



7 November 2014

ORPHEUS ENERGY ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS

It is my pleasure to present the Company's AGM address 2014 and I would like to welcome all attendees.

The primary message for this year is one of company re-calibration. Coal prices have recently hit a five year-low and while the coal sector remains a strong long-term prospect, Orpheus shareholders deserve to see a re-rating of our share price in the shorter term, which in the Board's view will more likely result from focusing on other growth opportunities as well as coal.

Coal production and sales for the year were at low levels. Working capital constraints, an unusually bad year for inclement weather, continued issues with illegal mining near our concession border, even extending into our area, and the closure of the nearby SKJM Port for four months (and all surrounding ports) by the police, meant production was substantially below our projections. Our issues throughout the year were not related to our ability to mine and/or sell the coal mined, albeit at extremely low margins, but were as a result of factors beyond our control.

Indeed, some recent developments in the Indonesian coal sector which provided further impetus for your Board to make the decision to carefully re-evaluate Orpheus's future in this sector included:

1. New Government regulations require all existing miners to re-apply for export mining permits, with the intent by the Government to control the payment of all back taxes. The approval process will take time, restricting the operations of many export miners;
2. The new rules have the intention of reining in illegal operations, forcing coal miners to register with the central government and make royalty payments upfront before they

- are allowed to export, and as reported by the Indonesian Coal Mining Association, this will affect exports significantly;
3. The government has also announced that it will proceed with plans to cap the production of coal next year, a move aimed not only at protecting the environment but also at helping stem a decline in global coal prices;
 4. Data in early September from the Financial Services Authority (OJK) showed that non-performing loans to the mining sector had more than doubled to 2.49 percent in June from 0.99 percent a year before, showing the impact of the downturn in prices; and
 5. The ongoing lack of clarity on the process of obtaining mining licenses.

In this ongoing environment, the Board continues to implement its asset rationalisation and cost reduction strategy as determined through the comprehensive strategic review of the Company's asset base and cost structure in late 2013. Apart from executing an aggressive cost-reduction strategy to reduce the Company's monthly administration costs, including wholesale staff redundancies and deferred Directors' and Executives' fees and salaries, the Board is actively looking at a number of geographically and geologically diverse potential near-term cash-flow opportunities.

Most importantly, on 1 July this year, we announced the sale of the Company's non-performing projects to our Indonesian partner, Mr Nugroho Suksmanto, for a total consideration of US\$ 8.2 million, representing an overall profit of US\$ 3.9 million. This was subsequently approved by shareholders at the General Meeting on 14 August. These funds will significantly strengthen Orpheus's balance sheet and facilitate transacting on and developing future growth opportunities for the Company.

Collections have been slow, with only US\$ 965,853 paid to date, so in consultation with our Indonesian legal advisors, Orpheus extracted a personal legal undertaking from Mr Suksmanto whereby 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.

The Orpheus Board is in the process of initiating action to expedite the recovery of outstanding monies owed by Mr Suksmanto and we will keep shareholders updated.

The sale of the non-performing coal assets allows the Company to progress an alternative asset acquisition strategy that the Directors believe will add value to shareholders and grow the Company. One of these projects is a potentially industry changing gold processing technology. Orpheus has significantly progressed its due diligence and negotiations, which commenced a number of months ago, on this technology. Orpheus anticipates being in a position in the very near term to announce details to shareholders.

To the extent ASX Listing Rule 11 applies to the acquisition of any alternative asset, the approval of OEG shareholders may be required prior to completion.

Finally, I would like to thank my board and colleagues, for their diligent contributions to the company over the last twelve months, however, I would particularly like to thank all our shareholders for their continued support in a challenging environment for the company, and look positively to growing Orpheus over the next twelve months.

Wayne Mitchell
Executive Chairman

For further information, please contact:

David Smith, Executive Director / Company Secretary

Email: info@orpheusenergy.com.au;

Phone +61 2 8281 8200

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