010) plus the market systematic risk in China.
SCP	=	Small-company premium	=	2.85%	The SCP is necessary due to the small size of not captured the CAPM. The SCP was selected based on companies in the 9th decile, as reported by Ibbotson Associates in its <i>Stocks, Bonds, Bills, and Inflation 2010 Yearbook: Valuation Edition</i> .

As such, our analysis concludes that a discount rate of 16% is considered appropriate for valuing the Company. This rate was concluded to be reasonably comparable to the rate of return, or “hurdle rate”, of 15% (after tax) representing current industry investment decision-making criteria that producers use to evaluate CBM economics versus competing capital investments.¹

Value indicated by the income approach

The above key inputs and assumptions result in the value indication for the CBM project of USD 375 million (rounded to nearest million).

Sensitivity Analysis

As part of our valuation a sensitivity analysis of value indication arrived at using the income approach was performed. We have tested sensitivity of the CBM Project value to changes of the following parameters:

- Discount Rate (“WACC”);
- Prices growth;
- Operating Cost;
- CBM Production Volume.

¹ The Economics of Powder River Basin Coalbed Methane Development, Prepared for U.S, Department of Energy, January 2006

Sensitivity to the parameters is graphically illustrated in the following charts.

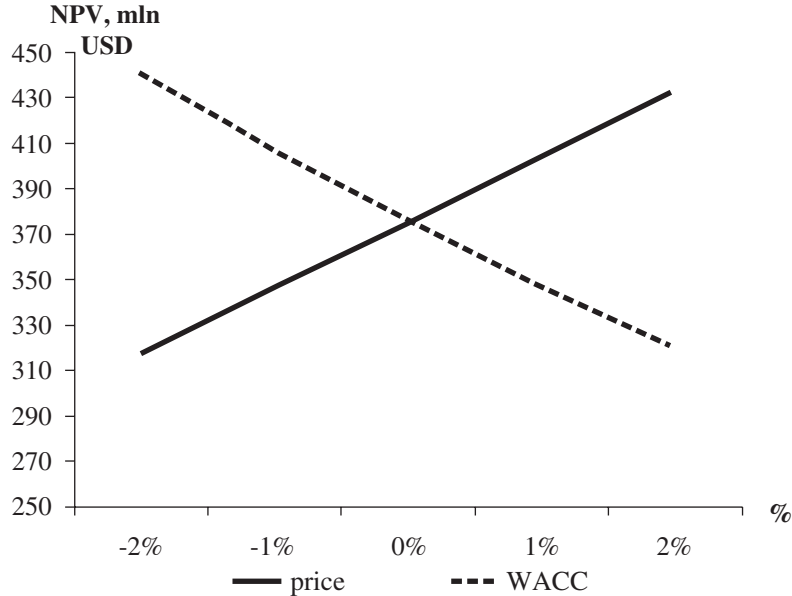


CHART A: Sensitivity to price and discount rate changes

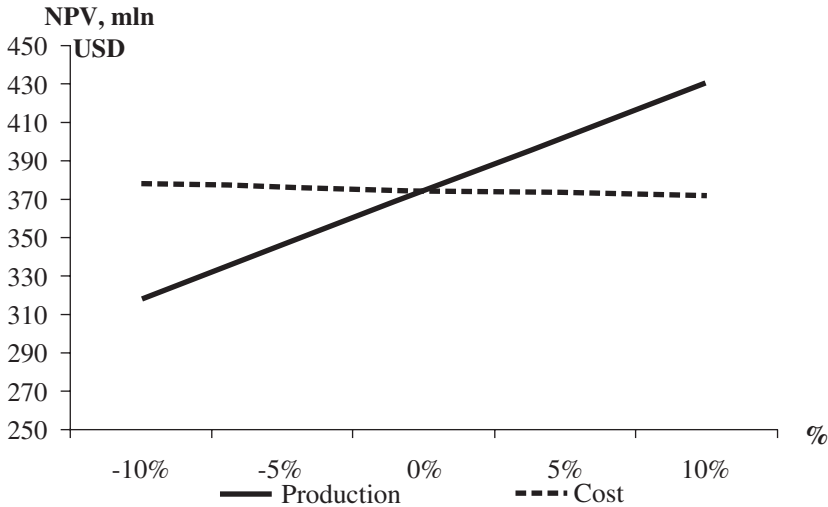


CHART B: Sensitivity to production volume and operating costs changes

The value is most sensitive to changes in price, production volume and discount rate. It is less sensitive to operating costs assumptions.

Market Approach

a) Guideline Transaction Method

Under the guideline transaction method, we identified 13 transactions in the CBM industry with disclosed transaction price and proved and probable reserve amount by the searching of public filing of listed companies over the past two years from the valuation date. For each of the transaction, the ratio of enterprise value to reserve amount (“Enterprise Value to Reserve Ratio” or “EV/R”) was calculated. EV is defined as market capitalization plus interest bearing debt less cash plus minority interest plus preferred stock. Comparable transactions are summarized below:

#	Target Company/location	Completion Date	Amount (USD Mn)	% sought	2P (bcf)	EV/R (USD/mcf)
1	CNX Gas Corporation/US	May 28, 2010	966.2	15.9	2,763	2.20
2	50% of Shizhuang South, Shizhuang North and Qinyuan PSCs/China	Aug 24, 2009	170	50	232.4	1.46
3	Net 13% stake in undeveloped Narrabri CSG project/Australia	Jul 15, 2009	141.9	13	567.7	1.92
4	35% stake in undeveloped Narrabri CSG project/Australia	Jul 14, 2009	242.6	35	567.7	1.22
5	40% Interest in Queensland’s Tipton West Coal Seam Gas Project/Australia	May 20, 2009	286	40	1159.8	0.62
6	Queensland CSG ATP 852P & ATP 806P/Australia	Apr 6, 2009	653	100	492.2	1.33
7	Lacerta CBM project in Queensland	Feb 2, 2009	778.8	100	442.3	1.76
8	Camden CSG project; Hunter CSG development/Australia	Dec 24, 2008	127.9	100	39.9	3.2
9	New South Wales Gloucester Basin Coalseam Gas Assets (PEL 285)/Australia	Dec 19, 2008	246.8	100	165	1.50
10	50% interest in undeveloped CBM to LNG Project/Australia	Oct 30, 2008	5,941	50	4,552	2.63
11	Queensland coalseam gas assets: LNG export supply projects; southern Asia CSG properties/Australia	Pending	4,048.5	100	3,541.3	1.14
12	Queensland Gas/Australia	April 6, 2009	3,322.1	91.4	2,481.9	1.46
13	Anglo American’s 51% Stake in Producing Dawson CSG Assets in Queensland’s Browse Basin/Australia	July 6, 2010	24.3	51	89.5	0.53
	Average					1.61
	Median					1.46

The transaction analysis indicates a range of EV/Reserves multiples of 1.3-1.8 USD/mcf (being transactions #2, 4, 6, 7, 9 and 12). It compares reasonably with the Fair Market Value estimated using the income approach which corresponds to a multiple of 1.58 USD/mcf.

b) *Guideline Company Method*

Another methodology employed in the market approach is the Guideline Company Method (GCM), where financial ratios of comparable companies are analyzed to determine a value for the subject property. This method also employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject property. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter. We have identified and described four comparable companies which are operating in the CBM industry:

- Green Dragon Gas Ltd. explores for and produces coal bed methane in China.
- Arrow Energy Ltd. is an oil and gas exploration company with exploration activities in Australia.
- Eastern Star Gas Limited explores for natural gas in Australia. The Company holds license to explore for coal bed methane in Victoria and New South Wales.
- Molopo Energy Limited is a resource company involved in the upstream energy industry. The Company develops coal bed methane gas projects in Queensland and New South Wales.

We collected the enterprise value (EV) and 2P gas reserve amount from publicly available research and data from the Bloomberg. In order to provide consistency of comparison with the CBM Project which had minimal working capital and fixed assets, EV of the guideline companies was adjusted to exclude working capital and fixed assets (EV adjusted) as of the latest financial reporting. As presented in Exhibit D, we calculated ratio of EV adjusted to 2P gas reserves of above four comparable companies.

Guideline Companies	EV adjusted/2P reserves Latest Fin Yr (In USD M/bcf)
Green Dragon Gas Ltd	2.49
Arrow Energy Ltd	0.97
Eastern Star Gas Ltd	0.62
Molopo Energy Ltd	2.07
Average	1.54
Median	1.52

Guideline companies analysis indicates a wider range for the ratio of EV/Reserves than that for the transactions analysis. However the average and median of the EV/Reserves ratio for the best available guideline companies of 1.54 USD/mcf and 1.52 USD/mcf, respectively, fall within the range identified by the transactions analysis of 1.3-1.8 USD/mcf and compares reasonably with the ratio of 1.58 USD/mcf obtained using the income approach.

Based on the above the Fair Market Value of the CBM Project of USD 375 million determined using the income approach was concluded to be reasonable.

Scenario Analysis

A scenario (Management Case) was developed by the Management with consideration of the relationship between prices of oil, gasoline, compressed natural gas (CNG), and CBM.

Using the forecast of international oil prices (WTI) as a starting point, the Management projected retail gasoline prices in Shanxi region. The CNG retail prices were then forecasted based on the gasoline price forecast and taking into account the announcement made by NDRC that in two years average retail prices of CNG in China are expected to increase from about 60% of retail gasoline prices (for equal energy value) to about 75%. Finally, CBM prices were estimated as CNG prices less retail margin, transport and compression costs.

Specific inputs used as part of the CBM calculations were as follows.

- Gasoline prices in Shanxi region were projected to grow in line with the expected WTI price from the current level of RMB 6 per liter;
- The discount of retail CNG prices to retail gasoline prices in Shanxi region was projected to decrease from 50% in 2010 to 38% in 2011 and 25% in 2012 and to remain on that level thereafter;
- Gas transportation and compression costs were estimated to total to USD 5.8/mcf in 2010 and were projected to grow with inflation thereafter;
- CNG retail margin was projected as 15% of retail price;
- Wellhead CBM price was estimated as retail CNG price less retail margin less transportation and compression costs.

Based on the above, unit selling price increases from USD 7.3/mcf in 2010 to USD 14.7/mcf in 2016, equivalent to CAGR of 12%. Starting in 2017, unit prices are escalated at 3% (an inflation factor) on January 1 of each year throughout the remainder of the PSC term. It is expected that effective in 2021, FOMC and Shanxi government subsidies will cease.

The price assumption table is presented below.

	CBM price (USD per thousand Cubic feet) Management Case
2010	6.25
2011	7.70
2012	9.04
2013	10.54
2014	12.28
2015	12.95
2016	13.62
2017	14.03
2018	14.45
2019	14.87
2020	15.32
2021	15.78
2022 and thereafter	Grows at 3% annually

Note: RMB/USD is assumed to be fixed at 6.8 and 1 cubic meter is equivalent to 35.3146667 Cubic feet.

Hence, 1 USD per thousand Cubic feet = 1 RMB per cubic meters/35.3146667/6.8*1000

Other assumptions were assumed to be the same as in the valuation Base Case. Under the Management Case Scenario, the NPV of the CBM Project was estimated at USD 582 million (rounded to nearest million).

Conclusion of Value

Based upon the investigation and analysis outlined above, it is our opinion that the fair market value of the CBM Project as of the Valuation Date is reasonably represented by the amount of UNITED STATES DOLLAR THREE HUNDRED AND SEVENTY FIVE MILLION (USD 375,000,000).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED

Alexander N. Lopatnikov
Global Extractive Industries Leader

Ricky Lee
Senior Vice President and Director

Note: Mr. Lopatnikov took the role of the competent evaluator under Chapter 18 of the Listing Rules for this valuation. Since joining American Appraisal Group in 1997, Mr. Lopatnikov was involved in numerous projects of providing valuation opinion and advisory services to major international and Russian extractive and energy companies including Norilsk Nickel, Severstal, ENRC, Polymetal, Petropavlovsk, Evaz, Mechel, RUSAL, BP, LUKOIL, Shell, Gaspromneft, CNPC, SOCAR, KazMunaiGas, Qiao Xing and others. He is the member of The Canadian Institute of Mining, Metallurgy and Petroleum (CIM) and the Royal Institution of Chartered Surveyors (RICS) and is the Chairman of the Professional Valuation Group of RICS for Russia and CIS and one of the leaders of American Appraisal Global Extractive Industries Team.

Mr. Lee has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over ten years and is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

Assuming there being no change to the number of Shares in issue saved for the issue of the Placing Shares from the Latest Practicable Date to the date of Completion, the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares upon Completion; (c) upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares and Incentive Shares; and (d) upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares upon Completion and assuming full conversion of the Convertible Bonds will be as follows:

(a) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
25,000,000,000	Shares	250,000,000.00
<hr/> <hr/>		<hr/> <hr/>
<i>Issued and fully paid:</i>		
6,687,957,704	Shares	66,879,577.04
<hr/> <hr/>		<hr/> <hr/>

(b) Upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares only

<i>Authorised:</i>		<i>HK\$</i>
25,000,000,000	Shares	250,000,000.00
<hr/> <hr/>		<hr/> <hr/>
<i>Issued and fully paid:</i>		
6,687,957,704	Shares	66,879,577.04
4,415,000,000	Placing Shares	44,150,000.00
1,560,000,000	Consideration Shares	15,600,000.00
<hr/>		<hr/>
12,662,957,704		126,629,577.04
<hr/> <hr/>		<hr/> <hr/>

(c) **Upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares and Incentive Shares only**

<i>Authorised:</i>		<i>HK\$</i>
25,000,000,000	Shares	250,000,000.00
<hr/> <hr/>		
<i>Issued and fully paid:</i>		
6,687,957,704	Shares	66,879,577.04
4,415,000,000	Placing Shares	44,150,000.00
1,560,000,000	Consideration Shares	15,600,000.00
312,000,000	Incentive Shares	3,120,000.00
<hr/>		
12,974,957,704		129,749,577.04
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(d) **Upon completion of Placing (assuming all Placing Shares were issued) and immediately after the allotment and issue of Consideration Shares and assuming full conversion of the Convertible Bonds**

<i>Authorised:</i>		<i>HK\$</i>
25,000,000,000	Shares	250,000,000.00
<hr/> <hr/>		
<i>Issued and fully paid:</i>		
6,687,957,704	Shares	66,879,577.04
4,415,000,000	Placing Shares	44,150,000.00
1,560,000,000	Consideration Shares	15,600,000.00
1,560,000,000	Conversion Shares	15,600,000.00
<hr/>		
14,222,957,704		142,229,577.04
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3. DISCLOSURE OF INTERESTS

(a) **Directors' Interests in Shares and Underlying Shares**

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures (if any) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Long positions in the Shares

Name of Director	Nature of interest	Number of Shares held
Kong Siu Tim	Beneficial owner	40,500,000
Dai Xiaobing	Beneficial owner	330,000,000
Wang Ziming	Interest of controlled corporation	5,000,000
Wan Tze Fan Terence	Beneficial owner	30,660,000

(ii) Long positions in share options of the Company

Name of Director	Number of options held	Date of grant	Exercise period	Exercise price per share HK\$	Nature of interest
Kong Siu Tim	17,000,000	22.08.2007	22.08.2007–05.03.2012	0.375	Beneficial owner
	5,000,000	22.04.2010	22.04.2010–05.03.2012	0.390	
Wan Tze Fan Terence	10,000,000	22.08.2007	22.08.2007–05.03.2012	0.375	Beneficial owner
	3,000,000	21.08.2008	21.08.2008–05.03.2012	0.180	
Ni Zhenwei	4,000,000	22.08.2007	22.08.2007–05.03.2012	0.375	Beneficial owner
	2,000,000	21.08.2008	21.08.2008–05.03.2012	0.180	
	2,000,000	22.04.2010	22.04.2010–05.03.2012	0.390	
Wong Kwok Chuen Peter	4,000,000	22.08.2007	22.08.2007–05.03.2012	0.375	Beneficial owner
	2,000,000	21.08.2008	21.08.2008–05.03.2012	0.180	
	2,000,000	22.04.2010	22.04.2010–05.03.2012	0.390	

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, the following persons, not being a Director or chief executive of the Company, had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, the details of which are set out below:

Long position in the Shares

Name of shareholder	Nature of interest	Number of shares held
Hong Chang China Limited (<i>Note</i>)	Beneficial owner	792,795,650
Hong Chang Group Limited (<i>Note</i>)	Interest of controlled corporation	792,795,650
Xing Xiao Jing (<i>Note</i>)	Beneficial owner	41,000,000
	Interest of controlled corporation	792,795,650
Chang Yim Yang	Beneficial owner	340,000,000
Chen Hua	Beneficial owner	390,000,000

Note: 792,795,650 shares are owned by Hong Chang China Limited, a company wholly owned by Hong Chang Group Limited which in turn is wholly and beneficially owned by Ms. Xing Xiao Jing.

Saved as disclosed above in this section, as at the Latest Practicable Date, the Company has not been notified of any other persons (other than the Directors or chief executive of the Company) who had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as required to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Enlarged Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors directly or indirectly, had any interest in any assets which had since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

There is no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors were materially interested and which was significant to the business of the Enlarged Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Enlarged Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

The Company has retained Grandall Legal Group (Beijing), a PRC law firm regulated by the Beijing Judicial Bureau (北京司法局), as its PRC legal counsel to conduct legal due diligence and to advise it on matter of PRC law on the Acquisition.

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
BDO Limited	Certified public accountants
Netherland, Sewell & Associates, Inc.	Independent competent person (as defined in the Listing Rules)
American Appraisal China Limited	Independent valuer
Grandall Legal Group (Beijing)	a PRC law firm regulated by the Beijing Judicial Bureau

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, all the experts above did not, directly or indirectly, had any interest in any assets which had since 31 December 2009 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the Latest Practicable Date:

1. the Acquisition Agreement;
2. the Placing Agreement;
3. the shares subscription agreements and warrant subscription agreements dated 20 April 2010 entered into between the Company, the share subscribers and the warrant subscribers who are Independent Third Parties pursuant to which the share subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 550,000,000 shares at a price of HK\$0.22 each and the warrant subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue a total of 500,000,000 warrants at the issue price of HK\$0.01 each respectively. A conditional share placing agreement and conditional warrant placing agreement were subsequently entered into between the Company and President Securities (Hong Kong) Limited on 21 April 2010 for the placing of up to an aggregate of 200,000,000 new Shares and 100,000,000 warrants to the places at a price of HK\$0.22 each and HK\$0.01 each respectively;
4. the subscription agreement dated 26 March 2010 entered into between the Company and the subscribers who are Independent Third Parties pursuant to which the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 874,000,000 Shares at a price of HK\$0.198 each;
5. the assignment dated 7 September 2009 entered into between Bi Tuo Yuan Technology (Shenzhen) Co. Ltd. (a wholly-owned subsidiary of the Company) and Shenzhen Feng Yuan Information Consultants Limited pursuant to which the Group acquired the mining right of the Yanjiawan oil exploitation project located at Shaanxi Province, PRC at a consideration of approximately HK\$36,180,000;
6. the sale and purchase agreement dated 11 May 2009 entered into between Elite Ascend Holdings Limited (a wholly-owned subsidiary of the Company) and National Top Holdings Limited pursuant to which the Group disposed of the entire issued share capital of Excellent Century Limited (which owned 72% equity interest in the operation of refilling stations supplying natural gas and liquefied petroleum gas for vehicle use in Korla City, Xinjiang, the PRC) at a consideration of HK\$21,000,000;
7. the subscription agreement dated 30 April 2009 and entered into between the Company as issuer and Hong Chang Group Limited as subscriber in relation to the subscription of the 2% coupon convertible bonds in principal amount of HK\$25 million due in 2013 at its face value;

8. the acquisition agreement dated 13 January 2009 entered into between the Company and Ms. Li Xu Hong in relation to the acquisition by the Group of the entire issued shares of Toppace Limited which would be interested in 90% economic benefits in an oil exploitation contract relating to the exploitation of oil and gas located in Ganquan County, Shaanxi Province, PRC on completion at a consideration of HK\$59,900,000; and
9. the disposal agreement dated 4 November 2008 entered into between Oriental Energy Ltd. (a 90%-owned subsidiary of the Company) and National Top Holdings Limited in relation to the disposal by the Group of the entire issued shares of Statemoon Limited (which holds natural gas pipeline network in Korla, Xinjiang, PRC) at a consideration of HK\$15,000,000.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, to the best of the Director's knowledge, information and belief and based on information provided by the Vendor, neither the Target Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Target Group as at the Latest Practicable Date.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the Company's head office and principal place of business in Hong Kong at Suite 3707-3708, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (c) the published annual reports of the Company for each of the two financial years ended 31 December 2008 and 2009;
- (d) the published interim report of the Company for the six months ended 30 June 2010;
- (e) the accountants' reports on Target Company and OEI as set out in Appendix II to this circular;

- (f) the letter from BDO Limited in relation to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (g) the Competent Person's Report and the risk analysis addendum prepared by the Competent Person as set out in Appendix IV to this circular;
- (h) the Valuation Report as set out in Appendix V to this circular;
- (i) the letter of consent referred to in the paragraph headed "Qualifications and Consents of Experts" in this appendix; and
- (j) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and 14A of the Listing Rules which has been issued since 31 December 2009 (being the date of the latest published audited accounts).

11. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is Suite 3707-3708, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (c) The company secretary of the Company is Mr. Wan Tze Fan Terence who is a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular and accompanying form of proxy shall prevail over the Chinese text.

NOTICE OF THE SGM



Sino Oil and Gas Holdings Limited 中國油氣控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 702)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Sino Oil and Gas Holdings Limited (the “**Company**”) will be held at Macau Jockey Club, 1/F., Function Room, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 13 October 2010 at 11:00 a.m. to consider and, if thought fit (with or without amendments), pass the following as ordinary resolution of the Company:

1. “**THAT**

- (A) the acquisition of the entire issued share capital of Power Great Limited by the Company on the terms and conditions of the sale and purchase agreement dated 16 July 2010 entered into among Ocean Glory Limited as vendor, the Company as purchaser, Mr. Yang Luwu, Major Port Limited, ORION Energy Holding, Inc. and Petromic Corporation as guarantors as amended by the supplemental agreement dated 24 September 2010 entered into among the same parties (together the “**Acquisition Agreement**”) (a copy of which has been produced to the meeting marked “**A**” and initialled by the Chairman of the meeting for the purpose of identification), and all transactions contemplated thereunder including without limitation to the generality of the foregoing, the issue by the Company pursuant to the Acquisition Agreement of:
- (i) 1,560,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Consideration Shares**”) at the issue price of HK\$0.50 per Consideration Share;
 - (ii) convertible bonds with the principal amount of HK\$780,000,000 (the “**Convertible Bonds**”) entitling the holders thereof to convert the principal amount thereof into ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Conversion Shares**”) at an initial conversion price of HK\$0.50 per Conversion Share (subject to adjustment) and the issue and allotment of the Conversion Shares upon an exercise of the conversion rights attaching to the Convertible Bonds; and
 - (iii) 312,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Incentive Shares**”) at the issue price of HK\$0.50 per Incentive Share

be and are hereby approved; and

NOTICE OF THE SGM

- (B) the directors of the Company be and are hereby authorised to exercise all the powers of the Company and take all steps as might in their opinion be desirable, necessary or expedient in relation to the issue of the Convertible Bonds and the issue and allotment of the Consideration Shares, the Conversion Shares and the Incentive Shares and otherwise in connection with the implementation of the transactions contemplated under the Acquisition Agreement including without limitation to the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements.”

By order of the Board
Sino Oil and Gas Holdings Limited
Wan Tze Fan Terence
Company Secretary

Hong Kong, 27 September 2010

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if the member is a holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority, must be duly completed and signed in accordance with the instructions printed thereon and deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and in such event, that form of proxy shall be deemed to be revoked.

As at the date of this notice, the Board comprises four executive directors namely Mr. Kong Siu Tim, Mr. Dai Xiaobing, Mr. Wang Ziming and Mr. Wan Tze Fan Terence; one non-executive director namely Mr. Ni Zhenwei and three independent non-executive directors namely Dr. Di Lingjun, Mr. Wong Kwok Chuen Peter and Dr. Wong Lung Tak Patrick.