

PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED FINANCIAL REPORT FOR THE

YEAR ENDED 31 DECEMBER 2014

PO VALLEY ENERGY LIMITED

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 2014.

1. Directors

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

<u>Directors</u>	<u>Date of Appointment</u>
M Masterman	22 June 1999 (Managing Director) 11 October 2010 (Non-Executive Director)
B Pirola	10 May 2002
G Bradley	30 September 2004
G Short	5 July 2010
K Eley	19 June 2012

Information on Directors

The Board is composed 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 66*

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. Graham is currently Chairman of Stockland Corporation Limited, HSBC Bank Australia Limited, Energy Australia Holdings Limited and Infrastructure NSW 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 52*

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 up an executive position at Fortescue Metal Group where he is currently CEO of FMG Iron Bridge iron ore company and recently completed the US\$1.15bn sale of a 31% interest in the project to Formosa Plastics Group. Prior to joining PVE, Michael was CFO and Executive Director of Anaconda Nickel (now Minara Resources), and he spent 8 years at McKinsey & Company serving major international resource companies principally in the area of strategy and development. He is also Chairman of W Resources Plc, an AIM listed company with tungsten and gold assets in Spain and Portugal. Michael became a member of the Remuneration & Nomination Committee from 1 January 2011.

Byron Pirola *Non Executive Director, BSc, PhD, Age 54*

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 strategic 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 a member of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

Gregory Short *Non Executive Director, BSc, Age 64*

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, Metgasco Limited and Pryme Oil and Gas Limited. Greg became a member of the Audit and Risk Committee from 1 January 2011.

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Kevin Eley *Non Executive Director, CA, F FIN, FAICD Age 65*

Kevin Eley was appointed Non-Executive Director in June 2012. Kevin is based in Sydney and was the Chief Executive of HGL Limited for 25 years until his retirement in 2011. He has management and investment experience in a broad range of industries including, manufacturing, mining, retail and financial services with experience in the direction of early stage companies and public company governance. Kevin joined the PVE Audit & Risk Committee as Chairman and is currently a Non-Executive director of HGL Ltd, Milton Corporation Limited and Equity Trustees Limited.

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 17 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	B Pirola	G Short	K Eley
No. of board meetings held	10	10	10	10	10
No. of board meetings attended	10	10	10	10	10
No. of Audit & Risk Committee meetings held	-	-	2	2	2
No. of Audit & Risk Committee meetings attended	2*	2*	2	2	2
No. of Remuneration & Nomination Committee meetings held	1	1	1	-	-
No. of Remuneration & Nomination Committee meetings attended	1	1	1	1*	1*

* *attended meeting as an observer*

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4. Principal Activities

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

- É The exploration for gas and oil in the Po Valley region in Italy.
- É Appraisal and development of gas and oil fields.
- É 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 1.03 ¢ cents (2013: loss 4.76 ¢ cents).

6. Operating and financial review

The Italian gas market is dominated by gas imports. According to the 2014 Annual Report prepared by the Italian Ministry of Economic Development, the domestic exploration and production industry represents approximately 11% of total gas consumption in Italy the majority of which is produced by industry majors including Eni Spa and Edison Spa. Consequently, the Company has few comparable peers to contrast its operations.

Strategy

PVE strategy is to create value for shareholders and stakeholders using its existing and growing Italian oil and gas resource base. PVE's strategy focuses on optimising near term production to maximise profitability and expanding the Company's resources through exploration and development activities.

The Company's core portfolio includes 11 onshore assets and the first offshore asset ó a game changer in the Company's resource potential. The Company's operations are located in Italy and are run by a local management team which PVE believe represents a significant competitive advantage not enjoyed by newer entrants seeking to find success in the Italian market. Italy remains an attractive market with gas and oil being of high quality, an accessible and low cost transportation network and a pricing environment that has been stable and higher than other comparable European countries.

This year has been a continuation of a longer period of organisational change as the Company has sought to refocus the leadership team and strengthen its strategic position, having made substantial progress on multiple fronts.

Operations

During the year, the Company produced from both its Castello and Sillaro fields with a total combined production of 18.6 million cubic metres of gas (0.66 billion cubic feet).

In October, the Company reported the reduction of Sillaro production from 50,000 to around 25,000 cubic metres per day. The production reduction was caused by depletion of several reservoirs and water arrival and associated sand production from some completions. Subsequently, PVE completed a re-evaluation of the residual potential of the field and a medium term plan is currently being developed to redrill Sillaro-1 and re-complete Sillaro-2 in order to maximize recovery of residual reserves and provide a new depletion point for the Pliocene reservoirs. Please refer to the ASX announcement "Sillaro Field Reserves Revision and Production Forecast" released on 9 January 2015 which contains further details. Total production for the period from the Sillaro field amounted to 17.6 million cubic metres of gas (0.62 billion cubic feet).

The Castello gas field produced steadily at approximately 2,700 Scm/day throughout 2014. Total production for the period from the Castello field amounted to 0.98 million cubic metres of gas (0.03 billion cubic feet).

Exploration

The Company made further investments in 2014 in exploration and development assets that we believe are the most material value drivers. Namely, the production concession application for the offshore development named Teodorico (formerly Carola-Irma) was completed. An integral part of this application is the preliminary front-end engineering and design (FEED) study and the 3D seismic data which was reprocessed and interpreted in-house.

Furthermore in February 2015, the Company was awarded the western block of the AR94PY license, specifically the residual 328.3 km² of offshore licenses which had been pending following the 12 nautical mile moratorium enacted by Environmental Decree 128 of June 2010. The Company now intends to file the production concession application with the Ministry of Economic Development with the aim to fast-track the development of Teodorico.

Following the successful drilling of the Gradizza-1 exploration well (La Prospera licence) in 2013 with Joint Venture (JV) partners AleAnna Resources LLC (10% equity) and Petrorep Italiana S.p.a. (15% equity) the Company applied for a Production Concession in February 2014. Please refer to the ASX announcement

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“*Gradizza-1 Contingent Resource Assessment*” released on 3 February 2014 which contains further details including information required by Chapter 5 of the ASX Listing Rules in relation to the reporting of Oil & Gas activities and contingent resources. In November 2014 the Company was awarded a preliminary production concession for the Gradizza development and an environmental impact study is underway.

A revised Environmental Impact Assessment (EIA) for the Selva drilling application (Podere Maiar-1dir, identified within the Podere Gallina licence) was submitted to the Emilia-Romagna Region in April 2014 following minor variation requests. The Company purchased and reprocessed 70 km² of 2D seismic lines purchased in 2013 for the Selva prospect during the year and reinterpretation commenced in January 2015.

Development

Following, the award of the Bezzecca EIA Decree from the Lombardy Region in early 2014, the Ministry awarded the production concession through the enlargement of the existing Cascina Castello Production Concession in July. The formal Development Plan was granted by the Italian Ministry of Economic Development in 4Q 2014. The Ministry approved a joint venture with Petrorep in December 2014, for the Bezzecca Project. Petrorep will earn a 10% interest in the Cascina Castello production concession including the existing Vitalba plant but excluding the Vitalba-1 well. For its 10% interest, Petrorep will commit to a promoted share of future costs relating to the 7km pipeline installation, the Vitalba plant facilities upgrade to connect the Bezzecca-1 well, drilling expenditures for the development well Bezzecca-2 and reimbursement on past costs. PVE will retain the residual interest and operatorship.

The Ministry of Economic Development awarded the preliminarily production concession for the Sant’Alberto gas field (north of Bologna) in June 2014 and subsequently the EIA (including the Santa Maddalena-1dir well) was submitted to the Italian Ministry of Environment for the final production concession in December 2014. The planned development for the Sant’Alberto field envisions a small modular plant and a simple connection to the national grid, circa 200 meters away.

Financial performance

Total revenue from the full year of gas production was €5,033,833, a year on year decline of €1,628,944 or 24%. This decrease in revenue is attributable to lower production volumes from the Sillaro field in 4Q2014. Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) for the year was €1,539,512 and decreased €215,624 if compared to the previous year. This decrease is mainly driven by the decrease in revenue of €1,628,944 which was partially offset by (i) a decrease in operating expenses of €257,148 and (ii) savings in employee expenses and corporate overheads of €1,156,172. As previously communicated to shareholders, the Company undertook a review of its cost structure and organisation with the aim to reduce fixed overhead costs which continued throughout 2014. In addition, the Company executed an off-take agreement with a global oil and gas major which secures the gas price until September 2015 with the option to extend to September 2016.

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

Comprehensive profit reconciliation table (in Euro)	2014	2013
Net loss before impairment expense (unaudited)	(1,242,182)	(700,259)
Impairment on resource property costs for the Castello field	-	(5,021,112)
Exploration costs expensed	(20,180)	(74,895)
Comprehensive loss for the year	(1,262,362)	(5,796,266)

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to €1,539,512 for the year.

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

EBITDA reconciliation table (in Euro)	2014	2013
EBITDA	1,539,512	1,755,136
Depreciation and amortisation expense	(2,264,401)	(2,325,656)
Depreciation expense	(13,791)	(18,406)
Impairment losses	(20,180)	(5,096,007)
Other miscellaneous income	251,380	437,056
Results from operating activities	(507,480)	(5,247,877)

Board believes EBITDA, however not reviewed or audited, is a good measure of the operating results of the Company.

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Financial position

PVE currently has in place a R20 million Reserve Based Lending (RBL) facility with the London branch of Nedbank Group Limited, one of the four largest banking groups in South Africa. The maximum borrowing base ceiling limit is set by Nedbank six monthly. The Company's drawings on the Nedbank facility amounted to R3,406,590 at 31 December 2014. One repayment totalling R93,410 was made during the year. No share issues were made during the 2014 year. Cash and cash equivalents at year end 2014 amounted to R1,579,585.

Nedbank has not finalised a redetermination in December 2014 due to the ongoing discussions regarding financing options. Based on June 2014 borrowing base redetermination the borrowing limit would be R3,051,000 for the first half of 2015. The Company has hence transferred R355,590 from the cash balance to the Debt Service Reserve Account (DSRA) during January 2015. At the date of this report this amount remained in the DSRA account pending finalization of the borrowing base redetermination.

Health and safety

Paramount to PVE's ability to pursue its strategic priorities is a safe workplace and a culture of safety first. The Company regards Environmental awareness and Sustainability as key strengths in planning and carrying out business activities. PVE's daily operations are conducted in a way that adheres to these principles and management are committed to their continuous improvement. Whilst growing from exploration roots, the Company has strived to continually improve underlying safety performance. The Company has adopted an HSE Management System which provides for a series of procedures and routine checks (including periodical audits) to ensure compliance with all legal and regulatory requirements and best practices in this area. In 2014, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report during the 33,998 man-hours worked at the well sites and in the administrative offices.

In addition to health and safety, Management and the Board use a number of operating and financial indicators to measure performance overtime against our overall strategy. Refer to note 11 of the Directors report for details of selected performance indicators.

Information required by ASX Listing Rule 5.43

The Company confirms that it is not aware of any new information or data that materially affects the information included in the two market announcements referred to above (Gradizza-1 Contingent Resource Assessment lodged with the ASX on 3 February 2014 and Sillaro Field Reserves Revision and Production Forecast lodged with the ASX on 9 January 2015) and that all material assumptions and technical parameters underpinning the estimates in the those announcements continue to apply and have not materially changed.

Principle risks and uncertainties

Oil and gas exploration and appraisal involves significant risk. The future profitability of the Company and the value of its shares are directly related to the results of exploration and appraisal activities. There are inherent risks in these activities. No assurances can be given that funds spent on exploration and appraisal will result in discoveries that will be commercially viable. Future exploration and appraisal activities, including drilling and seismic acquisition may result in changes to current perceptions of individual prospects, leads and permits.

The Company identifies and assesses the potential consequences of strategic, safety, environmental, operational, legal, reputational and financial risks in accordance with the Company's risk management policy. PVE management continually monitors the effectiveness of the Company's risk management, internal compliance and control systems which includes insurance coverage over major operational activities, and reports to the Audit and Risk Committee on areas where there is scope for improvement. The Charter for the Audit and Risk Committee is available on the Company's website. The principal risks and uncertainties that could materially affect PVE future performance are described below.

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External risks

Exposure to gas pricing	Volatile oil and gas prices make it difficult to predict future price movements with any certainty. Decline in oil or gas prices could have an adverse effect on PVE. The Company does not currently hedge its exposures to gas price movements long term. The profitability of the Company's prospective gas assets will be determined by the future market for domestic gas. Gas prices can vary significantly depending on other European gas markets, oil and refined oil product prices, worldwide supply and the terms under which long term take or pay arrangements are agreed.
Changes to law, regulations or Government policy	Changes in law and regulations or government policy may adversely affect PVE's business. Examples include changes to land access or the introduction of legislation that restricts or inhibits exploration and production. Similarly changes to direct or indirect tax legislation may have an adverse impact on the Company's profitability, net assets and cash flow.
Uncertainty of timing of regulatory approvals	Delays in the regulatory process could hinder the Company's ability to pursue operational activities in a timely manner including drilling exploration and development wells, to install infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.

Operating risks

Exploration, development and production	The future value of PVE will depend on its ability to find, develop, and produce oil and gas that is economically recoverable. The ultimate success or otherwise of such ventures requires successful exploration, establishment of commercial reserves, establishment and successful effective production and processing facilities, transport and marketing of the end product. Through this process, the business is exposed to a wide variety of risks, including failure to locate hydrocarbons, changes to reserve estimates or production volumes, variable quality of hydrocarbons, weather impacts, facility malfunctions, lack of access to appropriate skills or equipment and cost overruns.
Estimation of reserves	The estimation of oil and natural gas reserves involves subjective judgments and determinations based on geological, technical, contractual and economic information. It is not an exact calculation. The estimate may change because of new information from production or drilling activities.
Tenure security	Exploration licences held by PVE are subject to the granting and approval by relevant government bodies. Government regulatory authorities generally require the holder of the licences to undertake certain proposed exploration commitments and failure to meet these obligations could result in forfeiture. Exploration licences are also subject to partial or full relinquishments after the stipulated period of tenure if no alternative licence application (e.g. production concession application) is made, resulting in a potential reduction in the Company's overall tenure position. In order for production to commence in relation to any successful oil or gas well, it is necessary for a production concession to be granted.
Health, safety and environmental matters	Exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment. Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. Failure to manage these risks could result in injury or loss of life, damage or destruction of property and damage to the environment. Losses or liabilities arising from such incidents could significantly impact the Company's financial results.

In addition to the external and operating risks described above, the Company's ability to successfully develop future projects including their infrastructure is contingent on the Company's ability to fund those projects through operating cash flows and affordable debt and equity raisings.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2014.

8. Significant events after the balance date

Other than matters already disclosed in this report, there were no other 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, in its planned drilling program for high potential gas prospects.

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 & Nomination 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.

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 periods.

Indices	2014	2013	2012	2011	2010	2009
Production (scm000)	18,560	23,983	24,673	28,995	26,793	638
Average realised gas price (p cents per cubic metre)	27	28	33	31	27	n/a
EBITDA (p'000s)	1,540	1,755	4,473	4,411	2,219	(6,935)
Profit / (loss) attributable to owners of the Company (p'000s)	(1,262)	(5,796)	2,373	(5,071)	(2,324)	(7,203)
Earnings / (loss) per share (p cents per share)	(1.03)	(4.76)	2.12	(4.57)	(2.11)	(6.99)
Share Price at year end - AU\$	0.10	0.12	0.12	0.16	0.21	1.68

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 gives 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.

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Senior Executives and Executive Directors

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, accommodation and other benefits, 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. No remuneration consultants were used during the current or previous year.

The table below represents the target remuneration mix for Key Management Personnel in the current year. The short-term incentive is provided at target levels.

	Fixed remuneration	At risk	
		Short-term incentive	Long-term incentive
Acting Chief Executive Officer	79%	21%	-

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors. 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 2014 to Non-Executive Directors was \$220,000 (2013: \$220,000). No increase in board fees was made in 2014 and none are proposed in 2015.

Service contracts

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

- É Commencement Date: 30 September 2004 (re-elected 28 May 2014)
- É Fixed remuneration for the year ended 31 December 2014: \$60,000
- É No termination benefits

Byron Pirola, Non-Executive Director

- É Commencement Date: 10 May 2002 (re-elected 24 May 2013)
- É Fixed remuneration for the year ended 31 December 2014: \$40,000
- É No termination benefits

Gregory Short, Non-Executive Director

- É Commencement Date: 5 July 2010 (re-elected 24 May 2013)
- É Fixed remuneration for the year ended 31 December 2014: \$40,000
- É No termination benefits

Michael Masterman, Non-Executive Director

- É Commencement Date: 22 June 1999 (re-elected 28 May 2014)
- É Fixed remuneration for the year ended 31 December 2014: \$40,000
- É No termination benefits

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Kevin Eley, Non-Executive Director

- É Commencement Date: 19 June 2012 (re-elected 24 May 2013)
- É Fixed remuneration for the year ended 31 December 2014: p40,000
- É No termination benefits

The Non-Executive directors are not appointed for any fixed term but rather are required to retire and stand for re-election in accordance with the Company's constitution and the ASX Listing Rules.

Executives:

Sara Edmonson, Acting Chief Executive Officer

- É Commencement Date: 26 July 2010 as Finance Manager and 1 September 2012 as Chief Financial Officer
- É Term of Agreement: Indefinite but terminable by either party on three months' notice
- É Fixed salary of p120,000 per annum
- É Annual performance based fee of up to 40% of her contracted salary subject to the achievement of performance criteria agreed with the Board
- É Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to one year salary in accordance with the Italian National Collective Labour Agreement for executives.

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Key Management Personnel remuneration outcomes (including link to performance)

The remuneration details of each Director and other key management personnel (KMP) during the year is presented in the table below.

Directors		Salary & fees p	Accommodation p	Car p	Other p	Termination payments p	Total p
G Bradley Chairman Non-Executive	2014	60,000	-	-	-	-	60,000
	2013	60,000	-	-	-	-	60,000
B Pirola Non-Executive	2014	40,000	-	-	-	-	40,000
	2013	40,000	-	-	-	-	40,000
G Short Non-Executive	2014	40,000	-	-	-	-	40,000
	2013	40,000	-	-	-	-	40,000
M Masterman Non-Executive	2014	40,000	-	-	-	-	40,000
	2013	40,000	-	-	-	-	40,000
K Eley Non-Executive	2014	40,000	-	-	-	-	40,000
	2013	40,000	-	-	-	-	40,000
G Catalano Managing Director / CEO Resigned 12 August 2013	2014	-	-	-	-	-	-
	2013	124,344	21,832	4,600	2,533	51,552	204,861
Total for Directors	2014	220,000	-	-	-	-	220,000
	2013	344,344	21,832	4,600	2,533	51,552	424,861

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Key Management Personnel remuneration - Consolidated (Continued)

		Short term										Proportion of remuneration performance related %	
		Salary & fees p	Accommodation p	Car p	Other p	Total Base p	STI Cash p	Total Short-term p	Termination payments p	Defined contribution plan p	Total p		
KMP													
Sara Edmonson Acting CEO		2014	120,000	-	1,500	-	121,500	34,500	156,000	-	9,742	165,742	21%
		2013	120,000	-	-	-	120,000	33,260	153,600	-	8,106	161,366	21%
Total for KMP		2014	120,000	-	1,500	-	121,500	34,500	156,000	-	9,742	165,742	
		2013	120,000	-	-	-	120,000	33,260	153,600	-	8,106	161,366	
Total Directors and KMP		2014	340,000	-	1,500	-	341,500	34,500	376,000	-	9,742	385,742	
		2013	464,344	21,832	4,600	2,533	493,309	33,260	526,569	51,552	8,106	586,227	

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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 are included in share based payments to each Director and Executive.

Directors and executives	2014			2013		
	Cash Bonus p	Bonus paid by issue of shares p	% vested in year	Cash Bonus p	Bonus paid by issue of shares p	% vested in year
S Edmonson	34,500	Nil	100%	33,260	Nil	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.

The cash bonus for 2014 was awarded to Ms. Edmonson based on performances, and specifically for having reached the agreed strategic objectives.

Options over equity instruments granted as compensation

No options were granted as compensation to Directors or key management personnel during the reporting period (2013: Nil). No options vested during 2014. (2013: Nil)

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 2014.

There were no options outstanding during 2014.

No options were exercised by directors or key management personnel.

No options over ordinary shares in the Company were held by any key management personnel during 2014.

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Equity holdings and transactions

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

	Held at 31 Dec 2013	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2014
Directors						
G Bradley	1,373,880	30,000	-	-	-	1,403,880
M Masterman (i)	33,177,327	448,895	-	-	-	33,626,222
B Pirola	7,112,782	-	-	-	-	7,112,782
G Short	200,000	-	-	-	-	200,000
K Eley	800,000	-	-	-	-	800,000
	<u>42,663,989</u>	<u>478,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,142,884</u>
Executives						
S. Edmonson	28,064	-	-	-	-	28,064
	<u>28,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,064</u>

(i) Does not include shares held by family members which amount to 1,040,000 shares

	Held at 31 Dec 2012	Purchased	Share based payments	Options Exercised	Sold / Other ⁽ⁱⁱⁱ⁾	Held at 31 Dec 2013
Directors						
G Bradley	1,123,880	250,000	-	-	-	1,373,880
M Masterman (i)	29,845,302	3,332,025	-	-	-	33,177,327
B Pirola	7,112,782	-	-	-	-	7,112,782
G Short	-	200,000	-	-	-	200,000
K Eley	400,000	400,000	-	-	-	800,000
G Catalano	528,141	-	-	-	(528,141)	-
	<u>39,010,105</u>	<u>4,182,025</u>	<u>-</u>	<u>-</u>	<u>(528,141)</u>	<u>42,663,989</u>
Executives						
S. Edmonson	28,064	-	-	-	-	28,064
	<u>28,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,064</u>

(i) Does not include shares held by related parties which amount to 1,040,000 shares

Other transactions and balances with KMP and their related parties

No key management personnel have entered into a material contract, other than disclosed above, with the Group or the Company since the year end of the previous financial year end and there were no material contracts involving key management personnel interests existing at year-end.

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	1,403,880
M Masterman	33,626,222
B Pirola	7,112,782
G Short	200,000
K Eley	800,000

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 Ernst & Young, the Group's auditor, did not perform other services in addition to their statutory duties. 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 16 and forms part of the Directors' report for the financial year ended 31 December 2014.

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

Graham Bradley
Chairman
Sydney, NSW Australia



26 March 2015



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Auditor's Independence Declaration to the Directors of Po Valley Energy Limited

In relation to our audit of the financial report of Po Valley Energy Limited for the year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
26 March 2015

PO VALLEY ENERGY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014	2013
		p	p
Current Assets			
Cash and cash equivalents	10 (a)	1,579,585	1,528,633
Trade and other receivables	12	1,086,118	2,675,764
Total Current Assets		<u>2,665,703</u>	<u>4,204,397</u>
Non-Current Assets			
Inventory	11	783,669	634,694
Other assets		30,378	27,716
Deferred tax assets	15	2,316,267	2,370,139
Property, plant & equipment	13	3,033,821	3,572,165
Resource property costs	14	19,781,635	19,872,250
Total Non-Current Assets		<u>25,945,770</u>	<u>26,476,964</u>
Total Assets		<u>28,611,473</u>	<u>30,681,361</u>
Liability and equity			
Current Liabilities			
Trade and other payables	16	1,698,845	2,762,654
Provisions	17	179,714	138,392
Interest bearing loans	18	2,968,858	-
Total Current Liabilities		<u>4,847,417</u>	<u>2,901,046</u>
Non-Current Liabilities			
Provisions	17	4,168,104	3,988,825
Interest bearing loans	18	-	2,933,176
Total Non-Current Liabilities		<u>4,168,104</u>	<u>6,922,001</u>
Total Liabilities		<u>9,015,521</u>	<u>9,823,047</u>
Equity			
Issued capital	19	45,819,924	45,819,924
Reserve	19	1,192,269	1,192,269
Accumulated losses		(27,416,241)	(26,153,879)
Total Equity		<u>19,595,952</u>	<u>20,858,314</u>
Total Equity and liabilities		<u>28,611,473</u>	<u>30,681,361</u>

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014 p	2013 p
Continuing Operations			
Revenue	3	5,033,833	6,662,777
Operating costs		(1,028,427)	(1,285,575)
Depreciation and amortisation expense		(2,264,401)	(2,325,656)
Gross Profit		1,741,005	3,051,546
Other income		251,380	437,056
Employee benefit expenses	4	(1,285,895)	(2,031,184)
Depreciation expense		(13,791)	(18,406)
Corporate overheads	5	(1,179,999)	(1,590,882)
Impairment losses	14	(20,180)	(5,096,007)
Operating loss		(507,480)	(5,247,877)
Finance income		526	22,333
Finance expenses		(612,403)	(638,206)
Net finance expenses	7	(611,877)	(615,873)
Loss before tax		(1,119,356)	(5,863,750)
Income tax benefit/(expense)	8	(143,006)	67,484
Loss for the year		(1,262,362)	(5,796,266)
Other comprehensive income		-	-
Total comprehensive loss for the year, net of tax		(1,262,362)	(5,796,266)
Loss attributable to:			
Owners of the company		(1,262,362)	(5,796,266)
		(1,262,362)	(5,796,266)
Total comprehensive loss attributable to:			
Owners of the Company		(1,262,362)	(5,796,266)
		(1,262,362)	(5,796,266)
Basic and diluted loss per share	9	(1.03) cents	(4.76) cents

The consolidated statement of comprehensive income / loss 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 2014

Consolidated	Attributable to equity holders of the Company			
	Issued capital p	Translation Reserve p	Accumulated Losses p	Total p
Balance at 1 January 2013	45,460,097	1,192,269	(20,357,613)	26,294,753
Total comprehensive income:				
Loss for the year	-	-	(5,796,266)	(5,796,266)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(5,796,266)	(5,796,266)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners ó				
Issue of shares	359,827	-	-	359,827
Balance at 31 December 2013	45,819,924	1,192,269	(26,153,879)	20,858,314
Balance at 1 January 2014	45,819,924	1,192,269	(26,153,879)	20,858,314
Total comprehensive income:				
Loss for the year	-	-	(1,262,362)	(1,262,362)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(1,262,362)	(1,262,362)
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners ó				
Issue of shares	-	-	-	-
Balance at 31 December 2014	45,819,924	1,192,269	(27,416,241)	19,595,952

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
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014	2013
		p	p
Operating activities			
Receipts from customers		6,495,675	7,192,510
Payments to suppliers and employees		(4,200,332)	(3,460,747)
Interest received		526	22,333
Interest paid		(296,392)	(364,353)
Income tax paid		(54,406)	(107,810)
Net cash flows from operating activities	10 (b)	<u>1,945,071</u>	<u>3,281,933</u>
Investing activities			
Payments for non-current assets		(3,540)	(2,920)
Payments on security deposits		-	-
Receipts for resource property costs from joint operations partners		200,569	671,959
Payments for resource property costs		(1,997,738)	(2,863,055)
Net cash flows used in investing activities		<u>(1,800,709)</u>	<u>(2,194,016)</u>
Financing activities			
Proceeds from the issues of shares		-	359,827
Proceeds from borrowings	18	-	5,000,000
Repayments of borrowings	18	(93,410)	(5,500,000)
Payment of borrowing costs		-	(645,459)
Net cash flows used in financing activities		<u>(93,410)</u>	<u>(785,632)</u>
Net increase in cash and cash equivalents		50,952	302,285
Cash and cash equivalents at 1 January		<u>1,528,633</u>	<u>1,226,348</u>
Cash and cash equivalents at 31 December	10 (a)	<u>1,579,585</u>	<u>1,528,633</u>

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

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 Suite 8, 7 The Esplanade Mt Pleasant WA 6153.

The Consolidated Financial Statements of the Company for the year ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the Group and individually as Group entities) and the Group's interest in associates and jointly controlled entities and operations.

The financial statements were approved by the Board of Directors on 26 March 2015.

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

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) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the basis of historical cost.

(c) GOING CONCERN

The financial report has been prepared on a going concern basis. In arriving at this position, the Directors have had regard to the fact that the Group will have access to sufficient working capital to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

For the year ended 31 December 2014, the Group has recorded a loss of \$1,262,362, it has a cash balance of \$1,579,585, net current liabilities of \$2,181,714 and had net cash inflows from operations of \$1,945,071.

The Group's forecast cashflow requirements for the 15 months ending 31 March 2016 reflects outflows from operating and investing activities in excess of its available cash resources at 31 December 2014. These requirements reflect a combination of committed and uncommitted but current planned expenditure in relation to the fields of Sillaro, Castello and Bezzacca.

The Directors are currently reviewing a range of financing options which may include the further issue of new equity, reserve based debt, convertible debt, sale of operating or non-operating interests in assets or a combination of these and other funding instruments and options. Furthermore the Company is currently waiting for the redetermination of the borrowing base under the company's reservoir lending facility with NedBank Limited pending the finalisation of financing options. While financing is expected to be finalised within the short term there is no certainty that financing will be completed as anticipated.

The Directors are confident of being able to raise the required capital, but note that financing has not been secured and the redetermination of the borrowing facility has not been finalised at the date of this report. Should the Group not achieve the matters set out above, there is uncertainty whether the

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

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

(e) 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 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.

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 involved in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation involved 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

The discount rate used for impairment purposes is 11% and inflation rate used is 2% per annum.

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant estimation 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 future costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include estimates 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.

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognized prospectively to depreciation and amortisation. Any impact of the change in the reserves is considered on asset carrying values and impairment losses, if any, are immediately recognized in the profit or loss.

Recognition of deferred tax assets

The recoupment of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

1.3 SIGNIFICANT ACCOUNTING POLICIES

Except for the changes noted below, the Group has consistently applied the accounting policies set out in notes 1.3 (a) to 1.3 (q) to all periods presented in the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND INTERPRETATIONS

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

Materiality óAASB1031

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.

AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.

AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014

Investment Entities ó Amendments to AASB10, AASB12 and AASB127

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under AASB 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

have not impact on the Group, since none of the entities in the Group qualifies to be an investment entity under AASB10.

Remove Individual Key Management Personnel Disclosure Requirements ó Amendments to AASB124

This amendment removes from AASB124 individual key management personnel (KMP) disclosure requirements from disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions. This amendment has resulted in reduced disclosure in the Group's financial statements.

(a) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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. Investments in subsidiaries are carried at cost less any impairment losses.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment losses.

(ii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation - when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture ó when the Group has rights only to the net assets of the arrangement, it accounts for its interest using the equity method adopted for associates as noted in (a) (ii) above.

(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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will 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.

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(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 asset 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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) IMPAIRMENT (continued)

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 Company assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (11%) that reflects current market assessments of the time value of money and the risks specific to the asset/CGU.

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

(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) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with expenditure will flow to the Group.

(iii) 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:

	2014	2013
Castello	13.16%	12.70%
Sillaro	17.66%	12.10%

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues.

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:

	2014	2013
Office furniture & equipment	3 ó 5 years	3 ó 5 years

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

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 cost using the effective interest method, less any impairment losses.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(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.

(iii) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares 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 less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of 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 and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specific area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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 recognised in the profit and loss.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

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:

	2014	2013
Castello	13.16%	12.70%
Sillaro	17.66%	12.10%

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 have occurred up to the balance sheet date and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwind of the discount rate are accounted for in the income statement as finance expense.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROVISIONS (continued)

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.

(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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 PVE functional and presentation currency (refer note 1.2 (d)).

(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 items receivable from or payables 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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) EARNINGS/LOSS PER SHARE

Basic earnings per share (øEPSø) 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 net profit attributable to members of the parent entity, 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.

(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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) REVENUE

Revenues is measured at fair value of the consideration received or receivable, net of the amount of value added tax (øVATø) 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, 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 recognised as unearned revenue.

(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 property, plant and equipment accounting policy.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease.

(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 2014, but have not been applied in preparing this financial report.

AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Amendments to AASB 9 (December 2009 & 2010 editions) (AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The main changes are described below.

- a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
 - The remaining change is presented in profit or loss

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 ó Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in December 2014.

Management has not yet assessed the impact of the AASB 9 adoption.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

In May 2014, the AASB issued AASB 15 Revenue from Contracts with Customers.

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to the performance obligations in the contract
- (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Early application of this standard is permitted.

AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:

- (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

This Standard also makes an editorial correction to AASB 11.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 Group's objectives of creating and maintaining shareholder value, and the successful execution of the Group'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.

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

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings. The Group does not hedge its exposure to movements in market interest rates. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in bank accounts earning interest.

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. Capital consists of issued share capital plus accumulated losses/earnings. The Board monitors accumulated losses/earnings.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

The Board seeks to encourage all employees of the Group to hold ordinary shares.

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 from shareholders.

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	
	2014	2013
	p	p
NOTE 3: REVENUE		
Gas sales	5,033,833	6,662,777

NOTE 4: EMPLOYEE BENEFIT EXPENSES

Wages and salaries	1,071,316	1,978,148
Contributions to defined contribution plans	214,579	53,036
	1,285,895	2,031,184

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED

	2014	2013
	p	p
NOTE 5: CORPORATE OVERHEADS		
Corporate overheads comprises:		
Company administration and compliance	193,344	263,215
Professional fees	395,017	678,247
Office costs	243,100	288,695
Travel and entertainment	95,620	137,730
Other expenses	252,918	222,995
	1,179,999	1,590,882

NOTE 6: AUDITORS' REMUNERATION

Auditors of the Company		
Audit and review of the Group financial statements	47,780	57,180
Audit of subsidiary financial statements	-	6,157
	47,780	63,337

NOTE 7: FINANCE INCOME AND EXPENSE

Recognised in profit and loss:

Interest income	526	22,333
Finance income	526	22,333
	526	22,333
Interest expense	296,392	314,955
Amortisation of borrowing costs	129,092	93,739
Unwind of discount on site restoration provision	179,280	163,287
Foreign exchange losses (net)	7,639	66,225
Finance expense	612,403	638,206
Net finance expense	(611,877)	(615,873)

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED

**2014
p** **2013
p**

NOTE 8: INCOME TAX BENEFIT / (EXPENSE)

Current tax

Current year	89,134	74,560
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Deferred tax

Origination and reversal of temporary differences	53,872	(142,044)
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Deferred tax benefit	53,872	(142,044)
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Total income tax (benefit) / expense	143,006	(67,484)
---------------------------------------	---------	----------

Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)

Loss for the year before tax	(1,119,356)	(5,863,750)
------------------------------	-------------	-------------

Income tax (benefit) / expense using the Company's domestic tax rate of 30 per cent (2013: 30%)	(335,807)	(1,759,125)
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Non-deductible expenses:

Borrowing costs	3,027	72,533
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IFRS adjustments	238,037	132,265
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Other	43,133	17,740
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Effect of tax rates in foreign jurisdictions	(13,284)	9,796
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Current year losses and temporary differences for which no deferred tax asset was recognised	208,857	1,384,748
--	---------	-----------

Changes in temporary differences	56,029	-
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Utilisation of tax losses	(146,119)	-
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Tax effect of regional taxes in Italy ó current	89,134	74,560
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Income tax (benefit) / expense	143,006	(67,484)
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PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
p p

NOTE 9: EARNINGS PER SHARE

Basic loss per share (p cents) (1.03) (4.76)

The calculation of earnings per share was based on the loss attributable to shareholders of p1,262,362 (2013: p5,796,266) and a weighted average number of ordinary shares outstanding during the year of 122,414,063 (2013: 121,728,447).

Diluted earnings / (loss) per share is the same as basic earnings / (loss) per share.

		2014	2013
The number of weighted average shares is calculated as follows:	No. of days	Weighted average no.	Weighted average no.
Number of shares on issue at beginning of the year	365	122,414,063	118,564,063
3,850,000 issued on 7 March 2013	300	-	3,164,384
		122,414,063	121,728,447

NOTE 10: CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents		1,579,585	1,528,633
(b) Reconciliation of cash flows from operating activities			
Loss		(1,262,362)	(5,796,266)
<u>Adjustment for non-cash items:</u>			
Unrealised net foreign exchange loss		-	66,225
Depreciation and amortisation		2,257,850	2,344,062
Resource property costs impairments		20,180	5,096,007
Unwind of discount on site restoration provision		179,280	163,287
Amortisation of borrowing costs		129,092	93,739
<u>Change in operating assets and liabilities:</u>			
Decrease in receivables		1,589,646	1,206,575
Increase / (decrease) in trade and other payables		(1,063,809)	225,781
Increase in provisions		41,322	24,567
Increase in deferred tax assets		53,872	(142,044)
Net cash inflow from operating activities		1,945,071	3,281,933

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
p **p**

NOTE 11: INVENTORY

Non-Current

Well equipment ó at cost	783,669	634,694

Well equipment represents inventory expected to be utilised in future development of known wells with specific characteristics.

NOTE 12: TRADE AND OTHER RECEIVABLES

Current

Trade receivables	443,211	587,255
Accrued gas sales revenue	-	648,695
Sundry debtors	131,423	298,645
Deposit (b)	202,485	202,238
Indirect taxes receivable (a)	308,999	938,931
	1,086,118	2,675,764

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

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

Current	169,718	799,650
Non-current	-	-

The indirect taxes relate to Italian Value Added Tax (VAT), which is typically 22% 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. PVE 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. VAT remitted on oil and gas sales in Italy is 10%. A significant VAT refund was received during the year.

(b) The deposit with Nedbank Group Ltd earned interest at 0.15% during the period.

NOTE 13: PROPERTY PLANT & EQUIPMENT

Office Furniture & Equipment:

At cost	200,672	200,132
Accumulated depreciation	(170,825)	(157,034)
	29,847	43,098

Gas producing plant and equipment

At cost	8,483,197	8,402,751
Accumulated depreciation and impairment losses	(5,479,223)	(4,873,684)
	3,003,974	3,529,067
	3,033,821	3,572,165

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
p **p**

NOTE 13: PROPERTY PLANT & EQUIPMENT (continued)

Reconciliations:

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

Office Furniture & Equipment:		
Carrying amount at beginning of year	43,098	55,584
Additions / Reclassification	540	5,920
Disposals	-	-
Depreciation expense	(13,791)	(18,406)
Carrying amount at end of year	29,847	43,098
Gas Producing plant and equipment:		
Carrying amount at beginning of period	3,529,067	5,581,184
Additions / Reclassification	80,446	733,784
Depreciation expense	(605,539)	(621,688)
Impairment (refer Note 14)	-	(2,164,213)
Carrying amount at end of period	3,003,974	3,529,067
	3,033,821	3,572,165

NOTE 14: RESOURCE PROPERTY COSTS

Resource Property costs

Exploration Phase	11,624,796	10,060,661
Development Phase	-	-
Production Phase	8,156,839	9,811,589
	19,781,635	19,872,250

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2014	2013
	p	p
Reconciliation of carrying amount of resource properties		
<i>Exploration Phase</i>		
Carrying amount at beginning of period	10,060,661	7,272,641
Exploration expenditure	1,584,315	2,518,277
Change in estimate of rehabilitation assets	-	344,638
Impairment losses	(20,180)	(74,895)
Carrying amount at end of period	11,624,796	10,060,661

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.

Production Phase

Carrying amount at beginning of period	9,811,589	14,744,969
Additions / Reclass to property plant & equipment	4,112	(244,992)
Change in estimate of rehabilitation assets	-	(127,521)
Amortisation of producing assets	(1,658,862)	(1,703,968)
Impairment loss	-	(2,856,899)
Carrying amount at end of period	8,156,839	9,811,589

Increases in the discount rates or changes in other key assumptions, such as gas pricing, operating costs or production rates, may cause the values of cash generating units to exceed their recoverable amounts. The directors believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount due to the low carrying value.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2014	2013
	p	p
Impairment losses are reconciled as follows:		
<i>Impairment expense</i>		
Castello gas field	-	(5,021,112)
Exploration costs	(20,180)	(74,895)
Total impairment loss	<u>(20,180)</u>	<u>(5,096,007)</u>

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Deferred tax assets have been recognised in respect of the following items:

Tax losses	1,884,192	2,030,650
Accrued expenses and liabilities	432,075	339,489
Recognised deferred tax assets	<u>2,316,267</u>	<u>2,370,139</u>

The tax losses in both Italy and Australia do not expire. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Unrecognised deferred tax assets

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

Tax losses	2,308,116	2,042,760
Deductible temporary differences	2,016,301	2,069,569
Unrecognised deferred tax assets	<u>4,324,417</u>	<u>4,112,329</u>

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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in recognised temporary differences during the year

	Balance 1 January 2013	Profit and loss	Equity	Balance 31 December 2013	Profit and loss	Equity	Balance 31 December 2014
Consolidated							
Tax losses	1,962,535	68,115	-	2,030,650	(146,458)	-	1,884,192
Accrued expenses and liabilities	265,560	73,929	-	339,489	92,586	-	432,075
Total recognised deferred tax asset	2,228,095	142,044	-	2,370,139	(53,872)	-	2,316,267

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2014	2013
	p	p
Trade payables and accruals	1,391,960	2,473,179
Other payables	306,885	289,475
	1,698,845	2,762,654
	1,698,845	2,762,654

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 21.

NOTE 17: PROVISIONS

Current:

Employee leave entitlements	119,714	138,392
Other provisions	60,000	-
	179,714	138,392
	179,714	138,392

Non Current:

Restoration provision	4,168,104	3,988,825
	4,168,104	3,988,825
Reconciliation of restoration provision:		
Opening balance	3,988,825	3,608,421
Increase in provision due to revised estimates	-	217,117
Increase in provision from unwind of discount rate	179,279	163,287
	179,279	163,287
Closing balance	4,168,104	3,988,825
	4,168,104	3,988,825

Provision has been made based on the net present value of the estimated cost of restoring the environmental disturbances that have 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 Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

	CONSOLIDATED	
	2014	2013
	p	p
Current liabilities		
Finance facility	2,968,858	-
	2,968,858	-
Non-current liabilities		
Finance facility	-	2,933,176
	-	2,933,176
	-	2,933,176

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 2014		31 December 2013	
				Face Value p	Carrying Amount p	Face Value p	Carrying Amount p
Current liabilities							
Secured bank loan	Euro	Euribor + 3.75%	2018	3,406,590	2,968,858	-	-
Non-Current liabilities							
Secured bank loan	Euro	Euribor + 3.75%	2018	-	-	3,500,000	2,933,176

The amount presented is disclosed net of borrowing costs of p437,732 (2013: p566,824).

The company has a finance facility with Nedbank Group Ltd. The facility is a Senior Secured Revolving Reducing Borrowing Base Facility of p20 million and matures on 3 May 2018; and is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd.

The facility became available on 16 May 2013 and the Company drew p5,000,000 of the facility in order primarily to settle the facility previously held with Lloyds and pay transaction costs. The facility Borrowing Base is determined semi-annually by Nedbank. During the month of December 2014 Nedbank did not finalise the redetermination due to the ongoing conversations between the Company and the bank regarding financing options. At the date of this report the Bank has not finalised a redetermination exercise and therefore all the outstanding debt was reclassified as a current liability pending a formal redetermination regarding the Borrowing Base amount for 2015.

The latest redetermination, incurred in June 2014, set the Borrowing Base limit for the six months to 30 June 2015 to p3,050,000 at closing date. During the month of February 2015 the Company accounted for p355,000 (difference between outstanding debt at December 31, 2014 and June 2015 Borrowing Base) in the DSRA account.

At December 31, 2014 PVE was compliant with all the covenants related to the Nedbank facility.

Interest is currently payable at Euribor plus 375 basis points. Principal repayments of p93,410 have been made during the year to December 2014 in regards to the Nedbank facility.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares	
	2014 Number	2013 Number
Share Capital		
Opening balance - 1 January	122,414,063	118,564,063
<u>Shares issued during the year:</u>		
Shares issued at p0.093 (\$0.12) each on 7 March 2013	-	3,850,000
Closing balance ó 31 December	<u>122,414,063</u>	<u>122,414,063</u>

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 shares were issued to employees pursuant to the employees share purchase plan (2013: Nil)

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The historical balance comprises of translation differences prior to change in functional currency of a foreign operation.

Dividends

No dividends were paid or declared during the current year (2013: Nil).

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 20: 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 operation sites have been aggregated.

In euro	Exploration		Development and Production		Total	
	2014 p	2013 p	2014 p	2013 p	2014 p	2013 p
External revenues	-	-	5,033,833	6,662,777	5,033,833	6,662,777
Segment (loss) / profit before tax	(20,180)	(74,895)	1,741,005	(1,969,566)	1,720,825	(2,044,461)
Depreciation and amortisation	-	-	(2,264,401)	(2,325,656)	(2,264,401)	(2,325,656)
Impairment on resource property costs	(20,180)	(74,895)	-	(5,021,112)	(20,180)	(5,096,007)
Reportable segment assets:						
Resource property costs	11,624,796	10,060,661	8,156,839	9,811,589	19,781,635	19,872,250
Plant & Equipment	-	-	3,003,974	3,529,067	3,003,974	3,529,067
Receivables	-	-	443,211	1,356,160	443,221	1,356,160
Inventory	-	-	783,669	634,694	783,669	634,694
Capital expenditure	1,568,715	2,518,277	84,589	488,792	1,653,304	3,007,069
Movement in rehabilitation assets	-	344,638	-	(127,521)	-	217,117
Reportable segment liabilities	(2,510,250)	(3,123,266)	(2,807,091)	(2,986,395)	(5,317,341)	(6,109,661)

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 20: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	2014	2013
	þ	þ
Profit or loss:		
Total profit / (loss) for reportable segments	1,720,825	(2,044,461)
<i>Unallocated amounts:</i>		
Net finance expense	(611,876)	(615,873)
Other corporate expenses	(2,228,305)	(3,203,416)
Consolidated loss before income tax	<u>(1,119,356)</u>	<u>(5,863,750)</u>
 Assets:		
Total assets for reportable segments	23,986,577	25,392,171
Other assets	4,624,896	5,289,190
Consolidated total assets	<u>28,611,473</u>	<u>30,681,361</u>
 Liabilities:		
Total liabilities for reportable segments	(5,317,341)	(6,109,661)
Other liabilities	(3,698,180)	(3,713,386)
Consolidated total liabilities	<u>(9,015,521)</u>	<u>(9,823,047)</u>

Other Segment Information

All of the Group's revenue is currently attributed to gas sales in Italy through an off-take agreement with Shell Italia. For the current year, the Group's only customer contributed the entire revenue.

NOTE 21: 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	
	2014	2013
	þ	þ
Variable rate instruments		
Financial assets	1,579,585	1,528,633
Financial liabilities	(2,968,858)	(2,933,176)
	<u>(1,389,273)</u>	<u>(1,404,543)</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 21: FINANCIAL INSTRUMENTS (continued)

Cash flow sensitivity analysis for variable rate instruments:

A strengthening of 50 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 2013.

<i>Effect in pø</i>	Profit or loss		Equity	
	2014	2013	2014	2013
31 December				
Variable rate instruments	(17,500)	(19,714)	-	-

(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 Group has limited its credit risk in relation to its gas sales in that all sales transactions fall under an offtake agreement with Shell Italia which expires in October 2015. Shell currently has an option to extend the contract a second Gas Year from October 2015 to September 2016.

The Group has a concentration of credit risk exposure to its one customer (Shell Italia). Payment terms are 35 days and the customer has an investment grade credit rating.

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.

	Note	CONSOLIDATED Carrying Amount	
		2014 p	2013 p
Cash and cash equivalents	10	1,579,585	1,528,633
Receivables ó Current	12	1,086,118	2,675,764
Other assets		30,378	27,716
		2,696,081	4,232,113

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 21: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

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

**Consolidated
31 December 2014**

<i>In p</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 ó 2 Years	2 ó 5 Years
Trade and other payables	(1,698,845)	(1,698,845)	(1,698,845)	-	-	-
Secured bank loan	(2,968,858)	(3,841,384)	(355,000)	(3,486,384)	-	-
	<u>(4,667,703)</u>	<u>(5,540,229)</u>	<u>(2,053,845)</u>	<u>(3,486,384)</u>	<u>-</u>	<u>-</u>

**Consolidated
31 December 2013**

<i>In p</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 ó 2 Years	2 ó 5 Years
Trade and other payables	(2,762,654)	(2,762,654)	(2,762,654)	-	-	-
Secured bank loan	(2,933,176)	(4,088,316)	(67,883)	(67,883)	(135,766)	(3,816,784)
	<u>(5,695,830)</u>	<u>(6,850,970)</u>	<u>(2,830,537)</u>	<u>(67,883)</u>	<u>(135,766)</u>	<u>(3,816,784)</u>

(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.

Amounts receivable/(payable) in foreign currency other than functional currency:	CONSOLIDATED	
	2014	2013
Cash	p 17,652	p 10,549
Current ó Payables	(39,479)	(19,341)
Net Exposure	<u>(21,827)</u>	<u>(8,792)</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 21: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
Australian Dollar (\$)	0.6792	0.7293	0.6710	0.6445

Sensitivity Analysis

A 10 percent strengthening of the Australian dollar against the Euro (p) 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 2012.

	CONSOLIDATED	
	Profit or loss	Equity
31 December 2014	p	p
Australian Dollar to Euro (p)	1,373	-
31 December 2013		
Australian Dollar to Euro (p)	375	-

A 10 percent weakening of the Australian dollar against the Euro (p) 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 22: COMMITMENTS AND CONTINGENCIES

Contractual Commitments and contingencies

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 2014.

NOTE 23: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated	
	2014	2013
	p	p
Short-term employee benefits	376,000	526,569
Termination benefits	-	51,552
Other long term benefits	-	-
Post-employment benefits	9,742	8,106
Share-based payments	-	-
	<u>385,742</u>	<u>586,227</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 24: PARENT ENTITY DISCLOSURES

	2014	2013
	p	p
<i>Financial Position</i>		
Assets		
Current assets	1,232,577	1,494,044
Non-current assets	21,504,730	32,375,760
Total assets	22,737,307	33,869,804
Liabilities		
Current liabilities	3,141,355	170,050
Non-current liabilities	-	2,933,176
Total liabilities	3,141,355	3,103,226
Net Assets	19,595,952	30,766,578
Equity		
Issued capital	45,819,924	45,819,924
Accumulated losses	(26,223,972)	(15,053,346)
Total equity	19,595,952	30,766,578
<i>Financial Performance</i>		
Loss	(11,170,626)	(6,523,242)
Other comprehensive loss	-	-
Total Comprehensive loss	(11,170,626)	(6,523,242)

NOTE 25: INTERESTS IN OTHER ENTITIES

Subsidiaries

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 less any impairment losses. Set out below is a list of the significant subsidiaries of the Group.

Name:	Country of Incorporation	Class of Shares	2014	2013	Holding
			Investment	Investment	%
			p	p	
Northsun Italia S.p.A (öNSIö)	Italy	Ordinary	21,083,268	21,083,268	100
Po Valley Operations Pty Limited (öPVOö)	Australia	Ordinary	631,056	631,056	100
			21,714,324	21,714,324	

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 26: INTEREST IN JOINT ARRANGEMENTS

The Group's interests in joint arrangements at 31 December 2014 is as follows:

Joint Operation	Manager	Group's Interest	Principal Activity (Exploration)
La Prospera	Northsun Italia S.p.A	75% (2013: 75%)	Gas
Cascina Castello	Northsun Italia S.p.A.	90% (2013: 100%)	Gas

The Group's interest in assets employed in the above joint ventures includes capitalised exploration phase expenditure totalling p2,937,104 (2013: p2,773,303). These amounts are included under resource property costs (note 14).

NOTE 27: SUBSEQUENT EVENT

Nedbank debt facility redetermination: based on June 2014 redetermination, in January 2015 the preliminary non formalized assessment of the Borrowing Base redetermination resulted in a borrowing limit of p3,051,000 for the first half of 2015. The Company thus transferred p355,590 on the DSRA account during the month of January 2015. At the date of closing of the Financial Statements this sum is still sitting in the DSRA account while the bank is in the process of finalizing the Borrowing Base redetermination.

Other than matters already disclosed in this report, there were no other 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.

DIRECTORS' DECLARATION

1. In the opinion of the directors of PVE (the Company):
 - i) the financial statements and notes, as set out on pages 17 to 56 , 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 2014 and of its 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) subject to the matters disclosed in Note 1.2(c), 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 acting chief executive officer and chief financial officer for the financial year ended 31 December 2014.
3. The Directors draw attention to Note 1.2 to the Financial Statements which include a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 26th day of March 2015.

Signed in accordance with a resolution of the directors:

Graham Bradley
Chairman



Kevin Eley
Non-Executive Director



Independent audit report to members of Po Valley Energy Limited

Report on the year-end financial report

We have audited the accompanying financial report of Po Valley Energy Limited, which comprises the statement of financial position as at 31 December 2014, the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Group and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the year-end financial report

The directors of the Group 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 controls as the directors determine are 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 Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. 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 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*. We have given to the directors of the Group a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Po Valley Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.2.

Emphasis of matter

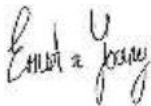
Without qualifying our opinion, we draw attention to Note 1.2 in the financial report. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

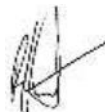
We have audited the Remuneration Report included in pages 8 to 15 of the directors' report for the year ended 31 December 2014. The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the remuneration report of Po Valley Energy Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Russell J Curtin
Partner
Perth
26 March 2015