Orpheus Energy Limited

And Controlled Entities

ABN 67 121 257 412

HALF-YEAR REPORT
AND
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Contents

Directors' Report

The directors present their report with the consolidated financial report of Orpheus Energy Limited ("the Company") for the half year ended 31 December 2013 and the auditor's review report thereon.

Directors

The names of the Directors who held office during or since the end of the half year are:

Mr Wayne Mitchell, Executive Chairman and Managing Director
Mr David Smith, Executive Director
Mr Wesley Harder, Director and Exploration Manager
Mr Anthony King, Non-Executive Director
Mr Mike Rhodes, Non-Executive Director

Mr John Stone, Company Secretary

Principal Activities

The principal activities of the Group are acquiring, exploring and developing coal projects in Indonesia.

Operating Results

The net loss of the consolidated entity for the half year was $2,569,282 (2012: corresponding period a loss of $1,338,990).

Dividends

No dividends were paid during the period and no recommendation is made as to payment of dividends.

Activities Report

For the Half year ended 31 December 2013

Orpheus Energy Limited (ASX:OEG) continued to focus on its strategic objective of becoming a vertically integrated coal producer in Indonesia over the last six months with revenues of ~A$1.28m from its South Kalimantan operations. Despite a continuing, challenging coal price environment, in late December 2013, Orpheus announced it had achieved the milestone of becoming operationally cash-flow positive for the month of December.

INDONESIA

Coal Production/Sales

Thousands of Tonnes	Half Year Ended			YTD		
	Dec-13	**Dec-12**	**Change**	**Dec-13**	**Dec-12**	**Change**
Coal Production	29,767	44,025		29,767	44,025	
Coal Trading	21,643	-		21,643	-	
Total Coal Sales	**51,410**	**44,025**	**16.77%**	**51,410**	**44,025**	**16.77%**

As announced on 20 December 2013, Orpheus generated more sales income than outgoings for the month of December. The company mined ~30,000 tonnes from its Kintap ADK mine, following normal mining and trucking activities resuming normal operations on 21 November 2013, after heavy unseasonal rains earlier in the half year. Additionally, the company's trading division sold ~22,000 tonnes of coal from small local producers. As at 31 December, there was ~3,579 tonnes remaining at the SKJM Port stockpile, which has subsequently been sold.

An Indonesian trading group purchased all of the saleable coal in December, and under an agreement with Orpheus, has committed to ongoing purchases of all available Orpheus coal over the next 12 months. Superior net margins were achieved from Orpheus's own coal mined at ADK and, as previously announced, the monthly rate of production is anticipated to increase to 50,000+ tonnes from May 2014 onwards. Trading coal volumes will also increase in 2014 with additional arrangements with other local producers already secured by Orpheus.

Directors' Report

Orpheus achieved an average sale price in line with the benchmark Indonesian Coal Index (ICI) price for the sales of its 4200GAR thermal coal in the December quarter and the price for this coal is expected to be approximately the same for the March quarter.

During the December quarter, the ICI averaged US$39.25/t, which was a 5.7% decrease from the previous quarter. Despite the drop in coal price, Orpheus was able to offset this with a corresponding 1.34% increase in the value of the US dollar against the Australian dollar, and a ~10% reduction in contracting rates at its ADK mine over the same period.

Post 31 December, while monthly coal trading volumes have increased – approximately 30,000 tonnes were traded in each of January and February (total ~60,000 tonnes) by Orpheus' trading division, ADK production has been reduced due to further poor weather in January and a boundary clarification process with neighbouring large coal miner, PT Arutmin, over the precise boundary location.

While that issue was being resolved, Orpheus finalised a new mine plan and commenced mining activities in a new area of the ADK tenement, to increase the monthly rate of production over the next few months, with the objective of making up for the lost tonnage in January and February.

Infrastructure

On 10 October 2013, Orpheus announced it had secured additional infrastructure capacity at Abidin 1 Port in South Kalimantan, of 40,000 tonnes per month (480,000 tpa), together with a five year offtake agreement. Located approximately 30km north-east of SKJM Port, Abidin 1 Port currently has loading capacity of over 120,000 tonnes per month, so there is potential for Orpheus to increase its monthly tonnage throughput.

Together with the previously announced exclusive 10 year agreement with SKJM Port in providing Orpheus with barge loading capacity in excess of 200,000 tonnes per month, the company has secured overall port loading capacity of up to 250,000 tonnes per month (3,000,000 tonnes per year) in South Kalimantan.

As part of the development plans for SKJM Port, there is the potential to increase the loading capacity up to a total of 500,000 tonnes per month (6 Mtpa) through the construction of two additional loading slots, and a road underpass to provide enhanced road hauling efficiency.

Exploration

As Orpheus has been focused on generating cash-flow from its mining, infrastructure and trading activities, as well as controlling costs, minimal exploration work at the company's South and East Kalimantan and Papua projects was undertaken in the quarter.

However, additional coal projects in Kalimantan, including potentially large resource projects, continue to be considered and will be announced as legal and technical reviews are completed.

AUSTRALIA

Over the course of the half, the Board continued to assess its two Australian assets, the Hodgson Vale coal project and the Ashford limestone project, to determine the best way forward for each of the projects. Preliminary discussions with potential offshore and local companies to either acquire or joint venture the projects continued.

Shares and Options

Release from Escrow

On 17 August 2013, 19,780,352 fully paid ordinary shares, 1,000,000 options over ordinary shares expiring on 4 August 2014 and exercisable at $0.25, and 12,750,000 options over ordinary shares expiring on 30 September 2014 and exercisable at $0.20 were released from escrow.

Completion of Unmarketable Parcel Sale or Top Up Facility and Share Sale Facility

As announced on 2 October 2013, Orpheus completed its sale and top-up of unmarketable parcels and sale of shares through the Share Sale facility at an average price of 6.2 cents per share. The facilities allowed the company to reduce the total number of shareholders from ~1,983 to ~968 providing savings in ongoing share registry and shareholder communications costs.

Grant of Options to Executive Directors

On 1 November 2013, shareholders at the 2013 AGM of the Company approved the issue of options to Executive Directors under the Company Long term Incentives Plan (LTI) with the number of options to be granted based on dividing the LTI remuneration value applicable to the position occupied by each executive director by an option value determined by the Black Scholes Merton valuation calculated using the 5 day VWAP for Orpheus shares traded on the ASX in the period commencing on the day after the release to the market of the 2013 Orpheus Annual Report.

The approved options were issued on Executive Directors on 9 November 2013:-

Executive Director	LTI Value	Black-Scholes Valuation	No of options issued
Wayne Mitchell	$149,500	$0.0308	4,854,910
David Smith	$77,400	$0.0308	2,513,512
Wesley Harder	$57,000	$0.0308	1,851,036
	$283,900	$0.0308	9,219,458

970,000 options were also issued to a Non-Executive Director, to senior executives and to employees under the Company Long term Incentives Plan (LTI) on the same terms which applied to the issue of options to Directors on 9 November 2013:-

	LTI Value	Black-Scholes Valuation	No of options issued
Barry Neal, CFO	$18,480	$0.0308	600,000
John Stone, Company Secretary	$3,080	$0.0308	100,000
Employee	$8,316	$0.0308	270,000
	$29,876	$0.0308	970,000

Full details on the terms of the opinions issued are disclosed in Note 8.

As at 31 December 2013 there were 25,114,458 unquoted and unexpired options. These options are exercisable at prices of $0.0607 and $0.20 and expire on 30 June 2017 and 30 September 2014.

Other Significant Events

Acquisition of PT Alam Duta Kalimantan (ADK) and PT Citra Bara Prima (CBP)

Orpheus previously announced that it has paid deposits to PT Mega Coal to acquire a 51% interest in two South Kalimantan tenements.

On 1 July 2013 Orpheus converted these deposits paid to PT Mega Coal of US$1 million for a 51% equity interest in PT Alam Duta Kalimantan ("ADK") and US$200,000 for a 51% equity interest in PT Citra Bara Prima ("CBP"). The equity shares in these two companies are held by a nominee on behalf of Orpheus's fully owned subsidiary Orpheus Singapore Pte Ltd.

Singapore Holding Company

On 22 August 2013, Orpheus Energy Singapore Pte. Ltd., was registered in Singapore to hold the Group's interests in its Indonesian assets. The company is a fully owned subsidiary of Orpheus Energy Limited.

Agreement with SKJM Port operators in South Kalimantan

On 17 September 2013 Orpheus executed a binding agreement with the proprietor of the SKJM Port in South Kalimantan to secure an exclusive barge loading capacity in excess of 200,000 tonnes per month for a term of 10 years.

Orpheus has executed a commercial-in-confidence, binding agreement with a local Indonesian infrastructure investor to fund the transaction. PT Orpheus Energy ("PTO"), Orpheus's 100% owned Indonesian subsidiary, has already received the first tranche (of two tranches) payment and the funds are to be deployed progressively over the course of the next several months as the SKJM facilities are upgraded. SKJM Port is legally obliged to repay the principal amount to PTO in equal monthly installments, which will be passed through to the funder, together with a commercial rate of interest on the reducing balance. Critically, this means Orpheus has completely mitigated funding risk and quantum to the level of a reducing, monthly interest payments.

Directors' Report

Auditor's Independence Declaration

The lead auditor under Section 307C of the *Corporations Act 2001* is set out on page 6 for the half-year ended 31 December 2013.

This directors' report is signed in accordance with a resolution of the Board of Directors.

Wayne Mitchell, Director

Date: 12 March 2014

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 half-year ended 31 December 2013 there have been no contraventions of:

a. the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

b. any applicable code of professional conduct in relation to the review.

Hall Chadwick

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GRAHAM WEBB
Partner
Dated 12 March 2014

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Orpheus Energy Limited

ABN 67 121 257 412
and controlled entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated 31 Dec 2013 $	Consolidated 31 Dec 2012 $
Revenue			
Sales revenue	3	1,283,205	1,690,154
Other revenue	3	34,410	29,644
Expenses			
Coal purchases and extraction costs		(911,717)	(1,123,071)
Royalty expenses		-	(62,473)
Administration expenses		(55,707)	(75,832)
Project investigation and feasibility expenses		(389,044)	(424,622)
Consultancy and professional fees		(160,052)	(133,522)
Employment and related costs		(625,538)	(575,297)
Insurance expenses		(20,970)	(34,580)
Legal expenses		(32,805)	(61,203)
Depreciation and amortisation expense		(43,049)	(20,490)
Amortisation of mine development costs		(310,000)	-
Marketing and promotion expenses		(35,256)	(35,842)
Finance costs		(110,124)	(41,179)
Lease rental expenses and occupation costs		(102,458)	(62,405)
Compliance costs		(77,284)	(118,144)
Travel and accommodation costs		(143,986)	(175,029)
Share-based payments	8	(23,151)	-
Impairment of exploration and evaluation assets	5	(812,750)	(9,209)
Foreign currency translation losses		-	(105,887)
Loss before income tax		(2,536,276)	(1,338,991)
Income tax expense		(33,006)	-
Loss for the period		(2,569,282)	(1,338,991)
Loss attributable to:			
- Members of the parent entity		(2,476,088)	(1,260,130)
- Non-controlling interests		(93,194)	(78,861)
		(2,569,282)	(1,338,991)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign controlled entities		(183,420)	(183,657)
Total comprehensive income for the period		(2,752,702)	(1,522,648)
Total comprehensive income for the period attributable to:			
- Members of the parent entity		(2,661,948)	(1,334,158)
- Non-controlling interests		(90,754)	(188,490)
		(2,752,702)	(1,522,648)
Basic and diluted loss per share (cents)		(1.71)	(0.94)

The accompanying notes form part of these financial statements.

Orpheus Energy Limited

ABN 67 121 257 412
and controlled entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	Consolidated 31 Dec 2013 $	Consolidated 30 June 2013 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		936,550	1,595,514
Trade and other receivables		1,249,921	447,765
Inventories		40,130	5,980
TOTAL CURRENT ASSETS		2,226,601	2,049,259
NON-CURRENT ASSETS			
Deposits paid		4,200,000	5,239,395
Exploration and evaluation expenditure	5	3,642,286	4,323,110
Property, plant and equipment		1,880,604	217,454
Security deposits and bonds		84,090	84,090
Financial assets		-	605
TOTAL NON-CURRENT ASSETS		9,806,980	9,864,654
TOTAL ASSETS		12,033,581	11,913,913
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		501,967	160,346
Current tax liabilities		57,570	-
Employee provisions		58,694	60,723
Borrowings	6	1,189,995	-
TOTAL CURRENT LIABILITIES		1,808,226	221,069
TOTAL LIABILITIES		1,808,226	221,069
NET ASSETS		**10,225,355**	**11,692,844**
EQUITY			
Issued capital	7	30,695,699	30,695,699
Reserves		1,021,532	1,184,241
Accumulated losses		(22,663,184)	(20,187,096)
Parent entity interest		9,054,047	11,692,844
Non-controlling interests		1,171,308	-
TOTAL EQUITY		**10,225,355**	**11,692,844**

The accompanying notes form part of these financial statements.

Orpheus Energy Limited

ABN 67 121 257 412
and controlled entities

ORPHEUS ENERGY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Ordinary Share Capital	Accumulated Losses	Options Reserve	Foreign Currency Translation Reserve	Non-controlling Interests	Total Equity
	$	$	$	$	$	$
Balance at 1 July 2012	28,332,145	(16,302,532)	733,815	(40,082)	1,460,335	14,183,681
Comprehensive income						
Loss for the period	-	(1,260,130)	-	-	(78,861)	(1,338,991)
Other comprehensive income for the period	-	-	-	(74,028)	(109,629)	(183,657)
Total comprehensive income for the period	-	(1,260,130)	-	(74,028)	(188,490)	(1,522,648)
Transactions with owners in their capacity as owners						
Shares issued during the period as settlement of convertible note	2,363,554	-	-	-	-	2,363,554
Acquisition of non-controlling interests	-	(243,610)	-	-	(237,715)	(481,325)
Options expired during the period	-	7,315	(7,315)	-	-	-
Total transactions with owners in their capacity as owners	2,363,554	(236,295)	(7,315)	-	(237,715)	1,882,229
Balance at 31 Dec 2012	**30,695,699**	**(17,798,957)**	**726,500**	**(114,110)**	**1,034,130**	**14,543,262**
Balance at 1 July 2013	30,695,699	(20,187,096)	726,500	457,741	-	11,692,844
Comprehensive income						
Loss for the period	-	(2,476,088)	-	-	(93,194)	(2,569,282)
Other comprehensive income for the period	-	-	-	(185,860)	2,440	(183,420)
Total comprehensive income for the period	-	(2,476,088)	-	(185,860)	(90,754)	(2,752,702)
Transactions with owners in their capacity as owners						
Acquisition of non-controlling interests	-	-	-	-	1,262,062	1,262,062
Options granted during the period	-		23,151	-	-	23,151
	-	-	23,151	-	1,262,062	1,285,213
Balance at 31 Dec 2013	**30,695,699**	**(22,663,184)**	**749,651**	**271,881**	**1,171,308**	**10,225,355**

The accompanying notes form part of these financial statements.

Orpheus Energy Limited

ABN 67 121 257 412
and controlled entities

ORPHEUS ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated 31 Dec 2013 $	Consolidated 31 Dec 2012 $
Cash flows from operating activities			
Receipts from customers		1,093,243	672,966
Payments to suppliers and employees		(3,248,958)	(2,091,268)
Interest received		5,798	29,644
Interest paid		(109,522)	(41,179)
Net cash (used in) operating activities		**(2,259,439)**	**(1,429,837)**
Cash flows from investing activities			
Disposal of plant and equipment		83,700	-
Payment for plant and equipment		-	(23,492)
Payment for exploration and evaluation expenditure		-	(212,012)
Refund of exploration and evaluation expenditure		284,239	-
Deposits and advances paid		-	(373,799)
Net cash provided by/ (used in) investing activities		**367,939**	**(609,303)**
Cash flows from financing activities			
Proceeds from borrowings	6	1,189,393	-
Net cash provided by financing activities		**1,189,393**	**-**
Net (decrease) in cash and cash equivalents		(702,107)	(2,039,140)
Cash and cash equivalents at beginning of period		1,595,514	3,585,127
Cash acquired on acquisition of subsidiaries		3,633	-
Effect of exchange rate changes on cash and cash equivalents		39,510	-
Cash and cash equivalents at end of period		936,550	1,545,987

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2013 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Orpheus Energy Limited and its controlled entities (referred to as the "consolidated group" or "group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2013, together with any public announcements made during the following half-year.

b. Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to some of the matters discussed below.

c. New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period

(i) *Consolidated financial statements, joint arrangements and disclosure of interests in other entities*

The Group has adopted the following new and revised Australian Accounting Standards from 1 July 2013 together with consequential amendments to other Standards:

– AASB 10: *Consolidated Financial Statements;*

– AASB 127: *Separate Financial Statements* (August 2011);

– AASB 11: *Joint Arrangements;*

– AASB 128: *Investments in Associates and Joint Ventures* (August 2011);

– AASB 12: *Disclosure of Interests in Other Entities;*

– AASB 2011–7*: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*; and

– AASB 2012–10: *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.*

These Standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. The Group has applied these Accounting Standards retrospectively in accordance with AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* and the specific transition requirements in AASB 10 and AASB 11. The effects of initial application of these Standards in the current half-year reporting period are as follows:

– *Consolidated financial statements:*

AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. Revised AASB 127 facilitates the application of AASB 10 and prescribes requirements for separate financial statements of the parent entity. On adoption of AASB 10, the assets, liabilities and non-controlling interests related to investments in businesses that are now assessed as being controlled by the Group, and were therefore not previously consolidated, are measured as if the investee had been consolidated (and therefore applied acquisition accounting in accordance with AASB 3: *Business Combinations*) from the date when the Group obtained control of that investee on the basis of the requirements in AASB 10.

Upon the initial application of AASB 10, retrospective restatement of financial statement amounts of the year that immediately precedes the date of initial application (ie 2012–2013) is necessary. When control is considered to have been obtained earlier than the beginning of the immediately preceding year (ie pre-1 July 2012), any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investment in that investee is recognised as an adjustment to equity as at 1 July 2012.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Although the first-time application of AASB 10 (together with the associated Standards) caused certain changes to the Group's accounting policy for consolidation and determining control, it did not result in any changes to the amounts reported in the Group's financial statements as the "controlled" status of the existing subsidiaries did not change, nor did it result in any new subsidiaries being included in the Group as a consequence of the revised definition. However, the revised wording of accounting policy for consolidation is set out in Note 1(d).

– *Joint arrangements:*

AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Revised AASB 128 facilitates the application of AASB 11 and incorporates guidance relating to the equity method of accounting. Joint ventures will generally be required to be accounted for using the equity method under AASB 11. The proportionate consolidation method is no longer permitted. However, this has not had any impact on the Group's financial statements as the Group currently has no interest in joint ventures which would need to be accounted for using the equity method of accounting. However, the accounting policy for joint arrangements is set out in Note 1(e).

– *Disclosure of interest in other entities:*

AASB 12 is the Standard that addresses disclosure requirements of AASB 10, AASB 11, AASB 127 and AASB 128. New disclosures that are material to this interim financial report and associated with the Group's interests in subsidiaries and joint arrangements as prescribed by AASB 12 have been set out in Note 11. Further, as required by AASB 12, details of the significant judgments made in determining the controlled entity status of subsidiaries are disclosed in Note 1(h).

(ii) *Fair value measurements and disclosures*

The Group has adopted AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* from 1 July 2013 together with consequential amendments to other Standards. These Standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. AASB 13 sets out a comprehensive framework for measuring the fair value of assets and liabilities and prescribes enhanced disclosures regarding all assets and liabilities measured at fair value. Although these Standards do not impact the fair value amounts reported in the Group's financial statements, the directors have determined that additional accounting policies providing a general description of fair value measurement and each level of the fair value hierarchy, as set out in Note 1(f), should be incorporated in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(iii) *Stripping costs*

The Group has adopted AASB Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011–12: *Amendments to Australian Accounting Standards arising from Interpretation 20* from 1 July 2013. The Interpretation and the Amending Standard became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013.

Interpretation 20 addresses waste removal costs that are incurred in surface mining activity ("stripping costs") during the production phase of the mine and prescribes accounting requirements for recognition and measurement of such costs. On transition, existing production phase stripping costs need to be written off to retained earnings unless they can be attributed to an identifiable component of an ore body.

The directors have determined that the Interpretation did not result in any significant changes to the amounts reported in the Group's financial statements, as the Group does not have any previously recognised asset balances that resulted from stripping activity undertaken during the production phase of a mine, either at the beginning of the current half-year reporting period or as at the beginning of the earliest period presented (ie as at 1 July 2012). However, the Group has decided to adopt the accounting policy for stripping costs is as set out in Note 1(g).

(iv) *Other*

Other new and amending Standards that became applicable to the Group for the first time during this half-year reporting period are as follows:

AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* and AASB 2012–5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle.*

These Standards make changes to presentation and disclosure requirements, but did not affect the Group's accounting policies or the amounts reported in the financial statements.

AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10*: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).*

These Standards did not affect the Group's accounting policies or the amounts reported in the financial statements, mainly because the Group does not have defined benefit plan assets or obligations.

d. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Orpheus Energy Limited and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 12.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

e. Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a "joint venture" and accounted for using the equity method.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

The Group's interests in joint arrangements are disclosed in Note 13.

f. Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share- based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Valuation techniques

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- *Market approach*: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- *Income approach*: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- *Cost approach*: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

(i) if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa; or

(ii) if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (ie transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

g. Stripping Costs of Surface Mining

The Group incurs costs to remove overburden and other waste materials in order to gain access to ore from which minerals can be extracted ("stripping costs"). Stripping costs incurred during the development phase of a mine (ie before production commences) are capitalised as part of the depreciable cost of developing and constructing the mine and are depreciated over the useful life using the units of production method, once production begins.

h. Critical Accounting Estimates and Significant Judgments Used in Applying Accounting Policies

The critical estimates and judgments are consistent with those applied and disclosed in the June 2013 annual report. However, the following additional significant judgments used in applying accounting policies have been disclosed as required by the new and revised Accounting Standards adopted for the first time in this interim financial reporting period:

Consolidation of entities in which the Group holds less than 50%

The directors of the Group consider that the parent entity controls the following subsidiary, notwithstanding that the Group holds 50% of the voting rights of these subsidiaries:

– **Orpheus Energy (Hong Kong) Limited**

The Group holds 50% of the voting rights in Orpheus Energy (Hong Kong) Limited with the remaining 50% interest held by Yi Rong Capital Management Co. Ltd.. The directors consider that the Group controls Orpheus Energy (Hong Kong) Limited even though it has 50%of the voting rights because the Group has management control of this company. Consequently, the directors consider that the Group controls Orpheus Energy (Hong Kong) Limited notwithstanding that it holds 50% of the voting rights.

i. Capitalised mine development costs

The cost of acquiring coal reserves and coal resources are capitalised on the statement of financial position as incurred. Capitalised costs (development expenditure) include expenditure incurred to expand the capacity of a mine and to maintain production. Mine development costs include acquired proved and probable coal reserves at fair value at acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Coal reserves and capitalised mine development expenditure are, upon commencement of production, amortised over the remaining life of mine. The net carrying amounts of coal reserves and resources and capitalised of mine development expenditure at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent to which these values exceed their recoverable amounts, that excess is fully provided against in the financial period in which this is determined.

j. Going Concern Basis

Notwithstanding the loss incurred during the half year amounting to $2,569,282 and incurred negative cash flows from operating activities amounting to $2,259,439, the directors believe that the company is a going concern based on:

- The company has $936,550 in cash at balance date;
- Coal trading and the sale of coal from the Company's Kalimantan operations has contributed $1.28 million in revenue in the current half year with increased revenue budgeted for the next twelve months;
- Based on the projected coal sales, the company would have sufficient cash reserves for at least 12 months from the date of this report.

The above revenue stream is expected to provide solid cash flows to support the ongoing development of the company's growing portfolio of projects. If the projected coal sales are not met, then the company may not be able to pay its debts as and when they become due and payable.

2. DIVIDENDS

No dividends have been declared or paid during the period.

3. REVENUE

	Consolidated	
	31 Dec 2013	31 Dec 2012
	$	$
Sales revenue		
Sales of coal	1,098,950	1,690,154
Commissions received on coal sales contracts	184,255	-
	1,283,205	1,690,154
Other revenue		
Interest income	5,231	29,644
Foreign currency translation gains	28,545	-
Other revenue	634	-
	34,410	29,644
Total Revenue	**1,317,615**	**1,719,798**

4. SEGMENT REPORTING

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

- Australia
- Indonesia (mining)

Orpheus Energy Singapore Pte Ltd and Orpheus (Hong Kong) Limited have not been included as their operations are not material.

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.

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT REPORTING

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 $
	Half-Year Ended 31 December 2013			Half-Year Ended 31 December 2012		
(a) Segment performance						
Revenue						
Sales revenue	-	1,283,205	1,283,205	-	1,692,211	1,719,798
Inter-segment revenue	-	-	-	-	-	-
Total Revenue	**-**	**1,283,205**	**1,283,205**	**-**	**1,692,211**	**1,719,798**
Segment result	(1,466,170)	(1,070,106)	(2,226,276)	(1,176,800)	(162,190)	(1,338,990)
Income tax	-	(33,006)	(33,006)	-	-	-
Net Loss	**(1,466,170)**	**(1,103,112)**	**(2,569,282)**	**(1,176,800)**	**(162,190)**	**(1,338,990)**

	Australia $	Indonesia $	Consolidated $	Australia $	Indonesia $	Consolidated $
	Half-Year Ended 31 December 2013			Half-Year Ended 31 December 2012		
Non-cash items included in loss above:						
Depreciation and amortisation	13,036	340,013	353,049	13,358	7,132	20,490
Share-based payments	23,151	-	23,151	-	-	-
Impairment of exploration and evaluation assets	494,000	318,750	812,750	9,209	-	9,209
(b) Segment assets						
Segment assets	28,517,509	2,191,487	30,708,996	26,788,625	3,500,407	30,289,032
Unallocated corporate assets	(18,555,032)	(120,383)	(18,675,415)	(17,405,624)	(969,495)	(18,375,119)
Consolidated Total Assets	**9,962,477**	**2,071,104**	**12,033,581**	**9,383,001**	**2,530,912**	**11,913,913**

	Australia $	Indonesia $	Consolidated $	Australia $	Indonesia $	Consolidated $
	Half-Year Ended 31 December 2013			Year Ended 30 June 2012		
(c) Segment liabilities						
Segment liabilities	16,607,271	4,146,610	20,753,881	13,620,254	4,583,663	18,203,917
Unallocated corporate assets	(16,340,861)	(2,604,794)	(18,945,655)	(13,434,108)	(4,548,740)	(17,982,848)
Consolidated Total Liabilities	**266,410**	**1,541,816**	**1,808,226**	**186,146**	**34,923**	**221,069**

5. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 31 Dec 2013 $	Consolidated 30 June 2013 $
NON-CURRENT		
(a) Australian tenements		
Exploration and evaluation expenditure	6,723,910	6,723,910
Less provision for Impairment	(3,571,497)	(3,077,497)
	3,152,413	**3,646,413**
(b) Indonesian tenements		
Exploration and evaluation expenditure	808,623	676,697
Less provision for Impairment	(318,750)	-
	489,873	**676,697**
	3,642,286	**4,323,110**

NOTES TO THE FINANCIAL STATEMENTS

5. EXPLORATION AND EVALUATION EXPENDITURE

		Consolidated	
		31 Dec 2013	30 June 2013
	Note	$	$
Movements in exploration and evaluation expenditure			
Balance at beginning of period		4,323,110	7,142,561
Exploration and evaluation expenditure		-	808,067
Impairment charge	(i)	(812,750)	(356,342)
Acquisition through business combinations	(ii)	428,885	-
Disposals		-	(3,271,176)
Foreign exchange translation		(12,720)	-
Expenditure recovered		(284,239)	-
Balance at end of period		**3,642,286**	**4,323,110**

(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.

The investment in the Hodgson Vale Tenement was impaired in a previous reporting period based on the possible 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.

The investment in the Hodgson Vale Tenement has been further impaired during the reporting period by $494,000 based on lower coal prices

(ii) The deposits previously paid for 51% equity interests in PT Citra Bara Prima (CBP) was converted to equity on 1 July 2013 with the fair value of capitalised exploration and evaluation expenditure amounting to $428,885.

Recoverability of the carrying amount of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

6. CURRENT LIABILITIES - BORROWINGS

		Consolidated	
		31 Dec 2013	30 June 2013
	Note	$	$
Loans from related parties – unsecured	(i)	200,000	-
Other loans – unsecured	(ii)	989,995	-
		1,189,995	**-**

(i) Executive Directors Wayne Mitchell and David Smith each extended a short term loan to the Company of $100,000 on 28 November 2013 repayable within six months of the drawdown of the loans. Interest is payable at the rate charged by Westpac Banking Corporation on business overdrafts exceeding $100,000 less 0.5%. This has been calculated as 7.33%. Interest unpaid and accrued on each loan at 31 December 2013 is $602.

(ii) Loans provided for the upgrade of the SKJM Port in South Kalimantan with the SKJM Port legally obliged to repay the loan:-

- The initial loan is for IDR 10,000,000,000 (US$1 million) signed on 3 September 2013 with repayment to be made by 30 September 2014 with interest payable at 2% per month on the outstanding balance. At 31 December 2013 the amount owing on this loan was US$717,860 (A$804,829).

- A further loan of IDR 2,000,000,000 (US$200,000) was entered into on 29 November 2013 and drawn down on 29 November and 4 December 2013. Repayment is by means of a funding fee payable on coal tonnage shipped through the SKJM Port on or before February 2014.

NOTES TO THE FINANCIAL STATEMENTS

7. ISSUED CAPITAL

	Note	Consolidated 31 Dec 2013 $	Consolidated 30 June 2013 $
Ordinary shares	(a)	30,695,699	30,695,699

		31 Dec 2013 No of Shares	31 Dec 2013 $
(a) Movements in Ordinary shares on issue			
At 1 July/ 31 December 2013		30,695,699	30,695,699

		No of Options	$
(b) Options			
Movements in Options on issue			
At 1 July 2013		14,925,000	726,500
Options granted	8	10,189,458	23,151
At 31 December 2013		**25,114,458**	**749,651**

8. SHARE-BASED PAYMENTS

The establishment of the Orpheus Long Term Incentive Plan (LTI) was approved by shareholders at the 2013 annual general meeting (AGM). The Plan is designed to provide long-term incentives for employees including directors to deliver long-term shareholder returns. Under the Plan, participants are granted options which only vest if certain performance standards are met. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Pan or to receive any guaranteed benefits.

The amount of options that will vest and when they will vest depends on the achievement of performance hurdles as approved by shareholders at the Orpheus 2013 AGM. Options have been granted in two separate tranches, each with separate and independent performance hurdles.

Tranche 1: Cumulative tonnage shipped

50 per cent of the options are tested against a cumulative tonnage shipped target which requires at least 2 million cumulative tonnes of coal to be shipped from 1 July 2013. If the target is met after 2 years, 100% of the Tranche 1 options will vest. If the target is met after 3 years, 50% of the Tranche 1 options will vest. Options may vest progressively on a straight-line basis if the target is met between years 2 and 3.

Tranche 2: Annual EBITDA target

50 per cent of the options are tested against an annual EBITDA target which requires the annual EBITDA of Orpheus to be at least $3.5 million. If the target is met after 2 years (following preparation of the audited financial statements), 100% of the Tranche 2 options will vest. If the target is met after 3 years, 50% of the Tranche 2 options will vest.

Options granted under the Plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on 5 day VWAP for Orpheus shares traded on the ASX in the period commencing on the day after the release to the market of the 2013 Orpheus Annual Report.

Set out below is a summary of options granted under the Plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of the period Number	Granted during the period Number	Balance at end of the period Number	Vested and exercisable at end of the period Number
1 Nov'13	30 June '16	$0.0607	-	9,219,458	9,219,458	-
1 Nov'13	30 June '16	$0.0607	-	970,000	970,000	-
				10,189,458	**10,189,458**	

NOTES TO THE FINANCIAL STATEMENTS

8. SHARE-BASED PAYMENTS

Fair value of options granted

The assessed fair value at grant date of options granted during the half year ended 31 December 2013 was $0.0308. The fair value at grant date is independently determined using the Black-Scholes-Merton option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the half year ended 31 December 2013 included:

(a) Options are granted for no consideration and vest on 30 June 2016 based on the hurdles specified for Tranche 1 and 2 above. Vested options are subject to an additional 'exercise condition', which requires that the average closing market price of Orpheus shares over the previous 10 trading days must be at least 30% higher than the exercise price before the options become exercisable.

(b) Exercise price: $0.0607

(c) Expiry date: 30 June 2017

(d) Share price at grant date: $0.055

(e) Expected volatility of the company's shares: 80%

(g) Expected dividend yield: Nil

(h) Risk-free interest rate: 3.06%

Vesting

None of the options issued under the LTI have vested as neither of the vesting conditions has been met. In addition the options will not vest before two years.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expenses were as follows:

	Consolidated	
	31 Dec 2013 $	30 June 2013 $
Options expensed	23,151	-

9. SUBSEQUENT TO REPORTING DATE

There are no matters or circumstances which have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the entities, the results of those operations, or state of affairs of the entities in future financial periods.

10. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

11. RELATED PARTY TRANSACTIONS

Executive Directors Wayne Mitchell and David Smith each extended a short term loan to the Company of $100,000 on 28 November 2013 repayable within six months of the drawdown of the loans. Interest is payable at the rate charged by Westpac Banking Corporation on business overdrafts exceeding $100,000 less 0.5%. This has been calculated as 7.33%. Interest unpaid and accrued on each loan at 31 December 2013 is $602.

All other related party transactions are consistent with those reported in the 2013 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

12. INTEREST IN SUBSIDIARIES

(a) Information about Principal Subsidiaries

Set out below are the Group's subsidiaries at 31 December 2013. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		At 31 Dec 2013	At 30 June 2013	At 31 Dec 2013	At 30 June 2013
Orpheus Energy Group Pty Ltd	Australia	100%	100%	-	-
Orpheus Energy (Ashford) Pty Ltd as trustee for Ashford Unit Trust	Australia	100%	100%	-	-
Orpheus Energy (Hodgson Vale) Pty Ltd as trustee for Hodgson Vale Unit Trust	Australia	100%	100%	-	-
Orpheus Energy (Wingen) Pty Ltd as trustee for Wingen Unit Trust	Australia	100%	100%	-	-
PT Orpheus Energy	Indonesia	100%	100%	-	-
PT Alam Duta Kalimantan	Indonesia	51%	-	49%	-
PT Citra Bara Prima	Indonesia	51%	-	49%	-
Orpheus Energy (China) Co Limited	Australia	100%	100%	100%	100%
Orpheus Energy Singapore Pte Ltd	Australia	100%	-	-	-
Orpheus Energy (Hong Kong) Limited	Australia	50%	50%	50%	50%
Bushveld Exploration (SA) (Pty) Ltd	Australia	100%	100%	100%	100%

Subsidiaries' financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

(b) Summarised Financial Information of Subsidiaries with Material Non-controlling Subsidiaries

	ADK As at 31 Dec 2013 $	CBP As at 31 Dec 2013 $
Summarised Financial Position		
Current assets	438,184	384
Non-current assets	1,751,572	423,474
Current liabilities	(209,485)	(4,783)
NET ASSETS	**1,980,271**	**419,075**
Carrying amount of non-controlling interests (49%)	970,333	205,347
Summarised Financial Performance		
Revenue	1,198,325	-
Loss before income tax	(141,489)	(5,448)
Income tax expense	(33,006)	-
Post-tax loss from continuing operations	(174,495)	(5,448)
Other comprehensive income	(9,472)	4,536
Total comprehensive income	**(183,967)**	**(912)**
The information above is the amount before intercompany eliminations		
Loss attributable to non-controlling interests	(85,503)	(2,670)
Distributions paid to non-controlling interests	-	-

12. INTEREST IN SUBSIDIARIES

	Half Year ended 31 Dec 2013 $	Half Year ended 31 Dec 2013 $
Summarised Cash Flow Information		
Net cash (used in) operating activities	(135,848)	(4,574)
Net cash provided by financing activities	115,000	4,783
Cash and cash equivalents at end of half-year	**3,674**	**384**

13. INTERESTS IN JOINT ARRANGEMENTS

Under a Strategic Alliance Agreement, the company has entered into a co-operation, Joint Venture, entity acquisition, funding, profit share and related agreements with the 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 have been entered into to acquire Interests in the entities owning the concessions known as B3/B4 in Kalimantan and in Papua concessions. These entities are related parties of Mega Coal. Deposits of $4,200,000 have been paid in relation to these agreements as disclosed in the Consolidated Statement of Financial Position.

Agreements have also been entered into to acquire from the existing shareholders, a 51% interest in PT Alam Duta Kalimantan which owns the mining concessions known as ADK and in PT Citra Bara Prima. The existing shareholders in these entities are related parties to Mega Coal. Subsequent to 30 June 2013 the deposits paid in relation to these entities have been converted to equity holdings by Orpheus.

14. BUSINESS COMBINATIONS

Summary of acquisitions

Effective from 1 July 2013 the parent entities fully owned subsidiary PT Orpheus acquired 51% of the issued share capital of PT Alam Duta Kalimantan ("ADK") and PT Citra Bara Prima ("CBP"). The equity shares in these two companies is held by a nominee on behalf of PT Orpheus Energy as this entity is not permitted to have foreign shareholders. On the formation of Orpheus Singapore Pte Ltd on 22 August 2013, a fully owned subsidiary of the parent entity, the shares in ADK and CBP are now held by the nominee on behalf of this entity.

Details of the purchase consideration, the net assets acquired are as follows:

	ADK $	CBP $
Purchase consideration		
Conversion of deposits to equity in ADK and CBP	820,575	218,820
Balance due and payable	273,525	-
Total purchase consideration	1,094,100	218,820
	Fair value	**Fair value**
The assets and liabilities recognised as a result of the acquisition are as follows:-		
Cash and cash equivalents	3,459	174
Trade and other receivables	64,860	-
Exploration and evaluation expenditure	-	428,885
Property, plant and equipment		
- Building and equipment	229,985	-
- Mine development costs	1,869,915	-
Current tax liabilities	(22,924)	-
	2,145,295	429,059
Less non-controlling interest	(1,051,195)	(210,239)
Net assets acquired	**1,094,100**	**218,820**

Revenue and profit contribution

The acquired entity ADK contributed revenues of $1,198,325 and net loss of $174,495 to the Group for the period from 1 July 2013 to 31 December 2013.

The acquired entity CBP is a greenfields exploration tenement and with no revenue earned and a net loss of $5,448 for the period 1 July to 31 December 2013.

Directors' Declaration

In accordance with a resolution of the directors of Orpheus Energy Limited, the directors of the company declare that:

The financial statements and notes, as set out on pages 7 to 22, are in accordance with the *Corporations Act 2001*, including:

a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and

b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.

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.

Wayne Mitchell

Date: 12 March 2014

ORPHEUS ENERGY LIMITED
ABN 67 121 257 412
AND CONTROLLED ENTITIES

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

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Orpheus Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Orpheus Energy Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of Orpheus Energy Limited's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Orpheus Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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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 half-year ended 31 December 2013 there have been no contraventions of:

a. the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

b. any applicable code of professional conduct in relation to the review.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
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GRAHAM WEBB
Partner
Dated 12 March 2014

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