

**1 November 2013**

## **ORPHEUS ENERGY ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS**

It is my pleasure to present the Company's AGM address 2013 and I would like to welcome all attendees.

Our business vision is to become an Asia-focussed, profitable, and vertically integrated coal producer through exploration, production, coal trading and infrastructure. Over the year, our growth in mine production and coal trading played a critical role in adapting to the changing market conditions, in particular, the substantial drop in the coal price and difficulty in securing coal loading slots. Through recently acquired infrastructure capacity, Orpheus now has a potential diverse revenue stream as a vertically integrated company and is well placed for future growth.

We are now four months into 2013/14 and I am able to review our recent progress, and forecast with confidence our forward challenges and opportunities.

**South Kalimantan;** Sales for the year to June 30<sup>th</sup> 2013 totalled 137,000 tonnes, a significant increase of over 100,000 tonnes from the previous year, but well below our expectations due to the competition and availability of loading slots. All coal sales were FOB barge only. So that shareholders clearly understand, we currently only sell FOB barge due to our cash constraints.

Our plans within the current year are to sell partly FOB Mother Vessel to improve profitability. We are currently in negotiations to secure advanced funding from potential off take partners. Now we have control of loading slots, we can move in this direction with confidence.

Through our existing trading and production operations, we have the coal to support our loading slots and are now in the position to implement a sales program in line with our working capital availability. We have secured coal from a number of miners operating under

what is known as an SPK (exclusive and legal right to mine a licenced area). It is important to note that these exclusive arrangements give us access to coal without any acquisition costs, allowing us to grow our trading business in a cost effective way. Our ongoing focus is to become cash flow positive and with our increase in production and recent infrastructure agreements, we expect this to occur in the near future. However, we maintain an ongoing process in order to identify suitable additional projects in the region to increase our coal bank, in line with funding availability

**Infrastructure Development;** Our experience, coupled with an acute awareness of market conditions, led us to a strategy of controlling our operations from mine mouth to end buyer, through mining, trading securing port loading slots which add another revenue stream to our business.

In September 2013, Orpheus secured significant infrastructure capacity through a 2.5 million tonnes per annum port facility at SKJM in South Kalimantan, for a period of 10 years, at a fixed loading rate. No penalty clauses apply.

Following our significant deal at SKJM, the company has also signed a long term sales agreement of approximately 50,000 tpm in Sungai Danau, also in South Kalimantan. We have a 5 year agreement to load via the Abidin 1 port, not less than 40,000 tonnes per months, potentially in excess of 150k per month.

We remain active in assessing additional port and infrastructure opportunities, and whilst in discussions and undertaking due diligence with parties on an ongoing basis, we look forward to hopefully updating shareholders on any relevant developments.

**Papua;** whilst our resources are currently allocated to revenue producing assets, our exploration plans at Papua remain ongoing but not considered a priority. At Papua, we have four Greenfield exploration concessions over an area of 125,000 Ha and whilst initial exploration work has been limited, a number of coal outcrops have been found providing the Board with confidence that the area has long term potential.

**East Kalimantan;** We recently sold two blocks in the year, B2 and B6 for \$2 million as the Board continues its strategy of focusing its resources on developing our mining activities in South Kalimantan.

Orpheus still holds 51% equity in blocks 3 and 4, and we continue to review our options to maximise shareholder value.

**Coal outlook;** Despite recent challenges in the market, coal remains the fastest growing fuel outside renewable energy, with production growing on a 10 year average of 4.8%. The Asia-Pacific region accounts for all of this net increase,

China's strong appetite for thermal coal is expected to lead to a doubling of demand by 2030 with imports reaching 289 million tonnes in 2012, and this number is expected to grow further.

India's thermal coal imports rose 29% to a record 135 million tonnes in 2012/13, and this number is also set to grow further this year. Ultimately, India could overtake China as the world's largest importing country.

In 2011, Indonesia replaced Australia as the world's largest coal exporter on a tonnage basis this is due to Indonesia's abundant reserves with low overburden to coal ratio and its close proximity to large Asian importers. Additionally, Indonesian domestic coal demand has grown significantly and is expected to grow from 57.3 million tonnes in 2012 to 125.7 million tonnes in 2022. This growth provides local sales opportunities and we already have an expanding market with local domestic users.

Apart from China and India, other exciting regional markets include Vietnam, Thailand, Malaysia, Sri Lanka and Philippines, with a combined estimated import for 2014 of 50 million tonnes. We are continuing to focus to these smaller markets where opportunities are substantial.

We remain very confident about the coal sector's long term outlook despite recent media attention alluding to the various challenges the industry is facing. We are in ongoing correspondence with consultants, industry experts and investors who reiterate our optimism.

Through our vertically integrated strategy, we have modelled Orpheus in a way that can still derive value in flat markets and also leaving the company well positioned to leverage its growth in any improvement to market conditions.

**Australian assets** as our focus is Indonesia, the Board have not committed any significant funding to these assets. We will continue to review opportunities to either JV or sell these assets outright.

**Outlook** In the short term, our target is to fully recover operating overheads, and through the

company's growing production, trading and now infrastructure divisions, we are progressing towards our goal of becoming cash flow positive. We strongly believe that the unfavourable market conditions are behind us, and the company is excited to advance our existing operations with the added potential of identifying additional opportunities through the year.

Infrastructure will play an important role in the company's growth, importantly adding another revenue stream for the company and completing our objective of being a vertically integrated producer. This diversification is a critical point of difference, whilst we remain active in our exploration at Papua and our coal trading division continues to add significant value to the business.

Over the medium term, our goal remains to grow our coal sales to a consistent rate of not less than 3 million tonnes per annum, and from this level we can rapidly expand our sales. Following this growth in sales and profits, we will aim to pay a dividend.

Orpheus is well placed for continued growth in the 2014 year and we look forward to updating shareholders on our progress.

I want to thank my board and colleagues, together with our Indonesian team, for their hard work and diligent contributions to the company's development over the last twelve months.

I would also like to thank our shareholders for their continued support in what has been a year of significant progress in very challenging markets. Orpheus is in excellent shape and the Board has sound reasons for continued optimism.

**Wayne Mitchell**

**Executive Chairman**

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