

**PO VALLEY ENERGY LIMITED**  
**2010 ANNUAL GENERAL MEETING**  
**CHAIRMAN'S ADDRESS**

Let me welcome you to the company's 6<sup>th</sup> Annual General Meeting since listing, and our first held in Perth where our registered office is located. We decided to hold our AGM in Perth because we have a large number of shareholders based here and it is also where our Auditors KPMG and other key advisors are based. I am pleased to be able to meet many of you here today.

I will present a short report on the Company's activities during 2009, and the first four months of 2010, and our near term outlook. Michael Masterman, our CEO, together with my board colleague, David McEvoy, will then provide a more detailed review of our operations, our properties and our future development plans.

**Production**

At the beginning of 2009 we set the primary objective for the company to achieve gas production from our Castello and Sillaro gasfield developments. We have now achieved both maiden gas production at our Castello field on 17 December 2009 and Sillaro is in start up as we meet here today.

Castello produced 5.4 million cubic meters (190 million cubic feet) in the first quarter of 2010. This production generated revenues of EUR1.4m for the first quarter and positive earnings before interest tax, depreciation and amortisation (EBITDA).

While initial plant start up was smooth and initial production stable, the trend in the pressure at the well head has declined at a faster rate than expected which has negative implications for reserves and production life. As announced to the ASX last week, the well has now been shut in and downhole pressure measurements are being taken to investigate the cause of pressure loss. David will talk to these issues shortly.

We expect to report on the implications for production rates and reserves in June 2010 following analysis of the test results. At this time, however, our expectation is that we will have lower future production rates and that, as a consequence, reserves will be substantially reduced.

Sillaro, our largest gas field, has started gas production this week and should produce good gas flows and revenues for the balance of 2010. Sillaro 2 was successfully drilled

in July/August 2009 and the surface plant has been installed and commissioned over the last 7 months. We expect a steady ramp-up in production rates over the next two months as each of the three production strings is brought on line. So far, the start up is going smoothly.

### **Appraisal and Exploration**

As most of you would be aware, in April 2009 the Company drilled the Bezzecca-1 well which was tested at a combined flow rate of 3.8 million cubic feet of gas per day.

Analysis of the Bezzecca-1 drilling results has been a drawn-out and complex exercise. After initial analysis, the Company on 15 September 2009 informed the market that the Bezzecca field has been downgraded under the Company's revised Hydrocarbon Reserve Categorisation Policy from "Reserves" to "Contingent Resources–Development Unclassified" and we foreshadowed that on completion of the new field study we planned to conduct, we expected the resource size to be reduced. We also wrote down the value of the Bezzecca field in our full-year results to €1.5 million, and recorded an impairment expense of €4.2 million. The magnitude of reduction in field size which emerged from the 2010 report was, however, unexpected.

A two well development option has been defined for the Bezzecca field utilising the Castello production facilities which are located 6-8 kilometres from the field. This approach will, we believe, be the most economical one for this field.

Turning to our other assets, progress has been made at our Sant' Alberto field, north of Bologna. Since becoming the operator of this field, key steps in reservoir re-evaluation have been initiated. As part of this process new seismic will be acquired in June 2010 and we expect to submit a revised production concession application in the second half of 2010.

In addition, considerable progress was made with geological and geophysical studies to identify high potential gas and oil targets in our other licence areas of Northern Italy. Mr. Masterman will expand on these developments in his report.

### **Finance**

In 2009, the Company incurred an operating loss of €7.2 million, in line with expectations. The Company did, however, end the year with a strengthened balance sheet after raising €10.85 million in 2009 through private placements to institutional

investors and a share purchase plan (SPP) for retail investors last October. We thank our investors for their continued support.

The Company ended 2009 with cash at bank of €6.6 million and debt of €10.3 million drawn under the Company's Bank of Scotland reservoir financing facility. As at 30 April, our cash at bank was €3.6 million and our bank debt was €9.0 million after paying down €1.3 million in April.

As shareholders are aware, the share price has fallen from around \$1.20 to around \$0.35 during April. The Bezzecca and Castello reserve announcements, coming as they did in close proximity, together with a declining value of the Euro and negative media coverage of a number of Eurozone countries, have been, we believe, the main factors affecting the market sentiment towards the Company's shares and have led to some institutional selling and high share turnover in late April.

The oil and gas exploration and development business is inherently risky and outcomes can have a wide range of uncertainty. Resources and reserves estimates are based on various assumptions made by competent experts and there are a number of methodologies applied in the industry. Reserves are normally re-estimated following acquisition of critical data following the drilling of wells (for example Bezzecca-1) and after a period of time of production (for example 3 months of Castello production). The Company has an ongoing asset by asset review of its resources in accordance with its Hydrocarbon Reserves Policy announced last September. The review of Bezzecca is now complete. Castello will be reviewed following downhole pressure measurements to be made shortly, and Sillaro/Fantuzza will be reviewed during June/July to incorporate the drilling results of Sillaro-2 and the field's initial months of production. Sant Alberto/San Vincenzo will be reviewed in August/September following completion of upcoming seismic work.

I would like to reassure shareholders that the efforts by both management and the Board are very firmly focussed on reducing the impact of the disappointing downgrades and the fall in the company's share price.

It is important that we do not lose sight of the significant achievements we have made in bringing two new fields into production in a difficult regulatory environment, nor the considerable progress made in acquiring what we believe is a valuable portfolio of development and exploration opportunities.

We remain committed to making the best commercial decisions we can based on the best technical advice available to optimise the value of the Company's portfolio of

exploration and development assets which is now considerably larger than at any time in our Company's history. We believe that this portfolio has good potential to restore value for shareholders.

## **Outlook**

While not wanting to sidestep recent negative events, it is important that we do not lose sight of the achievements of the past year which provide the company with the base from which to go forward.

Since the last AGM we have:

- demonstrated the ability to build and complete surface plant and move into commercial production;
- navigated the Italian regulatory process and built a respected position with the Italian regulators and local communities;
- successfully drilled a second production well into our most important field (Sillaro 2), confirming two additional levels gas bearing levels;
- generated our first quarter of profits and, subject to smooth operations of Sillaro, are now able to reduce debt and generate cash;
- have a development and exploration portfolio that has within it several highly prospective projects;
- built a strong, experienced in-house technical team to support our future program.

On the basis of our projections for production from Sillaro for the balance of the year, the Company expects to generate the cash we need to further expand and develop its fields. In doing so we will continue to review ways to progress exploration and development plans at lower capital cost and risk by partnering or by farm-out arrangements.

Subject to timely approvals, during the balance of 2010, the Company plans to drill a new appraisal well (Fantuzza-1), possibly on a farmed-out basis. We also expect to submit development plans for two other areas—Bezzecca and Sant' Alberto—for ministerial approval.

It is also our intention to use cash flows to further reduce our bank debt during 2010 with a target to reduce debt to about €5.0 million by year end.

It is not expected that cash flow will be sufficient to permit declaration of a maiden dividend at year-end, although we will keep this option under review.

On behalf of shareholders, I would like to thank our small and hardworking management team for their great work during 2009. Thanks are also due to Dom Del Borrello who served as our Chief Financial Officer and Company Secretary from the Rome office for three years and left the company to return to Australia with his family in 2009. We welcome our new Company Secretary, Ms. Lisa Jones.

There were no changes on the Board during 2009, and I thank my board colleagues for their continued hard work and dedication to the Company.

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