PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2012

DIRECTORS' REPORT

The Directors present their report together with the consolidated interim financial report for the half-year ended 30 June 2012 and the review report thereon.

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

Name	**Date of appointment**
Non- Executive:	
G Bradley (Chairman)	30 September 2004
B Pirola	10 May 2002
M Masterman	22 June 1999 (Managing Director) 11 October 2010 (Non-Executive Director)
G Short	5 July 2010
K Eley	19 June 2012
D McEvoy	Resigned 30 May 2012
Executive:	
G Catalano	19 June 2012

Company Secretary

Lisa Jones	21 October 2009

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

Review and results of operations

Operating Results

The net profit of the consolidated entity after income tax amounted to €305,761 for the half-year ended 30 June 2012 (2011: €367,010).

Operating Review

Combined production from both Sillaro and Castello gas fields for the first six months of 2012 amounted to 12.3 million standard cubic metres of gas.

In February 2012, the sidetracked Vitalba1dirA well at the Cascina Castello concession, north of Milan commenced production. Production from the Pliocene SAN A2 sand level started at a rate of about 14.1 thousand standard cubic meters per day and was gradually increased to reach the target rate of 17 thousand standard cubic meters per day. Production from the Castello field during the half year amounted to 2.2 million standard cubic metres of gas. Fugro Robertson Limited certified SAN A2 gas remaining reserves at Proved (1P) Reserves of 28.3 MScm (1.0 bcf), Proved + Probable (2P) Reserves of 51.0 MScm (1.8 bcf) and Proved + Probable + Possible Reserves (3P) of 70.8 MScm (2.5 bcf) in April 2012.

The impact of colder weather conditions in January 2012 resulted in an increase in condensate production at the Sillaro gas site and production was halted for four days while excess condensate was removed from the processing facility. The situation was thoroughly evaluated by the Company and it was confirmed that condensate production was originating from the PL2 C1+C2 producing level. While the condensate produced is negligible, the Company has decided to install condensate extraction equipment in the Sillaro production facility before reopening level PL2 C1+C2. As a result, the cumulative production from Sillaro during the first six months of 2012 is 10 million standard cubic meters at a rate of circa 60,000 standard cubic meters per day (2.1 million cubic feet per day). Daily production is planned to return to previous rates in the second half of 2012.

The Company submitted an application to the Ministry to enlarge the size of the existing Cascina Castello production licence to include the nearby Bezzecca area in January 2011. A technical and economic evaluation of the development project was carried out by the Ministry of Economic Development in July of this year. The final award of the production licence is subject to the results of the related Environmental Impact Assessment (EIA), which has already been completed and lodged with the Lombardy Region. Once the production licence has been granted, the Company will initiate activity on the field development plan, which primarily includes the construction of a 2 inch pipeline 7 km in length needed to connect the two producing sites.

A farm-in agreement was executed with Petrorep Italiana S.p.a. in June 2012 for the Cadelbosco di Sopra exploration licence as well as an option agreement in respect of the La Prospera exploration licence.

Furthermore, the Company was awarded its first offshore exploration permit named AR94PY (previously denominated AR168PY). The permit is located in the shallow waters of the Adriatic Sea and contains two connected gas discoveries, Carola and Irma, both drilled and tested by the former operator, ENI. Resource evaluations of the combined two gas fields have a low estimate Contingent Resources (1C) of 22 bcf and best estimate Contingent Resources (2C) of 24.8 bcf. These resource estimates have been independently audited by Fugro Robertson Limited in April this year. Final recovery estimates will be formalised on conclusion of the development plan.

Half year revenue from gas production totalled €4,403,269 which is in line with the same period as last year. Earnings before interest, tax, depreciations and amortisation amounted to €2,651,645 showing an increase of 17% compared to 30 June 2011.

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

EBITDA reconciliation table (in Euro)	**30 June 2012**	**30 June 2011**
EBITDA	2,651,645	2,262,288
Depreciation and amortisation expense	(1,894,976)	(1,362,910)
Depreciation expense	(15,180)	(17,494)
Impairment losses	(12,764)	(1,428)
Finance expense	(395,526)	(402,177)
Income tax expense	(27,438)	(111,269)
Results from operating activities	**305,761**	**367,010**

The Company's drawings on the Lloyds facility amount to €6.0 million at 30 June 2012. Repayments have not been made during the first half of 2012. The borrowing base ceiling review in July has confirmed the €7,151,135 base limit until 31 December 2012.

The ENI gas release price continued to remain strong in the first half of the year. ENI GR04 price increased to €/cent 46.19 per cubic metre in June 2012 while the Company's average realised price for the first 6 months of 2012 was €/cent 35.80 per cubic metre.

Founding board member David McEvoy resigned in May 2012 after 8 years of valuable service for PVE. In June 2012, the Board appointment of Non-Executive Director Kevin Eley and Managing Director Giovanni Catalano was announced by the Company.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors' report for the half-year ended 30 June 2012.

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

Graham Bradley
Chairman

2 August 2012
Sydney, NSW Australia

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Po Valley Energy Limited

I declare that to the best of my knowledge and belief in relation to the review for the half-year ended 30 June 2012 there have been:

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

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

KPMG

KPMG

R. Gambitta
Partner

Perth

2 August 2012

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	NOTES	30 June 2012 €	31 December 2011 €
Current Assets			
Cash and cash equivalents		2,043,882	1,889,879
Trade and other receivables	**3**	1,464,875	3,332,495
Inventory		729,343	701,187
Current assets		4,238,100	5,923,561
Non-Current Assets			
Other receivables	**3**	1,363,810	1,622,980
Other assets		63,282	39,282
Property, plant & equipment	**4**	6,056,915	6,548,101
Resource property costs	**5**	22,255,497	23,306,114
Non-current assets		29,739,504	31,516,477
Total assets		**33,977,604**	**37,440,038**
Current Liabilities			
Trade and other payables		1,636,675	5,613,516
Provisions	**7**	101,943	91,305
Total current liabilities		1,738,618	5,704,821
Non-Current Liabilities			
Provisions	**7**	2,839,978	2,747,922
Interest bearing loans	**8**	5,877,782	5,771,830
Non-current liabilities		8,717,760	8,519,752
Total Liabilities		10,456,378	14,224,573
Net Assets		**23,521,226**	**23,215,465**
Equity			
Share capital	**9**	44,753,650	44,753,650
Reserves		1,192,269	1,192,269
Accumulated losses		(22,424,693)	(22,730,454)
Total equity		**23,521,226**	**23,215,465**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	30 June 2012 €	30 June 2011 €
Revenue		4,403,269	4,348,742
Operating costs		(514,094)	(625,613)
Depreciation and amortisation expense		(1,894,976)	(1,362,910)
Gross profit		1,994,199	2,360,219
Other income		299,271	26,469
Employee benefit expense		(867,174)	(930,273)
Depreciation expense		(15,180)	(17,494)
Corporate overheads		(662,832)	(508,792)
Resource property costs impairment losses		(12,764)	(1,428)
Other expenses		(15,446)	(51,508)
Profit from operating activities		720,074	877,193
Finance income		8,651	3,263
Finance expense		(395,526)	(402,177)
Net finance expense		(386,875)	(398,914)
Profit before income tax expense		333,199	478,279
Income tax expense		(27,438)	(111,269)
Profit for the period		305,761	367,010
Other comprehensive income		-	-
Total comprehensive loss for the period		305,761	367,010
Profit attributable to:			
Owners of the Company		305,761	367,010
Profit for the period		305,761	367,010
Total comprehensive income attributable to:			
Owners of the Company		305,761	367,010
Total comprehensive income for the period		305,761	367,010
Basic and diluted earnings per share (€)	**2**	**0.28 cents**	**0.33 cents**

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

PO VALLEY ENERGY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

In Euro's	Share capital	Translation Reserve	Option Reserve	Accumulated Losses	Total
	Attributable to equity holders of the Company				
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:					
Profit for the period	-	-	-	367,010	367,010
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	367,010	367,010
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Options expired	-	-	(888,727)	888,727	-
Share based payments	97,333	-	-	-	97,333
Share issue costs	(2,204)	-	-	-	(2,204)
Balance at 30 June 2011	**44,754,759**	**1,192,269**	**-**	**(17,292,680)**	**28,654,348**
Balance at 1 January 2012	**44,753,650**	**1,192,269**	**-**	**(22,730,454)**	**23,215,465**
Total comprehensive income for the period:					
Profit for the period	-	-	-	305,761	305,761
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	305,761	305,761
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners	-	-	-	-	-
Balance at 30 June 2012	**44,753,650**	**1,192,269**	**-**	**(22,424,693)**	**23,521,226**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	30 June 2012 €	30 June 2011 €
Cash flows from operating activities		
Receipts from customers	7,005,315	4,476,837
Payments to suppliers and employees	(2,748,187)	(2,148,998)
Interest received	8,651	3,263
Interest paid	(189,249)	(145,786)
Net cash generated from operating activities	4,076,530	2,185,316
Cash flows from investing activities		
Payments for non-producing property plant and equipment	(24,640)	(12,888)
Payments on security deposits	(24,000)	(15,245)
Payments for resource property costs	(3,873,887)	(1,521,331)
Net cash used in investing activities	(3,922,527)	(1,549,464)
Cash flows from financing activities		
Payments for share issue costs	-	(2,204)
Net cash used in financing activities	-	(2,204)
Net increase / (decrease) in cash and cash equivalents	154,003	633,648
Cash and cash equivalents at 1 January	1,889,879	969,352
Cash and cash equivalents at 30 June	2,043,882	1,603,000

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

NOTES TO THE CONSOLIDATED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) REPORTING ENTITY

Po Valley Energy Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 31 December 2011 is available upon request from the Company's registered office at Level 28, 140 St Georges Terrace, Perth WA 6000 or at www.povalley.com.

(b) STATEMENT OF COMPLIANCE

The consolidated interim financial statements have been prepared in accordance with *AASB 134 Interim Financial Reports* and the Corporations Act 2001. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2011.

The consolidated interim financial statements were approved by the Board of Directors on 2 August 2012.

(c) BASIS OF PREPARATION

The financial report is presented in Euro.

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

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

(d) USE OF ESTIMATES AND JUDGEMENTS

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-current assets

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

The key areas of estimation and judgement in determining recoverable amounts include:
- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- 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.

(e) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statement as at and for the year ended 31 December 2011.

NOTE 2: EARNINGS PER SHARE

	30 June 2012	30 June 2011
Basic earnings / (loss) per share (€ cents)	0.28	0.33
Diluted earnings / (loss) per share (€ cents)	0.28	0.33

The calculation of basic earnings per share was based on the profit attributable to shareholders of €305,761 (2011: €367,010) and a weighted average number of ordinary shares outstanding during the half year of 111,147,396 (2011: 110,651,447).

NOTE 3: TRADE AND OTHER RECEIVABLES

	30 June 2012	31 December 2011
	€	€
Included in receivables are Italian indirect taxes recoverable as follows:		
Current	1,286,712	1,197,810
Non-current	1,363,810	1,622,980

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 4: PROPERTY, PLANT & EQUIPMENT

	30 June 2012	31 December 2011
	€	€
Office Furniture & Equipment:		
At cost	188,634	163,994
Accumulated depreciation	(137,383)	(122,203)
	51,251	41,791
Gas producing plant and equipment		
At cost	7,668,967	7,668,967
Accumulated depreciation	(1,663,303)	(1,162,657)
	6,005,664	6,506,310
	6,056,915	6,548,101

NOTE 4: PROPERTY, PLANT & EQUIPMENT (continued)

	30 June 2012	31 December 2011
	€	€
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
Office Furniture & Equipment:		
Carrying amount at beginning of period	41,791	64,290
Additions	24,640	12,888
Disposals	-	(9,678)
Depreciation expense	(15,180)	(25,709)
Carrying amount at end of period	51,251	41,791
Gas Producing assets:		
Carrying amount at beginning of period	6,506,310	6,951,615
Additions	-	111,591
Depreciation expense	(500,646)	(556,896)
Carrying amount at end of period	6,005,664	6,506,310
	6,056,915	6,548,101

NOTE 5: RESOURCE PROPERTY COSTS

	30 June 2012	31 December 2011
	€	€
Resource Property costs		
Exploration Phase	6,981,179	6,814,557
Production Phase	15,274,318	16,491,557
	22,255,497	23,306,114

NOTE 5: RESOURCE PROPERTY COSTS (continued)

	30 June 2012	31 December 2011
Reconciliation of carrying amount of resource properties	€	€
Exploration Phase		
Carrying amount at beginning of period	6,814,557	5,923,127
Exploration expenditure	179,386	1,156,991
Change in estimate of rehabilitation assets	-	(232,013)
Exploration expenditure written off	(12,764)	(33,548)
Carrying amount at end of period	6,981,179	6,814,557

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, 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.

	30 June 2012	31 December 2011
Production Phase	€	€
Carrying amount at beginning of period	16,491,557	20,071,921
Additions	177,091	4,321,399
Change in estimate of rehabilitation assets	-	(93,945)
Amortisation of producing assets	(1,394,330)	(1,977,903)
Impairment loss	-	(5,829,915)
Carrying amount at end of period	15,274,318	16,491,557

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2012

NOTE 6: FINANCIAL REPORTING BY SEGMENTS

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

	Exploration		Development and Production		Total	
	30 June 2012 €	30 June 2011 €	30 June 2012 €	30 June 2011 €	30 June 2012 €	30 June 2011 €
External revenues	-	-	4,403,269	4,348,742	4,403,269	4,348,742
Segment (loss) / profit before tax	(12,764)	(1,428)	1,994,199	2,360,219	1,981,435	2,358,791
Depreciation and amortisation	-	-	(1,894,976)	(1,362,910)	(1,894,976)	(1,362,910)
Impairment on resource property costs	(12,764)	(1,428)	-	-	(12,764)	(1,428)
	30 June 2012 €	31 December 2011 €	30 June 2012 €	31 December 2011 €	30 June 2012 €	31 December 2011 €
Reportable segment assets:						
Resource property costs	6,981,179	6,814,557	15,274,318	16,491,557	22,255,497	23,306,114
Plant & Equipment	-	-	6,005,664	6,506,310	6,005,664	6,506,310
Receivables	-	-	45,848	2,009,567	45,848	2,009,567
Inventory	-	-	729,343	701,187	729,343	701,187
Capital expenditure	179,386	1,156,991	177,091	4,432,990	356,477	5,589,981
Movement in rehabilitation assets	-	(232,013)	-	(93,945)	-	(325,958)
Reportable segment liabilities	(1,037,512)	(1,093,441)	(2,817,454)	(6,250,267)	(3,854,966)	(7,343,708)

NOTE 6: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	**30 June 2012**	**30 June 2011**
Profit or loss:	**€**	**€**
Total profit / (loss) for reportable segments	1,981,435	2,358,791
Unallocated amounts:		
Net finance income / (expense)	(386,875)	(398,914)
Other corporate expenses	(1,261,361)	(1,481,598)
Consolidated loss before income tax	333,199	478,279

Assets:	**30 June 2012**	**31 December 2011**
Total assets for reportable segments	29,036,352	32,523,178
Other assets	4,941,252	4,916,860
Consolidated total assets	33,977,604	37,440,038
Liabilities:		
Total liabilities for reportable segments	(3,854,966)	(7,343,708)
Other liabilities	(6,601,412)	(6,880,865)
Consolidated total liabilities	(10,456,378)	(14,224,573)

NOTE 7: PROVISIONS

	30 June 2012	**31 December 2011**
	€	**€**
Current:		
Employee leave entitlements	101,943	91,305
Non Current:		
Restoration provision	2,839,978	2,747,922

Reconciliation of restoration provision:

Opening balance	2,747,922	2,846,186
(Decrease) / Increase in provision due to revised estimates	-	(325,958)
Increase in provision from unwind of discount rate	92,056	227,694
Closing balance	2,839,978	2,747,922

NOTE 8: INTEREST BEARING LIABILITIES

	30 June 2012	31 December 2011
	€	€
Lloyds finance facility	5,877,782	5,771,830

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

				30 June 2012		31 December 2011	
Non Current liabilities	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value €**	**Carrying Amount €**	**Face value €**	**Carrying Amount €**
Secured bank loan	Euro	Euribor + 1.8%	2013	6,000,000	5,877,782	6,000,000	5,771,830

The amount presented is disclosed net of borrowing costs of €122,218 (Dec 2011: €228,170).

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

The senior facility became available on 19 June 2009 when the Company received its formal production concessions and final development approval for the Castello and Sillaro fields. This senior debt replaced the initial tranche of €5,000,000 and matures on 15 November 2013.
The current borrowing limit for the six months to 31 December 2012 is set to €7,151,135 as of 30 June 2012 and incorporates the semi annual borrowing base review during July. Interest is currently payable at Euribor plus 180 basis points. No principal repayments have been made during the six months to June 2012.

The facility is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd .

As at 30 June 2012, there is no contractual requirement to make any principal repayment, however the company expects to make principal repayments in line with its ongoing semi-annual borrowing base reviews.

NOTE 9: ISSUED CAPITAL

	30 June 2012 Number	31 December 2011 Number
Share Capital		
Opening balance - 1 January	111,147,396	110,548,906
Shares issued during the year:		
Shares issued at €0.18 ($025) each on 14 March 2011	-	338,604
Shares issued at €0.14 ($0.19) each on 29 June 2011	-	259,886
Closing balance – 30 June / 31 December	111,147,396	111,147,396

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.

No dividends were paid or declared during the current year.

DIRECTORS' DECLARATION

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

1. the financial statements and notes, as set out on pages 4 to 17, are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of financial position of the Group as at 30 June 2012 and of its performance for the six month period ended on that date; and

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

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

This declaration is made in accordance with a resolution of the Directors.

Graham Bradley
Chairman

Byron Pirola
Non-Executive Director

2 August 2012
Sydney, NSW, Australia

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

Report on the financial report

We have reviewed the accompanying interim financial report of Po Valley Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Po Valley Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and

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

KPMG

KPMG

R. Gambitta
Partner

Perth

2 August 2012