28 April 2017

Dear Shareholder,

Please find attached a copy of the 2016 Po Valley Energy Annual Report, prepared as at 31 March 2017.

2016 and the first quarter of 2017 saw Po Valley Energy, and its new 65% owned UK listed subsidiary Saffron Energy Plc, transformed into a more strongly capitalized group while also making significant progress on every core development and exploration asset.

On the financial front we closed the March Quarter with consolidated cash balance of €1.16m and a sharp reduction in debt by 69%, from €2.77m at 31 December 2015 to €860k at 31 March 2017. Our remaining debt is flexibly structured and non-recourse. This was partly achieved by the successful listing of Saffron Energy Plc which holds 100% of Sillaro, and Sant Alberto and 90% of Bezzecca on the Alternative Investment Market (AIM) of the London Stock Exchange. Since listing Saffron Energy has enjoyed strong investor support; trading volumes average 2.6m shares per day and the market capitalisation of Saffron at 31 March 2017 was GBP13.5m (AUD23.1m), a strong premium over its listing price.

On the development and approvals front we had an excellent year with significant value created for shareholders:

- **Bezzecca** was successfully connected to the Italian National grid via a 7km pipeline the well head to the company owned Vitalba gas plant. The connection was completed on schedule and on budget and commercial gas production commenced in April 2017.
- **Teodorico,** our large offshore Adriatic gas licence, received preliminary award of a production concession and applications for environmental approval have been submitted.
- **Selva,** our large shallow onshore gas exploration licence, was granted drilling approval and we have commenced civil works and plan to drill this highly attractive gas field in October 2017
- **Torre del Moro,** our large gas and oil exploration licence was granted to the company and initial geological and geophysical work is underway
- **Sant'Alberto**, a gas field with production concession has progressed through final environmental and other regulatory approvals. We expect to undertake gas production facilities construction and commence commercial production in the second half of 2017
- **Sillaro** continued its reduced but steady production from the C0 level and plans are advanced to exploit the C1 and Miocence levels. Each of the gas production levels of Sillaro, with the exception of C1/C2, have produced in excess of their originally estimated recoverable gas reserves. We remain confident we can produce more gas from C1 and commercially access the deeper Miocene reservoir.

Overall we have a clear program to increase gas production from the three existing production fields – Bezzecca, Sant'Alberto and Sillaro – from around 1.5mscf per day to 4mscf per day. The listing and capitalization of these assets in Saffron Energy gives us the corporate platform to do so.

In parallel we expect to significantly advance the Po Valley Energy owned and materially larger Teodorico, Selva and Torre del Moro assets over the next 18 months with the drilling of Selva in the fourth quarter of 2017 expected to be the highlight. Putting this in context Selva alone has twice the 2C resources of Saffron Energy's 2P reserves. Successful drilling and advancement of development of Selva and then Teodorico will add significantly to Po Valley Energy shareholder value.

I wanted to acknowledge the enormous efforts of our CEO, Sara Edmonson, and the entire management team in delivering results and pursing a "never give up approach" in last year's difficult market and managerial environment. The team has positioned us well for the future.

We run Po Valley Energy on a lean and highly efficient basis with a small Board of Byron Pirola, Kevin Bailey and myself and I wanted to thank Byron, Kevin, and former directors Graham Bradley, Kevin Eley and Greg Short for their dedication and support.

The Directors and financial report as at 31 March 2017 follows in the attached Annual Report. More extensive details on the Company and its progress can be found on our website www.povalley.com.

Yours sincerely

Michael Masterman

Michael Masterman
Chairman

Annual Report

  

  

  

2016

Contents

Corporate Directory

Directors	Michael Masterman – *Chairman* Byron Pirola – *Non-Executive Director* Kevin Bailey AM – *Non-Executive Director*
Chief Executive Officer	Sara Edmonson
Company Secretary	Lisa Jones
Registered Office	Suite 8, 7 The Esplanade , Mt Pleasant WA 6153 Tel: + 61 8 9316 9100
Rome Office	Via Francesco Crispi 90, 00143 Rome, Italy Tel: +39 06 42014968
Share Registry	Link Market Services Limited Level 12, 250 St Georges Terrace, Perth WA 6000
Solicitors	Steinepreis Paganin Level 4, The Read Buildings 16 Milligan Street, Perth WA 6000
Auditor	Ernst & Young 11 Mounts Bay Road, Perth WA 6000
Banks	**Bankwest** 108 St Georges Terrace, Perth, WA 6000 **Lloyds Bank** 10 Gresham Street, London EC2V 7AE, UK
Stock Exchange Listing	Po Valley Energy limited shares are listed on the Australian Stock exchange under the code PVE. The Company is limited by shares, incorporated and domiciled in Australia.

Year in Summary

- Po Valley successfully completed its partially underwritten pro rata renounceable rights issue to eligible shareholders in April. Proceeds from the rights issue totalled AUD 1.75 million
- Company debt restructured and refinanced through a streamlined facility provided by shareholders, including existing and former Directors
- Company Board restructured including the retirement of longstanding Chairman, Graham Bradley AM and NED Kevin Eley and appointment of substantial shareholder Kevin Bailey
- Rigless campaign on Sillaro aimed to increase production was completed in June but was unsuccessful. However the empirical evidence gathered confirmed the viability of the original Sillaro-1 sidetrack project now planned for late 2017 or early 2018
- Master construction contract for the development of **Bezzecca** gas field signed in September 2016 and 7km pipeline completed in January 2017. Commissioning and first gas announced in April 2017
- Final Environmental Impact Assessment (EIA) Decree for **Sant'Alberto** gas field awarded in September 2016. Grant of the final Production Concession is expected in the first half of 2017 and preparation is underway for development
- Environmental approval to drill Podere Maiar-1 (**Selva**) awarded in September 2016. Drilling authorisation awarded in early 2017
- Preliminary production concession for the offshore development **Teodorico** (formerly Carola-Irma) awarded in November 2016. Environmental Impact Study filed with the Ministry of Environment in February 2017
- Gas production for the year was 4.43 million cubic metres (156.35 million standard cubic feet)
- Euro 0.95 million (AUD 1.41 million) in annual revenue
- Negative €1.8 million (AUD 2.6 million) EBITDA due to significant contraction in revenue
- A new subsidiary, Saffron Energy, successfully listed on the AIM board of the LSE in February 2017 raising GBP 2.5 million

Directors' Report

The directors present their report together with the financial report of Po Valley Energy Limited ('the Company" or "PVE") and of the Group, being the Company and its controlled entities, for the year ended 31 December 2016.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Michael Masterman – Chairman, *BEcHons, Age 54*

Director since 22 June 1999

Michael is a co-founder of PVE. Michael took up the position of Executive Chairman and CEO of PVE and Northsun Italia S.p.A. in 2002 up to October 2010 when he took up an executive position at Fortescue Metal Group where he is currently CEO of FMG Iron Bridge iron ore company and recently completed the US$1.15bn sale of a 31% interest in the project to Formosa Plastics Group. Prior to joining PVE, Michael was CFO and Executive Director of Anaconda Nickel (now Minara Resources), and he spent 8 years at McKinsey & Company serving major international resource companies principally in the area of strategy and development. He is also Chairman of W Resources Plc, an AIM listed company with tungsten and gold assets in Spain and Portugal. Michael became a member of the Remuneration & Nomination Committee from 1 January 2011 and was appointed as Chairman following the retirement of Graham Bradley on 22 April 2016.

Byron Pirola – Non Executive Director, *BSc, PhD, Age 56*

Director since 10 May 2002

Byron is a co-founder of PVE and is based in Sydney. He is currently a Director of Port Jackson Partners Limited, a Sydney based strategic management consulting firm. Prior to joining Port Jackson Partners in 1992, Byron spent six years with McKinsey & Company working out of the Sydney, New York and London Offices and across the Asian Region. He has extensive experience in advising CEOs and boards of both large public and small developing companies across a wide range of industries and geographies. Byron is a member of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

Kevin Bailey AM – Non Executive Director, *DipFP, Age 56*

Director since 3 May 2016

Kevin was appointed as a director on 22 April 2016. He has been a shareholder of the Company since April 2008 and brings significant business acumen and experience to the Board. Mr Bailey is a highly successful businessman with a range of business interests, both local and overseas. He worked for 28 years as a Certified Financial Planner and was a founding director of the Shadforth Financial Group Limited. He is a member of the Prime Minister's Community Business Partnership and devotes considerable time to philanthropic interests. Mr Bailey is currently a director of various entities including the Investment Advisory Board of the Timor Leste Petroleum Fund, the $17Bn Sovereign Wealth Fund of Timor Leste. He is also a director of Outward Looking International Pty Ltd, Halftime Australia Pty Ltd, Alpha Australia, Empart Inc, Dads4Kids Fatherhood Foundation and he is Chairman of Parousia Media Pty Ltd.

Graham Bradley – Former Chairman *BA, LLB (Hons), LLM, FAICD, Age 68*

Resigned 22 April 2016

Graham served as a director and Chairman from September 2004 until April 2016 and is based in Sydney. He is an experienced Chief Executive Officer and listed public company director. Graham previously served as Chief Executive Officer of one of Australia's major listed funds management and financial services groups, Perpetual Limited. He was formerly Managing Partner of a national law firm, Blake Dawson Waldron and was a senior Partner of McKinsey & Company. Graham is currently Chairman of Stockland Corporation Limited, HSBC Bank Australia Limited, Energy Australia Holdings Limited and Infrastructure NSW and a director of GI Dynamics Inc. Graham retired from the Board of PVE on 22 April 2016.

Directors' Report
continued

Kevin Eley – Non Executive Director, *CA, F FIN, FAICD Age 67*

Resigned 22 April 2016

Kevin Eley served as a Non-Executive Director from June 2012 until April 2016. Kevin is based in Sydney and was the Chief Executive of HGL Limited for 25 years until his retirement in 2011. He has management and investment experience in a broad range of industries including, manufacturing, mining, retail and financial services with experience in the direction of early stage companies and public company governance. Kevin joined the PVE Audit & Risk Committee as Chairman and is currently a Non-Executive director of HGL Ltd, Milton Corporation Limited, Hunter Hall international Limited and Equity Trustees Limited. Kevin retired from the Board of PVE on 22 April 2016.

Gregory Short – Non Executive Director, *BSc, Age 66*

Resigned 25 January 2016

Greg Short served as a Non-Executive Director from July 2010 until January 2016. Greg is a geologist who worked with Exxon in exploration, development and production geosciences and management for 33 years in Australia, Malaysia, USA, Europe and Angola. During his time in Europe, Greg was actively involved in Exxon's activities in the Netherlands and Germany. Greg was Geoscience Director of Exxon's successful development of its Angola offshore operations. Greg retired from Exxon in 2006 and is a Non-Executive director of ASX listed MEO Australia, Metgasco Limited and Pryme Oil and Gas Limited. Greg became a member of the Audit and Risk Committee from 1 January 2011. Gregory retired from the Board of PVE on 25 January 2016.

2. Company Secretary

Lisa Jones – Company Secretary, *LLB*

Lisa was appointed to the position of Company Secretary in October 2009. She is a corporate lawyer with over 17 years of experience in commercial law and corporate affairs, working with large public companies and emerging companies in Australia and in Europe. She was a senior associate in the corporate & commercial practice of Allen Allen & Hemsley and spent several years working in Italy, including as international legal counsel at Pirelli Cavi and as an associate in the Rome office of a national Italian firm.

3. Directors Meetings

The number of formal meetings of the Board of Directors held during the financial year and the number of meetings attended by each director is provided below:

	Michael Masterman	Byron Pirola	Kevin Bailey	Graham Bradley	Kevin Eley	Gregory Short
No. of board meetings held	21	21	9	12	12	3
No. of board meetings attended	21	21	9	11	12	2
No. of Audit & Risk Committee meetings held		1			1	
No. of Audit & Risk Committee meetings attended		1		1*	1	
No. of Remuneration & Nomination Committee meetings held **	–	–	–	–	–	–
No. of Remuneration & Nomination Committee meetings attended	–	–	–	–	–	–

* attended as observer

** Following the reduction of the size of the board to three members in 2016, since August 2016 the roles and responsibilities normally undertaken by the audit and risk committee and remunerations and nominations committee have been dealt with by the full board as part of its duly convened meetings rather than through separate committees. Accordingly, there was only one meeting of the audit and risk committee in early 2016 and no meetings of the remuneration and nominations committee.

Directors' Report

continued

4. Principal Activities

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

- The exploration for gas and oil in the Po Valley region in Italy.
- Appraisal and development of gas and oil fields.
- Production and sale of gas from the Group's production wells.

5. Earnings per share

The basic and diluted loss per share for the Company was 2.06 € cents (2015: loss 5.02 € cents).

6. Operating and financial review

The Italian gas market is dominated by gas imports. According to the 2015 Annual Report prepared by the Italian Ministry of Economic Development, the domestic exploration and production industry represents approximately 8% of total gas consumption in Italy the majority of which is produced by industry majors including Eni Spa and Edison Spa. Consequently, the Company has few comparable peers to contrast its operations.

Strategy

PVE strategy is to create value for shareholders and stakeholders using its existing and growing Italian oil and gas resource base. PVE's strategy focuses on optimising near term production to maximise profitability and expanding the Company's resources through exploration and development activities.

The Company's core portfolio includes 11 onshore assets and the first offshore asset – a game changer in the Company's resource potential. The Company's operations are located in Italy and are run by a local management team which PVE believe represents a significant competitive advantage not enjoyed by newer entrants seeking to find success in the Italian market. Italy remains an attractive market with gas and oil being of high quality, an accessible and low cost transportation network and a pricing environment that has been stable and higher than other comparable European countries.

This year has been a continuation of a longer period of recapitalisation and restructure as the Company has sought to strengthen its balance sheet to enable it to focus on advancing its high-value priority projects. Various initiatives were undertaken throughout 2016 and continued to the date of this report including the reduction and refinancing of the Company's outstanding debt in May through a streamlined facility provided by shareholders, including existing and former Directors, and the incorporation and listing of a new subsidiary on the AIM board of the LSE in February 2017. Please refer to the ASX announcement "*Saffron Energy spin-out to list on London's AIM later this month after A$4.1m raising to drive new north Italy gas production*" released on 16 February 2017 which contains further details.

Operations

During the year, the Company produced from its Sillaro field with total production of 4.4 million cubic metres of gas (0.156 billion cubic feet). The Castello field continues to be temporarily suspended until production from the nearby field Bezzecca commences in March-April 2017. The Castello field was producing an average of 5,000 scm/day prior to being suspended in November 2015.

During the year, the Company carried out a rigless campaign which ended in June aimed to increase production at Sillaro. This campaign was unsuccessful as the connectivity of the reservoir and tubing is impaired by residue in the casing tubing annular from the chemical seal used on the level directly above level C1 (i.e. level C2) and will require a new depletion point.

Directors' Report
continued

The Sillaro-1 sidetrack project originally announced in January 2015 remains valid and would optimize production of the remaining reserves from the Pliocene reservoirs along with the development of the Miocene target. Please refer to the ASX announcement "*Producing and Near Production Field Reserves Revision*" released on 25 November 2016 which contains further details. Plans are for this work to be carried out in late 2017 or early 2018 following the development of the Bezzecca and Sant'Alberto gas fields. It is anticipated that this project will restore Sillaro production rates to approximately 50,000 cubic metres per day.

Exploration

The Company made further progress in 2016 in exploration and development assets that we believe are the most material value drivers. Namely, the preliminary production concession for the offshore development named Teodorico (formerly Carola-Irma) was awarded in November 2016. The Company immediately started working on the Environmental Impact Study and related documentation which was filed with the Ministry of Environment in February 2017.

In 1Q17 the Company was awarded the drilling authorisation for its first well on the Selva prospect, Podere Maiar-1. Depending on rig availability the Company intends to drill this well around September 2017.

Development

In September 2016 the Company announced the signature of the master construction contract with local contractor TESI Srl for the development of its 90% Bezzecca gas field. The contract, is a turnkey contract for the construction of the 7 km pipeline and tie in to the existing gas treatment plant. At the date of this report construction of the pipeline and related tie-in are complete and the Company is awaiting the final authorisation from the regulatory authorities to commence production.

The Ministry of Environment awarded the EIA (Environmental Impact Assessment) in 3Q16. The Company expects to receive the final production concession in 1H17 after which time installation of the plant and tie in activities will begin. The planned development for the Sant'Alberto field envisions a small modular plant and a simple connection to the national grid, circa 200 meters away.

Financial performance

Total revenue from the full year of gas production was €958,501, a year on year decline of €1,537,766 or 62%. This decrease in revenue is attributable to lower production volumes from the Sillaro field throughout the year. Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) for the year was a loss €1,809,070 and decreased by €918,664 if compared to the previous year. This decrease is mainly driven by the decrease in revenue of €1,537,776 which was partially offset by a decrease in operating expenses and savings in employee expenses and corporate overheads of €87,689. As previously communicated to shareholders, the Company undertook a review of its cost structure and organisation with the aim to reduce fixed overhead costs which continued throughout 2016. In addition, the Company executed an off-take agreement with a global oil and gas major which secures the gas price until September 2018 with the option to extend to September 2019.

Net loss before impairment expense is reconciled to comprehensive loss for the period as follows:

Comprehensive profit reconciliation table (in Euro)	**2016**	**2015**
Net loss before impairment expense (unaudited)	(2,296,874)	(3,014,927)
Impairment on resource property costs for the Sillaro field	(4,615,215)	(2,558,276)
Impairment on resource property costs for the Sant' Alberto licence	(1,495,036)	–
Impairment on resource property costs for the Castello field	–	(233,566)
Loss on sale of project	–	(822,203)
Exploration costs expensed	(291,928)	(28,854)
Comprehensive loss for the year	**(8,699,053)**	**(6,657,826)**

Directors' Report

continued

Net loss before impairment expense, which is not reviewed or audited, is a good measure to show impact of impairment losses on the total comprehensive loss for the year but are not in accordance with IFRS.

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to a loss of €1,809,070 for the year.

EBITDA (unaudited) is reconciled to statutory results from operating activities as follows:

EBITDA reconciliation table (in Euro)	**2016**	**2015**
EBITDA	(1,809,070)	(795,406)
Depreciation and amortisation expense	(878,147)	(1,640,555)
Depreciation expense	(10,732)	(14,020)
Impairment losses	(6,402,179)	(2,820,696)
Loss on disposal of project	–	(822,203)
Other miscellaneous income	193,857	112,137
Results from operating activities	**(8,906,271)**	**(5,980,743)**

The Board believes EBITDA, however not reviewed or audited, is a good measure of the operating results of the Company but are not in accordance with IFRS.

Financial position

In April 2016, PVE successfully completed its partially underwritten pro rata renounceable rights issue to eligible shareholders with the issue of a total of 350,392,300 new shares. Proceeds from the rights issue totalled A$1,751,961 (€1,208,213) before costs.

In May 2016, PVE restructured and refinanced its debt through a streamlined facility provided by shareholders, including existing and former Directors. Shareholder loans at 31 December amounted to €1,406,017. No repayments were made during the year.

In September 2016, the Company raised an additional A$900,000 (€625,048) through a private placement to existing shareholders including some Directors whose participation was approved by shareholders at a general meeting in October 2016.

In February 2017, the Company successfully complete the spin off and listing on the AIM board of the LSE of its new subsidiary Saffron Energy raising GBP2,500,000 before costs. The subsidiary was incorporated and capitalised after 31 December 2016 therefore the proceeds from the IPO are not reflected in the 2016 year-end financials.

Total share issues made during the 2016 year amounted to 410,221,171 shares.

Cash and cash equivalents at year end 2016 amounted to €166,459.

Health and safety

Paramount to PVE's ability to pursue its strategic priorities is a safe workplace and a culture of safety first. The Company regards Environmental awareness and Sustainability as key strengths in planning and carrying out business activities. PVE's daily operations are conducted in a way that adheres to these principles and management are committed to their continuous improvement. Whilst growing from exploration roots, the Company has strived to continually improve underlying safety performance. The Company has adopted an HSE Management System which provides for a series of procedures and routine checks (including periodical audits) to ensure compliance with all legal and regulatory requirements and best practices in this area. In 2016, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report during the 38,482 man-hours worked at the well sites and in the administrative offices.

Directors' Report
continued

In addition to health and safety, Management and the Board use a number of operating and financial indicators to measure performance overtime against our overall strategy. Refer to note 11 of the Directors report for details of selected performance indicators.

Information required by ASX Listing Rule 5.43

The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcements referred to above ("Producing and Near Production Field Reserves Revision" released on 25 November 2016) and that all material assumptions and technical parameters underpinning the estimates in the those announcements continue to apply and have not materially changed.

Principle risks and uncertainties

Oil and gas exploration and appraisal involves significant risk. The future profitability of the Company and the value of its shares are directly related to the results of exploration and appraisal activities. There are inherent risks in these activities. No assurances can be given that funds spent on exploration and appraisal will result in discoveries that will be commercially viable. Future exploration and appraisal activities, including drilling and seismic acquisition may result in changes to current perceptions of individual prospects, leads and permits.

The Company identifies and assesses the potential consequences of strategic, safety, environmental, operational, legal, reputational and financial risks in accordance with the Company's risk management policy. PVE management continually monitors the effectiveness of the Company's risk management, internal compliance and control systems which includes insurance coverage over major operational activities, and reports to the Audit and Risk Committee on areas where there is scope for improvement. The Charter for the Audit and Risk Committee is available on the Company's website. The principal risks and uncertainties that could materially affect PVE future performance are described below.

External risks

Exposure to gas pricing	Volatile oil and gas prices make it difficult to predict future price movements with any certainty. Decline in oil or gas prices could have an adverse effect on PVE. The Company does not currently hedge its exposures to gas price movements long term. The profitability of the Company's prospective gas assets will be determined by the future market for domestic gas. Gas prices can vary significantly depending on other European gas markets, oil and refined oil product prices, worldwide supply and the terms under which long term take or pay arrangements are agreed.
Changes to law, regulations or Government policy	Changes in law and regulations or government policy may adversely affect PVE's business. Examples include changes to land access or the introduction of legislation that restricts or inhibits exploration and production. Similarly changes to direct or indirect tax legislation may have an adverse impact on the Company's profitability, net assets and cash flow.
Uncertainty of timing of regulatory approvals	Delays in the regulatory process could hinder the Company's ability to pursue operational activities in a timely manner including drilling exploration and development wells, to install infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.

Directors' Report

continued

Operating risks

Exploration, development and production	The future value of PVE will depend on its ability to find, develop, and produce oil and gas that is economically recoverable. The ultimate success or otherwise of such ventures requires successful exploration, establishment of commercial reserves, establishment and successful effective production and processing facilities, transport and marketing of the end product. Through this process, the business is exposed to a wide variety of risks, including failure to locate hydrocarbons, changes to reserve estimates or production volumes, variable quality of hydrocarbons, weather impacts, facility malfunctions, lack of access to appropriate skills or equipment and cost overruns.
Estimation of reserves	The estimation of oil and natural gas reserves involves subjective judgments and determinations based on geological, technical, contractual and economic information. It is not an exact calculation. The estimate may change because of new information from production or drilling activities.
Tenure security	Exploration licences held by PVE are subject to the granting and approval by relevant government bodies. Government regulatory authorities generally require the holder of the licences to undertake certain proposed exploration commitments and failure to meet these obligations could result in forfeiture. Exploration licences are also subject to partial or full relinquishments after the stipulated period of tenure if no alternative licence application (e.g. production concession application) is made, resulting in a potential reduction in the Company's overall tenure position. In order for production to commence in relation to any successful oil or gas well, it is necessary for a production concession to be granted.
Health, safety and environmental matters	Exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment. Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. Failure to manage these risks could result in injury or loss of life, damage or destruction of property and damage to the environment. Losses or liabilities arising from such incidents could significantly impact the Company's financial results.

In addition to the external and operating risks described above, the Company's ability to successfully develop future projects including their infrastructure is contingent on the Company's ability to fund those projects through operating cash flows and affordable debt and equity raisings.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2016.

8. Significant events after the balance date

On 24 February 2017, the Company successfully completed the spin-out of its new subsidiary, Saffron Energy Plc (Saffron Energy) and listing on London's AIM market. Saffron Energy now owns one gas production (Sillaro) and two near-term gas production fields (Bezzecca (90%) and Sant'Alberto) near Milan and Bologna. The IPO raised A$4 million (GBP 2.5 million) in funds to accelerate the development of all three gas fields. Refer to the ASX announcement "*PVE subsidiary Saffron Energy lists on London AIM*" released on 24 February 2017 and the Admission Document released the same day for further details.

Directors' Report
continued

In March 2017, the Company was granted a large onshore oil exploration licence called Torre del Moro, located southeast of Bologna, in the eastern Po Valley region of Italy.

In March 2017, the Company also announced that it has extended the natural gas offtake contract between its Italian subsidiary Northsun Italia S.p.A and Shell Energy Italia S.r.l. ("Shell Energy Italia") – a subsidiary of Shell – for energy commodity trading and marketing. The contract has been extended to 1 October 2018, with an option to extend for a further year to 1 October 2019, and provides for offtake of gas supply for all of the Group's Italian gas fields.

Other than matters already disclosed in this report, there were no other events between the end of the financial year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

9. Likely Developments

The Company plans to seek a suitable farm-out partner for selected assets. The Company also plans to continue to invest in its current exploration portfolio through geological and geophysical studies and, subject to available finances, in its planned drilling program for high potential gas prospects.

10. Environmental Regulation

The Company's operations are subject to environmental regulations under both national and local municipality legislation in relation to its mining exploration and development activities in Italy. Company management monitor compliance with the relevant environmental legislation. The Directors are not aware of any breaches of legislation during the period covered by this report.

11. Remuneration Report – audited

The Remuneration Report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report, for the Directors and executives of the Company.

Remuneration Policy

The Board is responsible for reviewing and recommending compensation arrangements for the Directors, the Chief Executive Officer and the senior executive team. The Board assesses the appropriateness of the size and structure of remuneration of those officers on a periodic basis, with reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Company aims to ensure that the level and composition of remuneration of its directors and executives is sufficient and reasonable in the context of the internationally competitive industry in which the Company operates.

All senior executives except the company secretary are based in Rome and when setting their remuneration the Board must have regard to remuneration levels and benefit arrangements that prevail in the European oil and gas industry which remains highly competitive.

Directors' Report

continued

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholders wealth the Board has regard to the following indices in respect of the current financial year and the previous financial periods.

Indices	2016	2015	2014	2013	2012	2011
Production (scm'000)	4,461	9,991	18,560	23,983	24,673	28,995
Average realised gas price (€ cents per cubic metre)	21	25	27	28	33	31
EBITDA (unaudited) (€'000s)	(1,809)	(795)	1,540	1,755	4,473	4,411
Profit/(loss) attributable to owners of the Company (€'000s)	(8,699)	(6,658)	(1,262)	(5,796)	2,373	(5,071)
Earnings/(loss) per share (€ cents per share)	(2.06)	(5.02)	(1.03)	(4.76)	2.12	(4.57)
Share Price at year end – AU$	0.025	0.026	0.10	0.12	0.12	0.16

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has regard for the stage of development of the Company's business and gives consideration to each of the indices outlined above and other operational and business development achievements of future benefit to the Company which are not reflected in the aforementioned financial measures.

Senior Executives and Executive Directors

The remuneration of PVE senior executives is based on a combination of fixed salary, a short term incentive bonus which is based on performance and in some cases a long term incentive payable in cash or shares. Other benefits include employment insurances, accommodation and other benefits, and superannuation contributions. In relation to the payment of annual bonuses, the board assesses the performance and contribution of executives against a series of objectives defined at the beginning of the year. These objectives are a combination of strategic and operational company targets which are considered critical to shareholder value creation and objectives which are specific to the individual executive. More specifically, objectives mainly refer to operating performance from both a financial and technical standpoint and growth and development of the Company's asset base. The Board exercises its discretion when determining awards and exercises discretion having regard to the overall performance and achievements of the Company and of the relevant executive during the year. No remuneration consultants were used during the current or previous year.

The table below represents the target remuneration mix for Key Management Personnel in the current year. The short-term incentive is provided at target levels.

		At risk	
	Fixed remuneration	Short-term incentive	Long-term incentive
Chief Executive Officer	95%	5%	–

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors. The Board of Directors and shareholders approved the maximum agreed remuneration pool for Non-Executive Directors at the annual general meeting in May 2011 at €250,000 per annum.

Non-Executive Director fees for 2016 (including those settled by issue of shares) was €98,095 (2015: €220,000). In 2015 the total fees paid in cash to Directors was €55,000. At the Annual General Meeting held in May 2016, shareholders approved the issue of shares to Directors in settlement of the residual 2015 Board remuneration fees. Following this approval the Company issued 139,390,120 shares for the settlement of €135,000 of the 2015 fees. At the same AGM, shareholders approved a share settlement for approximately 50% (€14,506) of the Board fees accrued in 1Q16 (refer note 23). The balance of unpaid fees for 2016 amount to €84,491.

Directors' Report
continued

Service contracts
The major provisions of the service contracts held with the specified directors and executives, in addition to any performance related bonuses and/or options are as follows:

Directors:

Michael Masterman, Chairman
- Commencement Date: 22 June 1999 (re-elected 28 May 2014)
- Fixed remuneration for the year ended 31 December 2016: €42,000
- No termination benefits

Byron Pirola, Non-Executive Director
- Commencement Date: 10 May 2002 (re-elected 24 May 2013)
- Fixed remuneration for the year ended 31 December 2016: €28,000
- No termination benefits

Kevin Bailey, Non-Executive Director
- Commencement Date: 3 May 2016
- Fixed remuneration for the year ended 31 December 2016: €18,334
- No termination benefits

Graham Bradley, Former Chairman
- Commencement Date: 30 September 2004 ; Retired 22 April 2016
- Fixed remuneration for the year ended 31 December 2016: €5,250
- No termination benefits

Kevin Eley, Non-Executive Director
- Commencement Date: 19 June 2012; Retired 22 April 2016
- Fixed remuneration for the year ended 31 December 2016: €3,500
- No termination benefits

Gregory Short, Non-Executive Director
- Commencement Date: 5 July 2010; Retired 25 January 2016
- Fixed remuneration for the year ended 31 December 2016: €1,011
- No termination benefits

The Non-Executive directors are not appointed for any fixed term but rather are required to retire and stand for re-election in accordance with the Company's constitution and the ASX Listing Rules.

Directors' Report

continued

Executives:

Sara Edmonson, Chief Executive Officer

- Commencement Date: 26 July 2010 as Chief Financial Officer and 13 August 2013 as Chief Executive
- Term of Agreement: Indefinite but terminable by either party on three months' notice
- Fixed salary of €156,000 per annum
- Annual performance based fee of up to 40% of her contracted salary subject to the achievement of performance criteria agreed with the Board
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to one year salary in accordance with the Italian National Collective Labour Agreement for executives.

Key Management Personnel remuneration outcomes (including link to performance)

The remuneration details of each Director and other key management personnel (KMP) during the year is presented in the table below.

		Salary & fees €	Car €	Other €	Termination payments €	Total €
Directors						
M Masterman	**2016**	**42,000**	**–**	**–**	**–**	**42,000**
Chairman Non-Executive	2015	40,000	–	–	–	40,000
B Pirola	**2016**	**28,000**	**–**	**–**	**–**	**28,000**
Non-Executive	2015	40,000	–	–	–	40,000
K Bailey	**2016**	**18,334**	**–**	**–**	**–**	**18,334**
(Appointed 3 May 2016)	2015	–	–	–	–	–
Non-Executive						
G Bradley	**2016**	**5,250**	**–**	**–**	**–**	**5,250**
(Retried 22 April 2016)	2015	60,000	–	–	–	60,000
Chairman Non-Executive						
K Eley	**2016**	**3,500**	**–**	**–**	**–**	**3,500**
(Retired 22 April 2016)	2015	40,000	–	–	–	40,000
Non-Executive						
G Short	**2016**	**1,011**	**–**	**–**	**–**	**1,011**
(Retired 25 January 2016)	2015	40,000	–	–	–	40,000
Non-Executive						
Total for Directors	**2016**	**98,095**	**–**	**–**	**–**	**98,095**
	2015	220,000	–	–	–	220,000

Directors' Report
continued

Key Management Personnel remuneration – Consolidated (Continued)

		Short term									
		Salary & fees €	Car €	Other €	Total Base €	STI Cash €	Total Short-term €	Termi-nation payments €	Defined contri-bution plan €	Total €	Proportion of remu-neration performance related %
KMP											
Sara Edmonson											
CEO	**2016**	**129,997**	**6,124**	**–**	**136,121**	**7,500**	**143,621**	**–**	**6,250**	**149,871**	**5%**
	2015	120,000	6,124	–	126,124	30,000	156,124	–	9,761	165,885	18%
Total for KMP	**2016**	**129,997**	**6,124**	**–**	**136,121**	**7,500**	**143,621**	**–**	**6,250**	**149,871**	
	2015	120,000	6,124	–	126,124	30,000	156,124	–	9,761	165,885	
Total Directors and KMP	**2016**	**228,092**	**6,124**	**–**	**234,216**	**7,500**	**241,716**	**–**	**6,250**	**247,966**	
	2015	340,000	6,124	–	346,124	30,000	376,124	–	9,761	385,885	

Analysis of bonuses included in remuneration
Details of the vesting profile of the short-term incentive bonus awarded as remuneration are detailed below. Bonuses paid by issue of shares are included in share based payments to each Director and Executive.

	2016		2015	
Directors and executives	**Cash Bonus €**	**% vested in year**	**Cash Bonus %**	**% vested in year**
S Edmonson	7,500	100%	30,000	100%

Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified operational performance criteria. No amounts vest in future financial years in respect of the bonus.

The cash bonus awarded to Ms. Edmonson was based on performance, and specifically for having reached the agreed operational strategic objectives. These performance objectives are linked to financial performance and Company value indirectly.

Options over equity instruments granted as compensation
No options were granted as compensation to Directors or key management personnel during the reporting period (2015: Nil). No options vested during 2016. (2015: Nil)

Modification of terms of equity-settled share-based payment transactions
No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise and lapse of options granted as compensation
No options granted as compensation were exercised during 2016.

There were no options outstanding during 2016.

No options were exercised by directors or key management personnel.

No options over ordinary shares in the Company were held by any key management personnel during 2016.

Directors' Report
continued

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company, held directly and indirectly by key management personnel, including their personally-related entities is as follows:

	Held at 31 December 2015	Purchased	Share based payments	Options Exercised	Sold/Other	Held at 31 December 2016
Directors						
M Masterman(i)	33,656,222	112,284,496	1,661,367	–	–	147,602,085
B Pirola	7,112,782	46,383,002	3,322,734	–	–	56,818,518
K Bailey	104,753,469(ii)	12,477,064	–			117,230,533
G Bradley (retired 22 April 2016)	1,478,880	3,697,200	–	–	–	5,176,080(iii)
K Eley (retired 22 April 2016	800,000	2,000,000	–	–	–	2,800,000(iii)
G Short (retired 25 January 2016)	200,000	–	–	–	–	200,000(iii)
	148,001,353	176,841,762	4,984,101	–	–	329,827,216
Executives						
S. Edmonson	28,064	1,120,160	–	–	–	1,148,224
	28,064	1,120,160	–	–	–	1,148,224

(i) Does not include shares held by family members which amount to 1,040,000 shares

(ii) Shares held at date of appointment.

(iii) Shares held at date of retirement.

	Held at 31 December 2014	Purchased	Share based payments	Options Exercised	Sold/Other	Held at 31 December 2015
Directors						
M Masterman(i)	33,626,222	30,000	–	–	–	33,656,222
B Pirola	7,112,782	–	–	–	–	7,112,782
G Bradley	1,403,880	75,000	–	–	–	1,478,880
K Eley	800,000	–	–	–	–	800,000
G Short (retired 25 January 2016)	200,000	–	–	–	–	200,000
	43,142,884	105,000	–	–	–	43,247,884
Executives						
S. Edmonson	28,064	–	–	–	–	28,064
	28,064	–	–	–	–	28,064

(i) Does not include shares held by related parties which amount to 1,040,000 shares

Other transactions and balances with KMP and their related parties

During the year, the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors and a longstanding shareholder of the Company. Refer to Note 18 for further details.

Directors' Report

continued

The amounts outstanding at 31 December 2016 are as follows:

Related Party	Loan Amount	Interest	Repayment Term
Beronia Investments Pty Ltd	A$756,518	10% p.a.	12 months
K & G Bailey as trustee for The Bailey Family Trust	A$1,057,642	10% p.a.	12 months
G. Bradley	€93,985	10% p.a.	12 Months

No key management personnel have entered into a material contract, other than disclosed above, with the Group or the Company since the year end of the previous financial year end and there were no material contracts involving key management personnel interests existing at year-end.

12. Directors' interests

At the date of this report, the direct and indirect interests of the Directors in the shares and options of the Company, as notified by the directors to the ASX in accordance with S205G (1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares
M Masterman	147,602,085
B Pirola	56,818,518
K Bailey	117,230,533

13. Share Options

Options granted to directors and executives of the Company

The Company has not granted any options over unissued ordinary shares in the Company to any directors or specified executive during or since the end of the financial year.

Unissued shares under option

At the date of this report there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

The Company has not issued any shares as a result of the exercise of options during or since the end of the financial year end.

14. Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of PVE support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the ASX Corporate Governance Council and considers that PVE is in compliance with those guidelines which are of importance to the commercial operation of a junior listed gas exploration and production company.

The Company has elected to publish its Statement of Corporate Governance Practices on its website. In addition, each year the Key to Disclosures – Corporate Governance Council Principles and Recommendations will be available to shareholders at the same time this report is released.

Directors' Report

continued

15. Indemnification and insurance of officers

The Company has agreed to indemnify current Directors against any liability or legal costs incurred by a Director as an officer of the Company or entities within the Group or in connection with any legal proceeding involving the Company or entities within the Group which is brought against the director as a result of his capacity as an officer.

During the financial year the Company paid premiums to insure the Directors against certain liabilities arising out of the conduct while acting on behalf of the Company. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

16. Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

17. Non audit services

During the year Ernst & Young, the Group's auditor, did not perform other services in addition to their statutory duties. Refer to note 6 of the financial report for details of auditor's remuneration.

18. Proceedings on behalf of the Company

No person has applied for leave of Court, pursuant to section 237 of the Corporations Act 2001, to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

19. Rounding

The amounts contained in the directors report have been rounded to the nearest €1000 (where rounding is applicable) where noted (€'000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

20. Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 19 and forms part of the Directors' report for the financial year ended 31 December 2016.

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

Michael Masterman

Michael Masterman
Chairman
Sydney, NSW Australia

31 March 2017

Lead Auditor's Independence Declaration

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Building a better working world

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Auditor's independence declaration to the Directors of Po Valley Energy Limited

As lead auditor for the audit of Po Valley Energy Ltd for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Po Valley Energy Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Teale

Philip Teale
Partner
Perth
31 March 2017

PT:RH:POVALLEY:011

Statement of Financial Position

As at 31 December 2016

	Notes	Consolidated 2016 €	2015 €
Current Assets			
Cash and cash equivalents	10 (a)	166,459	2,446,005
Trade and other receivables	12	262,512	649,441
Total Current Assets		428,971	3,095,446
Non-Current Assets			
Inventory	11	732,801	732,801
Other assets		155,956	30,378
Deferred tax assets	15	2,684,360	2,017,059
Property, plant & equipment	13	2,347,604	2,615,193
Resource property costs	14	8,982,190	15,167,548
Total Non-Current Assets		14,902,911	20,562,979
Total Assets		**15,331,882**	**23,658,425**
Liability and equity			
Current Liabilities			
Trade and other payables	16	1,815,336	2,382,918
Provisions	17	70,136	217,212
Interest bearing loans	18	1,406,017	2,467,408
Total Current Liabilities		3,291,489	5,067,538
Non-Current Liabilities			
Provisions	17	4,961,907	4,779,855
Total Non-Current Liabilities		4,961,907	4,779,855
Total Liabilities		**8,253,397**	**9,847,393**
Equity			
Issued capital	19	48,659,337	46,692,830
Reserve	19	1,192,269	1,192,269
Accumulated losses		(42,773,120)	(34,074,067)
Total Equity		**7,078,486**	**13,811,032**
Total Equity and liabilities		**15,331,882**	**23,658,425**

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	Consolidated 2016 €	Consolidated 2015 €
Continuing Operations			
Revenue	3	958,501	2,496,267
Operating costs		(544,407)	(1,077,739)
Depreciation and amortisation expense		(878,147)	(1,640,555)
Gross Profit/(loss)		(464,053)	(222,027)
Other income		193,857	112,137
Employee benefit expenses	4	(1,100,363)	(1,105,494)
Depreciation expense		(10,732)	(14,020)
Corporate overheads	5	(1,122,801)	(1,108,440)
Impairment losses	14	(6,402,179)	(2,820,696)
Loss on sale of project	14	–	(822,203)
Operating loss		(8,906,271)	(5,980,743)
Finance income	7	1,017	1,777
Finance expenses	7	(461,100)	(447,426)
Net finance expenses		(460,083)	(445,649)
Loss before tax		(9,366,354)	(6,426,392)
Income tax expense	8	667,301	(231,434)
Loss for the year		(8,699,053)	(6,657,826)
Other comprehensive income		–	–
Total comprehensive loss for the year, net of tax		(8,699,053)	(6,657,826)
Basic and diluted loss per share	9	(2.06) cents	(5.02) cents

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

Statement of Changes in Equity

For the year ended 31 December 2016

Consolidated	Issued capital €	Translation Reserve €	Accumulated Losses €	Total €
	Attributable to equity holders of the Company			
Balance at 1 January 2015	45,819,924	1,192,269	(27,416,241)	19,595,952
Total comprehensive income:				
Loss for the year	–	–	(6,657,826)	(6,657,826)
Other comprehensive income	–	–	–	–
Total comprehensive loss	–	–	(6,657,826)	(6,657,826)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners – Issue of shares	872,906	–	–	872,906
Balance at 31 December 2015	**46,692,830**	**1,192,269**	**(34,074,067)**	**13,811,032**
Balance at 1 January 2016	46,692,830	1,192,269	(34,074,067)	13,811,032
Total comprehensive income:				
Loss for the year	–	–	(8,699,053)	(8,699,053)
Other comprehensive income	–	–	–	–
Total comprehensive loss			(8,699,053)	(8,699,053)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners – Issue of shares	1,817,466	–	–	1,817,466
Share based payments	149,041	–	–	149,041
Balance at 31 December 2016	**48,659,337**	**1,192,269**	**(42,773,120)**	**7,078,486**

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

Statement of Cash Flows

For the year ended 31 December 2016

	Notes	Consolidated 2016 €	2015 €
Operating activities			
Receipts from customers		1,213,620	2,680,923
Payments to suppliers and employees		(3,627,381)	(3,110,792)
Interest received		1,017	1,777
Interest paid		(17,320)	(172,344)
Income tax paid		–	–
Net cash used in operating activities	10 (b)	(2,430,064)	(600,436)
Investing activities			
Payments for non-current assets		(10,322)	(6,524)
Receipts for resource property costs from joint operations partners		521,741	64,572
Payments for resource property costs		(690,177)	(886,034)
Proceeds from sale of resource property costs		–	1,850,000
Net cash flows used in investing activities		(178,758)	1,022,014
Financing activities			
Proceeds from the issues of shares		1,833,261	872,906
Payment of share issue costs		(15,795)	–
Proceeds from borrowings		1,406,017	–
Repayments of borrowings	18	(2,776,048)	(428,064)
Payment of borrowing costs		(118,159)	–
Net cash flows from financing activities		329,276	444,842
Net increase in cash and cash equivalents		(2,279,546)	866,420
Cash and cash equivalents at 1 January		2,446,005	1,579,585
Cash and cash equivalents at 31 December	10 (a)	166,459	2,446,005

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

Notes to the Financial Statements

For the year ended 31 December 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Po Valley Energy Limited ("the Company" or "PVE") is a company domiciled in Australia. The address of the Company's registered office is Suite 8, 7 The Esplanade Mt Pleasant WA 6153.

The Consolidated Financial Statements of the Company for the year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities and operations.

The financial statements were approved by the Board of Directors on 30 March 2017.

The Group primarily is involved in the exploration, appraisal, development and production of gas properties in the Po Valley region in Italy and is a for profit entity.

1.2 BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

(b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the basis of historical cost.

(c) GOING CONCERN

The financial report has been prepared on a going concern basis. In arriving at this position, the Directors have had regard to the fact that the Group will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

For the year ended 31 December 2016, the Group has recorded a loss of €8,699,053, it has a cash balance of €166,459 net current liabilities of €2,767,519 and had net cash outflows from operations of €2,430,064. The Group's forecast cashflow requirements for the 15 months ending 31 March 2018 reflects outflows from operating and investing activities in excess of its available cash resources at 31 December 2016. These requirements reflect a combination of committed and uncommitted but current planned expenditure in relation to the fields of Sillaro, Sant'Alberto, Bezzecca and Selva.

On 24 February 2017 the group subsidiary, Saffron Energy Plc, successfully listed on the AIM boards of the London Stock Exchange following an oversubscribed £2.5m book build and capital raising. Funds raised from this listing will be used for capital expenditure on longstanding projects Sillaro, Bezzecca and Sant'Alberto, settle financing repayments and provide working capital for the Company's operating subsidiary Northsun Italia.

Equally important, as at 20 March 2017, the Company has achieved mechanical completion of the Bezzecca natural gas project outside Milan on budget and on schedule. Certificates for mechanical and instrumentation completion have been issued and safety and performance testing is underway. The next key step will be Italian Ministry and Lodi and Cremona Fire brigade inspections this month, following which the Ministry will issue approval to start first commercial natural gas production (expected the first week of April 2017). Production from Bezzecca is expected to be around 30,000 to 45,000 scm/day.

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sillaro contiuned to produce around 10,000 scm/day through 2016 and 1Q17. The Company currently plans to drill a sidetrack well in late 2018 or early 2019 to increase production from this field.

The Company received the environmental approval for the production concession Sant'Alberto in 3Q16. The development of this field is relatively straight forward and the contractor of the gas treatment plant has agreed to a rent to own arrangement which is currently being used by other E&P companies operating in the same area. Production is expected to be in the order of 25,000 to 30,000 scm/day from Sant'Alberto. The Company expects to receive the production concession for this field within 2Q17.

The successful listing of Saffron Energy Plc, continued support of our shareholders throughout 2016 demonstrated by the rights issue and private placement in September 2016, and the significant increase in production from Bezzecca and subsequently Sant'Alberto in 2017 underpin the basis of going concern.

The Directors are also currently reviewing a range of funding options which may include the further issue of new equity and other funding instruments and options.

The Directors are confident of being able to raise the required funding, as at the date of this report management is advanced in plans to raise a portion of the required funding. Should the Group not achieve the additional funding required or initiate the production commencement for the Bezzecca and the San't Alberto projects, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, which is the Company's and each of the Group entity's functional currency.

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements 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 an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest or CGU is tested for impairment. There is significant estimation involved in determining the inputs and assumptions used in determining the recoverability amounts.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The key areas of estimation involved 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

The post-tax discount rate used for impairment purposes is 10% (2015: 10%)

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant estimation 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 management's 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 future 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 estimates 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.

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognised prospectively to depreciation and amortisation. Any impact of the change in the reserves is considered on asset carrying values and impairment losses, if any, are immediately recognised in the profit or loss.

Recognition of deferred tax assets

The recoupment of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

(f) ROUNDING

The amounts contained in the directors report have been rounded to the nearest €1000 (where rounding is applicable) where noted (€'000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

1.3 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies set out in notes 1.3 (a) to 1.3 (q) to all periods presented in the consolidated financial statements.

All new and amended Accounting standards and interpretations effective from 1 January 2016 have been adopted as listed below:

Reference	Title
AASB 2015-3	Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 *Materiality*. This Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisition of Interests in Joint Operations [AASB 1 & AASB 11] This Standard amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require: (a) The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB3 Business Combinations, to apply all of the principles on business combination accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance of AASB 11. (b) The acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations, This standard also makes a correction to AASB 11.
AASB 2014-4	Clarification of acceptable methods of depreciation and amortisation. (Amendments to AASB 116 and AASB 138) AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title
AASB1057	Application of Australian Accounting Standards. This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements. This standard amends AASB 127 *Separate Financial Statements*, and consequentially amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures*, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB127.
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012– 2014 Cycle The subjects of the principal amendments to the Standards are set out below: AASB 5 *Non-current Assets Held for Sale and Discontinued Operations:* Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. AASB 7 *Financial Instruments: Disclosures:* Servicing contracts – clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception. This makes amendments to AASB10 and AASB12 Disclosure of interests in Other Entities and AAB 128 arising from the IASB's narrow scope amendments with Investment Entities.
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057] This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 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 financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Investments in subsidiaries are carried at cost less any impairment losses.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment losses.

(ii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation – when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangement, it accounts for its interest using the equity method adopted for associates as noted in (a) (ii) above.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about 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 Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(c) IMPAIRMENT

(i) Financial assets (including receivables)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in equity.

(ii) Non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (12.7%) that reflects current market assessments of the time value of money and the risks specific to the asset/CGU.

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

Please refer to Note 14 for further details on the impairment test results for the year ended December 31, 2016.

(d) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and pre-commissioning revenue and expenses.

The cost of plant and equipment used in the process of gas extraction are accounted for separately and are stated at cost less accumulated depreciation and impairment costs.

Cost includes expenditure that is directly attributable to acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with expenditure will flow to the Group.

(iii) Depreciation

Gas producing assets

When the gas plant and equipment is installed ready for use, cost carried forward will be depreciated on a unit-of -production basis over the life of the economically recoverable reserve.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The depreciation rate of gas plant and equipment incurred in the period for each project in production phase is as follows:

	2016	2015
Castello	–	13.96%
Sillaro	11.29%	14.37%

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.

Other property, plant and equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation will commence when the asset is installed ready for use.

The estimated useful lives of each class of asset fall within the following ranges:

	2016	2015
Office furniture & equipment	3 – 5 years	3 – 5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

(e) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially as fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note (i).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss as finance income or expense.

Financial assets at fair value through profit and loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss as finance income or expense.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value; attributable costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for in the profit and loss as finance income or expense.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) INVENTORIES

Inventories are measured at the lower of cost and net realisable value and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price less selling expenses.

(g) RESOURCE PROPERTIES

Resource property costs related to drilling are accumulated in respect of each separate area of interest.

Exploration properties

Exploration properties are carried at balance sheet date at cost less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of an area of interest.

Exploration properties are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technically feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specific area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Areas of interest which no longer satisfy the above policy are considered to be impaired and are measured at their recoverable amount, with any subsequent impairment loss recognised in the profit and loss.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development properties

Development properties are carried at balance sheet date at cost less accumulated impairment losses. Development properties represent the accumulation of all exploration, evaluation and acquisition costs in relation to areas where the technical feasibility and commercial viability of the extraction of gas resources in the area of interest are demonstrable and all key project permits, approvals and financing are in place.

When there is low likelihood of the development property being exploited, or the value of the exploitable development property has diminished below cost, the asset is written down to its recoverable amount.

Production properties

Production properties are carried at balance sheet date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation and development and acquisition costs in relation to areas of interest in which production licences have been granted and the related project has moved to the production phase.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being performed for each area of interest. The unit-of-production base results in an amortisation charge proportional to the depletion of economically recoverable reserves. The amortisation rate incurred in the period for each project in production phase is as follows:

	2016	**2015**
Castello	–	13.96%
Sillaro	11.29%	14.37%

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated (refer Note 1.3 (c) (ii)).

(h) PROVISIONS

Rehabilitation costs

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the balance sheet date and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwinding of the discount rate are accounted for in the statement of profit or loss as finance expense.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimated costs of rehabilitation are reviewed annually and adjusted against the relevant rehabilitation asset, as appropriate for changes in legislation, technology or other circumstances including drilling activity and are accounted for on a prospective basis. Cost estimates are not reduced by potential proceeds from the sale of assets.

(i) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings or other payables and unwinding of the discount of provisions and changes in the fair value of financial assets through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported as net amounts.

(j) EMPLOYEE BENEFITS

(i) Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including on-costs and expected settlement dates, and is discounted using the rates attached to the Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Superannuation

The Group contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are due.

(k) FOREIGN CURRENCY

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is PVE functional and presentation currency (refer note 1.2 (d)).

(ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or expense.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary assets and liabilities denominated in foreign currencies are translated at the date of transaction or the date fair value was determined, if these assets and liabilities are measured at fair value. Foreign currency differences arising on retranslation are recognised in profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Foreign exchange gains and losses arising from monetary items receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(l) EARNINGS/LOSS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the net profit attributable to members of the parent entity, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(m) OTHER INDIRECT TAXES

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) and value added tax (VAT) except where the amount of GST or VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST or VAT included. The net amount of GST or VAT recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis. The GST and VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(n) SEGMENT REPORTING

DETERMINATION AND PRESENTATION OF OPERATING STATEMENTS

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and resource property costs.

(o) REVENUE

Revenue is measured at the fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") payable to the taxation authority. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Sale of gas

Gas sales revenue is recognised when control of the gas passes at the delivery point. Proceeds received in advance of control passing are recognised as unearned revenue.

(p) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the property, plant and equipment accounting policy.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) CHANGES IN ACCOUNTING POLICIES, DISCLOSURES, STANDARDS AND INTERPRETATIONS

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2016 are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. Classification and measurement AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not	1 January 2018	The entity has not yet assessed the full impact of these amendments.	1 January 2018

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments (continued)	held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. *Financial liabilities* Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: – The change attributable to changes credit risk are presented in other comprehensive income (OCI) – The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value.			

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments (continued)	This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. Impairment The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Hedge accounting Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.			

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 15	Revenue from Contracts with Customers	AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation *13 Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue–Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract	1 January 2018	The entity has not yet assessed the full impact of this standard.	1 January 2018

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 15	Revenue from Contracts with Customers (continued)	(c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.			
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2015-10 was issued subsequently and deferred the application date of AASB 2014-10 to annual reporting periods beginning on or after 1 January 2018.	1 January 2018	The entity has not yet assessed the full impact of these amendments.	1 January 2018

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 16	Leases	The key features of AASB 16 are as follows: Lessee accounting Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. Lessor accounting AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. AASB 116 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. AASB 16 supersedes: a) AASB 117 Leases;	1 January 2019	The entity has not yet assessed the full impact of AASB16	1 January 2019

Notes to the Financial Statements

continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 16	Leases (continued)	b) Interpretation 4 Determining whether an Arrangement contains a Lease; c) Interpretation 115 Operating Leases–Incentives; and d) Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.			
AASB2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised losses AASB 112	The amendment clarify how to account for deferred tax assets related to debt instruments measured at fair Value.	1 January 2017	The entity has not yet assessed the full impact of these amendments.	1 January 2017
AASB2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	These amendments will not have a material impact on the financial report of the entity.	1 January 2017

Notes to the Financial Statements
continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvement to IFRS Standards 2014-2016 Cycle	Annual Improvements to IFRS Standards 2014-2016 Cycle	This amending standard address the following: IFRS 12 Disclosure of Interests in Other Entities Clarification of the scope of the Standard (effective 1 January 2017). IFRS 1 Fist-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for fist-time adopters (effective 1 January 2018). IAS 28 Investments in Associates and Joint Ventures – Measuring an associate or joint venture at fair value (effective 1 January 2018).	1 January 2017	The entity has not yet assessed the full impact of these amendments.	1 January 2017
AASB Interpretation 22	AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration	This addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.	1 January 2018	The entity has not yet assessed the full impact of these amendments.	1 January 2018

Notes to the Financial Statements

continued

NOTE 2: FINANCIAL RISK MANAGEMENT

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk recognition and management are viewed as integral to the Group's objectives of creating and maintaining shareholder value, and the successful execution of the Group's strategies in gas exploration and development. The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit and Risk Committee. Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group invests in short term deposits and trades with recognised, creditworthy third parties.

Cash and short term deposits are made with institutions that have a credit rating of at least A1 from Standard & Poor's and A from Moody's.

Management has a credit policy in place whereby credit evaluations are performed on all customers and parties the Company and its subsidiaries deal with. The exposure to credit risk is monitored on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings. The Group does not hedge its exposure to movements in market interest rates. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in bank accounts earning interest.

Currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currencies of consolidated entities. The currency giving rise to this risk is primarily Australian dollars.

In respect to monetary assets held in currencies other than Euro, the Group ensures that the net exposure is kept to an acceptable level by minimising their holdings in the foreign currency where possible by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(iii) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of issued share capital plus accumulated losses/earnings. The Board monitors accumulated losses/earnings.

The Board seeks to encourage all employees of the Group to hold ordinary shares.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position from shareholders.

Notes to the Financial Statements

continued

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

The Group does not have a defined share buy-back plan and there were no changes in the Group's approach to capital management during the year.

There are no externally imposed restrictions on capital management.

(iv) Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Management prepares monthly cash flow forecasts taking into consideration debt facility obligations. Capital expenditures are planned around cash flow availability.

NOTE 3: REVENUE

	Consolidated	
	2016 €	**2015 €**
Gas sales	958,501	2,496,267

NOTE 4: EMPLOYEE BENEFIT EXPENSES

	Consolidated	
	2016 €	**2015 €**
Wages and salaries	909,221	912,740
Share based payments	14,506	–
Contributions to defined contribution plans	176,636	192,754
	1,100,363	1,105,494

NOTE 5: CORPORATE OVERHEADS

	Consolidated	
	2016 €	**2015 €**
Corporate overheads comprises:		
Company administration and compliance	192,770	194,675
Professional fees	629,059	344,754
Office costs	176,719	249,374
Travel and entertainment	65,749	111,143
Other expenses	58,504	208,494
	1,122,301	1,108,440

NOTE 6: AUDITORS' REMUNERATION

	Consolidated	
	2016 €	**2015 €**
Auditors of the Company		
Audit and review of the Group financial statements	45,185	48,530

Notes to the Financial Statements
continued

NOTE 7: FINANCE INCOME AND EXPENSE

	Consolidated	
	2016 €	2015 €
Recognised in profit and loss:		
Interest income	1,017	1,777
Finance income	1,017	1,777
Interest expense	17,320	172,344
Amortisation of borrowing costs	308,640	129,092
Unwinding of discount on site restoration provision	85,769	113,623
Foreign exchange losses (net)	49,371	32,367
Finance expense	461,100	447,426
Net finance expense	(460,083)	(445,649)

NOTE 8: INCOME TAX (BENEFIT)/EXPENSE

	Consolidated	
	2016 €	2015 €
Current tax		
Current year	–	–
Deferred tax		
Origination and reversal of temporary differences	(667,301)	231,434
Deferred tax (benefit)/expenses	(667,301)	231,434
Total income tax (benefit)/expense	(667,301)	231,434
Numerical reconciliation between tax expense and pre-tax accounting profit/(loss)		
Loss for the year before tax	(9,366,354)	(6,426,392)
Income tax (benefit)/expense using the Company's domestic tax rate of 30 per cent (2015: 30%)	(2,809,906)	(1,927,918)
Non-deductible expenses:		
Borrowing costs	33,338	19,157
Fair value adjustments	1,995,494	786,424
Other	130,695	211,087
Effect of tax rates in foreign jurisdictions	63,879	148,144
Current year losses and temporary differences for which no deferred tax asset was recognised	546,540	775,697
Changes in temporary differences	(597,941)	216,571
Utilisation of tax losses	–	2,272
Income tax (benefit)/expense	(667,301)	231,434

Notes to the Financial Statements

continued

NOTE 9: EARNINGS PER SHARE

	Consolidated 2016 €	2015 €
Basic loss per share (€ cents)	(2.06)	(5.02)

The calculation of earnings per share was based on the loss attributable to shareholders of €8,699,053 (2015: €6,657,826) and a weighted average number of ordinary shares outstanding during the year of 421,741,568 (2015: 132,670,893).

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share.

	No. of days	2016 Weighted average no.	2015 Weighted average no.
The number of weighted average shares is calculated as follows:			
Number of shares on issue at beginning of the year	366	132,670,893	122,414,063
350,392,300 shares issued on 20 April 2016	256	245,083,139	–
14,828,871 shares issued on 30 June 2016	185	10,716,177	–
9,272,997 shares issued on 14 September 2016	109	5,463,550	–
35,727,003 shares issued on 31 October 2016	62	20,321,782	–
17,742,857 shares issued on 4 June 2015	211	–	10,256,830
		421,741,568	132,670,893

NOTE 10: CASH AND CASH EQUIVALENTS

	Consolidated 2016 €	2015 €
(a) Cash and cash equivalents	166,459	2,446,005
(b) Reconciliation of cash flows from operating activities		
Loss	(8,699,053)	(6,657,826)
Adjustment for non-cash items:		
Depreciation and amortisation	888,879	1,654,575
Resource property costs impairment	6,402,179	2,820,696
Unwind of discount on site restoration provision	85,769	113,623
Amortisation of borrowing costs	308,640	129,092
Share based payments	14,506	–
Loss on sale of project	–	822,203
Borrowing costs paid for financing activities	118,159	–
Change in operating assets and liabilities:		
Decrease in receivables	150,257	310,191
Other assets	(125,578)	–
Decrease in trade and other payables	(759,445)	(61,922)
(Decrease)/Increase in provisions	(147,076)	37,498
(Increase)/Decrease in deferred tax assets	(667,301)	231,434
Net cash inflow from operating activities	(2,430,064)	(600,436)

Notes to the Financial Statements

continued

NOTE 11: INVENTORY

	Consolidated	
	2016 **€**	**2015** **€**
Non-Current		
Well equipment – at cost	732,801	732,801

Well equipment represents inventory expected to be utilised in future development of known wells with specific characteristics.

NOTE 12: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016 **€**	**2015** **€**
Current		
Trade receivables	80,189	235,820
Accrued gas sales revenue	76,008	124,268
Sundry debtors	28,696	147,513
Deposit	7	7
Indirect taxes receivable (a)	77,612	141,833
	262,512	649,441

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

Notes to the Financial Statements

continued

NOTE 13: PROPERTY PLANT & EQUIPMENT

	Consolidated 2016 €	2015 €
Office Furniture & Equipment:		
At cost	217,518	207,196
Accumulated depreciation	(195,577)	(184,845)
	21,941	22,351
Gas producing plant and equipment:		
At cost	8,503,197	8,503,197
Accumulated depreciation and impairment losses	(6,177,534)	(5,910,355)
	2,325,663	2,592,842
	2,347,604	2,615,193

Reconciliations:

Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:

	2016 €	2015 €
Office Furniture & Equipment:		
Carrying amount at beginning of year	22,351	29,847
Additions	10,322	6,524
Depreciation expense	(10,732)	(14,020)
Carrying amount at end of year	21,941	22,351
Gas Producing plant and equipment:		
Carrying amount at beginning of period	2,592,842	3,003,974
Additions/Reclassification	–	20,000
Depreciation expense	(267,179)	(431,132)
Carrying amount at end of period	2,325,663	2,592,842
	2,347,604	2,615,193

Notes to the Financial Statements
continued

NOTE 14: RESOURCE PROPERTY COSTS

	Consolidated 2016 €	Consolidated 2015 €
Resource Property costs		
Exploration Phase	8,383,017	9,646,269
Development Phase	–	–
Production Phase	599,173	5,521,279
	8,982,190	15,167,548
Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of period	9,646,269	11,624,796
Exploration expenditure	473,923	669,988
Change in estimate of rehabilitation assets	49,789	(67,671)
Disposal of project	–	(2,551,990)
Impairment losses	(1,786,964)	(28,854)
Carrying amount at end of period	8,383,017	9,646,269

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 of 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. Where exploration permits have expired or not renewed, the costs previously capitalised are expensed to the statement of profit and loss. In 2016 costs relating to permits expired or not renewed amount to €291,928 (2015: €28,854).

The Company reviewed the carrying value of its assets and cash generating units using a Value in Use CGU; in particular a valuation on Sant' Alberto was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the listing of Saffron Energy Plc on the AIM Board of the LSE. As a result of this assessment, the recoverable value of Sant' Alberto at 31 December 2016 was €2.8million resulting in an impairment of €1,495,036 being recognised.

	Consolidated 2016 €	Consolidated 2015 €
Production Phase		
Carrying amount at beginning of period	5,521,279	8,156,839
Additions/Reclass to property plant & equipment	257,573	799,908
Change in estimate of rehabilitation assets	46,504	565,797
Amortisation of producing assets	(610,968)	(1,209,423)
Impairment losses	(4,615,215)	(2,791,842)
Carrying amount at end of period	599,173	5,521,279

Notes to the Financial Statements
continued

NOTE 14: RESOURCE PROPERTY COSTS (continued)

The Company reviewed the carrying value of its assets and cash generating units using a Value in Use CGU valuation as a material event took place in respect of the CGU Sillaro. Specifically, during the first 6 months of 2016, rigless interventions were carried out on the main producing field Sillaro. These interventions were unsuccessful and the company is therefore required to proceed with the sidetrack well project originally announced in January 2015. As a result of the revised assessment, the recoverable amount of Sillaro at 31 December 2016 was €2.8 million. The revised assessment was carried out by technical specialist advisors CGG Services (UK) Limited. Considering the above an impairment of €4,615,215 has been recognised in the Financial Statements for the field Sillaro.

	Consolidated	
	2016 **€**	**2015** **€**
Impairment losses are reconciled as follows:		
Impairment expense		
Production phase:		
Sillaro gas field	(4,615,215)	(2,558,276)
Exploration phase:		
Sant' Alberto licence	(1,495,036)	–
Castello gas field	–	(233,566)
Exploration costs	(291,928)	(28,854)
Total impairment loss	(6,402,179)	(2,820,696)

The Group assessed each asset or cash generating unit (CGU) for the year ended 31 December 2016 to determine whether any indication of impairment exists. When an indication of impairment exists, a formal estimate of the recoverable amount was made, which is considered to be higher of the fair value less cost to sell and Value in Use (VIU). The Group has used VIU method for all the CGUs identified.

Value in Use of Sillaro CGU and Sant' Alberto was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the listing of Saffron Energy Plc on the AIM Board of the LSE. The Admission Document including the complete Competent Persons Report is available on Saffron Energy's web site www.saffronenergy.co.uk. As disclosed in that report, the VIU was based on the following main assumptions:

1. A revised price deck based on a brent crude oil correlation analysis on European gas prices increased for inflation of 2%p.a after 2022;
2. A post-tax discount rate of 10%;
3. Variable operating expenses of €0.02/scm produced;
4. Reserves and production volumes determined by recent Competent Persons Report

These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact the projections, which may impact the recoverable amounts of assets and/or CGUs.

Notes to the Financial Statements

continued

NOTE 14: RESOURCE PROPERTY COSTS (continued)

It is estimated that changes in key assumptions, in isolation, would impact the recoverable amount at December 31, 2016 as follows:

	Sillaro	Sant' Alberto
Gas price -5%	(354,000)	(303,000)
Gas price +5%	354,000	303,000
Discount rate +1%	(102,000)	(97,000)
Discount rate -1%	264,000	102,000
Opex +5%	(81,000)	(105,000)
Opex -5%	81,000	105,000
Capex +5%	(141,000)	(59,000)
Capex -5%	141,000	59,000
Yearly production +10%	693,000	(699,000)
Yearly production -10%	(585,000)	59,000

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Deferred tax assets have been recognised in respect of the following items:

	Consolidated	
	2016 €	2015 €
Tax losses	1,888,687	1,691,137
Accrued expenses and liabilities	795,679	325,922
Recognised deferred tax assets	2,684,366	2,017,059

The tax losses in both Italy and Australia do not expire. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated	
	2016 €	2015 €
Tax losses	2,745,469	2,462,399
Deductible temporary differences	2,162,878	1,735,629
Unrecognised deferred tax assets	4,908,347	4,198,028

Deferred tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the relevant company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the relevant company in realising the benefit from the deductions for the losses.

Notes to the Financial Statements
continued

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in recognised temporary differences during the year

Consolidated	Balance 1 January 2015 €	Profit and loss €	Equity €	Balance 31 December 2015 €	Profit and loss €	Equity €	Balance 31 December 2016 €
Tax losses	1,884,192	(193,005)	–	1,691,137	197,550	–	1,888,687
Accrued expenses and liabilities	432,075	(106,203)	–	325,922	469,757	–	795,679
Total recognised deferred tax asset	2,316,267	(299,208)	–	2,017,059	667,307	–	2,684,366

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated 2016 €	2015 €
Trade payables and accruals	1,737,740	1,947,197
Other payables	77,597	435,271
	1,815,337	2,382,918

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 21.

NOTE 17: PROVISIONS

	Consolidated 2016 €	2015 €
Current:		
Employee leave entitlements	50,136	91,867
Other provisions	20,000	125,345
	70,136	217,212
Non Current:		
Restoration provision	4,961,907	4,779,855
Reconciliation of restoration provision:		
Opening balance	4,779,855	4,168,104
Increase in provision due to revised estimates	96,283	498,128
Increase in provision from unwind of discount rate	85,769	113,623
Closing balance	4,961,907	4,779,855

Provision has been made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the balance sheet date and abandonment of the well site and production fields.

Notes to the Financial Statements
continued

NOTE 18: INTEREST BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

	Consolidated	
	2016 €	**2015 €**
Current liabilities		
Finance facility	–	2,467,408
Loans	1,406,017	–
	1,406,017	2,467,408

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
	Currency	**Nominal Interest rate**	**Year of Maturity**	**Face Value €**	**Carrying Amount €**	**Face Value €**	**Carrying Amount €**
Current liabilities							
Secured bank loan	Euro	Euribor + 3.75%	2016	–	–	2,776,048	2,467,408
Unsecured loans	AUD	10%	2018	1,406,017	1,406,017	–	–

The amount presented is disclosed net of borrowing costs of €nil (2015: €308,640).

The Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors of the Company and longstanding shareholders. The new facility arrangement has a term of 12 months and an interest rate of 10%. The loans were drawn down in various tranches throughout 2016 and are due to expire at various intervals throughout 2017.

Following the Saffron Energy IPO in February 2017, a portion of the outstanding loans were repaid and, in agreement with the lenders, the Company streamlined the terms of the residual amount so that the loans would be repaid in two tranches. Specifically, approximately €506,000 was repaid in March 2017, and at the date of this report A$ 615,000 and €50,000 are due 30 June 2017 while A$ 528,000 and €50,000 will fall due in June 2018. The new facility provides a streamlined flexible arrangement and removes the onerous administrative and security requirement of the Nedbank reserve based lending facility.

The new facility agreement has been reached with entities associated with Bryon Pirola and Kevin Baily (Directors) and Graham Bradley (former Director) and a longstanding shareholder.

Notes to the Financial Statements

continued

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares			
	2016 Number	2015 Number	2016 $	2015 $
Share Capital				
Opening balance – 1 January	140,156,920	122,414,063	46,692,830	45,819,924
Shares issued during the year:				
Issued on 4 June 2015	–	17,742,857		872,906
Rights issue on 20 April 2016	350,392,300	–	1,208,213	–
Issued on 30 June 2016 in lieu of directors remuneration	14,828,871	–	149,041	–
Placement issue on 14 September 2016	9,272,997	–	125,306	–
Placement issue on 31 October 2016	35,727,003	–	499,742	–
Share issue costs	–	–	(15,795)	–
Closing balance – 31 December	550,378,091	140,156,920	48,659,337	46,692,830

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 shares were issued to employees pursuant to the employees share purchase plan (2015: Nil).

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The historical balance comprises of translation differences prior to change in functional currency of a foreign operation.

Dividends

No dividends were paid or declared during the current year (2015: Nil).

NOTE 20: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Group's 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. The individual exploration, development and production operation sites have been aggregated.

	Exploration		Development and Production		Total	
In euro	2016 €	2015 €	2016 €	2015 €	2016 €	2015 €
External revenues	–	–	958,501	2,496,267	958,501	2,496,267
Segment (loss)/profit before tax	(1,786,964)	(851,057)	(5,079,268)	(3,013,869)	(6,866,232)	(3,864,926)
Depreciation and amortisation	–	–	(878,147)	(1,640,555)	(878,147)	(1,640,555)
Impairment on resource property costs	(1,786,964)	(28,854)	(4,615,215)	(2,791,842)	(6,402,179)	(2,820,696)
Loss on sale of project	–	(822,203)	–	–	–	(822,203)
Reportable segment assets:						
Resource property costs	8,383,017	9,646,269	599,173	5,521,279	8,982,190	15,167,548
Plant & Equipment	–	–	2,325,663	2,592,842	2,325,663	2,592,842
Receivables	–	–	145,461	360,088	145,461	360,088
Inventory	–	–	732,801	732,081	732,801	732,081
Capital expenditure	439,620	669,988	64,283	799,908	503,903	1,469,896
Movement in rehabilitation assets	49,790	(67,691)	46,504	620,149	96,293	552,478
Reportable segment liabilities	(2,340,148)	(1,967,787)	(3,937,294)	(4,390,251)	(6,277,442)	(6,358,038)

Notes to the Financial Statements
continued

NOTE 19: CAPITAL AND RESERVES (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities

	2016 €	2015 €
Profit or loss:		
Total profit/(loss) for reportable segments	(6,866,232)	(3,864,926)
Unallocated amounts:		
Net finance expense	(460,083)	(445,649)
Other corporate expenses	(2,040,039)	(2,115,817)
Consolidated loss before income tax	(9,366,354)	(6,426,392)
Assets:		
Total assets for reportable segments	12,186,115	18,853,279
Other assets	3,145,767	4,805,146
Consolidated total assets	15,331,882	23,658,425
Liabilities:		
Total liabilities for reportable segments	(6,277,442)	(6,358,038)
Other liabilities	(1,978,454)	(3,489,355)
Consolidated total liabilities	(8,256,396)	(9,847,393)

Other Segment Information

All of the Group's revenue is currently attributed to gas sales in Italy through an off-take agreement with Shell Italia. For the current year, the Group's only customer contributed the entire revenue.

NOTE 21: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposures

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Consolidated	
	2016 €	2015 €
Variable rate instruments		
Financial assets	166,459	2,446,005
Financial liabilities	–	(2,467,408)
	166,459	(21,403)
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	(1,406,017)	–
	(1,406,017)	–

Notes to the Financial Statements

continued

NOTE 21: FINANCIAL INSTRUMENTS (continued)

Cash flow sensitivity analysis for variable rate instruments:

A strengthening of 50 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

	Profit or loss		Equity	
Effect in €'s	**2016**	**2015**	**2016**	**2015**
31 December				
Variable rate instruments	832	(13,765)	–	–

(b) Credit Risk

Exposure to credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.

The Group has limited its credit risk in relation to its gas sales in that all sales transactions fall under an offtake agreement with Shell Italia which originally expired in October 2017 but was subsequently amended (in March 2017) to expire in October 2018. Shell currently has an option to extend the contract a second Gas Year from October 2018 to September 2019.

The Group has a concentration of credit risk exposure to its one customer (Shell Italia). Payment terms are 35 days and the customer has an investment grade credit rating.

The carrying amount of the Group's financial assets represents the maximum credit exposure and is shown in the table below. No receivables are considered past due nor were any impairment losses recognised during the period.

		Consolidated Carrying Amount	
	Note	**2016 €**	**2015 €**
Cash and cash equivalents	10	166,459	2,446,005
Receivables – Current	12	262,512	649,441
Other assets		155,956	30,378
		584,927	3,125,824

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Consolidated					
31 December 2016 In €	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 – 2 Years**	**2 – 5 Years**
Trade and other payables	(1,815,337)	(1,815,337)	(1,815,337)	–	–	–
Unsecured loans	(1,406,017)	(1,546,619)	(1,114,855)	(431,764)	–	–
	(3,221,354)	(3,361,956)	(2,930,192)	(431,764)	–	–

Notes to the Financial Statements

continued

NOTE 21: FINANCIAL INSTRUMENTS (continued)

31 December 2015 In €	Consolidated Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(2,382,918)	(2,382,918)	(2,382,918)	–	–	–
Secured bank loan	(2,467,408)	(2,792,805)	(2,211,172)	(581,633)	–	–
	(4,850,326)	(5,175,723)	(4,594,090)	(581,633)	–	–

(d) Net Fair Values of financial assets and liabilities

The carrying amounts of financial assets and liabilities as disclosed in the balance sheet equate to their estimated net fair value.

(e) Foreign Currency Risk

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than Euro. The currency giving rise to this risk is primarily Australian Dollars.

	Consolidated 2016 €	 2015 €
Amounts receivable/(payable) in foreign currency other than functional currency:		
Cash	26,658	12,977
Current – Payables	(69,343)	(60,884)
Net Exposure	(42,685)	(47,908)

The following significant exchange rates applied during the year:

	Average rate 2016	 2015	Reporting date spot rate 2016	 2015
Australian Dollar ($)	0.6768	0.6741	0.6840	0.6691

Sensitivity Analysis

A 10 percent strengthening of the Australian dollar against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	Consolidated Profit or loss €	 Equity €
31 December 2016		
Australian Dollar to Euro (€)	(1,869)	–
31 December 2015		
Australian Dollar to Euro (€)	3,707	–

A 10 percent weakening of the Australian dollar against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements

continued

NOTE 22: COMMITMENTS AND CONTINGENCIES

Contractual Commitments and contingencies

In September 2016, the Company signed a master construction contract with local contractor TESI Srl for the development of its 90% Bezzecca gas field. The contract, is a turnkey contract for the construction of the 7 km pipeline and tie in to the existing gas treatment plant. Construction of the pipeline and tie in was completed in March 2017.

The pipeline had a total capital cost of €2.2m and the contract with TESI Srl includes a flexible financing arrangement whereby a portion of the fees (€0.6m) will be paid upfront and the residual amount to be paid in monthly instalments once production commences. A company guarantee was provided by the parent company Po Valley Energy to TESI as part of this contract.

Other than the abovementioned master construction contract with TESI, there are no other material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 31 December 2016.

NOTE 23: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation included in employee benefit expenses (see note 4) is as follows:

	Consolidated	
	2016 €	2015 €
Short-term employee benefits	241,716	376,124
Termination benefits	–	–
Other long term benefits	–	–
Post-employment benefits	6,250	9,761
Share-based payments	14,056	–
	262,022	385,885

INTEREST BEARING LOANS

During the year, the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors and a longstanding shareholder of the Company. Refer to Note 18 for further details.

Related Party	Loan Amount	Interest	Repayment Term
Beronia Investments Pty Ltd	A$756,518	10% p.a.	12 months
K & G Bailey as trustee for The Bailey Family Trust	A$1,057,642	10% p.a.	12 months
G. Bradley	€93,985	10% p.a.	12 Months

Notes to the Financial Statements

continued

NOTE 23: RELATED PARTIES (continued)

SHARE BASED PAYMENTS

At the Annual General meeting held in May 2016, shareholders approved the issue of shares to directors in lieu of directors fees unpaid for 2015 and for up to 50% of the fees accrued in the first quarter of 2016. The share price, for the issue was deemed to be A$0.015 per share.

The following shares were issued to directors (and former directors) in lieu of directors fees:

Director	No. of Shares	2016 Fees €	No. of Shares	2015 Fees €	No. of Shares	Total €
Michael Masterman	173,576	1,750	1,487,791	15,000	1,661,367	16,750
Byron Pirola	347,151	3,500	2,975,583	30,000	3,322,734	33,500
Kevin Bailey	–	–	–	–	–	–
Graham Bradley (retired 22 April 2016)	520,727	5,250	4,463,374	45,000	4,984,101	50,250
Kevin Eley (retired 22 April 2016)	347,151	3,500	2,975,583	30,000	3,322,734	33,500
Gregory Short (retired 25 January 2016)	50,146	506	1,487,789	15,000	1,537,935	15,506
Total of shares issued	1,438,751	14,506	13,390,120	135,000	14,828,871	149,506

NOTE 24: PARENT ENTITY DISCLOSURES

	2016 €	2015 €
Financial Position		
Assets		
Current assets	45,226	935,382
Non-current assets	15,972,596	15,592,225
Total assets	16,017,822	16,527,607
Liabilities		
Current liabilities	1,267,306	2,716,575
Non-current liabilities	–	–
Total liabilities	1,267,306	2,716,575
Net Assets	14,750,516	13,811,032
Equity		
Issued capital	48,659,337	46,692,830
Accumulated losses	(33,908,821)	(32,881,798)
Total equity	14,750,516	13,811,032
Financial Performance		
Loss	(1,027,023)	(6,657,826)
Other comprehensive loss	–	–
Total Comprehensive loss	(1,027,023)	(6,657,826)

Notes to the Financial Statements

continued

NOTE 25: INTERESTS IN OTHER ENTITIES

Subsidiaries

The parent and ultimate controlling party of the Group is Po Valley Energy Limited. The investments held in controlled entities are included in the financial statements of the parent at cost less any impairment losses. Set out below is a list of the significant subsidiaries of the Group.

Name:	Country of Incorporation	Class of Shares	2016 Investment €	2015 Investment €	Holding %
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	6,079,441	21,083,268	**75***
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	631,056	631,056	**100**
Saffron Energy Plc ("Saffron")	UK	Ordinary	50,000	–	**100**
			6,760,497	21,714,324	

*25% of NSI held by PVO as at 31 December 2016.

Subsequent to the year end, a group restructure occurred, where Saffron acquired 100% holding in NSI from PVE and PVO. On 24 February 2017, Saffron successfully listed on the AIM board of the London Stock Exchange. Following this listing and a successful capital raising, Po Valley Energy Limited retained approximately 65% holding in Saffron.

NOTE 26: SUBSEQUENT EVENT

On 24 February 2017, the Company successfully completed the spin-out of its new subsidiary, Saffron Energy Plc (Saffron Energy) and listing on London's AIM market. Saffron Energy now owns one gas production (Sillaro) and two near-term gas production fields (Bezzecca (90%) and Sant'Alberto) near Milan and Bologna. The Saffron IPO raised A$4 million (GBP 2.5 million) in funds to accelerate the development of all three gas fields. Refer to the ASX announcement "*PVE subsidiary Saffron Energy lists on London AIM*" released on 27 February 2017 and the Admission Document released the same day for further details.

In March 2017, the Company was granted a large onshore oil exploration licence called Torre del Moro, located southeast of Bologna, in the eastern Po Valley region of Italy.

In March 2017, the Company also announced that it has extended the natural gas offtake contract between its Italian subsidiary Northsun Italia S.p.A and Shell Energy Italia S.r.l. ("Shell Energy Italia") – a subsidiary of Shell – for energy commodity trading and marketing. The contract has been extended to 1 October 2018, with an option to extend for a further year to 1 October 2019, and provides for offtake of gas supply for all of the Group's Italian gas fields.

The Company is in the process of raising funds through a private placement. The process is expected to close the first week of April 2017. The proceeds will be used to for the preparation for drilling of Selva and for general working capital.

Other than matters already disclosed in this report, there were no other events between the end of the financial year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' Declaration

1. In the opinion of the directors of PVE ("the Company"):

   i) the financial statements and notes, as set out on pages 20 to 64, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

      a. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, for the financial year ended on that date; and

      b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   ii) subject to the matters disclosed in Note 1.2(c), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by 295A of the *Corporations Act 2001* by the Chief Executive Officer for the financial year ended 31 December 2016.

3. The Directors draw attention to Note 1.2 (c) to the Financial Statements which include a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 31 March 2017.

Signed in accordance with a resolution of the directors:

Michael Masterman
Chairman

Byron Pirola
Non-Executive Director

Independent Auditor's Report

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Independent auditor's report to the Shareholders of Po Valley Energy Limited

Report on the Audit of the Financial Report

We have audited the financial report of Po Valley Energy Limited (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

Opinion

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

Without modifying our conclusion, we draw attention to Note 1.2 (c) in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

PT:RH:POVALLEY:010

Independent Auditor's Report
continued

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* above, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of capitalised exploration and evaluation assets

Why significant	How our audit addressed the key audit matter
The carrying value of exploration and evaluation assets can be subjective based on the Group's ability, and intention, to continue to explore the asset. The carrying value may also be impacted by the results of exploration work indicating that reserves may not be commercially viable for extraction. Accordingly, the recoverability of the carrying value of these assets is a key audit matter. Refer to Note 14 to the financial statements for the amounts held on the sheet by the Group as at 31 December 2016 and related disclosure.	We evaluated the Group's assessment of the carrying value of exploration and evaluation assets. We considered the Company's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as license agreements. We considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models, discussions with senior management and Directors as to the intentions and strategy of the Group. We assessed the carrying value of exploration and evaluation assets where recent exploration activity in a given exploration license provided negative indicators as to the recoverability of other exploration and evaluation costs that remain capitalised. We assessed the commercial viability of results relating to exploration and evaluation activities carried out in the relevant licensed area; and We assessed the ability to finance any planned future exploration and evaluation activity. We assessed the capabilities of third party experts engaged by the Group for the purposes of assessing the potential resources associated with those exploration and evaluation assets.

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2. Carrying value of production assets

Why significant	How our audit addressed the key audit matter
Under Australian Accounting Standards, an entity shall assess at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The impairment testing process is complex and judgmental and is based on assumptions and estimates that are affected by expected future performance and market conditions. Key assumptions, judgements and estimates used in the formulation of the Group's impairment of production assets include discount rate and gas price. Refer to Note 14 to the financial statements for the amounts held on the sheet by the Group as at 31 December 2016 and related disclosure.	We evaluated the Group's assessment of the carrying value of the production asset. We considered whether any indicators of impairment were present by understanding the business rationale for projects and performing reviews for indicators of impairment. We assessed the Group's future cash flow forecasts included in the value in use impairment model, the process by which they were prepared, and assessed the underlying assumptions such as expected cash inflows from gas sales and cash outflows from the production process and other operating expenses. We also assessed the key assumptions and performed sensitivity analyses to ascertain the extent changes could lead to alternative conclusions. We assessed the technical competency and objectivity of the third party experts engaged by the group for the purposes of assessing the potential resources associated with those exploration and evaluation assets. We involved our valuation specialists to evaluate the assumptions and techniques used by the third party expert. We read the Board of Director's meeting minutes and various operational reports and plans in order to understand the future plans of the Group and whether there was any potential contradictory information compared to the assumptions applied in the impairment model.

3. Income taxes – recoverability of deferred tax assets

Why significant	How our audit addressed the key audit matter
At 31 December 2016, the Group had deferred tax assets relating to deductible temporary differences and carry forward tax losses of €2.6 million which were recognized and €4.9 million which were not recognised. The analysis of the recognition and recoverability of the deferred tax assets was significant to our audit because the amounts are material, the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions.	We performed our audit procedures, principally by evaluating and testing the key assumptions used to determine the amounts recognised. We assessed the basis for the recognition of deferred tax balances based on the requirements of each local tax jurisdiction. We assessed the recoverability of the deferred tax assets based by considering the likelihood of sufficient estimated future taxable income being generated.

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Independent Auditor's Report

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Information Other than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Independent Auditor's Report

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express and opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Po Valley Energy Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

PT:RH:POVALLEY:010

Independent Auditor's Report
continued

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Philip Teale
Engagement Partner
Perth
31 March 2017

PT:RH:POVALLEY:010

Shareholder Information 2016-2017

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information was prepared based on the share registry information processed up to 11 April 2017.

SHAREHOLDING

SUBSTANTIAL SHAREHOLDERS

The following table shows holdings of 5% or more of voting rights as disclosed in substantial holding notices given to the Company or, in the case of directors, information available to the Company and disclosed to ASX in Directors Interest Notices.

Name	Number of Ordinary Shares Held	Percentage of Capital Held %
Michael Masterman	147,602,085	26.13
Kevin Bailey	117,230,533	20.75
Byron Pirola	56,818,518	10.06
Greenvale Asia Limited	32,328,759	6.2
Supervised Investments Australia Limited	32,338,000	5.04

DISTRIBUTION OF SHARES

Size of Holdings	Number of Holders	Number of Shares	Percentage of Capital Held %
1 – 1000	78	6,195	0.00
1,001 – 5,000	21	53,912	0.01
5,001 – 10,000	20	148,594	0.03
10,001 – 100,000	129	5,669,511	1.00
100,001 – over	128	559,026,845	98.96
	376	**564,905,057**	**100**
Unmarketable Parcels	142	510,434	0.09

On the 10th of March 2016 the Company implemented an unmarketable parcel sale facility for holders of unmarketable parcels of the Company's shares. A total of 189 shareholders elected to retain their unmarketable parcels. Pursuant to the terms of the Sale Facility, the shares of 375 shareholders who did not elect to retain their shares and held unmarketable parcels as at 7.00pm on 5 May 2016 have been sold. These holdings total 2,722,200 shares.

For further details please refer to the ASX announcement "Completion of sales of unmarketable parcels" released on 11 May 2016

VOTING RIGHTS OF SHARES AND OPTION

Refer to Note 19

ON-MARKET BUY-BACK

There is no current on-market buy back

Shareholder Information 2016-2017

continued

TWENTY LARGEST SHAREHOLDERS

	Name	Number of Ordinary Share Held	Percentage of Capital Held %
1	Michael Masterman	86,234,079	15.27
2	Symmall Pty Ltd *<Masterman Superfund A/C>*	58,076,353	10.28
3	Mr Kevin Bailey And Mrs Grace Bailey *<Bailey Family A/C>*	58,050,000	10.28
4	Berne No 132 Nominees Pty *<602987 A/C>*	37,714,815	6.68
5	J P Morgan Nominees Australia Limited	32,338,000	5.72
6	Mr Laurie Mark Macri	23,000,000	4.07
7	Fuiloro Pty Ltd *<Bailey Superfund>*	22,680,727	4.01
8	P & N Dairies Pty Ltd	20,480,124	3.63
9	Beronia Investments Pty Ltd	17,487,461	3.10
10	Beronia Investments Pty Ltd *<Duke A/C>*	17,133,509	3.03
11	Quo Vadis Pty Ltd *<Veritas Super A/C>*	17,000,000	3.01
12	Joan Masterman	16,759,554	2.97
13	Kevin Bailey Corporation Ptl Ltd *<Bailey Superannuation A/C>*	13,799,806	2.44
14	Beronia Investments Pty Ltd *<Duke>*	9,716,708	1.72
15	Mr Chris Carr & Mrs Betsy Carr	9,000,000	1.59
16	Mr Graham John Bradley	8,857,965	1.57
17	Henderson International Pty Ltd *<Henderson Superfund A/C>*	6,415,500	1.14
18	Beronia Fs Pty Ltd *<Beronia Family Superfund No 1 A/C>*	5,880,000	1.04
19	Beronia Fs Pty Ltd *<Beronia Family Superfund No 2 A/C>*	5,600,840	0.99
20	Tucabia Holdings Pty Ltd *<Rigotti Family A/C>*	4,826,046	0.85
		471,051,487	**83.39**

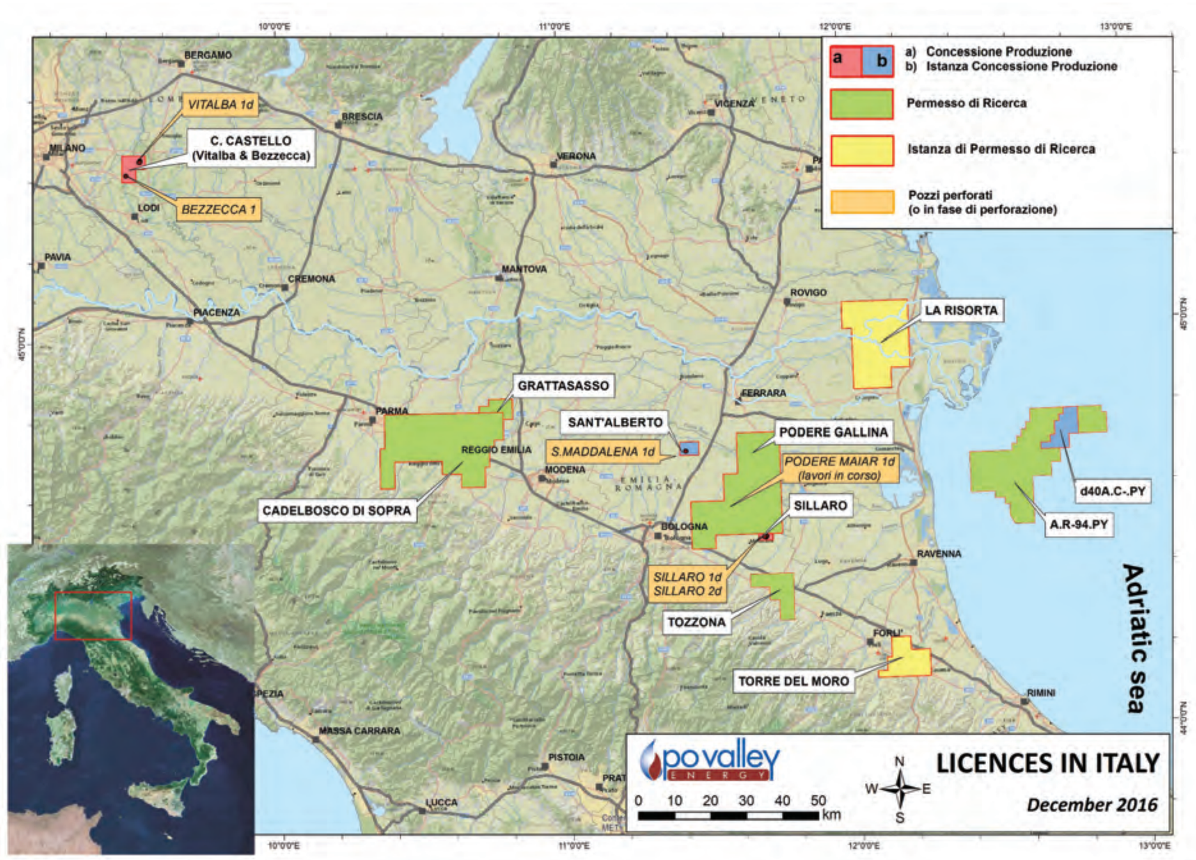
Technical Summary

In December 2013 the ASX introduced new reporting requirements for oil and gas activities through amendments to Chapter 5 of the Listing Rules. The new reporting requirements include general requirements applicable to the public reporting of petroleum resources and also require specific information to be included in the oil and gas exploration entity's Annual Report. The following information is provided in order to comply with Chapter 5 of the Listing Rules:

1) TENEMENTS

The Company's operations are located entirely in the north of Italy, in the Lombardy and Emilia Romagna regions. As at 31 December 2016 the Company's core portfolio includes a total of 10 onshore assets and 1 offshore license. Total acreage position of the Company is circa 2,000 km2. For an illustration of each asset's location please refer to the map and table below. As at 31 December 2016 all tenements are 100% owned with exception of the production concession Cascina Castello which includes Bezzecca (90%) and, Cadelbosco (85%).

The Farmin Agreement for Cadelbosco was completed in June 2012 with Petrorep Italiana Spa for its 15% interest; Petrorep committed to a promoted share of future drilling expenditures and reimbursement on past costs. In 2014, the Company successfully concluded another farm-in with Petrorep Italiana Spa for a 10% interest in the Cascina Castello Bezzecca production concession. Petrorep committed to a promoted share of future development expenditures.



Technical Summary
continued

		Tenement	Location	Interest held for 2016*
PROD. CONCESSION	GRANTED	*Sillaro*	Italy, Emilia Romagna, *Bologna*	100%
		Vitalba (Cascina Castello)	Italy, Lombardia, *Cremona*	100%
		Bezzecca (Cascina Castello)	Italy, Lombardia, *Lodi*	90%
	PREL. AWARDED	*Sant'Alberto*	Italy, Emilia Romagna, *Bologna*	
		Teodorico (d. 40.AC-PY)	Italy, Adriatic Offshore	100%

EXPL. PERMITS	GRANTED	*AR94PY*	Italy, Adriatic Offshore	100%
		Cadelbosco di Sopra	Italy, Emilia Romagna	85%
		Grattasasso	Italy, Emilia Romagna	100%
		Podere Gallina	Italy, Emilia Romagna	100%
		Tozzona	Italy, Emilia Romagna	100%
	PREL. AWARDED	*La Risorta*	Italy, Emilia Romagna &	100%
		Torre del Moro	Italy, Emilia Romagna &	100%

* as at 31 December 2016

2) RESERVES & RESOURCES

The following table summarises the status of the Company's Reserves & Resources as at 31 December 2016.

The reserves and resource estimates of the gas fields, Sillaro, Bezzecca and Sant'Alberto, were independently evaluated by the geological and petroleum reservoir consultancy firm CGG (UK) Services Ltd in 2016 whilst the other gas and two oil fields were reviewed by the same firm in 2013.

Following the unsuccessful rigless campaign carried out on Sillaro in 2016 and the integrated internal study on Bezzecca, the Company commissioned a comprehensive re-evaluation of these fields. Estimates of the revised recoverable volumes for each field and a detailed explanation of how this review was carried out as required under the Chapter 5 ASX Listing Rules are provided in the ASX media release entitled "***Producing and Near Production Field Reserves Revision***" dated 25 November 2016. A refresh of the review carried out in 2013 was not deemed necessary as there was no new information impacting volumes estimates at the reporting date. All estimates are based on independent evaluations in accordance with SPE/WPC/AAPG/SPEE Petroleum Resource Management System.

Figures shown in the table on the next page are the revised reserve estimates less any production for the period.

Technical Summary

continued

Licence	Project	Reserves			Contingent Resources			Prospective Resources		
					Gas Bcf					
		1P	2P	3P	1C	2C	3C	Low	Best	High
Sillaro	Sillaro	0.0	2.2	2.7	0.6	1.1	1.5			
Cascina Castello	Vitalba	0.5	0.5	1.5						
	West Vitalba Quaternary							1.4	2.2	3.1
	West Vitalba Pliocene							1.6	2.4	3.2
Cascina Castello ext	Bezzecca [Net]	2.5	4.0	5.5	0.9	1.4	1.9			
Sant'Alberto	Santa Maddalena	1.7	2.0	2.8						
AR94PY	Teodorico				34.6	47.3	62.2			
	PL3-C							7.9	15.9	25.0
Cadelbosco di Sopra	Zini (Qu-B) [Net]				0.9	2.3	3.9			
	Canolo (Qu-A) [Net]				0.6	0.9	1.4			
	Canolo (Plioc) [Net]				0.3	3.1	8.9			
	Zini(Qu-A) [Net]								1.2	
Podere Gallina	Selva Strat. (Podere Maiar-1)				11.4	17.0	23.0			
	Cembalina							2.1	3.3	4.7
	Fondo Perino							10.2	14.6	20.5
	East Selva							29.1	34.8	40.6
La Risorta	Ariano							10.6	16.6	24.7
	Corcrevà							7.0	8.8	11.3
	D. delle Anime							13.8	18.3	24.4
T. del Moro								UNDER REVIEW		
Tozzona								UNDER REVIEW		

Licence	Project	Contingent Resources Oil, MMbbls		
		1C	2C	3C
Cadelbosco	Bagnolo in Piano	3.7	4.3	5.1
Grattasasso	Ravizza	2.2	5.7	10.7

Qualified Petroleum Reserves and Resources Evaluator:

Statements in this Annual Report regarding estimates of petroleum Reserves and Contingent and Prospective Resources and the Reserves statement for 2016 are based on and fairly represented information and supporting documentation reviewed by Mr Enzo Vegliante, Production and Development Manager of Po Valley Energy Ltd since December 2014.

Mr Vegliante holds a Bachelor's Degree in Petroleum Engineering with 19 years of experience in petroleum engineering and the oil and gas industry. He is a member of SPE (Society of Petroleum Engineers).

Mr Vegliante has approved the Reserves statement as a whole and has consented to: (a) the inclusion of the estimated petroleum Reserves and Contingent and Prospective Resources and supporting information in this Annual Report in the form and context in which they are presented; and (b) the inclusion of the Reserves statement in this Annual Report in the form and context in which it appears.

Technical Summary
continued

RESERVES are those quantities of hydrocarbon anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Proved Reserves are those quantities of hydrocarbon, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations (1P).

Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P).

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P) Reserves, which is equivalent to the high estimate scenario.

CONTINGENT RESOURCES are those quantities of hydrocarbon estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

PROSPECTIVE RESOURCES are those quantities of hydrocarbon that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within contingent and Prospective Resources.

Company Reserves

	Reserves as at 31 December 2016		Reserves as at 31 December 2015	
Gas, Italy (bcf)	**1P**	**2P**	**1P**	**2P**
Developed (Sillaro Pliocene + Vitalba)	0.5	1.2	2.4	3.5
Undeveloped (Sillaro Miocene + Bezzecca [net]+ Sant'Alberto)	4.2	7.5	4.5	7.4
Total Reserves	4.7	8.7	6.9	10.9

The variation in Developed Reserves (1P and 2P) primarily reflects the reduction in Pliocene reserves of the Sillaro field which were previously assumed to be accessible by the existing wells. Production from the field in 2016 was 0.2 bcf (4.43 million scm). We note that the P2 recoverable volumes for the Sillaro field mainly refer to the Miocene targets (Medium and Deep) and are therefore based on the current development plan of drilling Sillaro-3dir by sidetracking from Sillaro-1.

As announced to the market throughout 2016, the rigless campaign on Sillaro aimed to increase production by accessing existing un-perforated levels in the Pliocene reservoir was unsuccessful. We further confirmed that the Sillaro-1 sidetrack project originally announced in January 2015 remains valid and would optimize production of the remaining resources from the Pliocene reservoirs along with the development of the Miocene target. These reserves continue to be classified above under the "Undeveloped" category.

Technical Summary

continued

As regards Vitalba, this field continues to be temporarily suspended due to gas specifications issues following an increase in the humidity content (dew point) at the entry point to the national grid. Some investments on the gas treatment plant were required to allow the plant to effectively treat the gas and deliver according to SNAM specifications and this work was carried out successfully in the second half of 2016. Production is expected to recommence in April 2017.

The slight variation in the Company's 1P and 2P Undeveloped Reserves resulted from a revised economic cut-off being applied to the Sant'Alberto reserve estimates.

In regards to the future development of the undeveloped Reserves the Company states that Sillaro Miocene, Bezzecca, and Sant'Alberto Reserves have been classified undeveloped under the SPE-PRMS definition as they are expected to be recovered through future investments. In 1Q17, the Company successfully completed the installation of the infrastructure to bring the Bezzecca gas field into production, including a 7km pipeline. This field commenced production in April 2017. As previously stated, 1P and 2P Reserves for Bezzecca represented in the table are net of the 10% equity interest that was farmed out to Petrorep Italiana Spa in 4Q 2014.

As regards the Sant'Alberto gas field, the Company received all the necessary environmental approvals in the second half of 2016. The Company expects to receive the final Production Concession within June 2017. The Company intends to develop this field using a small modular gas treatment plant which will be installed at the existing well site.

The reference point for gas flow from Vitalba & Sillaro is measured through a turbine, located on the wells site, using non standard cubic metres. The figure is standardised using a Fiorentini Fiomec Calculator (FFC) which is a conversion consisting of gas temperature and pressure with gas quality parameters. The outcome of this conversion is the actual gas volume in standard cubic meters injected in the SNAM gridline. (SNAM is an Italian natural gas infrastructure company and manages the national gas transportation network). The SNAM entry points for Sillaro & Vitalba are located 200 metres and 50 metres respectively from site perimeters. The FFC prints a production report which is authenticated by the Ministry of Economic Development and this official data is then accepted by SNAM, our customers and the Taxation Authority.

The Company does not have unconventional petroleum Resources in its portfolio. The Company does not have any material concentration of undeveloped Reserves in Oil & Gas projects that remained undeveloped for more than 5 years from the date they were initially reported.

In reference to the Reserves & Resources estimation process, the Company commits to a regular independent audit in order to obtain a certified update of its Reserves & Resources portfolio. The latest review took place in the second half of 2016 for Sillaro, Bezzecca and Sant'Alberto.

Company Contingent Resources

	Contingent Resources as at 31 December 2016		Contingent Resources as at 31 December 2015	
	1C	2C	1C	2C
Gas (bcf)	49.3	73.1	48.2	74.9
Oil (MMbbls)	5.9	10.0	5.9	10.0

The slight variation in Contingent Gas Resources, both 1C and 2C, in 2016 resulted from (i) the removal of resources related to the Crocetta License (Fantuzza) as this license has expired and was not renewed and (ii) an increase in Contingent Resources in the Sillaro and Bezzecca gas fields following the recent re-evaluation by CGG (UK) Services Ltd.

Technical Summary
continued

The Contingent Resource estimates related to the Sillaro gas field refer to volumes in the Pliocene reservoir (C1 and B1) which were targeted in the rigless campaign in 2016 but were unable to produce due to operational constraints. In order to be re-classified as reserves, the Sillaro-1 side track (Sillaro-3dir) must be drilled, logged and tested. The significant reduction in 2P reserves is therefore partially the result of the re-classification of the Pliocene levels to Contingent Resources pending the drilling results of Sillaro-3dir.

As per Bezzecca, in the last 12 months, new structural maps were generated from re-processed seismic lines resulting in improved imaging of reservoir and faults and as a result the future development plan has been modified. The Contingent Resource estimates refer to volumes in the Central (Bezzecca-1) and South East Block (Bezzecca-3) for which there is evidence of gas but a physical pressure test of the layer or logging will be required to ascertain if it is commercially producible

The table on page 76 of the Technical Summary shows the detailed estimate for each field.

All figures have been determined using a probabilistic method except Sillaro, Vitalba, Bezzecca, and Sant Alberto, which were determined using a deterministic method.

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