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**PO VALLEY ENERGY LIMITED**

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

**CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE  
SIX MONTHS ENDED 30 JUNE 2007**

# PO VALLEY ENERGY LIMITED

## DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 30 June 2007 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 – resigned 22 May 2007

### 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 \$ 1,357,727 for the half-year ended 30 June 2007 (2006: Loss \$ 1,625,455)

#### Operating Review

During the half year the Company progressed towards production with environmental approval procedures for Sillaro and Castello fields moving forward and key public meetings successfully held during the period. Tenders for surface plant construction have been received and preliminary award is expected in early September. Pipeline connections to the national grid have been agreed with pipeline operator SNAM and the design process is underway.

Also during the period the Company's joint venture partner and operator, Edison, submitted the production concession application and the Company expects it to be considered at the next Hydrocarbon Commission meeting.

All drilling equipment (piping, casing and wellheads) are in place for the drilling of Bezzecca 1 and Fantuzza 1 wells. Approvals for drilling of these wells are moving forward.

Work progressed on the new licence applications with the acquisition process of seismic lines on the priority licences underway and commencement of reviews of the major targets. Environmental clearance procedures on Ossola, Opera, Podere Gallina, and La Prospera have been completed and full grant of these licences are expected in the second half of 2007.

During the period the company entered into a Joint Venture with Star Energy Plc to jointly bid for gas storage licences in Italy. Technical and commercial work is well advanced on the storage concession bids.

The company completed a private placement issuing a total of 4,325,000 shares at A\$1.65 per share raising A\$7.136 million on the 19th June to institutional investors.

**PO VALLEY ENERGY LIMITED**

**DIRECTORS' REPORT (continued)**

**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 2007.

**Matters subsequent to balance date**

The Company issued 450,000 shares at \$1.65 a share to raise \$742,500 pursuant to a private placement on 31 July 2007. Other than the above, 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.

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



Graham Bradley  
Chairman

Sydney, NSW Australia  
30 August, 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 review for the half-year ended 30 June 2007 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.

KPMG

**B C FULLARTON**  
*Partner*

Perth  
30 August 2007

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PO VALLEY ENERGY LIMITED

CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	30 JUNE 2007	30 JUNE 2006
	\$	\$
Revenue	115,236	160,641
Employee benefit expense	(775,752)	(539,627)
Borrowing costs	(622)	(496)
Corporate overheads	(688,359)	(327,444)
Resource property costs written off	(8,230)	(918,529)
<b>Loss before income tax expense</b>	<b>(1,357,727)</b>	<b>(1,625,455)</b>
Income tax expense	-	-
<b>Loss after income tax expense</b>	<b>(1,357,727)</b>	<b>(1,625,455)</b>
<b>Basic and diluted loss per share</b>	<b>1.58 cents</b>	<b>1.97 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 2007

	30 JUNE 2007	30 JUNE 2006
	\$	\$
Foreign exchange translation differences	(1,577,709)	1,856,002
<b>Net income (loss) recognised directly in equity</b>	<b>(1,577,709)</b>	<b>1,856,002</b>
<b>Loss for the period</b>	<b>(1,357,727)</b>	<b>(1,625,455)</b>
<b>Total recognised income and expense for the period</b>	<b>(2,935,436)</b>	<b>230,547</b>

*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 2007

	NOTES	30 JUNE 2007 \$	31 DEC 2006 \$
<b>Current Assets</b>			
Cash and cash equivalents		8,183,968	5,082,323
Trade and other receivables	6	1,306,684	2,241,481
<b>Total Current Assets</b>		<b>9,490,652</b>	<b>7,323,804</b>
<b>Non-Current Assets</b>			
Investments		17,866	18,713
Receivables	6	2,844,584	2,100,375
Plant & equipment		2,844,704	838,595
Resource property costs	2	28,892,523	29,254,350
<b>Total Non-Current Assets</b>		<b>34,599,677</b>	<b>32,212,033</b>
<b>Total Assets</b>		<b>44,090,329</b>	<b>39,535,837</b>
<b>Current Liabilities</b>			
Payables		1,119,388	645,658
Provisions		158,810	83,167
<b>Total Current Liabilities</b>		<b>1,278,198</b>	<b>728,825</b>
<b>Total Liabilities</b>		<b>1,278,198</b>	<b>728,825</b>
<b>Net Assets</b>		<b>42,812,131</b>	<b>38,807,012</b>
<b>Equity</b>			
Issued capital		51,278,229	44,354,162
Reserves		(1,355,810)	221,899
Accumulated losses		(7,110,288)	(5,749,049)
<b>Total Equity</b>	3	<b>42,812,131</b>	<b>38,807,012</b>

*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 2007

	30 JUNE 2007	30 JUNE 2006
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(1,099,909)	(659,084)
Interest received	115,205	148,379
Interest paid	(622)	(496)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	(985,326)	(511,201)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Payments for non-current assets	(16,582)	(14,762)
Payments for well equipment	(1,251,963)	-
Payments for security deposits	(603,486)	-
Payments for exploration and development expenditure	(1,005,801)	(6,809,169)
Loans to other entities	(83,163)	-
	<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>	(2,960,995)	(6,823,931)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from shares issued	7,136,215	-
Payments for share issue costs	(84,919)	(434,745)
	<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>	7,051,296	(434,745)
	<hr/>	<hr/>
<b>Net increase / (decrease) in cash held</b>	3,104,975	(7,769,877)
	<hr/>	<hr/>
<b>Cash and cash equivalents at 1 January</b>	5,082,323	10,437,245
	<hr/>	<hr/>
<b>Effects of exchange rate changes on cash</b>	(3,330)	105,131
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 June</b>	8,183,968	2,772,499
	<hr/> <hr/>	<hr/> <hr/>

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

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

**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 2007 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 2006 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 2006.

The consolidated interim financial report was approved by the Board of Directors on 30<sup>th</sup> August, 2007.

**(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 2006.

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**PO VALLEY ENERGY LIMITED**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

**NOTE 2: RESOURCE PROPERTY COSTS**

<b>Resource property costs</b>	<b>30 June 2007</b>	<b>31 Dec 2006</b>
Exploration phase	28,892,523	29,254,350
Reconciliation of carrying amount of resource properties		
Exploration phase		
Carrying amount at beginning of the reporting period	29,254,350	27,032,818
Foreign exchange difference on opening balance	(1,395,686)	656,474
Exploration expenditure	1,042,089	2,470,169
Exploration expenditure written off	(8,230)	(905,111)
Carrying amount at end of the reporting period	28,892,523	29,254,350

**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 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
Balance at 1 January 2007	44,354,162	221,899	(5,769,049)	38,807,012
Total recognised income and expense	-	(1,577,709)	(1,357,727)	(2,935,436)
Shares issued	7,209,986	-	-	7,209,986
Share issue costs	(285,919)	-	-	(285,919)
Share based payments	-	-	16,488	16,488
Balance at 30 June 2007	51,278,229	(1,355,810)	(7,110,288)	42,812,131

**Dividends**

No dividends were declared or paid by the consolidated entity for the six months ended 30 June 2007. (2006 NIL).

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

**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 2007, the consolidated entity did not have any material contingent liabilities that have not been provided for.

**NOTE 6: RECEIVABLES**

	<b>30 June 2007</b>	<b>31 Dec 2006</b>
Included in receivables are indirect taxes recoverable as follows:		
Current	936,979	1,237,387
Non-current	2,157,935	2,100,375

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 7: SUBSEQUENT EVENTS**

The Company issued 450,000 shares at \$1.65 a share to raise \$742,500 pursuant to a private placement on 31 July 2007. Other than the above, 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' DECLARATION**

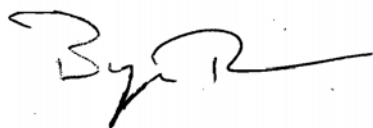
In the opinion of the Directors of the Po Valley Energy Limited ("the Company"):

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 2007 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  
30 August 2007



## Independent auditor's review report to the members of Po Valley Energy Limited

### Report on the financial report

We have reviewed the accompanying half-year financial report of Po Valley Energy Limited, which comprises the consolidated interim balance sheet as at 30 June 2007, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Po Valley Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### *Conclusion*

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2007 and of its performance for the half-year ended on that date; and

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

KPMG

B C FULLARTON

*Partner*

Perth

30 August 2007

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