

Quarterly Report

Activities Report for the Quarter ended
30 September 2013



ORPHEUS
ENERGY

Orpheus Energy Limited (ASX: OEG) has continued to focus on its strategic objective of becoming a vertically integrated coal producer over the September quarter, and announced the company had secured port barge loading capacity in South Kalimantan of up to 2.5 million tonnes per year for up to 10 years.

Post reporting date, Orpheus also announced it had secured a further 40,000 tonnes per month (480,000 tonnes per year) barge loading capacity, for a five year period, at another port in South Kalimantan.

Both developments will rapidly grow Orpheus' infrastructure and coal trading divisions by adding significant monthly coal tonnage revenues in a low-risk, low-capital program.

INDONESIA

SOUTH KALIMANTAN

Coal Production/Sales

As widely reported, the Indonesian Government has been discussing restricting exports in the future to certain ports or shipping points to avoid illegal deliveries. This meant that from July – mid October, Indonesian mines, ports and hauling roads were closed for government survey. Consequently, there was no Orpheus coal production for the September quarter.

This process has now largely drawn to a close as Indonesian mines, ports and hauling roads are progressively being brought back into operation after receiving government approval to do so. All Orpheus coal sale agreements DO NOT include penalties for late shipments.

As a fully legally licenced miner and exporter of Indonesian coal, Orpheus has been one of the first companies to be given approval to re-commence operations in the key coal production and export area of South Kalimantan. Mining at the company's Kintap ADK mine resumed in the second week of October, with barge loading to follow in early November.

As announced in the company's recent investor presentation, Orpheus is targeting annual coal sales of 3 Mtpa. Approximately 20% (~600,000 tpa) will be from Orpheus' own mining operations where the company holds a sales contract for its Kintap ADK production, of 45,000 tonnes per month, with the local Indonesian power utility.

The supply balance of Orpheus's sales target (~2.4 Mtpa) will come from small local coal producers which Orpheus will buy and then sell at a margin through the company's trading

division. Coal supply contracts with offtake agreements for the tonnage are already in place.



29 October 2013 – Coal mining at Kintap ADK

Infrastructure

On 17 September, Orpheus announced a critical infrastructure development which will provide robust cash flows and potentially changes the company from a modest coal producer to a vertically integrated mining company of significant size.

After a period of negotiations, Orpheus announced it had secured an exclusive 10 year agreement with SKJM Port in South Kalimantan. The agreement provides Orpheus with barge loading capacity in excess of 200,000 tonnes per month (up to 2.5Mtpa) over the period. As part of the deal, Orpheus is responsible for the allocation of loading slots at SKJM with a fixed fee for the 10 year agreement, either loading its own coal or making additional margins through loading other producers' coal.

Additionally, Orpheus announced that the transaction would be funded completely off balance sheet by a local Indonesian infrastructure investor, with Orpheus only being responsible for a monthly, reducing interest payment, thereby mitigating any funding risk to the company.

As part of the developments 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.

Post reporting date, on 10 October, 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.

The company has secured coal supply from a local miner which Orpheus will buy and then sell to an Indonesian trading group that has entered into a five year offtake agreement at the rate of 40,000 tonnes per month (1.8 Mt) at Indonesian benchmark prices.

The two port deals will allow the company to grow a diversified revenue stream whilst fast-tracking its goal of becoming cash flow positive. Advanced discussions are continuing regarding additional port opportunities in South Kalimantan, which will be announced as legal and technical criteria are met, and commercial discussions are finalised.

EAST KALIMANTAN / PAPUA EXPLORATION AREAS

As Orpheus has been focused on generating cash-flow from its mining, infrastructure and trading activities, as well as controlling costs, no significant exploration work was undertaken in the quarter.

CORPORATE

Second and Final In-specie Distribution of Orpheus Shares by Whitehaven Coal

As announced on 19 August, Whitehaven Coal confirmed arrangements for the second and final in-specie distribution of all the Orpheus Energy Ltd shares held by Whitehaven subsidiary, Coalworks Ltd. The second dividend was paid to all former Coalworks shareholders who held shares at the Record date, as part of the 2012 takeover of Coalworks by Whitehaven.

Unmarketable Parcel Sale or Top-Up Facility

The second in-specie distribution resulted in a large number of shareholders with small shareholdings worth less than A\$500. In anticipation of many small shareholders wanting to divest their holdings, thereby risking damaging Orpheus' share price, the Orpheus Board announced an Unmarketable Parcel Sale or Top-Up Facility the day after the distribution, on 20 August.

On 2 October, Orpheus announced the facility was completed, whereby the total number of shareholders was reduced from 1,983 to 968, providing savings in ongoing share registry and shareholder costs that would otherwise be associated with these small holdings. As part of the facility, 79 shareholders opted to top-up their holdings in the sum of 895,316 shares.

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")

SEPTEMBER2013

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	37	37
1.2 Payments for		
(a) exploration and evaluation	(43)	(43)
(b) development	(627)	(627)
(c) production	-	-
(d) administration	(570)	(570)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	3	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)		
-		-
Net Operating Cash Flows +	(1,200)	(1,200)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects		
(b)equity investments		
(c) other fixed assets	(48)	(48)
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets		
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)	-	-
Net investing cash flows	(48)	(48)
1.13 Total operating and investing cash flows (carried forward)		

+ As disclosed in the paras on estimated cash flow for next quarter the Directors are confident of near cash flow break even resulting in a negligible decline in total cash at the end of the second quarter.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,248)	(1,248)
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	1,073	1,073
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other -	-	-
	Net financing cash flows	1,073	1,073
	Net increase (decrease) in cash held	(175)	(175)
1.20	Cash at beginning of quarter/year to date	1,596	1,596
1.21	Exchange rate adjustments to item 1.20	208	208
1.22	Cash at end of quarter	1,629	1,629

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	40
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

-

+ 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)	1,073	1,073
3.2 Credit standby arrangements	NIL	NIL

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development*	327
4.3 Production +	4,635
4.4 Administration	540
Total	5,502

** Includes interest on loan and repayments of principal
+ Estimated sales revenue for next quarter \$5.4*

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	1,195	1,195
5.2 Deposits at call	434	434
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,629	1,629

+ See chapter 19 for defined terms.

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	-		

+ See chapter 19 for defined terms.

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		<i>Fully Paid</i>
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
<i>Unquoted</i>	1,175,000	-	\$0.20	30/09/2014
<i>Unquoted</i>	1,000,000	-	\$0.25	04/08/2014
<i>Unquoted</i>	12,750,000	-	\$0.20	30/09/2014
Total Options	14,925,000	-		
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				
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 October 2013

(Company Secretary)

Print name: John Stone

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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