PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 30 June 2008 and the review report thereon.

Directors

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

Name	Date of first appointment	Date of re-appointment
Non- Executive:		
G Bradley (Chairman)	30 September 2004	30 May 2007
B Pirola	10 May 2002	30 May 2008
D McEvoy	30 September 2004	30 May 2007
Executive:		
M Masterman	22 June 1999 – Chief Executive Officer	

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 $ 2,319,202 for the half-year ended 30 June 2008 (2007: Loss $ 1,357,727)

Operating Review

During the half year the Company progressed towards first gas production for Sillaro and Castello fields with the granting of the environmental approvals. Construction of the surface plant equipment for these fields and associated skids were 63% complete at the end of June. The production licence approval process is now at the stage for each of these fields where it is expected that a final inter-governmental meeting, expected to take place in September 2008, is required prior to final grant of production licences by the responsible national government authority.

Also during the period, the Company achieved a commercial agreement with Edison to take over the full operatorship and ownership of the San Vincenzo exploration licence area and associated Sant' Alberto production concession application. As part of this agreement, Edison will participate on a 50/50 basis, in the awarded Ossola licence area, where the Company is pursuing large-scale oil and gas/condensate targets.

Environmental approval was received for the drilling of the Bezzecca-1 appraisal project and Fantuzza-1 is expected in the 2nd half. All drilling equipment (piping, casing and wellheads), drill rig and other critical support contracts are in place for the drilling of Bezzecca-1 and Fantuzza-1 wells.

Work progressed on the new licence applications with the purchase and evaluation of seismic lines on the La Prospera, Opera and Podere Gallina exploration licences. The Company also secured during the period the preliminary award, subject to environmental clearance, of two new licences – the offshore licence area AR-168-PY ("Azzurra") in the northern Adriatic and Cadelbosco di Sopra in the onshore Po Valley.

The Company closed a $41,120,000 (€25,000,000) finance facility with the Bank of Scotland which was drawn to $3,940,940 (€2,396,000) as at the end of 30 June 2008. During the six months to 30 June 2008, 1,200,000 options expiring 31 October 2008 were exercised at $1.25. The proceeds received by the Company on exercising these options to shares were a total $1,500,000.

During the six months to 30 June 2008, the Company granted 1,200,000 options to executives and 1,800,000 options to non-executive directors. These options expire on 31 May 2011 and have been granted with an exercise price of $1.75.

The company issued 262,463 shares to employees pursuant to the employees share purchase plan. These shares were issued at a price of $1.85.

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 2008.

Matters subsequent to balance date

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

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

Graham Bradley
Chairman

Sydney, NSW Australia
5th September 2008

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 2008 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

KPMG

BC Fullarton

B C Fullarton
Partner

Perth
5 September 2008

CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	NOTE:	30 JUNE 2008 $	30 JUNE 2007 $
Other income		7,169	31
Employee benefit expense		(1,101,308)	(775,752)
Depreciation and amortisation expense		(80,591)	-
Corporate overheads		(826,426)	(688,359)
Resource property costs written off		-	(8,230)
Impairment losses		(122,521)	-
Fair value movement on financial assets		(126,855)	-
Other expenses		(166,904)	-
Results from operating activities		(2,417,436)	(1,472,310)
Finance income		154,050	115,205
Finance expense		(55,816)	(622)
Net finance income		98,234	114,583
Loss before income tax expense		(2,319,202)	(1,357,727)
Income tax expense		-	-
Loss after income tax expense		(2,319,202)	(1,357,727)
Basic and diluted loss per share	**2**	**2.56 cents**	**1.58 cents**

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

CONSOLIDATED INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE SIX MONTHS ENDED 30 JUNE 2008

	30 JUNE 2008 $	30 JUNE 2007 $
Foreign exchange translation differences	(838,052)	(1,577,709)
Net income (loss) recognised directly in equity	(838,052)	(1,577,709)
Loss for the period	(2,319,202)	(1,357,727)
Total recognised income and expense for the period	(3,157,254)	(2,935,436)

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

CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2008

	NOTES	30 June 2008 $	31 December 2007 $
Current Assets			
Cash and cash equivalents		3,963,202	5,970,964
Financial assets		642,926	621,584
Receivables	**8**	1,217,503	2,476,701
Inventory		3,405,694	3,473,605
Total Current Assets		9,229,325	12,542,854
Non-Current Assets			
Receivables	**8**	2,643,786	1,463,402
Other assets		35,128	35,722
Plant & equipment		67,336	55,656
Resource property costs	**3**	39,445,068	33,846,412
Total Non-Current Assets		42,191,318	35,401,192
Total Assets		51,420,643	47,944,046
Current Liabilities			
Payables		3,734,382	3,432,851
Provisions	**10**	221,515	230,072
Interest bearing loans	**4**	3,054,212	-
Total Current Liabilities		7,010,109	3,662,923
Non-Current Liabilities			
Provisions	**10**	1,260,116	-
Total Non-Current Liabilities		1,260,116	-
Total Liabilities		8,270,225	3,662,923
Net Assets		**43,150,418**	**44,281,123**
Equity			
Issued capital		54,065,086	52,079,529
Reserves		(150,130)	687,922
Accumulated losses		(10,764,538)	(8,486,328)
Total Equity	**5**	**43,150,418**	**44,281,123**

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

CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	30 JUNE 2008 $	30 JUNE 2007 $
Cash flows from operating activities		
Payments to suppliers and employees	(1,483,830)	(1,099,909)
Interest received	147,955	115,205
Interest paid	(35,041)	(622)
Net cash outflow from operating activities	(1,370,916)	(985,326)
Cash flows from investing activities		
Payments for non-current assets	(20,005)	(16,582)
Payments for well equipment	(121,466)	(1,251,963)
Payments for security deposits	-	(603,486)
Payments for exploration expenditure	(1,148,285)	(1,005,801)
Payments for development expenditure	(3,577,559)	-
Payments for financial assets	(162,257)	-
Loans to other entities	(122,521)	(83,163)
Net cash outflow from investing activities	(5,152,093)	(2,960,995)
Cash flows from financing activities		
Proceeds from shares issued	1,500,000	7,136,215
Payments for share issue costs	-	(84,919)
Proceeds from borrowings	3,940,941	-
Payments for borrowing costs	(975,747)	-
Net cash inflow from financing activities	4,465,194	7,051,296
Net increase / (decrease) in cash held	(2,057,815)	3,104,975
Cash and cash equivalents at 1 January	5,970,964	5,082,323
Effects of exchange rate changes on cash	50,053	(3,330)
Cash and cash equivalents at 30 June	3,963,202	8,183,968

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) REPORTING ENTITIY

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 2008 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 31 December 2007 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

(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 AASB 134 Interim Financial Reports and the Corporations Act 2001.

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 Group as at and for the year ended 31 December 2007.

The consolidated interim financial report was approved by the Board of Directors on 5th September, 2008.

(c) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for financial assets and financial liabilities recognised at fair value.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current financial year amounts and other disclosure.

(d) ESTIMATES

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

These 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.

In preparing this interim financial report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial report as at and for the year ended 31 December 2007, with the exception of Note 1(e) which affects the current reporting period.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2007, except for the policy listed below which is applied for the first time in this period.

Rehabilitation costs

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that has occurred up to the balance sheet date and abandonment of the well site and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining useful lives of the areas of interest.

Annual increases in the provision relating to the change in net present value of the provision are accounted for in the income statement as finance costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances including drilling activity. Cost estimates are not reduced by potential proceeds from the sale of assets.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

NOTE 2: LOSS PER SHARE

	30 June 2008	30 June 2007
Basic loss per share (cents)	(2.56)	(1.58)

The calculation of basic loss per share was based on the loss attributable to shareholders of $2,319,202 (2007: $1,357,727) and a weighted average number of ordinary shares outstanding during the half year of 90,540,758 (2007: 85,750,272).

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

NOTE 3: RESOURCE PROPERTY COSTS

	30 June 2008 $	31 Dec 2007 $
Resource property costs		
Exploration phase	9,919,344	9,196,021
Development phase	29,525,724	24,650,391
	39,445,068	33,846,412
Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of year	9,196,021	29,254,350
Exploration expenditure	842,037	2,544,730
Transfer to development phase	-	(22,583,273)
Exploration expenditure written off	-	(277,238)
Foreign exchange difference	(118,714)	257,452
Carrying amount at end of year	9,919,344	9,196,021
Development Phase		
Carrying amount at beginning of year	24,650,391	-
Development expenditure transferred from exploration phase	-	22,583,273
Development expenditure	5,471,333	2,012,224
Foreign exchange difference	(596,000)	54,894
Carrying amount at end of year	29,525,724	24,650,391

NOTE 4: INTEREST BEARING LIABILITIES

	30 June 2008 $	31 Dec 2007 $
Bank of Scotland	3,054,212	-

The amount presented is disclosed net of borrowing costs.

Bank of Scotland have provided a €25,000,000 finance facility which provides an initial borrowing base of €5,000,000 to the Group to finance the construction programme of the Castello and Sillaro fields, the first fields scheduled to be brought into production. This initial tranche matures on 15 February 2009. Interest is payable at Euribor plus 4.50%.

The second tranche of €20,000,000 of senior debt is committed and available once the Company receives its formal production concessions and final development approval for the Castello and Sillaro fields. At the date of approval of this financial report, the final production approvals had not been granted. This tranche matures on 15 February 2013. This second tranche of senior debt will replace the initial tranche of €5,000,000.

The facility is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd including the Castello, Sillaro and Sant' Alberto gas fields and licence areas.

NOTE 5: CAPITAL AND RESERVES

Reconciliation of movements in equity

	Share capital $	Translation Reserve $	Retained Earnings $	Total $
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
Balance at 1 January 2008	52,079,529	687,922	(8,486,328)	44,281,123
Total recognised income and expense	-	(838,052)	(2,319,202)	(3,157,254)
Shares issued	1,500,000	-	-	1,500,000
Share issue costs	-	-	-	-
Share based payments	485,557	-	40,992	526,549
Balance at 30 June 2008	54,065,086	(150,130)	(10,764,538)	43,150,418

NOTE 6: FINANCIAL REPORTING BY SEGMENTS

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

NOTE 7: COMMITMENTS AND CONTINGENCIES

At 30 June 2008, the Group had a contractual commitment to provide a bank guarantee to Perazzoli Drilling of Euro 500,000 for planned drilling work and services.

NOTE 8: RECEIVABLES

	30 June 2008 $	31 Dec 2007 $
Included in receivables are indirect taxes recoverable as follows:		
Current	940,721	2,359,385
Non-current	2,643,786	1,463,402

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 Group's obligation to pay employee taxes to the authorities and/or applying for an annual refund (capped at the lowest amount of VAT credits generated in any of the past 3 years). The current portion receivable is estimated to be recoverable in the next twelve months.

NOTE 9: SHARE BASED PAYMENTS

In 2004, the Group established an Employee Incentive Option scheme ("EIOS") that entitles employees and executives to purchase shares in the Company. The terms and conditions of the EIOS are disclosed in the consolidated financial report for the year ended 31 December 2007.

During the half year, the Company granted options to the following directors and key management personnel:

Director:	No. of Options	Grant Date	Exercise Price	Expiry
Michael Masterman	1,000,000	30 May 2008	$1.75	31 May 2011
Graham Bradley	600,000	30 May 2008	$1.75	31 May 2011
David McEvoy	600,000	30 May 2008	$1.75	31 May 2011
Byron Pirola	600,000	30 May 2008	$1.75	31 May 2011
Other key management personnel:				
Doug Colkin	200,000	30 May 2008	$1.75	31 May 2011

The options vest one third every twelve months after 31 May 2008 and will only become exercisable once the Company's closing share price has been equal to or greater than $2.25 for 30 consecutive trading days. The options will automatically vest in a change of ownership situation.

NOTE 9: SHARE BASED PAYMENTS (Cont.)

Fair value of share options and assumptions for the half year ended 30 June 2008:

Fair value at grant date	$0.49
Share price	$1.73
Exercise price	$1.75
Expected volatility	40%
Option life	3 years
Risk free interest rate	6.75%

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report for the year ended 31 December 2007. The fair value at grant date has been determined using the binomial option pricing model.

The following share based payments were made to key management personnel as part of their remuneration package.

Key Management Personnel:	**No. of Shares**	**Share price at Grant date**	**Total**
Michael Masterman	157,593	$1.85	$291,547
Dom Del Borrello	65,767	$1.85	$121,669

The above share based payments have been fair valued at the date the employees became entitled to them.

NOTE 10: PROVISIONS

	30 June 2008 $	**31 Dec 2007 $**
Current:		
Provision for legal claim	164,480	168,180
Employee leave entitlements	57,035	61,892
	221,515	230,072
Non Current:		
Restoration provision	1,260,116	-

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 13, are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of financial position of the Group as at 30 June 2008 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 it's 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

5th September 2008
Sydney, NSW, Australia

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 2008, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a summary of accounting policies and other explanatory notes 1 to 10 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 establishing 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 2008 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.