



DECEMBER QUARTER 2006 — ACTIVITIES REPORT

For the December quarter and to the date of this report

HIGHLIGHTS

KEY DEVELOPMENTS – EMERGING GAS PRODUCTION PROJECTS NORTHERN ITALY

Sillaro & Castello (aka Vitalba)

- Production concession applications expected to be reviewed at next Hydrocarbon commission meeting, planned to be held in April
- Initial technical reviews with Ministry complete
- Environmental Impact Assessment documentation ready for submission
- Pipeline grid connections agreed with Pipeline operator SNAM-ReteGas
- Engineering and surface plant procurement underway for both projects
- Seismic review underway

Sant' Alberto (aka Santa Maddalena)

- Production concession application progressing
- Joint Venture conducting 2D seismic review to identify new development wells

New licence applications

- Mazzalasio application reviewed at December Hydrocarbon Commission meeting
- Environmental clearance studies completed and submitted for Opera, Ossola, La Prospera and Podere Gallina
- Data room visits and initial 2D seismic reviews complete on all five applications (Opera, Ossola, La Risorta, La Prospera, Podere Gallina)

Market Conditions

- Italian market gas prices remain steady

Finance

- Placement completed in November raising A\$5.85 million at a price of A\$1.95 per share. Cash at Bank 31 December 2006 – A\$5.08 million.

December Quarter 2006 Activities Report

Po Valley Energy ("PVE") moved forward with its three successfully drilled projects – Sillaro, Castello, and Sant' Alberto during the Quarter. All three production concession applications have been submitted and are under Italian Ministry technical review. The Ministry has indicated that Sillaro and Castello will be reviewed and considered at the next Hydrocarbon Commission meeting currently scheduled for April 2007.

Environmental clearance documentation for the development of the gas fields is complete and the company expects to start the environmental approval process during the first quarter of 2007.

The company has moved quickly forward with its 5 applications for which it received preliminary award in October 2006, with environmental clearance processes and initial seismic reviews complete.

Sillaro - east of Bologna

The approval process for Sillaro is proceeding forward through Ministry technical review. The Ministry has informed Po Valley that it expects the concession application to be considered in the April 2007 Hydrocarbon Commission meeting. In parallel, Po Valley will shortly submit the Environmental Impact Assessment which has a formal 3 month review process within the main program schedule.

Surface plant engineering and procurement is advanced and pipeline grid connection arrangements have been agreed with the national pipeline operator, SNAM-ReteGas ("SNAM") at a distance of about 300 m from the wellsite. SNAM will construct the connection line at its own cost.

Castello – east of Milan

The Castello production concession application is proceeding forward in parallel with Sillaro.

Surface plant engineering and procurement is well advanced. The pipeline grid connection point has been agreed with SNAM at a distance of about 500m from the well site.

Sant' Alberto – north of Bologna

Po Valley's Joint Venture partner and operator, Edison, has submitted the production concession application and the company expects it to be considered at the next Hydrocarbon Commission meeting.

Seismic review is underway and should be completed by the end of the first quarter 2007.

New Development Projects — Bezzecca 1 (aka Pandino) – southeast of Milan

Bezzecca approvals are proceeding forward. Analysis of recently acquired 2D seismic is underway.

New Licence Applications — Northern Italy

In October 2006, the Italian Ministry made the preliminary award of 5 new exploration licence applications – La Prospera, La Risorta and Podere Gallina near Bologna, and Opera and Ossola near Milan. A sixth exploration licence application – Mazzalasio – was considered at the December Hydrocarbon commission meeting and the company is awaiting the outcome of that meeting.

Environmental clearance documentation is complete and has been submitted on new applications Opera, Ossola, La Prospera, Podere Gallina and on an existing application area Terra del Sole. The formal environmental clearance process takes approximately 5 months. This is then followed by approximately 3 months of Ministry administrative procedures prior to final granting of the licence.

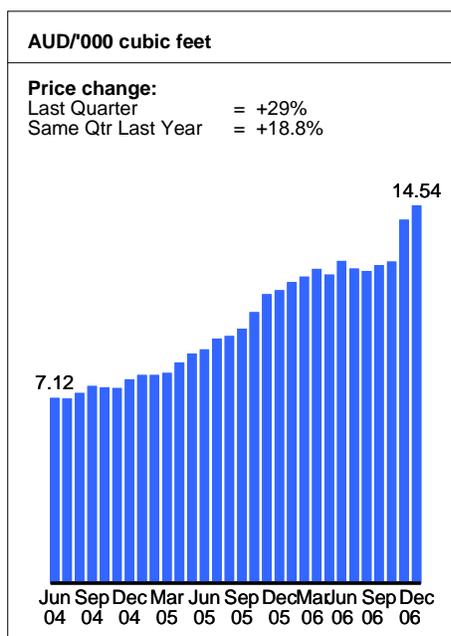
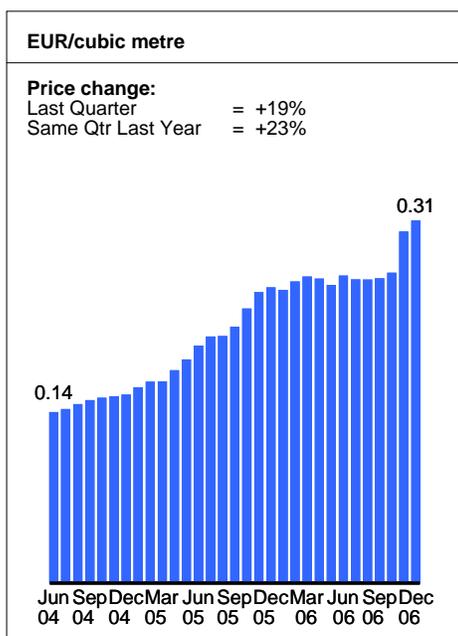
Edison, an unsuccessful applicant for the Ossola licence area, has sought to legally challenge the preliminary award by the Ministry of the Ossola application to Po Valley.

Po Valley and the Italian Ministry have lodged strong defences at the initial hearing. The company will strongly defend the preliminary award process. The administrative hearing is scheduled for 18 April 2007 and based on legal advice Po Valley is confident that the Edison claim will be rejected.

Italian Gas Market

Prices in the Italian gas market eased towards the end of the quarter with the pull back in oil prices and the warm winter conditions.

ITALIAN REFERENCE GAS PRICES



Source: ENI gas price release and GeEo Newsletter pricing data, European Central Bank average monthly exchange rates

Corporate

A private placement to major shareholders Harbinger Capital and Hunter Hall raising A\$5.85 million was completed early in November 2006, with the issue of 3 million ordinary shares.

Cash at bank at the end of the December quarter was A\$5.08 million.

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