PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

PO VALLEY ENERGY LIMITED

DIRECTORS' REPORT

The Directors present their report together with the interim financial report for the half-year ended 30 June 2015 and the review report thereon.

Directors

The directors of Po Valley Energy Limited ("the Company") during and at the end of the half-year are:

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

Company Secretary

Lisa Jones	21 October 2009

Principal Activities

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

- 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

Review and results of operations

Operating Results

The net loss of the Company after income tax amounted to €1,289,716 for the half-year ended 30 June 2015 (6 months 2014: €544,743).

Operating Review

<u>Production Assets</u>

Combined production from both Sillaro and Castello gas fields for the first six months of 2015 amounted to 3.7 million standard cubic metres of gas (circa 131 million standard cubic feet). Production in 2014 was 18.6 million standard cubic metres.

Production from the Sillaro field for the half year 2015 was 3.3 million standard cubic metres (circa 116 million standard cubic feet). In the first 6 months of 2014 Sillaro production amounted to 10.1 million standard cubic metres. Lower production in the first half of 2015 compared to the previous year (2014 Sillaro production was 17.6 million standard cubic metres) is due to lower gas flow rates resulting from the natural depletion of some levels at year-end 2014. During the first three months of 2015, the Company carried out several production optimisation interventions allowing improved recovery of the current producing levels. In June production rates were brought back to approximately 33,000 scm/day. As announced during the year, the Company has defined a development plan for the field that envisages the re-completion of Sillaro-2 and the re-drill (sidetrack) of Sillaro-1 in order to maximize recovery of residual reserves not currently accessible from the existing completion scheme and the deepening of the Sillaro-1 well to intersect the Miocene reservoir which lies directly below.

Production from the Castello field for the half year 2015 was 0.4 million standard cubic meters (circa 18 million standard cubic feet) and was in line with production volumes achieved the previous year. In 2014 Castello annual production was 0.98 million standard cubic metres.

Development Assets

During the first six months, the technical team completed work on the Teodorico (AR94PY) production concession application based on the preliminary Front-End Engineering and Design (FEED) study and related development plan finalized in 2014.

The Environmental Impact Assessment for the gas field Sant'Alberto progressed smoothly during the first six months of the year. A preliminary production concession was awarded for this field in summer 2014. The field development envisions a small modular plant and a connection to the nearby national grid. The Company expects the assessment to be completed in the near future. A preliminary production concession was also received for the gas field Gradizza in November 2014 and the Environmental Impact Study was filed with the Ministry of Environment, necessary to start the Assessment, in June 2015.

Exploration Assets

In June 2015, the Company completed the reprocessing of 125km2 2D seismic for the gas field Selva. Interpretation of the reprocessed seismic will commence in house in July 2015. In April 2015 the Company was awarded the preliminary exploration license for Zanza, an area adjacent to the La Prospera License (Gradizza gas discovery).

Corporate Activities

The Company's borrowings under the Reserve Based Lending (RBL) facility held with Nedbank stood at €3.0 million at June 2015. During the month of July a repayment of €274,926 was made and consequently the outstanding balance at the date of this report is €2.77 million.

The Company successfully raised €872,906 (AU$1,242,000) through a private placement at $7 cents per share to new and existing non-director shareholders. The funds will be used for general working capital purposes and to further develop the Company's asset portfolio.

Half year revenue from gas production totalled €989,077. This was approximately 66% lower compared to the same period last year. This reduction in revenue was due to lower production from the Sillaro field. Earnings before interest, tax, depreciation, amortisation (EBITDA) and impairment amounted to a loss of €372,782 compared to a profit of €824,451 at 30 June 2014. The reduction in EBITDA was driven by the decline in revenue.

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

EBITDA reconciliation table (in Euro)	**30 June 2015**	**30 June 2014**
EBITDA	(372,782)	824,451
Depreciation and amortisation expense	(585,977)	(950,525)
Depreciation expense	(6,726)	(6,884)
Impairment losses	(287,918)	
Finance expense	(279,441)	(308,246)
Foreign exchange differences	(19,873)	(5,627)
Income tax benefit / (expense)	263,001	(97,912)
Net loss from operating activities	**(1,289,716)**	**(544,743)**

The Company made a net loss for the half year of €1,289,716 (2014: €544,743).

Health and Safety

The Company places a high importance on its commitment to Health, Safety and the Environment (HS&E). PVE ensures that the various stages of business activities from initial planning to carrying-out daily operational procedures are designed and performed with the implemented HS&E safety systems in mind. A total of 10,735 man- hours worked both on-site and within the administrative office with no incidents or near misses to report is testament to the importance and effectiveness the internal HS&E management systems. PVE is committed to maintaining environmental sustainability and health and safety in the workplace as they are an integral part of our business strategy and corporate citizenship.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors' report for the half-year ended 30 June 2015.

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

Graham Bradley
Chairman

August 4th , 2015
Sydney, NSW Australia

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

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

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

In relation to our review of the financial report of Po Valley Energy Limited for the half-year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
Perth
6 August 2015

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PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	NOTES	30 June 2015 €	31 December 2014 €
Current Assets			
Cash and cash equivalents		815,083	1,579,585
Trade and other receivables	**7**	1,448,767	1,086,118
Total current assets		**2,263,850**	**2,665,703**
Non-Current Assets			
Inventory		783,669	783,669
Other assets		30,378	30,378
Deferred tax assets	**8**	2,511,493	2,316,267
Property, plant & equipment	**9**	2,868,856	3,033,821
Resource property costs	**10**	21,214,272	19,781,635
Total non-current assets		**27,408,668**	**25,945,770**
Total assets		**29,672,518**	**28,611,473**
Liability and equity			
Current Liabilities			
Trade and other payables		1,631,894	1,698,845
Provisions	**12**	134,158	179,714
Interest bearing loans	**13**	3,032,874	2,968,858
Total current liabilities		**4,798,926**	**4,847,417**
Non-Current Liabilities			
Provisions	**12**	5,694,450	4,168,104
Total non-current liabilities		**5,694,450**	**4,168,104**
Total Liabilities		**10,493,376**	**9,015,521**
Net assets		**19,179,142**	**19,595,952**
Equity			
Issued capital	**14**	46,692,830	45,819,924
Reserves		1,192,269	1,192,269
Accumulated losses		(28,705,957)	(27,416,241)
Total equity		**19,179,142**	**19,595,952**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	NOTE	30 June 2015 €	30 June 2014 €
Revenue		989,077	2,910,655
Operating costs		(348,126)	(666,312)
Depreciation and amortisation expense	**3**	(585,977)	(950,525)
Gross profit		54,974	1,293,818
Other income		18,730	70,741
Employee benefits - corporate	**2**	(599,693)	(915,701)
Depreciation expense	**3**	(6,726)	(6,884)
Corporate overheads	**4**	(432,770)	(572,615)
Impairment	**10**	(287,918)	-
Exploration costs expensed		-	(2,580)
Loss from operating activities		(1,253,403)	(133,221)
Finance income		446	263
Finance expense		(299,760)	(313,873)
Net finance expense		(299,314)	(313,610)
Loss before income tax expense		(1,552,717)	(446,831)
Income tax (expense) / benefit	**5**	263,001	(97,912)
Loss for the period		(1,289,716)	(544,743)
Other comprehensive income		-	-
Total comprehensive loss for the period		(1,289,716)	(544,743)
Loss attributable to:			
Owners of the Company		(1,289,716)	(544,743)
Loss for the period		(1,289,716)	(544,743)
Total comprehensive loss attributable to:			
Owners of the Company		(1,289,716)	(544,743)
Total comprehensive loss for the period		(1,289,716)	(544,743)
Basic and diluted loss per share (€)	**6**	**(1.03) cents**	**(0.45) cents**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Attributable to equity holders of the Company			
In Euro's	**Share capital**	**Translation Reserve**	**Accumulated Losses**	**Total**
Balance at 1 January 2014	**45,819,924**	**1,192,269**	**(26,153,879)**	**20,858,314**
Total comprehensive loss for the period:				
Loss for the period	-	-	(544,743)	(544,743)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(544,743)	(544,743)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners	-	-	-	-
Balance at 30 June 2014	**45,819,924**	**1,192,269**	**(26,698,622)**	**20,313,571**
Balance at 1 January 2015	**45,819,924**	**1,192,269**	**(27,416,241)**	**19,595,952**
Total comprehensive loss for the period:				
Loss for the period	-	-	(1,289,716)	(1,289,716)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,289,716)	(1,289,716)
Transactions with owners recorded directly in equity:				
Contributions by owners	872,906	-	-	872,906
Balance at 30 June 2015	**46,692,830**	**1,192,269**	**(28,705,957)**	**19,179,142**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	30 June 2015 €	30 June 2014 €
Cash flows from operating activities		
Receipts from customers	909,385	3,598,761
Payments to suppliers and employees	(1,590,959)	(2,400,849)
Interest received	446	263
Interest paid	(123,264)	(154,591)
Income tax paid	-	-
Net cash generated from operating activities	(804,392)	1,043,584
Cash flows from investing activities		
Payments for non-producing property plant and equipment	(1,015)	(3,540)
Receipts for resource property costs from joint operations partners	30,817	163,951
Payments for resource property costs and production plant and equipment	(492,808)	(1,691,137)
Net cash used in investing activities	(463,006)	(1,530,726)
Cash flows from financing activities		
Proceed from issues of shares	872,906	-
Deposit for borrowing repayments	(370,010)	-
Net cash generated from financing activities	502,896	-
Net decrease in cash and cash equivalents	(764,502)	(487,142)
Cash and cash equivalents at 1 January	1,579,585	1,528,633
Cash and cash equivalents at 30 June	815,083	1,041,491

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Po Valley Energy Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 31 December 2014 is available upon request from the Company's registered office at Suite 8, 7 The Esplanade, Mt. Pleasant WA 6153 or at www.povalley.com.

1.2 BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The interim financial report is a condensed general purpose financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2014. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2014 and with any public announcements made by PO Valley Energy Limited during the half-year ended 30 June 2015.

The consolidated interim financial report was approved by the Board of Directors on August 4th, 2015.

(b) BASIS OF MEASUREMENT

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

(c) GOING CONCERN

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

For the half-year ended 30 June 2015 the Group has incurred a consolidated loss of €1,289,716 (December 2014 €1,262,362) and generated net operating cash outflows of € 804,392 (December 2014 inflow of €1,945,071) and net investing cash outflows of €463,006 (December 2014 outflow of €1,800,709). As at 30 June 2015 the Group had € 815,083 (December 2014 1,579,585) in cash and net current liabilities of €2,535,076 (December 2014 2,181,714).

The Group's forecast cashflow requirements for the 12 months ending 31 August 2016 reflects outflows from operating and investing activities in excess of its available cash resources at 30 June 2015. These requirements reflect a combination of committed and uncommitted but current planned expenditure in relation to the fields of Sillaro and Bezzecca.

The Directors are currently reviewing a range of funding options which may include the further issue of new equity, reserve based debt, convertible debt, sale of operating or non-operating interests in assets or a combination of these and other funding instruments and options. Furthermore the Company is currently discussing a reconfiguration of the financing facility with NedBank Limited pending the finalisation of financing options. While the additional funding is expected to be finalised within the short term there is no certainty that it will be completed as anticipated.

The Directors are confident of being able to raise the required funding, but note that it has not been secured at the date of this report. Should the Group not achieve the additional funding required, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

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

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

Impairment of non-current assets

The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the Cash Generating Unit 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 discount rate used for impairment purposes is 11% and inflation rate used is 2% per annum (the same rates were used in December 2014).

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 statement of financial position by adjusting both the restoration and rehabilitation asset and provision

Reserve estimates

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

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognized 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 recognized 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 accounting policies applied by the Group in the consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014.

All new and amended Accounting Standards and interpretations effective from 1 January 2015 below listed have been adopted:

- AASB 2014-1 Part A Annual Improvements 2010-2012 Cycle
- AASB 2014-1 Part A Annual Improvements 2011-2013 Cycle

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

NOTE 2: EMPLOYEE BENEFITS - CORPORATE

Employee expenses are made up of Salaries and Wages for the Company personnel of €544,693 (€805,998 at June 2014) and Directors remuneration of €55,000 (€110,703 at June 2014). The reduction in personnel costs is mainly due to the reduction of the headcount as a result of a reorganizational effort carried out by the Company during the last 12 months.

NOTE 3: DEPRECIATION AND AMORTIZATION

	30 June 2015 €	30 June 2014 €
Sillaro:		
Depreciation of production Plant & Equipment	(150,778)	(249,445)
Amortisation of Resource Property Costs	(426,723)	(692,460)
Castello:		
Depreciation of production Plant & Equipment	(8,476)	(8,620)
Corporate:		
Other fixed assets	(6,726)	(6,884)
Total Depreciation and Amortization	**(592,703)**	**(957,409)**

The reduction of depreciation for the Production, Plant and Equipment (PPE) costs of Sillaro is the result of the decrease in production in the first 6 months of 2015 when compared to the same period of 2014.

NOTE 4: CORPORATE OVERHEAD

Corporate overheads in the first six months of 2015 were €432,770 as compared to €572,615 in June 2014. The savings in corporate overheads, €139,845 or 24% if compared to June 2014 data, are the result of Management effort in reducing general and administrative costs.
The cost saving effort is continuing in 2015.

NOTE 5: INCOME TAX EXPENSE

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

	30 June 2015 €	30 June 2014 €
Loss for the year before tax	(1,552,717)	(446,831)
Income tax benefit using the Company's domestic tax rate of 30 % (2014: 30%)	(465,815)	(134,048)
Effect of tax rates in foreign jurisdictions	17,867	(7,224)
Current year losses and temporary differences for which no deferred tax asset was recognised	70,003	44,149
Changes in temporary differences	(65,570)	(20,613)
Utilisation of tax losses	-	(14,076)
Tax effect of regional taxes in Italy – current	-	53,181
Other non-deductible expenses	180,514	155,930
Income tax expense / (benefit)	(263,001)	97,912

The difference in the income tax expense between the first 6 months of 2015 if compared to the same period in 2014 is mainly driven by the decrease in earnings driven by the production reduction in the first 6 months of 2015 if compared to the previous year first six months.

NOTE 6: EARNINGS PER SHARE

	30 June 2015	30 June 2014
Basic loss per share (€ cents)	(1.03)	(0.45)
Diluted loss per share (€ cents)	(1.03)	(0.45)

The calculation of basic loss per share was based on the loss attributable to shareholders of €1,298,716 (6 months 2014 Loss: €544,743) and a weighted average number of ordinary shares outstanding during the half year of 125,060,788 (2014: 122,414,063).

NOTE 7: TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
	€	€
Trade receivables from gas sales customers	219,670	443,211
Accrued gas sales	264,683	-
Receivable from JV partners	40,826	-
Deposit on Security for interest and loan payments	572,495	202,485
Indirect taxes receivable	252,786	308,999
Other receivables	98,307	131,423
Trade and other receivables	**1,448,767**	**1,086,118**

Trade receivables from gas sales customers and accrued gas sales at June 30, 2015 refer to the production of the months of May (€219,670) and June (€264,683), as per sale agreement with Shell production is invoiced within 10 days from the last day of the production month and paid in 30 days. The amount of outstanding receivables €219,670 at June 2015 decreased if compared to December 2014 (€443,211) as a result of the decrease in production volumes.

The indirect taxes relate to Italian Value Added Tax (“VAT”), which is typically 22% of invoiced amounts (with certain exceptions). The extent of VAT that has not been recovered from the Italian authorities is recognised on the balance sheet as a receivable. Po Valley expects to recover this receivable reducing the Group’s obligation to pay employee taxes to the authorities and/or applying for an annual refund (capped at the lowest amount of VAT credits generated in any of the past 3 years). The current portion receivable is estimated to be recoverable in the next twelve months.

The increase in Deposit on Security for interest and loan payments is due to the transfer of €355,590 on the DSRA account in January 2015 as a result of the December Borrowing Base redetermination of the Nedbank facility as described in the Subsequent Event note of the December 2014 Financial Statements.

NOTE 8: DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of tax losses and temporary differences based on management assessment that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax assets amounting to €2,511,493 (December 2014: €2,316,267) have been recognised in relation to Italian subsidiaries available tax losses and temporary differences.

NOTE 9: PROPERTY, PLANT & EQUIPMENT

	30 June 2015 €	31 December 2014 €
Office Furniture & Equipment:		
At cost	201,687	200,672
Accumulated depreciation	(177,551)	(170,825)
	24,136	29,847
Gas producing plant and equipment		
At cost	8,483,197	8,483,197
Accumulated depreciation	(5,638,477)	(5,479,223)
	2,844,720	3,003,974
	2,868,856	3,033,821

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

Office Furniture & Equipment:		
Carrying amount at beginning of period	29,847	43,098
Additions	1,015	540
Disposals	-	-
Depreciation expense	(6,726)	(13,791)
Carrying amount at end of period	24,136	29,847
Gas Producing plant and equipment:		
Carrying amount at beginning of period	3,003,974	3,529,067
Additions	-	80,446
Depreciation expense	(159,254)	(605,539)
Carrying amount at end of period	2,844,720	3,003,974
	2,868,856	3,033,821

NOTE 10: RESOURCE PROPERTY COSTS

	30 June 2015 €	31 December 2014 €
Resource Property costs		
Exploration Phase	12,732,329	11,624,796
Production Phase	8,481,943	8,156,839
	21,214,272	19,781,635

Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of period	11,624,796	10,060,661
Exploration expenditure	370,977	1,584,315
Change in estimate of rehabilitation assets[1]	736,556	-
Exploration expenditure written off	-	(20,180)
Carrying amount at end of period	12,732,329	11,624,796

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

Production Phase	30 June 2015 €	31 December 2014 €
Carrying amount at beginning of period	8,156,839	9,811,589
Additions	342,564	4,112
Reclassified to Property plant & equipment (Gas producing assets)	-	-
Change in estimate of rehabilitation assets[1]	697,181	-
Amortisation of producing assets	(426,723)	(1,658,862)
Impairment loss	(287,918)	-
Carrying amount at end of period	8,481,943	8,156,839

The impairment loss relates to Castello. This loss emerged in the first half of 2015 as a result of the change in the discount rate used for the actualization of the field related rehabilitation provision. The increase in the rehabilitation provision resulted in an increase in the related asset which was considered not recoverable given that the asset was already written down to € 0.1 million at 31 December 2013. The resulting asset recognised was therefore immediately impaired.

[1] The rate used in previous estimations of the rehab provision (10 years Italian bond yield) was 4.7% while at June 30 2015 the rate used was 1.9%, this change is due to the decrease in the Government Bond rates. This restatement increased the provision and the assets by €1,433,737 for all resource property costs; of which €287,918 relates to the Castello field.

NOTE 11: 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.

	Exploration		Development and Production		Total	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014	30 June 2015	30 June 2014
	€	€	€	€	€	€
External revenues	-	-	989,077	2,910,655	989,077	2,910,655
Segment profit before tax	-	(2,580)	(232,944)	1,293,818	(232,944)	1,291,238
Depreciation and amortisation	-	-	(873,895)	(950,525)	(873,895)	(950,525)
Impairment on resource property costs	-	(2,580)	-	-	-	(2,580)
	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014
	€	€	€	€	€	€
Reportable segment assets:						
Resource property costs	12,732,329	11,624,796	8,481,943	8,156,839	21,214,272	19,781,635
Plant & Equipment	-	-	2,844,720	3,003,974	2,844,720	3,003,974
Receivables	40,826	-	484,353	443,221	525,179	443,221
Inventory	-	-	783,669	783,669	783,669	783,669
Capital expenditure	370,977	1,568,715	342,564	84,589	713,541	1,653,304
Reportable segment liabilities	(3,200,027)	(2,510,250)	(3,565,390)	(2,807,091)	(6,765,417)	(5,317,341)

NOTE 11: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	30 June 2015	30 June 2014
Profit or loss:	€	€
Total profit / (loss) for reportable segments	(232,944)	1,291,238
Unallocated amounts:		
Net finance income / (expense)	(299,314)	(313,610)
Corporate expenses	(1,020,459)	(1,424,459)
Consolidated loss before income tax	(1,552,717)	(446,831)

Assets:	**30 June 2015**	**31 December 2014**
Total assets for reportable segments	25,367,840	23,986,577
Other assets	4,304,678	4,624,896
Consolidated total assets	29,672,518	28,611,473

Liabilities:		
Total liabilities for reportable segments	(6,765,417)	(5,317,341)
Other liabilities	(3,727,959)	(3,698,180)
Consolidated total liabilities	(10,493,376)	(9,015,521)

NOTE 12: PROVISIONS

	30 June 2015	31 December 2014
	€	€
Current:		
Employee leave entitlements	74,158	119,714
Other provisions	60,000	60,000
	134,158	179,714
Non Current:		
Restoration provision	5,694,450	4,168,104
Reconciliation of restoration provision:		
Opening balance	4,168,104	3,988,825
(Decrease) / Increase in provision due to revised estimates	1,433,737	-
Increase in provision from unwind of discount rate	92,609	179,279
Closing balance	5,694,450	4,168,104

The increase in provision is driven by the change in the discount rate used for the actualization of the field (10 years Italian bond yield) related rehabilitation provision. The rate used in previous estimations of the rehab provision was 4.7% while rehabilitation provision actualization as at June 30 2015 was carried out using a rate of 1.9%, this change is due to the decrease in the Government Bond rates. This restatement increased the provision and the assets by €1,433,737.

NOTE 13: INTEREST BEARING LIABILITIES

	30 June 2015	31 December 2014
	€	€
Current liabilities		
Finance facility	3,032,874	2,968,858

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

				30 June 2015		31 December 2014	
	Currency	Nominal Interest rate	Year of maturity	Face value €	Carrying Amount €	Face value €	Carrying Amount €
Secured bank loan	Euro	Euribor + 3.75%	2018	3,406,590	3,032,874	3,406,590	2,968,858

The company has a finance facility with Nedbank Group Ltd. The facility is a Senior Secured Revolving Reducing Borrowing Base Facility. The Facility was €20 million maturing on 3 May 2018, secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd. The Borrowing Base amount is reviewed every six months (June and December) as part of the facility redetermination.

At June 30th the Company agreed a reconfiguration of the facility amending it to €3.0 million for the period July 1st, 2015 – December 31st, 2016, after which it will reduce to €2.5m for the year 2017.

Nedbank did not finalise the borrowing base ceiling limit redetermination as at 30 June 2015 due to the ongoing conversations between the Company and the bank regarding financing options. At the date of this report the Bank has not finalised the redetermination and therefore all the outstanding debt is classified as a current liability.

Interest is currently payable at Euribor plus 375 basis points.

NOTE 14: ISSUED CAPITAL

	30 June 2015 Number	31 December 2014 Number
Issued Capital		
Opening balance - 1 January / 1 July	122,414,063	122,414,063
<u>Shares issued during the year:</u>		
Shares issued at €0.049 ($0.07) each 4 June 2015	17,742,857	-
Closing balance – 30 June / 31 December	140,156,920	122,414,063

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

No dividends were paid or declared during the current period (no dividends were paid at December 2014).

NOTE 15: FINANCIAL INSTRUMENTS

Carrying amount versus fair values

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

30 June 2015	Carrying amount	Fair value
Current financial assets		
Trade and other receivables	1,448,767	1,448,767
Cash and cash equivalents	815,083	815,083
Current financial liabilities		
Trade and other payables	1,631,894	1,631,894
Interest bearing liabilities	3,032,874	3,406,590

Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2014.

Determination of fair values

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximate their fair value. The difference between fair value and carrying amount of the Interest bearing liabilities is due to €373,716 of Borrowing Costs capitalized that offset the bank debt.
The Company does not have any other financial instruments.

NOTE 16: INTEREST IN JOINT ARRANGEMENTS

The Group's interests in joint arrangements at 30 June 2015 are as follows:

Joint Operation	Manager	Group's Interest	Principal Activity (Exploration)
La Prospera	Northsun Italian S.p.A	75% (Dec 2014: 75%)	Gas
Cascina Castello	Northsun Italian S.p.A	90% (Dec 2014: 90%)	Gas

The Group's interest in assets employed in the above joint venture includes capitalised exploration phase expenditure totalling €3,308,548 (Dec 2014: €2,937,104). These amounts are included under the resource property costs (note 10).

NOTE 17: COMMITMENTS AND CONTINGENCIES

There are no material commitments or contingent liabilities not provided for in the financial statements of the Group as at 30 June 2015 (no commitments or contingencies existed at December 2014).

NOTE 18: RELATED PARTIES

There have been no new related transactions entered into since 31 December 2014.

NOTE 19: SUBSEQUENT EVENTS

During the month of July 2015 the Company paid €630,516 accounted for in the Debt Service Reserve Account. At the closing date the outstanding debt to Nedbank is €2,776,074.
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

In the opinion of the Directors of the Po Valley Energy Limited ("the Company"):

1. the condensed consolidated financial statements and notes, as set out on pages 4 to 19, are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of financial position of the Group as at 30 June 2015 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Graham Bradley
Chairman

Kevin Eley
Non-Executive Director

August 4th, 2015
Sydney, NSW, Australia

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

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

Independent review report to members of Po Valley Energy Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Po Valley Energy Limited, which comprises the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Po Valley Energy Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and

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

Emphasis of matter

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

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
6 August 2015