Orpheus Energy Limited

ABN 67 121 257 412

Annual Report

for the year ended

30 June 2012

Contents

Corporate Information

Orpheus Energy Limited
ACN 121257412

This annual report covers Orpheus Energy Limited as an individual entity. The Company's functional and presentation currency is Australian Dollars AUD ($).

A description of the Company's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 7 to 18. The directors' report is not part of the financial report.

Directors in office at date of report

Wayne Mitchell (Chairman)
David Smith
Wesley Harder
Anthony King

Company Secretary

David Smith (appointed 17 July 2012)
Nathan Bartrop (appointed 1 April 2011 – resigned 16 July 2012)

Registered office and Principal place of business

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44 Miller Street
North Sydney NSW 2060

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F 61 2 9929 6820

Share Register

BoardRoom Pty Ltd
Level 7, 207 Kent Street
Sydney, SW 2000
T 61 2 9290 9600
F 61 2 9279 0664
www.boardroomlimited.com.au

Solicitors

Whittens
Eurotower
Level 5, 137-139 Bathurst Street
Sydney NSW 2000

Auditors

Hall Chadwick
Level 29
31 Market Street
Sydney NSW 2000

Summary of Activities

South Kalimantan

Orpheus took over the management of the ADK mine from 1 April, 2012, with production planned at 50,000 tonnes per month (tpm). From 1 April 2012 to the 30 June 2012, 33,453 tonnes of coal were purchased locally sold on a trading basis, with profits of AUD$135,000 attributable to Orpheus. Stock on hand at year end was 11,322 tonnes.

Additional sales contracts for 67,700 tonnes are in hand, with 27,700 tonnes shipped during July, from both mine production and trading. The remaining 40,000 tonnes is expected to be shipped during September. Further contracts are under negotiation, and the Company is monitoring world market prices and supply constraints.

Production at ADK has been delayed as a result of flooding caused by unseasonal rains in July and August, and the Ramadan holidays. However, in September we expect to resume normal mining activities.

Another two tenements in South Kalimantan are now under title due diligence review. The Company expects to be able to confirm title and details shortly, with both projects meeting the Company's project development criteria.

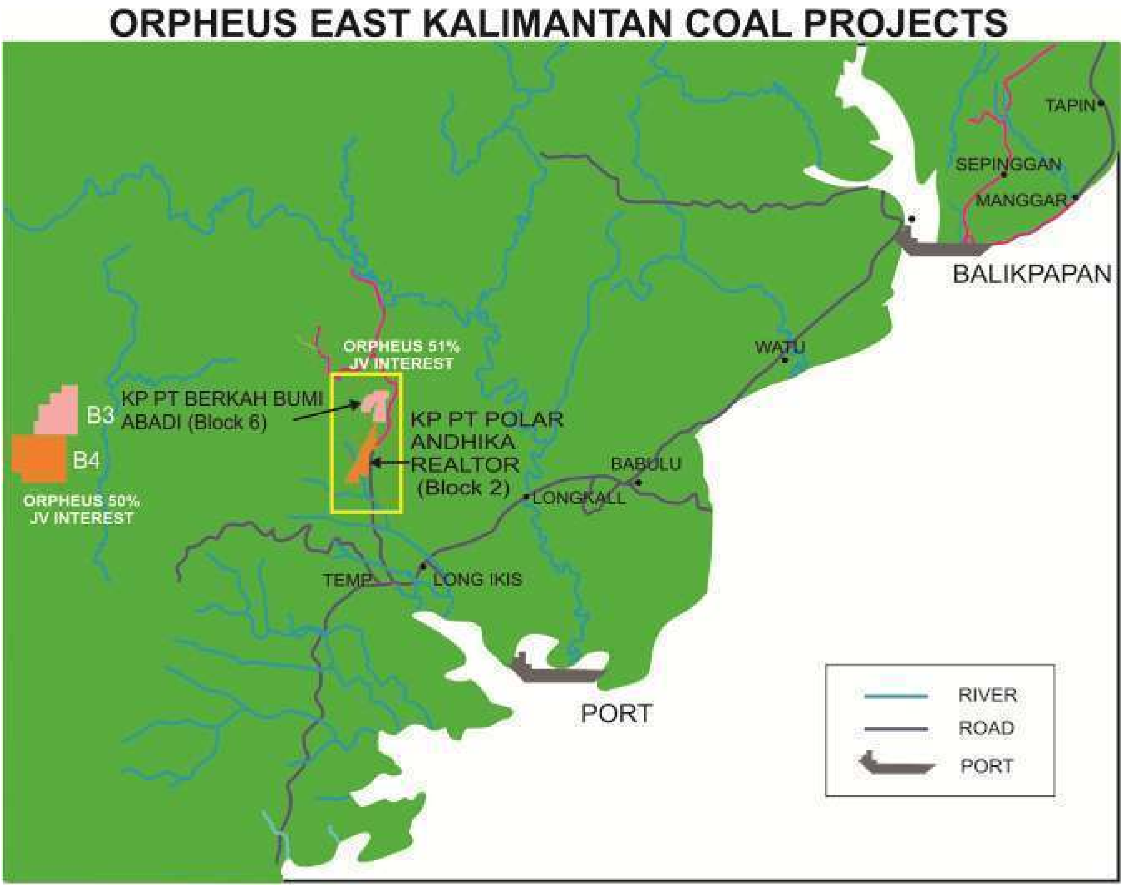
South Kalimantan Area Map

East Kalimantan

We recently concluded an agreement with a mining contractor to pay Orpheus a net royalty of US$8/t on all coal mined and sold from the B26 areas. Mining equipment was mobilized during July and coal should be mined sometime in September. Initial mining will be in B2, where a production licence has been issued, and as coal reserves are depleted, the contractor will move to B6.

Mining is expected to be at the rate of 30,000 tpm, earning Orpheus US$240,000 monthly. A current mine life of seven years is expected.

In addition to our B26 concessions in East Kalimantan, we have secured two additional blocks (B34) in the same area, about 60 km to the West. We currently have an exploration target of 5-10 million tonnes for B34, and plan an exploration program to commence by September 30 of this year.



Papua

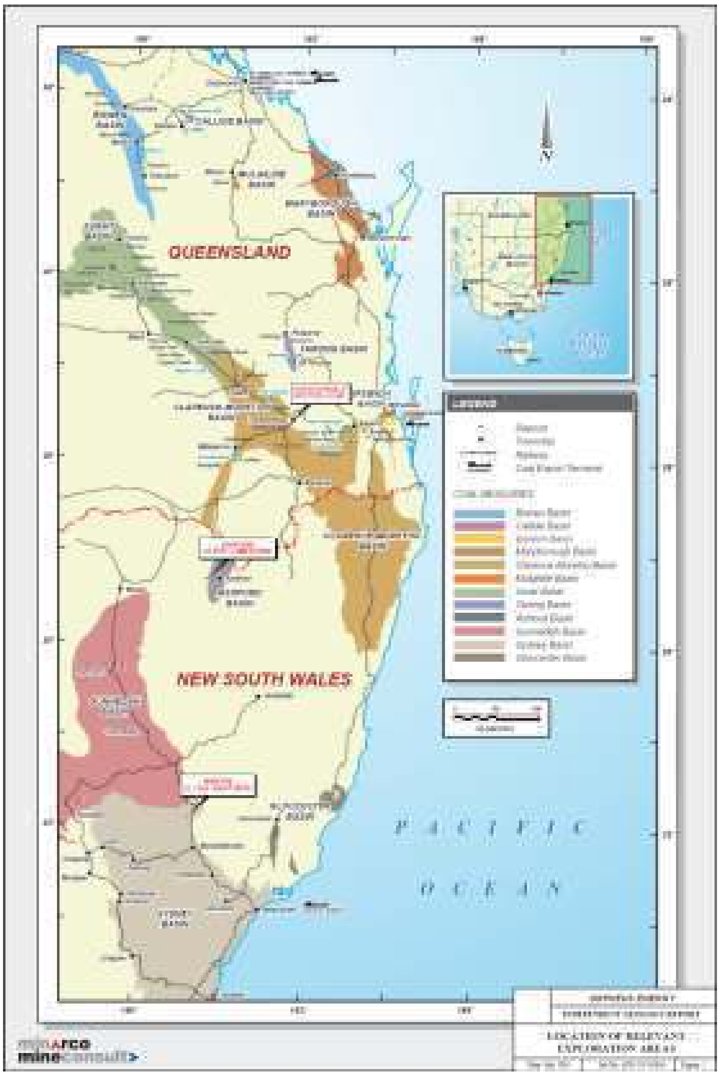
Orpheus has a 50% interest in four prospective blocks in Papua, under JV with Mega Coal International. We view Papua as an exciting and highly prospective location for large coal reserves, however, the area is very much greenfields. Field work and exploration activities continue, following early coal discoveries

Australian assets

The Australian assets are a secondary focus for the board and management of Orpheus. Our plan is to carry out preliminary drilling, so we can quickly evaluate their commercial viability. We will not commit unnecessary and unduly risky expenditures on these assets, but will ensure they remain legal Company assets.

- Hodgson Vale: proximate to other SE Queensland producing coal mines, an initial drilling program to explore for coal in the southern zone of EPC 145 will be undertaken. We will then conduct resource assessments and project evaluation on the Project;[i]

- Ashford: with an exploration target of 30-40Mt of ground calcium carbonate, a drilling program to outline zones of high quality limestone in EL6511 will be undertaken.
- Wingen: lying just north of Unimin's operating bentonite mine, a drilling program to explore for high quality bentonite on ELA3657 will be undertaken.



Cautionary Note:

This release may contain forward-looking statements that are based upon management's expectations and beliefs in regards to future events. These statements are subjected to risk and uncertainties that might be out of control of Orpheus Energy Limited and may cause actual results to differ from the release. Except as required by ASX Listing Rules and other legal obligations, Orpheus Energy Limited takes no responsibility to make changes to these statements to reflect change of events or circumstances after the release.

Competent Person's Statement:

The following statements apply in respect of the information in this announcement that relates to exploration results. The information is based on, and accurately reflects information compiled by Wes Harder, who is a Member of the Australasian Institute of Mining and Metallurgy. Wes Harder is a Director of Orpheus Energy Limited and is a Geologist who has sufficient experience which is relevant to the style of coal mineralisation and type of deposit under discussion and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Wes Harder consents to the inclusion in the report of the material, based on his information, in the form and context in which it appears.

* JORC- Exploration Target
It is common practice for a company to comment and discuss its exploration in terms of target and size type. The information in this report relating to exploration targets should not be misunderstood or misconstrued as an estimate of mineral resources or ore reserves. The potential quantity and grade is conceptual nature, there has been insufficient work completed to define a mineral resource and it is uncertain if further exploration will result in the determination of a mineral resource.

Directors' Report

The Board of Directors of Orpheus Energy Limited submits this report in respect of the financial year ended 30 June 2012.

Directors

The names of directors in office during or since the end of the financial year are:

Mr Wayne Mitchell, Chairman
Mr David Smith, Executive Director (appointed 18 August 2011)
Mr Wesley Harder, Director & Exploration Manager
Mr Anthony King, Non-executive Director

Details of the qualifications and experience of the directors in office during the financial year and until the date of this report are as follows:

Directors in office at the date of this report:

Wayne Mitchell Executive Chairman, CEO and Managing Director	Mr Wayne Mitchell is a qualified accountant with over 30 years of extensive senior management experience in the natural resource sector; both in Australia and in Southeast Asia. In the early 1970's, Mr Mitchell and two partners were the initial promoters and developers of Thailand's major zinc deposit located at Mae Sot, Northern Thailand. This resource is now owned and operated by a Thai public company; Padaeng Industry Company Ltd. Mr Mitchell specializes in the areas of financial planning, fund raising and project evaluation. He is also a past Chairman of listed company Central Victorian Gold Mines N.L and a director of Diversified Mineral Resources NL where he initiated and led the project team for the Burton Downs Coal project taken over by Portman Mining before being sold for more than $200 million. Mr Mitchell was a co-founder and chairman of Coalworks, recently acquired by Whitehaven Coal.
David Smith	Mr Smith is an investment banker of 15 years' experience, and was most recently at BBY Limited where he was Head Equity Capital Markets and a member of the group's Executive and Risk Management Committee. Mr Smith joined BBY in 2004 and since that time, BBY's Corporate Finance division raised more than $4 billion for its corporate clients. He has extensively advised corporate clients in the bulk commodities sectors of coal and iron ore. In 2008, the BBY Corporate Finance division won the "Best Corporate Deal of the Year" award at the Australian Stockbrokers Foundation Awards for a coal sector client. Mr Smith maintained a Top 10 ranking in the annual SMH Age East Coles Investment Banking surveys from 2008-2010. Prior to joining BBY, he worked at Ord Minnett and then JPMorgan Chase. Mr Smith was a co-founder and a former Executive Director of Coalworks Limited which was recently acquired by Whitehaven Coal.

Directors' Report (continued)

Directors in office at the date of this report (continued):

Wesley Harder Director and Exploration Manager	Mr Harder is a former coal analyst with Jackson Ltd, stockbrokers, and has also worked with a number of other stockbrokers, including Ord Minnett and Frank Renouf. He has also worked as a field exploration geologist for fifteen years in Australia and its near neighbours including Sumatra and Irian Jaya in Indonesia, mainland Papua New Guinea and New Britain Island, many parts of the Solomon Islands and Fiji. In Australia he worked in New South Wales, Queensland, The Northern Territory and Tasmania. He has worked in tropical and arid environments searching for a range of mineral commodities including coal, gold, copper and uranium for companies including Newmont Mining Inc., Placer Prospecting Ltd, Pancontinental Mining Limited and Gujarat NRE Coking Coal Ltd. He was a Founding Director & CEO of Zinico Resources NL and its successors for 5 years and Mr Harder was a founding shareholder of Coalworks. Mr Harder is also a director of Commissioners Gold Limited (ASX:CGU).
Anthony King	Mr King is a professional Metallurgist and qualified geologist with over 20 years operational and technical experience within the resource industry. A graduate of the University of Cape Town South Africa, Mr King worked for Cominco in the mid 70s as geologist in the field carrying out exploration programs and later held senior positions as Company Chemist for Ardlethan Tin, Gold Copper Exploration PTY LTD and Great Northern Mining Corporation Ltd. During this time he completed another degree in Earth Science at Macquarie University, Sydney and in 1987 established Tableland Analytical, of which he is principal providing mill, processing design, assay and metallurgical services to the resource industry. Mr King is a former director of Allegiance Mining NL where he was General Manager – Operations. He has also been involved in design and construction of coal washing plants and has participated in a wide variety of resource projects.

Company Secretary

Nathan Bartrop (Appointed 1 April 2011 - Resigned 16 July 2012)

Mr Bartrop is a Chartered Secretary and associate member of Chartered Secretaries Australia. His previous role was as Assistant Company Secretary at Mirabella Nickel Limited, a nickel producer in Brazil. Prior to this, he worked at ASX for 2 years as a Listings Adviser in Perth which involved the provision of interpretation and advice to existing and prospective listed entities and their advisers, in relation to the application of the ASX Listing Rules. Mr Bartrop also has previous experience working in litigation.

David Smith (Appointed 17 July 2012)

Mr Smith, a director of the Company was appointed interim Company secretary on 17 July 2012 until an appropriate replacement for Mr Bartrop is appointed.

Directors' Report (continued)

Directors' Interests

Relevant interests of the directors in the shares, options or other instruments of the Company at:
the reporting date (30 June 2012) and the date of this report are:

	Ordinary Shares Held		Options Held			
	Directly	Indirectly	No. of Options	Grant Date	Exercise Price	Expiry Date
Director						
Wayne Mitchell	1,516,828	-	3,000,000	30/11/2010	$0.20	30/09/2014
David Smith	1,500,000	6,841,000	1,000,000	30/11/2010	$0.20	30/09/2014
			500,000	15/09/2011	$0.20	30/09/2014
Wesley Harder	763,341	-	1,500,000	30/11/2010	$0.20	30/09/2014
Anthony King	327,242	-	1,000,000	30/11/2010	$0.20	30/09/2014

Directors' Meetings

The Company held 9 Directors' meetings during the year and 4 Audit and Risk Committee meetings. The attendances of the directors in office during the year at meetings of the Board were:

	Board of Directors		Audit Committee	
Director	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Wayne Mitchell	9	9	4	4
David Smith	9	9	-	-
Wesley Harder	9	9	-	-
Tony King	9	8	4	4

Directors' Report (continued)

Principal Activities

Since successfully re-listing on ASX on 17 August, 2011, the principal activities of the group are acquiring, exploring and developing coal projects in Indonesia and Australia.

Review of Operations

During the year the Company raised capital through a public offering and was readmitted to listing on Australian Securities Exchange on 17 August 2011. The Company has continued to evaluate and acquire equity interests in several coal projects and one operating coal mine in Indonesia. Towards the end of the financial year the Company recognised its first revenue from Indonesian coal sales.

Kintap ADK Project:

In March 2012, Orpheus secured a 50% interest in Orpheus's JV partner PT Mega Coal's ADK operating coal mine located in South Kalimantan, Indonesia. The ADK mine had been in production since April 2011 with 95,000 tonnes shipped between December 2011 and February 2012.
There is existing infrastructure in place with port allocation ~15km away secured, before being loaded onto barges for shipment. Coal mined from the ADK mine to date has an average calorific value of 5,400 Kcal/Kg (ADB), and is low in ash (6%) and sulphur (0.4%).

An initial 1,000m, nine-hole exploration programme was completed in April 2012 and all holes intersected coal and confirmed the existence and consistent quality of the coal along strike with that coal currently being mined. A second drilling program will commence soon to provide additional data to delineate a JORC coal resource.

On 26 April 2012, Orpheus announced four coal barges carrying a total of approximately 33,453 tonnes of ADK thermal coal had been successfully shipped out of the SSDK port and sold to an Indonesian trading group. Orpheus is entitled to 50% of the net profits from the ADK coal mine and trading operations. The entitlement of the company from these trading sales amounted to $135,000 which was booked in the last quarter.

Orpheus holds additional sales contracts for 67,700 tonnes and further contracts are under negotiation. An updated mine plan for the ADK mine will soon be implemented, to start following the unseasonal weather currently being experienced in Indonesia, with a planned production rate of 50,000 tonnes per month at the project.

B26 project:

Located ~100km from the regional centre of Balikpapan in East Kalimantan, Indonesia, and ~26km from a barge loading facility, the B26 mining operation is targeting a semi-soft coking and thermal coal production split of 15% and 85% respectively.

Orpheus had been finalising negotiations on its B26 project and on 2 July 2012, announced it had executed a life of mine Royalty Agreement with Indonesian mining contractor PT Debbia Mining. Under the agreement, Orpheus will receive US$8 per tonne on all coal sales at the B26 project and is not responsible for any capital, operating or marketing expenses.

Mining equipment is already mobilised at site and B2 is scheduled to re-commence production in late August, targeting a rate of 30,000 tonnes per month.

With the announcement of the B26 royalty agreement, Orpheus' plan to undertake further exploration at the adjacent B6 tenement to delineate additional coal resources is no longer required, thereby saving costs for Orpheus. The B6 tenement is now in the final stages of securing its Exploitation IUP allowing the contractor to move the mining operation from B2 to B6 according to the updated mine plan, most probably towards the end of 2012.

Directors' Report (continued)

B34 Project:

Located ~60km west of B26, the B34 project comprises ~8,000 hectares. There is currently an exploration target of 5-10 million tonnes, an exploration program plan has been completed and drilling is expected to commence by September 2012.

It is ultimately planned for B34 coal to be mined using the same road/port infrastructure as for B26.

Papua:

Located within 40km from the coast, Orpheus has a 50% interest in four highly prospective blocks in Papua. Field work and exploration program planning continues to identify areas of coal resources.

Australian Projects:

Orpheus is very much focused on developing its portfolio of Indonesian coal projects. However, the company remains committed to exploration programs for its three Australian projects.

At Ashford (limestone project), Hodgson Vale (coal project) and Wingen (bentonite project), drilling programs to delineate JORC resources are planned for later this year.

Corporate Structure

Orpheus Energy Limited is a company limited by shares that is incorporated and domiciled in Australia.

Trading Results

The consolidated loss of the entity for the financial year was $7,823,641 (2011: loss $242,854).

Dividends

No dividends have been paid or declared since the beginning of the financial year by the Company.

Indemnification and Insurance

For the financial year ended 30 June 2012, the Company indemnified its directors, the Company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the Company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the Company indemnified the directors, the Company secretary and executive officers against any liability incurred by them in their capacity as directors, Company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the Company.

The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2012. Under the Company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the Corporations Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Directors' Report (continued)

Significant Events Affecting State of Affairs

Events including re-listing on ASX

The Company completed the arrangements and requirements for re-listing and trading in the Company's shares was reinstated on ASX on 17 August 2011. The following transactions were executed upon re-listing:

- The acquisition of Orpheus Energy Group Pty Ltd and the Ashford and Hodgson Vale Projects from Coalworks Limited for consideration of shares and options
- Conversion of an equity loan from Coalworks to Orpheus Energy Group Pty Ltd for consideration of shares and options
- Conversion of convertible notes to shares
- Issue of 30,000,000 shares at the IPO

On 7 June 2012 the Company placed 17,227,198 Shares at 13 cents each raising $2,239,536

Events After Balance Date

- On 2 July 2012, the Company announced it had signed a life of mine Royalty Agreement with Indonesian mining contractor PT Debbia Mining, whereby the Company will receive US$8 net per tonne on all coal sales at its 51% owned B2 project in East Kalimantan, Indonesia.
- On 1 August 2012 the Company announced terms as agreed by all parties for:
    - the conversion of the $2.2m Orpheus Energy Limited Convertible notes held by Coalworks Limited and the accumulated interest into Ordinary fully paid shares in Orpheus.
      These Ordinary shares will then be included in the "in-specie" dividend by Coalworks Limited which is expected will occur in September 2012.
      Whilst the Boards of both Orpheus and Coalworks have agreed to these arrangements, shareholder approval is required and will be sought at the upcoming Annual General Meeting of Orpheus Energy Limited in September 2012.

Shares and Options

The following movements in shares and options occurred during the year.

	Shares	Options
Balance on issue at 30.6.11	15,347,993	16,710,416
• Issue of shares and options in consideration for the acquisition of Orpheus Energy Pty Ltd and related coal projects and assets;	25,000,000	12,500,000
• Issue of shares and options in consideration for conversion of equity loan facility	10,000,000	5,000,000
• Issue of shares and options in consideration of conversion of convertible notes	34,500,000	17,250,000
• Issue of shares to public investors and underwriters of issue	30,000,000	-
• Issue of options to public investors	-	588,734
• Issue of options to employees and consultants	-	1,675,000
• Options Issued to BBY pursuant to Brokerage agreement	-	1,000,000
• Shares issued in relation to a placement on 7.6.2012	17,227,198	-
Total Issued during the year	116,727,198	38,013,734
Less		
Options Expired during the year	-	37,680,101
Options Lapsed during the year	-	500,000
Balance on issue at 30.6.12	132,075,191	16,544,049

Directors' Report (continued)

Since the end of the financial year, and up to the date of this report, no new shares have been issued as a consequence of the exercise of options which were on issue at year end.

Since the end of the financial year, no options have expired.
The total number of options outstanding at the date of this report is 16,544,049.
Details of movements in share options during the year ended 30 June 2012 are set out in Note 18 in the financial statements.

Likely Developments and Future Results

The Directors have excluded from this report any information on likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, since, in the opinion of the directors, it may prejudice the interests of the group if this information were included.

Directors' Report (continued)

Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report, Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, "executive" encompasses the Executive Chairman, Executive Director and the senior executives, who collectively comprise the Executive Management team.

Details of Directors and Key Management Personnel during the year ended 30 June 2012

Wayne Mitchell	Chairman, Chief Executive Officer and Managing Director
David Smith	Executive Director (appointed 18 August 2011)
Wesley Harder	Director, Exploration Manager
Anthony King	Non-executive Director
Chris Hagan	Senior Advisor (Resigned 31 March 2012)
Nathan Bartrop	Company Secretary (Resigned 16 July 2012)
David Oastler	Chief Financial Officer

Remuneration Philosophy

The quality and performance of directors, executives and staff is critical to achieving business success. The Company sees remuneration as a key aspect of its efforts to attract, motivate and retain personnel of the highest calibre. The Board seeks to align remuneration decisions with the creation of maximum shareholder value.

In formulating a framework for remuneration policies and practices, the board takes account of the following factors:

- The Company's Business Plan and strategic objectives.
- Capacity to pay.
- Employment market conditions.
- Company performance.
- Identification of appropriate performance benchmarks.
- Individual performance levels.

Objective of Remuneration Policy

The overall objective of the remuneration policy is to ensure maximum shareholder benefit from the retention of a high quality board, management and staff at an appropriate cost level. This objective seeks to:

- Reward employees for individual performance against appropriate benchmarks.
- Align the interests of management and staff with those of shareholders.
- Provide a link between rewards and the achievement of strategic targets, performance outcomes and share price.
- Ensure remuneration is competitive by market standards.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Remuneration Committee

The board has previously formed the view that the small scale of the Company and the small number of employees did not warrant the establishment of a Remuneration Committee. The matter will be kept under review.

Non-executive Director Remuneration

The Constitution of the Company and the ASX Listing Rules establish an aggregate or maximum level of remuneration available to non-executive directors, to be divided amongst the directors as agreed.
The Board has determined that non-executive directors shall receive only fixed remuneration by way of payment of fees. There is no variable, short term incentive remuneration for non-executive directors, nor is there any entitlement to retiring allowances or payments other than the statutory superannuation required by law.

Each non-executive director is entitled to receive an annual fee for all services provided to the Company, including being a director of the Company.

As the Company grows, additional, appropriate non-executive director appointments are anticipated.

The remuneration of non-executive directors for the years ended 30 June 2012 and 30 June 2011 is detailed in Table 1 and Table 2 on page 16 of this report.

Executive Remuneration

The Board is responsible for establishing the structure and amount of remuneration for executive management. The Board may obtain independent, external data on market trends in comparable executive roles. Remuneration currently consists only of fixed components. Currently, there are no short-term or long term incentive arrangements, however, during the coming year, the Board will be undertaking a review to ensure that executive remuneration is strongly aligned with the creation of shareholder value.

Objective of fixed remuneration:

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market.

Structure of fixed remuneration:

Fixed remuneration is reviewed annually by the Board, and the process consists of a review of company and individual performance, and comparative remuneration in the market. Compulsory superannuation contributions are included in the determination of fixed remuneration.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Compensation of Directors and Key Management Personnel

Table 1: Compensation of Directors and Key Management Personnel for the year ended 30 June 2012

	Short Term				Post Employment Benefit	Long Term		**TOTAL in respect to current services**
	Directors Fees	Salary	Consulting Fees	Share based payments – shares**	Superannuation	Long Service Leave	Share based-Options	
2012	$	$	$	$	$	$	$	**$**
Directors								
W. Mitchell	45,833	200,003	9,600	-	22,125	-	-	**277,562**
D. Smith	24,231	62,192	-	-	7,778		5,737	**99,938**
W. Harder	27,500	122,500	7,139	-	13,500	-	-	**170,639**
A. King	27,500	-	-	-	2,475	-	-	**29,975**
Other Key Management Personnel								
C Hagan (Legal Advisor)			21,737					**21,737**
N Bartrop (Co Sec)	-	112,500	-	-	10,125	-	2,869	**125,494**
D Oastler (CFO)	-	-	105,625	-	-	-	2,869	**108,494**
	125,064	497,196	144,101	-	56,003	-	11,474	**833,838**

The following consultancy service payments were made by the Company in respect of work done prior to the date of the prospectus. These payments were outlined in the Prospectus (Section 13f) lodged with ASIC 24 May 2011 and have been paid in the current year.
Mr W Mitchell: $100,000, Mr W Harder: $60,000 and Mr C Hagan: $100,000.

Table 2: Compensation of Directors and Key Management Personnel for the year ended 30 June 2011

	Short Term				Post Employment Benefit	Long Term		**TOTAL in respect to current services**
	Directors Fees	Salary	Consulting Fees	Share based payments – shares**	Superannuation	Long Service Leave	Share based-Options**	
2011	$	$	$	$	$	$	$	**$**
Directors								
W. Mitchell	-			**	-	-	-	**-**
W. Harder	-			**	-	-	-	**-**
A. King	-			**	-	-	-	**-**
D. Hickie	12,500			**	-	-	-	**12,500**
B. Andrew	-			**	-	-	-	**-**
I Draudins	-			**	-	-	-	**-**
F Menzies	-			**	-	-	-	**-**
J O'Callaghan	-				-	-	-	**-**
	12,500	-	-	-	-	-	-	**12,500**

*** Shares and Options were approved for issue to Directors and Key Management Personnel at the Company's General meeting on 30 November 2010 and were considered to have nil value at that time. Details are shown in the following tables.*

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Shares and Options approved for Issue to Directors and Key Management Personnel for:

Year Ended 30 June 2012

	Shares		Options			
	Grant Date	Number Issued	Number Issued	Exercise Price	Expiry Date	Value *** at Grant Date $
Directors						
Wayne Mitchell		-	-			-
David Smith	17/08/2011	-	500,000	$0.20	30/09/2014	5,737
Wesley Harder		-	-			-
Tony King		-	-			-
Other Key Management						
C Hagan (Legal Advisor)		-	-			-
N Bartrop (Co Sec)	17/08/2011	-	250,000	$0.20	30/09/2014	2,869
D Oastler (CFO)	17/08/2011	-	250,000	$0.20	30/09/2014	2,869
		-	1,000,000			11,474

The following issues of shares and options as part of remuneration to current and past directors were made during the year ended 30 June 2011 following approval by members at the general meeting of shareholders on 30 November 2010.

Year Ended 30 June 2011

	Shares		Options			
	Grant Date	Number Issued	Number Issued	Exercise Price	Expiry Date	Value *** at Grant Date $
Directors						
W. Mitchell	30/11/2010		3,000,000	$0.20	30/09/2014	-
W. Harder	30/11/2010		1,500,000	$0.20	30/09/2014	-
A. King	30/11/2010		1,000,000	$0.20	30/09/2014	-
R Green	30/11/2010	50,000	25,000	$0.20	31/12/2011	-
B. Andrew	30/11/2010	62,500	31,250	$0.20	31/12/2011	-
I Draudins	30/11/2010	75,000	37,500	$0.20	31/12/2011	-
F Menzies	30/11/2010	75,000	37,500	$0.20	31/12/2011	-
J O'Callaghan	30/11/2010	75,000	37,500	$0.20	31/12/2011	-
		337,500	5,668,750			-

*** Options Values have been established based on the Black Scholes method at grant date.
Options granted in year ended 30 June 2011 were deemed to have a nil value.

Shares Issued on Exercise of Compensation Options

No shares have been issued as a result of the exercise of options granted as compensation to key management personnel during the years ended 30 June 2012 and 30 June 2011.

Directors' Report (continued)

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor Independence

The directors received a declaration from the auditor of Orpheus Energy Limited which is appended to this report.

Non-Audit Services

There were no non-audit services provided by Hall Chadwick, the current auditors of the Company.

The board of directors of Orpheus Energy Limited has declared that it is satisfied that the provision of non-audit services where relevant and that such services are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.*

Options

At the date of this report, being 10 August 2012, the unissued ordinary shares of the Company under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
08/09/2007	08/09/2012	$2.63	1,619,049
30/11/2010	30/09/2014	$0.20	12,750,000
08/08/2011	04/08/2014	$0.25	1,000,000
17/08/2011	30/09/2014	$0.20	1,175,000
			16,544,049

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

This report has been made in accordance with a resolution of directors.

Wayne Mitchell, Director
Dated: 13 August 2012

ORPHEUS ENERGY LIMITED ABN 67 121 257 412
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ORPHEUS ENERGY LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

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

Hall Chadwick

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Graham Webb
Partner
Dated: 13 August 2012

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GOLD COAST
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Corporate Governance Statement

The Australian Securities Exchange (ASX) Corporate Governance Council has published Corporate Governance Principles and Recommendations (2nd Edition) (Recommendations). Entities listed on the ASX are required to disclose the extent to which they have followed the ASX Recommendations and to identify any recommendations that have not been followed, and the reasons for not following them. The section below includes details on the Company's corporate governance arrangements and the Company's compliance with the recommendations. Orpheus Energy has chosen not to early adopt the 2010 changes to the Recommendations, and will report in its annual report, against the revised Recommendations for the financial year ended 30 June 2012.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The Board of Directors of Orpheus Energy is collectively experienced in coal and mineral exploration, mine development, finance and the management of listed public companies, and the requirements of, and compliance with, the law and ASX and ASIC rules and policies.
As the Company will use contractors for its exploration and mine development work, the Board generally will be responsible for over-seeing the work of those contractors and their performance against contract. Four of the Directors, including the Company's Chief Executive Officer, are qualified and experienced in mineral exploration and mine development

The Board approves and monitors corporate strategy and performance objectives. Under the oversight of the Board's Audit and Risk Committee, the Board monitors systems of risk management, compliance and financial reporting. The Board is responsible for approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures of Company assets.

Responsibility for the day-to-day management of the Company is delegated by the Board to the Chief Executive Officer and Managing Director (Managing Director), who is accountable to the Board. The Managing Director manages the Company in accordance with the strategy, plans and policies approved by the Board. The Board has determined that the managing director is appropriately qualified and experienced to discharge the required responsibilities.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

As at 30 June the Board comprised 3 executive directors and 1 non-executive director.

Mr David Smith was appointed to the board on 18 August 2011 as an additional executive director.
The Board supports the appointment of directors who bring a wide range of business and professional skills and experience to the Company. Directors are appointed in accordance with the constitution of Orpheus Energy Limited and are appointed for a period of three years or until the third annual general meeting following his or her appointment (whichever is longer). The board currently has no formal procedure for evaluation of its board, committee and directors. The board considers that it is functioning effectively given its composition and a formal procedure is not required at this present time.

The Company has elected to depart from the adoption of the ASX Corporate Governance Guidelines in that it will not be forming a nomination committee or a remuneration committee nor will it appoint independent directors for the reason that these requirements are more appropriate for larger public companies and would unduly add to the cost structure of the Company. The Company will review its position on these requirements bi-annually. The board currently evaluates periodically the need for additional directors, the re-election of existing directors and where required appoints additional directors.

The Company currently only considers one of its directors independent out of 4 directors. This does not comply with Recommendation 2.1, in that the majority of the board should be independent directors. The Board is satisfied however that the Board has an effective composition, size and commitment to adequately discharge its responsibilities and duties.

PRINCIPLE 3: ACTIVELY PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Company does not yet have a formal Code of Conduct setting out its core values. In general though, the Company requires that each director and officer of the Company must comply with all laws and regulations. This includes understanding the laws and regulations relevant to their work and complying with the legal requirements of the jurisdiction in which the Company operates.
Contractors and others employed by the Company should not engage in activities or hold or trade assets that involve, or could appear to involve, a conflict between their personal interests and the interests of the Company.
The practices of the Board are aimed at promoting ethical and responsible decision making. The Board strives for good corporate governance and industry best practice. It specifically requires directors and employees to:

- avoid situations which may give rise to a conflict of interest;
- avoid situations where they may gain any benefit which competes with Company's business;
- read and confirm that they understand the Company's policies;
- comply with laws and regulations;
- properly use Company's assets for legitimate business purposes; and
- maintain confidentiality in both Company's business and the information of its clients and shareholders.

Conflicts of Interest

The Board is committed to good corporate governance and aims for continuous improvement in these practices. It embraces high ethical standards and requires both personal and corporate responsibility. Directors, officers and employees are required to safeguard the integrity of the Company and to act in the best interests of its stakeholders.
Each director is required to disclose any interest which might create a potential conflict of interest with his or her duties as a director or which might affect their independence.
There must be no conflict, or perception of a conflict, between the interests of any Company director, officer or employee and the responsibility of that person to the stakeholders. All directors, officers and employees may never improperly use their position for personal or private gain to themselves, a family member, or other associated person. Where a potential conflict exists, this should be disclosed to the Chairman prior to any dealings taking place.

Trading Policy

The Company's trading policy, available on the Company's website, ensures that unpublished price sensitive information about the Company is not used in an unlawful manner. The main provisions of this policy are:

- compliance with the specific requirements of the Corporations Act 2001;
- prohibition of short term trading by directors, officers, employees and contractors in the Company's securities; and
- prior notification by directors, officers, employees and contractors of their intention to deal in the Company's securities.
- Trading is not permitted (unless exceptional circumstances) in the following periods:
    - the period 1 January until the conclusion of the first day after the day of release of the December quarterly report;
    - the period 1 April until the conclusion of the first day after the day of release of the March quarterly report;
    - the period 1 July until the conclusion of the first day after the day of release of the June quarterly report;
    - the period 1 October until the conclusion of the first day after the day of release of the September quarterly report; and
    - such other periods advised from time to time by the Board and/or Managing Director (such as prior to the announcement to ASX of a significant matter or event).
    - The Company's Share trading policy prohibits the entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity based remuneration scheme.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit & Risk Committee (established 12 August 2011)

Purpose

The Audit & Risk Committee plays a key role in assisting the Board with its responsibilities relating to accounting, internal control systems, reporting practices and risk management, and ensuring the independence of the company auditor. The terms of reference for the committee incorporates policies and procedures to ensure an effective focus from an independent perspective.

The Audit & Risk Committee oversees and appraises the quality of the audits conducted by the auditors and emphasises areas where the Committee believes special attention is required. The external auditors are Hall Chadwick. Hall Chadwick's appointment will be reviewed periodically in line with industry best practice. The Board believes in the ongoing assessment of our audit arrangements and will comply with any regulatory requirements to rotate the Company's external audit partner.
The Audit & Risk Committee also reviews the effectiveness of administrative, operating and accounting controls.

Composition

The composition of the Audit & Risk Committee is determined in accordance with the principle that only non-executive directors may be members of the Committee. There must be at least 2 directors on the Committee. Other suitable persons may also be appointed to the committee by the directors. The committee currently does not comply with Recommendation 4.2 in that it only comprises two members and the Chairman of the Committee is also Chairman of the Board. The board currently considers this practice to be adequate, however periodically reviews its composition and the need to appoint additional directors and others to the Committee.

Terms of Reference
The Committee's Terms of Reference are published on the Company's web site:
www.orpheusenergy.com.au

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous Disclosure Policy

ASX defines continuous disclosure in its Listing Rules as "the timely advising of information to keep the market informed of events and developments as they occur". The Listing Rules and the Corporations Act require that a listed company disclose to the market matters which a reasonable person would expect to have a material effect on the price or value of the company's securities. A reasonable person is taken to expect information to have a material effect on the price or value of securities if it would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

The Company's Continuous Disclosure Policy, available on the Company's website, is designed to meet market best practice, ensuring that all interested parties have an equal opportunity to obtain information which is issued by the Company.

The procedures which have been developed to comply with these rules include immediate reporting of any matter which could potentially have a material effect, via established reporting lines to the Company Secretary. The Company Secretary is responsible for monitoring information which could be price sensitive, liaising with the managing director to make an initial assessment, and escalating to the Board for disclosure of such information where practicable. The managing director monitors daily activity to ascertain what matters should be considered for disclosure and as soon as a matter is appropriate for disclosure the managing director must immediately notify the Company Secretary. It is noted that the Company must not delay giving this information to the ASX. Therefore, if the Board is not immediately available, the Company Secretary will lodge such information after consultation with the managing director.

Price-sensitive information will be disclosed, in the first instance, to the ASX and disclosures to the market will then be placed on the Company's website. Material information must not be selectively disclosed (i.e. to analysts, the media or shareholders) prior to being announced to the ASX, and all media releases must be referred to the Company Secretary for clearance prior to any release.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder Communications Policy

The Board has adopted a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings. In accordance with our regulatory obligations, certain periodic reporting will also be made to shareholders, including the Annual Report. Our aim is for informed shareholder participation.
The Company maintains a web site and endeavours to publish on the web site all relevant announcements made to the market.
In accordance with ASX Principle 6.2, the external auditors are requested to attend the annual general meeting and are available to answer shareholder questions about the conduct of the audit and preparation of the auditor's report.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management

The Board takes a proactive approach to the Company's risk management and internal compliance and control systems. The Audit & Risk Committee oversee and manage material business risks, with the entire Board a crucial part of this entire process.

The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Managing Director and the Chief Financial Officer are responsible for establishing, maintaining and reviewing the Company's risk management and internal control system. The Managing Director and Chief Financial Officer must provide periodic reports to the Board declaring that they have evaluated the effectiveness of the internal controls and procedures, and that they have reasonable assurance that all material information is known for filing purposes, the internal control of financial reporting is reliable for purposes of external reporting in accordance with the relevant accounting standards, and that no changes in the controls have occurred that may materially affect their effectiveness.

The Managing Director and the Chief Financial Officer have declared in writing to the Board, as required under section 295A of the Corporations Act 2001 that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively in all material respects. All risk assessments cover the whole financial period and the period up to the signing of the annual financial report for all material operations in the Company.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Increases in remuneration of directors are determined by shareholders and the Board determines individual directors' remuneration. The Company has not formed a Nominations Committee because of the Company's size which is small enough for the whole Board to efficiently address the issue of board competencies. The Company has no

Non-Executive Director Remuneration
Remuneration of non-executive Directors is determined by the Board with reference to comparable industry levels and, specifically for Directors' fees, within the maximum amount approved by shareholders.

Recommendation 8.2 contains guidelines that non-executive directors should not receive options or bonus payments. The Company awards options or bonuses to non-executive Directors if it considers this to be a reasonable and appropriate method of assisting in attracting and retaining suitably skilled Board members. Accordingly the company is not in compliance with ASX Recommendation 8.2. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors.

Consolidated Statement of Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
		30.06.12	30.06.11
	Note	$	$
Revenue	3	451,920	846
Expenses			
Administration expenses		187,312	138,410
Project Investigation & Feasibility expenses		511,455	-
Consultancy & Professional Fees		346,716	-
Employment and Related costs		891,423	10,550
Insurance expenses		66,688	7,059
Legal expenses		269,677	51,783
Depreciation and amortisation expense		13,858	-
Marketing & Promotion expenses		115,939	-
Finance costs		132,091	9,574
Lease Rental expenses and occupation costs		90,010	-
Restructuring, Expert reports and related expenses		97,356	-
ASX, Share Registry and Shareholder costs		64,711	26,325
Travel and Accommodation expenses		246,111	-
Foreign currency translation losses		381	-
Share based payments		241,315	-
Impairment of investment in Exploration Licences	10	2,721,155	-
Impairment of investment		100,000	
Impairment of goodwill	13	2,179,363	-
		8,275,562	243,700
Loss before income tax		(7,823,641)	(242,854)
Income tax expense	4	-	-
Total comprehensive loss for year		(7,823,641)	(242,854)
Loss attributable to:			
Members of the parent entity		(7,569,384)	(242,854)
Non-controlling interests		(254,257)	-
		(7,823,641)	(242,854)
Total comprehensive income attributable to			
Members of the parent entity		(7,569,384)	(242,854)
Non-controlling interests		(254,257)	-
		(7,823,641)	(242,854)
Overall Operations			
Basic earnings (loss) per share (cents per share)	5	(7.43)	(2.00)
Diluted earnings(loss) per share (cents per share)	5	(7.43)	(2.00)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2012

	Note	Consolidated 30.06.12 $	Consolidated 30.06.11 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,585,127	1,606,800
Trade and other receivables	8	1,543,864	119,511
Total Current Assets		5,128,991	1,726,311
Non Current			
Deposits paid	9	4,549,129	-
Exploration and evaluation expenditure	10	7,142,561	-
Plant and Equipment	11	87,461	-
Security Deposits	12	82,833	-
Intangible assets	13	135,837	-
Total Non Current Assets		11,997,821	-
TOTAL ASSETS		17,126,812	1,726,311
LIABILITIES			
Current Liabilities			
Trade and other payables	14	725,412	1,641,560
Employee provisions	15	17,719	-
Borrowings	16	-	434,205
Convertible Notes	17	2,200,000	-
Total Current Liabilities		2,943,131	2,075,765
TOTAL LIABILITIES		2,943,131	2,075,765
NET ASSETS / (LIABILITIES)		14,183,681	(349,454)
EQUITY			
Issued capital	18	28,332,145	8,383,694
Reserves	19	693,733	979,952
Accumulated losses		(16,302,532)	(9,713,100)
Parent Entity Interest		12,723,347	(349,454)
Non controlling Interests		1,460,334	-
TOTAL EQUITY / (DEFICIENCY)		14,183,681	(349,454)

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Share Capital Ordinary	Retained Earnings	Employee Benefits Reserves	Options Reserve	Foreign Currency Translation Reserve	Non controlling Interests	Total Equity
		$	$	$	$	$	$	$
Balance at 1.7.2010		**8,383,694**	**(9,470,246)**	**979,952**	**-**	**-**	**-**	**(106,600)**
Loss attributable to:								
members of the parent entity		-	(242,854)	-				**(242,854)**
Balance at 30.6.2011		**8,383,694**	**(9,713,100)**	**979,952**	**-**	**-**	**-**	**(349,454)**
Balance at 1.7.2011		**8,383,694**	**(9,713,100)**	**979,952**	**-**	**-**	**-**	**(349,454)**
Shares issued during the year pursuant to the prospectus	18	18,200,000						**18,200,000**
Transaction costs		(367,910)						**(367,910)**
Shares issued pursuant to share placement	18	2,239,536						**2,239,536**
Transaction costs		(123,174)						**(123,174)**
Recognition of non controlling interests							1,714,591	**1,714,591**
Transfer from reserves to retained earnings			979,952	(979,952)				**-**
Loss attributable to:								
members of the parent entity			(7,569,384)					**(7,569,384)**
non-controlling interests							(254,257)	**(254,257)**
								(7,823,641)
Foreign Currency Translation Reserve						(40,082)		**(40,082)**
Options granted during the period					733,815			**733,815**
Balance at 30.6.2012		**28,332,145**	**(16,302,532)**	**-**	**733,815**	**(40,082)**	**1,460,334**	**14,183,681**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 30.06.12 $	Consolidated 30.06.11 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,977,264)	(414,868)
Interest received		118,437	846
Finance costs paid		(132,091)	(9,573)
GST refunds received		-	3,075
Net cash flows (used in) operating activities	7	(1,990,917)	(420,520)
Purchase of Plant and Equipment		(86,283)	-
Payments for Exploration Expenditure		(140,514)	-
Payments as Security Deposits		(82,229)	-
Payments for other assets		(100,000)	-
Payments for Working Capital and Other Advances		(626,262)	-
Payments as advances to Joint Venture partner		(488,170)	-
Deposits paid for interests in tenements		(2,349,129)	-
Net cash flows from/(used in) investing activities		(3,872,587)	-
Cash flows from financing activities			
Proceeds from Issue of Shares, net of capital raising costs		7,641,691	1,606,760
Proceeds from Short term borrowings		-	370,148
Net cash flows from/(used in) financing activities		7,641,691	1,976,908
Net increase (decrease) in cash and cash equivalents		1,778,187	1,556,387
Cash and cash equivalents at beginning of period		1,606,800	50,413
Cash Acquired on Acquisition		200,140	
Cash and cash equivalents at end of period	7	3,585,127	1,606,800

The accompanying notes form part of these financial statements.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

The financial report includes the financial statements and notes of Orpheus Energy Limited, a listed public company incorporated and domiciled in Australia.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of Orpheus Energy Limited (the Company) for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 13th August 2012.

The financial statements are general purpose financial statements, which has been prepared in accordance with Australian Accounting Standards (‘AASBs’) , Australian Accounting Interpretations, other authoritative pronouncements, as issued by the Australian Accounting Standards Board (‘AASB’) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable financial information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards issued by the ISAB. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Except for cash flow information, the financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Orpheus Energy Limited (formerly Australian Motor Finance Group Limited) and its subsidiaries as at 30 June each year (the Group). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Details of subsidiaries are set out in Note 25.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Subsidiary Bushveld Exploration (SA) Pty Ltd has not been consolidated as its net assets are immaterial and it did not trade during the year.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Investments in subsidiaries held by Orpheus Energy Limited (formerly Australian Motor Finance Group Limited) are accounted for at cost in the separate financial statements of the parent entity.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

c) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

d) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;
(ii) any non-controlling interest; and
(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value *(full goodwill method)* or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets *(proportionate interest method).* In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Refer to Note 13 for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies, management continually evaluates judgements, estimates and assumptions based on historical experience and other factors, including expectations of future events that may have an impact on the Company. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. The more significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Impairment of loans to, and investment in, subsidiaries

Where a subsidiary entity incurs a loss, the parent entity assesses the recoverability of any loans due from, or investments in, any subsidiary. Where required, the parent entity will then record an impairment loss against the value of its loans to, or investment in, the subsidiary.

(ii) Useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and management judgement. In addition, the condition of assets is assessed annually and considered in the context of remaining useful life, and adjustments to useful life are made where necessary.

(iii) Exploration and evaluation expenditure and impairment

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded, or where value of resources identified is estimated to exceed the carrying value of exploration expenditure.

Where as a result of changes in circumstances or events sufficient uncertainty arises as to the recoverability of capitalised exploration and evaluation costs, such costs will be impaired.

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue is received from bank balances held by the company. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the sale of coal is recognised once shipments have been made and title to goods has passed to the customer.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and short term deposits are stated at nominal values.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

h) Trade and other receivables

Trade receivables and other receivables, both of which generally have 30 day terms, are non-interest bearing and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

i) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. Exceptions to this position arise:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date to determine whether it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The carrying amount of deferred tax assets is reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

If deferred tax assets and deferred tax liabilities are recorded in the accounts, they are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

k) Plant and Equipment

Plant and equipment are measured at cost and therefore carried at cost less accumulated depreciation and any accumulated impairment. The carrying amount is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset’s employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over the assets useful life from the time the asset is ready for use.

Thee depreciation rates used for each class of depreciable asset are:

Class of fixed asset	Depreciation Rate per annum
Plant & Equipment	10% - 33%
Motor Vehicles	25 %
Computer Equipment	25% - 33%
Furniture and Equipment	10% - 33%
Leasehold improvements	Straight line over the balance of the lease term.

The assets residual values and useful life are reviewed and adjusted if appropriate, at the end of each reporting period An assets recoverable amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

n) Trade and other payables

Trade payables and other payables are non-interest bearing and are carried at amortised cost. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are generally paid on 30 day terms.

o) Provisions and employee leave benefits

1) Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions and employee leave benefits (continued)

2) Employee leave benefits

i) Wages, salaries, superannuation, and annual leave

Liabilities for wages and salaries, including non-monetary benefits, superannuation and annual leave expected to be settled within 12 months of the reporting dates are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

p) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares is shown in equity as a deduction from the proceeds.

q) Share-based payment transactions

(i*) Equity settled transactions:*
The company has provided benefits to employees (including key management personnel) in prior years the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each reporting date until vesting the cumulative charge to the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of equity instruments that will ultimately vest, taking into account such factors as the likelihood of employee turnover during the vesting period, and the likelihood of non market performance conditions being met, and (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided all other conditions are satisfied.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Share-based payment transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings / (loss) per share.

r) Earnings (Loss) per share

Basic earnings (loss) per share is calculated as net profit (loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares.

Diluted earnings (loss) per share is calculated as net profit (loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

s) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.
A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

t) Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

u) New Accounting Standards for Application in Future Periods`

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after July 2012, and have not been applied in preparing these financial statements. The directors have yet to assess whether any of these new standards, amendments or interpretations will have a significant effect on the financial statements of the Group.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise receivables, payables, cash and short-term deposits, convertible notes and borrowings.

The Company monitors its exposure to key financial risks, principally interest, credit and liquidity risk, with the objective of achieving the company's financial targets whilst protecting future financial security. The main risks arising from the company's financial instruments are liquidity risk, interest rate risk and credit risk. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts and regular internal reporting.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Board. It reviews and agrees policies for managing each of the risks, including the use of derivatives, hedging cover of interest rate exposure, credit allowances, and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Risk Exposures and Responses

Interest rate risk

The Company's exposure to market interest rates relates primarily to the cash balances.

At balance date, the Company had the following financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2012	2011	2012	2011
	%	%	$	$
Financial Assets:				
Cash in interest bearing accounts	4.50%	0.90%	3,521,241	1,606,800
Financial liabilities				
Borrowings	-	9.50%	-	434,205
Convertible Notes	9.00%	-	2,200,000	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Sensitivity analysis

Based on sensitivity analysis on movements in interest rates the company regularly reviews the deployment of funds and the exposure to interest rate risk in conjunction with currency and exchange rate risk in order to manage these risks in line with corporate objectives.

Exchange Risk

Exchange Risk arises whereby currency exchange rates may affect the asset and liability and consolidation of companies within the group.

The company reports in Australian Dollars, however the operating currency of the Indonesian subsidiaries includes both Indonesian Rupia and US Dollars. Exchange risk is reduced as contracts for mining and related services are usually written in US Dollars as this aligns with the benchmark currency for the Sales and Off-take agreements for commodities such as coal. Exchange risk also arises as the investments held by the company in subsidiaries are held in Australian Dollars.

Analysis is undertaken by the company to assist in managing and reducing risks where practical arising from potential movements in foreign Exchange rates.

Credit risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents, trade and other receivables. The company's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Company does not hold any credit derivatives to offset its credit exposure. As the Company trading activity to date is minimal, it does not have any material credit risk exposure to any single receivable or entity. With respect to credit risk arising from the other financial assets, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from the possibility of default of the counter party.

Liquidity risk

The table below reflects all contractually fixed pay-offs and receivables for settlement from recognised financial assets and liabilities, including derivative financial instruments as of 30 June 2012. The amounts disclosed are undiscounted cash flows anticipated to eventuate in the next fiscal year.

Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

	TOTAL $	< 6 Mths $	6-12 Mths $	1-5 Yrs $	>5 Yrs $
Financial assets					
Cash and cash deposits	**3,585,127**	3,585,127	-	-	-
Trade and other receivables	**1,543,864**	1,543,864	-	-	-
	5,128,991	5,128,991	-	-	-
Financial Liabilities					
Trade and other payables	**725,412**	725,412	-	-	-
Convertible Notes	**2,200,000**	2,200,000	-	-	-
Net maturity	**2,925,412**	2,925,412	-	-	-

The contractual maturities of the company's financial assets and liabilities set out in the table are equivalent to the maturity analysis of financial assets and liability based on management's expectation. The risk implied from the values in the table reflects a balanced view of cash inflows and outflows.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements, and unless specifically stated, carrying value approximates fair value for all financial instruments.

Capital management

The Company's objective is to maintain adequate funding of its activities in an effort to ensure it continues to operate as a going concern.

Capital financing has been derived from issues of ordinary shares and borrowings. Capital management is a process of monitoring financial risks, cash reserves, and forecast cash requirements, and responding to changes through management of equity funding and debt. There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the company.

The company's activities are funded from cash reserves. There are no unused credit facilities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 REVENUE AND EXPENSES

	Consolidated	
	30.06.12	30.06.11
	$	$
REVENUE		
Trading Revenue	135,000	-
Interest received	118,437	846
Gain on settlement of intercompany loans (i)	198,483	-
Total Revenue	451,920	846

(i) Intercompany loans with Mega Coal and related entities were reconciled as at 30 June 2012. A gain has been recognised relating to various expenditure items agreed to be assumed by Mega Coal.

	30.06.12	30.06.11
EXPENSES		
Finance costs – interest paid to other persons	126,721	9,574
Employee benefits – Directors fees	125,064	12,500

4 INCOME TAX

	30.06.12	30.06.11
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Income tax expense reported in the income statement	-	-

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

	30.06.12	30.06.11
Prima facie tax (benefit) / payable on loss from ordinary activities before income tax at 30% (2011: 30%)	(2,347,092)	(72,856)
Add: tax effect of:		
Share based Payments	72,395	
Impairment of investment in Exploration Licences	816,347	
Impairment of investment	30,000	
Impairment of goodwill	653,809	
Deferred tax assets not recognised	774,542	72,856
Income tax attributable to entity	-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

5 EARNINGS (LOSS) PER SHARE

The following reflects the income and share data used in the basic and diluted earnings (loss) per share computations:

	Consolidated	
	30.06.12	30.06.11
	$	$
Net loss	(7,823,641)	(242,854)
	Number	*Number*
Weighted average number of ordinary shares for basic earnings per share	105,349,233	12,407,288
Effects of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	105,349,233	12,407,288

Options on issue have been determined to be not dilutive, as a loss was incurred during the year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, other than as disclosed in Note 18.

6 AUDITOR'S REMUNERATION

	Consolidated	
	30.06.12	30.06.11
	$	$
Remuneration of the Auditor of the parent entity for:		
auditing or reviewing the financial statements	67,465	15,000
other services	-	-
	67,465	15,000

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

7 CASH AND CASH EQUIVALENTS

		Consolidated	
		30.06.12	30.06.11
		$	$
a)	Cash and cash equivalents	3,585,127	1,606,800
b)	Reconciliation of Cash Flow from Operations with Loss after Income Tax		
	Net loss	(7,823,641)	(242,854)
	Non cash flows in loss:		
	Expenses		
	Depreciation and amortisation expense	13,858	-
	Foreign currency translation losses	381	-
	Share based payments	241,315	-
	Impairment of investment in Exploration Licences	2,721,155	-
	Impairment of investment	100,000	-
	Impairment of goodwill	2,179,363	-
	Changes in assets and liabilities net of the effects of acquisitions of subsidiaries		
	(Increase)/decrease in trade and other receivables	(269,683)	(102,053)
	(Decrease)/increase in trade and other payables	828,615	(75,614)
	Employee Leave Provision	17,719	-
	Net cash (used in) operating activities	(1,990,917)	(420,521)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

8 TRADE AND OTHER RECEIVABLES

	Consolidated 30.06.12 $	Consolidated 30.06.11 $
CURRENT		
Trade Debtors	135,000	-
Sundry Debtors and Other receivables	176,419	12,181
Prepayments	77,775	107,330
Rental Bond	13,520	-
Staff and Travel Advances	26,718	-
Working Capital Advance to PT Alam Duta Kalimantan (i)	403,865	-
Secured advance facility (ii)	222,397	-
Amount owing by Joint Venture partner: Mega Coal	488,170	-
	1,543,864	119,511

(i) Working capital advances have been made to PT Alam Duta Kalimantan to fund both mining operations in preparation for the fulfilment of sales orders now in hand and to facilitate the purchase of local coal for onselling. The company holds as security, enforceable pledges over the issued capital of PT Alam Duta Kalimantan and is satisfied this security is adequate to support the recoverability of the carrying value.

(ii) Short term advances made to an unrelated party and secured over land in Banjarmasin, Indonesia. The value of the security held against these advances is considered adequate to support the recoverability of this advance.

9 DEPOSITS PAID

	Consolidated 30.06.12 $	Consolidated 30.06.11 $
Deposit for acquisition of interests in :		
Papua concessions (i)	2,000,000	-
B3 and B4 concessions (ii)	2,200,000	-
PT Alam Duta Kalimantan (ADK mine) (iii)	349,129	-
	4,549,129	-

(i) The company has advanced deposits toward the acquisition of concessions in Papua while due diligence and site assessments are undertaken. These advances have been secured over the operating mine, ADK, operated by PT Alam Duta Kalimantan and by various personal guarantees of the directors of Mega Coal. The company has undertaken due diligence and assessment of the operations of ADK to support the recoverability of the carrying value of the deposits.

(ii) Deposit payment for interests in the Kalimantan region concessions being Block 3 and Block 4. 8.8million convertible notes were issued by Orpheus to Coalworks Limited as consideration for the cash advanced for the acquisition of Block 3 and Block 4. Blocks 3 and 4 have been examined and evaluated by PT Sumber Minerals Indonesia who provided an independent valuation which supports the carrying value of the deposits.

(iii) The company has entered an agreement to acquire a 50% interest in PT Alam Duta Kalimantan, which operates the ADK mine in South Kalimantan for a total of USD $1,000,000. Deposits of USD $350,000 (AUD $349,129) have been made as at 30 June 2012. Based on recent coal production and sales and coal sales contracts in hand the company believes the acquisition price and deposits paid to date are recoverable.

Notes to the Financial Statements (continued)

10 EXPLORATION AND EVALUATION EXPENDITURE

		Consolidated	
		30.06.12	30.06.11
		$	$
Hodgson Vale and Ashford Tenements:			
Acquisition	(i)	6,646,500	-
Exploration and development expenditure		58,201	-
Impairment charge	(ii)	(2,721,155)	-
		3,983,546	-
B2 and B6 (Indonesia) Tenements:			
Fair Value upon acquisition	(iii)	3,076,703	-
Exploration and development expenditure		47,207	
		3,123,910	-
Other Projects:			
Exploration and evaluation expenditure		35,105	-
		35,105	
		7,142,561	-

(i) The Hodgson Vale and Ashford Tenements were acquired from Coalworks Limited under agreements ratified by shareholders of the company on 30 November 2010. Consideration for these tenements was by way of the issue of Shares and Options upon relisting on ASX in August 2011.

(ii) The investment in the Hodgson Vale Tenement has been impaired based on the relinquishment to the Queensland Government of 8 of the 17 blocks held as they fall within the 2 km exclusion zone of towns with over 2,000 residents.

(iii) Interests in the B2 and B6 concession in Indonesia were acquired pursuant to the 51% equity interests acquired in PT Pola Andhika Realtor and PT Berkah Bhumi Abadi as detailed in the prospectus lodged with ASX on 24 May 2011.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

11 PROPERTY PLANT AND EQUIPMENT

	Consolidated 30.06.12 $	Consolidated 30.06.11 $
MOTOR VEHICLES		
Motor vehicles		
At cost	37,697	-
Accumulated Depreciation	(2,356)	-
Total Motor vehicles	35,341	-
PLANT AND EQUIPMENT		
Furniture and equipment:		
At cost	7,110	-
Accumulated depreciation	(1,212)	-
Total Furniture & Equipment	5,898	-
Computer equipment:		
At cost	42,410	-
Accumulated depreciation	(11,680)	-
Total Computer equipment	30,730	-
Plant and Equipment		
At cost	15,137	-
Accumulated depreciation	(3,695)	-
Total Plant and Equipment	11,442	-
LEASEHOLD IMPROVEMENTS		
Leasehold improvements	6,862	-
Accumulated Amortisation	(2,812)	-
	4,050	-
Total Property, Plant and Equipment	87,461	-

Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

	Motor Vehicles	Furniture & Equipment	Computer Equipment	Plant and Equipment	Leasehold improvements	Total
Consolidated Group:						
Balance at 30 June 2011	-	-	-	-	-	-
Assets acquired with Subsidiaries						
At Cost	-	3,104	16,458	3,372	-	22,933
Depreciation Expense	-	(195)	(5,474)	(2,050)	-	(7,719)
	-	2,909	10,984	1,321	-	15,214
Other Additions - at cost	37,697	4,006	25,953	11,766	6,862	86,283
Current Depreciation expense	(2,356)	(1,017)	(6,206)	(1,645)	(2,812)	(14,037)
Balance at 30 June 2012	35,341	5,898	30,730	11,442	4,050	87,461

12 SECURITY DEPOSITS

	Consolidated 30.06.12 $	Consolidated 30.06.11 $
Security Deposits in regard to:		
Bonds Paid to Dept. Primary Industries re Tenements	10,000	-
Deposits for Mine Reclaimation	72,229	-
	82,229	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

13 INTANGIBLE ASSETS

Goodwill

During the period the company acquired interests in the following subsidiaries.
Goodwill has been calculated by comparing the fair value of the interests acquired at acquisition date with the fair value of the consideration paid. The fair value acquired has been determined based on the fair value of assets and liabilities held upon acquisition.

Goodwill on the acquisition of Orpheus Energy Group Pty Ltd of $2,179,363 has been impaired at reporting date and is reflected in the Statement of Consolidated Income.

Details of these transactions are:

	Orpheus Energy Group Pty Ltd	PT Pola Andhika Realtor	PT Berkah Bhumi Abadi
Percentage acquired in the equity of each entity:	**100%**	**51%**	**51%**
Acquisition date	**10.8.11**	**11.11.11**	**26.10.11**
	$	**$**	**$**
Purchase consideration			
Consisting of:			
Cash consideration	2	725,770	725,770
Total consideration	2	725,770	725,770
Identifiable Assets and liabilities held at acquisition date:			
Cash and Cash Equivalents	191,023	8,629	488
Other Current Assets	503,512	3,252	7,637
Deposits paid	1,111,142	-	-
Exploration Licences held - at Fair value	-	1,581,758	1,494,946
Development costs capitalised	25,896	-	-
Fixed Assets	15,214	-	-
Security Deposits	13,520	-	-
Investments	466,940	-	-
Payables	(56,608)	(289,863)	(227,038)
Convertible notes	(3,450,000)	-	-
Loan payable	(1,000,000)		
	(2,179,361)	1,303,776	1,276,033
Equity Acquired	100%	51%	51%
Fair Value of Net Assets	(2,179,361)	664,926	650,777
Goodwill on acquisition	2,179,363	60,844	74,993
Impairment of goodwill at 31.12.11 brought to account in Statement of Comprehensive Income	2,179,363	-	-
Goodwill as at 30.6.2012	-	60,844	74,993

The goodwill recognised on the acquisition of interests in the Indonesian companies PT Pola Andhika Realtor and PT Berkah Bhumi Abadi is considered recoverable based on the fair value of the net assets including the B2 and B6 tenements held by these entities at balance date.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

14 TRADE AND OTHER PAYABLES

	Consolidated	
	30.06.12	30.06.11
	$	$
CURRENT		
Trade Payables	216,979	792
Sundry creditors	8,878	-
PAYG and related payroll liabilities	120,085	-
Accrued interest payable on Convertible Note	126,666	-
Amounts payable to Mega Coal entities	185,137	-
Share Application monies received	-	1,606,760
Accrued expenses	67,667	34,008
	725,412	1,641,560

15 EMPLOYEE PROVISIONS

Provision for employee leave entitlements	17,719	-
	17,719	-

16 BORROWINGS

CURRENT		
Related Party Loan	-	434,205
	-	434,205

In the prior year this loan had been advanced by Coalworks Limited to assist operating and relisting costs. This loan was settled by the issue of shares and options upon relisting in August 2011.

17 CONVERTIBLE NOTES

CURRENT		
Convertible Notes	2,200,000	-
	2,200,000	-

On 21 September 2011, 8.8 Million convertible notes were issued to Coalworks Limited as consideration for cash advanced for the acquisition of B3 and B4.

The notes are interest bearing at 9% pa with a maturity date of 31 December 2014.

The notes are considered current as they may be converted at any time at the option of the company.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

18 ISSUED CAPITAL AND RESERVES

Shares		Consolidated 30.6.12 Number of Shares	Consolidated 30.6.12 $
Movement on ordinary shares on issue			
Balance at 30 June 2009		46,784,055	8,362,642
Shares issued in Placement October 2009		7,017,608	21,052
Balance at 30 June 2010		53,801,663	8,383,694
Consolidation at 5:1		(43,041,170)	-
Issues approved at General Meeting on 30 November 2010 in relation to re-organisation and restructure of company		4,587,500	-
Balance at 30 June 2011		15,347,993	8,383,694
Issued under the Public Offering		30,000,000	7,500,000
less: Capital raising costs		-	(367,910)
Issued in consideration for the Acquisition of the Hodgson Vale and Ashford projects		25,000,000	6,250,000
Issued upon conversion of convertible notes	(i)	34,500,000	3,450,000
Issued in settlement of the Equity loan from Coalworks Limited	(ii)	10,000,000	1,000,000
Placement of Ordinary Shares	(iii)	17,227,198	2,239,536
less: Capital raising costs		-	(123,174)
Balance at 30 June 2012		132,075,191	28,332,145

(i) 34,500,000 Convertible notes were converted to share capital based on the issue price of the Convertible Notes being 10 cents each.

(ii) The settlement of the Equity loan account provided by Coalworks Limited was by the issue of 10,000,000 shares and 5,000,000 options as approved at the General meeting of 30.10.10. The fair value of the shares issued has been determined based on the fair value of the services provided in accordance with AASB2 "Share Based Payments" being $1,000,000.

(iii) On 7 June 2012: 17,227,198 ordinary shares were issued under a placement at $0.13 each

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

18 ISSUED CAPITAL AND RESERVES - continued

Options	Consolidated 30.6.12 Number of Options	Options Expired during the year	Date Expired
Movement in options on issue			
Opening balance	27,558,748		
Consolidation at 5:1	(22,046,998)		
	5,511,750	47,617	15.12.11
Issues approved at General Meeting on 30 November 2010 in relation to re-organisation and restructure of company	15,043,750	2,293,750	31.12.11
	20,555,500		
Options expired on 31 December 2010	(3,845,084)		
Balance 30 June 2011	16,710,416		
Options Issued			
Issued under Rights entitlements of Public Offer	588,734	588,734	31.12.11
Issued in consideration for the Acquisition of the Hodgson Vale and Ashford projects	12,500,000	12,500,000	31.12.11
Issued upon conversion of convertible notes	17,250,000	17,250,000	31.12.11
Issued in settlement of the Equity loan from Coalworks Limited	5,000,000	5,000,000	31.12.11
Options issued as staff incentives	1,675,000	-	
Options Issued to BBY pursuant to Brokerage agreement	1,000,000	-	
Options Expired on 31.12.11	(37,680,101)	37,680,101	
Staff Incentive Options lapsed on termination of employment	(500,000)		
Balance at 30 June 2012	16,544,049		

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

19 RESERVES

Option Based Payments Reserve
The option reserve records items recognised as expenses on valuation of employee share options.

Foreign Currency Translation Reserve
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

Employee Benefits Reserve
The value of share options issued in consideration for services rendered in relation to discontinued operations prior to the reconstruction and re-listing of the company in August 2011. As a result this reserve has been transferred to retained earnings.

20 COMMITMENTS

	Consolidated	
	30.06.12 $	30.06.11 $
The company has the following outstanding commitments:		
Balance due for acquisition of 50% interest in ADK	634,621	-
	634,621	-

Acquisition of a 50% interest in (ADK) PT Alam Duta Kalimantan for USD $1,000,000 (Total Paid at balance date was USD $350,000) The amount outstanding at balance date based on an exchange rate at that time of $1 AUD = $1.024233 USD

21 CONTINGENT LIABILITIES

Since the last annual reporting date, the directors are not aware of any material changes in any commitments and contingencies of the company.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

22 CAPITAL AND LEASE COMMITMENTS

	Consolidated	
	30.06.12	30.06.11
	$	$
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
not later than 12 months (i)	40,976	-
between 12 months and 5 years	-	-
	40,976	-

(i) Office Lease of $5,853.75 per month expires 31 January 2013.

Capital Expenditure Commitments

There are no forward capital expenditure commitments contracted for by the group.

Under the terms of the granting of the various exploration licences certain expenditure or diligent efforts are required to be demonstrated periodically to the relevant government authorities. These expenditures have been budgeted for and the company expects to meet the requirements over the relevant licence periods.

23 EVENTS AFTER BALANCE DATE

- On 2 July 2012, the Company announced it had signed a life of mine Royalty Agreement with Indonesian mining contractor PT Debbia Mining, whereby the Company will receive US$8 net per tonne on all coal sales at its 51% owned B2 project in East Kalimantan, Indonesia.
- On 1 August 2012 the Company announced terms as agreed by all parties for:
  - the conversion of the $2.2m Orpheus Energy Limited Convertible notes held by Coalworks Limited and the accumulated interest into Ordinary fully paid shares in Orpheus.
    these Ordinary shares will then be included in the "in-specie" dividend by Coalworks Limited which is expected will occur in September 2012.
    Whilst the Boards of both Orpheus and Coalworks have agreed to these arrangements, shareholder approval is required and will be sought at the upcoming Annual General Meeting of Orpheus Energy Limited in September 2012.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

24 RELATED PARTIES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated	
	30.06.12 $	30.06.11 $
Wages and Fees paid in the current year in relation to consulting services rendered, excluding directors fees and related superannuation:		
In relation to current services.		
Mr Wayne Mitchell (and his associates)	227,604	-
Mr David Smith (and his associates)	73,527	-
Mr Wes Harder (and his associates)	140,664	-
Mr Tony King (and his associates)	-	-
In relation to past services.		
Mr Wayne Mitchell (and his associates)	100,000	-
Mr Wes Harder (and his associates)	60,000	-

Orpheus Energy Limited and Coalworks Limited
For the period 1 July 2011 to 20 June 2012 the company had a common director, Wayne Mitchell, with Coalworks Limited.

For the period from 18 August 2011 to 11 November 2011, David Smith was a common director of Coalworks Limited.

The company acquired exploration tenements; Hodgson Vale and Ashford and the entity Orpheus Energy Group Pty Ltd from Coalworks Limited in August 2011 in consideration for the issue of shares and options in Orpheus Energy Limited.

On 23 September 2011, Coalworks Limited distributed 17,725,185 shares it held in Orpheus Energy Limited, to Coalworks Limited shareholders in the form of an unfranked dividend.

Orpheus and Coalworks Limited occupy adjacent office suites in North Sydney. The companies have separate rental agreements and terms with their respective Landlords. There are a number of staff and consultants who provide services to both Orpheus and Coalworks. Each is remunerated separately on arms-length commercial terms under engagement contracts with each company respectively. Mr Nathan Bartrop as Company secretary and Mr David Oastler as Chief Financial Officer, were remunerated separately in this manner by both companies throughout the year. Mr Chis Hagan was engaged as a senior advisor, under contract, to both companies during the year. These 3 individuals are also considered Key Management Personnel of both companies.

Convertible Notes
On 21 September 2011, 8.8 Million convertible notes were issued to Coalworks Limited as consideration for cash advanced for the acquisition of B3 and B4. The notes are interest bearing at 9% pa with a maturity date of 31 December 2014.

Mega Coal
Under the Strategic Alliance Agreement, the company has entered cooperation, Joint Venture, entity acquisition, funding, profit share and related agreements with Indonesian company Mega Coal and related parties. Prior to entering agreements the company undertook an assessment and engaged where considered appropriate, external experts to assist in the companies due diligence reviews. Significant agreements entered into are summarised below:
Agreements were entered into to acquire Interests in the entities owing the concessions known as B3 and B4. These entities are related parties of Mega Coal.

Agreements were entered into to acquire from the existing shareholders, interests in PT Alam Duta Kalimantan which owns the mining concessions known ADK. These existing shareholders in PT Alam Duta Kalimantan are related parties to Mega Coal.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

25 CONTROLLED ENTITIES

The following are Subsidiaries of the group, are controlled entities and have been consolidated at 30 June 2012.

Entity Name	Country of incorporation or formation	Equity interest 2012	Equity interest 2011	Investment $ 2012	Investment $ 2011
Orpheus Energy Group Pty Ltd	Australia	100%	-	2	-
Orpheus Energy (Ashford) Pty Ltd as trustee for	Australia	100%	-	2	-
Ashford Unit Trust	Australia	100%	-	10	-
Orpheus Energy (Hodgson Vale) Pty Ltd as trustee for	Australia	100%	-	2	-
Hodgson Vale Unit Trust	Australia	100%	-	10	-
Orpheus Energy (Wingen) Pty Ltd as trustee for	Australia	100%	-	2	-
Wingen Unit Trust	Australia	100%	-	10	-
Orpheus Energy (Hong Kong) Limited	Hong Kong	50%	-	605	-
PT Orpheus Energy	Indonesia	50%	-	488,170	-
PT. Pola Andhika Realtor	Indonesia	51%	-	732,255	-
PT. Berkah Bhumi Abadi	Indonesia	51%	-	732,255	-
Bushveld Exploration (SA) (Pty) Ltd	South Africa	100%	100%	20	20

a) **Acquisition of controlled entities:**

100% of Orpheus Energy Group Pty Ltd was acquired from Coalworks Limited on 10 August 2011.

PT Orpheus Energy was a subsidiary of Orpheus Energy Group Pty Ltd when acquired on 10 August 2011. See Note: 13 for details of assets and liabilities acquired

51% of the equity of PT. Pola Andhika Realtor (Indonesia) was acquired on 11 November 2011. See Note: 13 for details of assets and liabilities acquired

51% of the equity of PT. Berkah Bhumi Abadi (Indonesia) was acquired on 26 October 2011. See Note: 13 for details of assets and liabilities acquired

b) **Incorporation of controlled entities:**

The following entities were incorporated during the year to hold or acquire assets for the group. None of these companies have traded during the financial year.

	Consideration Paid $	Percentage Owned %
Orpheus Energy (Ashford) Pty Ltd as trustee for	2	100
Ashford Unit Trust	-	100
Orpheus Energy (Hodgson Vale) Pty Ltd as trustee for	2	100
Hodgson Vale Unit Trust	-	100
Orpheus Energy (Wingen) Pty Ltd as trustee for	2	100
Wingen Unit Trust	-	100
Orpheus Energy (Hong Kong) Limited	605	50

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

26 INTERESTS OF DIRECTORS AND KEY MANAGEMENT

OPTION HOLDINGS

	Options held at 30 June 2012							
						Vested at 30 June 2012		
	Balance at 01-Jul-2011	Held at date of appointment / resignation	New Issues	Expired	Balance at 30-Jun-2012	Total Vested	Exercisable	Not Exercisable (under escrow per ASX)
Directors								
Wayne Mitchell	3,000,000	-	-		3,000,000	3,000,000	-	3,000,000
David Smith	-	1,250,000	500,000	(250,000)	1,500,000	1,500,000	500,000	1,000,000
Wesley Harder	1,500,000	-	-		1,500,000	1,500,000	-	1,500,000
Tony King	1,000,000	-	-		1,000,000	1,000,000	-	1,000,000
Other Key Management Personnel								
C Hagan (Senior Advisor)	2,750,000				2,750,000			2,750,000
N Bartrop (Co Sec)	-	-	250,000		250,000	250,000	250,000	-
D Oastler (CFO)	-	-	250,000		250,000	250,000	250,000	-
Total	8,250,000	1,250,000	1,000,000	(250,000)	10,250,000	7,500,000	1,000,000	9,250,000

OPTION HOLDINGS

	Options held at 30 June 2011							
						Vested at 30 June 2011		
	Balance at 01-Jul-2010	Held at date of appointment / resignation	New Issues	Expired	Balance at 30-Jun-2011	Total Vested	Exercisable	Not Exercisable (under escrow per ASX)
Directors								
Wayne Mitchell	-	-	3,000,000		3,000,000	3,000,000	-	3,000,000
Wesley Harder	-	-	1,500,000		1,500,000	1,500,000	-	1,500,000
Tony King	-	-	1,000,000		1,000,000	1,000,000	-	1,000,000
David Hickie	-	-	-		-	-	-	-
Bruce Andrew	396,436	-	-		-	-	-	-
Ilmars Draudins	-	-	-		-	-	-	-
Mark Menzies	328,075	-	-		-	-	-	-
Jon O'Callaghan	-	-	-		-	-	-	-
	724,511	-	5,500,000	-	5,500,000	5,500,000	-	5,500,000

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

26 INTERESTS OF DIRECTORS AND KEY MANAGEMENT (continued)

SHARE HOLDINGS

	Shares held at 30 June 2012				
	Balance held at 01-Jul-11	Held at date of appointment or resignation	Reduction due to Consolidation 1 for 5 on 30 Nov 2010	Purchased on market or Public Offering or Issued on Re-listing or dividend from Coalworks	Balance held at 01-Jul-12
Directors					
Wayne Mitchell	302,242			1,214,586	1,516,828
David Smith	-	1,116,000		8,341,000	8,341,000
Wesley Harder	302,242			461,099	763,341
Tony King	302,242			25,000	327,242
Other Key Management Personnel					
C Hagan (Senior Advisor)				961,109	961,109
N Bartrop (Co Sec)				80,000	80,000
D Oastler (CFO)				514,250	514,250
Total	906,726	1,116,000	-	11,597,044	12,503,770

SHARE HOLDINGS

	Shares held at 30 June 2012				
	Balance held at 01-Jul-10	Held at date of appointment or resignation	Reduction due to Consolidation 1 for 5 on 30 Nov 2010	Purchased on market or Public Offering or Issued on Re-listing or dividend from Coalworks	Balance held at 01-Jul-11
Directors					
Wayne Mitchell	-	1,511,210	(1,208,968)	-	302,242
Wesley Harder	-	1,511,210	(1,208,968)	-	302,242
Tony King	-	1,511,210	(1,208,968)	-	302,242
David Hickie	-	-	-	-	-
Bruce Andrew	792,872	(792,872)	-	-	-
Richard Green	-	-	-	-	-
Ilmars Draudins	-	-	-	-	-
Mark Menzies	656,150	(656,150)	-	-	-
Jon O’Callaghan	-	-	-	-	-
Total	1,449,022	3,084,608	(3,626,904)	-	906,726

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

27 SEGMENT REPORTING

The principal geographical areas of operation of the Consolidated Entity are as follows:

Australia
Indonesia

Operating segments are identified on the basis of internal reports that are regularly reviewed by the executive team in order to allocate resources to the segment and assess its performance.

Segment Revenues and Results

The following is an analysis of the Consolidated Entity's revenue and results by reportable operating segment for the periods under review.

	Australia	Indonesia	Consolidated	Australia	Indonesia	Consolidated
	$	$	$	$	$	$
	Financial year Ended 30 June 2012			Financial year Ended 30 June 2011		
Revenue:						
Revenue from outside the Consolidated Entity	117,013	334,908	**451,920**	846	-	**846**
Other unallocated revenue	-	-	**-**	-	-	**-**
Total Revenue			**451,920**			**846**
Segment result	(7,449,770)	(373,871)	**(7,823,641)**	(242,854)	-	**(242,854)**
Income tax	-	-	**-**	-	-	**-**
Net Loss			**(7,823,641)**			**(242,854)**
Non-cash items included in loss above:						
Depreciation and amortisation	9,030	4,828	**13,858**	-	-	**-**
Share based payments	241,315	-	**241,315**	-	-	**-**
Loss on settlement of loan	-	-	**-**	-	-	**-**
Impairment of investment in Exploration Licences	2,721,155	-	**2,721,155**	-	-	**-**
Impairment of investment	100,000	-	**100,000**			
Impairment of goodwill	2,179,363	-	**2,179,363**	-	-	**-**
Assets:						
Segment assets	12,427,590	4,699,222	**17,126,812**	1,726,311	-	**1,726,311**
Unallocated corporate assets	-	-	-	-	-	**-**
Consolidated Total Assets			**17,126,812**			**1,726,311**
Liabilities:						
Segment liabilities	2,548,728	394,404	**2,943,131**	2,075,765	-	**2,075,765**
Unallocated corporate liabilities	-	-	-	-	-	**-**
Consolidated Total Liabilities			**2,943,131**			**2,075,765**
Segment acquisitions:						
Acquisition of property, plant and equipment	50,646	58,571	**109,216**	-	-	**-**
Capitalised exploration expenditure	4,051,932	3,090,628	**7,142,561**	-	-	**-**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

28 GOING CONCERN

Notwithstanding the loss incurred during the current period amounting to $7,823,641, the directors believe that the company is a going concern based on:

- the strong cash position of the company having $3,585,127 in cash at balance date which is forecast to be sufficient to meet exploration and administrative expenditure for in excess of the next 12 months
- the recent acquisition of interests in the ADK mine which is a currently operating mine is expected to contribute positively towards profits and cash flow of the company
- the recently announced appointment of a new mining contractor for the B26 project, whereby contractual arrangements are based on a net margin or royalty payable to the company.
- $5,000,518 of the losses in 2012 were non cash write-offs.

The above revenue streams are expected to provide solid cash flows to support the ongoing development of the company's growing portfolio of projects.

29 PARENT ENTITY INFORMATION

	Parent entity	
	30.06.12 $	30.06.11 $
Results of the parent entity		
Loss for the year	6,113,878	242,008
Other comprehensive income	-	-
Total comprehensive loss for the year	6,113,878	242,008
Financial position of the parent entity at year end		
Current Assets	14,277,138	1,726,311
Total Assets	18,719,386	1,726,311
Current Liabilities	2,321,088	2,075,765
Total liabilities	2,321,088	2,075,765
Total equity of the parent entity comprising of:		
Share Capital	28,428,145	8,383,694
Reserves	597,733	979,952
Retained Earnings	(12,667,663)	(9,713,100)
Total Equity	16,358,216	(349,454)

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2012

30 CORPORATE INFORMATION

Registered office and Principal place of business

Level 5
44 Miller Street
North Sydney NSW 2060

T 61 2 9922 3930
F 61 2 9929 6820

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 24 to 61 are in accordance with the *Corporations Act 2001* and:
   a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the consolidated group;

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3 The directors have been given the declarations require by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer

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

On behalf of the Board

Wayne Mitchell
Director

13th August 2012

ORPHEUS ENERGY LIMITED ABN 67 121257 412
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO
THE MEMBERS OF ORPHEUS ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Orpheus Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

Independence

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

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ORPHEUS ENERGY LIMITED ABN 67 121257 412
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO
THE MEMBERS OF ORPHEUS ENERGY LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of Orpheus Energy Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Orpheus Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Hall Chadwick

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Graham Webb
Partner
Date: 13 August 2012

ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 7th August 2012.

(a) Distribution of equity securities

132,075,191 fully paid ordinary shares are held by 2,170 individual shareholders.
All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding, in each class are:

Holdings Ranges	Holders	Total Units	%
1-1,000	865	354,029	0.268
1,001-5,000	587	1,351,006	1.023
5,001-10,000	221	1,745,036	1.321
10,001-100,000	379	14,257,000	10.795
100,001-99,999,999,999	118	114,368,120	86.593
Totals	**2,170**	**132,075,191**	**100.000**
Holding less than a marketable parcel	1,408		

(b) Substantial shareholders

Name	Number	Percentage
COALWORKS LIMITED	38,296,367	28.996

(c) Twenty largest holders of quoted equity securities

	Ordinary shareholders	Fully Paid Number	Fully Paid Percentage
1	COALWORKS LIMITED	38,296,367	28.996
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	10,005,497	7.576
3	MR PAUL DANA FILLION	8,643,906	6.545
4	OCTOPI ENTERPRISES PTY LTD	6,825,000	5.168
5	BOARDWALK RESOURCES PTY LTD	3,708,587	2.808
6	AUSTRALIAN FEATHER MILLS PTY LTD	2,600,000	1.969
7	CENTRE CAPITAL (NEWCASTLE) PTY LTD <CNTR CAP NEWCASTLE UNIT A/C>	2,500,000	1.893
8	MR CHARLES L HYLAND	1,800,000	1.363
9	SEPT ROUGES LIMITED	1,750,000	1.325
10	RODBY HOLDINGS PTY LIMITED <SIN PYNG TENG SUPER FUND A/C>	1,653,693	1.252
11	HAWTHORN GROVE INVESTMENTS PTY LTD	1,640,000	1.242
12	MR DAVID EDWARD SMITH	1,500,000	1.136
13	PORTER & CO NOMINEES PTY LTD <PORTER & CO P/L SUPER A/C>	1,436,249	1.087
14	WEXFORD SPECTRUM TRADING LIMITED	1,200,000	0.909
15	MR CHARLES L HYLAND	1,200,000	0.909
16	MR WAYNE DOUGLAS MITCHELL	1,137,692	0.861
17	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,065,880	0.807
18	JEREMY NOCKLES PTY LTD <JEREMY NOCKLES S/F A/C>	1,004,714	0.761
19	MRS LESLEY DUMBRELL	1,000,000	0.757
20	MR GARRICK RALPH HIGGINS & MR RALPH STUDDERT HIGGINS <HIGGINS SUPER FUND A/C>	829,637	0.628
	Total of top 20 Holders	89,797,222	67.989
	Total Issued Capital	132,075,191	

ASX Additional Information

a) Unquoted Securities

UNQUOTED SECURITIES	Number of Holders	Number of Securities on Issue	Holders Holding more than 20% of each class	Number Held
Options Exercisable at $2.63 on or before 8 September 2012	4	1,619,049	MALACHITE ENTERPRISES LTD	288,889
			MP CAPITAL PTY LTD	507,937
			SUPER ALLOYS AFRICA LIMITED	793,651
Options Exercisable at 20 cents on or before 30 September 2014	8	12,750,000	N/A	N/A
Options Exercisable at 20 cents on or before 30 September 2014	7	1,175,000	N/A	N/A
Options Exercisable at 25 cents on or before 4 August 2014	1	1,000,000	BBY Limited	1,000,000

b) Securities subject to escrow

SECURITIES SUBJECT TO ESCROW		
Ordinary Shares	19,780,352	restricted until 17 August 2013
Options Exercisable at 25 cents on or before 4 August 2014	1,000,000	restricted until 17 August 2013
Options Exercisable at 20 cents on or before 30 September 2014	12,750,000	restricted until 17 August 2013

OTHER INFORMATION

There is no current on-market buyback of the Company's securities.

The Company has used the cash and assets readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.