

Quarterly Report

**Activities Report for the Quarter ended
30 June 2014**



ORPHEUS
ENERGY

OVERVIEW

- Saleable coal of ~8,000 tonnes for the June Quarter due to ongoing poor weather and change of mining contractor
- Post reporting date, Orpheus ("OEG" or "the company") announced it had executed sales agreements for the sale of its interests in the Papua, B34, CBP, and ADK projects, for a total consideration of US\$8.2 million
- US\$350,000 already received in initial deposits, and under the ASX Listing Rules 11.2, shareholder approval for the transaction is being sought at a General Meeting to be held on 14 August 2014
- Continued cost-reductions strategies being implemented

Coal Production/Sales

In the June quarter, Orpheus's ADK production was dramatically impacted due to continuing very poor weather, causing myriad issues, as well as having to appoint a new mining contractor. Only 3,258 tonnes of coal were mined from the ADK project and 4,697 tonnes were traded for a total sales volume of 7,955 tonnes. Orpheus achieved an average sale price in line with the benchmark Indonesian Coal Index (ICI) price for the sales of 4200GAR thermal coal in the June quarter. During the June quarter, the ICI averaged US\$37.50/t, which was a 2.8% decrease from the March quarter, following on from a 1.7% drop over the previous quarter.

Post reporting date, 10,287 tonnes of coal has already been shipped in July, from stockpiled ADK coal and trading, and the new mining contractor reports that production at the ADK project is underway, forecasting 30,000 tonnes per month in August, then increasing to 40,000+ tonnes per month after that.

Sale of Indonesian Mining and Exploration Assets

As announced just after reporting date, on 1 July 2014, Orpheus advised it had signed agreements with Mr Nugroho Suksmanto, PT Mega Coal and related parties regarding the sale of Indonesian assets for total proceeds of approximately US\$8.2million to be effected by the sale of OEG's 51% equity in six entities, namely PT Daya Mega Citra and PT Daya Mega Pelita (Papua tenements), Pt Pelita Dian Petangi (B3), PT Pelita Kharisma Kenanga (B4) PT Alam Duta Kalimantan (ADK) and PT Citra Bara Prima (CBP).

The original JV Agreements Orpheus Energy entered into with Mr Suksmanto and PT Mega Coal since 2011 for each project, specifically provided for the potential repayment of funds expended by Orpheus in acquiring and developing those projects introduced by Mr

Suksmanto and PT Mega Coal. At the time, Orpheus Directors deemed it prudent to negotiate such provisions to protect shareholders' interests should the projects not turn out to be of sufficient quality to proceed in a profitable manner. As it has transpired, none of the aforementioned projects have performed in a manner that gives Orpheus Directors confidence to proceed further, and accordingly, Mr Suksmanto and PT Mega Coal have honoured the original JV agreements and agreed to the sale back of these assets.

Completion of the Transaction will deliver a number of key benefits to OEG Shareholders including:

- (a) Completion of the Transaction will result in a significant cash return to Orpheus of approximately US\$8.2 million with a total profit of approximately US\$3.9 million.
- (b) Sale of non-performing assets will allow the Company to consider alternative asset acquisition that the Directors' believe will add value to shareholders. Already, multiple new potential projects are being investigated by the Board, including metallurgical coal, graphite, vanadium, and gold, among others, in various geographical locations, with a focus on resources and/or technologies in high value-adding mining sectors.

US\$350,000 has already been received by Orpheus in initial deposits on the transaction, however there have been delays in the receipt of further milestone deposits per the sales agreements, so the Orpheus Board determined it sensible to extract a personal legal undertaking from Mr Nugroho Suksmanto prior to announcing the details of the assets sales. Through the personal undertaking, Mr Suksmanto personally commits to settle all outstanding debts by PT Mega Coal and related parties, and to indemnify Orpheus and related parties against cost, loss or liability, suffered by Orpheus or related parties in the case of a breach of the project sales agreements.

It is a requirement under the ASX Listing Rules 11.2 that OEG seek Shareholder approval by ordinary resolution for the Transaction and the Company is now seeking such approval from Shareholders at a General Meeting to be held on 14 August 2014.

Ongoing Cost Reduction / Cash Management program

Over the last quarter, the Company has continued to implement an aggressive cost reduction strategy to further reduce the Company's monthly administration costs. These measures include:

- Continued deferment of Directors' fees
- Continued deferment of Executive salaries by ~50%
- Further reduction of Indonesian operational workforce
- Some office rental abatement through sub-leasing

To provide working capital cover for the company during the period of the Indonesian Assets Sales process, the Directors provided a further loan to the company in the sum of AUD\$250,000 on 23 June 2014. This loan is in addition to the Directors' loan in the sum of AUD\$200,000 made last November 2013 and announced in the company's Half-Year Report. Consequently, the total Directors' loans outstanding are AUD\$450,000 plus applicable discounted interest. It is envisaged these loans will be repaid from the proceeds of the Indonesian Assets sales.

Disclaimer – Forward looking statements

This release may contain forward-looking statements. These statements are based upon management's current expectations, estimates, projections and beliefs in regards to future events in respect to Orpheus's business, the industry in which it operates. These forward looking statements are provided as a general guide and should not be relied upon as an indication or guarantee of future performance. The bases for 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. Orpheus Energy Limited takes no responsibility to make changes to these statements to reflect change of events or circumstances after the release.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

ORPHEUS ENERGY LIMITED

ABN

67 121 257 412

Quarter ended ("current quarter")

JUNE 2014

Consolidated statement of cash flows

Cash flows related to operating activities

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	65	1,564
1.2 Payments for		
(a) exploration and evaluation	-	(48)
(b) development	-	(650)
(c) production	(45)	(1,086)
(d) administration	(351)	(1,679)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	-	6
1.5 Interest and other costs of finance paid	(24)	(209)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)		
-		-
Net Operating Cash Flows +	(355)	(2,102)

Cash flows related to investing activities

1.8 Payment for purchases of:	(a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	-	(3)
1.9 Proceeds from sale of:	(a)prospects	-	-
	(b)equity investments *	157	157
	(c)other fixed assets**	172	172
1.10 Loans/advances to other entities		-	-
1.11 Loans repaid by other entities including working capital advances		-	-
1.12 Other (provide details if material)		-	-
Deposits applied for purchase of equity investments		-	-
Deposits paid re mining operations		(478)	(478)
Net investing cash flows		(149)	(152)
1.13 Total operating and investing cash flows (carried forward)		(504)	(2,254)

* Proceeds from sale of equity in subsidiaries

** Proceeds from sale of options to acquire equity in exploration tenements

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(504)	(2,254)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc. Net of brokerage	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	250	1,489
1.17	Repayment of borrowings	(211)	(377)
1.18	Dividends paid	-	-
1.19	Other -	-	-
	Net financing cash flows	39	1,112
	Net increase (decrease) in cash held	(465)	(1,142)
1.20	Cash at beginning of quarter/year to date	950	1,596
	Cash acquired on acquisition of subsidiaries	-	4
1.21	Exchange rate adjustments to item 1.20	(72)	(45)
1.22	Cash at end of quarter	413	413

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.2	Aggregate amount of payments to the parties included in item 1.2	-
1.2	Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities (to finance port infrastructure and for working capital)	1,112	1,112
3.2 Credit standby arrangements	NIL	NIL

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	699
Total	699

Note Funds from signed agreements for sale of assets, subject to shareholder approval at the EGM on 14 August 2014, to be received during the July-September 2014 quarter - \$3.63 million.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	413	950
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	413	950

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Lic No 6511	Exploration Licence – Ashford NSW	100%	-
6.2 Interests in mining tenements acquired or increased	-			

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities <i>(description)</i>				
7.2	Changes during quarter				
	(a) Increases through issues	-			
	(b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3	+Ordinary securities	150,256,271	150,256,271		Fully Paid
7.4	Changes during quarter				
	(a) Increases through issues	-	-		
	(b) Decreases through returns of capital, buy-backs				
7.5	+Convertible debt securities <i>(description)</i>	-			
7.6	Changes during quarter				
	(a) Increases through issues	-			
	(b) Decreases through securities matured, converted	-			
7.7	Options <i>(description and conversion factor)</i>				
		Options	Quoted	Exercise price	Expiry date
	Unquoted	13,925,000	-	\$0.20	30/09/2014
	Unquoted	1,000,000	-	\$0.25	04/08/2014
	Unquoted	10,189,458	-	\$0.0607	30/6/2017
	Total Options	25,114,458	-	-	-
7.8	Issued during quarter	Options	Quoted	Exercise price	Expiry date
		-	-	-	-
		-	-	-	-
7.9	Exercised during quarter	-			
7.10	Expired during quarter	Options	Quoted	Exercise price	Expiry date
		-	-	-	-
	Total Options	25,114,458	-	-	-
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 30 July 2014

(Company Secretary)

Print name:

David Smith

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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