PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

PO VALLEY ENERGY LIMITED

DIRECTORS' REPORT

The Directors present their report together with the consolidated interim financial report for the half-year ended 30 June 2010 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 appointment**
Non- Executive:	
G Bradley (Chairman)	30 September 2004
B Pirola	10 May 2002
D McEvoy	30 September 2004
Executive:	
M Masterman	22 June 1999 – Chief Executive Officer
Company Secretary	
Lisa Jones	21 October 2009

Principal Activities

The principal continuing activity of the Group, being the Company and its subsidiaries, 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 € 2,124,808 for the half-year ended 30 June 2010 (2009: Loss € 1,343,210).

Operating Review

During the half year, the Company had production from both its Castello and Sillaro production fields and produced a total of 10 million cubic metres of gas.

Castello started on 17 December 2009 and was inaugurated on 12 January 2010 and produced 7.6 million cubic during the half year. The newly installed plant ramped up smoothly to around 60,000 cubic metres per day through the period to April 2010. At this point the Company became concerned with the rate of pressure decline and the field was stopped for testing. Following significant test and evaluation work the Company over a three month period, concluded that future production from the Vitalba -1dir well would be limited and that a new deviated well Vitalba -1dirA would be required to access the original reserves updip of the older Agnadello 1 well 400m to the South of Vitalba-1dir.

The development plan has been modified to incorporate the new well and final authorization is expected in the 2nd Quarter of 2011. In the interim Vitalba- 1 will operate at limited rates.

Sillaro commenced production from Sillaro -2dir on 18 May 2010 and was followed by the start up of Sillaro-1 on 14 June 2010. Operation of the surface plant is in line with expectations and flow rates are in line with the start up plan. Sillaro produced 2.3 million cubic meters following May start up and is currently running at approximately 100,000 cubic metres per day.

Total revenue from our maiden half year of gas production was €2,587,969 and we expect this to increase in the coming half year period.

Progress was also made on the development front with development plans and applications for Bezzecca and Sant Alberto progressing. New seismic will be shot on the Sant Alberto field in the second half of 2010. As reported in detail in the March quarterly, the evaluation of 2P reserves of the Bezzecca field at 3.1 bcf were significantly lower than the predrilling reserve estimates of 44 bcf. A two well development at Bezzecca is planned.

Geological, exploration and appraisal work advanced on a number of the company's prospects. Based on this work our forward drilling program for the next 24 months is expected to cover Fantuzza, Gradizza, Correggio and Cembalina.

During the period the Company reduced its drawings on the Bank of Scotland facility from EUR10.3m to EUR7m at 30 June 2010. No share issues were made during the period.

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 2010.

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

Graham Bradley

Graham Bradley
Chairman

2 August 2010
Sydney, NSW Australia

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 2010 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

R. Gambitta
Partner

Perth

2 August 2010

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	NOTES	30 June 2010 €	31 December 2009 €
Current Assets			
Cash and cash equivalents		2,480,538	6,622,329
Trade and other receivables	3	2,383,307	2,348,206
Inventory		914,634	810,749
Total Current Assets		5,778,479	9,781,284
Non-Current Assets			
Trade and other receivables	3	1,828,763	1,953,326
Other assets		60,061	23,062
Property, plant & equipment	4	7,003,804	5,831,885
Resource property costs	5	27,057,972	28,911,578
Total Non-Current Assets		35,950,600	36,719,851
Total Assets		**41,729,079**	**46,501,135**
Current Liabilities			
Trade and other payables		3,269,874	3,090,601
Provisions	7	59,295	184,285
Unearned Revenue		915,287	841,004
Total Current Liabilities		4,244,456	4,115,890
Non-Current Liabilities			
Provisions	7	2,740,771	2,361,575
Interest bearing loans	8	6,413,169	9,637,183
Total Non-Current Liabilities		9,153,940	11,998,758
Total Liabilities		**13,398,396**	**16,114,649**
Net Assets		**28,330,683**	**30,386,486**
Equity			
Issued capital	9	44,599,315	44,599,315
Reserves		2,080,995	2,011,990
Accumulated losses		(18,349,627)	(16,224,819)
Total Equity		**28,330,683**	**30,386,486**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTE	30 June 2010 €	30 June 2009 €
Revenue		2,587,969	-
Operating costs		(998,258)	-
Depreciation and amortisation expense		(1,264,843)	-
Gross profit		324,868	-
Other income		97,306	18,146
Employee benefit expense		(923,867)	(1,073,850)
Depreciation expense		(6,746)	(10,214)
Corporate overheads		(429,919)	(394,427)
Resource property costs impairment losses		(928,717)	(464,494)
Fair value movement on financial assets		-	30,914
Other expenses		(134,440)	(49,550)
Loss from operating activities		(2,001,515)	(1,943,475)
Finance income		270,566	688,985
Finance expense		(393,859)	(88,720)
Net finance (expense) / income		(123,293)	600,265
Loss before income tax expense		(2,124,808)	(1,343,210)
Income tax expense		-	-
Loss for the period		(2,124,808)	(1,343,210)
Other comprehensive loss			
Foreign currency translation differences for foreign operations		-	(4,858,090)
Other comprehensive loss for the period, net of income tax		-	(4,858,090)
Total comprehensive loss for the period		(2,124,808)	(6,201,300)
Loss attributable to:			
Owners of the Company		(2,124,808)	(1,343,210)
Loss for the period		(2,124,808)	(1,343,210)
Total comprehensive loss attributable to:			
Owners of the Company		(2,124,808)	(6,201,300)
Total comprehensive loss for the period		(2,124,808)	(6,201,300)
Basic and diluted loss per share (€)	**2**	**1.93 cents**	**1.34 cents**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to equity holders of the Company				
In Euro's	Share capital	Translation Reserve	Option Reserve	Accumulated Losses	Total
Balance at 1 January 2009	32,736,250	6,050,359	544,982	(9,022,014)	30,309,577
Total comprehensive income for the period:					
Loss for the period	-	-	-	(1,343,210)	(1,343,210)
Other comprehensive income					
Foreign currency translation differences	-	(4,858,090)	-	-	(4,858,090)
Total other comprehensive income	-	(4,858,090)	-	-	(4,858,090)
Total comprehensive income for the period	-	(4,858,090)	-	(1,343,210)	(6,201,300)
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Shares issued	5,715,823	-	-	-	5,715,823
Share issue costs	(217,909)	-	-	-	(217,909)
Share based payments	270,053	-	163,035	-	433,088
Balance at 30 June 2009	**38,504,217**	**1,192,269**	**708,017**	**(10,365,224)**	**30,039,279**
Balance at 1 January 2010	**44,599,315**	**1,192,269**	**819,721**	**(16,224,819)**	**30,386,486**
Total comprehensive income for the period:					
Loss for the period	-	-	-	(2,124,808)	(2,124,808)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(2,124,808)	(2,124,808)
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Share based payments	-	-	69,005	-	69,005
Balance at 30 June 2010	**44,599,315**	**1,192,269**	**888,726**	**(18,349,627)**	**28,330,683**

The above consolidated statement changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	30 June 2010 €	30 June 2009 €
Cash flows from operating activities		
Receipts from customers	2,882,325	-
Payments to suppliers and employees	(2,019,741)	(1,500,844)
Interest received	46,522	75,601
Net cash generated from/ (used in) operating activities	909,106	(1,425,243)
Cash flows from investing activities		
Interest paid	(161,994)	(255,653)
Payments for non-current assets	(50,233)	(7,752)
Payments for well equipment	-	-
Payments for exploration expenditure	(191,263)	(2,104,993)
Payments for development expènditure	(1,557,519)	(948,886)
Net cash used in investing activities	(1,961,009)	(3,317,284)
Cash flows from financing activities		
Proceeds from shares issued	-	5,715,823
Payments for share issue costs	-	(217,909)
(Repayments of)/ Proceeds from borrowings	(3,279,269)	1,310,000
Payments for borrowing costs	(49,832)	(127,947)
Net cash (used in) / generated from financing activities	(3,329,101)	6,679,967
Net increase / (decrease) in cash and cash equivalents	(4,381,004)	1,937,440
Cash and cash equivalents at 1 January	6,622,329	2,948,689
Effects of exchange rate changes on cash	239,213	(422,169)
Cash and cash equivalents at 30 June	2,480,538	4,463,960

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

NOTES TO THE CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2010 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 2009 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 statements have been prepared in accordance with *AASB 134 Interim Financial Reports* and the Corporations Act 2001. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2009.

The consolidated interim financial statements were approved by the Board of Directors on 2 of August 2010.

(c) BASIS OF PREPARATION

The financial report is presented in Euro.

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 disclosures.

(d) ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-current assets

The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest is tested for impairment. There is significant estimation and judgment in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation and judgement in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- Independent valuations of underlying assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant judgment is required in determining the provisions for rehabilitation and closure as there are many transactions and other factors that will affect ultimate costs necessary to rehabilitate the sites. The discounted value reflects a combination of management's best estimate of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination of, the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at that time. Changes to the estimated figure costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision.

(e) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statement as at and for the year ended 31 December 2009. The following accounting policies have been adopted as a result of certain projects of the Group moving from development to production phase for the first time.

(i) Production properties

Production properties are carried at balance sheet date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation and development and acquisition costs in relation to areas of interest in which production licences have been granted and the related project moving to the production phase.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being performed for each area of interest. The unit-of-production base results in an amortisation charge proportional to the depletion of economically recoverable reserves. The amortisation rate incurred in the period for each project in production phase is as follows:

Castello	7.51%
Sillaro	0.89%

NOTES TO THE CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) SIGNIFICANT ACCOUNTING POLICIES

(i) Production properties (continued)

Amounts received during the exploration, evaluation, development and construction phases which are in the nature of reimbursement or recoupment of previously incurred costs are offset against such costs.

(ii) Plant and equipment

Gas producing plant and equipment

The cost of plant and equipment used in the process of gas extraction are accounted for separately and are stated at cost less accumulated depreciation and impairment costs. Costs include expenditure directly attributable to the acquisition or construction of the items.

When the gas plant and equipment is installed ready for use, cost carried forward will be depreciated on a unit-of -production basis over the life of the economically recoverable reserve.

The depreciation rate of gas plant and equipment incurred in the period for each project in production phase is as follows:

Castello	7.51%
Sillaro	0.89%

Changes in factors such as estimates of economically recoverable reserves that affect the depreciation do not give rise to prior period financial period adjustments and are dealt with on a prospective basis.

NOTE 2: LOSS PER SHARE

	30 June 2010	30 June 2009
Basic loss per share (€ cents)	(1.93)	(1.34)

The calculation of basic loss per share was based on the loss attributable to shareholders of €2,124,808 (2009: €1,343,210) and a weighted average number of ordinary shares outstanding during the half year of 110,179,926 (2009: 99,966,825).

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

NOTE 3: TRADE AND OTHER RECEIVABLES

	30 June 2010	31 December 2009
	€	€
Included in receivables are Italian indirect taxes recoverable as follows:		
Current	2,122,013	2,078,848
Non-current	1,828,763	1,953,326

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 4: PROPERTY, PLANT & EQUIPMENT

	30 June 2010	31 December 2009
	€	€
Office Furniture & Equipment:		
At cost	132,062	118,829
Accumulated depreciation	(87,021)	(80,275)
	45,041	38,554
Plant & Equipment under construction		
At cost	-	5,793,331
Accumulated depreciation	-	-
	-	5,793,331
Gas producing plant and equipment		
At cost	7,234,469	-
Accumulated depreciation	(275,706)	-
	6,958,763	5,793,331
	7,003,804	5,831,885

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

NOTE 4: PROPERTY, PLANT & EQUIPMENT (continued)

	30 June 2010	31 December 2009
	€	€
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
Office Furniture & Equipment:		
Carrying amount at beginning of period	38,554	42,971
Additions	13,233	8,442
Depreciation expense	(6,746)	(12,573)
Foreign exchange difference	-	(286)
Carrying amount at end of period	45,041	38,554
Plant & Equipment under construction:		
Carrying amount at beginning of period	5,793,331	-
Additions	-	5,793,331
Transfer to gas producing assets	(5,793,331)	-
Carrying amount at end of period	-	5,793,331
Gas Producing assets:		
Carrying amount at beginning of period	-	-
Transferred from exploration and development assets	685,964	-
Transferred from plant and equipment under construction	5,793,331	-
Additions	755,174	-
Depreciation expense	(275,706)	-
Carrying amount at end of period	6,958,763	-
	7,003,804	5,831,885

NOTE 5: RESOURCE PROPERTY COSTS

	30 June 2010	31 December 2009
	€	€
Resource Property costs		
Exploration Phase	5,861,944	6,139,221
Development Phase	-	22,772,357
Production Phase	21,196,028	-
	27,057,972	28,911,578

NOTE 5: RESOURCE PROPERTY COSTS (continued)

	30 June 2010	31 December 2009
Reconciliation of carrying amount of resource properties	€	€
Exploration Phase		
Carrying amount at beginning of period	6,139,221	7,689,974
Foreign exchange difference	-	(1,060,034)
Exploration expenditure	137,361	4,617,876
Change in estimate of rehabilitation assets	(265,357)	-
Exploration expenditure written off	(149,281)	(5,108,595)
Carrying amount at end of period	5,861,944	6,139,221

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

Development Phase		
Carrying amount at beginning of period	22,772,357	22,366,345
Foreign exchange difference	-	(3,151,065)
Development expenditure	200,704	9,490,725
Commissioning revenue received (i)	-	(140,317)
Reclassed as Plant & Equipment	(685,964)	(5,793,331)
Transfer to production assets	(22,287,097)	-
Carrying amount at end of period	-	22,772,357

(i) Relates to gas sales generated prior to commercial production having occurred.

NOTE 5: RESOURCE PROPERTY COSTS (continued)

	30 June 2010	31 December 2009
Production Phase	€	€
Carrying amount at beginning of period	-	-
Reclassed from development expenditure	22,287,097	-
Additions	138,366	-
Change in estimate of rehabilitation assets	539,138	-
Amortisation of producing assets	(989,137)	-
Impairment loss	(779,436)	-
Carrying amount at end of period	21,196,028	-

Commercial production on the Castello well began on 12 January 2010. An impairment trigger was identified with regard to Castello during the second quarter of 2010 as a result of decline in pressure and the field was stopped for testing. Accordingly, the associated resource property costs and related plant and equipment (as a cash generating unit) have been tested for impairment. The recoverable amount has been determined by reference to a discounted cashflow forecast model. The key assumptions adopted in that model, based on a two well development, include gas pricing, expected gas production, operating and capital expenditure and a discount rate. The expected production and reserves have been independently reviewed. The recoverable amount is most sensitive to the gas price assumption and the discount rate. As result of the impairment test, the recoverable amount for Castello has been determined to be €9.1million resulting in an impairment expense of €779,436.

Commercial production from the Sillaro well commenced on 18 May 2010.

NOTE 6: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Group's strategic business units. The strategic business units are classified according to field licence areas which are managed separately. All strategic business units are in Italy. For each strategic business unit, the CEO reviews internal management reports on a monthly basis. Exploration, Development and Production gas and oil are the operating segments identified for the Group. The individual exploration, development and production operations have been aggregated.

	Exploration		Development		Production		Total	
	30 June 2010 €	30 June 2009 €	30 June 2010 €	30 June 2009 €	30 June 2010 €	30 June 2009 €	30 June 2010 €	30 June 2009 €
External revenues	-	-	-	-	2,587,969	-	2,587,969	-
Segment (loss) / profit before tax	(149,281)	(464,494)	-	-	(454,568)	-	(603,849)	(464,494)
Depreciation and amortisation	-	-	-	-	(1,264,843)	-	(1,264,843)	-
Impairment on resource property costs	(149,281)	(464,494)	-	-	(779,436)	-	(928,717)	(464,494)
Reportable segment assets:								
Resource property costs	5,861,944	11,041,588	-	20,492,408	21,196,028	-	27,057,972	31,533,996
Plant & Equipment	-	-	-	-	6,958,763	-	6,958,763	-
Receivables	-	-	-	-	46,652	-	46,652	-
Inventory	-	-	914,634	1,672,743	-	-	914,634	1,672,743
Capital expenditure	137,361	4,876,141	200,704	1,277,128	138,366	-	476,431	6,153,269
Movement in rehabilitation assets	(265,357)	673,907	-	-	539,139	-	273,782	673,907
Reportable segment liabilities	(1,318,890)	(2,137,728)	-	(3,408,200)	(5,047,026)	-	(6,365,916)	(5,545,928)

NOTE 6: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	30 June 2010	30 June 2009
Profit or loss:	€	€
Total loss for reportable segments	(603,849)	(464,494)
Unallocated amounts:		
Other corporate expenses	(1,520,959)	(878,716)
Consolidated loss before income tax	(2,124,808)	(1,343,210)
Assets:		
Total assets for reportable segments	34,978,021	33,206,739
Other assets	6,751,058	8,410,518
Consolidated total assets	41,729,079	41,617,257
Liabilities:		
Total liabilities for reportable segments	(6,365,916)	(5,545,928)
Other liabilities	(7,032,480)	(6,032,050)
Consolidated total liabilities	(13,398,396)	(11,577,978)

NOTE 7: PROVISIONS

	30 June 2010	31 December 2009
	€	€
Current:		
Provision for legal claim	-	125,000
Employee leave entitlements	59,295	59,285
	59,295	184,285
Non Current:		
Restoration provision	2,740,771	2,361,575
Reconciliation of restoration provision:		
Opening balance	2,361,575	1,239,301
(Decrease) / Increase in provision due to revised estimates	273,782	872,959
Increase in provision from unwind of discount rate	105,414	249,315
Closing balance	2,740,771	2,361,575

NOTE 8: INTEREST BEARING LIABILITIES

	30 June 2010	31 December 2009
	€	€
Bank of Scotland finance facility	6,413,169	9,637,183

The amount presented is disclosed net of borrowing costs of €586,831 (2009: €642,085).

Bank of Scotland have provided a €25,000,000 finance facility which provided an initial borrowing base of €5,000,000 to the Group to finance the construction program of the Castello and Sillaro fields and a senior facility of €20,000,000.

The senior facility became available on 19 June 2009 when the Company received its formal production concessions and final development approval for the Castello and Sillaro fields. This senior debt replaced the initial tranche of €5,000,000 and matures on 15 November 2013. The current borrowing limit for the six months to 31 December 2010 is set to €7,976,591 as of 30 June 2010 and incorporates the semi annual borrowing base review during June. Interest is currently payable at Euribor plus 3.00%. Subject to the successful completion test for Sillaro in the second half of 2010, the margin over the Euribor will drop to 180 basis points.

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 9: ISSUED CAPITAL

During the half year ended 30 June 2010, there was no movement in issued capital:

	2010 Number	2009 Number
Share Capital		
Opening balance - 1 January	110,179,926	94,768,096
Shares issued during the year:		
Share issue at €0.69 ($1.20) each on 26 February 2009	-	7,004,167
Share issue at €0.69 ($1.20) each on 3 March 2009	-	495,833
Share issue at €0.91 ($1.60) each on 6 May 2009	-	294,729
Share issue at €0.69 ($1.20) each on 16 September 2009	-	833,333
Share issue at €0.93 ($1.55) each on 6 October 2009	-	5,500,000
Share issue at €0.97 ($1.55) each on 18 November 2009	-	1,283,768
Closing balance – 30 June / 31 December	110,179,926	110,179,926

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.

No dividends were paid or declared during the current year.

NOTE 10: RELATED PARTY TRANSACTIONS

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 2009.

No options or share based payments were granted during the six months to 30 June 2010. The expense of €69,005 for the period represents the vesting of previously granted options.

NOTE 11: COMMITMENTS AND CONTINGENCIES

There were no material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 30 June 2010.

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 18, 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 2010 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Regulations 2001; and

2. 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

Graham Bradley
Chairman

Byron Pirola

Byron Pirola
Non-Executive Director

2 August 2010
Sydney, NSW, Australia

KPMG

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

Report on the financial report

We have reviewed the accompanying interim financial report of Po Valley Energy Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim ended on that date, a summaryof significant accounting policies and other explanatory notes 1 to 11 and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim 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 interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the 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 interim 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 2010 and its performance for the interim period 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 interim 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.

KPMG

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim 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 2010 and of its performance for the interim period ended on that date; and

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

KPMG

KPMG

R. Gambitta
Partner

Perth

2 August 2010