Annual Report | 2017

CONTENTS

CORPORATE DIRECTORY

Directors:
Michael Masterman – *Chairman & CEO*
Byron Pirola – *Non-Executive Director*
Kevin Bailey AM – *Non-Executive Director*

Chief Executive Officer: Michael Masterman

Company Secretary: Zoe Levendel

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
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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

Auditors:
Bentleys NSW Pty Ltd
Level 10, 10 Spring Street Sydney NSW 2000 Australia

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.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2017 and early 2018, Po Valley Energy has had an exceptionally productive year.

The highlight was the successful drilling and completion of the Podere Maiar 1dir well in the former Selva gas field. The well intersected two thick gas bearing levels and was tested successfully on both levels in January 2018. The Podere Maiar gas field is clearly commercial with high flow rates, 99% Methane, and 600 metres from the SNAM Italian Pipeline grid connection. The well was financed primarily from 2 for 1 Joint Venture farm-in from our two Joint Venture partners, United Oil and Gas Plc (20%) and Prospex Oil and Gas Plc (17%).

Our offshore Adriatic gas field, Teodorico, advanced substantially during the year with the pivotal grant of the preliminary production concession in November 2016. Environmental approval documentation was filed shortly after and the environmental approval application is advancing and expected to be granted in the second half of 2018. Following independent technical evaluation by CGG a maiden 2P reserves of 37 bcf have been declared.

In April 2017 production commenced at our new Bezzecca gas field, majority owned through Saffron Energy PLC. This contributed strongly to the 58% increase in PVE group gas production to 7 million cubic meters per year. The development of Bezzecca involved construction of a 7km gas pipeline from Bezzecca to the Vitalba gas plant and installation of surface facilities at Bezzecca. Sillaro also contributed to gas production through the year producing from the C0 level, in excess of reserve estimates from this production level.

Progress on regulatory approvals and licence grants moved at a healthy pace through the year with the preliminary award of Teodorico' production concession mentioned above, the grant of the large Torre del Moro oil condensate and gas exploration licence south of Bologna, and the grant of the Sant' Alberto production licence. In the next 12 months, we expect to receive full environmental approval for the Teodorico gas field development, and the grant of a preliminary production concession for Selva.

Advancing these two gas fields into production has a targeted incremental gas production increase of 111 and 28 million cubic meters per year respectively in their first year of production. Achieving this first gas for both these fields remains the primary priority of the Company.

On the corporate front, we listed Saffron Energy Plc on the AIM part of the London Stock Exchange on 15 February 2017 raising GBP 2.5 million. Saffron Energy holds 100% of our Bezzecca, Sillaro and Sant' Alberto production licences and the funds raised were used to put Bezzecca into production and advance Sant' Alberto. Following discussions with Sound Energy Plc in the December quarter 2107, Saffron Energy agreed to purchase Sound Energy Italy for 187.9 million Saffron shares and complete a GBP 14 million capital raising. The company name was changed from Saffron Energy to Coro Energy Plc.

Following the completion of this transaction on 9 April, Po Valley Energy holds 100% of Po Valley Operations Pty Ltd which holds Teodorico (100%), Podere Gallina (Selva) (63%) and Torre del Moro (100%) and 100 million shares, equal to 14% of the issued capital, of Saffron Energy Plc (now Coro Energy Plc) which in turn holds Sillaro (100%), Bezzecca (90%) and Sant' Alberto (100%) plus the Italian assets of Sound Energy Plc. Po Valley Energy intends to distribute all of the 100 million shares it holds in Saffron Energy to Po Valley shareholders on a prorata basis. Details of the Saffron/Coro transaction and proposed distribution of Saffron shares to PVE shareholders have been set out in the relevant Notice of Meetings sent to shareholders.

The successfully drilled Selva field, the Teodorico development field, and Torre del Moro exploration field are our largest and most valuable assets, as confirmed by recent independent competent persons and expert reports. These assets provide substantial growth and value creation opportunities for our Company and have relatively little development costs to advance them over the next two years.

CHAIRMAN'S STATEMENT

CONTINUED

Our shareholders have been exceptionally well served by our dedicated and expert team in Italy lead by Sara Edmonson, Giorgio Bertuzzi, and Gianluca De Rosa, and supported by dedicated Non-Executive Directors Byron Pirola and Kevin Bailey. I wanted to thank them all for their outstanding contribution to the Company during the last 18 months. Sara Edmonson has led Po Valley Energy as CEO since 2013 and will continue on as Deputy CEO of Coro Energy. The Board wishes to thank Sara for her exceptional perseverance and contribution to Po Valley Energy over this period of time.

Michael Masterman

Michael Masterman
Chairman

Po Valley Energy Limited

YEAR IN SUMMARY

- Successful drilling of Podere Maiar 1dir – Selva Gas field
- Grant of the Teodorico preliminary production concession and filing of the Environmental Impact Study
- Commencement of Bezzecca production
- Grant of Torre del Moro exploration licence
- Grant of Sant' Alberto production licence
- Sale of Cadelbosco and Grattasasso Licences for Eur 1.13 million
- Increase of gas production by 58% to 7 million cubic meters
- Increase of annual revenue by 45% to Eur 1.39 million
- Listing of Saffron Energy Plc on the London Stock Exchange and GBP 2.5 million raising
- Merger of Saffron Energy Plc and Sound Energy Holdings Italy Limited and GBP 14 million placement
- Planned distribution of Saffron Energy Plc shares to Po Valley Energy shareholders

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 2017.

1. Directors

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

Michael Masterman – Chief Executive Officer and Chairman, *BEcHons, Age 55*

Director since 22 June 1999

Michael is a co-founder of PVE. Michael took up the position of 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 was appointed as Chairman of PVE following the retirement of Graham Bradley on 22 April 2016 and took up the role of Chief Executive Officer on 1 November 2017.

Byron Pirola – Non Executive Director, *BSc, PhD, Age 57*

Director since 10 May 2002

Byron is a co-founder of PVE and is based in Sydney. He is currently a Director and Managing 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.

Kevin Bailey AM – Non Executive Director, *DipFP, Age 57*

Director since 3 May 2016

Kevin has been a shareholder of the Company since April 2008 and has brought significant business acumen and experience to the Board. He 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. Kevin was a member of the Prime Minister's Community Business Partnership and devotes considerable time to philanthropic interests. He is currently a director of Alpha Australia and Parousia Media Pty Ltd, and is Chairman of the William Wilberforce Foundation.

2. Company Secretary

Zoe Levendel – Company Secretary, *BInSt, JD and MIB* (Appointed 3 July 2017)

Zoe Levendel of Company Matters Pty Ltd was appointed to the position of Company Secretary on 3 July 2017. Zoe joined the Company Matters team from Suncorp Group Limited, where she spent four years in the Legal and Secretariat team. Prior to Suncorp, Zoe was a Policy Advisory at AMA Queensland.

Lisa Jones – Company Secretary, *LLB* (Resigned 3 July 2017)

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
No. of board meetings held	6	6	6
No. of board meetings attended	6	6	6

Following the reduction of the size of the board to three members in 2016 the roles and responsibilities normally undertaken by the Audit and Risk Committee and the Remunerations and Nominations Committee have been dealt with by the full board as part of its duly convened meetings rather than through separate committees.

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 0.19 € cents (2016: loss 2.06 € 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 less than 10% 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.

DIRECTORS' REPORT

CONTINUED

Strategy

PVE is focused on the European market and its assets are currently in Italy which is a high quality gas high margin market.

In 2017 PVE successfully listed Saffron Energy Plc ("Saffron") to fund and bring into production the assets within its NorthSun Italia Spa subsidiary. This step also provided solid funding for the smaller gas development fields – Sillaro, Bezzecca and Sant Alberto – while freeing PVE to advance development of its larger assets. Saffron successfully brought the Bezzecca gas field in to production commencing in April 2017 and plans to bring the Sant Alberto gas field which into production in late 2018.

Saffron, following agreement with Sound Energy Plc, has purchased Sound's Italian gas assets and has completed a GBP14m placement strongly capitalizing Saffron. The company will be renamed Coro Energy Plc (Coro) as part of this acquisition and refinancing. PVE will have a minority interest in the enlarged Coro and no Board representation.

Following the completion of this step, PVE plans to pro-rata distribute 80% of its holding in Saffron to PVE shareholders and continue to focus on its larger scale development assets – Selva, Teodorico, and Torre del Morro – which have progressed significantly during the year, including the successful drilling and gas discovery in the Selva Gas field

Operations

During 2017 gas production increased significantly with Bezzecca coming on stream in April and continued production from Sillaro. Annual production increased 58% to 7 million cubic meters for the year.

Exploration

In 2017 a highlight was the successful drilling of the Podere Maiar 1dir well in the Selva Gasfield in the Podere Gallina licence. The well was successfully drilled and completed for production in December 2017 and successful flow tests in January confirmed a successful flow test.

Development

The key development asset of the company Teodorico in our offshore Adriatic licence advanced very substantially to development in 2017 with the very important grant of a preliminary production concession by the Italian Government. PVE has subsequently applied for environmental approval and this process is also advanced.

The onshore Selva gas field was also successfully drilled with a significant gas discovery being confirmed. Work to evaluate the reserves associated with this discovery are being completed, along with the preparation of a productions concession application.

During the year Bezzecca was brought in to production and contirubted solidly to gas sales during the year.

Financial performance

Total revenue from the full year of gas production was €1.39m, a year on year increase 45% This increase in revenue is attributable to the increased production from the Bezzecca field throughout the year. Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) for the year was a loss €2,350,981 and a slight increase over the previous year reflecting increased corporate costs associated with the planned Coro transaction.

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

Comprehensive profit reconciliation table (in Euro)	2017	2016
Net loss before impairment expense (unaudited)	(3,231,611)	(2,296,874)
Impairment on resource property costs for the Sillaro field	(653,538)	(4,615,215)
Impairment on resource property costs for the Sant' Alberto licence	(767,914)	(1,495,036)
Impairment on resource property costs for the Bezzecca field	(2,941,449)	–
Exploration costs expensed	(4,192)	(291,928)
Reversal of prior period impairment losses on resource property costs	3,263,661	–
Comprehensive loss for the year	**(4,335,043)**	**(8,699,053)**

Net loss before impairment expense, which is not reviewed or audited, is calculated to show impact of impairment losses on the total comprehensive loss for the year.

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to a loss of €2,350,981 for the year.

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

EBITDA reconciliation table (in Euro)	2017	2016
EBITDA	(2,350,981)	(1,809,070)
Depreciation and amortisation expense – production assets	(256,470)	(878,147)
Depreciation expense	(8,008)	(10,732)
Impairment losses	(1,584,199)	(6,402,179)
Other miscellaneous income	366,470	193,857
Results from operating activities	**(3,833,188)**	**(8,906,271)**

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

The Company completed a private placement during the year raising €802,930 (A$1,179,256) by the issuance of 42,882,037 fully paid ordinary shares; part of the proceeds was used as repayment of shareholders loans.

In February 2017, the Company successfully completed the spin off and listing on the AIM board of the LSE of its subsidiary Saffron Energy Plc ('Saffron'), raising GBP2,500,000 before costs. In September 2017, Saffron completed a second placement raising a further GBP1,250,000 reducing the Company's holding in Saffron from 65% to 54%.

Cash and cash equivalents for the Group at 31 December 2017 amounted to €390,114.

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 2017, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report.

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.

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. 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.

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 2017.

8. Significant events after the balance date

Following the balance sheet date

- Po Valley successfully tested the Podere Maiar 1dir well in the Selva gas field
- Saffron Energy completed a restructuring to allow acquisition of Sound Energy's Italian assets and completion of a GBP14m placement

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.

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	2017	2016	2015	2014	2013	2012
Production (scm'000)	7,155	4,461	9,991	18,560	23,983	24,673
Average realised gas price (€ cents per cubic metre)	19	21	25	27	28	33
EBITDA (unaudited) (€'000s)	(2,350)	(1,809)	(795)	1,540	1,755	4,473
Profit/(loss) attributable to owners of the Company (€'000s)	(1,048)	(8,699)	(6,658)	(1,262)	(5,796)	2,373
Earnings/(loss) per share (€ cents per share)	(0.19)	(2.06)	(5.02)	(1.03)	(4.76)	2.12
Share Price at year end – AU$	0.041	0.025	0.026	0.10	0.12	0.12

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 – Sara Edmondson	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.

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 and Chief Executive Officer

- Commencement Date: 22 June 1999 (re-elected 31 May 2017)
- Fixed remuneration for the year ended 31 December 2017: €31,200 p.a. as Chairman
- Fixed remuneration for the year ended 31 December 2017: €77,000 p.a. as Chief Executive Officer
- 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 2017: €15,600
- No termination benefits

Kevin Bailey, Non-Executive Director

- Commencement Date: 3 May 2016
- Fixed remuneration for the year ended 31 December 2017: €20,000
- 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.

Executives:

Sara Edmonson, Chief Executive Officer (up to 31 October 2017)

- 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.

On 31 October 2017, Sara took on the role as Chief Executive Officer with Saffron Energy Plc, which is 50% owned by the Company.

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	**2017**	**109,810**	**–**	**5,000**	**–**	**114,810**
Chairman Non-Executive	2016	42,000	–	–	–	42,000
B Pirola	**2017**	**15,600**	**–**	**–**	**–**	**15,600**
Non-Executive	2016	28,000	–	–	–	28,000
K Bailey	**2017**	**21,071**	**–**	**–**	**–**	**21,071**
(Appointed 3 May 2016)	2016	28,000	–	–	–	28,000
Non-Executive						
Total for Directors	**2017**	**146,481**	**–**	**5,000**	**–**	**151,481**
	2016	98,000	–	–	–	98,000

		Short term										
		Salary & fees €	Car €	Other €	Total Base €	Share based payments €	STI Cash €	Total Short-term €	Termination payments €	Defined contribution plan €	Total €	Proportion of remuneration performance related %
KMP												
Sara Edmonson	**2017**	**151,538**	**6,124**	**–**	**157,662**	**57,090**	**–**	**214,752**	**–**	**21,989**	**236,741**	**24%***
CEO	2016	129,997	6,124	–	136,121	–	7,500	143,621	–	6,250	149,871	5%
Total for KMP	**2017**	**151,538**	**6,124**	**–**	**157,662**	**57,090**	**–**	**214,752**	**–**	**21,989**	**236,741**	
	2016	129,997	6,124	–	136,121	–	7,500	143,621	–	6,250	149,871	
Total Directors and KMP	**2016**	**298,019**	**6,124**	**5,000**	**309,143**	**57,090**	**–**	**366,233**	**–**	**21,989**	**388,222**	
	2016	237,758	6,124	–	243,882	–	7,500	251,382	–	6,250	257,632	

* % of remuneration that is share based is 24%

Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive bonus awarded as remuneration are detailed below.

	2017		2016	
Directors and executives	Cash Bonus €	% vested in year	Cash Bonus €	% vested in year
S Edmonson	–	–	7,500	100%
	Share based payment Bonus €	% vested in year	Share based payment Bonus €	% vested in year
S Edmonson	57,090*	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 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 (2016: Nil). No options vested during 2017. (2016: 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 2017.

There were no options outstanding during 2017.

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 2017.

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 Dec 2016	Purchased	Share based payments	Options Exercised	Sold/Other	Held at 31 Dec 2017
Directors						
M Masterman[i]	147,602,085	9,090,909	–	–	–	156,692,994
B Pirola	56,818,518	2,675,617	–	–	–	59,494,135
K Bailey	117,230,533	15,497,636	–			132,728,169
	329,827,216	27,264,162	–	–	–	348,915,298
Executives						
S. Edmonson	1,148,224	1,818,182	–	–	–	2,966,406
	1,148,224	1,818,182	–	–	–	2,966,406

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

	Held at 31 Dec 2015	Purchased	Share based payments	Options Exercised	Sold/Other	Held at 31 Dec 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 Apr 2016)	1,478,880	3,697,200	–	–	–	5,176,080[iii]
K Eley (retired 22 Apr 2016	800,000	2,000,000	–	–	–	2,800,000[iii]
G Short (retired 25 Jan 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.

Other transactions and balances with KMP and their related parties

During 2016 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. Refer to Note 23 for further details.

The amounts outstanding at 31 December 2017 are as follows:

Related Party	Loan Amount 2017	Loan Amount 2016	Interest	Repayment Term
Beronia Investments Pty Ltd	A$236,181	A$756,518	10% p.a.	12 months
Beronia Investments Pty Ltd	A$227,238	–	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	–	A$826.873	10% p.a.	12 months
Kevin Bailey	A$227,305	–	10% p.a.	6 months
Fuiloro Pty Ltd	A$6,191	A$230,769	10% p.a.	12 months
G. Bradley	A$94,927	A$144,927	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	156,692,994
B Pirola	59,494,135
K Bailey	132,728,169

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 www.povalley.com. 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.

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, Bentleys NSW Pty Ltd, 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 Bentleys during or since the financial year.

17. Non audit services

During the year Bentleys, the Group's auditor, provided corporate taxation services. Refer to note 6 of the financial report for details of auditor's remuneration.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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. 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 2017.

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

Michael Masterman

Michael Masterman
Chairman
Sydney, NSW Australia

29 March 2018

LEAD AUDITORS' INDEPENDENCE DECLARATION

Bentleys
THINKING AHEAD

Bentleys NSW Audit Pty Ltd
Level 10, 10 Spring Street
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ABN 49 141 611 896
T +61 2 9220 0700
F +61 2 9220 0777
directors@bentleysnsw.com.au
bentleys.com.au

Po Valley Energy Limited
ABN: 33 087 741 571

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Po Valley Energy Limited

As lead auditor for the audit of Po Valley Energy Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

Bentleys NSW Audit Pty Ltd

Bentleys NSW Audit Pty Ltd

Robert Evett
Director
Sydney

29 March 2018

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	Consolidated 2017 €	Consolidated 2016 €
Current Assets			
Cash and cash equivalents	10 (a)	390,114	166,459
Trade and other receivables	12	2,292,724	262,512
Total Current Assets		2,682,838	428,971
Non-Current Assets			
Inventory	11	252,034	732,801
Other assets		100,031	155,956
Deferred tax assets	15	2,598,509	2,684,360
Property, plant & equipment	13	2,158,869	2,347,604
Resource property costs	14	9,341,801	8,982,190
Total Non-Current Assets		14,451,244	14,902,911
Total Assets		**17,134,082**	**15,331,882**
Liability and equity			
Current Liabilities			
Trade and other payables	16	4,739,681	1,815,336
Provisions	17	58,270	70,136
Interest bearing loans	18	526,892	1,406,017
Total Current Liabilities		5,324,843	3,291,489
Non-Current Liabilities			
Provisions	17	4,802,873	4,961,907
Total Non-Current Liabilities		4,802,873	4,961,907
Total Liabilities		**10,127,716**	**8,253,397**
Equity			
Issued capital	19	49,462,268	48,659,337
Reserve	19	1,192,269	1,192,269
Accumulated losses		(43,860,729)	(42,773,120)
Minority interests		212,558	–
Total Equity		**7,006,366**	**7,078,486**
Total Equity and liabilities		**17,134,082**	**15,331,882**

The above 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 2017

	Notes	Consolidated 2017 €	Consolidated 2016 €
Continuing Operations			
Revenue	3	1,389,196	958,501
Operating costs		(1,116,958)	(544,407)
Depreciation and amortisation expense		(256,470)	(878,147)
Gross Profit/(loss)		15,768	(464,053)
Other income		366,470	193,857
Employee benefit expenses	4	(1,085,127)	(1,100,363)
Depreciation expense		(8,008)	(10,732)
Corporate overheads	5	(1,538,092)	(1,122,801)
Impairment losses	14	(1,584,199)	(6,402,179)
Operating loss		(3,833,188)	(8,906,271)
Finance income	7	97	1,017
Finance expenses	7	(416,101)	(461,100)
Net finance expenses		(416,004)	(460,083)
Loss before tax		(4,249,192)	(9,366,354)
Income tax (expense)/benefit	8	(85,851)	667,301
Loss for the year		(4,335,043)	(8,699,053)
Other comprehensive income		–	–
Total comprehensive loss for the year, net of tax		(4,335,043)	(8,699,053)
Loss attributable to:			
Owners of the Company		(1,087,609)	(8,699,053)
Non-controlling interests		(3,247,434)	–
Loss for the period		(4,335,043)	(8,699,053)
Total comprehensive loss attributable to:			
Owners of the Company		(1,087,609)	(8,699,053)
Non-controlling interests		(3,247,434)	–
Total comprehensive loss for the period		(4,335,043)	(8,699,053)
Basic and diluted loss per share	9	(0.19) cents	(2.06) cents

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated	Issued capital €	Translation Reserve €	Accumulated Losses €	Non-controlling Interests €	Total €
	Attributable to equity holders of the Company				
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**
Balance at 1 January 2017	**48,659,337**	**1,192,269**	**(42,773,120)**	**–**	**7,078,486**
Total comprehensive income:					
Loss for the year	–	–	(1,087,609)	(3,247,434)	(4,335,043)
Other comprehensive income	–	–	–	–	–
Total comprehensive loss	–	–	(1,087,609)	(3,247,434)	(4,335,043)
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners – Issue of shares	441,843	–	–	3,459,992	3,901,835
Share based payments	361,088	–	–	–	361,088
Balance at 31 December 2017	**49,462,268**	**1,192,269**	**(43,860,729)**	**212,558**	**7,006,366**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated 2017 €	Consolidated 2016 €
Operating activities			
Receipts from customers		1,352,004	1,213,620
Payments to suppliers and employees		(3,684,811)	(3,627,381)
Interest received		97	1,017
Interest paid		(75,283)	(17,320)
Net cash used in operating activities	10 (b)	(2,407,993)	(2,430,064)
Investing activities			
Payments for non-current assets		–	(10,322)
Receipts for resource property costs from joint operations partners		1,263,539	521,741
Payments for resource property costs		(2,172,232)	(690,177)
Net cash flows used in investing activities		(908,693)	(178,758)
Financing activities			
Proceeds from the issues of shares		444,377	1,833,261
Payment of share issue costs		(2,534)	(15,795)
Net proceeds from issue of shares to non-controlling interests		3,686,750	–
Proceeds from borrowings	18	1,076,486	1,406,017
Repayments of borrowings	18	(1,664,738)	(2,776,048)
Payment of borrowing costs			(118,159)
Net cash flows from financing activities		3,540,341	329,276
Net increase in cash and cash equivalents		223,655	(2,279,546)
Cash and cash equivalents at 1 January		166,459	2,446,005
Cash and cash equivalents at 31 December	10 (a)	390,114	166,459

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

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 2017 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 29 March 2018.

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 the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the year ended 31 December 2017, the Group has recorded a loss of €4,335,043, it has a cash balance of €390,114 net current liabilities of €2,642,055 and had net cash outflows from operations of €2,407,993.

The Directors are currently reviewing a range of financing options which may include the further issue of new equity, convertible debt, sale of operating or non-operating interests in assets or a combination of these and other funding instruments and options. In September 2017, the Company entered into an agreement to sell two onshore Italian oil exploration licences, for consideration of €1,130,000. The sale is subject to formal approval by the Italian Ministry of Economic Department is and is expected to be completed in the second quarter of 2018.

The Directors have reviewed the Group's cashflow requirements for the 15 months ended 31 March 2019 and are of the opinion that sufficient funds will be available in order to meet its ongoing obligations.

Should the Group not achieve the matters set out above, 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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%.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 2017 have been adopted as listed below:

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.
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.

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.

(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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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, 2017.

(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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

	2017	2016
Sillaro	5.23%	11.29%
Bezzecca	3.40%	–

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:

	2017	2016
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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

	2017	2016
Sillaro	5.23%	11.29%
Bezzecca	3.40%	–

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 2017 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 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.	1 January 2018	Adoption of this standard will not have a material impact on the financial report.	1 January 2018

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)	***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. 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.			

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)	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.			
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:	1 January 2018	The adoption of this standard will not have a material impact on the financial report as the price and performance obligations criteria under this standard for sales for the Group are determined on the same basis as the current standard AASB111.	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)	(a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (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	Adoption of these amendments will not have a material impact on the financial report.	1 January 2018

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.	1 January 2019	The entity has not yet assessed the full impact of AASB16	1 January 2019
AASB 16	Leases	**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; 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.	1 January 2019	The entity has not yet assessed the full impact of AASB 16.	1 January 2019

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)	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.			
IFRIC Interpretaion 22	IFRIC 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	Adoption of this pronounce-ment will not have a material impact on the financial report.	1 January 2018

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.

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

(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.

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	
	2017 €	2016 €
Gas sales	1,389,196	958,501

NOTE 4: EMPLOYEE BENEFIT EXPENSES

	Consolidated	
	2017 €	2016 €
Wages and salaries	913,234	909,221
Share based payments	57,089	14,506
Contributions to defined contribution plans	114,804	176,636
	1,085,127	1,100,363

NOTE 5: CORPORATE OVERHEADS

	Consolidated	
	2017 €	2016 €
Corporate overheads comprises:		
Company administration and compliance	250,522	192,770
Professional fees	886,242	629,059
Office costs	162,051	176,719
Travel and entertainment	124,317	65,749
Other expenses	114,960	58,504
	1,538,092	1,122,301

NOTE 6: AUDITORS' REMUNERATION

	Consolidated	
	2017 €	2016 €
Auditors of the Company		
Audit and review of the Group financial statements	22,638	45,185
For corporate tax services	10,718	-
	33,356	45,185

NOTE 7: FINANCE INCOME AND EXPENSE

	Consolidated	
	2017 €	2016 €
Recognised in profit and loss:		
Interest income	97	1,017
Finance income	97	1,017
Interest expense	162,333	17,320
Amortisation of borrowing costs	–	308,640
Unwinding of discount on site restoration provision	58,771	85,769
Foreign exchange losses (net)	194,997	49,371
Finance expense	416,101	461,100
Net finance expense	(416,004)	(460,083)

NOTE 8: INCOME TAX (BENEFIT)/EXPENSE

	Consolidated	
	2017 €	2016 €
Current tax		
Current year	–	–
Deferred tax		
Origination and reversal of temporary differences	85,851	(667,301)
Deferred tax expense/(benefit)	85,851	(667,301)
Total income tax expense/(benefit)	85,851	(667,301)
Numerical reconciliation between tax expense and pre-tax accounting profit/(loss)		
Loss for the year before tax	(4,249,192)	(9,366,354)
Income tax (benefit)/expense using the Company's domestic tax rate of 27.5 per cent (2016: 30%)	(1,168,528)	(2,809,906)
Non-deductible expenses:		
Borrowing costs	–	33,338
Fair value adjustments	(358,905)	1,995,494
Other	–	130,695
Effect of tax rates in foreign jurisdictions	327,483	63,879
Current year losses and temporary differences for which no deferred tax asset was recognised	1,045,880	546,540
Changes in temporary differences	239,921	(597,941)
Income tax expense/(benefit)	85,851	(667,301)

NOTE 9: EARNINGS PER SHARE

	Consolidated 2017 €	Consolidated 2016 €
Basic loss per share (€ cents)	(0.19)	(2.06)

The calculation of earnings per share was based on the loss attributable to shareholders of €1,087,609 (2016: €8,699,053) and a weighted average number of ordinary shares outstanding during the year of 587,519,266 (2016: 421,741,568).

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

The number of weighted average shares is calculated as follows:	No. of days	2017 Weighted average no.	2016 Weighted average no.
Number of shares on issue at beginning of the year	365	550,378,091	132,670,893
14,526,966 shares issued on 5 April 2017	271	11,998,448	–
28,355,071 shares issued on 7 June 2017	208	25,142,727	–
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
		587,519,266	421,741,568

NOTE 10: CASH AND CASH EQUIVALENTS

	Consolidated 2017 €	Consolidated 2016 €
(a) Cash and cash equivalents	390,114	166,459
(b) Reconciliation of cash flows from operating activities		
Loss	(4,335,043)	(8,699,053)
Adjustment for non-cash items:		
Depreciation and amortisation	264,478	888,879
Resource property costs impairment	1,584,199	6,402,179
Unwind of discount on site restoration provision	58,771	85,769
Amortisation of borrowing costs	–	308,640
Share based payments	198,479	14,506
Loss on sale of project	–	–
Borrowing costs paid for financing activities	–	118,159
Change in operating assets and liabilities:		
Decrease in receivables	(115,191)	150,257
Other assets	55,925	(125,578)
Decrease in trade and other payables	(193,596)	(759,445)
(Decrease)/Increase in provisions	(11,866)	(147,076)
(Increase)/Decrease in deferred tax assets	85,851	(667,301)
Net cash inflow from operating activities	(2,407,993)	(2,430,064)

NOTE 11: INVENTORY

	Consolidated	
	2017 €	2016 €
Non-Current		
Well equipment – at net realisable value	252,034	732,801

Well equipment represents inventory expected to be utilised in future development of known wells with specific characteristics. During the period, inventory was written down to net realisable value with and impairment of €480,766 recognised in the statement of profit and loss and other comprehensive income.

NOTE 12: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2017 €	2016 €
Current		
Trade receivables	1,243,696	80,189
Accrued gas sales revenue	158,507	76,008
Sundry debtors	70,697	28,696
Deposit	7	7
Indirect taxes receivable (a)	819,817	77,612
	2,292,724	262,512

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

NOTE 13: PROPERTY PLANT & EQUIPMENT

	Consolidated	
	2017 €	2016 €
Office Furniture & Equipment:		
At cost	221,843	217,518
Accumulated depreciation	(203,585)	(195,577)
	18,258	21,941
Gas producing plant and equipment		
At cost	8,509,086	8,503,197
Accumulated depreciation and impairment losses	(6,368,475)	(6,177,534)
	2,140,611	2,325,663
	2,158,869	2,347,604

Reconciliations:

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

Office Furniture & Equipment:		
Carrying amount at beginning of year	21,941	22,351
Additions	4,325	10,322
Depreciation expense	(8,008)	(10,732)
Carrying amount at end of year	18,258	21,941
Gas Producing plant and equipment:		
Carrying amount at beginning of period	2,356,663	2,592,842
Additions/Reclassification	5,889	–
Depreciation expense	(119,998)	(267,179)
Impairment losses	(70,943)	–
Carrying amount at end of period	2,140,611	2,325,663
	2,158,869	2,347,604

NOTE 14: RESOURCE PROPERTY COSTS

	Consolidated	
	2017 €	2016 €
Resource Property costs		
Exploration Phase	9,182,411	8,383,017
Production Phase	159,390	599,173
	9,341,801	8,982,190

Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of period	8,383,017	9,646,269
Exploration expenditure	1,466,203	473,923
Change in estimate of rehabilitation assets	(131,699)	49,789
Transfer to production phase	(2,524,310)	–
Adjustment resulting from reorganisation	(506,547)	–
Impairment losses	(767,914)	(1,786,964)
Reversal of prior impairment losses	3,263,661	–
Carrying amount at end of period	9,182,411	8,383,017

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.

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU; in particular a valuation on Sant' Alberto, Selva and Teodorico was calculated by CGG Services (UK) Limited ("CGG report" for the purposes of the Admission Document used by Saffron Energy Plc for the proposed acquisition of two entities and the readmission of Saffron to AIM of the enlarged group.

As a result of this assessment, the recoverable value of Sant' Alberto at 31 December 2017 was €2.0million resulting in an impairment of €767,914 being recognised in respect of this field.

The recoverable value, as determined by the CGG report, of Selva and Teodorico was €5.3million and €17.9million respectively. The carrying value at these assets was significantly lower at €2.12million and €1.24million respectively. To account for the significant Reserve and Resource upgrade the Board have determined it appropriate to reverse prior period impairment losses of €3,263,661.

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	Consolidated 2017 €	Consolidated 2016 €
Production Phase		
Carrying amount at beginning of period	599,173	5,521,279
Additions	782,529	257,573
Transfer from exploration phase	2,524,310	–
Change in estimate of rehabilitation assets	(86,106)	46,504
Amortisation of producing assets	(136,472)	(610,968)
Impairment losses	(3,524,044)	(4,615,215)
Carrying amount at end of period	159,390	599,173

The Group assessed each asset or cash generating unit (CGU) for the year ended 31 December 2017 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, Bezzecca production CGU was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used by Saffron Energy Plc for the proposed acquisition of two entities and the readmission of Saffron to AIM of the enlarged group.

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. Future gas production is assumed sold at Italian spot gas price, the Puntodi Soambrio Virtuale (PSV) price, unless a specifically agreed price. The PSV assumption is based on PSV forward curve for 2018 and 2019 and thereafter escalated at 2% p.a. for inflation.

2. A post-tax discount rate of 10%;

3. Variable operating expenses as projected by the Group;

4. Reserves and production volumes determined by recent Competent Persons Report

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

NOTE 14: RESOURCE PROPERTY COSTS (continued)

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.

	Consolidated	
	2017 €	2016 €
Impairment losses are reconciled as follows:		
Impairment expense		
Production phase:		
Sillaro gas field	(653,538)	(4,615,215)
Bezzecca gas field	(2,941,449)	–
Exploration and Development phase:		
Sant' Alberto licence	(767,914)	(1,495,036)
Exploration costs	(4,192)	(291,928)
Reversal of prior year impairments	3,263,661	–
Inventory of well equipment (refer note 11)	(480,767)	–
Total impairment loss	(1,584,199)	(6,402,179)

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

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

	Consolidated	
	2017 €	2016 €
Tax losses	1,970,177	1,888,687
Accrued expenses and liabilities	628,332	795,679
Recognised deferred tax assets	2,598,509	2,684,366

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	
	2017 €	2016 €
Tax losses	3,830,154	2,745,469
Deductible temporary differences	1,840,721	2,162,878
Unrecognised deferred tax assets	5,670,875	4,908,347

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

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.

Movement in recognised temporary differences during the year

Consolidated	Balance 1 January 2016 €	Profit and loss €	Equity €	Balance 31 December 2016 €	Profit and loss €	Equity €	Balance 31 December 2017 €
Tax losses	1,691,137	197,550	–	1,888,687	81,490	–	1,970,177
Accrued expenses and liabilities	325,922	469,757	–	795,679	(167,341)	–	628,332
Total recognised deferred tax asset	2,017,059	667,307	–	2,684,366	(85,851)	–	2,598,509

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated 2017 €	2016 €
Trade payables and accruals	4,555,543	1,737,740
Other payables	184,138	77,597
	4,739,681	1,815,337

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

NOTE 17: PROVISIONS

	Consolidated 2017 €	2016 €
Current:		
Employee leave entitlements	58,270	50,136
Other provisions	–	20,000
	58,270	70,136
Non Current:		
Restoration provision	4,802,873	4,961,907
Reconciliation of restoration provision:		
Opening balance	4,961,907	4,779,855
Increase in provision due to revised estimates	(217,805)	96,283
Increase in provision from unwind of discount rate	58,771	85,769
Closing balance	4,802,873	4,961,907

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.

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 2017 €	2016 €
Current liabilities		
Loans	526,892	1,406,017
	526,892	1,406,017

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
	Currency	Nominal Interest rate	Year of Maturity	Face Value €	Carrying Amount €	Face Value €	Carrying Amount €
Current liabilities							
Unsecured loans	AUD	10%	2018	526,892	526,892	1,406,017	1,406,017

The Group obtained financing through a streamlined facility provided by existing and former Directors of the Company and longstanding shareholders. The facility arrangement has a term of 12 months and an interest rate of 10%. (refer note 23 for details of related party balances).

The Group's exposure to currency, interest and liquidity risk related to interest bearing loans are disclosed in note 21.

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares			
	2017 Number	2016 Number	2017 €	2016 €
Share Capital				
Opening balance – 1 January	550,378,091	140,156,920	48,659,337	46,692,830
Shares issued during the year:				
Placement issue on 5 April 2017	9,818,182	–	192,471	–
Settlement of short terms loans by issue of shares on 5 April 2017	4,708,784	–	90,528	–
Placement issue on 7 June 2017	13,818,181	–	251,906	–
Settlement of short term loans by issue of shares on 7 June 2017	14,536,890	–	270,560	–
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	–	–	(2,534)	(15,795)
Closing balance – 31 December	550,378,091	550,378,091	49,462,268	48,659,337

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 (2016: 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 (2016: 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	2017 €	2016 €	2017 €	2016 €	2017 €	2016 €
External revenues	–	–	1,389,195	958,501	1,389,195	958,501
Segment (loss)/profit before tax	2,491,555	(1,786,964)	(4,059,987)	(5,079,268)	(1,568,432)	(6,866,232)
Depreciation and amortisation	–	–	(256,470)	(878,147)	(256,470)	(878,147)
Impairment on resource property costs	2,491,555	(1,786,964)	(4,075,754)	(4,615,215)	(1,584,199)	(6,402,179)
Reportable segment assets:						
Resource property costs	9,182,411	8,383,017	159,390	599,173	9,341,801	8,982,190
Plant & Equipment	–	–	2,140,611	2,325,663	2,140,611	2,325,663
Receivables	1,115,084	–	267,446	145,461	1,382,530	145,461
Inventory	–	–	252,034	732,801	252,034	732,801
Capital expenditure	1,466,203	439,620	782,528	64,283	2,248,731	503,903
Movement in rehabilitation assets	(131,699)	49,790	(86,106)	46,504	(217,805)	96,293
Reportable segment liabilities	(3,560,846)	(2,340,148)	(4,897,593)	(3,937,294)	(8,458,439)	(6,277,442)

Reconciliation of reportable segment profit or loss, assets and liabilities

	2017 €	2016 €
Profit or loss:		
Total profit/(loss) for reportable segments	(1,568,432)	(6,866,232)
Unallocated amounts:		
Net finance expense	(416,003)	(460,083)
Other corporate expenses	(2,264,757)	(2,040,039)
Consolidated loss before income tax	(4,249,192)	(9,366,354)
Assets:		
Total assets for reportable segments	13,116,976	12,186,115
Other assets	4,017,106	3,145,767
Consolidated total assets	17,134,082	15,331,882
Liabilities:		
Total liabilities for reportable segments	(8,458,439)	(6,277,442)
Other liabilities	(1,669,277)	(1,978,454)
Consolidated total liabilities	(10,127,716)	(8,256,396)

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	
	2017 €	2016 €
Variable rate instruments		
Financial assets	390,114	166,459
Financial liabilities	–	–
	390,114	166,459
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	(526,892)	(1,406,017)
	(526,892)	(1,406,017)

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 2016.

	Profit or loss		Equity	
Effect in €'s	2017	2016	2017	2016
31 December				
Variable rate instruments	1,951	832	-	-

(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.

NOTE 21: FINANCIAL INSTRUMENTS (continued)

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	
	Notes	2017 €	2016 €
Cash and cash equivalents	10	390,114	166,459
Receivables – Current	12	2,292,724	262,512
Other assets		100,031	155,956
		2,782,869	584,927

(c) Liquidity risk

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

	Consolidated					
31 December 2017 In €	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(4,739,681)	(4,739,681)	(4,739,681)	–	–	–
Secured bank loan	(526,892)	(602,083)	(602,083)	–	–	–
	(5,132,643)	(5,341,764)	(5,341,764)	–	–	–

	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)	–	–	–
Secured bank loan	(1,406,017)	(1,546,619)	(1,114,855)	(431,764)	–	–
	(3,221,354)	(3,361,956)	(2,930,192)	(431,764)	–	–

(d) Net Fair Values of financial assets and liabilities

The carrying amounts of financial assets and liabilities (excluding borrowing costs) 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 currencies giving rise to this risk is primarily Australian Dollars and Pound Sterling.

	Consolidated	
	2017 €	2016 €
Amounts receivable/(payable) in foreign currency other than functional currency:		
Cash	266,382	26,658
Current – Payables	(188,370)	(69,343)
Current – Interest bearing loans	(526,892)	–
Net Exposure	(448,880)	(42,685)

NOTE 21: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
Australian Dollar ($)	0.679	0.6768	0.651	0.6840
Pound Sterling (£)	1.142	–	1.126	–

Sensitivity Analysis

A 5 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 for 2016 was prepared using a 10 percent variable.

	Consolidated	
	Profit or loss €	Equity €
31 December 2017		
Australian Dollar to Euro (€)	(52,526)	–
Pound Sterling (£)	6,012	–
31 December 2016		
Australian Dollar to Euro (€)	(1,869)	–
Pound Sterling (£)	–	–

A 5 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.

NOTE 22: COMMITMENTS AND CONTINGENCIES

Contractual Commitments and contingencies

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 2017.

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	
	2017 €	2016 €
Short-term employee benefits	309,143	237,326
Termination benefits	–	–
Other long term benefits	–	–
Post-employment benefits	21,989	6,250
Share-based payments	57,090	14,056
	388,222	257,632

NOTE 23: RELATED PARTIES (continued)

INTEREST BEARING LOANS

During 2016 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. The new facility agreement has been reached with entities associated with Byron Pirola and Kevin Bailey (current Directors) and Graham Bradly (former director).

Related Party	Loan Amount 2017	Loan Amount 2016	Interest	Repayment Term
Beronia Investments Pty Ltd	A$236,181	A$756,518	10% p.a.	12 months
Beronia Investments Pty Ltd	A$227,238	–	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	–	A$826.873	10% p.a.	12 months
Kevin Bailey	A$227,305	–	10% p.a.	6 months
Fuiloro Pty Ltd	A$6,191	A$230,769	10% p.a.	12 months
G. Bradley	A$94,927	A$144,927	10% p.a.	12 Months

SHARE BASED PAYMENTS

The following payments for services rendered were settled by issue of shares in Saffron Energy Plc:

	No of shares '000s	Value of service €
Recognised in profit and loss and other comprehensive income:		
Sara Edmondson – bonus for completion of AIM listing	1,000	57,089
Spencer Davey – consultant to the Company	1,000	57,089
Cassiopeia – for services provided	720	41,532
	2,720	155,710
Recognised as share issue costs in equity of subsidiary:		
Broker remuneration for completion of AIM listing	1,000	57,683
Broker fees	938	42,603
	1,938	100,586

In the prior year, 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. No shares were issued to directors in 2017.

NOTE 23: RELATED PARTIES (continued)

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

	2017 €	2016 €
Financial Position		
Assets		
Current assets	17,304	45,226
Non-current assets	10,021,070	15,972,596
Total assets	10,038,374	16,017,822
Liabilities		
Current liabilities	466,249	1,267,306
Non-current liabilities	–	–
Total liabilities	466,249	1,267,306
Net Assets	9,706,055	14,750,516
Equity		
Issued capital	49,462,268	48,659,337
Accumulated losses	(39,890,143)	(33,908,821)
Total equity	9,572,125	14,750,516
Financial Performance		
Loss	(5,981,321)	(1,027,023)
Other comprehensive loss	–	–
Total Comprehensive loss	(5,942,391)	(1,027,023)

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	2017 Investment €	2016 Investment €	Holding %
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	–	6,079,441	75*
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	2,544,225	631,056	100
Saffron Energy Plc ("Saffron")	UK	Ordinary	5,227,273	60,000	54
			5,771,498	6,760,497	

*the investment in NSI was transferred to Saffron Plc during 2017.

NOTE 26: SUBSEQUENT EVENT

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 61, 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 2017 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 acting chief executive officer and chief financial officer for the financial year ended 31 December 2017.

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

Dated at Sydney this 29 March 2018.

Signed in accordance with a resolution of the Directors:

Michael Masterman

Michael Masterman
Chief Executive Officer

Byron Pirola

Byron Pirola
Non-Executive Director

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Po Valley Energy Limited
ABN: 33 087 741 571

Independent Auditor's Report to the Members of Po Valley Energy Limited and Controlled Entities

Report on the Audit of the Financial Report

We have audited the financial report of Po Valley Energy Limited (the Company) and its Controlled Entities ("the Group"), which comprises the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the year.

In our opinion:

a) the 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 2017 and of its performance for the year ended on that date; and

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

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's responsibility* 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 APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Carrying value of Resource Property Costs The Group has an exploration asset of €9.2m at 31 December 2017. 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.	Our procedures included, amongst others: • Evaluating the Group's assessment of the carrying value of exploration and evaluation assets. • We have considered the Group's right to explore in the relevant exploration area.
Carrying value of production assets The Group has an exploration asset of €2.2m at 31 December 2017. The asset may be impaired.	Our procedures included, amongst others: • We evaluated the Group's assessment of the carrying value of the production asset. • We considered whether any indicators of impairment were present. • We assessed the Group's future cash flow forecasts included in the value in use impairment model.
Valuation of site rehabilitation provision At 31 December 2017 the Group has a rehabilitation provision of €4.8m. There is the risk that the value of this provision is misstated.	Our procedures included, amongst others: • Verified its mathematical accuracy. • Verified estimates to supporting documents where possible. • Challenged the estimate made. • Ensured all required rehabilitation obligations were included therein. • Ensured that appropriate disclosures were made.

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Key audit matter	How our audit addressed the key audit matter
Income taxes – recoverability of deferred tax assets At 31 December 2017 the Group has deferred tax assets relating to deductible temporary differences and carry forward tax losses of €2.6m.	Our procedures included, amongst others: • We have performed audit procedures to evaluate and test 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 considered the recoverability of the deferred tax assets by considering the likelihood of sufficient estimated future taxable income being generated.
Going Concern The Group has incurred a loss of €4.3m and net operating cash outflows of €2.4m for the year ended 31 December 2017.	Our procedures included, amongst others: • We have obtained the current cash flow forecasts and budgets and discussed the assumptions with management. • We have examined and reviewed the agreement to sell two onshore Italian oil exploration licences. • We have reviewed the disclosure in Note 1.2 for consistency with management's forecasts and assertions.

Other Information

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 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial statements 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 statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on 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.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as directors determine is necessary to enable the preparation of the financial report that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standards AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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 the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism 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 Group's internal control.

- 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 financial report represents 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 an 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, amongst 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 matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 7 to 12 of the Directors' Report for the year ended 31 December 2017.

In our opinion the remuneration report of Po Valley Energy Limited for the year ended 31 December 2017 complies with s300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s300A 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.

Bentleys NSW Audit Pty Ltd

Bentleys NSW Audit Pty Ltd

Robert Evett
Director
Sydney

29 March 2018

SHAREHOLDER INFORMATION (AS AT 5 APRIL 2018)

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. In accordance with the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the 2018 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: www.povalley.com. The Corporate Governance Statement sets out the extent to which Po Valley Energy Limited has followed the ASX Corporate Governance Council's 29 Recommendations during the 2017 financial year.

2. 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:

Fully paid Ordinary Shares

Name	Number	%
Michael Masterman	156,692,994	26.41
Kevin Bailey	132,728,169	22.37
Beronia Investments Pty Ltd	59,494,135	10.03
Supervised Investments Australia Limited	42,227,073	7.12
Greenvale Asia Limited	32,328,759	6.20

3. Number of security holders and securities on issue

Po Valley Energy Limited has issued the following securities 593,260,128 fully paid ordinary shares held by 424 shareholders.

4. Voting rights

Ordinary shares

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote.

5. Distribution of security holders

Quoted securities

	Fully paid Ordinary shares		
Category	Holders	Shares	%
1 – 1,000	81	7,797	0.00
1,001 – 5,000	20	50,412	0.01
5,001 – 10,000	33	268,389	0.05
10,001 – 100,000	156	6,854,650	1.16
100,001 and over	134	586,078,880	98.79
Total	424	593,260,128	100

6. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 150 based on the Po Valley Energy Limited closing share price of $0.04, on 5 April 2018.

SHAREHOLDER INFORMATION (AS AT 5 APRIL 2018)

CONTINUED

7. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

	Name	No. of shares	%
1	MICHAEL MASTERMAN	86,234,079	14.54
2	MR KEVIN BAILEY & MRS GRACE BAILEY	73,547,636	12.40
3	SYMMALL PTY LTD	67,167,262	11.32
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	37,918,444	6.39
5	BERNE NO 132 NOMINEES PTY LTD	32,595,000	5.49
6	QUO VADIS PTY LTD	30,799,806	5.19
7	FUILORO PTY LTD	22,680,727	3.82
8	P & N DAIRIES PTY LTD	21,820,038	3.68
9	MR LAURIE MARK MACRI	20,175,000	3.40
10	BERONIA INVESTMENTS PTY LTD	19,809,126	3.34
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,806,748	3.00
12	BERONIA INVESTMENTS PTY LTD	17,487,461	2.95
13	BERONIA INVESTMENTS PTY LTD	9,716,708	1.64
14	MR CHRIS CARR & MRS BETSY CARR	9,000,000	1.52
15	MR GRAHAM JOHN BRADLEY	8,857,965	1.49
16	HENDERSON INTERNATIONAL PTY LIMITED	6,415,500	1.08
17	BERONIA FS PTY LTD	5,880,000	0.99
18	BERONIA FS PTY LTD	5,600,840	0.94
19	TUCABIA HOLDINGS PTY LTD	4,826,046	0.81
20	DONUS AUSTRALIA FOUNDATION LIMITED	4,250,000	0.72

8. On market buy-back

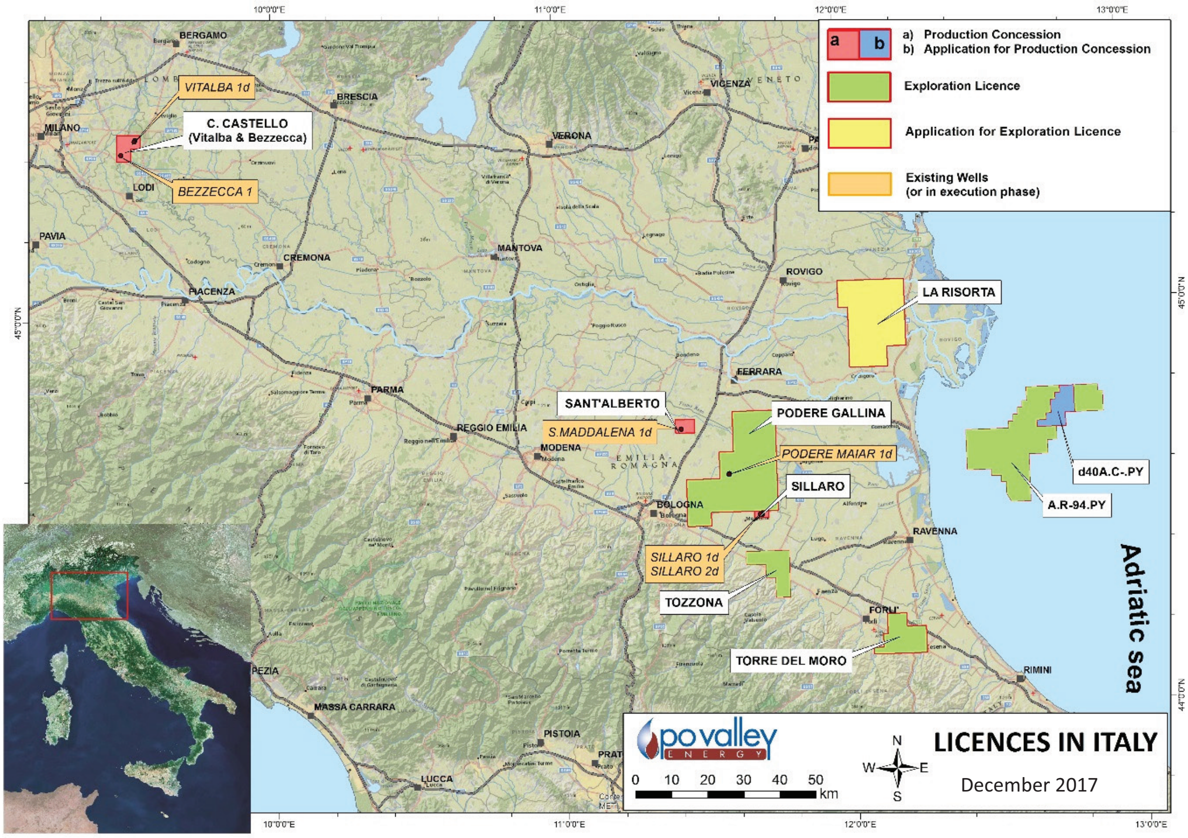
There is no current on market buy-back.

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 2017 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 km^2. For an illustration of each asset's location please refer to the map and table below. As at 31 December 2017 all tenements are 100% owned with exception of the production concession Cascina Castello – which includes Bezzecca gas field (90%), Cadelbosco (85%) exploration permit and Podere Gallina permit (63%).

The Farm-in 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. In 2017 the Company farmed out the whole Cadelbosco/Grattasasso permits to Delta Energy. To complete the sale, the Ministry has to release the final approval on the transfer of ownership between the companies. In addition, the Company successfully concluded another farm-in with United Oil & Gas (20%) and Prospex Oil & Gas (17%) in the Podere Gallina licence (promotion on the Podere Maiar 1 well).



TECHNICAL SUMMARY

CONTINUED

		Tenement	Location	Interest held for 2017*
PROD. CONCESSION	GRANTED	***Sillaro***	Italy, Emilia Romagna, *Bologna*	**100% Northsun Italia**
		Vitalba (Cascina Castello)	Italy, Lombardia *Cremona*	**90% Northsun Italia**
		Bezzecca (Cascina Castello)	Italy, Lombardia *Lodi*	**90% Northsun Italia**
		Sant'Alberto	Italy, Emilia Romagna, *Bologna*	**100% Northsun Italia**
	PREL. AWARDED	***Teodorico (d.40.AC-PY)***	Italy, Adriatic Offshore	**100% Po Valley**

EXPL. PERMITS	GRANTED	***AR94PY***	Italy, Adriatic Offshore	**100% Po Valley**
		Cadelbosco di Sopra	Italy, Emilia Romagna	**Sold to Delta Energy****
		Grattasasso	Italy, Emilia Romagna	**Sold to Delta Energy****
		Podere Gallina	Italy, Emilia Romagna	**63% Po Valley**
		Tozzona	Italy, Emilia Romagna	**100% Northsun Italia**
		Torre del Moro	Italy, Emilia Romagna &	**100% Po Valley**
	PREL AWARDED	***La Risorta***	Italy, Emilia Romagna &	**100%**

* as at 31 December 2017
** Sale still under finalisation – waiting for final Ministry approval

2) RESERVES & RESOURCES

The following table summarises the status of the Company's Reserves & Resources as at 31 December 2017.

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 2017 whilst the other gas and two oil discoveries (Bagnolo and Ravizza) 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. For the remaining fields 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. The Podere Gallina Selva Stratigraphic resources remain classified as Contingent Resources notwithstanding the successful testing of the Podere Maiar 1 well (drilled from November and December 2017). These are currently under review following the recent drilling and flow test and will be upgraded from Contingent Resources to Reserves when the preliminary production concession will be granted.

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	2.6	0.6	1.1	1.5			
Cascina Castello	Vitalba	/	/	/						
	West Vitalba Quaternary [Net]							1.3	2.0	2.8
	West Vitalba Pliocene [Net]							1.4	2.2	2.9
Cascina Castello ext	Bezzecca [Net]	1.2	2.3	3.3	1.8	2.5	3.2			
Sant'Alberto	Santa Maddalena	1.6	2.1	2.8						
AR94PY	Teodorico outside 12miles	26.7	36.5	47.5						
	Teodorico Inside 12 miles				7.4	10.6	13.9			
	PL3-C							7.9	15.9	25.0
Cadelbosco* di Sopra [Net]	Zini (Qu-B)				0.9	2.3	3.9			
	Canolo (Qu-A)				0.6	0.9	1.4			
	Canolo (Plioc)				0.3	3.1	8.9			
	Zini (Qu-A)								1.2	
Podere Gallina [Net]	Selva Strat. (Podere Maiar1)				7.2	10.7	14.5			
	Cembalina							1.32	2.08	2.96
	Fondo Perino							6.42	9.20	12.92
	East Selva [Net]							18.33	21.93	25.58
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

* Cadelbosco/Grattasasso farmed out to Delta Energy. To complete the sale, the Ministry has to release the final approval on the transfer of ownership between the companies

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 2017		Reserves as at 31 December 2016	
Gas, Italy (bcf)	**1P**	**2P**	**1P**	**2P**
Developed (Sillaro Pliocene +Bezzecca)	0.02	0.055	0.5	1.2
Undeveloped (Sillaro Miocene + Bezzecca [net]+ Sant'Alberto)	3.12	10.30		
Teodorico	26.70	36.50	4.2	7.5
Total Reserves	29.85	46.85	4.7	8.7

The variation in Undeveloped Reserves (1P and 2P) primarily reflects the preliminary award of the offshore Teodorico exploitation concession. In addition, during the second half of 2017, early water arrival in the major R completion on Bezzecca-1 led to a significant reduction in production and in the estimate of remaining reserves as compared to the estimates originally published in the IPO Admission document dated 24 February 2017. Following the preparation of the Competent Persons Report for the Re-Admission Document released on 15 February 2018, the Company announced the 1P and 2P reserve estimates for Bezzecca would be reduced compared to the original volumes and were specifically 33.9 and 65.7 MMscm [net] respectively.

TECHNICAL SUMMARY

CONTINUED

A rig-less intervention to seal off water production from the bottom most perforations of level R was carried out at approximately the same time the revised Competent Persons Report was being prepared. The outcome of that rigless operation was positive and since January 2018, the Bezzecca field has been producing at an average of 15,000 standard cubic metres/day (circa 424,500 cubic feet per day) with limited associated water production. This production, both in terms of daily rates and quantum, is above the estimations indicated in the revised Competent Persons report. On the basis that these rates continue for a reasonable period, the Board will consider commissioning a new competent persons report for the Bezzecca field. In accordance with IFRS the Board has impaired the carrying value of the Bezzecca field at 31 December 2017 to reflect the fair value at that date.

Production from the Bezzecca and Sillaro fields in 2017 was 0.246 bcf (7.13 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.

We further confirmed that the Sillaro-1 sidetrack project originally announced in January 2015 remains valid and would optimise 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.

As regards Vitalba, the ealier attempt to restart production was unsuccessful and a study will be undertaken in order to evaluate any remaining potential.

In regards to the future development of the Undeveloped Reserves the Company confirms that Sillaro Miocene, Bezzecca, and Sant'Alberto Reserves have been classified as Undeveloped under the SPE-PRMS definition as they are expected to be recovered through future investments.

As regards the Sant'Alberto gas field, the Company awarded a full production concession in Q4 of 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 being the 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 2017 for Sillaro, Bezzecca and Sant'Alberto.

* The gas produced at Bezzecca is treated into the Vitalba plant before being injected in the SNAM gridline

Company Contingent Resources

	Contingent Resources as at 31 December 2017		Contingent Resources as at 31 December 2016	
	1C	2C	1C	2C
Gas (bcf)	49.3	73.1	48.2	74.9
Oil (MMbbls)	5.9	10.0	5.9	10.0

As per Bezzecca, 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 72 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 estimated using a deterministic method.

January 2018, Podere Maiar1 - Flow test

January 2018, Podere Maiar1 - Flow test

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