

Quarterly Report

Activities Report for the Quarter ended
31 March 2014



ORPHEUS
ENERGY

HIGHLIGHTS

- **Saleable coal ~60,000 tonnes for the March Quarter due to ongoing poor weather and commencement of mining in new area of the ADK tenement**
- **Board strategic review continues asset rationalisation and efficiency program and comprehensive cost-reduction activities reducing monthly cash-burn by ~25% over the last six months**

Coal Production/Sales

| Thousands of Tonnes | Quarter Ended | | | YTD | | |
|-------------------------|---------------|---------------|----------------|----------------|---------------|---------------|
| | Mar-14 | Mar-13 | Change | Mar-14 | Mar-13 | Change |
| Coal Production | 0 | 20,104 | | 29,767 | 64,129 | |
| Coal Trading | 60,086 | 0 | | 81,729 | 0 | |
| Total Coal Sales | 60,086 | 20,104 | 198.87% | 111,496 | 64,129 | 73.86% |

As flagged in the December quarterly report, Orpheus's ADK production has been impacted due to continuing poor weather during the March quarter, thereby affecting river diversion, overburden removal and water pumping activities. Additionally, a new area of the ADK tenement focused on the thick Seam 5 (see attached ADK map – seam 5 ranges from 2.5 – 7 metres in thickness) took longer to prepare for coal extraction than had been anticipated.

Post reporting date, mining activities are normalising and coal is now being mined and transported to SKJM Port at the rate of 500 – 1000 tonnes per day. It is anticipated the coal production rate will increase as additional mining equipment is moved onto site over the coming weeks.

Approximately 30,000 tonnes of coal were traded in each of January and February (total ~60,000 tonnes) by Orpheus's trading division. 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 March quarter. During the quarter, the ICI averaged US\$38.59/t, which was a 1.7% decrease from the December quarter, following on from a 5.7% drop over the previous quarter.

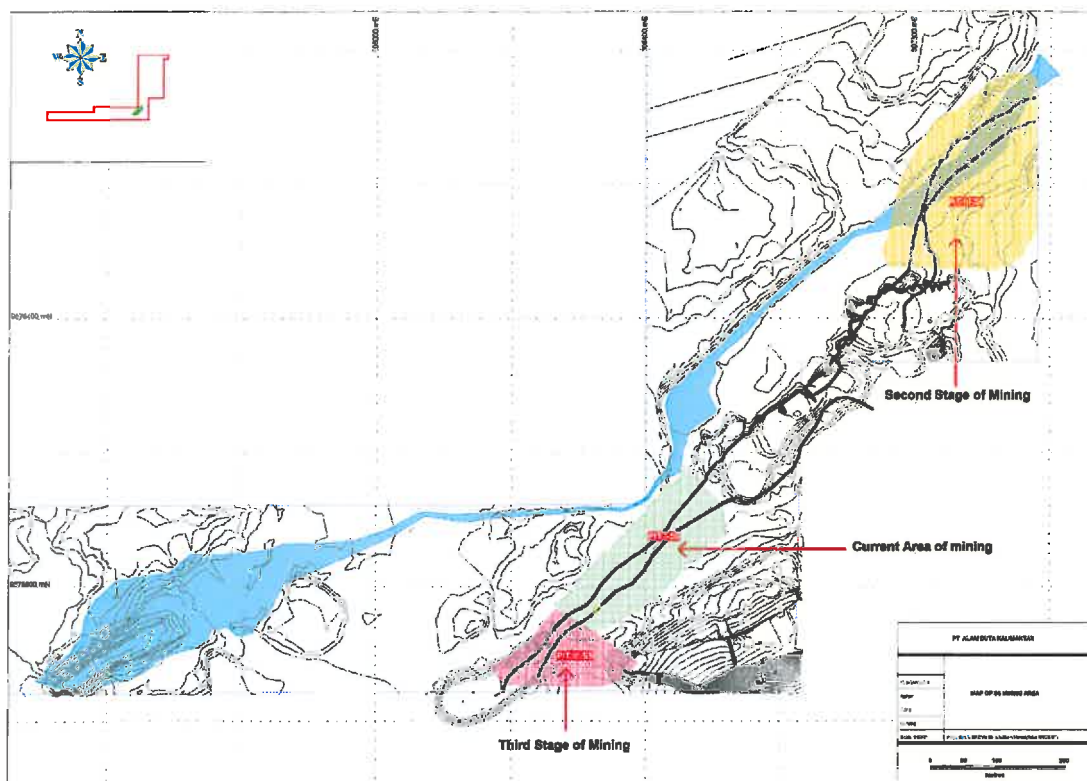


Figure 1: Mine plan for ADK focused on Seam 5

Board Strategic Review

In late 2013, the Orpheus Board undertook a comprehensive review of the Company's asset base and cost structure in the ongoing period of challenging coal prices, and as Orpheus focuses all resources on increasing coal sales through production and trading, to increase free cash-flow and enhance the company's balance sheet.

Asset Rationalisation/Efficiency Program

Firstly, Orpheus has fundamentally changed its operational structure and let go of 65% of its mining staff at the ADK site and replaced them with a mining contractor. The arrangements with the mining contractor are aimed at increasing the rate of production at ADK, by only remunerating contractors on a per tonne of coal mined and transported to port basis.

Secondly, as announced to shareholders in early 2013, Orpheus is continuing to work with JV partner, PT Mega Coal, to deliver value from existing assets through the potential sale of non-core and non-performing assets. Such cash proceeds will significantly bolster the company's balance sheet.

Thirdly, Orpheus is actively looking at a number of geographically and geologically diverse potential near-term cash-flow projects to complement the Indonesian operations.



Costs Reduction Program

Over the last quarter, the Company has continued to implement an aggressive cost reduction strategy to reduce the Company's monthly administration costs by approximately 25% (compared to the October quarter), despite the costs involved with this ongoing restructuring, such as statutory staff termination benefits. These measures include:

- Deferment of Directors' fees
- Deferment of Executive salaries by ~50% and ~30% for all other staff
- Reduction of Indonesian operational workforce by 65%
- Further administrative savings in the order of \$25,000 per month

The net effect is that the company will be cash-flow positive on a smaller tonnage of coal sold each month.

Corporate Changes

Post reporting date, as announced on 11 April 2014, the Orpheus Board has been reduced by one member with the resignation of Mr Anthony King. Further monthly savings have been realized with the resignation of former Company Secretary, Mr John Stone.

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")

MARCH 2014

Consolidated statement of cash flows

| | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|---|----------------------------|---------------------------------------|
| Cash flows related to operating activities | | | |
| 1.1 | Receipts from product sales and related debtors | 394 | 1,499 |
| 1.2 | Payments for | | |
| | (a) exploration and evaluation | - | (48) |
| | (b) development | - | (650) |
| | (c) production | (109) | (1,041) |
| | (d) administration | (431) | (1,328) |
| 1.3 | Dividends received | | |
| 1.4 | Interest and other items of a similar nature received | 1 | 6 |
| 1.5 | Interest and other costs of finance paid | (62) | (185) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | | |
| | - | | - |
| Net Operating Cash Flows + | | (207) | (1,747) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: (a)prospects | - | - |
| | (b)equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.9 | Proceeds from sale of: (a)prospects | - | - |
| | (b)equity investments | - | - |
| | (c)other fixed assets | - | (3) |
| 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 recouped re mining operations | 347 | - |
| Net investing cash flows | | 347 | (3) |
| 1.13 | Total operating and investing cash flows (carried forward) | 140 | (1,750) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|---|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | 140 | (1,750) |
| | 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 | - | 1,239 |
| 1.17 | Repayment of borrowings | (114) | (166) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other - | - | - |
| | Net financing cash flows | (114) | 1,073 |
| | Net increase (decrease) in cash held | 26 | (677) |
| 1.20 | Cash at beginning of quarter/year to date | 937 | 1,596 |
| | Cash acquired on acquisition of subsidiaries | - | 4 |
| 1.21 | Exchange rate adjustments to item 1.20 | (13) | 27 |
| 1.22 | Cash at end of quarter | 950 | 950 |

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

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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

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) | 1,530 | 1,530 |
| 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 + | 1,230 |
| 4.4 Administration | 420 |
| Total | 1,650 |

+ Estimated sales revenue for next quarter \$1.7 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 | 950 | 992 |
| 5.2 Deposits at call | - | 6 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 950 | 998 |

Appendix 5B
Mining exploration entity quarterly report

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 | - | | |
| 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 April 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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