ORCA ENERGY

AND CONTROLLED ENTITIES

ABN 25 009 121 644

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Contents

These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2013 and any public announcements made by Orca Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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Directors' Report

Your directors present their report on the consolidated entity of Orca Energy Limited ("Company") and its controlled entities ("Group") at the end of, or during, the half year ended 31 December 2013.

Directors

The persons who were directors of Orca Energy Limited during the half year and up to the date of this report are:

Mr Greg Bandy (Executive Director)
Mr Jason Bontempo (Non Executive Director)
Mr Jeremy King (Non Executive Director)
Mr Denis Patten (Non-Executive Director)[1]
Mr Arthur Pitts (Alternate Director)[2]

[1]Resigned 24th October 2013
[2]Resigned 24th October 2013

Review of Operations for the Half Year ended 31 December 2013

The consolidated Statement of Profit or Loss and Other Comprehensive Income shows a consolidated total comprehensive profit for the half year ended 31 December 2013 to members of $1,552,215 (2012: total comprehensive loss of $340,441).

Cooper Basin, South Australia

Orca has an interest in two quality licenses in the onshore Cooper Basin, a region that is a prolific onshore producer of oil and gas with significant tight sand and shale gas potential.

During the financial period the Company sold its 20% participating interest in PEL 115 to Senex Energy Limited ("Senex") in exchange for a package of benefits worth approximately $7 million that included a free carry for oil exploration and development in the southern Cooper Basin.

Under the terms of the agreement with Senex, Orca retained its 20% interest in two key assets within PEL 115, namely the Fury Joint Venture. Two significant discoveries were made during the period and substantial development was undertaken in Q4 2013, with production and sales now being achieved.

Fury JV (OGY 20%)

Burruna-2

In August 2013 Orca announced a significant oil discovery at the Burruna-2 exploration well, located within the newly formed "Fury Joint Venture" area (refer Figure 1.) Wireline logs confirmed a net pay interval in the mid Namur Formation of 5.3 metres and the well free-flowed oil to surface at a rate of more than 3,600 bopd during testing.

The well was drilled to a total depth of 1,916 metres by Joint Venture partner and Operator, Senex, and as per the Sale Agreement announced on the 13th June 2013, Orca was free carried for all costs associated with drilling, casing and completing the well.

Directors' Report (Cont)

During Q4 2013 the Burruna-2 oil well was completed for production and began producing at a constrained rate of approximately 1,000 bopd. The Burruna-2 production well is currently producing free flow oil from the Namur formation at a rate of approximately 430 bopd with 75% water cut (as at Feb 10th). A proposed workover in March 2014 will involve the installation of an electric submersible pump (ESP) and surface facilities which should approximately double gross fluid production rates and correspondingly increase the volume of oil being produced.

Production for Q4 2013 was in excess of 40,000 barrels of oil (Orca's share 8,000bbls).

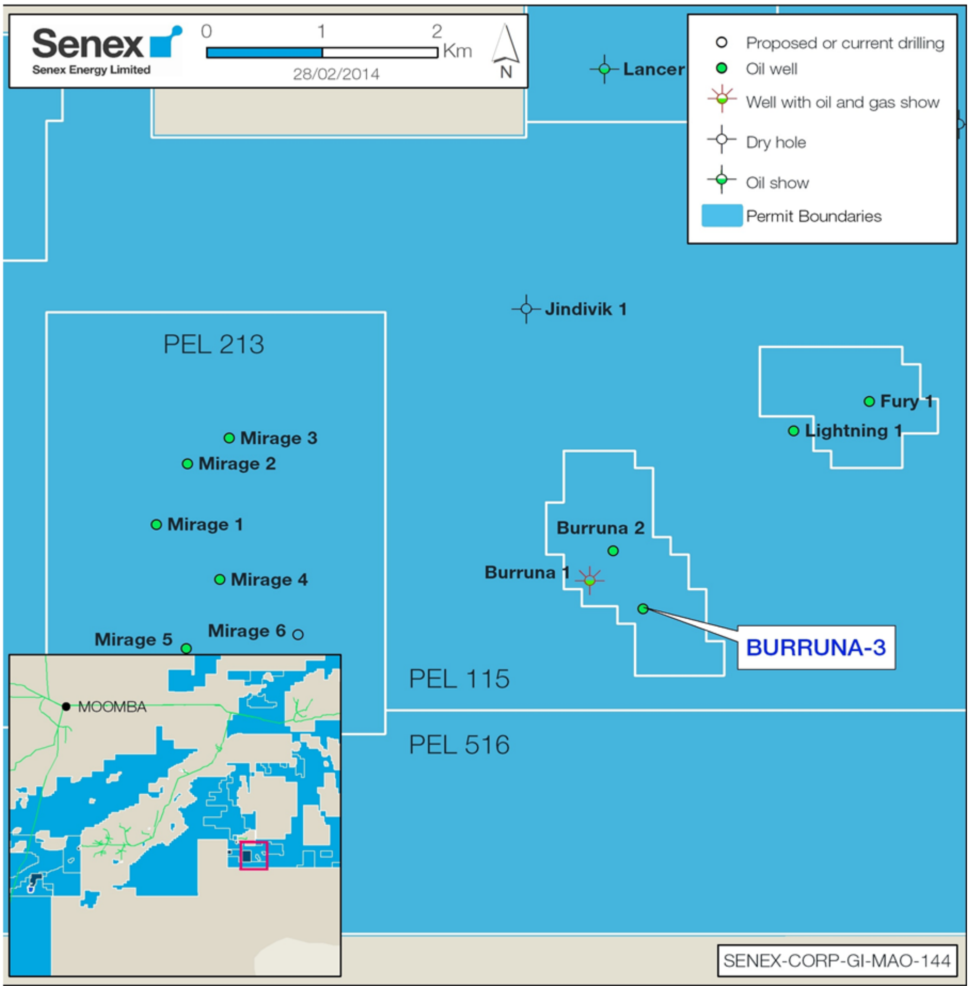

Figure 1 – Source: Senex Energy Limited

<u>Burruna-3</u>

During Q4 2013 the Burruna-3 oil well successfully appraised the Namur Formation intersected by the Burruna-2 discovery. Further, the well also encountered an additional oil accumulation in the previously untapped lower Birkhead Formation. The appraisal well confirmed the structural mapping of the Burruna oil field and intersected approximately 3 metres of interpreted net pay in the lower Birkhead Formation. Wireline logging confirmed this discovery and an initial production test was planned for early in 2014.

The appraisal well also encountered good quality oil and gas shows in the Murta Formation, which is productive in the adjacent Fury and Mirage Fields.

Burruna-3 is located 560 metres southeast of the Burruna-2 oil discovery, as shown in Figure 1.

Directors' Report (Cont)

Fury-1

During the period Orca announced that the Fury-1 oil exploration well was re-completed and placed on a 10 day initial production test (IPT) to evaluate deliverability of the resource within the Fury oil field. Re-entry of the well successfully perforated and tested an 18-metre gross oil column within the Murta Formation with initial flow rates of up to 75 barrels of oil per day. Subsequent to the half year end, Orca quantified a significant contingent oil resource within the Murta Formation of the Fury JV (refer announcement on 11th February 2014). The potential for Murta Formation oil production has been identified and tested from conventional wells, and has been shown to be potentially viable. Orca looks forward to working with JV partner and Operator, Senex Energy, in the coming months to unlock this significant resource.

PEL 110 (OGY 20%)

During the period data processing under the Dundinna 3D seismic program commenced following completion of the acquisition phase of the program, which included 177km2 in PEL 110. Processed data is expected to be available for review at the end of Q2 2014, to identify drillable prospects for possible drilling program towards the end of 2014.

Approximately 176.7km2 of 3D seismic was acquired across PEL 110 (OGY 20%), which currently has 7 leads and prospects identified in the Birkhead and Hutton Formations, with good stratigraphic similarities to nearby discoveries along the margin. Under the sales agreement announced with Senex on 13th June 2013, Orca will be free carried through this entire seismic program.

The PEL 110 project is located north of the Keleary and Telopea oil and gas fields and west of the James oil field (refer Figure 2). Completion of this 3D seismic survey will be a significant further step forward in the exploration of PEL 110.

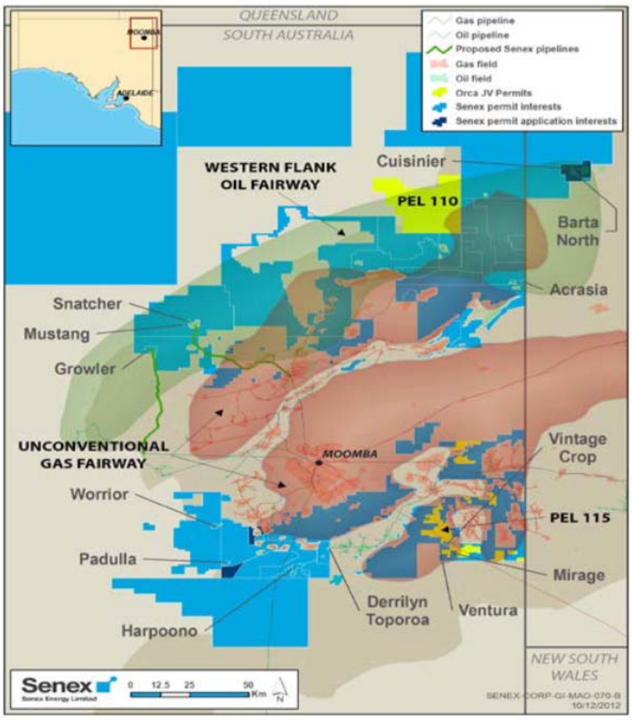

Figure 2

Directors' Report (Cont)

"Seabiscuit" (Matagorda) Project, Texas - OGY 20%

After considerable delay and postponement of the "Seabiscuit" project, JV partner and operator, Dan A. Hughes Company ("Hughes"), began site works and construction operations during the period. Hughes has advised that they are moving forward with the Seabiscuit prospect, albeit without a specific spud date. Orca understands that Hughes is currently assessing alternative access routes with the intention of lowering overall costs.

With natural gas prices recently reaching a four-year high, Orca remains committed to the project and continues to work with Hughes to expedite the drilling of this highly prospective target.

Corporate

Following the sale completion of PEL 115, and in accordance with the transaction, Orca bought back and cancelled Senex's shares in the company, being 115,000,000. Mr Denis Patten resigned as a Director together with his alternate, Mr Arthur Pitts, as per the Sales Agreement. The Company also issued 28,000,000 unlisted options ($0.03; expiring 31 December 2015) during the quarter to Directors and Corporate Advisors following shareholder approval at the Annual General Meeting held in November 2013.

Subsequent Events

Subsequent to the period end, the Company announced details for a buy-back for holders of unmarketable parcels of shares in the Company, which is scheduled to complete in late Q1 2014.

On 11th February and together with Senex Energy, Orca quantified a significant contingent oil resource within the Murta Formation of the Fury JV (Burruna and Fury Blocks). The potential for Murta Formation oil production has been identified and tested from conventional wells, and has been shown to be potentially viable. As a result the following contingent resources have been estimated within the Murta Formation across the Fury JV:

	1C[1]	2C	3C
Contingent Resource[2] (recoverable oil, mmbbls)	0.25	0.52	1.05
Orca Working Interest (mmbls)	0.05	0.104	0.21
Average recovery factor applied[3]	8%	13%	20%
Oil in place[4] (mmbls)	2.37	4.08	7.04

1 The resource classes in the summation were not adjusted for risk
2 The contingent resource estimates are not reserves and do not include reserves within the Murta Formation that are associated with commercially viable production
3 Average recovery factor applied to this contingent resource booking relates to vertical wells without production enhancement
4 Stock tank oil initially in place (STOIIP)
5 The estimates represent arithmetic summation by category. Note that this may cause the 1C resource estimate to be very conservative and the 3C resource estimate to be overly optimistic

The Murta Formation is a regionally extensive package of thinly interbedded sandstone shale that lies above the primary production reservoirs of the Cooper- Eromanga Basin. The formation is commonly found to be highly oil saturated with net pay intervals of 4 metres to 16 metres in thickness.

Directors' Report (Cont)

On 3rd March, Orca announced that the Burruna-3 development well had been successfully completed as a future oil producer. After running the completion, the well was briefly flowed to clean up and remove drilling and completion fluids. The well quickly produced oil to surface and samples of the oil were taken for crude oil quality testing. Production testing is planned over the next few weeks to determine free flow rates. Surface facilities are now being constructed and a flowline connected to the Burruna EPT Facility. Successfully bringing oil to surface from the Birkhead Formation is significant to Orca as it confirms the discovery made in November last year. The Birkhead sandstone is excellent quality reservoir and is expected to produce very strongly. To date Orca has only classified the oil in the Birkhead as contingent resources. The flowing of oil to surface and installation of long-term production facilities will allow Orca to reclassify the discovery as developed producing reserves. The Birkhead production will provide strong cash flow and rapid recovery of the cost of the well and facilities.

There have been no other material subsequent events since the end of the period.

Competent Person Statement

The Reserve, Contingent and Prospective Resource estimates for the Fury and Burunna Fields outlined in this announcement have been based on and fairly represents information and documents prepared by the Operator and reviewed by Mr Alexander Parks, a qualified petroleum reserves and resources evaluator. Mr Parks is a retained advisor the Company but not an employee of Orca Energy or its subsidiaries. Mr Parks is a Petroleum Engineer with over 15 years of relevant experience is a member of SPE (Society of Petroleum Engineers) PESA (The Petroleum Exploration Society of Australia). Mr Parks has confirmed the resource estimates to fairly represent the resource and consented to the form and context that this statement appears.

Directors' Report (Cont)

Auditor's Independence Declaration

The Auditor's Independence Declaration on page 7 forms part of the Directors' Report for the half year ended 31 December 2013.

This relates to the review report, where they state that they have issued an independent declaration.

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

Greg Bandy
Executive Director
Perth, Western Australia, 13 March 2014

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

13 March 2014

Board of Directors
Orca Energy Limited
1 Havelock Street
West Perth WA 6005

Dear Sirs

RE: ORCA ENERGY LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Orca Energy Limited.

As Audit Director for the review of the financial statements of Orca Energy Limited for the half year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik

Martin Michalik
Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Half Year 2013 $	Half Year 2012 $
Revenue	3	**737,909**	**-**
Cost of Sales	4	(329,892)	-
Gross Profit		**408,017**	**-**
Other income		34,287	64,317
Profit on Farmdown	9	1,840,000	-
General and administrative expenses		(47,143)	(105,057)
Compliance and regulatory expenses		(128,360)	(163,247)
Consultancy costs		(146,500)	(16,500)
Employee benefits expense		(177,495)	(106,013)
Travel expense		(11,724)	(3,358)
Depreciation expense		(7,288)	(10,583)
Share based payments expense		(214,134)	-
Foreign exchange gain/(loss)		2,555	-
Profit/(loss) before income tax		**1,552,215**	**(340,441)**
Income tax		-	-
Profit/(loss) for the half year attributable to owners of the company		1,552,215	(340,441)
Other comprehensive income			
Items that will be reclassified to profit or loss		**-**	**-**
Items that may be reclassified to profit or loss		**-**	**-**
Total comprehensive income for the half year attributable to owners of the company		**1,552,215**	**(340,441)**
Profit/(loss) attributable:			
Owners of the parent		1,552,215	(340,441)
Non-controlling interests		-	-
Total comprehensive profit/(loss) attributable to:			
Owners of the parent		**1,552,215**	**(340,441)**
Non-controlling interests		**-**	**-**
		1,552,215	**(340,441)**
Basic profit/(loss) per share (cents per share)		**0.29**	**(0.06)**
Diluted profit/(loss) per share (cents per share)		**0.29**	**(0.06)**

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	As at 31 December 2013 $	As at 30 June 2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	2	3,035,544	1,615,645
Trade and other receivables	5	414,977	8,193
Other assets		3,441	13,763
Other financial assets		900	2,600
Assets held for sale	9	-	2,460,251
Oil Inventory		83,959	-
Total Current Assets		**3,538,821**	**4,100,452**
Non-Current Assets			
Plant and equipment		4,858	12,146
Exploration and evaluation expenditure	6(a)	4,262,233	6,045,863
Oil and gas properties	6(b)	1,846,392	-
Total Non-current Assets		**6,113,483**	**6,058,009**
TOTAL ASSETS		**9,652,304**	**10,158,461**
LIABILITIES			
Current Liabilities			
Trade and other payables		470,148	994,126
Provisions		1,625	16,625
Total Current Liabilities		**471,773**	**1,010,751**
Non-Current Liabilities			
Provisions		132,000	-
Total Non-Current Liabilities		**132,000**	**-**
TOTAL LIABILITIES		**603,773**	**1,010,751**
NET ASSETS		**9,048,531**	**9,147,710**
EQUITY			
Issued Capital	7(a)	28,803,803	30,669,331
Reserves	7(b)	2,255,331	2,041,197
Accumulated losses		(22,010,603)	(23,562,818)
TOTAL EQUITY		**9,048,531**	**9,147,710**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital Ordinary	Accumulated losses	Option Reserves	Total
	$	$	$	$
As at 1 July 2012	**30,669,331**	**(22,996,062)**	**2,041,197**	**9,714,466**
Total Comprehensive loss for the period				
Loss for the period	-	(340,441)	-	(340,441)
Other comprehensive income				
Total comprehensive loss for the period:	-	(340,441)	-	(340,441)
Securities issued during the period (net of transaction costs)	-	-	-	-
Total Contributions by and distributions to owners	-	-	-	-
As at 31 December 2012	**30,669,331**	**(23,336,503)**	**2,041,197**	**9,374,025**
As at 1 July 2013	**30,669,331**	**(23,562,818)**	**2,041,197**	**9,147,710**
Total Comprehensive income for the period				
Profit for the period	-	1,552,215	-	1,552,215
Other comprehensive income				
Total comprehensive income for the period:	-	1,552,215	-	1,552,215
Securities bought back during the period including transaction costs	(1,865,528)	-	-	(1,865,528)
Options Issued during the period	-	-	214,134	214,134
Total Contributions by and distributions to owners	(1,865,528)	-	214,134	(1,651,394)
As at 31 December 2013	**28,803,803**	**(22,010,603)**	**2,255,331**	**9,048,531**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cashflows

	Note	For the half year 31 December 2013 $	For the half year 31 December 2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (inclusive of GST)		(558,052)	(348,493)
Receipts from customers		322,932	-
Interest received		29,791	64,317
Other revenue		4,496	-
Net cash (used in) operating activities		**(200,833)**	**(284,176)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation expenditure		(8,413)	-
Reimbursement of exploration and evaluation expenditure		1,654,673	-
Net cash provided by investing activities		**1,646,260**	**-**
CASH FLOW FROM FINANCING ACTIVITIES			
Payments for share transaction costs		(25,528)	-
Net cash (used in) financing activities		**(25,528)**	**-**
Net increase/(decrease) in cash held		**1,419,899**	**(284,176)**
Cash and cash equivalents at the beginning of the half-year		1,615,645	3,948,466
Cash and cash equivalents at end of half-year	2	**3,035,544**	**3,664,290**

The above consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Condensed Notes to the Financial Statements

1. Significant Accounting Policies

a) *Basis of Preparation*

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Orca Energy Limited. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. 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 half-year.

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 for the adoption of the following new and revised Accounting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current 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 at Note 1(c) below.

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

The following new and revised Australian Accounting Standards became applicable 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 13: Fair Value Measurement
- 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:

Condensed Notes to the Financial Statements (Cont)

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.

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 will not have any impact on the Group's financial statements as the Group's interest in joint ventures is currently accounted for using the equity method of accounting.

When changing from the proportionate consolidation method to the equity method upon initial application of AASB 11, investments in joint ventures are required to be recognised as at the beginning of the immediately preceding year (ie as at 1 July 2012) and measured as the aggregate of the carrying amounts of the assets and liabilities that the investor had previously proportionately consolidated, including any goodwill arising from acquisition. This amount is regarded as the deemed cost of the investment at initial recognition, and is subject to impairment testing at that point in time. If aggregating all previously proportionately consolidated assets and liabilities results in a negative net asset amount, the investor recognises a liability to the extent that it has a legal or constructive obligation with respect to the negative net assets, and recognises any balance of the negative net assets as an adjustment to opening retained earnings.

Although the first-time application of AASB 11 (together with the associated Standards) caused certain changes to the Group's accounting policy for accounting for joint ventures and classification of joint arrangements, the directors have determined that such changes did not have any significant impact on the amounts reported in the Group's financial statements, mainly because the Group's classification of joint arrangements did not change. However, the revised accounting policy for joint arrangements is set out in Note 1(e).

Condensed Notes to the Financial Statements (Cont)

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 significantly 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.

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 (Orca Energy Limited) and all of the subsidiaries. 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.

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.

Condensed Notes to the Financial Statements (Cont)

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.

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.

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.

Condensed Notes to the Financial Statements (Cont)

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.

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
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.

Level 2
Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3
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.

Condensed Notes to the Financial Statements (Cont)

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

g) Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amount recognised in the financial statements:

Exploration and evaluation expenditure
The application of the Group's accounting policy for exploration and evaluation expenditure requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves will be found. Any such estimates and assumptions may change as new information becomes available. If it is determined that, after having capitalised expenditure, the expenditure is unlikely to be recovered by future exploration or sales then the relevant capitalised amount will be expensed to the statement of profit or loss.

Oil and Gas Properties
The application of the Group's accounting policy for oil and gas properties assets requires management to make certain estimates and assumptions as to the value of oil and gas properties to be recognised in the statement of financial position. The amount of costs recognised for the oil and gas properties were determined by comparing the net present value of discounted cash flow of expected revenues to capitalised costs. In undertaking this assessment, management was required to make certain estimates and assumptions concerning the discount factor, production quantities, sale prices for gas and condensate, operating costs, future exploration costs, inflation rates, rehabilitation costs and the life of the gas wells. Any of these estimates and assumptions may change due to economic or market conditions or when new information is made available. In undertaking this assessment, if the net present value of discounted cash flow were less than the capitalised costs the capitalised costs are reduced by expensing to the statement of profit or loss. The development costs are amortised over the life of the production wells while plant is depreciated over the shorter of the useful economic life of the plant and the life of the gas wells.

h) Rehabilitation Provision

Rehabilitation and restoration costs are a consequence of oil and gas extraction and production. The majority of this expenditure is incurred at the end of a well's life. Management has made certain estimates and assumptions to determine the appropriate value for a provision including consideration of expected future costs to be incurred, the timing of these expected future costs and future inflation rates. Ultimately, the cost of rehabilitation and restoration is uncertain and costs can vary in response to many factors including changes to legal requirements, emergence of new restoration techniques or experience gained on restoration and rehabilitation at other wells. The timing of the expenditure may change in response to new information on oil and gas reserves or production rates. Changes to any of the estimates or assumptions could result in a change to value of the provision thereby having an impact on future financial results

Condensed Notes to the Financial Statements (Cont)

i) Recovery of Deferred Tax Assets

Judgment is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. At balance date the net deferred assets are not recognised on the statement of financial position.

Additionally, the future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

j) Sale of Goods and Inventory

Revenue is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Risk and reward are considered passed to the buyer at the time of delivery of the goods to the buyer.

k) Oil and Gas Properties

(i) Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment, and associated land and building.

(ii) Producing Assets

The cost of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

These costs are amortised over the life of the estimated proved plus probable reserves using the production method.

Dividends

No dividends were paid or declared during the period.

Condensed Notes to the Financial Statements (Cont)

	Consolidated 31 December 2013 $	Consolidated 30 June 2013 $

2. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents are comprised of the following:

Cash at bank	**3,035,544**	**1,615,645**

3. REVENUE

Revenue for the period	**737,909**	**-**

4. COST OF SALES

Cost of sales for the period	**329,892**	**-**

5. TRADE AND OTHER RECEIVABLES

Receivables	**414,977**	**8,193**

Trade and other receivables are non-interest bearing and generally on 30 to 60 day terms. The other classes within trade and other receivables do not contain impaired assets and are not past due.

Condensed Notes to the Financial Statements (Cont)

6.	Consolidated 31 December 2013 $	Consolidated 30 June 2013 $
a) EXPLORATION AND EVALUATION EXPENDITURE		
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost	**6,108,625**	**6,045,863**
Movement		
Balance at beginning of the period	6,045,863	6,034,361
Additions	418,937	2,471,753
Assets transferred to held for sale	-	(2,460,251)
Transfer to development assets (4(b))	(2,202,567)	-
Balance at end of period	**4,262,233**	**6,045,863**

b) OIL AND GAS PROPERTIES

Costs carried forward in respect of areas of interest in the following phases:

Oil and gas properties – at cost	**1,846,392**	**-**
Movement		
Balance at beginning of the period, net of accumulated amortisation and impairment	-	-
Transfers from exploration assets (4(a))	2,202,567	-
Amortisation charges for the period	(356,175)	-
Balance at end of period net of accumulated amortisation and impairment	**1,846,392**	**-**

7. ISSUED CAPITAL

a)

	31 December 2013 No.	$	30 June 2013 No.	$
Issued Capital				
Ordinary shares - fully paid	**460,033,775**	**28,803,003**	575,033,775	30,668,531
Converting preference shares	**2,006**	**800**	2,006	800
	460,035,781	**28,803,803**	575,035,781	30,669,331

	31 December 2013 No.	$	30 June 2013 No.	$
Movement in ordinary shares				
Balance at the beginning of the period	**575,033,775**	**30,668,531**	575,033,775	30,668,531
Share buy-back- Senex Energy Limited	**(115,000,000)**	**(1,840,000)**	-	-
Transaction costs relating to buy-back of shares	**-**	**(25,528)**	-	-
	460,033,775	**28,803,003**	575,033,775	30,668,531

Condensed Notes to the Financial Statements (Cont)

b)

	31 December 2013		30 June 2013	
	No.	**$**	**No.**	**$**
Unquoted options on issue				
Balance at beginning of financial year	500,000	2,041,197	4,375,000	2,041,197
Lapse of Options	-	-	(3,875,000)	-
Issue of Director & Consultant Options	28,000,000	214,134	-	-
Balance at end of the year	28,500,000	2,255,331	500,000	2,041,197

8. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group's primary segment is one business, being development, exploration and evaluation of oil and gas.

During the half year ended 31 December 2013 the consolidated entity operated in the following Geographic Segments: Australia and USA. (2012: Australia and USA).

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities
Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

Unallocated items
The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment: impairment of assets and other non-recurring items of revenue or expense.

Condensed Notes to the Financial Statements (Cont)

(a) Revenue/ other income by geographical region

Revenue/ other income attributable to external customers is disclosed below, based on the location of the external customer:

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Australia	**2,577,909**	-
USA	**-**	-
Unallocated items – interest and other income	**34,287**	64,317
Total revenue	**2,612,196**	64,317

(b) Profit/(loss) by geographical region

Profit/(loss) attributable to external customers is disclosed below, based on the location of the external customer:

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Australia	**1,517,928**	(340,441)
USA	**-**	-
Unallocated items	**34,287**	-
Total loss	**1,552,215**	(340,441)

(c) Assets by geographical region

The location of the segment assets is disclosed below by geographical location of the assets:

	Consolidated 31 December 2013 $	Consolidated 30 June 2013 $
Australia	**5,526,996**	6,053,687
USA	**4,125,308**	4,104,774
Unallocated items	**-**	-
Total assets	**9,652,304**	10,158,461

Condensed Notes to the Financial Statements (Cont)

	Consolidated 31 December 2013 $	Consolidated 30 June 2013 $
(d) Liabilities by geographical region		

The location of the segment liabilities is disclosed below by geographical location of the assets:

Australia	**598,622**	1,002,870
USA	**5,151**	7,881
Unallocated items	**-**	-
Total liabilities	**603,773**	1,010,751

7. CONTINGENT LIABILITIES

The Directors are not aware of any new contingent liabilities as at 31 December 2013. There has been no change in contingent liabilities since the last annual reporting date.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the period end, the Company announced details for a buy-back for holders of unmarketable parcels of shares in the Company, which is scheduled to complete in late Q1 2014.

On 11th February and together with Senex Energy, Orca quantified a significant contingent oil resource within the Murta Formation of the Fury JV (Burruna and Fury Blocks). The potential for Murta Formation oil production has been identified and tested from conventional wells, and has been shown to be potentially viable. As a result the following contingent resources have been estimated within the Murta Formation across the Fury JV:

	1C[1]	2C	3C
Contingent Resource[2] (recoverable oil, mmbbls)	0.25	0.52	1.05
Orca Working Interest (mmbls)	0.05	0.104	0.21
Average recovery factor applied[3]	8%	13%	20%
Oil in place[4] (mmbls)	2.37	4.08	7.04

1 The resource classes in the summation were not adjusted for risk
2 The contingent resource estimates are not reserves and do not include reserves within the Murta Formation that are associated with commercially viable production
3 Average recovery factor applied to this contingent resource booking relates to vertical wells without production enhancement
4 Stock tank oil initially in place (STOIIP)
5 The estimates represent arithmetic summation by category. Note that this may cause the 1C resource estimate to be very conservative and the 3C resource estimate to be overly optimistic

The Murta Formation is a regionally extensive package of thinly interbedded sandstone shale that lies above the primary production reservoirs of the Cooper- Eromanga Basin. The formation is commonly found to be highly oil saturated with net pay intervals of 4 metres to 16 metres in thickness.

Condensed Notes to the Financial Statements (Cont)

On 3rd March, Orca announced that the Burruna-3 development well had been successfully completed as a future oil producer. After running the completion, the well was briefly flowed to clean up and remove drilling and completion fluids. The well quickly produced oil to surface and samples of the oil were taken for crude oil quality testing. Production testing is planned over the next few weeks to determine free flow rates. Surface facilities are now being constructed and a flowline connected to the Burruna EPT Facility. Successfully bringing oil to surface from the Birkhead Formation is significant to Orca as it confirms the discovery made in November last year. The Birkhead sandstone is excellent quality reservoir and is expected to produce very strongly. To date Orca has only classified the oil in the Birkhead as contingent resources. The flowing of oil to surface and installation of long-term production facilities will allow Orca to reclassify the discovery as developed producing reserves. The Birkhead production will provide strong cash flow and rapid recovery of the cost of the well and facilities.

There are no other matters or circumstances which have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods.

9. PROFIT ON FARMDOWN

On the 14th June 2013 the group entered into an agreement with Senex Energy Limited regarding the sale of its 20% participating interest in PEL115. The transaction required shareholder approval which was subsequently received on the 7th August 2013. At 30 June 2013 the below assets were classified as held for sale as they were costs which would be reimbursed or accrued payables which were subsequently free-carried.

In the current period the company recognised a $1,840,000 profit on the farmdown of these assets. In the prior period the Company held $2,460,251 as assets held for sale. The $2,460,251 was an accumulation of $1,654,673 of past costs which were reimbursed in the current period and $805,578 of payables which as a result of the free carry are no longer payable and therefore reversed in the current period.

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes as set out on page 8 to 24 are in accordance with the Corporations Act 2001, including:

    (a) Complying with the 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.

2. In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Executive Director:
Greg Bandy

Dated this 13 March 2014

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Orca Energy Limited, which comprises the condensed statement of financial position as at 31 December 2013, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, and condensed 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 for Orca Energy Limited (the consolidated entity). The consolidated entity comprises both Orca Energy Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Orca 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 the 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 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 the consolidated entity'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 Orca 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 other 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.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Orca Energy Limited on 13 March 2014

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Orca Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) 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; and

(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd

Martin Michalik
Director

West Perth, Western Australia
13 March 2014