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## DECEMBER QUARTER 2007 — ACTIVITIES REPORT

For the December quarter and to the date of this report

### HIGHLIGHTS — KEY DEVELOPMENTS

#### **Sillaro and Castello (aka Vitalba); PVE 100%**

- Environmental decree issued for Sillaro
- Environmental decree for Castello expected in February
- Surface plant contract and fabrication on schedule and 21% complete
- Pipeline grid connections on schedule

#### **Sant' Alberto (aka Santa Maddalena); PVE 50%**

- 2D seismic to be shot in second quarter to improve structural definition

#### **New licence applications**

- Two new applications submitted
- Geological and Geophysical studies for La Prospera and Opera underway
- Approximately 150 Km of seismic data purchased for Ossola and Podere Gallina in January 2008

#### **Gas Storage**

- Bagnolla Mella storage field tender expected to be considered at next Hydrocarbon Commission meeting

#### **Market Conditions**

- Long term Italian market gas prices lifted during the period to 32-33 euro cents per cubic metre (US\$13.22-13.64 / '000 cubic feet)

#### **Finance**

- AUD34 million loan facility documentation with Bank of Scotland approaching completion
- Cash at Bank 31 December 2007 – A\$5.7million

### December Quarter 2007 Activities Report

#### **Sillaro and Castello Gasfields**

Ministry formally notified Po Valley Energy of the preliminary award subject to environmental approval of the Sillaro and Castello production concessions

The Environmental decree for Sillaro has been issued by Regione Emilia Romagna and we expect the issue of the Castello Environmental decree in the coming weeks.

Fabrication and construction of the surface plant for both Sillaro and Castello is advancing forward on schedule and is 21% complete at the end of December 2007

Similarly, SNAM Rete Gas has confirmed that the pipeline connections to connect Sillaro and Castello to the pipeline grid are proceeding on schedule.

#### **San Vincenzo License Sant' Alberto Gasfield – north of Bologna**

Plans are underway to complete a short 2D seismic program at San Vincenzo to further delineate the structure of the field and guide the next stages of the development program.

The production concession application is awaiting additional information which the Company expects to be compiled and submitted as part of the 2D seismic program.

**New Development Projects — Bezzecca 1 and Fantuzza 1**

Final environmental hearings for Bezzecca 1 were held on site on 24<sup>th</sup> January and the Company expects environmental and final drilling approval in the second quarter of 2008.

The environmental approval application for Fantuzza 1 was submitted in December 2007

**New Licence Applications — Northern Italy**

Geological and Geophysical studies on Opera and La Prospera are well advanced. The results of these studies and the proposed new well programs will be available in the March quarter of 2008.

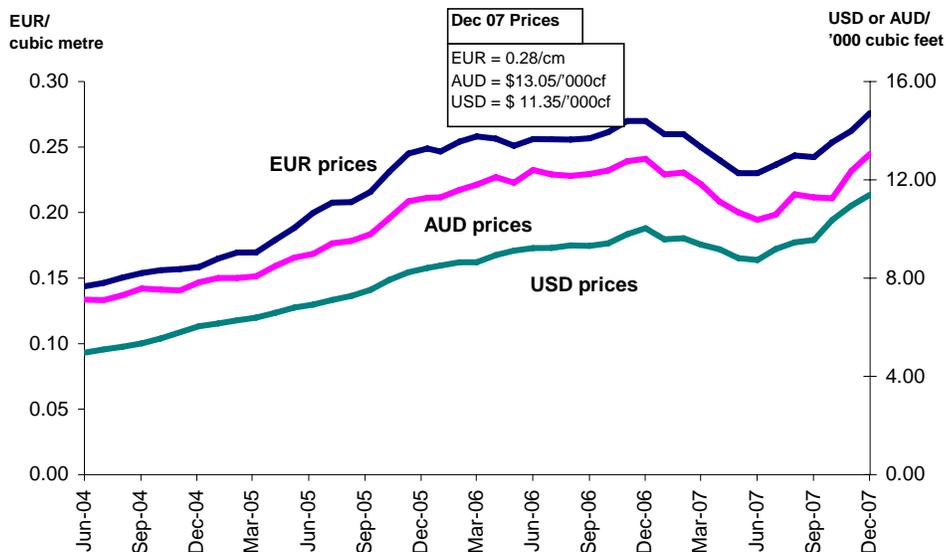
150km of seismic data has been purchased for Ossola and Podere Gallina and will be processed during the March Quarter.

**Gas Storage Joint Venture**

In Joint Venture (50/;50) with Star Energy, the Company tendered for Bagnolo Mella Storage concession in 2007. The results of the tender are expected in the first half of 2008.

**Italian Gas Market**

Prices in the Italian gas market surged during the quarter with the rising oil price. Prices for the 2008 gas year running from 1 October 2007 to 30 September 2008 was trading at a range of 32-33 euro cents per cubic metre (US\$13.22-13.64 / 000 cubic feet).



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

In late January the company kicked off its sales process for the initial production of gas with a presentation to a short list of 12 key Italian and European customers.

Feedback was positive and the Company will continue to progress the bidding/tender process with a view to securing a sales contract for production from the Castello and Sillaro fields within the 1<sup>st</sup> half of 2008.

## Corporate

Bank of Scotland Corporate agreed to provide a finance facility of up to A\$34 million (€20 million) to the company during December. The funding ensures that the company has all the necessary financing available to finance the construction program for both the Castello and Sillaro projects and the drilling costs of the Sillaro 2, Bezzecca and Fantuzza wells in 2008.

The two-part finance facility comprises an initial A\$8 million (€5 million) to access prior to final development approval from Italian Government authorities. Up to a total of A\$34 million (€20 million) Senior Debt facility will be available once the company receives its formal production concession; with drawdown being subject to satisfying the terms of the facility.

Bank of Scotland and the company are currently in the final stages of completing documentation for the facility.

Cash at bank at the end of the December quarter was A\$5.7 million.

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