PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

DIRECTORS' REPORT

The directors present their report together with the financial report of Po Valley Energy Limited ('the Company" or "PVE") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2006.

1. Directors

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

Directors	Date of Appointment
M Masterman	22 June 1999
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	30 September 2004
D Greil	5 August 2005

Information on Directors

The board is composed of a majority of non-executive Directors, including the Chairman. The Chairman of the board is elected by the board and is an independent director.

Graham Bradley — Chairman *BA, LLB (Hons), LLM, FAICD, Age 58*

Graham joined PVE as a director and Chairman in September 2004 and is based in Sydney. He is an experienced Chief Executive Officer and listed public company director. Graham previously served as Chief Executive Officer of one of Australia's major listed funds management and financial services groups, Perpetual Trustees Australia. He was Managing Partner and Chief Executive Officer of a national law firm, Blake Dawson Waldron and was a senior Partner of McKinsey & Company. Mr Bradley is currently a director of MBF Australia and Singapore Telecommunications. He is Chairman of HSBC Bank Australia Limited, Stockland Corporation, Film Finance Corporation Australia Limited, Boart Longyear Limited and Proteome Systems Limited. Graham is Chairman of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Michael Masterman — Managing Director and CEO, *BEcHons, Age 44*

Michael is a co-founder of PVE and is based in Europe. Michael took up the position of Executive Chairman and CEO of PVE and Northsun Italia S.p.A. in 2002. Prior to joining PVE he was CFO and Executive Director of Anaconda Nickel (now Minara Resources). Michael oversaw the financing of the US$1 billion Murrin Murrin Nickel and Cobalt project in Western Australia, involving the negotiation of a US$220m joint venture agreement with Glencore International and the raising of US$420m in project finance from a US capital markets issue – the first of its kind for a green fields mining project. Prior to joining Anaconda Nickel, he spent 8 years at McKinsey & Company serving major international resources companies principally in the area of strategy and development. He is also Executive Chairman of Caspian Holdings Plc, an AIM listed company with oil interests in Kazakhstan.

David McEvoy — Non Executive Director, *BSc, Grad Diploma (Appl. Geophysics), Age 60*

David joined PVE as a Director in September 2004 and is based in Sydney. He has over 37 years experience in the oil and gas industry since joining Esso Australia Limited in 1969. Key positions held within Exxon affiliates included Esso Australia Limited's Exploration General Manager, Exploration and Development Vice President for Esso Resources Canada and Regional Vice President of Exxon Exploration Company responsible for Exxon's exploration activities in the Far East, USA, Canada and South America. He was recently the Business Development Vice President and member of the Management Committee of Exxon (subsequently ExxonMobil) Exploration Company, responsible for new exploration and development opportunities worldwide. He is currently a Non-Executive Director of Woodside Petroleum Limited, Australian Worldwide Exploration and Innamincka Petroleum Limited. David is a member of the Audit and Risk Committee.

Byron Pirola — Non Executive Director, *BSc, PhD, Age 46*

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

Dietmar Greil - Executive Director Technical, *MEng Age 53*

Dietmar is a highly experienced petroleum engineer with over 30 years experience in exploration and development in the oil and gas industry. He has extensive oil and gas experience having worked for Statoil, Chevron and Pruesagg. Dietmar has been a member of the management team since the Company's listing in late 2004. Dietmar is also currently the Chief Operating Officer of Caspian Holdings Plc, an AIM listed company with oil interests in Kazakhstan.

2. Company Secretary & Chief Financial Officer

Dom Del Borrello, *BCom, Age 40*

Dom was appointed to the position of Company Secretary in September 2004 and in September 2006 joined the Company as the Chief Financial Officer. He has significant corporate finance and capital markets experience with a focus on resources companies gained over the past 15 years. During this time he also spent a number of years working for investment bank Goldman Sachs in London. Prior to joining the Company he spent 3 years working with global titanium minerals and zircon producer Iluka Resources , where he was the Group Manager, Treasury and Risk.

3. Directors Meetings

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

	G Bradley	M Masterman	D McEvoy	B Pirola	D Greil
No. of board meetings held	8	8	8	8	8
No. of board meetings eligible to attend	8	8	8	8	8
No. of board meetings attended	8	8	8	8	6
No. of Audit Committee meetings held	2	n/a	2	2	n/a
No. of Audit Committee meetings attended	2	n/a	2	2	n/a
No. of Remuneration Committee meetings held	2	n/a	n/a	2	n/a
No. of Remuneration Committee meetings attended	2	n/a	n/a	2	n/a

4. Principal Activities

The principal continuing activities of the group in the course of the year were;

- the exploration for gas in the Po Valley region in Italy
- appraisal and development of gas properties

5. Earnings per share

The basic loss per share for the Company was 3.41 cents (2005: 3.19 cents).

6. Operating and financial review

The consolidated loss after income tax amounted to $ 2,825,710 (2005: $2,267,469).

During 2006 the Company prepared and submitted production concession applications for Sillaro, Castello (aka "Vitalba") and Sant' Alberto (aka "Santa Maddalena") fields. All of these applications are currently sitting with the Italian ministry awaiting technical review and approval.

Following the lodgement of the concession applications with the Italian ministry the company awarded an Engineering, Procurement, Construction and Installation contract ("EPCI contract") for Sillaro and Castello gasfields with Orion Energy International ("Orion"). Under the contract, Orion will manage procurement and installation of surface plant equipment and pipeline connections for the Sillaro and Castello surface plant.

Commencing this work ahead of the production approvals required from the Italian ministry will ensure that the company can move quickly forward with development once regulatory approvals are in place. A key element of necessary infrastructure for production was secured with the company announcing late in the year that it had reached agreement on its maiden pipeline connection with the national Italian gas pipeline operator SNAMRete Gas, for both the Sillaro and Castello (aka "Vitalba") fields, ahead of planned initial supply deliveries.

Also during the year 8 new licence area applications were submitted, of which the company was awarded with the rights to proceed forward on an exclusive basis for five gas and oil exploration licences applications in Italy.

The additional licences cover a total area of 1,610 square kilometres and are all contained within the petroleum provinces in northern Italy where the company has focused it's development options. Under the terms of the licence award, the Italian Hydrocarbon Commission has advised the company that it can proceed forward on an exclusive basis with 5 major new licence applications in northern Italy.

The five licence applications are "Ossola" and "Opera" located near Milan and "La Prospera", "Podere Gallina" and "La Risorta" located near Bologna. Based on the work initiated by Po Valley to date, the licence areas contain 8 new gas prospects and 2 new oil exploration targets.

The company has commenced environmental clearance studies for the additional areas and then plans to seek Ministerial approval for a grant of the full licences for these additional areas. In parallel with the environmental clearance process, the company will conduct geological and geophysical studies on each of the license areas to better define and "prove up" the prospects. This will include acquisition and evaluation of the seismic data covering selected target areas.

The Company completed a private placement late in the year issuing 3,000,000 shares to Harbinger Management Corporation and Hunter Hall Investment Management at $1.95 per share, raising $5,850,000.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2006.

8. Events subsequent to reporting date

Since 31 December 2006, the consolidated entity has undertaken the following significant events:

- Edison, an unsuccessful applicant for the Ossola licence area, has sought to legally challenge the preliminary award by the Ministry of the Ossola application to Po Valley. Po Valley and the Italian Ministry have lodged strong defences at the initial hearing. The company will strongly defend the preliminary award process. The administrative hearing is scheduled for 18 April 2007 and based on legal advice Po Valley is confident that the Edison claim will be rejected.

Other than as set out above, there were no 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

9. Likely Developments

During 2007 the Company intends to continue to progress engineering and procurement of necessary equipment to bring Sillaro, Castello and the Sant' Alberto gas fields into production in late 2007 once the company receives ministerial approval for the production concessions. Preparation will also commence to drill Bezzacca 1 in the companies Cascina san Pietro licence.

The Company now has an extensive portfolio of exploration and development licences and licence applications and will focus on bringing the first 3 projects of Castello, Sillaro and Sant' Alberto into production, undertake detailed geological evaluation of the new projects and preparation of drilling programs.

10. Environmental Regulation

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

11. Remuneration Report

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

Remuneration Policy

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

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of entitlements of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Executive Directors and Senior Executives

The remuneration of PVE executive directors and senior executives comprises some or all of the following elements: fixed salary; short term incentive bonus based on performance; long term incentive shares and/or option scheme; and other benefits including employment insurances and superannuation contributions. In relation to the payment of bonuses, share option and other incentive amounts, discretion is exercised by the Remuneration Committee having regard to the overall performance of the Company and of the relevant individual during the period.

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees and superannuation contributions. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors other than superannuation contributions. Non-Executive Directors typically do not participate in equity or options schemes of the Company. Given the size of PVE, and its focussed nature of the business and shareholdings structure, issues of share options to Non-Executive Directors have previously been made, and may in the future be subject to approval by shareholders, to enhance overall shareholder wealth creation. The board of directors and shareholders last approved the maximum agreed remuneration for Non-Executive Directors at a meeting of the Company in late 2004 at $200,000 per annum.

The total salary and fees paid in 2006 to non-executive directors was $138,361 (2005:$135,549).

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

Specified directors

Graham Bradley, Chairman

- Commencement Date: 19 May 2005
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $60,000
- No termination benefits

David McEvoy, Non-executive director

- Commencement Date: 19 May 2005
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $40,000
- No termination benefits

Byron Pirola, Non-executive director

- Commencement Date: 30 May 2006
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $40,000
- No termination benefits

Michael Masterman, Chief Executive Officer and Executive director

- Commencement Date: 14 December 2004
- Term of Agreement: 2 years with a further 1 year extension at the option of the executive
- Fixed remuneration inclusive of superannuation for the year ended 31 December, 2006: $240,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one years total fixed remuneration

Dietmar Greil, Technical director

- Commencement Date: 1 January 2005 (Executive Agreement) and 30 May 2006 (Director Agreement)
- Term of Agreement: 2 years with a further 1 year extension at the option of the Executive
- Fixed remuneration for the year ended 31 December, 2006: EUR100,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one years total fixed remuneration

Specified Executive

Dom Del Borrello, Company Secretary and Chief Financial Officer

- Commencement Date: 1 September 2006
- Term of Agreement: The services of Mr Del Borrello are provided through a service contract with a management company for 2 years with a further 1 year extension at the option of either the Company or the service company.
- Fixed Service contract fee of EUR7,000 per calendar month
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three month service fee

The remuneration details of each director and specified executives during the year is presented in the table below. There are no executive officers of the consolidated entity other than those listed.

		Salary & fees $	Bonus $	Super-annuation benefits $	Value of options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Specified directors								
G Bradley (Chairman)	**2006**	**58,345**	**-**	**-**	**-**	**58,345**	**-**	**-**
	2005	57,163	-	-	-	57,163	-	-
D McEvoy	**2006**	**40,008**	**-**	**-**	**-**	**40,008**	**-**	**-**
	2005	39,198	-	-	-	39,198	-	-
B Pirola	**2006**	**40,008**	**-**	**-**	**-**	**40,008**	**-**	**-**
	2005	39,198	-	-	-	39,198	-	-
M Masterman (CEO)	**2006**	**240,046**	**83,350**	**-**	**96,636**	**420,032**	**19.8%**	**23%**
	2005	255,877	-	-	280,986	536,863	-	52%
D Greil (appointed 5 August 2005 as a director)	**2006**	**166,699**	**33,340**	**-**	**57,982**	**258,021**	**12.9%**	**22%**
	2005	149,714	-	-	168,592	318,306	-	53%
Specified executives								
D Del Borrello	**2006**	**74,701**	**-**	**-**	**12,464**	**87,165**	**-**	**14%**
	2005	33,058	-	-	28,099	61,157	-	46%

Short term incentive bonuses awarded as remuneration to specified executives is related to performance hurdles established by the Remuneration Committee. The performance hurdles are a combination of company targets and objectives specific to the executive.

Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonus awarded as remuneration to each director and specified executives are detailed below.

	Short term incentive bonus	
Directors	**Included in remuneration $ (a)**	**% vested in year**
M Masterman	83,350	100%
D Greil	33,340	100%

(a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2006 financial year.

Equity instruments
All options refer to options over ordinary shares of Po Valley Energy Limited, which are exercisable on a one-for-one basis.

Options over equity instruments granted as compensation
Details on options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details on options that vested during that period are as follows:

	No of options granted during 2006	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	No. of options vested during 2006
Directors						
G Bradley	-	-	-	-	-	1,000,000
D McEvoy	-	-	-	-	-	500,000
B Pirola	-	-	-	-	-	200,000
M Masterman	-	-	-	-	-	750,000
D Greil	-	-	-	-	-	450,000
Executives						
D Del Borello	150,000	30 Nov 2006	$0.70	$1.95	1 Dec 2010	75,000

	No of options granted during 2005	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	No. of options vested during 2005
Directors						
G Bradley	-	-	-	-	-	-
D McEvoy	-	-	-	-	-	-
B Pirola	-	-	-	-	-	-
M Masterman	-	-	-	-	-	750,000
D Greil	-	-	-	-	-	450,000
Executives						
D Del Borello	-	-	-	-	-	75,000

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual's employment.

For options granted in the current year, the earliest exercise date is 1 December 2008.

Exercise of options granted as compensation
During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Analysis of options over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to each director of the Company and key management personnel are detailed below:

	Number	**Date Granted**	**% vested in year**	**% forfeited in year**	**Financial year in which grant vests**	**Value yet to vest**
Non-executive directors						
G Bradley	1,000,000	15-Oct-2004	100%	-	31 Dec 2006	-
D McEvoy	500,000	15-Oct-2004	100%	-	31 Dec 2006	-
B Pirola	200,000	15-Oct-2004	100%	-	31 Dec 2006	-
Executive directors						
M Masterman	750,000	15-Oct-2004	-	-	31 Dec 2005	-
	750,000	15-Oct-2004	100%	-	31 Dec 2006	-
D Greil	450,000	15-Oct-2004	-	-	31 Dec 2005	-
	450,000	15-Oct-2004	100%	-	31 Dec 2006	-
Specified Executives						
D Del Borrello	75,000	15-Oct-2004	-	-	31 Dec 2005	-
	75,000	15-Oct-2004	100%	-	31 Dec 2006	-
	75,000	30-Nov-2006	-	-	31 Dec 2008	$52,828
	75,000	30-Nov-2006	-	-	31 Dec 2009	$52,828

Further details of Director and Executive Remuneration are set out in Note 23 to the Financial Statements and form part of this report.

12. Directors' interests

At the date of this report, the direct and indirect interests of the Directors in the shares and options of the Company were:

	Ordinary Shares	**Options over Ordinary Shares** $1.00 expiring 31Oct 08	**Options over Ordinary Shares** $1.25 expiring 31Oct 08
G Bradley	323,981	1,000,000	-
M Masterman	21,464,242	-	1,500,000
D McEvoy	129,593	500,000	-
B Pirola	12,010,821	200,000	-
D Greil	695,989	-	900,000
J Masterman[1]	4,788,444	-	-
I Masterman [1]	500,000	-	-
G Masterman[1]	388,778	-	-

1. Related parties to M Masterman

13. Share Options

Details of share options over ordinary shares issued during the year and on issue at 31 December 2006 are set out in Note 15 to the Financial Statements and form part of this report. No options have been exercised or forfeited between the end of the financial year and the date of this report.

14. Corporate Governance

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

The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report.

15. Indemnification and insurance of officers and auditors

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

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

16. Non audit services

During the year KPMG has not performed any other services in addition to their statutory duties as auditors to the Company.

17. Proceedings on behalf of the Company

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

18. Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 10 and forms part of the Directors' report for the financial year ended 31 December 2006.

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

Graham Bradley
Chairman
Sydney, NSW Australia

12 March 2007

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 audit for the financial year ended 31 December 2006 there have been:

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

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

KPMG

B C FULLARTON
Partner

Perth
12 March 2007

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

		CONSOLIDATED		COMPANY	
	NOTES	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Revenue	**2**	214,756	512,952	200,173	471,436
Other income	**3(a)**	33,455	78,112	548,635	-
Employee benefit expense	**4**	(1,088,279)	(1,176,455)	(196,073)	(561,972)
Depreciation and amortisation expense	**12**	(11,698)	(12,095)	-	-
Overheads costs		(1,060,267)	(804,474)	(460,406)	(412,864)
Finance costs		(1,620)	(29,700)	-	(27,825)
Resource property costs written off		(905,111)	(745,403)	-	-
Other expenses	**3(b)**	(6,946)	(90,406)	(6,071)	(331,366)
(Loss) / Profit before income tax expense		(2,825,710)	(2,267,469)	86,258	(862,591)
Income tax expense	**6**	-	-	-	-
(Loss) / Profit for the period		(2,825,710)	(2,267,469)	86,258	(862,591)
Basic / Diluted loss per share	**7**	(3.41)	(3.19)		

The income statements are to be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2006

		CONSOLIDATED		COMPANY	
	NOTES	**2006** **$**	**2005** **$**	**2006** **$**	**2005** **$**
Foreign exchange translation differences	**17**	748,585	(787,954)	-	-
Net income and expense recognised directly in equity		748,585	(787,954)	-	-
Profit / (Loss) for the year		(2,825,710)	(2,267,469)	86,258	(862,591)
Total recognised income and expense for the year		(2,077,125)	(3,055,423)	86,258	(862,591)

The statements of recognised income and expense are to be read in conjunction with the accompanying notes to the financial statements.

BALANCE SHEETS
AS AT 31 DECEMBER 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Current Assets					
Cash and cash equivalents	**8**	5,082,323	10,437,245	5,008,195	8,667,320
Trade and other receivables	**9**	2,241,481	1,035,392	49,194	27,109
Total Current Assets		7,323,804	11,472,637	5,057,389	8,694,429
Non-Current Assets					
Investments	**10**	18,713	-	10,922,204	10,749,314
Receivables	**11**	2,100,375	1,939,540	27,735,881	18,580,545
Plant & Equipment	**12**	838,595	494,542	-	-
Resource Property Costs	**13**	29,254,350	27,032,818	-	-
Total Non-Current Assets		32,212,033	29,466,900	38,658,085	29,329,859
Total Assets		39,535,837	40,939,537	43,715,474	38,024,288
Current Liabilities					
Payables	**14**	645,658	5,980,010	205,188	561,324
Provisions	**16**	83,167	36,454	-	-
Total Current Liabilities		728,825	6,016,464	205,188	561,324
Total Liabilities		728,825	6,016,464	205,188	561,324
Net Assets		**38,807,012**	**34,923,073**	**43,510,286**	**37,462,964**
Equity					
Issued Capital		44,354,162	38,589,171	44,354,162	38,589,171
Reserves		221,899	(526,686)	-	-
Accumulated Losses		(5,749,049)	(3,139,412)	(843,876)	(1,126,207)
Total Equity	**17**	**38,807,012**	**34,923,073**	**43,510,286**	**37,462,964**

The balance sheets are to be read in conjunction with the accompanying notes to the financial statements.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Cash flows from operating activities					
Payments to suppliers and employees		(1,813,813)	(1,331,529)	(494,967)	(484,170)
Interest received		214,757	512,952	200,173	471,435
Interest paid		(1,620)	(38,763)	-	(36,887)
Net cash outflow from operating activities	**22**	(1,600,676)	(857,340)	(294,794)	(49,622)
Cash flows from investing activities					
Payments for non-current assets		(343,521)	(487,628)	-	-
Advances for well equipment		(897,583)	-	-	-
Payments for exploration expenditure		(7,953,445)	(14,252,182)	-	-
Payments for investments		(18,713)	-	-	-
Payment for investment in controlled entity		-	-	(172,890)	-
Amounts advanced to controlled entities		-	-	(8,606,700)	(17,120,613)
Net cash outflow from investing activities		(9,213,262)	(14,739,810)	(8,779,590)	(17,120,613)
Cash flows from financing activities					
Proceeds from the issues of shares		5,850,000	8,750,000	5,850,000	8,750,000
Payments for share issue costs		(434,759)	(161,195)	(434,759)	(161,195)
Repayment of borrowings		-	(504,098)	-	(504,098)
Net cash inflow from financing activities		5,415,241	8,084,707	5,415,241	8,084,707
Net decrease in cash held		(5,398,697)	(7,512,443)	(3,659,143)	(9,085,528)
Cash and cash equivalents at 1 January		10,437,245	18,030,792	8,667,320	17,821,432
Effects of exchange rate fluctuations on cash held		43,775	(81,104)	18	(68,584)
Cash and cash equivalents at 31 December	**8**	5,082,323	10,437,245	5,008,195	8,667,320

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Po Valley Energy Limited ("the Company" or "PVE") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity").

The financial report was authorised for issuance on 12 March 2007.

(a) STATEMENT OF COMPLIANCE

The 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 financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

This financial report has been prepared on the basis of historical cost, except for financial assets and liabilities recognised at fair value.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by consolidated entities.

(c) USE AND REVISION OF ACCOUNTING ESTIMATES

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

Resource Property costs
The Group's accounting policy for resource property costs is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of resources and reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the Income Statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) PRINCIPLES OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Po Valley Energy Limited ("parent entity") as at 31 December 2006 and the results of all controlled entities for the year then ended. Po Valley Energy Limited and its controlled entities together are referred to in this financial report as the consolidated entity.

The effects of all transactions between entities in the consolidated entity are eliminated in full.

When control of an entity is obtained during the financial year, its results are included in the consolidated income statement from the date on which control commences.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statement less impairment losses.

Joint Controlled operations and assets

The interest of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(e) TAXATION

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) IMPAIRMENT OF ASSETS

The carrying amounts of the consolidated entity's assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Financial assets
The recoverable amount of the consolidated entity's receivables carried at amortised is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

(g) CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, cash includes short term deposits less bank overdrafts which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

(h) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. The useful lives of each class of asset fall within the following ranges:

	2005	2004
Office furniture & equipment	3 – 5 years	3 – 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed annually.

Well equipment which is not ready for use is not depreciated.

(i) TRADE AND OTHER PAYABLES

Trade payables and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. These amounts are stated at their amortised cost.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) RESOURCE PROPERTIES

Resource property costs are intangible assets and are accumulated in respect of each separate area of interest. Resource property costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Resource properties include the cost of acquiring and developing resource properties, mineral rights and exploration, evaluation and development expenditure relating to an area of interest.

Resource properties are amortised using the unit of production basis over the economically recoverable reserves. Amortisation of resource properties commences from the date when commercial production commences. When there is low likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, the asset is written down to its recoverable amount.

Cumulative exploration and evaluation expenditure which no longer satisfies the above policy is no longer carried forward as an asset, but is charged against, and shown as a deduction from profit.

(k) REVENUE RECOGNITION

Interest revenue
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(l) TRADE AND OTHER RECEIVABLES

Trade receivables and other receivables are recorded stated at their cost less impairment losses.

(m) EMPLOYEE BENEFITS

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

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

Superannuation
The consolidated entity contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are made.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) EMPLOYEE BENEFITS (continued)

Share-based payments

The executive and employee share option plan grants options to employees as part of their remuneration. The fair value of options granted is recognised as an employee expense with a corresponding increase in retained earnings. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured, using an options pricing model; taking into account the market related vesting conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(n) FOREIGN CURRENCY

Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Australian dollars, which is Po Valley Energy Limited’s functional and presentation currency.

Transactions and balances

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

Group companies

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

(o) EARNINGS PER SHARE

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Other Taxes

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

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

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

NOTE 2: REVENUE

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Interest income	214,756	512,952	200,173	471,436

NOTE 3: OTHER INCOME AND OTHER EXPENSES

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
(a) Other Income:				
Provisions written back	-	72,052	-	-
Foreign exchange gains - unrealised	-	-	548,635	-
Other	33,455	6,060	-	-
	33,455	78,112	548,635	-
(b) Other Expenses:				
Foreign exchange losses				
Realised	6,946	81,104	6,071	68,584
Unrealised	-	9,302	-	262,782
	6,946	90,406	6,071	331,366

NOTE 4: EMPLOYEE BENEFIT EXPENSES

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Wages and salaries	892,206	614,483	-	-
Equity based compensation	196,073	561,972	196,073	561,972
	1,088,279	1,176,455	196,073	561,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
NOTE 5: AUDITORS' REMUNERATION				
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditors of the Company – KPMG Australia	54,000	46,566	54,000	26,704

NOTE 6: INCOME TAX EXPENSE

The income tax expense on pre tax accounting reconciles to the income tax expense in the financial statements as follows:				
(Loss) / Profit from ordinary activities before income tax expense	(2,825,710)	(2,267,469)	86,258	(862,591)
Prima facie income tax calculated at 30%	(847,713)	(680,240)	25,877	(258,777)
Tax effect of permanent differences	58,822	168,592	58,822	168,592
Foreign tax losses not brought to account	708,983	465,634	-	-
Tax losses and temporary differences not brought to account as income tax benefit	79,908	46,014	(84,699)	90,185
Income tax attributable to loss	-	-	-	-
The directors estimate that the potential future income tax benefit in Australia at 31 December 2006 in respect of tax losses and temporary differences not brought to account is	698,266	411,776	694,939	408,467

This benefit for tax losses will only be obtained if:

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

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

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

NOTE 7: LOSS PER SHARE

Basic loss per share (cents)	(3.41)	(3.19)		

The calculation of basic loss per share was based on the loss attributable to shareholders of $2,825,710 (2005: $2,267,469) and a weighted average number of ordinary shares outstanding during the year of 82,976,712 (2005: 71,165,753).

Diluted loss per share is the same as basic loss per share.

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
NOTE 8: CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	5,082,323	10,437,245	5,008,195	8,667,320
NOTE 9: TRADE AND OTHER RECEIVABLES				
Sundry debtors	97,668	132,712	43,351	17,500
Vendor advances for well equipment	897,583	-	-	-
Indirect taxes receivable (a)	1,246,230	902,680	5,843	9,609
	2,241,481	1,035,392	49,194	27,109
(a) Included in receivables are Italian indirect taxes recoverable as follows:				
Current	1,237,387	893,072	-	-
Non-current	2,100,375	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.

NOTE 10: INVESTMENTS

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Shares in unlisted entities, at fair value	18,713	-	-	-
Shares in controlled entities, at cost	-	-	10,922,204	10,749,314
	18,713	-	10,922,204	10,749,314

The investments held in controlled entities are included in the financial statements at cost at 31 December 2006 are as follows:-

Name:	Country of Incorporation	Class of Shares	2006 Investment $	2005 Investment $	Holding %
Northsun Italia S.p.A (“NSI”)	Italy	Ordinary	10,206,314	10,033,424	**100**
Po Valley Operations Pty Limited (“PVO”)	Australia	Ordinary	715,890	715,890	**100**
			10,922,204	10,749,314	

NOTE 11: NON- CURRENT ASSETS - RECEIVABLES

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Indirect taxes receivable (refer Note 9(a))	2,100,375	1,939,540	-	-
Loans – Controlled Entities (i)	-	-	27,735,881	18,580,545
	2,100,375	1,939,540	27,735,881	18,580,545

(i) These loans are unsecured, interest free and repayable on demand in Euro.

NOTE 12: PROPERTY PLANT & EQUIPMENT

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Office Furniture & Equipment:				
At cost	130,884	109,571	-	-
Accumulated depreciation	(94,506)	(80,810)	-	-
	36,378	28,761	-	-
Well Equipment:				
At cost	802,217	465,781	-	-
	838,595	494,542	-	-

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

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Office Furniture & Equipment:				
Carrying amount at beginning of year	28,761	20,220	-	-
Additions	18,603	20,636	-	-
Depreciation expense	(11,698)	(12,095)	-	-
Foreign exchange difference	712	-	-	-
Carrying amount at end of year	36,378	28,761	-	-
Well Equipment:				
Carrying amount at beginning of year	465,781	829,647	-	-
Additions	324,917	465,781	-	-
Transfer to resource property costs	-	(829,647)	-	-
Foreign exchange difference	11,519	-	-	-
Carrying amount at end of year	802,217	465,781	-	-
	838,595	494,542	-	-

NOTE 13: RESOURCE PROPERTY COSTS

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Resource Property costs				
Exploration Phase	29,254,350	27,032,818	-	-
Reconciliation of carrying amount of resource properties				
Exploration Phase				
Carrying amount at beginning of year	27,032,818	12,157,809	-	-
Foreign exchange difference	656,474	(688,806)		
Transfer from property plant & equipment	-	829,647	-	-
Exploration expenditure	2,470,169	15,479,571	-	-
Exploration expenditure written off	(905,111)	(745,403)	-	-
Carrying amount at end of year	29,254,350	27,032,818	-	-

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
NOTE 14: TRADE AND OTHER PAYABLES				
Trade payables and accruals	633,682	5,951,015	205,188	561,324
Taxes payable	11,976	28,995	-	-
	645,658	5,980,010	205,188	561,324

NOTE 15: EMPLOYEE BENEFITS

The Company has issued options to Directors, Executives and nominated employees.

Details of Employee Options are summarised below. Details of the options issued to Directors and Executives are in Note 23.

Employee Incentive Option Scheme

The issue of Employee Incentive Option Scheme ("EIOS") was approved by the Board of the Company on 15 October 2004.

The opportunity for a number of employees to acquire options over ordinary shares in the Company was offered to employees and consultants who were instrumental to the initial public offering of the Company.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, must not be less than the market price on the date the options are granted. The terms and conditions with respect to expiry, exercise and vesting provisions are at the discretion of the Board of the Company.

There are no voting or dividend rights attached to the options. Voting and dividend rights will only be attached once an option is exercised into ordinary shares.

The total number of shares which are the subject of options issued under the EIOS immediately following an issue of options under the EIOS must not exceed 5% of the then issued share capital of the Company on a diluted basis.

		2006		2005	
		Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of year		3,000,000	$1.25	3,000,000	$1.25
Granted	(a)	150,000	$1.95	-	-
Exercised		-	-	-	-
Balance at end of year	(b)	3,150,000		3,000,000	
Exercisable at end of year		3,150,000		3,000,000	

NOTE 15: EMPLOYEE BENEFITS (continued)

(a) Details of options granted during the reporting period pursuant to EIOS.

	2006	2005
Number granted	150,000	-
Grant date	30 November 2006	-
Vesting date	50% 1 December 2008 50% 1 December 2009	-
Expiry date	1 December 2010	-
Exercise price	$1.95	-

(b) Options held at the end of the reporting period pursuant to EIOS.

Number of Options	Grant date	Vesting date	Expiry date	Exercise price $
1,500,000	15 Oct 2004	15 Dec 2005	31 Oct 2008	$1.25
1,500,000	15 Oct 2004	15 Dec 2006	31 Oct 2008	$1.25
150,000	30 Nov 2006	50% 1 Dec 2008 50% 1 Dec 2009	1 Dec 2010	$1.95

NOTE 16: PROVISIONS

	CONSOLIDATED		COMPANY	
	2006 $	2005 $	2006 $	2005 $
The aggregate employee benefit liability recognised and included in the financial statement is as follows:				
Provision for employee benefits:				
Current	-	36,454	-	-
Other provisions:				
Provision for legal claim	83,167	-	-	-

NOTE 17: CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves
Attributable to equity holders of the parent

Consolidated – 2006	**Issued Capital $**	**Translation Reserve $**	**Accumulated losses $**	**Total $**
Balance at 1 January 2006	38,589,171	(526,686)	(3,139,412)	34,923,073
Total recognised income and expense	-	748,585	(2,825,710)	(2,077,125)
Equity-settled transactions	-	-	196,073	196,073
Shares issued	5,850,000	-	-	5,850,000
Share issue costs	(85,009)	-	-	(85,009)
Balance at 31 December 2006	44,354,162	221,899	(5,769,049)	38,807,012

Consolidated - 2005	**Issued Capital $**	**Translation Reserve $**	**Accumulated losses $**	**Total $**
Balance at 1 January 2005	30,276,671	261,268	(1,433,915)	29,104,024
Total recognised income and expense	-	(787,954)	(2,267,469)	(3,055,423)
Equity-settled transactions	-	-	561,972	561,972
Shares issued	8,750,000	-	-	8,750,000
Share issue costs	(437,500)	-	-	(437,500)
Balance at 31 December 2005	38,589,171	(526,686)	(3,139,412)	34,923,073

NOTE 17: CAPITAL AND RESERVES (cont.)

Reconciliation of movement in capital and reserves

			2006			**2005**
Company	**Issued Capital $**	**Accumulated losses $**	**Total $**	**Issued Capital $**	**Accumulated losses $**	**Total $**
Balance at 1 January	38,589,171	(1,126,207)	37,462,964	30,276,671	(825,588)	29,451,083
Total recognised income and expense	-	86,258	86,258	-	(862,591)	(862,591)
Equity-settled transactions		196,073	196,073	-	561,972	561,972
Shares issued	5,850,000	-	5,850,000	8,750,000	-	8,750,000
Share issue costs	(85,009)	-	(85,009)	(437,500)	-	(437,500)
Balance at 31 December	44,354,162	(843,876)	43,510,286	38,589,171	(1,126,207)	37,462,964

	2006 Number	**2005 Number**
Share Capital - Company		
Opening balance - 1 January	82,500,000	70,000,000
Shares issued during the year:		
Share issue at 70c each on 22.11.2005	-	10,500,000
Share issue at 70c each on 23.12.2005	-	2,000,000
Share issue at $1.95 each on 3.11.2006	3,000,000	-
Closing balance – 31 December	85,500,000	82,500,000

Fully paid ordinary shares carry one vote per share and carry the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 18: FINANCIAL REPORTING BY SEGMENTS

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

NOTE 19 : FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2006	**Weighted Average Interest Rate**	**Floating Interest Rate**	**Fixed interest Maturing in 1 year or <**	**Non-Interest bearing**	**Total**
Financial Assets					
Cash assets	3.68%	221,702	4,860,621	-	5,082,323
Receivables					
- Current		-	-	2,241,481	2,241,481
- Non current		-	-	2,100,375	2,100,375
Financial Liabilities					
Payables		-	-	(645,658)	(645,658)
Provisions		-	-	(83,167)	(83,617)
Net financial assets/(liabilities)		**5,082,323**	**-**	**3,613,031**	**8,695,354**

2005	**Weighted Average Interest Rate**	**Floating Interest Rate**	**Fixed interest Maturing in 1 year or <**	**Non-Interest bearing**	**Total**
Financial Assets		**$**	**$**	**$**	**$**
Cash assets	3.61%	8,853,410	1,583,835	-	10,437,245
Receivables					
- Current		-	-	1,035,392	1,035,392
- Non current		-	-	1,939,540	1,939,540
Financial Liabilities					
Payables	-	-	-	(5,980,010)	(5,980,010)
Provisions	-	-	-	(36,454)	(36,454)
Net financial assets/(liabilities)		**8,853,410**	**1,583,835**	**(3,041,532)**	**7,395,713**

NOTE 19 : FINANCIAL INSTRUMENTS (CONT.)

(b) Credit Risk Exposures

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

(c) Net Fair Values of Financial Assets and Liabilities

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

(d) Foreign Currency Risk

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

	CONSOLIDATED		COMPANY	
Amounts receivable/(payable) in foreign currency which are not effectively hedged:	**2006** **$**	**2005** **$**	**2006**	**2005** **$**
Cash	74,128	1,747,322	104	745
Current – Receivables	2,192,288	1,025,783	-	-
Non-current – Receivables	2,100,375	1,939,540	-	-
Current – Payables	385,996	5,418,686	5,801	-

NOTE 20: COMMITMENTS AND CONTINGENCIES

(i) Exploration Commitments

Under its exploration licence for Casone della Sacca, the Company was required to drill one well by March 2006. The company relinquished this exploration area during 2006.

As a result of the application for extensions to the licence areas of San Vincenzo, Crocetta and Cascino san Pietro the company is required to drill one well in each of these licences by January 2010. The estimated cost of drilling one dry well is in the range of €1,800,000 to €2,000,000.

(ii) Contingencies

There are no material contingencies that have not been provided for in the financial report.

(iii) Other commitments

The company has entered into a contract that provides engineering design, procurement and supervision of the construction and installation of both the Sillaro and Castello production surface plants. The contract is for a lump sum amount of €336,000 which consists of three separable portions.

NOTE 21: JOINT VENTURES

As at the 31 December, 2006 the consolidated entity held interests in the following Joint Ventures and permits in Italy:

Titles of Permits granted	**San Vincenzo**
Participation percentages	NSI 32.5% PVO 17.5%
Other registered holders and relevant percentages	Edison 50%

Assets and liabilities of the Joint Venture at 31.12.2006 were as follows:

Resource Property Costs	1,791,757
Receivables	-
Payables	-
Net Assets	1,791,757

As at the 31 December, 2005 the consolidated entity held interests in the following Joint Ventures and permits in Italy:

Titles of Permits granted	**San Vincenzo**
Participation percentages	NSI 32.5% PVO 17.5%
Other registered holders and relevant percentages	Edison 50%

Assets and liabilities of the Joint Ventures at 31.12.2005 were as follows:

Resource Property Costs	1,560,176
Receivables	75,537
Payables	(26,491)
Net Assets	1,609,222

NOTE 22: RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
(Loss) / Profit for the period	(2,825,710)	(2,267,469)	86,258	(862,591)
Adjustment for non-cash items:			6,071	
Foreign exchange loss	6,946	90,406	(548,635)	331,366
Foreign exchange gains	-	-		-
Share-based payments	196,073	561,972	196,073	561,972
Depreciation – office furniture & equipment	11,698	12,095	-	-
Exploration expenditure written off	905,111	745,403	-	-
Change in operating assets and liabilities:				
(Increase) decrease in receivables	33,980	(122,088)	(25,850)	37,118
(Increase in shareholder loans for interest	-	(9,062)	-	(9,062)
Increase (decrease) in trade and other creditors	(33,870)	116,641	(12,620)	(108,425)
Increase in provisions and accruals	50,622	14,762	3,909	-
Net cash outflow from operating activities	(1,600,676)	(857,340)	(294,794)	(49,622)

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE

(a) Remuneration

Remuneration Policy

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

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of entitlements of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Executive Directors and Senior Executives

The remuneration of PVE executive directors and senior executives comprises some or all of the following elements: fixed salary; short term incentive bonus based on performance; long term incentive shares and/or option scheme; and other benefits including employment insurances and superannuation contributions. In relation to the payment of bonuses, share option and other incentive amounts, discretion is exercised by the Remuneration Committee having regard to the overall performance of the Company and of the relevant individual during the period.

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees and superannuation contributions. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors other than superannuation contributions. Non-Executive Directors typically do not participate in equity or options schemes of the Company. Given the size of PVE, and its focussed nature of the business and shareholdings structure, issues of share options to Non-Executive Directors have previously been made, and may in the future be subject to approval by shareholders, to enhance overall shareholder wealth creation. The board of directors and shareholders last approved the maximum agreed remuneration for Non-Executive Directors at a meeting of the Company in late 2004 at $200,000 per annum.

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

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

Specified directors
Graham Bradley, Chairman

- Commencement Date: 19 May 2005
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $60,000
- No termination benefits

David McEvoy, Non-executive director

- Commencement Date: 19 May 2005
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $40,000
- No termination benefits

Byron Pirola, Non-executive director

- Commencement Date: 30 May 2006
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2006: $40,000
- No termination benefits

Michael Masterman, Chief Executive Officer and Executive director

- Commencement Date: 14 December 2004
- Term of Agreement: 2 years with a further 1 year extension at the option of the executive
- Fixed remuneration inclusive of superannuation for the year ended 31 December, 2006: $240,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one years total fixed remuneration

Dietmar Greil, Technical director

- Commencement Date: 1 January 2005 (Executive) and 30 May 2006 (Director)
- Term of Agreement: 2 years with a further 1 year extension at the option of the Executive
- Fixed remuneration for the year ended 31 December, 2006: EUR100,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one years total fixed remuneration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

Specified Executive

Dom Del Borrello, Company Secretary and Chief Financial Officer

- Commencement Date: 1 September 2006
- Term of Agreement: The services of Mr Del Borrello are provided through a service contract with a management company for 2 years with a further 1 year extension at the option of either the Company or the Service company.
- Fixed Service contract fee of EUR7,000 per calendar month
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three month service fee

The remuneration details of each director and specified executives during the year is presented in the table below.

		Salary & fees $	Bonus $	Super-annuation benefits $	Value of options (1) $	Total $
Specified directors						
G Bradley (Chairman)	**2006**	**58,345**	**-**	**-**	**-**	**58,345**
	2005	57,163	-	-	-	57,163
D McEvoy	**2006**	**40,008**	**-**	**-**	**-**	**40,008**
	2005	39,198	-	-	-	39,198
B Pirola	**2006**	**40,008**	**-**	**-**	**-**	**40,008**
	2005	39,198	-	-	-	39,198
M Masterman (CEO)	**2006**	**240,046**	**83,350**	**-**	**96,636**	**420,032**
	2005	255,877	-	-	280,986	536,863
D Greil	**2006**	**166,699**	**33,340**	**-**	**57,982**	**258,021**
	2005	149,714	-	-	168,592	318,306
Specified executives						
D Del Borrello	**2006**	**74,701**	**-**	**-**	**12,464**	**87,165**
	2005	33,058	-	-	28,099	61,157
	2006	**619,807**	**116,690**	**-**	**167,082**	**903,579**
	2005	574,208	-	-	477,677	1,051,885

The directors and executives were appointed on the following dates

M Masterman	22 June 1999
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	30 September 2004
D Greil	5 August 2005
D Del Borrello	30 September 2004

(1) The fair value of options was calculated at the date of issue using a Black-Scholes Option Pricing Model, taking into account such factors as the option exercise price, the current level and volatility of the underlying share price, the performance hurdles, the non-tradeable and non-transferable nature of the options, and the vesting and escrow periods before the options are able to be exercised.

Options granted in 2004 expire 31 October 2008, options granted in 2006 expire 1 December 2010. Each option entitles the holder to purchase one share.

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

(b) Options and rights over equity instruments granted as remuneration or exercised

All options refer to options over ordinary shares of Po Valley Energy Limited, which are exercisable on a one-for-one basis.

During the reporting period, 150,000 options over ordinary shares were issued and no options were exercised or forfeited.

(c) Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held directly or indirectly by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 31 Dec 2005	Issued	Held at 31 Dec 2006
Specified directors			
G Bradley	1,000,000	-	1,000,000
M Masterman	1,500,000	-	1,500,000
D McEvoy	500,000	-	500,000
B Pirola	200,000	-	200,000
D Greil	900,000	-	900,000
Specified executives			
D Del Borrello	150,000	150,000	300,000

The details of the options held at 31 December 2006 are as follows:

	$1.00 exercise price, expiring 31Oct 08	$1.25 exercise price, expiring 31Oct 08	$1.95 Exercise price, expiring 31 Dec 10	Total
Specified directors				
G Bradley	1,000,000	-	-	1,000,000
M Masterman	-	1,500,000	-	1,500,000
D McEvoy	500,000	-	-	500,000
B Pirola	200,000	-	-	200,000
D Greil	-	900,000	-	900,000
Specified executives				
D Del Borrello	-	150,000	150,000	300,000
	1,700,000	2,550,000	150,000	4,400,000

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

d) Equity holdings and transactions

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

	Held at 31 Dec 2005	Purchased	Sold	Held at 31 Dec 2006
Specified directors				
G Bradley	323,981	-	-	323,981
M Masterman (i)	21,339,242	125,000	-	21,464,242
D McEvoy	129,593	-	-	129,593
B Pirola (i)	12,010,821	-	-	12,010,821
D Greil	695,989	-	-	695,989
Specified executives				
D Del Borrello	90,715	-	25,919	64,796

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(i) Included above are shares held by related parties

	Held at 31 Dec 2005	Purchased	Sold	Held at 31 Dec 2006
Related Entities				
J Masterman[1]	4,788,444	-	-	4,788,444
I Masterman [1]	500,000	-	-	500,000
G Masterman[1]	388,778	-	-	388,778

1. Related parties to M Masterman

(e) Other transactions with the Company

A total amount of $21,859 (2005: $35,858) was received or receivable from Caspian Holdings Plc, a company which is related to Michael Masterman and Dietmar Greil, for recharge of the use of courier and telephone services . Recharges were based on the cost from third party service invoice.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Po Valley Energy Ltd ("the Company"):

   i) the financial statements and notes, as set out on pages 11 to 35, are in accordance with the *Corporations Act 2001*, including:

      a. giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

      b. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2006 pursuant to Section 295A if the *Corporations Act 2001*.

Dated at Sydney this 12 day of March 2007.

Signed in accordance with a resolution of the directors:

Graham Bradley
Chairman

Byron Pirola
Non-Executive Director

Independent audit report to members of Po Valley Energy Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Po Valley Energy Limited (the "Company") and Po Valley Energy Limited and its subsidiaries (the "group"), for the year ended 31 December 2006. The group comprises both the Company and the subsidiaries it controlled during that 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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

Audit opinion

In our opinion, the financial report of Po Valley Energy Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and the group's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and

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

b) other mandatory financial reporting requirements in Australia.

KPMG

B C FULLARTON
Partner

Perth
12 March 2007

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