

## DECEMBER QUARTER 2008 — ACTIVITIES REPORT

For the December quarter and to the date of this report

### HIGHLIGHTS — KEY DEVELOPMENTS

#### Sillaro and Castello: PVE 100%

- Sillaro and Castello Production Concession decrees awarded
- Surface plant equipment complete on skids awaiting site installation approval
- Site construction of Sillaro pipeline and connection to Italian grid complete
- First Gas Sales contract of €38m awarded for 50% of production

#### New Projects, Sant' Alberto, Bezzecca, Fantuzza

- Civil works have been completed for Bezzecca 1
- Bezzecca 1 drilling is expected to be completed in the second quarter 2009
- Po Valley has officially taken up 100% of Sant Alberto and is now operator

#### New licence applications

- Cadelbosco di Sopra, Adriatic offshore AR 168 PY and Grattasasso preliminarily licences awarded
- Final award of Podere Gallina licence

#### Market Conditions

- Italian market gas Euro-denominated prices increased from €0.33 per cubic metre in early July to €0.36 at 31 December.

#### Corporate

- Drawdown on €20m Bank of Scotland facility at 31 December 2008 was €5.0m
- Cash at Bank 31 December 2008 increased A\$1m to A\$5.2 million
- A\$3.6m raised from exercise of Executive and Director Options
- A\$1.0m revenue from close out of gasoil hedging

### December Quarter 2008 Activities Report

The priority objective of the company is getting the Sillaro and Castello fields into production.

Significant milestones were achieved against this objective with the completion of the construction of the main surface equipment for the facilities and the completion of pipeline construction activities at Sillaro. The regulatory approvals have progressed and with the grant of the Castello and Sillaro Production Concessions, health and safety installation approvals are expected in first and second quarters of 2009 respectively.

#### Sillaro and Castello Gasfields

All major surface plant equipment necessary for the Sillaro and Castello field developments is now complete on skids at our EPCM contractor SEMAT warehouses in Italy, ready for transportation and installation to site.

Pipeline grid connections have significantly advanced. The construction of the 300m connection from Sillaro to the national SNAM grid has been completed during December. We expect the Castello pipeline grid connection to commence site construction in February with completion in the first quarter of 2009.

Following the November grant of 20 year production concessions, health and safety approval documentation for installation of Castello and Sillaro surface plant and Sillaro 2 drilling were submitted. The company expects to “turn the earth” with the commencement of installation of Castello and the drilling of Sillaro 2 in the first half of 2009. Castello production is expected in June/July 2009 with Sillaro production expected in September/October 2009.

The first gas sales contract was awarded in early January 2009 for 50% of Sillaro and Castello production and subsequent contract(s) are expected to be completed in the March quarter.

#### **Sant’ Alberto Gasfield – north of Bologna**

The transfer to the company of Edison’s 50% quota in the San Vincenzo licence area including the Sant’ Alberto field is complete. Now that we have assumed operatorship it is planned to expedite progress of this drilled and tested field towards production.

#### **New Appraisal Projects — Bezzecca 1 and Fantuzza 1**

Civil works have been completed at the Bezzecca well site and the well is expected to be completed during the second quarter 2009.

Fantuzza environmental approval is expected during the March quarter and the well is expected to be drilled near the end of 2009.

#### **New Licence Applications — Northern Italy**

Initial geological and geophysical studies are now complete on La Prospera, Opera and Podere Gallina. Initial objectives are for planning to commence for the drilling of 1 to 2 wells on La Prospera or Podere Gallina during 2010. Additional seismic acquisition activities are also programmed for 2009

#### **Gas Storage Joint Venture**

The Bagnolo Mella gas storage development licence application in joint venture with Star Energy / Petronas is now expected to be determined during the first half of 2009.

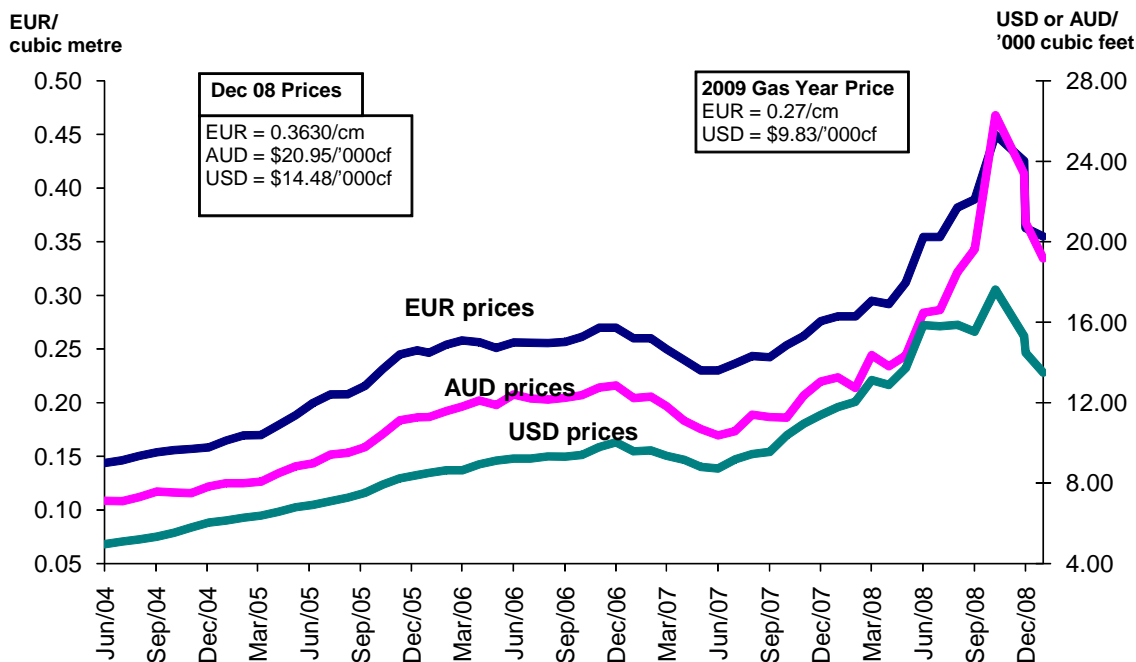
#### **Italian Gas Market**

Prices in the Italian gas market eased during the period in-line with the fall in Oil prices.

The Ukraine / Russia crisis in late December through to January had resulted in some pick-up in spot Gas pricing and re-enforces the strategic importance of domestic production within the walls of Europe.

Spot prices in the Euro based benchmark Gas Release was at €0.3630 per cubic metre at the end of period.

<sup>2</sup> Source: GeEO – Italian Gas & Power published by Alba Soluzioni



Source: ENI gas price release, European Central Bank and Reserve Bank of Australia average monthly exchange rates

## Corporate

The Bank of Scotland finance facility was utilised during the quarter to fund Sillaro and Castello production surface plant and associated costs and was drawn to €5.0 million (A\$10.1 million). Bank of Scotland has confirmed that the Company has achieved FDP approval for both Sillaro and Castello fields, and will be able to access second tranche funds upon provision of formal documentation from the relevant authorities approving civil works and drilling on the Sillaro and Castello Fields.

A\$1m was received as a result of the close out of in the money gasoil put options. These options were purchased during mid 2008 to hedge against possible falls in input prices to the gas price.

A total of A\$3.6m has been raised through the exercise of 3.04 million Executive and Director Options issued at the time of the 2004 IPO and expiring 31 October 2008.

Cash at bank at the end of the December quarter increased A\$1 million to A\$5.2 million.

**MICHAEL MASTERMAN**  
Chief Executive Officer

ENDS

For further information contact:

**Michael Masterman**  
President & CEO  
Po Valley Energy  
+39 33 31961061

**Kevin Skinner**  
Field Public Relations  
(08) 8234 9555 / 0414 822 631

Or visit: [www.povalley.com](http://www.povalley.com)