PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016

PO VALLEY ENERGY LIMITED

DIRECTORS' REPORT

The Directors present their report together with the interim financial report for the half-year ended 30 June 2016 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 (retired 22 April 2016)
G Short	5 July 2010 (retired 25 January 2016)
K Eley	19 June 2012 (retired 22 April 2016)
K Bailey	31 May 2016

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 €2,420,621 for the half-year ended 30 June 2016 (6 months 2015: €1,289,716).

Operating Review

Production Assets

Production for the period was entirely from the Company's Sillaro gas field as production from the Vitalba gas field was temporarily suspended in November 2015. Total Production for the first six months of 2016 amounted to 2.4 million standard cubic metres of gas (circa 83 million standard cubic feet). Combined production in 2015 for the same period was 3.7 million standard cubic metres. Lower production in the first half of 2016 compared to the previous year is due to lower gas flow rates resulting from the natural depletion of some levels at year-end 2015. During the first six months of 2016, the Company carried out several rigless interventions with the aim to increase production however these were unsuccessful due to obstructions in the casing tubing annular and the Sillaro-1 sidetrack project is now viewed to be the best option to significantly increase production rates and improve overall recovery of the field's remaining reserves. The sidetrack project also envisages 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 2016 was nil as the field was temporarily suspended in November 2015 due to delivery specification issues (i.e. dew point). Production will resume once the Bezzecca field commences production as the tie in of this field will include some minor adjustments to the gas treatment plant which on a standalone basis are not considered a commercial investment.

Development Assets

The Company has made significant steps to progress the development of the Bezzecca gas field which requires a pipeline and tie-in to existing facilities. Discussions with contractors were advanced with the aim to start pipeline construction in September. The duration of construction is highly dependent on weather conditions and is estimated to be in the order of 90 to 120 days. A short standard commissioning period would follow.

In regards to Teodorico, the Company is awaiting advice from the Ministry of Economic Development in respect of its application for a production concession. Following the re-mapping of the perimeter of the production concession area in 1Q16, the Company continued to engage with the Ministry of Economic Development chiefly to demonstrate that no changes to the original work program for the Teodorico gas field were necessary, as all planned development activity lies within the permitted area.

On the regulatory front, the Company made further steps toward the development of two key projects namely Sant'Alberto and Selva. In early July the Company received environmental approval from the Ministry of Environment for its production concession application Sant'Alberto. The Company is now waiting for the Minister of Environment to sign the EIA ("Environmental Impact Assessment") Decree and immediately thereafter the Ministry of Economic Development is able to award the production concession for the field. Once the production concession is awarded, the Company is able to file the detailed engineering of the gas treatment plant with the technical office of the Ministry (UNMIG) for review and installation of the plant can commence.

In June the Company also received environmental approval from the Emilia Romagna region for its drilling application Podere Maiar-1 (Selva). The technical team has completed the final engineering of the drilling program and is working with technical office of the Ministry (UNMIG) to review HSE compliance of the program. Meetings with various service companies and rig operators will take place in 3Q16 to advance contract documentation. Selva continues to be a major prospective development and a strategic priority for the Company.

Corporate Activities

During the first six months of 2016, the Company continued to pursue various initiatives aimed at strengthening the Company's balance sheet to enable it to focus on advancing its high-value priority projects.

In March the Company announced a renounceable 2.5 for 1 pro-rata rights issue offer to shareholders to raise approximately $1.75 million before costs. On 20 April 2016 the rights issue was successfully completed with the issue of a total of 350,392,300 new shares. Proceeds from the rights issue totalled AU$1,751,961.50 before costs.

In early May the Company announced the finalisation of the refinancing of its outstanding debt. The Company entered into shareholder loan facilities with several shareholders including directors and former directors. They are unsecured, have a term of 12 months and an interest rate of 10%. These new shareholder loan facilities provide a streamlined, flexible arrangement which is fit for purpose for a company of this size. In June and July, additional funds were drawn to cover working capital requirements and progress the development of Bezzecca. At the date of this report, total funds drawn under the shareholders loan facilities amounted to Euro 850,000.

On 22 April the Company announced the restructuring and downsizing of its Board of Directors, with the retirement of Company's long-standing Chairman, Mr. Graham Bradley along with Mr. Kevin Eley. Mr. Kevin Bailey, a substantial shareholder for several years, was appointed non-executive Director. Numerous other initiatives were undertaken to reduce the Company's overheads, the full benefit of which will become more evident in the second half of 2016.

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 2016**	**30 June 2015**
EBITDA	(907,217)	(372,336)
Depreciation and amortisation expense	(484,175)	(585,977)
Depreciation expense	(5,371)	(6,726)
Impairment losses	(607,986)	(287,918)
Exploration costs expensed	(2,171)	-
Finance expense	(361,969)	(279,887)
Foreign exchange differences	(51,732)	(19,873)
Income tax benefit / (expense)	-	263,001
Net loss from operating activities	**(2,420,621)**	**(1,289,716)**

The Company made a net loss for the half year of €2,420,621 (2015: €1,289,716).

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 14,688 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 2016.

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

Michael Masterman

Michael Masterman
Chairman

6 September 2016
Sydney, NSW Australia

Building a better working world

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

As lead auditor for the review of Po Valley Energy Limited for the half-year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst Young

Ernst & Young

Philip Teale
Partner
6 September 2016

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	NOTES	30 June 2016 €	31 December 2015 €
Current Assets			
Cash and cash equivalents		413,692	2,446,005
Trade and other receivables	**7**	441,136	649,441
Total current assets		**854,828**	**3,095,446**
Non-Current Assets			
Inventory		732,801	732,801
Other assets		23,956	30,378
Deferred tax assets	**8**	2,017,059	2,017,059
Property, plant & equipment	**9**	2,468,160	2,615,193
Resource property costs	**10**	14,460,398	15,167,548
Total non-current assets		**19,702,374**	**20,562,979**
Total assets		**20,557,202**	**23,658,425**
Liability and equity			
Current Liabilities			
Trade and other payables		2,033,073	2,382,918
Provisions	**12**	106,353	217,212
Interest bearing loans	**13**	763,634	2,467,408
Total current liabilities		**2,903,060**	**5,067,538**
Non-Current Liabilities			
Provisions	**12**	4,914,387	4,779,855
Total non-current liabilities		**4,914,387**	**4,779,855**
Total Liabilities		**7,817,447**	**9,847,393**
Equity			
Issued capital	**14**	48,042,174	46,692,830
Reserves		1,192,269	1,192,269
Accumulated losses		(36,494,688)	(34,074,067)
Total equity		**12,739,755**	**13,811,032**
Total equity and liabilities		**20,557,202**	**23,658,425**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTE	30 June 2016 €	30 June 2015 €
Revenue		503,108	989,077
Operating costs		(293,102)	(348,126)
Depreciation and amortisation expense	3	(484,175)	(585,977)
Gross profit / (loss)		(274,169)	54,974
Other income		51,378	18,730
Employee benefits - corporate	2	(643,607)	(599,693)
Depreciation expense	3	(5,371)	(6,726)
Corporate overheads	4	(525,433)	(432,770)
Impairment	10	(607,986)	(287,918)
Exploration costs expensed		(2,171)	-
Loss from operating activities		(2,007,359)	(1,253,403)
Finance income		439	446
Finance expense		(413,701)	(299,760)
Net finance expense		(413,262)	(299,314)
Loss before income tax expense		(2,420,621)	(1,552,717)
Income tax (expense) / benefit	5	-	263,001
Loss for the period		(2,420,621)	(1,289,716)
Other comprehensive income		-	-
Total comprehensive loss for the period		(2,420,621)	(1,289,716)
Loss attributable to:			
Owners of the Company		(2,420,621)	(1,289,716)
Loss for the period		(2,420,621)	(1,289,716)
Total comprehensive loss attributable to:			
Owners of the Company		(2,420,621)	(1,289,716)
Total comprehensive loss for the period		(2,420,621)	(1,289,716)
Basic and diluted loss per share (€)	**6**	**(0.87) cents**	**(1.03) 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 2016

	Attributable to equity holders of the Company			
	Share capital €	**Translation Reserve €**	**Accumulated Losses €**	**Total €**
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**
Balance at 1 January 2016	**46,692,830**	**1,192,269**	**(34,074,067)**	**13,811,032**
Total comprehensive loss for the period:				
Loss for the period	-	-	(2,420,621)	(2,420,621)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,420,621)	(2,420,621)
Transactions with owners recorded directly in equity:				
Contributions by owners	1,200,303	-	-	1,200,303
Share based payments	149,041	-	-	149,041
Balance at 30 June 2016	**48,042,174**	**1,192,269**	**(36,494,688)**	**12,739,755**

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 2016

	30 June 2016 €	30 June 2015 €
Cash flows from operating activities		
Receipts from customers	726,671	909,385
Payments to suppliers and employees	(1,756,049)	(1,590,959)
Interest received	439	446
Interest paid	(15,090)	(123,264)
Income tax paid	-	-
Net cash used in from operating activities	(1,044,029)	(804,392)
Cash flows from investing activities		
Payments for non-producing property plant and equipment	(9,308)	(1,015)
Receipts for resource property costs from joint operations partners	21,741	30,817
Payments for resource property costs and production plant and equipment	(70,447)	(492,808)
Net cash used in investing activities	(58,014)	(463,006)
Cash flows from financing activities		
Proceeds from issues of shares	1,200,303	872,906
Proceeds from borrowings	763,634	-
Repayment of borrowings	(2,776,048)	(370,010)
Payment of borrowing costs other than interest	(118,159)	-
Net cash (used in) / generated from financing activities	(930,270)	502,896
Net decrease in cash and cash equivalents	(2,032,313)	(764,502)
Cash and cash equivalents at 1 January	2,446,005	1,579,585
Cash and cash equivalents at 30 June	413,692	815,083

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 2016 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 2015 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 2015 and with any public announcements made by PO Valley Energy Limited during the half-year ended 30 June 2016.

The consolidated interim financial report was approved by the Board of Directors on 6 September 2016.

(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 2016 the Group has incurred a consolidated loss of €2,420,621 (December 2015 €6,657,826) and generated net operating cash outflows of € 1,044,029 (December 2015 outflow of €600,436) and net investing cash outflows of €58,014 (December 2015 inflow of €1,022,014). As at 30 June 2016 the Group had € 413,692 (December 2015 €2,446,005) in cash; and net current liabilities of €2,048,232 (December 2015 €1,972,092).

The Group's forecast cashflow requirements for the 12 months ending from the date of this report reflects outflows from operating and investing activities in excess of its available cash resources at 30 June 2016. These requirements reflect a combination of committed and uncommitted but current planned expenditure in relation to the Bezzecca, Sant'Alberto, Teodorico, and Selva fields.

The Directors are currently reviewing a range of funding 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.

The Directors are confident of being able to raise the required funding, as at the date of this report management is advanced in plans to raise a portion of the required funding. Should the Group not achieve the additional funding required, 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 13% (a rate of 12.7% was used in December 2015).

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 2015.

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

- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs
- AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB10 and AASB128

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 €494,566 (€544,693 at June 2015) and Directors remuneration of €149,041 by way of share based remuneration (€55,000 at June 2015). 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 2016 €	30 June 2015 €
Sillaro:		
Depreciation of production Plant & Equipment	(150,963)	(150,778)
Amortisation of Resource Property Costs	(333,206)	(426,723)
Castello:		
Depreciation of production Plant & Equipment	(6)	(8,476)
Corporate:		
Other fixed assets	(5,371)	(6,726)
Total Depreciation and Amortization	**(489,547)**	**(592,703)**

NOTE 4: CORPORATE OVERHEAD

Corporate overheads in the first six months of 2016 were €525,433 as compared to €432,770 in June 2015. The six months to June 2016 does include additional legal costs relating to restructuring of finance facilities. Management continues in its effort in reducing general and administrative costs.

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 2016 €	30 June 2015 €
Loss for the year before tax	(2,420,621)	(1,552,717)
Income tax benefit using the Company's domestic tax rate of 30 % (2015: 30%)	(726,186)	(465,815)
Effect of tax rates in foreign jurisdictions	51,473	17,867
Current year losses and temporary differences for which no deferred tax asset was recognised	362,166	70,003
Changes in temporary differences	-	(65,570)
Other non-deductible expenses	312,547	180,514
Income tax expense / (benefit)	-	(263,001)

Tax benfits have not been recognised in respect of tax losses and temporary differences for the first six months based on management assessment of future taxable profit that would be available against which the Group can utilise the benefits therefrom.

NOTE 6: EARNINGS PER SHARE

	30 June 2016	30 June 2015
Basic loss per share (€ cents)	(0.87)	(1.03)
Diluted loss per share (€ cents)	(0.87)	(1.03)

The calculation of basic loss per share was based on the loss attributable to shareholders of €2,420,621 (6 months 2015 Loss: €1,298,716) and a weighted average number of ordinary shares outstanding during the half year of 278,979,612 (2015: 125,060,788).

NOTE 7: TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	€	€
Trade receivables from gas sales customers	187,845	235,820
Accrued gas sales	-	124,268
Deposit on Security for interest and loan payments	7	7
Indirect taxes receivable	154,352	141,833
Other receivables	98,932	147,513
Trade and other receivables	**441,136**	**649,441**

Trade receivables from gas sales customers and accrued gas sales at June 30, 2016 refer to the production of the months of May and June, as per sale agreement with Shell production is invoiced within 10 days from the last day of the production month and paid in 35 days. The amount of outstanding receivables €187,845 at June 2016 decreased if compared to December 2015 (€235,820) as a result of the decrease in production volumes.

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 €2,017,059 (December 2015: €2,017,059) have been recognised in relation to Italian subsidiaries available tax losses and temporary differences.

NOTE 9: PROPERTY, PLANT & EQUIPMENT

	30 June 2016 €	31 December 2015 €
Office Furniture & Equipment:		
At cost	216,504	207,196
Accumulated depreciation	(190,216)	(184,845)
	26,288	22,351
Gas producing plant and equipment		
At cost	8,503,197	8,503,197
Accumulated depreciation	(6,061,325)	(5,910,355)
	2,441,872	2,592,842
	2,468,160	2,615,193

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

	30 June 2016 €	31 December 2015 €
Office Furniture & Equipment:		
Carrying amount at beginning of period	22,351	29,847
Additions	9,308	6,524
Depreciation expense	(5,371)	(14,020)
Carrying amount at end of period	26,288	22,351
Gas Producing plant and equipment:		
Carrying amount at beginning of period	2,592,842	3,003,974
Additions	-	20,000
Depreciation expense	(150,970)	(431,132)
Carrying amount at end of period	2,441,872	2,592,842
	2,468,160	2,615,193

NOTE 10: RESOURCE PROPERTY COSTS

	30 June 2016 €	31 December 2015 €
Resource Property costs		
Exploration Phase	9,769,524	9,646,269
Production Phase	4,690,874	5,521,279
	14,460,398	15,167,548

Reconciliation of carrying amount of resource properties

Exploration Phase		
Carrying amount at beginning of period	9,646,269	11,624,796
Exploration expenditure	73,465	669,988
Change in estimate of rehabilitation assets	49,790	(67,671)
Disposal of project	-	(2,551,990)
Exploration expenditure written off	-	(28,854)
Carrying amount at end of period	9,769,524	9,646,269

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

	30 June 2016	31 December 2015
Production Phase	€	€
Carrying amount at beginning of period	5,521,279	8,156,839
Additions	64,283	799,908
Change in estimate of rehabilitation assets	46,504	565,797
Amortisation of producing assets	(333,206)	(1,209,423)
Impairment loss	(607,986)	(2,791,842)
Carrying amount at end of period	4,690,874	5,521,279

The Company reviewed the carrying value of its assets and cash generating units using a Value in Use CGU valuation. During the half-year ended June 30, 2016, a material event took place in respect of the CGU Sillaro. Specifically, during the first 6 months of 2016, rigless interventions were carried out on the main producing field Sillaro. These interventions were unsuccessful and the company is therefore required to proceed with the sidetrack well project originally announced in January 2015. As a result, increased production from this field will be delayed to 2H 2017. The CGU discount rate calculations were also updated as at 30 June. The discount rate applied was 8.9% post tax (9.1% at 31 December 2015). As per price assumptions we used €21.1/Mwh flat for the period 2016-2019 which was increased by inflation (1% per annum) in the following years. As a result of the revised assessment, the recoverable amount of Sillaro at 30 June 2016 was €7.0 million. Considering the above an impairment of €607,986 has been recognised in the Financial Statements for the field Sillaro.

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 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	€	€	€	€	€	€
External revenues	-	-	503,108	989,077	503,108	989,077
Segment profit before tax	(2,171)	-	(882,155)	(232,944)	(884,326)	(232,944)
Depreciation and amortisation	-	-	(481,175)	(873,895)	(481,175)	(873,895)
Impairment on resource property costs	-	-	(607,986)	-	(607,986)	-
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
	€	€	€	€	€	€
Reportable segment assets:						
Resource property costs	9,769,524	9,646,269	4,690,874	5,521,279	14,460,398	15,167,548
Plant & Equipment	-	-	2,441,872	2,592,842	2,441,872	2,592,842
Receivables	23,952	-	167,893	360,088	191,845	360,088
Inventory	-	-	732801	732,801	732,801	732,081
Capital expenditure	73,465	669,988	64,283	799,908	137,748	1,469,896
Movement in rehabilitation assets	49,790	(67,691)	46,504	620,149	96,294	552,478
Reportable segment liabilities	(2,280,669)	(1,967,787)	(4,051,747)	(4,390,251)	(6,332,416)	(6,358,038)

NOTE 11: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	**30 June 2016**	**30 June 2015**
Profit or loss:	**€**	**€**
Total profit / (loss) for reportable segments	(884,326)	(232,944)
Unallocated amounts:		
Net finance income / (expense)	(413,262)	(299,314)
Corporate expenses	(1,123,033)	(1,020,459)
Consolidated loss before income tax	(2,420,621)	(1,552,717)

Assets:	**30 June 2016**	**31 December 2015**
Total assets for reportable segments	17,826,916	18,853,279
Other assets	2,730,286	4,805,146
Consolidated total assets	20,557,202	23,658,425
Liabilities:		
Total liabilities for reportable segments	(6,332,416)	(6,358,038)
Other liabilities	(1,485,031)	(3,489,355)
Consolidated total liabilities	(7,817,447)	(9,847,393)

NOTE 12: PROVISIONS

	30 June 2016	**31 December 2015**
	€	**€**
Current:		
Employee leave entitlements	46,353	91,867
Other provisions	60,000	125,345
	106,353	217,212
Non Current:		
Restoration provision	4,914,387	4,779,855
Reconciliation of restoration provision:		
Opening balance	4,779,855	4,168,104
(Decrease) / Increase in provision due to revised estimates	96,294	498,128
Increase in provision from unwind of discount rate	38,238	113,623
Closing balance	4,914,387	4,779,855

NOTE 13: INTEREST BEARING LIABILITIES

	30 June 2016	31 December 2015
	€	€
Current liabilities		
Finance facility	-	2,467,408
Loans	763,634	-
	763,634	2,467,408

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

				30 June 2016		31 December 2015	
	Currency	Nominal Interest rate	Year of maturity	Face value €	Carrying Amount €	Face value €	Carrying Amount €
Secured bank loan	Euro	Euribor + 3.75%	2016	-	-	2,776,048	2,467,408
Unsecured loans	AUD	10%	2017	763,634	763,634	-	-

During the six months to June 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 arrangement has a term of 12 months and an interest rate of 10%. The new facility provides a streamlined flexible arrangement and removes the onerous administrative and security requirement of the Nedbank reserve based lending facility.

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

NOTE 14: ISSUED CAPITAL

	30 June 2016 Number	30 June 2016 €	31 December 2015 Number	31 December 2015 €
Issued Capital				
Opening balance - 1 January / 1 July		46,692,830		45,819,924
<u>Shares issued during the year:</u>				
Shares issued pursuant to rights issue at €0.0034 ($0.005)	140,156,920	1,200,303		-
Shares issued in lieu of directors remuneration at €0.01 ($0.015)	350,392,300 14,828,871	149,041	122,414,063	-
Shares issued at €0.049 ($0.07) each 4 June 2015	-	-	17,742,857	872,906
Closing balance – 30 June / 31 December	505,378,091	48,042,174	140,156,920	46,692,830

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have no par value.
No dividends were paid or declared during the current period (no dividends were paid at December 2015).

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 2016	**Carrying amount**	**Fair value**
Current financial assets		
Trade and other receivables	441,136	441,136
Cash and cash equivalents	413,692	413,692
Current financial liabilities		
Trade and other payables	2,033,073	2,033,073
Interest bearing liabilities	763,634	763,634

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 2015.

Determination of fair values

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and interest bearing liabilities approximate their fair value.

The Company does not have any other financial instruments.

NOTE 16: INTEREST IN JOINT ARRANGEMENTS

The Group's interests in joint arrangements at 30 June 2016 are as follows:

Joint Operation	**Manager**	**Group's Interest**	**Principal Activity (Exploration)**
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 €44,619 (Dec 2015: €44,514). 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 2016 (no commitments or contingencies existed at December 2015).

NOTE 18: RELATED PARTIES

During the six months to June 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 Bryon Pirola and Kevin Baily (Directors) and Graham Bradley (former Director).

Related Party	**Loan Amount**	**Interest**	**Repayment Term**
Beronia Investments Pty Ltd	AU$ 469,618	10% p.a.	12 months
K & G Bailey as trustee for The Bailey Family Trust	AU$ 298,240	10% p.a.	12 months
G.J. Bradley	AU$ 144,927	10% p.a.	12 months

NOTE 18: RELATED PARTIES (continued)

During the six months, the following shares were issued to directors (and former directors) in lieu of directors fees at €0.01 ($0.015) per share:

Director	No. Of Shares	€
Michael Masterman	1,661,367	16,613
Byron Pirola	3,322,734	33,227
Kevin Bailey	-	-
Graham Bradley (retired 22 April 2016)	4,984,101	49,984
Kevin Eley (retired 22 April 2016)	3,322,734	33,227
Gregory Short (retired 25 January 2016)	1,537,935	15,379
Total of shares issued	14,828,871	148,289

NOTE 19: SUBSEQUENT EVENTS

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 2016 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. Subject to matters disclosed in Note 1.2c) 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.

Michael Masterman
Chairman

Byron Pirola
Non-Executive Director

6 September 2016
Sydney, NSW, Australia

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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 as at 30 June 2016, the 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 2016 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.

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 2016 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

Philip Teale
Partner
Perth
6 September 2016