

**PO VALLEY ENERGY LIMITED**

**A.B.N. 33 087 741 571**

**CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE  
SIX MONTHS ENDED 30 JUNE 2006**

# PO VALLEY ENERGY LIMITED

## DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 30 June 2006 and the review report thereon.

### Directors

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

<b>Name</b>	<b>Date of Appointment</b>
<b>Non- Executive:</b>	
G Bradley (Chairman)	30 September 2004
B Pirola	10 May 2002
D McEvoy	30 September 2004
<b>Executive:</b>	
M Masterman	22 June 1999 – Chief Executive Officer
D Greil	5 August 2005

### Principal Activities

The principal continuing activity of the group in the course of the year was the development and exploration for gas in the Po Valley region in Italy.

### Review and results of operations

#### Operating Results

The net loss of the consolidated entity after income tax amounted to \$ 1,625,455 for the half-year ended 30 June 2006 (2005: Loss \$572,026)

#### Operating Review

During the half year the Company progressed the preparation and submission of production concession applications for Sillaro, Vitalba and Santa Maddalena fields. Also during the period 8 new licence area applications were submitted, which are awaiting assessment by the Italian Hydrocarbon Commission.

#### 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 3 and forms part of the Directors' report for the half-year ended 30 June 2006.


#### Matters subsequent to balance date

The Directors have not become aware of any other matter or circumstance which may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

**PO VALLEY ENERGY LIMITED**

**DIRECTORS' REPORT (continued)**

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

A handwritten signature in black ink, appearing to read 'Graham Bradley', with a stylized flourish at the end.

Graham Bradley  
Chairman

Sydney, NSW Australia  
24<sup>th</sup> August, 2006



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of Po Valley Energy Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A stylized signature of the KPMG firm, written in a cursive script.

KPMG

A handwritten signature in cursive script, appearing to read 'B C Fullarton'.

B C FULLARTON  
*Partner*

Perth  
24 August 2006

**PO VALLEY ENERGY LIMITED**

**CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	<b>30 JUNE 2006</b>	<b>30 JUNE 2005</b>
	<b>\$</b>	<b>\$</b>
Revenue	160,641	361,533
Employee benefit expense	(539,627)	(519,420)
Borrowing costs	(496)	(14,406)
Corporate overheads	(327,444)	(399,733)
Resource property costs written off	(918,529)	-
<b>Loss before income tax expense</b>	<b>(1,625,455)</b>	<b>(572,026)</b>
Income tax expense	-	-
<b>Loss after income tax expense</b>	<b>(1,625,455)</b>	<b>(572,026)</b>
<b>Net loss attributable to members of Po Valley Energy Limited</b>	<b>(1,625,455)</b>	<b>(572,026)</b>
<b>Basic and diluted loss per share</b>	<b>1.97 cents</b>	<b>0.82 cents</b>

*The above consolidated interim income statement should be read in conjunction with the accompanying notes.*

**PO VALLEY ENERGY LIMITED**

**CONSOLIDATED INTERIM STATEMENT OF  
RECOGNISED INCOME AND EXPENSE  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	<b>30 JUNE 2006</b>	<b>30 JUNE 2005</b>
	<b>\$</b>	<b>\$</b>
Foreign exchange translation differences	1,856,002	(1,293,520)
<b>Net income recognised directly in equity</b>	1,856,002	(1,293,520)
<b>Loss for the period</b>	(1,625,455)	(572,026)
<b>Total recognised income and expense for the period</b>	230,547	(1,865,546)
<b>Attributable to:</b>		
Shareholders of the Company	230,547	(1,865,546)

*The above consolidated interim statement of recognised income and expense should be read in conjunction with the accompanying notes.*

**PO VALLEY ENERGY LIMITED**

**CONSOLIDATED INTERIM BALANCE SHEET  
AS AT 30 JUNE 2006**

	NOTES	30 JUNE 2006 \$	31 DEC 2005 \$
<b>Current Assets</b>			
Cash and cash equivalents		2,772,499	10,437,245
Trade and other receivables	6	1,455,116	1,035,392
<b>Total Current Assets</b>		<u>4,227,615</u>	<u>11,472,637</u>
<b>Non-Current Assets</b>			
Receivables	6	2,033,806	1,939,540
Plant & Equipment		538,675	494,542
Resource Property Costs	2	28,990,629	27,032,818
<b>Total Non-Current Assets</b>		<u>31,563,110</u>	<u>29,466,900</u>
<b>Total Assets</b>		<u>35,790,725</u>	<u>40,939,537</u>
<b>Current Liabilities</b>			
Payables		501,260	5,980,010
Provisions		36,454	36,454
<b>Total Current Liabilities</b>		<u>537,714</u>	<u>6,016,464</u>
<b>Total Liabilities</b>		<u>537,714</u>	<u>6,016,464</u>
<b>Net Assets</b>		<u>35,253,011</u>	<u>34,923,073</u>
<b>Equity</b>			
Issued capital		38,591,927	38,589,171
Reserves		1,329,316	(526,686)
Accumulated Losses		(4,668,232)	(3,139,412)
<b>Total Equity</b>	3	<u>35,253,011</u>	<u>34,923,073</u>

*The above consolidated interim balance sheet should be read in conjunction with the accompanying notes.*

**PO VALLEY ENERGY LIMITED**

**CONSOLIDATED INTERIM CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	<b>30 JUNE 2006</b>	<b>30 JUNE 2005</b>
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(659,084)	(497,181)
Interest received	148,379	361,034
Interest paid	(496)	(16,310)
	(511,201)	(152,457)
<b>Net cash outflow from operating activities</b>		
<b>Cash flows from investing activities</b>		
Payments for non-current assets	(14,762)	(7,842)
Payments for exploration expenditure	(6,809,169)	(4,910,159)
	(6,823,931)	(4,918,001)
<b>Net cash outflow from investing activities</b>		
<b>Cash flows from financing activities</b>		
Payments for share issue costs	(434,745)	(161,196)
Repayment of borrowings	-	(4,098)
	(434,745)	(165,294)
<b>Net cash inflow from financing activities</b>		
<b>Net decrease in cash held</b>	(7,769,877)	(5,235,752)
<b>Cash and cash equivalents at 1 January</b>	10,437,245	18,030,792
<b>Effects of exchange rate changes on cash</b>	105,131	(112,637)
	2,772,499	12,682,403
<b>Cash and cash equivalents at 30 June</b>	2,772,499	12,682,403

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



# PO VALLEY ENERGY LIMITED

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2006

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) 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 2006 comprises the Company and its subsidiaries (together referred to as the “Consolidated Entity”).

The consolidated annual financial report of the consolidated entity as at and for the year ended 31 December 2005 is available upon request from The Company’s registered office at Level 28, 140 St Georges Terrace, Perth WA 6000 or at [www.povalley.com](http://www.povalley.com).

#### (b) STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. The consolidated interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

The consolidated interim financial report does 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 consolidated entity as at and for the year ended 31 December 2005.

The consolidated interim financial report was approved by the Board of Directors on 24 August 2006.

#### (c) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the consolidated entity in the consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 31 December 2005.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**NOTE 2: RESOURCE PROPERTY COSTS**

	<b>30 June 2006</b>	<b>31 December 2005</b>
<b>Resource Property costs</b>		
Exploration Phase	28,990,629	27,032,818
Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of the reporting period	27,032,818	12,157,809
Foreign exchange difference on opening balance	1,576,931	(688,806)
Transfer from property plant & equipment	-	829,647
Exploration expenditure	1,299,409	15,479,571
Exploration expenditure written off	(918,529)	(745,403)
Carrying amount at end of the reporting period	28,990,629	27,032,818

At 30 June 2006, the directors have resolved to write down the costs in relation to the Casone della Sacca gas field to nil.

**NOTE 3: CAPITAL AND RESERVES**

**Reconciliation of movements in equity**

	<b>Share capital</b>	<b>Translation Reserve</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2005	30,276,671	261,268	(1,433,915)	29,104,024
Total recognised income and expense	-	(1,293,520)	(572,026)	(1,865,546)
Share based payments	-	-	278,625	278,625
Balance at 30 June 2005	30,276,671	(1,032,252)	(1,727,316)	27,517,103
Balance at 1 January 2006	38,589,171	(526,686)	(3,139,412)	34,923,073
Total recognised income and expense	-	1,856,002	(1,625,455)	230,547
Share issue cost adjustment	2,756	-	-	2,756
Share based payments	-	-	96,635	96,635
Balance at 30 June 2006	38,591,927	1,329,316	(4,668,232)	35,253,011

**Dividends**

No dividends were declared or paid by the consolidated entity for the six months ended 30 June 2006. (2005 NIL).

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**NOTE 4: FINANCIAL REPORTING BY SEGMENTS**

The consolidated entity operates primarily as a gas explorer and in one geographical location, being Italy.

**NOTE 5: CONTINGENCIES**

At 30 June 2006, the consolidated entity did not have any material contingent liabilities that have not been provided for.

**NOTE 6: RECEIVABLES**

	<b>30 June 2006</b>	<b>31 December 2005</b>
Included in receivables are indirect taxes recoverable as follows:		
Current	1,422,039	893,072
Non-current	2,033,806	1,939,540

The indirect taxes relate to Italian Value Added Tax ("VAT"), which is typically 20% of invoiced amounts (with certain exceptions). The extent of VAT that has not been recovered from the Italian authorities is recognised on the balance sheet as a receivable. Po Valley expects to recover this receivable through reducing VAT remitted on sales, reducing the consolidated entity'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.

**PO VALLEY ENERGY LIMITED**

**DIRECTORS' DECLARATION**

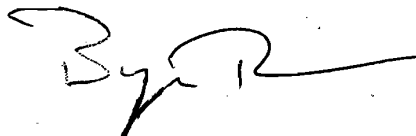
In the opinion of the Directors of the Po Valley Energy Limited ("the Company"):

1. the financial statements and notes, as set out on pages 4 to 10, are in accordance with the *Corporations Act 2001* including:
  - (a) giving a true and fair view of financial position of the consolidated entity as at 30 June 2006 and of its performance, as represented by the results of its operations and cash flows, for the half-year 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



Byron Pirola  
Non-Executive Director

Sydney, NSW, Australia  
24<sup>th</sup> August, 2006



## **Independent review report to the members of Po Valley Energy Limited**

### ***Scope***

#### *The financial report and directors' responsibility*

The financial report comprises the consolidated interim income statement, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Po Valley Energy Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 30 June 2006. The Consolidated Entity comprises Po Valley Energy Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.



**Statement**

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

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2006 and of its performance for the half-year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

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KPMG

A handwritten signature in black ink that reads 'B C Fullarton'.

B C FULLARTON  
*Partner*

Perth  
24 August 2006