PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED FINANCIAL REPORT FOR THE

YEAR ENDED 31 DECEMBER 2011

DIRECTORS' REPORT

The directors present their report together with the financial report of Po Valley Energy Limited ('the Company" or "PVE") and of the Group, being the Company and its controlled entities, for the year ended 31 December 2011.

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 (Managing Director) 11 October 2010 (Non-Executive Director)
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	30 September 2004
G Short	5 July 2010

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 63*
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 Limited. He was formerly Managing Partner of a national law firm, Blake Dawson Waldron and was a senior Partner of McKinsey & Company. Mr Bradley is currently Chairman of Stockland Corporation Limited, HSBC Bank Australia Limited and Anglo American Australia Limited and a director of GI Dynamics Inc. Graham is Chairman of the Remuneration and Nomination Committee and was a member of the Audit and Risk Committee until December 2010.

Michael Masterman — Non Executive Director, *BEcHons, Age 49*
Michael is a co-founder of PVE. Michael took up the position of Executive Chairman and CEO of PVE and Northsun Italia S.p.A. in 2002 and resigned in October 2010 to take on an executive role with Fortescue Metals Group Limited. 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 the US. Mr. Masterman became a member of the Remuneration & Nomination Committee from 1 January 2011.

David McEvoy — Non Executive Director, *BSc, Grad Diploma (Appl. Geophysics), Age 65*
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, AWE Limited and Innamincka Petroleum Limited. David is a member of the Audit and Risk Committee.

Byron Pirola — Non Executive Director, *BSc, PhD, Age 51*
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.

Gregory Short — Non Executive Director, *BSc, Age 61*
Greg Short was appointed Non Executive Director in July 2010. Greg is a geologist who worked with Exxon in exploration, development and production geosciences and management for 33 years in Australia, Malaysia, USA, Europe and Angola. During his time in Europe, Greg was actively involved in Exxon's activities in the Netherlands and Germany. Greg was Geoscience Director of Exxon's successful development of its Angola offshore operations. Greg retired from Exxon in 2006 and is a non-executive director of ASX listed MEO Australia and Pryme Oil and Gas Limited. Greg became a member of the Audit and Risk Committee from 1 January 2011.

2. Company Secretary

Lisa Jones – Company Secretary, *LLB*
Lisa was appointed to the position of Company Secretary in October 2009. She is a corporate lawyer with over 16 years experience in commercial law and corporate affairs, working with large public companies and emerging companies in Australia and in Europe. She was a senior associate in the corporate & commercial practice of Allen Allen & Hemsley and spent several years working in Italy, including as international legal counsel at Pirelli Cavi and as an associate in the Rome office of a national Italian firm.

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	G Short
No. of board meetings held	8	8	8	8	8
No. of board meetings attended	8	8	8	8	7
No. of Audit Committee meetings held	n/a	n/a	3	3	3
No. of Audit Committee meetings attended	2*	2*	3	3	3
No. of Remuneration Committee meetings held	2	2	n/a	2	n/a
No. of Remuneration Committee meetings attended	2	2	2*	2	1*

*attended meeting as an observer

4. Principal Activities

The principal continuing activities of the Group in the course of the year were:

- the exploration for gas and oil in the Po Valley region in Italy
- appraisal and development of gas and oil fields
- production and sale of gas from the Group's production wells

5. Earnings per share

The basic and diluted loss per share for the Company was €4.57 cents (2010: €2.11 cents).

6. Operating and financial review

During the year, the Company produced from both its Castello and Sillaro fields with a total combined production of 28.9 million cubic metres of gas (1 billion cubic feet).

During the first 8 months of the year, Vitalba- 1 dir operated at limited rates producing at approximately 3,000 cubic metres per day. In November, the planned Vitalba-1dirA well was deviated from the current Castello plant location and subsequently connected to the existing gas treatment plant. Production from the deviated well commenced 8 February 2011 with initial production at the rate of approximately 15,000 cubic metres per day which will be increased gradually. Production from Castello during the reporting period amounted to 718 thousand cubic metres.

Sillaro produced 28.3 million cubic meters in 2011 and produced at approximately 80,000 cubic metres per day during 2011. In May, Sillaro production was stopped for 3 days to record bottom hole pressure readings. The results are encouraging confirming previously estimated reserves. The Company plans to conduct pressure readings in 2012.

The Company also made progress on the development front by submitting the development plan for Bezzecca in January 2011 and finalising an updated development plan for Sant' Alberto. The updated plan for Sant Alberto is expected to be submitted in early 2012. As part of the development plan finalisation process, new seismic was shot on the Sant' Alberto field in February and March 2011. The Company also completed a 15 km 2D seismic acquisition campaign in the Podere Gallina permit area on the Cembalina prospect.

During the reporting period, the Company expanded its portfolio with the grant of exploration licences Cadelbosco di Sopra and Grattasasso in the Po Valley basin. The company purchased and analysed 111 km of ENI 2D seismic lines related to these fields. Supplementary geological and geophysical studies have resulted in the identification of two low risk gas plays and two oil plays located in these two permits.

Geological, exploration and appraisal work advanced on a number of other company prospects. Based on this work our forward drilling program for the next 24 months is expected to cover the appraisal of the Fantuzza gas field, the appraisal of two Quaternary/Pliocene gas prospects in Cadelbosco di Sopra and the drilling of the exploration gas prospects of Gradizza and Cembalina, subject to ongoing technical assessments, regulatory approvals and available finances. In 2011, the Company lodged two new exploration licence applications (Torre di Moro and Tozzona) and will continue to scout new opportunities in 2012.

With the assistance from US advisory firm Moyes and Co, a farm out package, including a number of assets was finalised and the partner search process initiated. Several companies have completed the due diligence phase. The Company plans to maintain operatorship on all permits. Commensurate with its planned work programme, the Company selectively recruited a number of professional staff in 2011, namely in the geoscience and reservoir engineering area and continues to seek specific skills to complement our talented technical team.

The year ahead will bring new challenges and opportunities as we manage the increased acreage under tenure including the drilling of exploration wells, together with the potential of a new production concession award.

Total revenue from our full year of gas production was €9,115,046 showing a year on year growth of €1,957,715 or 27%. Gas prices have increased steadily over the last 12 months. Specifically, average realised gas price for the full year was €/c 31 per cubic metre compared to €/c 29 in 2010. Operating efficiencies were achieved and evidenced by the continuous improvement in operating margins.

The Company made a net loss for the 2011 year of €5,070,764. The Company did, however, generate its first net profit of €367,010 (unaudited) for the 6 months ended 30 June 2011, but generated a net loss in the second half due primarily to the impairment of resource property costs related to its Castello field by €5,829,915. But for this non-cash item and other minor impairments, net profit (loss) in the second half would have been approximately €759,151 (unaudited).

Net profit before impairment expense is reconciled to comprehensive loss for the period as follows:

Comprehensive profit reconciliation table (in Euro)	**2011**	**2010**
Net profit (loss) before impairment expense (unaudited)	860,797	(1,248,428)
Impairment on resource property costs for the Castello field	(5,829,915)	(801,354)
Impairment on exploration assets and inventory	(101,646)	(273,814)
Comprehensive loss for the period	**(5,070,764)**	**(2,323,596)**

Earnings before interest, tax, impairment, depreciations and amortisation amounted to €4,411,011 for the year.

EBITDA (unaudited) is reconciled to statutory results from operating activities as follows:

EBITDA reconciliation table (in Euro)	**2011**	**2010**
EBITDA	4,411,011	2,218,896
Depreciation and amortisation expense	(2,534,799)	(2,821,596)
Depreciation expense	(25,709)	(18,603)
Impairment losses	(5,931,561)	(1,075,168)
Interest income con current accounts	(5,504)	(40,951)
Results from operating activities	**(4,086,563)**	**(1,737,423)**

Company’s drawings on the Lloyds (formerly Bank of Scotland) facility amount to €6 million at 31 December 2011. No repayments were made during the year. The borrowing base ceiling review in November resulted in a borrowing limit of €7.6 million for the first half of 2012.

Share issues during the period were limited to employee bonuses. A total of 598,490 shares were issued at a price of €0.18 (A$0.25) (338,604 shares issued) and €0.14 (A$0.19) (259,886 shares issued). The share price was calculated as the market value of shares on date payment was approved by the Board.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2011.

8. Events subsequent to reporting date

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 Group, the results of those operations, or the state of affairs of the Group.

9. Likely Developments

The company plans to seek a suitable farm-out partner for selected assets. The company also plans to continue to invest in its current exploration portfolio through geological and geophysical studies and, subject to available finances, a drilling program.

10. Environmental Regulation

The Company's operations are subject to environmental regulations under both national 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 - audited

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 Remuneration & Nominations Committee (Committee) is responsible for reviewing and recommending compensation arrangements for the Directors, the Chief Executive Officer and the senior executive team. The Committee assesses the appropriateness of the size and structure of remuneration of those officers on a periodic basis, with 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.

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

All senior executives except the company secretary are based in Rome and when setting their remuneration the board must have regard to remuneration levels and benefit arrangements that prevail in the European oil and gas industry which remains highly competitive.

After reviewing external market benchmarks and considering the company's financial position, the board has determined an appropriate remuneration package for the new Chief Executive Officer, Giovanni Catalano comprising base pay, benefits and bonus incentives based on agreed performance objectives and payable, if earned, in cash or shares at the Company's direction.

Since listing in 2004, the Company has largely based its long-term incentive plans on issues of shares and options vesting over 3 year periods rather than cash payments to minimise calls on the company's cash reserves. In respect of 2011, executive bonuses were paid in cash. Depending on the Company's cash reserves, on an annual basis the Board will review the method of payment (i.e. cash compared to share-based payments) for employee short-term bonuses.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholders wealth the Board has regard to the following indices in respect of the current financial year and the previous financial period.

Indices	2011	2010	2009	2008	2007
Loss attributable to owners of the company (€'000s) *	**(5,071)**	**(2,324)**	**(7,203)**	**(4,172)**	**(1,572)**
Earnings / (loss) per share (€ cents per share) *	**(4.57)**	**(2.11)**	**(6.99)**	**(4.54)**	**(1.78)**
Dividends paid	**NIL**	**NIL**	**NIL**	**NIL**	**NIL**
Share Price at year end - AU $	**0.16**	**0.21**	**1.68**	**1.10**	**1.50**

* 2008 & 2007 are restated to Euro

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has regard for the stage of development of the Company's business and given consideration to each of the indices outlined above and other operational and business development achievements of future benefit to the Company which are not reflected in the aforementioned financial measures.

Senior Executives

The remuneration of PVE senior executives is based on a combination of fixed salary, a short term incentive bonus which is based on performance and in some cases a long term incentive payable in cash or shares. Other benefits include employment insurances and superannuation contributions. In relation to the payment of annual bonuses, the board assesses the performance and contribution of executives against a series of objectives defined at the beginning of the year. These objectives are a combination of strategic and operational company targets which are considered critical to shareholder value creation and objectives which are specific to the individual executive. More specifically, objectives mainly refer to operating performance from both a financial and technical standpoint and growth and development of the Company's asset base. The board exercises its discretion when determining awards and exercises discretion having regard to the overall performance and achievements of the Company and of the relevant executive during the year.

In past years, long-term performance benefits were in the form of employee share options granted to senior executives. Vesting of the options was subject to service vesting and price hurdles must be met before the options can be exercised. The company has not awarded any options in the financial year to 31 December 2011 and has no plans to issue options in the immediate future.

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. Given the size of PVE, and the focussed nature of its business and shareholdings structure, issues of share options to Non-Executive Directors have previously been made, and may in the future be made subject to approval by shareholders, to enhance overall shareholder wealth creation. The board of directors and shareholders approved the maximum agreed remuneration pool for Non-Executive Directors at the annual general meeting in May 2011 at €250,000 per annum.

The total fees paid in 2011 to Non-Executive Directors was €182,000 (2010 €104,900).

<u>Service contracts</u>

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:

Directors:

Graham Bradley, Chairman

- Commencement Date: 30 September 2004 (re-elected 19 May 2010)
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2011: €50,000
- No termination benefits

David McEvoy, Non-executive director

- Commencement Date: 30 September 2004 (re-elected 20 May 2009)
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2011: €33,000
- No termination benefits

Byron Pirola, Non-executive director

- Commencement Date: 10 May 2002 (re-elected 13 May 2011)
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2011: €33,000
- No termination benefits

Gregory Short, Non-executive director

- Commencement Date: 21 July 2010 (elected 13 May 2011)
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2011: €33,000
- No termination benefits

Michael Masterman, Non -executive director

- Commencement Date: 22 June 1999 (elected 13 May 2011)
- Term of Agreement: 3 years
- Fixed remuneration as a non-executive director: €33,000
- No termination benefits

Executives:

Giovanni Catalano, Chief Executive Officer

- Commencement Date: 11 October 2010 as Chief Executive Officer (CEO)
- Term of Agreement: Indefinite but terminable by either party on three month's notice
- Fixed service contract fee of €180,000 per annum plus accommodation costs and other non-monetary benefits
- Sign on bonus for a total of €100,000 payable in four quarterly installments, 75% of which is to be paid through the issue of shares and 25% in cash. The first two installments were settled in 2010 through the issue of shares and a further installment settled in 2011 through issue of shares with the remainder paid in cash
- Annual performance based fee of up to 70% of his contracted service fee subject to the achievement of performance criteria agreed with the Board
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three months' service fee

Lisa Jones, Company Secretary

- Commencement Date: 21 October 2009
- Term of Agreement: Indefinite but terminable by either party on one month's notice
- Contracted on a fixed monthly retainer (A$2,500 to the end of 31 December 2011) to provide company secretarial and corporate governance services
- No termination benefit

<u>Directors and executive officers' remuneration - Consolidated</u>

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 Group other than those listed.

		Short-term						Post-Employment	Share-based payments				
		Salary & fees €	Accommo-dation €	Car €	Other €	Total Base	STI Cash €	Superannuation benefits €	Short term incentive bonus Shares €	Options €	Total €	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors													
G Bradley Chairman Non-executive	**2011**	**50,000**	**-**	**-**	**-**	**50,000**	**-**	**-**	**-**	**-**	**50,000**	-	-
	2010	36,000	-	-	-	36,000	-	-	-	13,801	49,801	-	28%
D McEvoy Non-executive	**2011**	**33,000**	**-**	**-**	**-**	**33,000**	**-**	**-**	**-**	**-**	**33,000**	-	-
	2010	24,000	-	-	-	24,000	-	-	-	13,801	37,801	-	37%
B Pirola Non-executive	**2011**	**33,000**	**-**	**-**	**-**	**33,000**	**-**	**-**	**-**	**-**	**33,000**	-	-
	2010	24,000	-	-	-	24,000	-	-	-	13,801	37,801	-	37%
G Short Non-executive	**2011**	**33,000**	**-**	**-**	**-**	**33,000**	**-**	**-**	**-**	**-**	**33,000**	-	-
	2010	12,500	-	-	-	12,500	-	-	-	-	12,500	-	-
M Masterman Non-executive	**2011**	**33,000**	**-**	**-**	**-**	**33,000**	**-**	**-**	**-**	**-**	**33,000**	-	-
	2010	132,000	26,717	518	5,106	164,341	140,000*	-	-	23,001	327,342	50%	6%
Total for Directors	**2011**	**182,000**	**-**	**-**	**-**	**182,000**	**-**	**-**	**-**	**-**	**182,000**	-	-
	2010	228,500	26,717	518	5,106	260,841	140,000	-	-	64,404	465,245		

** Paid in respect of 2009 calendar year performance. No bonus was paid for the 2010 calendar year.*

Directors and executive officers’ remuneration - Consolidated (Continued)

		Short-term						Post-Employment	Share-based payments				
		Salary & fees €	Accommo-dation €	Car €	Other €	Total Base	STI Cash €	Superannuation benefits €	Short term incentive bonus Shares €	Options €	Total €	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Specified Executives													
G Catalano Chief Executive Officer	**2011**	**180,000**	**30,800**	**9,060**	**6,709**	**226,569**	**55,000**	**-**	**39,191**	**-**	**320,760**	**29%**	**-**
	2010	96,750	15,781	-	-	112,531	-	-	43,327	-	155,858	28%	-
D Colkin Chief Operating Officer Resigned 31 July 2010	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	94,789	13,236	-	771	108,796	43,750	-	-	4,601	157,147	28%	3%
Lisa Jones Company Secretary	**2011**	**22,279**	**-**	**-**	**-**	**22,279**	**-**	**-**	**-**	**-**	**22,279**	**-**	**-**
	2010	19,204	-	-	-	19,204	-	-	-	-	19,204	-	-
Total for Specified Executives	**2011**	**202,279**	**30,800**	**9,060**	**6,709**	**248,848**	**55,000**	**-**	**39,191**	**-**	**343,039**		
	2010	210,743	29,017	-	771	240,531	43,750	-	43,327	4,601	332,209		
Total Directors and Executives	**2011**	**384,279**	**30,800**	**9,060**	**6,709**	**430,848**	**55,000**	**-**	**39,191**	**-**	**525,039**		
	2010	439,243	55,734	518	5,877	501,372	183,750	-	43,327	69,005	797,454		

Notes in relation to the table of directors' and executive officers' remuneration

A. 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 bonus awarded as remuneration are detailed below. Bonuses paid by issue of shares and included in share based payments to each director and specified executive.

	2011			2010		
Directors and specified executives	**Cash Bonus €**	**Bonus paid by issue of shares €**	**% vested in year**	**Cash Bonus €**	**Bonus paid by issue of shares €**	**% vested in year**
G Catalano	55,000	39,191	100%	-	43,327	100%
M Masterman	-	-	-	140,000	-	70%
D Colkin	-	-	-	43,750	-	100%

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 2010 and 2011 financial years.

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

No options were granted as compensation to directors or key management personnel during the reporting period (2010: NIL).

The following options vested in the period:

	No. of options vested during 2011	No. of options vested during 2010
Directors		
G Bradley	-	200,000
D McEvoy	-	200,000
B Pirola	-	200,000
M Masterman	-	333,333
Executives		
D Colkin (Resigned 31 July 2010)	-	66,666

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise and lapse of options granted as compensation

No options granted as compensation were exercised during 2011.

3,100,000 options granted as compensation in prior periods lapsed on expiration date of 31 May 2011.

<u>Analysis of options over equity instruments granted as compensation</u>

All options granted as remuneration to each director of the Company and key management personnel are vested in prior years lapsed on 31 May 2011; no options were exercised by directors or key management personnel.

<u>Analysis of movements in options</u>

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the specified executives is detailed below:

	Granted in year €	Value of options exercised in year €	Lapsed in year €(A)
Directors			
G Bradley	-	-	-
D McEvoy	-	-	-
B Pirola	-	-	-
G Short	-	-	-
M Masterman	-	-	-
Specified Executives			
G Catalano	-	-	-
L Jones	-	-	-

(A) The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using Black-Scholes formula assuming the performance criteria had been achieved. 2,800,000 options lapsed in the year.

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, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares
G Bradley	1,123,880
M Masterman	26,722,569
D McEvoy	314,210
B Pirola	7,112,782
G Short	-

13. Share Options

Options granted to directors and executives of the Company
The Company has not granted any options over unissued ordinary shares in the Company to any directors or specified executive during or since the end of the financial year.

Unissued shares under option
At the date of this report there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

The Company has not issued any shares as a result of the exercise of options during or since the end of the financial year end.

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 and production company.

The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report and are also available on the Company's website at www.povalley.com

15. Indemnification and insurance of officers

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 Group or in connection with any legal proceeding involving the Company or entities within the Group 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, the Group's auditor, has performed other services in addition to their statutory duties. The board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 and APES 110 "Code of Ethics for Professional Accountants". Refer to note 6 of the financial report for details of auditor's remuneration.

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 14 and forms part of the Directors' report for the financial year ended 31 December 2011.

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

Graham Bradley
Chairman
Sydney, NSW Australia

19 March 2012

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 2011 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.

KPMG

R Gambitta
Partner

Perth
19 March 2012

PO VALLEY ENERGY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	NOTES	CONSOLIDATED 2011 €	2010 €
Current Assets			
Cash and cash equivalents	**10 (a)**	1,889,879	969,352
Trade and other receivables	**12**	3,332,495	2,443,955
Inventory	**11**	701,187	897,134
Total Current Assets		5,923,561	4,310,441
Non-Current Assets			
Receivables	**12**	1,622,980	1,478,819
Other assets		39,282	39,661
Property, plant & equipment	**13**	6,548,101	7,015,905
Resource property costs	**14**	23,306,114	25,995,048
Total Non-Current Assets		31,516,477	34,529,433
Total Assets		**37,440,038**	**38,839,874**
Current Liabilities			
Trade and other payables	**16**	5,613,516	2,206,138
Provisions	**17**	91,305	75,994
Total Current Liabilities		5,704,821	2,282,132
Non-Current Liabilities			
Provisions	**17**	2,747,922	2,846,186
Interest bearing loans	**18**	5,771,830	5,519,347
Total Non-Current Liabilities		8,519,752	8,365,533
Total Liabilities		**14,224,573**	**10,647,665**
Net Assets		**23,215,465**	**28,192,209**
Equity			
Issued capital	**19**	44,753,650	44,659,630
Reserves	**19**	1,192,269	2,080,996
Accumulated losses		(22,730,454)	(18,548,417)
Total Equity		**23,215,465**	**28,192,209**

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

PO VALLEY ENERGY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	CONSOLIDATED 2011 €	CONSOLIDATED 2010 €
Revenue	3	9,115,046	7,157,331
Operating costs		(1,504,085)	(1,726,944)
Royalties		(130,375)	
Depreciation and amortisation expense		(2,534,799)	(2,821,596)
Gross Profit		4,945,787	2,608,791
Other income		54,727	60,658
Employee benefit expense	4	(1,851,829)	(1,784,129)
Share based payments	4	(97,333)	(130,390)
Depreciation expense		(25,709)	(18,603)
Corporate overheads	5	(1,180,645)	(1,398,582)
Impairment losses	14	(5,931,561)	(1,075,168)
Results from operating activities		(4,086,563)	(1,737,423)
Finance income		5,504	283,841
Finance expenses		(810,513)	(803,315)
Net finance expenses	7	(805,009)	(519,474)
Loss before income tax expense		(4,891,572)	(2,256,897)
Income tax benefit / (expense)	8	(179,192)	(66,701)
Loss for the period		(5,070,764)	(2,323,598)
Other comprehensive income		-	-
Other comprehensive loss for the period		-	-
Total comprehensive loss for the period		(5,070,764)	(2,323,598)
Loss attributable to:			
Owners of the company		(5,070,764)	(2,323,598)
Loss for the period		(5,070,764)	(2,323,598)
Total comprehensive loss attributable to:			
Owners of the Company		(5,070,764)	(2,323,598)
Total comprehensive loss for the period		(5,070,764)	(2,323,598)
Basic and Diluted loss per share	9	(4.57) cents	(2.11) cents

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

PO VALLEY ENERGY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated	Share capital €	Translation Reserve €	Option Reserve €	Accumulated Losses €	Total €
	Attributable to equity holders of the Company				
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	-	-	-	(2,323,598)	(2,323,598)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(2,323,598)	(2,323,598)
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Share issue costs	(1,069)	-	-	-	(1,069)
Share based payments	61,384	-	69,006	-	130,390
Balance at 31 December 2010	**44,659,630**	**1,192,269**	**888,727**	**(18,548,417)**	**28,192,209**
Balance at 1 January 2011	44,659,630	1,192,269	888,727	(18,548,417)	28,192,209
Total comprehensive income for the period:					
Loss for the period	-	-	-	(5,070,764)	(5,070,764)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(5,070,764)	(5,070,764)
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Options expired	-	-	(888,727)	888,727	-
Share issue costs	(3,313)	-	-	-	(3,313)
Share based payments	97,333	-	-	-	97,333
Balance at 31 December 2011	**44,753,650**	**1,192,269**	**-**	**(22,730,454)**	**23,215,465**

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

PO VALLEY ENERGY LIMITED

STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	CONSOLIDATED	
		2011	**2010**
		€	**€**
Cash flows from operating activities			
Receipts from customers		8,742,349	6,533,658
Payments to suppliers and employees		(5,182,557)	(4,959,381)
Interest received		5,504	49,558
Interest paid		(300,451)	(345,604)
Net cash inflow (outflow) from operating activities	**10 (b)**	3,264,845	1,278,231
Cash flows from investing activities			
Payments for non-current assets		(12,888)	(44,339)
Payments on security deposits		379	(16,600)
Payments for resource property costs		(2,328,496)	(2,678,680)
Net cash outflow from investing activities		(2,341,005)	(2,739,619)
Cash flows from financing activities			
Proceeds from the issues of shares		-	-
Payments for share issue costs		(3,313)	(1,069)
Proceeds from borrowings		-	-
Repayments of borrowings		-	(4,279,269)
Payments for borrowing costs		-	(150,752)
Net cash inflow (outflow) from financing activities		(3,313)	(4,431,090)
Net increase / (decrease) in cash held		920,527	(5,892,478)
Cash and cash equivalents at 1 January		969,352	6,622,329
Effects of exchange rate fluctuations on cash held		-	239,501
Cash and cash equivalents at 31 December	**10 (a)**	1,889,879	969,352

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes to the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Po Valley Energy Limited ("the Company" or "PVE") is a company domiciled in Australia. The address of the Company's registered office is Level 28, 140 St Georges Terrace, Perth WA 6000. The consolidated financial statements of the Company for the year ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associated and jointly controlled entities.

The Group primarily is involved in the exploration, appraisal, development and production of gas properties in the Po Valley region in Italy.

1.2 BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 19 March 2012.

(b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the basis of historical cost, except for financial assets, liabilities and share based payments 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.

(c) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, which is the Company's and each of the entities in the Group's functional currency.

(d) USE OF ESTIMATES AND JUDGEMENTS

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 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)

(d) USE OF ESTIMATES AND JUDGEMENTS (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
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates

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

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period.

1.3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by Group entities.

(a) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Joint controlled operations and assets

The interest of the Group 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.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

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

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)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) IMPAIRMENT

(i) Financial assets (including receivables)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and them to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and pre-commissioning revenue and expenses.

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.

Cost includes expenditure that is directly attributable to acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" in profit or loss.

(ii) Depreciation

Gas producing assets

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:

	2010	2011
Castello	8.67%	0.72%
Sillaro	8.08%	12.34%

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.

Other property, plant and equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation will commence when the asset is installed ready for use.

The estimated useful lives of each class of asset fall within the following ranges:

	2010	2011
Office furniture & equipment	3 – 5 years	3 – 5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

(e) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially as fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) FINANCIAL INSTRUMENTS (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note (i).

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss as finance income or expense.

Financial assets at fair value through profit and loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss as finance income or expense.

Other
Other non-derivative financial instruments are measured at amortised costs using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value; attributable costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for in the profit and loss as finance income or expense.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Share Capital

Ordinary Shares
Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends
Dividends are recognised as a liability in the period in which they are declared.

(f) INVENTORIES

Inventories are measured at the lower of cost and net realisable value and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price less selling expenses.

(g) RESOURCE PROPERTIES

Resource property costs are accumulated in respect of each separate area of interest.

Exploration properties
Exploration properties are carried at balance sheet date at cost and accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure relating to an area of interest.

Exploration properties 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.

Areas of interest which no longer satisfy the above policy are considered to be impaired and are measured at their recoverable amount, with any subsequent impairment loss recognized in the profit and loss.

Development properties
Development properties are carried at balance sheet date at cost less accumulated impairment losses. Development properties represent the accumulation of all exploration, evaluation and acquisition costs in relation to areas where the technical feasibility and commercial viability of the extraction of gas resources in the area of interest are demonstrable and all key project permits, approvals and financing are in place.

When there is low likelihood of the development property being exploited, or the value of the exploitable development property has diminished below cost, the asset is written down to its recoverable amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) RESOURCE PROPERTIES (continued)

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 has moved 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:

	2010	2011
Castello	8.67%	0.72%
Sillaro	8.08%	12.34%

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated (refer Note 1.3 (c) (ii)).

(h) PROVISIONS

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 expense.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings or other payables and unwinding of the discount of provisions and changes in the fair value of financial assets through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported as net amounts.

(j) EMPLOYEE BENEFITS

(i) Long-term service benefits

The Group'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 Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Wages, salaries, annual leave, sick leave 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 from employees services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Superannuation

The Group contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are due.

(iv) 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 reserves. 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.

When a Company grants options over its shares to employees of subsidiaries, the fair value at the grant date is recognised as an increase in investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

NOTE 1:SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) FOREIGN CURRENCY

(i) 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 Euro, which is Po Valley Energy Limited's functional and presentation currency (refer note 1.2 (c) above).

(ii) Foreign currency transactions

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 profit or loss as finance income or expense.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the date of transaction or the date fair value was determined, if these assets and liabilities are measured at fair value. Foreign currency differences arising on retranslation are recognised in profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro 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.

Foreign exchange gains and losses arising from monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(l) EARNINGS/LOSS 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)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) OTHER INDIRECT 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 net 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.

(n) SEGMENT REPORTING

DETERMINATION AND PRESENTATION OF OPERATING STATEMENTS

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and resource property costs.

(o) REVENUE

Revenues is measured at fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") payable to the taxation authority. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the associated costs can be estimated reliably there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Sale of gas

Gas sales revenue is recognised when control of the gas passes at the delivery point.
Proceeds received in advance of control passing are recognized as unearned revenue.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(q) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2011, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instruments (December 2010)* & AASB2010-7 *Amendments to Australian Accounting Standards arising from AASB9 (2010;* includes requirements for the classification and measurement of financial assets that are generally consistent with the equivalent requirements in AASB 139 *Financial Instruments: Recognition and Measurement* except in respect of the fair value option and certain derivatives linked to unquoted equity instruments.
  AASB 9 will become mandatory for the Group's 31 December 2013 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 December 2012 or earlier. The Group has not yet determined the potential effect of the standard.

- AASB10 *Consolidated Financial Statements* introduces a new approach to determining which investees should be consolidated. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
  AASB 10 will become mandatory for the Group's 31 December 2013 financial statements. Retrospective application is required where there is a change in the control conclusion between AASB127/Interpretation 112 and AASB10. There are specific requirements when retrospective application is impracticable. The Group has not yet determined the potential effect of the standard.

- AASB11 *Joint Arrangements* will apply if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and the entity must use the equity method to account for their interest.
  AASB11 will become mandatory for the Group's 31 December 2013 financial statements. Retrospective application with specific restatement requirements for certain transition.
  The Group has not yet determined the potential effect of the standard.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

- AASB 12 *Disclosure of Interests In Other Entities* contains disclosure requirements for entities that have suvsidiaries, joint arrangements, associates and/or unconsolidated structured entities.
  AASB 12 will become mandatory for the Group's 31 December 2013 financial statements; early application is available for entities if AASB10 & AASB11 are applied at the same time. The Group has not yet determined the potential effect of the standard.

- AASB 13 *Fair value Measurement* explains how to measure fair value when required by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards.
  AASB 13 will become mandatory for the Group's 31 December 2013 financial statements.

NOTE 2: FINANCIAL RISK MANAGEMENT

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk recognition and management are viewed as integral to the Company's objectives of creating and maintaining shareholder value, and the successful execution of the Company's strategies in gas exploration and development. The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit and Risk Committee. Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group invests in short term deposits and trades with recognised, creditworthy third parties. There is a concentration of credit risk in relation to receivables due to indirect tax from the Italian tax authorities (see note 12).

Cash and short term deposits are made with institutions that have a credit rating of at least A1 from Standard & Poors and A from Moody's.

Management has a credit policy in place whereby credit evaluations are performed on all customers and parties the Company and its subsidiaries deal with. The exposure to credit risk is monitored on an ongoing basis. Please refer to Note 22 (b) for further details on customer credit risk management.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

(ii) Market Risk

Interest rate risk
The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings.

Currency risk
The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currencies of consolidated entities. The currency giving rise to this risk is primarily Australian dollars.

In respect to monetary assets held in currencies other than Euro, the Group ensures that the net exposure is kept to an acceptable level by minimising their holdings in the foreign currency where possible by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(iii) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to encourage all employees of the Group to hold ordinary shares. Both management and employees participate in the Group's employee share scheme and to date the Company has encouraged employees to opt for shares in lieu of cash for earned bonuses.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group does not have a defined share buy-back plan and there were no changes in the Group's approach to capital management during the year.

There are no externally imposed restrictions on capital management.

(iv) Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Management prepares monthly cash flow forecasts taking into consideration debt facility obligations. Capital expenditures are planned around cash flow availability.

	CONSOLIDATED	
	2011	2010
	€	€
NOTE 3: REVENUE		
Gas sales	9,115,046	7,157,331
NOTE 4: EMPLOYEE BENEFIT EXPENSES		
Wages and salaries	1,851,829	1,784,129
Equity settled share-based payment transactions		
• Shares issued in lieu of salaries and bonus	97,333	61,384
• Options vested during the period	-	69,006
	97,333	130,390
	1,949,162	1,914,519

	CONSOLIDATED	
	2011 €	2010 €

NOTE 5: CORPORATE OVERHEADS

	2011 €	2010 €
Corporate overheads comprises:		
Company administration and compliance	221,693	179,377
Professional fees	436,022	541,756
Office costs	283,560	328,428
Travel and entertainment	137,602	180,470
Other expenses	101,768	168,551
	1,180,645	1,398,582

NOTE 6: AUDITORS' REMUNERATION

	2011 €	2010 €
Remuneration for audit or review of the financial reports of the subsidiary NSI and the Group:		
Auditors of the Company – KPMG Australia		
Audit and review services	67,757	67,809
Under-accrued from prior year	-	10,132
Tax services	15,000	-
	82,757	77,941

NOTE 7: FINANCE INCOME AND EXPENSE

	2011 €	2010 €
Recognised in profit and loss:		
Interest income	5,504	40,951
Foreign exchange gains	-	242,890
Finance income	5,504	283,841
Interest expense	327,952	380,301
Amortisation of borrowing costs	252,482	212,185
Unwind of discount on site restoration provision	227,695	210,829
Foreign exchange losses	2,384	-
Finance expense	810,513	803,315
Net finance income / (expense)	(805,009)	(519,474)

NOTE 8: INCOME TAX EXPENSE

	CONSOLIDATED	
	2011 €	2010 €
Current tax		
Current period	179,192	66,701
Deferred tax		
Origination and reversal of temporary differences	(327,076)	(3,931)
Changes in unrecognised deductible temporary differences	327,076	3,931
Deferred tax benefit	-	-
Total income tax expense	179,192	66,701
Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)		
Loss for the period before tax	(4,891,572)	(2,256,897)
Income tax (benefit) / expense using the Company's domestic tax rate of 30 per cent (2010: 30%)	(1,467,472)	(677,069)
Non-deductible expenses:		
Share based payments	29,201	32,138
Impairment losses	1,748,975	322,550
Other	180,048	34,448
Effect of tax rates in foreign jurisdictions	(41,074)	(6,287)
Current year losses for which no deferred tax asset was recognised	329,192	367,301
Tax losses utilised in current year	(451,794)	(69,150)
Change in unrecognised temporary differences	(327,076)	(3,931)
Tax effect of regional taxes in Italy – current	179,192	66,701
Income tax expense	179,192	66,701

	CONSOLIDATED 2011 €	2010 €
NOTE 9: LOSS PER SHARE		
Basic loss per share (€ cents)	(4.57)	(2.11)

The calculation of basic loss per share was based on the loss attributable to shareholders of €5,070,764 (2010: €2,323,598) and a weighted average number of ordinary shares outstanding during the year of 110,953,152 (2010: 110,240,942).

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

The number of weighted average shares is calculated as follows:	No. of days	2011 Weighted average no.	2010 Weighted average no.
Number of shares on issue at beginning of the year	365	110,548,906	110,179,926
338,604 issued on 14 March 2011	293	271,811	-
259,886 issued on 29 June 2011	186	132,435	-
212,642 issued on 19 September 2010	104	-	60,588
156,338 issued on 31 December 2010	1	-	428
		110,953,152	110,240,942

NOTE 10: (a) CASH AND CASH EQUIVALENTS

	2011 €	2010 €
(a) Cash and cash equivalents	1,889,879	969,352

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

(b) Reconciliation of cash flows from operating activities	2011 €	2010 €
Loss for the period	(5,070,764)	(2,323,598)
Adjustment for non-cash items:		
Unrealised net foreign exchange (gains) / loss	2,384	(239,501)
Share-based payments	97,333	130,390
Depreciation and amortisation	2,560,508	2,840,198
Resource property costs impairments	5,863,464	1,075,168
Inventory impairments	68,097	-
Loss on disposal of assets	9,678	-
Unwind of discount on site restoration provision	227,695	210,829
Amortisation of borrowing costs	252,482	212,185
Change in operating assets and liabilities:		
(Increase) decrease in receivables	(1,032,701)	378,758
Decrease (increase) in other assets	-	-
Increase (decrease) in trade and other payables	271,358	(897,907)
Increase in provisions and accruals	15,311	(108,291)
Net cash outflow from operating activities	3,264,845	1,278,231

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	CONSOLIDATED	
	2011	**2010**
	€	**€**

NOTE 11: INVENTORY

Well equipment – at cost	701,187	897,134

NOTE 12: TRADE AND OTHER RECEIVABLES

Trade receivables	1,474,397	-
Accrued gas sales revenue	535,170	376,638
Sundry debtors	50,409	75,080
Indirect taxes receivable (a)	1,272,519	1,992,237
	3,332,495	2,443,955

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

(a) Included in receivables are Italian indirect taxes recoverable as follows:

Current	1,197,810	1,985,308
Non-current	1,622,980	1,478,819

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. We note that VAT remitted on oil and gas sales in Italy is 10%.

NOTE 13: PROPERTY PLANT & EQUIPMENT

Office Furniture & Equipment:		
At cost	163,994	163,168
Accumulated depreciation	(122,203)	(98,878)
	41,791	64,290
Plant & Equipment under construction		
At cost	-	-
Accumulated depreciation	-	-
	-	-
Gas producing plant and equipment		
At cost	7,668,967	7,557,376
Accumulated depreciation	(1,162,657)	(605,761)
	6,506,310	6,951,615
	6,548,101	7,015,905

NOTE 13: PROPERTY PLANT & EQUIPMENT (continued)

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

	CONSOLIDATED 2011 €	2010 €
Office Furniture & Equipment:		
Carrying amount at beginning of year	64,290	38,554
Additions	12,888	44,339
Disposals	(9,678)	-
Depreciation expense	(25,709)	(18,603)
Carrying amount at end of year	41,791	64,290
Plant & Equipment under construction:		
Carrying amount at beginning of year	-	5,793,331
Additions	-	1,078,081
Transfer to gas producing assets	-	(6,871,412)
Carrying amount at end of year	-	-
Gas Producing assets:		
Carrying amount at beginning of period	6,951,615	-
Transferred from exploration and development assets	-	685,964
Transferred from plant and equipment under construction	-	6,871,412
Additions	111,591	-
Depreciation expense	(556,896)	(605,761)
Carrying amount at end of period	6,506,310	6,951,615
	6,548,101	7,015,905

NOTE 14: RESOURCE PROPERTY COSTS

	2011 €	2010 €
Resource Property costs		
Exploration Phase	6,814,557	5,923,127
Development Phase	-	-
Production Phase	16,491,557	20,071,921
	23,306,114	25,995,048

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED 2011 €	2010 €
Reconciliation of carrying amount of resource properties		
Exploration Phase		
Carrying amount at beginning of period	5,923,127	6,139,221
Exploration expenditure	1,156,991	323,077
Change in estimate of rehabilitation assets	(232,013)	(265,357)
Impairment losses	(33,548)	(273,814)
Carrying amount at end of period	6,814,557	5,923,127

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.

	2011 €	2010 €
Development Phase		
Carrying amount at beginning of period	-	22,772,357
Development expenditure	-	200,704
Reclassed as Plant & Equipment	-	(685,964)
Transfer to production assets	-	(22,287,097)
Carrying amount at end of period	-	-

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2011	**2010**
	€	**€**
Production Phase		
Carrying amount at beginning of period	20,071,921	-
Reclassed from development expenditure [(i)]	-	22,287,097
Additions	4,321,399	262,873
Change in estimate of rehabilitation assets	(93,945)	539,139
Amortisation of producing assets	(1,977,903)	(2,215,834)
Impairment loss	(5,829,915)	(801,354)
Carrying amount at end of period	16,491,557	20,071,921

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. At that time, the associated resource property costs and related plant and equipment (as a cash generating unit) were tested for impairment and an impairment expense was charged at year-end 2010. Subsequent to the drilling of the deviated well, a second impairment trigger was identified with regard to Castello during the fourth quarter of 2011 as a result of a change in the expected daily production rate. Accordingly, the associated resource property costs and related plant and equipment (as a cash generating unit) were tested again for impairment. The recoverable amount has been determined by reference to a discounted cashflow forecast model. The key assumptions adopted in that model include gas pricing, remaining reserves, expected daily gas production, operating expenditure and a discount rate. The recoverable amount is most sensitive to the remaining reserves and daily gas production. As result of the impairment test, the recoverable amount for Castello has been determined to be €7.2 million resulting in an impairment expense of €5,829,915 (2010: €801,354).

Impairment losses are reconciled as follows:

	CONSOLIDATED	
	2011	**2010**
	€	**€**
Impairment expense		
Castello gas field	(5,829,915)	(801,354)
Exploration costs	(33,549)	(273,814)
Inventory	(68,097)	-
Total impairment losses	(5,931,561)	(1,075,168)

[(i)] Reclassification from development expenditure relates to capitalised costs for gas fields classified as production assets in 2010.

	CONSOLIDATED 2011 €	2010 €

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of the following items:

	2011 €	2010 €
Losses available for offset against future taxable income	3,897,320	3,795,144
Share issue expenses	62,379	101,821
Capitalised borrowing costs	93,427	117,389
Accrued expenses and liabilities	57,360	22,230
Unrecognised deferred tax assets	4,110,486	4,036,584

Unrecognised deferred tax liabilities
Deferred tax liabilities have not been recognised in respect of the following items:

	2011 €	2010 €
Interest receivable	-	-
Unrecognised deferred tax liabilities	-	-
Net deferred tax asset not recognised	4,110,486	4,036,584

Deferred tax benefit 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 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year

	Balance 1 January 2010	Profit and loss	Equity	Balance 31 December 2010	Profit or loss	Equity	Balance 31 December 2011
Consolidated							
Losses available for offset against future taxable income	3,269,073	481,376	44,696	3,795,145	62,071	40,104	3,897,320
Share issue expenses	144,869	-	(43,048)	101,821	-	(39,442)	62,379
Capitalised borrowing costs	185,143	(67,754)	-	117,389	(23,962)	-	93,427
Accrued expenses and liabilities	8,163	14,067	-	22,230	35,130	-	57,360
Income receivable	(2,754)	2,754	-	-	-	-	-
Total unrecognised deferred tax asset	3,604,494	430,442	1,648	4,036,585	73,239	662	4,110,486

NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011 €	2010 €
Trade payables and accruals	5,292,381	2,136,289
Other payables	321,135	69,849
	5,613,516	2,206,138

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 22.

NOTE 17: PROVISIONS

Current:		
Employee leave entitlements	91,305	75,994
Non Current:		
Restoration provision	2,747,922	2,846,186
Reconciliation of restoration provision:		
Opening balance	2,846,186	2,361,575
(Decrease) / Increase in provision due to revised estimates	(325,958)	273,782
Increase in provision from unwind of discount rate	227,694	210,829
Closing balance	2,747,922	2,846,186

Provision has been 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.

NOTE 18: INTEREST BEARING LOANS

This note provides information about the contractual terms of the Company's and Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

	CONSOLIDATED	
	2011 €	2010 €
Non-current liabilities		
Lloyds (formerly Bank of Scotland) finance facility	5,771,830	5,519,347

The Group's exposure to currency, interest rate and liquidity risks related to loans are disclosed in note 22.

NOTE 18: INTEREST BEARING LOANS (continued)

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest rate	Year of Maturity	31 December 2011 Face Value $	31 December 2011 Carrying Amount $	31 December 2010 Face Value $	31 December 2010 Carrying Amount $
Current liabilities							
Secured bank loan	Euro	Euribor + 1.8%	2013	6,000,000	5,771,830	6,000,000	5,519,347

The amount presented is disclosed net of borrowing costs of €228,170 (2010: €480,653).

Lloyds (formerly 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 30 June 2012 is set to €7,596,582 which is based on the semi annual borrowing base review performed during December 2011. Interest is currently payable at Euribor plus 180 basis points. In 2010, the Company repaid €4,279,269 of the senior facility. No principal repayments have been made during the current year. The facility is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd.

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares 2011 Number	Ordinary Shares 2010 Number
Share Capital		
Opening balance - 1 January	110,548,906	110,179,926
<u>Shares issued during the year:</u>		
Shares issue at €0.18 ($0.25) each on 14 March 2011	338,604	-
Shares issued at €0.14 ($.19) each on 29 June 2011	259,886	-
Share issue at €0.24 ($0.33) each on 19 September 2010	-	212,642
Share issue at €0.16 ($0.21) each on 31 December 2010	-	156,338
Closing balance – 31 December	111,147,396	110,548,906

NOTE 19: CAPITAL AND RESERVES (continued)

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have no par value.

The Company issued 598,490 shares to employees pursuant to the employees share purchase plan. These shares were issued at a price as detailed in the table below:

Date Issued	No of shares	Issue Price
14 March 2011	338,604	€ 0.18 (A$0.25)
29 June 2011	259,886	€ 0.14 (A$0.19)

Translation Reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Options Reserve
The option reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 20 for further details of these plans.

Dividends
No dividends were paid or declared during the current year (2010: NIL).

NOTE 20: SHARE BASED PAYMENTS

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.
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. The vesting provisions issued during 2009 and 2008 have included share price hurdles and continued employment with the Group.
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.

NOTE 20: SHARE BASED PAYMENTS (continued)

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.
The number and weighted average exercise prices of share options is as follows:

	2011		2010	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at beginning of year	3,100,000	€1.00	3,175,000	€1.00
Granted	-		-	-
Exercised	-		-	-
Lapsed	(3,100,000)	€1.00	(75,000)	€1.11
Balance at end of year	-	-	3,100,000	€1.00
Exercisable at end of year	-		3,100,000	

Options granted during the reporting period pursuant to EIOS:
No options were granted in the reporting period**.**

Options held at the end of the reporting period pursuant to EIOS.
No options were held at the end of the reporting period.

NOTE 21: 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.

In euro	**Exploration**		**Development and Production**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	€	**€**	**€**	**€**	**€**	**€**
External revenues	-	-	9,115,046	7,157,331	9,115,046	7,157,331
Segment (loss) / profit before tax	(33,548)	(273,814)	(952,225)	1,807,438	(985,773)	1,533,624
Depreciation and amortisation	-	-	(2,534,799)	(2,821,595)	(2,534,799)	(2,821,595)
Impairment losses	(33,548)	(273,814)	(5,829,915)	(801,354)	(5,863,463)	(1,075,168)
Reportable segment assets:						
Resource property costs	6,814,557	5,923,127	16,491,557	20,071,921	23,306,114	25,995,048
Plant & Equipment	-	-	6,506,310	6,951,614	6,506,310	6,951,614
Receivables	-	-	2,009,567	376,638	2,009,567	376,638
Inventory	-	-	701,187	897,134	701,187	897,134
Capital expenditure	1,156,991	323,077	4,432,990	463,577	5,589,981	786,654
Movement in rehabilitation assets	(232,013)	(265,357)	(93,945)	539,139	(325,958)	273,782
Reportable segment liabilities	(1,093,441)	(1,466,206)	(6,250,267)	(2,908,420)	(7,343,708)	(4,374,626)

NOTE 21: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	**2011**	**2010**
Profit or loss:	**€**	**€**
Total profit / (loss) for reportable segments	(985,773)	1,533,624
Unallocated amounts:		
Net finance income / (expense)	(805,009)	(519,474)
Other corporate expenses	(3,100,790)	(3,271,047)
Consolidated loss before income tax	(4,891,572)	(2,256,897)
Assets:		
Total assets for reportable segments	32,523,1785	34,220,434
Other assets	4,916,860	4,619,439
Consolidated total assets	37,440,038	38,839,873
Liabilities:		
Total liabilities for reportable segments	(7,343,708)	(4,374,626)
Other liabilities	(6,880,865)	(6,273,039)
Consolidated total liabilities	(14,224,573)	(10,647,665)

Other Segment Information

All of the Group’s revenue is currently attributed to gas sales in Italy with two customers.

NOTE 22: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposures
Profile

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

	CONSOLIDATED	
	2011	**2010**
	€	**€**
Variable rate instruments		
Financial assets	1,889,879	969,352
Financial liabilities	(5,771,830)	(5,519,347)
	(3,881,951)	(4,549,995)

NOTE 22: FINANCIAL INSTRUMENTS (continued)

Fair Value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect the profit or loss or equity.

Cash flow sensitivity analysis for variable rate instruments:

A strengthing of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit or loss		Equity	
Effect in €'s	**2011**	**2010**	**2011**	**2010**
31 December				
Variable rate instruments	(41,101)	(50,306)	(41,101)	(50,306)

A decrease of 100 basis points would have an equal and opposite effect on profit or loss.

(b) Credit Risk

Exposure to credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.
The Company has limited its credit risk with current gas customers by requiring each customer to either (i) make a prepayment on gas sales; or (ii) issue a bank guarantee on the Company's behalf in the event of no payment or late payments.

The Group has a concentration of credit risk exposure to the Italian Government for VAT receivable (see note 12). In addition, the Group has a concentration risk with sales as all production is sold to two customers.

The carrying amount of the Group's financial assets represents the maximum credit exposure and is shown in the table below. No receivables are considered past due nor were any impairment losses recognised during the period with the exception of €952,405 in trade receivables which are considered past due.

		CONSOLIDATED Carrying Amount	
	Note	**2011**	**2010**
		€	**€**
Cash and cash equivalents	10	1,889,879	969,352
Receivables – Current	12	3,332,495	2,443,955
Receivables – Non-current	12	1,622,980	1,478,819
Other assets		39,282	39,661
		6,884,636	4,931,787

NOTE 22: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Consolidated
31 December 2011

In €	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(5,613,516)	(5,613,516)	(5,613,516)	-	-	-
Secured bank loan	(5,771,830)	(6,389,965)	(101,730)	(101,730)	(6,186,505)	-
	(11,385,346)	(12,003,481)	(5,715,246)	(101,730)	(6,186,505)	-

Consolidated
31 December 2010

In €	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(2,206,138)	(2,206,138)	(2,206,138)	-	-	-
Secured bank loan	(5,519,347)	(6,462,033)	(78,090)	(78,090)	(156,180)	(6,305,853)
	(7,725,485)	(8,668,171)	(2,284,228)	(78,090)	(156,180)	(6,305,853)

(d) Net Fair Values of financial assets and liabilities

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

(e) Foreign Currency Risk

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

	CONSOLIDATED	
Amounts receivable/(payable) in foreign currency other than functional currency:	**2011**	**2010**
	€	**€**
Cash	49,508	73,852
Current – Payables	(8,654)	(45,591)
Net Exposure	40,854	28,261

NOTE 22: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	**2010**	**2011**	**2010**
Australian Dollar ($)	0.7414	0.6939	0.7856	0.7669

Sensitivity Analysis

A 10 percent strengthening of the Australian dollar against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	CONSOLIDATED	
	Profit or loss	**Equity**
31 December 2011	**€**	**€**
Australian Dollar to Euro (€)	4,388	4,388
31 December 2010		
Australian Dollar to Euro (€)	2,826	2,826

A 10 percent weakening of the Australian dollar against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTE 23: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

There are no material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 31 December 2011.

NOTE 24: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation included in employee benefit expense (see note 4) is as follows:

	Consolidated	
	2011	2010
	€	€
Short-term employee benefits	463,569	665,918
Other long term benefits	-	-
Post-employment benefits	-	-
Share-based payments	39,191	112,332
	502,760	778,250

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report. Lisa Jones, Company Secretary, is not a key management personnel ("KMP") but is a specified executive, and her remuneration is included in the tables in the remuneration report.

Apart from details disclosed in this note, no director has entered into a material contract with the Group or the Company since the year end of the previous financial year end and there were no material contracts involving directors' interests existing at year-end.

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held directly or indirectly by each key management person, including their personally-related parties, is as follows:

	Held at 31 Dec 2010	Granted	Exercised	Lapsed	Held at 31 Dec 2011
Directors					
G Bradley	600,000	-	-	(600,000)	-
M Masterman	1,000,000	-	-	(1,000,000)	-
D McEvoy	600,000	-	-	(600,000)	-
B Pirola	600,000	-	-	(600,000)	-
G Short	-	-	-	-	-
	2,800,000	-	-	(2,800,000)	-
Executives					
G Catalano	-	-	-	-	-
	-	-	-	-	-

NOTE 24: RELATED PARTIES (continued)

Options over equity instruments

	Held at 31 Dec 2009	Granted	Exercised	Expired	Held at 31 Dec 2010 (i)
Directors					
G Bradley	600,000	-	-	-	600,000
M Masterman	1,000,000	-	-	-	1,000,000
D McEvoy	600,000	-	-	-	600,000
B Pirola	600,000	-	-	-	600,000
	2,800,000	-	-	-	2,800,000
Executives					
G Catalano	-	-	-	-	-
D Colkin	200,000	-	-	-	200,000
	200,000	-	-	-	200,000

(i) Or the date of ceasing to be a KMP

The details of the number of options held by key management personnel at 31 December are as follows:

	Total - 2011	Total – 2010 $1.75 Exercise price, expiring 31 May 2011
Directors		
G Bradley	-	600,000
M Masterman	-	1,000,000
D McEvoy	-	600,000
B Pirola	-	600,000
G Short	-	-
Executives		
G Catalano	-	-
D Colkin (resigned 31 July 2010)	-	200,000
	-	3,000,000

Equity holdings and transactions

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

	Held at 31 Dec 2010	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2011 (ii)
Directors						
G Bradley	1,123,880	-	-	-	-	1,123,880
M Masterman (i)	26,222,569	1,000,000	-	-	(500,000)	26,722,569
D McEvoy	314,270	-	-	-	-	314,270
B Pirola	7,112,782	-	-	-	-	7,112,782
G Short	-	-	-	-	-	-
	34,773,501	1,000,000	-	-	(500,000)	35,273,501

NOTE 24: RELATED PARTIES (continued)

Equity holdings and transactions (continued)

Executives	Held at 31 Dec 2010	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2011 (ii)
G. Catalano	268,255	-	259,886	-	-	528,141
	268,255	-	259,886	-	-	528,141

	Held at 31 Dec 2009	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2010 (ii)
Directors						
G Bradley	1,123,880					1,123,880
M Masterman (i)	23,972,569	3,750,000	-	-	(1,500,000)	26,222,569
D McEvoy	314,270	-	-	-	-	314,270
B Pirola	7,112,782	-	-	-	-	7,112,782
G Short	-	-	-	-	-	-
	32,523,501	3,750,000	-	-	(1,500,000)	34,773,501
Executives						
G. Catalano	-	-	268,255	-	-	268,255
D Colkin (resigned 31 July 2010)	40,935	-	-	-	-	40,935
	40,935	-	268,255	-	-	309,190

(i) Does not include shares held by related parties which amount to 1,040,000 shares
(ii) Or the date ceasing to be a KMP

OTHER RELATED PARTY DISCLOSURES

The Company has a related party relationship with its controlled entities. Transactions between the Company and its controlled entities consisted of:

a) Loans advanced by the Company to its controlled entities. These loans have historically been interest free, unsecured and repayable at call. In 2011, for the first time, interest of €296,553 was charged to Northsun Italia. As at 31 December 2011, loans to controlled entities amounted to €36,639,908 (2010: €37,012,016)
b) Technical services provided to controlled entities by consultants and contractors. Technical service recharges to controlled entities is included in other income of the Company. During the year the Company has not recharged services to its controlled entities for technical services (2010: €150,255).
c) Expenses incurred by the Company are on-charged to controlled entities at cost.

NOTE 24: RELATED PARTIES (continued)

d) Northsun Italia SpA ('NSI') is a fully owned subsidiary of Po Valley Energy. During the year, a director of NSI, Roberto Fazioli, also served on the board as Chairman of a customer, Elettrogas SpA. During the year NSI entered into the following transactions, in the ordinary course of business, with this related party.

	Gas Sales (€) (excluding VAT)	**Amount receivable at 31 December**
2011	4,475,406	952,405
2010	3,097,283	-

NOTE 25: PARENT ENTITY DISCLOSURES

	2011 **€**	**2010** **€**
Financial Position		
Assets		
Current assets	386,301	743,905
Non-current assets	47,897,861	48,203,947
Total assets	48,284,162	48,947,852
Liabilities		
Current liabilities	225,473	246,858
Non-current liabilities	5,771,830	5,519,347
Total liabilities	5,997,303	5,766,205
Net Assets	42,286,859	43,181,647
Equity		
Issued capital	44,753,650	44,659,630
Reserves	-	888,727
Accumulated losses	(2,466,791)	(2,366,710)
Total equity	42,286,859	43,181,647
Financial Performance		
Loss for the year	(988,808)	(1,327,084)
Other comprehensive income	-	-
Total Comprehensive income	(988,808)	(1,327,084)

Contingent liabilities of the parent entity
For details on contingent liabilities, refer note 23.
Commitments of the parent entity
For details on commitments, see note 23.

NOTE 26: GROUP ENTITIES

The parent and ultimate controlling party of the Group is Po Valley Energy Limited. The investments held in controlled entities are included in the financial statements of the parent at cost at 31 December 2011 and 2010 and are as follows:

Name:	**Country of Incorporation**	**Class of Shares**	**2011 Investment €**	**2010 Investment €**	**Holding %**
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	9,603,268	9,570,433	**100**
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	631,056	597,870	**100**
PVE USA Inc.	United States of America	Ordinary	806	806	**100**
			10,235,130	10,169,109	

NOTE 27: SUBSEQUENT EVENT

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 Group, the results of those operations, or the state of affairs of the Group.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 [16] to [57] , and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001,* including:

      a. giving a true and fair view of the Group's financial position as at 31 December 2011 and of their performance, for the financial year ended on that date; and

      b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   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 required by 295A of the *Corporations Act 2001* by the chief executive officer and finance manager for the financial year ended 31 December 2011.

Dated at Sydney this 19th day of March 2012.

Signed in accordance with a resolution of the directors:

Graham Bradley
Chairman

Byron Pirola
Non-Executive Director

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

Report on the financial report

We have audited the accompanying financial report of Po Valley Energy Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, accompanying notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.2.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Po Valley Energy Limited for the year ended 31 December 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth
19 March 2012