PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

PO VALLEY ENERGY LIMITED

DIRECTORSô REPORT

The Directors present their report together with the interim financial report for the half-year ended 30 June 2014 and the review report thereon.

Directors

The directors of the Company during and at the end of the half-year are:

Name	**Date of appointment**
Non- Executive:	
M Masterman	22 June 1999 (Managing Director)
	11 October 2010 (Non-Executive Director)
B Pirola	10 May 2002
G Bradley (Chairman)	30 September 2004
G Short	5 July 2010
K Eley	19 June 2012

Company Secretary

Lisa Jones	21 October 2009

Principal Activities

The principal continuing activities of the Group in the course of the year were:

- Å the exploration for gas and oil in the Po Valley region in Italy
- Å appraisal and development of gas and oil fields
- Å production and sale of gas from the Groupôs production wells

Review and results of operations

Operating Results

The net loss of the consolidated entity after income tax amounted to ú544,743 for the half-year ended 30 June 2014 (6 months 2013: ú5,625,677 loss).

Operating Review

<u>Production Assets</u>

Combined production from both Sillaro and Castello gas fields for the first six months of 2014 amounted to 10.6 million standard cubic metres of gas (circa 376 million standard cubic feet). Production from the Sillaro field for the half year 2014 was 10.1 million standard cubic metres (circa 358 million standard cubic feet). Castello gas field produced at a limited rate for most of the reporting period due to an increase in water production. Production from the Castello field for the half year 2014 was 0.5 million standard cubic meters (circa 18 million standard cubic feet).

<u>Development Assets</u>

The Company received the Production Concession Award for the gas field Bezzecca during the period which represents the final approval required to bring the field into production via a 7km pipeline which will be connected to the Vitalba plant. The various workstreams have progressed steadily during the first six months of 2014 with tenders received, reviewed and finalised for the EPIC (Engineering, Procurement, Installation and Commissioning), mechanical, electrical and pipeline installation aspects of the project.

The preliminarily production concession for the SantôAlberto gas field was granted in June 2014 by the Ministry of Economic Development. The next stage in the development plan is to submit the Environmental Impact Study (EIS) to the Emilia Romagna Region which represents the last step towards the full grant of the production concession.

During the first six months, the technical team completed work on the Teodorico (AR94PY) preliminary Front-End Engineering and Design (FEED) study and related development plan (including the fine tuning of the Naomi Pandora tie-in logistics) aimed at fast-tracking the development of the offshore gas project. Reprocessing of the 3D seismic data acquired in 2013 was also completed and Po Valley Energy Ltd (ñPVEò) will commence an in-house 3D geophysical reinterpretation in August. The Company intends to purchase additional seismic data in the surrounding area to identify further exploration prospects within the existing licence.

A production concession application for the Gradizza field was filed with the Ministry of Economic Development in February in collaboration with the farm-in partners AleAnna Resources LLC (10% equity) and Petrorep Italiana S.p.a. (15% equity).

Exploration Assets

Further to the identification of the low risk prospect named Selva Stratigraphic (within the Podere Gallina licence) PVE prepared the EIS and the associated drilling application was submitted to the Emilia-Romagna Region for approval.

Technical work continued on the two oil prospects Bagnolo in Piano and Ravizza (located in the Cadelbosco di Sopra and Grattasasso license respectively). Well data purchased from Eni was received and a preliminary development study was completed. The results confirm the technical viability and commercial attractiveness of the projects.

Following the full award of the exploration licence for Tozzona, (the newest addition to the PVE portfolio) the Company will look to purchase a semi-regional grid of 2D seismic lines from Eni in order to complete the geological and geophysical studies aimed at evaluating already identified opportunities.

Corporate Activities

The appointment of Ernst&Young (ñEYò), which was approved by the shareholders at the Annual General Meeting in May 2014, as external auditor was finalised during the month of July 2014 replacing KPMG.

The Companyôs current borrowings under the Reserve Based Lending (RBL) facility held with Nedbank Capital Limited stand at ú3.5 million.

As previously reported in August 2013, the Company has implemented an ongoing cost savings initiative. As a result the corporate overheads at 30 June 2014 have reduced by 16% in comparison to 30 June 2013.

Half year revenue from gas production totalled ú2,910,655. This was approximately 3% lower compared to the same period last year. Earnings before interest, tax, depreciation, amortisation (EBITDA) and impairment amounted to ú824,451 compared to ú905,666 at 30 June 2013, a decrease of 9%.

EBITDA (non IFRS financial information not subject to audit), presented for clarity, is reconciled to statutory results from operating activities as follows:

EBITDA reconciliation table (in Euro)	**30 June 2014**	**30 June 2013**
EBITDA	824,451	905,666
Depreciation and amortisation expense	(950,525)	(1,189,598)
Depreciation expense	(6,884)	(10,091)
Impairment losses	-	(5,038,782)
Finance expense	(308,246)	(239,881)
Foreign exchange differences	(5,627)	(62,644)
Income tax benefit / (expense)	(97,912)	9,653
Net loss from operating activities	**(544,743)**	**(5,625,677)**

The Company made a net loss for the half year of ú544,743 (2013: ú5,625,677).

Health and Safety

The Company places a high importance on its commitment to Health, Safety and the Environment (HS&E). PVE ensures that the various stages of business activities from initial planning to carrying-out daily operational procedures are designed and performed with the implemented HS&E safety systems in mind. A total of 19,373 man- hours worked both on-site and within the administrative office with no incidents or near misses to report is testament to the importance and effectiveness the internal HS&E management systems. PVE is committed to maintaining environmental sustainability and health and safety in the workplace as they are an integral part of our business strategy and corporate citizenship.

Auditorôs independence declaration

A copy of the auditorôs independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directorsô report for the half-year ended 30 June 2014.

This report has been made in accordance with a resolution of Directors.

Graham Bradley
Chairman

August 12, 2014
Sydney, NSW Australia

Building a better
working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's Independence Declaration to the Directors of Po Valley Energy Limited

In relation to our review of the financial report of Po Valley Energy Limited for the half-year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
12 August 2014

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	NOTES	30 June 2014 ú	31 December 2013 ú
Current Assets			
Cash and cash equivalents		1,041,491	1,528,633
Trade and other receivables	**7**	2,214,996	2,675,764
Total current assets		**3,256,487**	**4,204,397**
Non-Current Assets			
Inventory		634,694	634,694
Other assets		26,416	27,716
Deferred tax assets	**8**	2,325,408	2,370,139
Property, plant & equipment	**9**	3,355,213	3,572,165
Resource property costs	**10**	20,022,046	19,872,250
Total non-current assets		**26,363,777**	**26,476,964**
Total assets		**29,620,264**	**30,681,361**
Current Liabilities			
Trade and other payables		2,118,243	2,762,654
Provisions	**12**	112,793	138,392
Total current liabilities		**2,231,036**	**2,901,046**
Non-Current Liabilities			
Provisions	**12**	4,078,465	3,988,825
Interest bearing liabilities	**13**	2,997,192	2,933,176
Total non-current liabilities		**7,075,657**	**6,922,001**
Total Liabilities		**9,306,693**	**9,823,047**
Net Assets		**20,313,571**	**20,858,314**
Equity			
Issued capital	**14**	45,819,924	45,819,924
Reserves		1,192,269	1,192,269
Accumulated losses		(26,698,622)	(26,153,879)
Total equity		**20,313,571**	**20,858,314**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTE	30 June 2014 ú	30 June 2013* ú
Revenue		2,910,655	2,999,368
Operating costs		(666,312)	(606,784)
Depreciation and amortisation expense	**3**	(950,525)	(1,189,598)
Gross profit		1,293,818	1,202,986
Other income		70,741	203,633
Employee benefits - corporate	**2**	(915,701)	(1,028,681)
Depreciation expense	**3**	(6,884)	(10,091)
Corporate overheads	**4**	(572,615)	(678,426)
Impairment losses	**9 ï 10**	-	(5,021,112)
Exploration costs expensed		(2,580)	(17,670)
Loss from operating activities		(133,221)	(5,349,361)
Finance income		263	16,556
Finance expense		(313,873)	(302,525)
Net finance expense		(313,610)	(285,969)
Loss before income tax expense		(446,831)	(5,635,330)
Income tax (expense) / benefit	**5**	(97,912)	9,653
Loss for the period		(544,743)	(5,625,677)
Other comprehensive income		-	-
Total comprehensive loss for the period		(544,743)	(5,625,677)
Loss attributable to:			
Owners of the Company		(544,743)	(5,625,677)
Loss for the period		(544,743)	(5,625,677)
Total comprehensive loss attributable to:			
Owners of the Company		(544,743)	(5,625,677)
Total comprehensive loss for the period		(544,743)	(5,625,677)
Basic and diluted loss per share (ú)	**6**	**(0.45) cents**	**(4.65) cents**

** The June 2013 comparatives have been restated in order to present a classification of expenses consistent with the annual financial report for the year ended 31 December 2013. Please refer to note 1(c) for further details.*

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014

In Euro’s	Attributable to equity holders of the Company			
	Share capital	**Translation Reserve**	**Accumulated Losses**	**Total**
Balance at 1 January 2013	**45,460,097**	**1,192,269**	**(20,357,613)**	**26,294,753**
Total comprehensive income for the period:				
Profit for the period	-	-	(5,625,677)	(5,625,677)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(5,625,677)	(5,625,677)
Transactions with owners recorded directly in equity:				
Shares issued	359,827	-	-	359,827
Contributions by and distributions to owners	**359,827**	-	-	**359,827**
Balance at 30 June 2013	**45,819,924**	**1,192,269**	**(25,983,290)**	**21,028,903**
Balance at 1 January 2014	**45,819,924**	**1,192,269**	**(26,153,879)**	**20,858,314**
Total comprehensive loss for the period:				
Loss for the period	-	-	(544,743)	(544,743)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(544,743)	(544,743)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners	-	-	-	-
Balance at 30 June 2014	**45,819,924**	**1,192,269**	**(26,698,622)**	**20,313,571**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	30 June 2014 ú	30 June 2013 ú
Cash flows from operating activities		
Receipts from customers	3,598,761	3,095,920
Payments to suppliers and employees	(2,400,849)	(1,974,388)
Interest received	263	16,556
Interest paid	(154,591)	(133,929)
Income tax paid	-	(74,728)
Net cash generated from operating activities	1,043,584	929,431
Cash flows from investing activities		
Payments for non-producing property plant and equipment	(3,540)	(1,313)
Receipts for resource property costs from joint operations partners	163,951	171,222
Payments for resource property costs and production plant and equipment	(1,691,137)	(825,520)
Net cash used in investing activities	(1,530,726)	(655,611)
Cash flows from financing activities		
Proceed from issues of shares	-	359,827
Proceeds from borrowings	-	5,000,000
Repayment of borrowings	-	(4,000,000)
Borrowing costs	-	(450,000)
Net cash generated from financing activities	-	909,827
Net (decrease) / increase in cash and cash equivalents	(487,142)	1,183,647
Cash and cash equivalents at 1 January	1,528,633	1,226,348
Cash and cash equivalents at 30 June	1,041,491	2,409,995

The above consolidated cash flow statement should be read in conjunction with the accompanying notes

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) REPORTING ENTITY

Po Valley Energy Limited (ñthe Companyò) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the ñGroupò).

The consolidated annual financial report of the Group as at and for the year ended 31 December 2013 is available upon request from the Companyôs registered office at Level 28, 140 St Georges Terrace, Perth WA 6000 or at www.povalley.com.

(b) STATEMENT OF COMPLIANCE

The interim financial report is a condensed general purpose financial report prepared in accordance with AASB 134 Interim Financial Reports and the Corporations Act 2001. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2013 and with any public announcements made by PO Valley Energy Limited during the half-year ended 30 June 2014.

The consolidated interim financial report was approved by the Board of Directors on August 12, 2014.

(c) BASIS OF PREPARATION

The interim financial report is presented in Euro being the functional currency of the Company.
The interim financial report is prepared on the historical cost basis.

To be consistent with the annual report, foreign exchange differences for the comparative period have been reclassified and presented as finance costs as these are generated on the debt instruments and not the company core activity

(d) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-current assets

The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties. The Group undertakes at least on a biannual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest is tested for impairment. There is significant estimation and judgment in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation and judgement in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date

- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant judgment is required in determining the provisions for rehabilitation and closure as there are many transactions and other factors that will affect ultimate costs necessary to rehabilitate the sites. The discounted value reflects a combination of managementŏs best estimate of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination of, the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at that time. Changes to the estimated figure costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision.

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period.

(e) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

All new and amended Accounting Standards and interpretations effective from 1 January 2014 have been adopted including:

- AASB 1053 Application of Tiers of Australian Accounting Standards
- AASB 2011-4 Amendments to Australian Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)
- Interpretation 21 Levies

The adoption of the above standards and interpretations had no effect on the financial position or performance of the Company.

NOTE 2: EMPLOYEE BENEFITS - CORPORATE

Employee expenses are made up of Salaries and Wages for the Company personnel of ú805,998 (ú822,029 at June 2013) and Directors remuneration of ú110,703 (ú206,652 at June 2013). The decrease in Directors remuneration is due to the resign of the former Managing Director and CEO Giovanni Catalano in August 2013.

NOTE 3: DEPRECIATION AND AMORTIZATION

	30 June 2014 ú	**30 June 2013 ú**
Sillaro:		
Depreciation of production Plant & Equipment	(249,445)	(163,931)
Amortisation of Resource Property Costs	(692,460)	(613,018)
Castello:		
Depreciation of production Plant & Equipment	(8,620)	(179,863)
Amortisation of Resource Property Costs	-	(232,786)
Corporate:		
Other fixed assets	(6,884)	(10,091)
Total Depreciation and Amortization	**(957,409)**	**(1,199,689)**

The decrease in depreciation and amortization for Castello is the result of the impairment at June 2013 as described in note 10.
The reduction of depreciation for the Production, Plant and Equipment (PPE) costs of Sillaro is the result of the decrease in production in the first 6 months of 2014 when compared to the same period of 2013.

NOTE 4: CORPORATE OVERHEAD

The savings in corporate overheads, ú105,811 or 16% if compared to June 2013 data, are the result of Management effort in reducing general and administrative costs.
Main savings were realised through the rentals optimisation and professional fees renegotiation.

The cost saving effort is continuing in 2014

NOTE 5: INCOME TAX EXPENSE

Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expenses calculated per the statutory income tax rate

	30 June 2014 ú	30 June 2013 ú
Loss for the year before tax	(446,831)	(5,635,330)
Income tax benefit using the Companyðs domestic tax rate of 30 % (2013: 30%)	(134,048)	(1,690,599)
Effect of tax rates in foreign jurisdictions	(7,224)	6,813
Current year losses and temporary differences for which no deferred tax asset was recognised	44,149	99,679
Changes in temporary differences	(20,613)	(58,876)
Utilisation of tax losses	(14,076)	-
Tax effect of regional taxes in Italy ï current	53,181	41,478
Other non-deductible expenses	155,930	1,532,976
Income tax expense / (benefit)	97,912	(9,653)

The difference in the income tax expense between the first 6 months of 2014 if compared to the same period in 2013 is mainly driven by the impact of the impairment of Castello at June 2013 (please refer to Note 10 for further details).

NOTE 6: EARNINGS PER SHARE

	30 June 2014	30 June 2013
Basic loss per share (ú cents)	(0.45)	(4.65)
Diluted loss per share (ú cents)	(0.45)	(4.65)

The calculation of basic loss per share was based on the loss attributable to shareholders of ú544,743 (6 months 2013 Loss: ú5,625,677) and a weighted average number of ordinary shares outstanding during the half year of 122,414,063 (2013: 121,031,466).

NOTE 7: TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
	ú	ú
Trade receivables from gas sales customers	490,857	679,478
Accrued gas sales	459,223	648,696
Deposit on Security for interest payments	202,391	202,238
GST / VAT receivables	390,451	799,650
Other indirect taxes receivable	139,281	139,281
Receivables from joint operations partners	85,788	-
Other receivables	447,005	206,421
Trade and other receivables	**2,214,996**	**2,675,764**

Trade receivables from gas sales customers and accrued gas sales at June 30, 2014 refer to the production of the months of May (ú490,857) and June (ú459,223), as per sale agreement with Shell production is invoiced within 10 days from the last day of the production month and paid in 30 days. The amount of outstanding receivables (ú950,080) at June 2014 decreased if compared to December 2013 (ú1,328,174) mainly as a result of the decrease in production volumes and prices in the first 6 months of 2014.

The indirect taxes relate to Italian Value Added Tax (ñVATò), which is typically 22% of invoiced amounts (with certain exceptions). The extent of VAT that has not been recovered from the Italian authorities is recognised on the balance sheet as a receivable. Po Valley expects to recover this receivable through reducing VAT remitted on sales, reducing the Groupôs obligation to pay employee taxes to the authorities and/or applying for an annual refund (capped at the lowest amount of VAT credits generated in any of the past 3 years). The current portion receivable is estimated to be recoverable in the next twelve months. VAT remitted on oil and gas sales in Italy is 10%. The balance at June 2014 (ú390,451) decreased by ú409,199 if compared to December 2013 mainly as a result of the compensation of employees taxes of the period.

NOTE 8: DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of tax losses and temporary differences based on management assessment that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax assets amounting to ú2,325,408 (December 2013: ú2,370,139) have been recognised in relation to Italian subsidiaries available tax losses and temporary differences.

NOTE 9: PROPERTY, PLANT & EQUIPMENT

	30 June 2014 ú	31 December 2013 ú
Office Furniture & Equipment:		
At cost	200,672	200,132
Accumulated depreciation	(163,918)	(157,034)
	36,754	43,098
Gas producing plant and equipment		
At cost	4,829,036	8,402,751
Accumulated depreciation	(1,510,577)	(4,873,684)
	3,318,459	3,529,067
	3,355,213	3,572,165
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
Office Furniture & Equipment:		
Carrying amount at beginning of period	43,098	55,584
Additions	540	5,920
Disposals	-	-
Depreciation expense	(6,884)	(18,406)
Carrying amount at end of period	36,754	43,098
Gas Producing plant and equipment:		
Carrying amount at beginning of period	3,529,067	5,581,184
Additions	47,457	733,784
Depreciation expense	(258,065)	(621,688)
Impairment	-	(2,164,213)
Carrying amount at end of period	3,318,459	3,529,067
	3,355,213	3,572,165

As reported in the Financial statements at December 31, 2013 in the past year an impairment trigger was identified with regard to Castello as a result of a decrease in the expected daily production rate. Accordingly, the associated resource property cost and related plant and equipment (as a cash generating unit) were tested for impairment. The recoverable amount was determined by reference to a discounted cashflow forecast model. The key assumptions adopted in that model include gas pricing, remaining reserves, expected daily gas production, operating expenditure and a discount rate. As a result of this assessment, an impairment of ú2,856,899 on resource property costs and ú2,164,213 on the related plant and equipment has been recognised for the period to 30 June 2013.

NOTE 10: RESOURCE PROPERTY COSTS

	30 June 2014 ú	31 December 2013 ú
Resource Property costs		
Exploration Phase	10,892,907	10,060,661
Production Phase	9,129,139	9,811,589
	20,022,046	19,872,250

Reconciliation of carrying amount of resource properties

Exploration Phase		
Carrying amount at beginning of period	10,060,661	7,272,641
Exploration expenditure	834,826	2,518,277
Change in estimate of rehabilitation assets	-	344,638
Exploration expenditure written off	(2,580)	(74,895)
Carrying amount at end of period	10,892,907	10,060,661

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of, or otherwise, economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

	30 June 2014	31 December 2013
Production Phase	ú	ú
Carrying amount at beginning of period	9,811,589	14,744,969
Additions	10,010	
Reclassified to Property plant & equipment (Gas producing assets)	-	(244,992)
Change in estimate of rehabilitation assets	-	(127,521)
Amortisation of producing assets	(692,460)	(1,703,968)
Impairment loss	-	(2,856,899)
Carrying amount at end of period	9,129,139	9,811,589

PO VALLEY ENERGY LIMITED

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

NOTE 11: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Groupôs strategic business units. The strategic business units are classified according to field licence areas which are managed separately. All strategic business units are in Italy. For each strategic business unit, the CEO reviews internal management reports on a monthly basis. Exploration, Development and Production gas and oil are the operating segments identified for the Group.

	Exploration		Development and Production		Total	
	30 June 2014 ú	30 June 2013 ú	30 June 2014 ú	30 June 2013 ú	30 June 2014 ú	30 June 2013 ú
External revenues	-	-	2,910,655	2,999,368	2,910,655	2,999,368
Segment (loss) / profit before tax	(2,580)	(17,670)	1,293,818	(3,818,118)	1,291,238	(3,835,788)
Depreciation and amortisation	-	-	(950,525)	(1,189,598)	(950,525)	(1,189,598)
Impairment on resource property costs	(2,580)	(17,670)	-	(5,021,112)	(2,580)	(5,038,782)
	30 June 2014 ú	31 December 2013 ú	30 June 2014 ú	31 December 2013 ú	30 June 2014 ú	31 December 2013 ú
Reportable segment assets:						
Resource property costs	10,892,907	10,060,661	9,129,139	9,811,589	20,022,046	19,872,250
Plant & Equipment	-	-	3,318,458	3,529,067	3,318,458	3,529,067
Receivables	85,788	-	950,080	1,356,160	1,035,868	1,356,160
Inventory	-	-	634,694	634,694	634,694	634,694
Capital expenditure	834,826	2,518,277	57,604	488,792	892,430	3,007,069
Reportable segment liabilities	(2,138,393)	(3,123,266)	(3,002,064)	(2,986,395)	(5,140,457)	(6,109,661)

NOTE 11: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	**30 June 2014**	**30 June 2013**
Profit or loss:	**ú**	**ú**
Total profit / (loss) for reportable segments	1,291,238	(3,835,788)
Unallocated amounts:		
Net finance income / (expense)	(313,610)	(223,325)
Corporate expenses	(1,424,459)	(1,566,564)
Consolidated loss before income tax	(446,831)	(5,625,677)

Assets:	**30 June 2014**	**31 December 2013**
Total assets for reportable segments	25,011,066	25,392,171
Other assets	4,609,198	5,289,190
Consolidated total assets	29,620,264	30,681,361
Liabilities:		
Total liabilities for reportable segments	(5,140,457)	(6,109,661)
Other liabilities	(4,166,236)	(3,713,386)
Consolidated total liabilities	(9,306,693)	(9,823,047)

NOTE 12: PROVISIONS

	30 June 2014	**31 December 2013**
	ú	**ú**
Current:		
Employee leave entitlements	112,793	138,392
Non Current:		
Restoration provision	4,078,465	3,988,825
Reconciliation of restoration provision:		
Opening balance	3,988,825	3,608,421
(Decrease) / Increase in provision due to revised estimates	-	217,117
Increase in provision from unwind of discount rate	89,640	163,287
Closing balance	4,078,465	3,988,825

NOTE 13: INTEREST BEARING LIABILITIES

	30 June 2014	31 December 2013
	ú	ú
Non-current liabilities		
Finance facility	2,997,192	2,933,176

Terms and debt repayment schedule:
Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest rate	Year of maturity	30 June 2013 Face value ú	30 June 2013 Carrying Amount ú	31 December 2013 Face value ú	31 December 2013 Carrying Amount ú
Secured bank loan	Euro	Euribor + 3.75%	2018	3,500,000	2,997,192	3,500,000	2,933,176

The company has a finance facility with Nedbank Group Ltd. The facility is a Senior Secured Revolving Reducing Borrowing Base Facility of ú20 million and matures on 3 May 2018; and is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd.

The facility became available on 16 May 2013 and the Company drew ú5,000,000 of the facility in order primarily to settle the facility previously held with Lloyds and pay transaction costs. The current borrowing limit for the six months to 31 December 2014 is set at ú3,900,000 as of 30 June 2014.

Interest is currently payable at Euribor plus 375 basis points. No principal repayments have been made during the six months to June 2014. As at 30 June 2014, there is no contractual requirement to make any principal repayment, however the company expects to make principal repayments prior to maturity.

NOTE 14: ISSUED CAPITAL

	30 June 2014 Number	31 December 2013 Number
Issued Capital		
Opening balance - 1 January / 1 July	122,414,063	118,564,063
<u>Shares issued during the year:</u>		
Shares issued at ú0.093 ($0.12) each on 7 March 2013	-	3,850,000
Closing balance ï 30 June / 31 December	122,414,063	122,414,063

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have no par value.

No dividends were paid or declared during the current period.

NOTE 15: FINANCIAL INSTRUMENTS

Carrying amount versus fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts in the condensed consolidated statement of financial position, are as follows.

30 June 2014	**Carrying amount**	**Fair value**
Current financial assets		
Trade and other receivables	2,214,996	2,214,996
Cash and cash equivalents	1,041,491	1,041,491
Current financial liabilities		
Trade and other payables	(2,118,243)	(2,118,243)
Interest bearing liabilities	(2,997,192)	(2,997,192)

Financial risk management

The Groupôs financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013.

Determination of fair values

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and interest bearing liabilities approximate their fair value.
The Company does not have any other financial instruments.

NOTE 16: INTEREST IN JOINT ARRANGEMENTS

The Groupôs interests in joint arrangements at 30 June 2014 are as follows:

Joint Operation	Manager	Groupôs Interest	Principal Activity (Exploration)
La Prospera	Northsun Italian S.p.A	75% (Dec 2013: 75%)	Gas

The Groupôs interest in assets employed in the above joint venture includes capitalised exploration phase expenditure totalling ú2,771,114 (Dec 2013: ú2,773,303). These amounts are included under the resource property costs (note 7).

NOTE 17: COMMITMENTS AND CONTINGENCIES

There are no material commitments or contingent liabilities not provided for in the financial statements of the Group as at 30 June 2014.

NOTE 18: RELATED PARTIES

There have been no new related transactions entered into since 31 December 2013.

NOTE 19: SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods

DIRECTORSô DECLARATION

In the opinion of the Directors of the Po Valley Energy Limited (ñthe Companyò):

1. the condensed consolidated financial statements and notes, as set out on pages 6 to 19, are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of financial position of the Group as at 30 June 2014 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 ñInterim Financial Reportingò, the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company 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 Directors.

Graham Bradley
Chairman

Byron Pirola
Non-Executive Director

August 12, 2014
Sydney, NSW, Australia

Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent review report to members of Po Valley Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Po Valley Energy Limited, which comprises the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are 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 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 30 June 2014 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 Po Valley Energy Limited and the entities it controlled during the half-year, 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.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report .

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 Po Valley 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 30 June 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
12 August 2014