

**PO VALLEY ENERGY LIMITED**

**A.B.N. 33 087 741 571**

**CONSOLIDATED FINANCIAL REPORT FOR THE**

**YEAR ENDED 31 DECEMBER 2015**

# 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 2015.

### 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 -- Resigned 25 January 2016
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 67*

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**, *BEC Hons, Age 53*

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 55*

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.

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### **Kevin Eley — Non Executive Director, CA, F FIN, FAICD Age 66**

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, Hunter Hall international Limited and Equity Trustees Limited.

### **Gregory Short — Non Executive Director, BSc, Age 65 Resigned 25 January 2016**

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. Gregory Short resigned 25<sup>th</sup> January 2016.

## **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:

	<b>G Bradley</b>	<b>M Masterman</b>	<b>B Pirola</b>	<b>G Short</b>	<b>K Eley</b>
No. of board meetings held	13	13	13	13	13
No. of board meetings attended	12	12	11	13	13
No. of Audit & Risk Committee meetings held	2	2	2	2	2
No. of Audit & Risk Committee meetings attended	2	1	1	2	2
No. of Remuneration & Nomination Committee meetings held	1	1	1	1	1
No. of Remuneration & Nomination Committee meetings attended	1	1	1	0	0

\* *attended meeting as an observer*

#### **4. Principal Activities**

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

- The exploration for gas and oil in the Po Valley region in Italy.
- Appraisal and development of gas and oil fields.
- 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 5.02 €cents (2014: loss 1.03 €cents).

#### **6. Operating and financial review**

The Italian gas market is dominated by gas imports. According to the 2015 Annual Report prepared by the Italian Ministry of Economic Development, the domestic exploration and production industry represents approximately 8% of total gas consumption in Italy the majority of which is produced by industry majors including Eni Spa and Edison Spa in the northern Adriatic Sea. Consequently, the Company has few comparable peers to contrast its operations.

##### *Strategy*

PVE's 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 10 onshore assets and the first offshore asset – 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.

The 2015 faced a strong decline in gas prices in Italy, with the market seeing a reduction in order of 25% over the last 12 months. The decline was even more evident in the last part of the year, with spot prices ranging between Euro 16.5 and 20 cents per cubic metre.

The Company has not been immune to the increasing pressure on the oil and gas industry experienced worldwide. Funding from both debt and equity sources has been extremely challenging for junior companies like Po Valley Energy. As previously reported, the Company's priorities have been to increase production and revenue from its Sillaro gas field, to seek funding to bring its near term development assets into production and to progress the Company's highly prospective licence areas. Directors are currently reviewing several options to supplement the Company's cash at bank and revenue in order to fund the Company's operations in short and medium term. A pro rata renounceable rights issue to raise approximately Euro 1.2 million (AUD 1.75m) was launched on 18 March of this year. As outlined in the ASX Market Update of 18 March 2016, the Directors have developed a pathway to restructure and recapitalise the Company in order to preserve maximum value for shareholders. We refer to the Offer Document for more details.

##### *Operations*

During the year, the Company produced from both its Castello and Sillaro fields with total combined production of 9.84 million cubic metres of gas (0.34 billion cubic feet).

Combined average production for 2015 was 27,000 scm/day. Production started out in the year at a lower rate while the company was in the process of conducting a reservoir review on Sillaro and increased in the second and third quarter to 28,000 and 37,000 respectively following the conclusion and the application of that study. In 4Q production began to curtail in preparation of the rigless campaign. At the day of this report this re-work is ongoing.

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As previously announced, generally speaking the production reduction at Sillaro over the past 18 months was caused by depletion of several reservoirs and water arrival and associated sand production from some completions. Throughout 2015 the Company's technical team together with specialist advisors reviewed the residual potential in the Pliocene sequences on both completed and non-completed levels and the opportunity to drill a sidetrack well to access a lower Miocene reservoir directly below the field. In October, the Company's technical team finalised a relatively low cost rig less rework on both wells in order to access remaining gas from the Pliocene. Given the current funding constraints the sidetrack on Sillaro-1 to access the Miocene has been postponed. The rigless campaign was initiated in December 2015 and will be completed this month. Once the results are clear a revised reserve estimate and production forecast for the field will be released to the market.

Thanks to careful production management Castello field increased its daily production during the year from 2,500 scm/day up to a rate of 5,000 scm/day, until November 2015. After a slight decrease in 3Q 2015, the production stopped in late November, due to gas specifications issues following an increase in the humidity content (dew point) at the entry point to the national grid. Some investments on the gas treatment plant would be required to allow the plant to effectively treat the gas and deliver according to SNAM specifications. It is unlikely that this investment would be carried out until development of Bezzecca commences.

### *Exploration and Development*

During the year the Company made significant progress on the offshore project Teodorico and in August the Company filed a production concession application with the Ministry of Economic Development. The filing of this application represents a milestone event for the Company following a material investment in geoscience including the purchase and reprocessing of 3D seismic data and the detailed preliminary front-end engineering and design (PRE-feed) study completed earlier in the year.

Five months following the filing of the concession application, the Italian Parliament passed the 2016 Budget Law which includes further restrictions on offshore oil and gas activity including the re-introduction of a general ban on Exploration and Production activity within 12 nautical miles of the coast of Italy. Approximately half of the exploration license AR94PY and a small unutilised section of the production concession area lie within the 12 nautical mile. As a result, in February 2016 the Company was informed by the Ministry that the perimeter of the production concession area needed to be reshaped in order to be eligible for production concession status. The new perimeter was communicated a few weeks later showing that the application should be largely unaffected as all envisaged development activity is within the permitted area. The Company is now waiting to receive a formal response from the Ministry to its production concession application. If positive, this would result in a preliminary production concession subject to environmental review by the Ministry of Environment.

As regards the broader exploration licence (AR94PY) the Company has been informed by the Italian Ministry of Economic Development that this acreage will not be reduced or reshaped in any way; however the area will be limited to exploration activity only and a production concession for any discovered resources will not be awarded under the current legislation. The Company does not currently have any pending applications regarding exploration activity in the license AR94PY.

In October, the Company announced the sale of its 75% interest in the fully awarded exploration license La Prospera. The license also includes a preliminary production concession for the Gradizza gas discovery located within the licence. AleAnna also acquired the Company's share of the preliminarily awarded adjacent exploration license Zanza for Euro 1,850,000. The sale was finalised in December following formal approval by the Italian Ministry of Economic Development.

In respect of the production concession Cascina Castello which includes Bezzecca, the Company was unable to secure a second farm-out partner necessary to fund this project in 2015 primarily due to the challenging state of the oil and gas industry which has forced many companies to stall investment in new projects. The Company continues to seek a partner or sell the project to increase the Company's cash reserves. The project remains attractive and fully authorised, ready for development.

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In relation to Sant'Alberto and Selva, some progress was made during the year to complete the environmental assessment for the development of the gas treatment plant and the drilling authorisation respectively. At the date of this Directors' Report both assessments are believed to be effectively complete and the Company expects the final EIA Decree any day. Selva continues to be a major prospective development and exploration license for the Company and a strategic priority.

### *Financial performance*

Total revenue from the full year of gas production was €2,496,267, a year on year decline of €2,537,566 or 50.4%. This decrease in revenue is attributable to lower production volumes from the Sillaro field. Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) for the year was a loss of €795,406 and decreased €2,334,918, compared to the previous year. This decrease is mainly driven by the decrease in revenue of €2,537,566 which was partially offset by savings in employee expenses and corporate overheads of €276,666. As previously communicated to shareholders, the Company continues to be committed to reviewing its cost structure and organisation on an ongoing basis with the aim to reduce fixed costs. In summer 2015, the Company extended its off-take agreement with a global oil and gas major until September 2017.

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

<b>Comprehensive profit reconciliation table ( in Euro )</b>	<b>2015</b>	<b>2014</b>
Net loss before impairment expense (unaudited)	(3,014,927)	(1,242,182)
Impairment on resource property costs for the Sillaro field	(2,558,276)	-
Impairment on resource property costs for the Castello field	(233,566)	-
Loss on sale of project	(822,203)	-
Exploration costs expensed	(28,854)	(20,180)
<b>Comprehensive loss for the year</b>	<b>(6,657,826)</b>	<b>(1,262,362)</b>

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to a loss of €795,406 for the year.

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

<b>EBITDA reconciliation table ( in Euro )</b>	<b>2015</b>	<b>2014</b>
EBITDA	(795,406)	1,539,512
Depreciation and amortisation expense	(1,640,555)	(2,264,401)
Depreciation expense	(14,020)	(13,791)
Impairment losses	(2,820,696)	(20,180)
Loss on disposal of project	(822,203)	-
Other miscellaneous income	112,137	251,380
<b>Results from operating activities</b>	<b>(5,980,743)</b>	<b>(507,480)</b>

### *Financial position*

The Company completed a restructure of its borrowing arrangements under a reserve based lending facility with its primary lender Nedbank Limited. The details of this restructure were announced to ASX on 21 January 2016 and included repayments totalling €2.2 million in January 2016 reducing the outstanding amount to €576,000. A repayment plan has been agreed which would see the facility extinguished by 30 September 2016.

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The Company successfully raised €872,906 (AU\$1,242,000) through a private placement at AU\$0.07 per share to new and existing non-director shareholders in May 2015. The funds were used for general working capital purposes and to further develop the Company's asset portfolio. Cash and cash equivalents at year end 2015 amounted to €2,446,005 before the above mentioned repayment to Nedbank.

### *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 2015, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report during the 42,681 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.

### *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*

<b>Exposure to gas pricing</b>	<p>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.</p>
<b>Changes to law, regulations or Government policy</b>	<p>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.</p> <p>Similarly changes to direct or indirect tax legislation may have an adverse impact on the Company's profitability, net assets and cash flow.</p>
<b>Uncertainty of timing of regulatory approvals</b>	<p>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.</p>

### *Operating risks*

<b>Exploration, development and production</b>	<p>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.</p>
<b>Estimation of reserves</b>	<p>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.</p>
<b>Tenure security</b>	<p>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.</p>
<b>Health, safety and environmental matters</b>	<p>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.</p>



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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 2015.

### **8. Significant events after the balance date**

On 20 January 2016, the Company announced the restructure of its borrowing arrangements with Nedbank Limited, its primary lender. In accordance with the agreed terms, the Company repaid €2.2 million on 19 January 2016 reducing the outstanding amount to €576,000. Under the revised agreement, the Loan Facility will be changed from a reserve based loan to a standard loan with an agreed repayment plan in the form of monthly instalments in order to extinguish the facility by 30 September 2016. The Company's shares were temporarily halted from 14 January to 20 January 2016 whilst the new terms of the arrangement were under negotiation.

On 24 January 2016, one of the Company's Non Executive Directors Greg Short retired due to some pressing family issues which did not allow Mr. Short to devote the necessary time and effort to carry out his Board duties effectively.

On 18 March 2016 the Board updated the market on its strategy to recapitalise and restructure the Company with the aim to preserve maximum value for shareholders. This strategy includes an unmarketable parcel sale facility that was announced and initiated on 10 March 2016 and will close on 27 April 2016. Another key step to restructure the Company was a pro rata renounceable rights issue to raise approximately \$1.75 million (Euro 1.1 million) which was also announced on 18 March 2016.

On 18 March 2016 the Company entered into a short term unsecured bridging loan facility pending completion of the Sillaro rework which, as at the date of this report, is currently ongoing. The Facility was provided by Beronia Investments Pty Ltd, an entity associated with Director Dr. Byron Pirola. Under the facility the Company may draw down up to €300,000.

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.

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### 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	2015	2014	2013	2012	2011	2010
Production (scm'000)	9,991	18,560	23,983	24,673	28,995	26,793
Average realised gas price (€cents per cubic metre)	25	27	28	33	31	27
EBITDA (unaudited) (€000s)	(795)	1,540	1,755	4,473	4,411	2,219
Profit / (loss) attributable to owners of the Company (€000s)	(6,658)	(1,262)	(5,796)	2,373	(5,071)	(2,324)
Earnings / (loss) per share (€cents per share)	(5.02)	(1.03)	(4.76)	2.12	(4.57)	(2.11)
Share Price at year end - AU\$	0.026	0.10	0.12	0.12	0.16	0.21

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.

### 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
Chief Executive Officer	82%	18%	-

### 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 2015 to Non-Executive Directors was €220,000 (2014: €220,000). The total fees paid in cash during the year was €55,000, the Board of Directors agreed that the remaining €165,000 may be paid in shares, pending the Shareholders' approval. No increase in board fees was made in 2015 and there is a proposed reduction in 2016.

**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**

- Commencement Date: 30 September 2004 (re-elected 28 May 2014)
- Fixed remuneration for the year ended 31 December 2015: €60,000
- No termination benefits

**Byron Pirola, Non-Executive Director**

- Commencement Date: 10 May 2002 (re-elected 24 May 2013)
- Fixed remuneration for the year ended 31 December 2015: €40,000
- No termination benefits

**Gregory Short, Non-Executive Director**

- Commencement Date: 5 July 2010; **Resigned: 25 January 2016**
- Fixed remuneration for the year ended 31 December 2015: €40,000
- No termination benefits

**Michael Masterman, Non-Executive Director**

- Commencement Date: 22 June 1999 (re-elected 28 May 2014)
- Fixed remuneration for the year ended 31 December 2015: €40,000
- No termination benefits

**Kevin Eley, Non-Executive Director**

- Commencement Date: 19 June 2012 (re-elected 24 May 2013)
- Fixed remuneration for the year ended 31 December 2015: €40,000
- 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, Chief Executive Officer**

- Commencement Date: 26 July 2010 as Chief Financial Officer and 13 August 2013 as Chief Executive
- Term of Agreement: Indefinite but terminable by either party on three months' notice
- Fixed salary of €120,000 per annum
- Annual performance based fee of up to 40% of her contracted salary subject to the achievement of performance criteria agreed with the Board
- 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.

		Salary & fees €	Accommodation €	Car €	Other €	Termination payments €	Total €
<b>Directors</b>							
G Bradley Chairman Non-Executive	<b>2015</b>	<b>60,000</b>	-	-	-	-	<b>60,000</b>
	2014	60,000	-	-	-	-	60,000
B Pirola Non-Executive	<b>2015</b>	<b>40,000</b>	-	-	-	-	<b>40,000</b>
	2014	40,000	-	-	-	-	40,000
G Short (Resigned 25 Jan 2016) Non-Executive	<b>2015</b>	<b>40,000</b>	-	-	-	-	<b>40,000</b>
	2014	40,000	-	-	-	-	40,000
M Masterman Non-Executive	<b>2015</b>	<b>40,000</b>	-	-	-	-	<b>40,000</b>
	2014	40,000	-	-	-	-	40,000
K Eley Non-Executive	<b>2015</b>	<b>40,000</b>	-	-	-	-	<b>40,000</b>
	2014	40,000	-	-	-	-	40,000
Total for Directors	<b>2015</b>	<b>220,000</b>	-	-	-	-	<b>220,000</b>
	2014	220,000	-	-	-	-	220,000

The total fees paid in cash during the year was €55,000, the Board of Directors agreed that the remaining €165,000 may be paid in shares, pending the Shareholders' approval.

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**Key Management Personnel remuneration - Consolidated (Continued)**

		Short term										
		Salary & fees €	Accommodation €	Car €	Other €	Total Base €	STI Cash €	Total Short-term €	Termination payments €	Defined contribution plan €	Total €	Proportion of remuneration performance related %
<b>KMP</b>												
Sara Edmonson												
CEO	<b>2015</b>	<b>120,000</b>	-	<b>6,124</b>	-	<b>126,124</b>	<b>30,000</b>	<b>156,124</b>	-	<b>9,761</b>	<b>165,885</b>	<b>18%</b>
	2014	120,000	-	1,500	-	121,500	34,500	156,000	-	9,742	165,742	21%
Total for KMP	<b>2015</b>	<b>120,000</b>	-	<b>6,124</b>	-	<b>126,124</b>	<b>30,000</b>	<b>156,124</b>	-	<b>9,761</b>	<b>165,885</b>	
	2014	120,000	-	1,500	-	121,500	34,500	156,000	-	9,742	165,742	
Total Directors and KMP	<b>2015</b>	<b>340,000</b>	-	<b>6,124</b>	-	<b>346,124</b>	<b>30,000</b>	<b>376,124</b>	-	<b>9,761</b>	<b>385,885</b>	
	2014	340,000	-	1,500	-	341,500	34,500	376,000	-	9,742	385,742	

## PO VALLEY ENERGY LIMITED

### **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	2015		2014	
	Cash Bonus	% vested in year	Cash Bonus	% vested in year
	€		€	
S Edmonson	30,000	100%	34,500	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 operational performance criteria. No amounts vest in future financial years in respect of the bonus.

The cash bonus awarded to Ms. Edmonson was based on performances, and specifically for having reached the agreed operational strategic objectives. These performance objectives are linked to financial performance and Company value indirectly.

### **Options over equity instruments granted as compensation**

No options were granted as compensation to Directors or key management personnel during the reporting period (2014: Nil). No options vested during 2015. (2014: 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 2015.

There were no options outstanding during 2015.

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 2015.

**PO VALLEY ENERGY LIMITED**

**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 2014	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2015
<b>Directors</b>						
G Bradley	1,403,880	75,000	-	-	-	1,478,880
M Masterman (i)	33,626,222	30,000	-	-	-	33,656,222
B Pirola	7,112,782	-	-	-	-	7,112,782
G Short (resigned 25 Jan 2016)	200,000	-	-	-	-	200,000
K Eley	800,000	-	-	-	-	800,000
	43,142,884	105,000	-	-	-	43,247,884
<b>Executives</b>						
S. Edmonson	28,064	-	-	-	-	28,064
	28,064	-	-	-	-	28,064

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

	Held at 31 Dec 2013	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2014
<b>Directors</b>						
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
	42,663,989	478,895	-	-	-	43,142,884
<b>Executives</b>						
S. Edmonson	28,064	-	-	-	-	28,064
	28,064	-	-	-	-	28,064

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



## PO VALLEY ENERGY LIMITED

### **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:

	<b>Ordinary Shares</b>
G Bradley	1,478,880
M Masterman	33,656,222
B Pirola	7,112,782
G Short (resigned 25 Jan 2016)	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](http://www.povalley.com).

## PO VALLEY ENERGY LIMITED

### 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 19 and forms part of the Directors' report for the financial year ended 31 December 2015.

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



Graham Bradley  
**Chairman**  
Sydney, NSW Australia

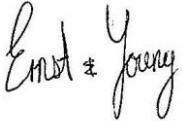
31 March 2016

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

As lead auditor for the audit of Po Valley Energy Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Po Valley Energy Limited and the entities it controlled during the financial year.



Ernst & Young



Russell J Curtin  
Partner  
Perth  
31 March 2016

**PO VALLEY ENERGY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	NOTES	CONSOLIDATED	
		2015	2014
		€	€
<b>Current Assets</b>			
Cash and cash equivalents	10 (a)	2,446,005	1,579,585
Trade and other receivables	12	649,441	1,086,118
<b>Total Current Assets</b>		<u>3,095,446</u>	<u>2,665,703</u>
<b>Non-Current Assets</b>			
Inventory	11	732,801	783,669
Other assets		30,378	30,378
Deferred tax assets	15	2,017,059	2,316,267
Property, plant & equipment	13	2,615,193	3,033,821
Resource property costs	14	15,167,548	19,781,635
<b>Total Non-Current Assets</b>		<u>20,562,979</u>	<u>25,945,770</u>
<b>Total Assets</b>		<u><u>23,658,425</u></u>	<u><u>28,611,473</u></u>
<b>Liability and equity</b>			
<b>Current Liabilities</b>			
Trade and other payables	16	2,382,918	1,698,845
Provisions	17	217,212	179,714
Interest bearing loans	18	2,467,408	2,968,858
<b>Total Current Liabilities</b>		<u>5,067,538</u>	<u>4,847,417</u>
<b>Non-Current Liabilities</b>			
Provisions	17	4,779,855	4,168,104
<b>Total Non-Current Liabilities</b>		<u>4,779,855</u>	<u>4,168,104</u>
<b>Total Liabilities</b>		<u><u>9,847,393</u></u>	<u><u>9,015,521</u></u>
<b>Equity</b>			
Issued capital	19	46,692,830	45,819,924
Reserve	19	1,192,269	1,192,269
Accumulated losses		(34,074,067)	(27,416,241)
<b>Total Equity</b>		<u>13,811,032</u>	<u>19,595,952</u>
<b>Total Equity and liabilities</b>		<u><u>23,658,425</u></u>	<u><u>28,611,473</u></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 2015**

		<b>CONSOLIDATED</b>	
	<b>NOTES</b>	<b>2015</b>	<b>2014</b>
		<b>€</b>	<b>€</b>
<b>Continuing Operations</b>			
Revenue	<b>3</b>	2,496,267	5,033,833
Operating costs		(1,077,739)	(1,028,427)
Depreciation and amortisation expense		(1,640,555)	(2,264,401)
Gross Profit / (loss)		(222,027)	1,741,005
Other income		112,137	251,380
Employee benefit expenses	<b>4</b>	(1,105,494)	(1,285,895)
Depreciation expense		(14,020)	(13,791)
Corporate overheads	<b>5</b>	(1,108,440)	(1,179,999)
Impairment losses	<b>14</b>	(2,820,696)	(20,180)
Loss on sale of project	<b>14</b>	(822,203)	-
<b>Operating loss</b>		(5,980,743)	(507,480)
Finance income	<b>7</b>	1,777	526
Finance expenses	<b>7</b>	(447,426)	(612,403)
<b>Net finance expenses</b>		(445,649)	(611,877)
<b>Loss before tax</b>		(6,426,392)	(1,119,356)
Income tax expense	<b>8</b>	(231,434)	(143,006)
<b>Loss for the year</b>		(6,657,826)	(1,262,362)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive loss for the year, net of tax</b>		(6,657,826)	(1,262,362)
<b>Basic and diluted loss per share</b>	<b>9</b>	(5.02) cents	(1.03) 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 2015**

<b>Consolidated</b>	<b>Attributable to equity holders of the Company</b>			
	<b>Issued capital €</b>	<b>Translation Reserve €</b>	<b>Accumulated Losses €</b>	<b>Total €</b>
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)
<b>Transactions with owners recorded directly in equity:</b>				
Contributions by and distributions to owners – Issue of shares	-	-	-	-
<b>Balance at 31 December 2014</b>	<b>45,819,924</b>	<b>1,192,269</b>	<b>(27,416,241)</b>	<b>19,595,952</b>
Balance at 1 January 2015	45,819,924	1,192,269	(27,416,241)	19,595,952
Total comprehensive income:				
Loss for the year	-	-	(6,657,826)	(6,657,826)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(6,657,826)	(6,657,826)
<b>Transactions with owners recorded directly in equity:</b>				
Contributions by and distributions to owners – Issue of shares	872,906	-	-	872,906
<b>Balance at 31 December 2015</b>	<b>46,692,830</b>	<b>1,192,269</b>	<b>(34,074,067)</b>	<b>13,811,032</b>

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 2015**

	NOTES	CONSOLIDATED	
		2015 €	2014 €
<b>Operating activities</b>			
Receipts from customers		2,680,923	6,495,675
Payments to suppliers and employees		(3,110,792)	(4,200,332)
Interest received		1,777	526
Interest paid		(172,344)	(296,392)
Income tax paid		-	(54,406)
<b>Net cash flows from operating activities</b>	<b>10 (b)</b>	<u>(600,436)</u>	<u>1,945,071</u>
<b>Investing activities</b>			
Payments for non-current assets		(6,524)	(3,540)
Receipts for resource property costs from joint operations partners		64,572	200,569
Payments for resource property costs		(886,034)	(1,997,738)
Proceeds from sale of resource property costs		1,850,000	
<b>Net cash flows used in investing activities</b>		<u>1,022,014</u>	<u>(1,800,709)</u>
<b>Financing activities</b>			
Proceeds from the issues of shares		872,906	-
Repayments of borrowings	<b>18</b>	(428,064)	(93,410)
Payment of borrowing costs		-	-
<b>Net cash flows used in financing activities</b>		<u>444,842</u>	<u>(93,410)</u>
Net increase in cash and cash equivalents		866,420	50,952
<b>Cash and cash equivalents at 1 January</b>		<u>1,579,585</u>	<u>1,528,633</u>
<b>Cash and cash equivalents at 31 December</b>	<b>10 (a)</b>	<u>2,446,005</u>	<u>1,579,585</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 2015

### 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 2015 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 30 March 2016.

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’s) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with International Financial Reporting Standards (IFRS) and interpretations issued 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 2015, the Group has recorded a loss of €6,657,826, it has a cash balance of €2,466,005 net current liabilities of €1,972,092 and had net cash outflows from operations of €600,436.

The Group’s forecast cashflow requirements for the 15 months ending 31 March 2017 reflects outflows from operating and investing activities in excess of its available cash resources at 31 December 2015. These requirements reflect a combination of committed and uncommitted but current planned expenditure in relation to the fields of Sillaro, Sant’Alberto, Bezzecca and Selva.

Importantly, as announced on 20 January 2016, the Company successfully renegotiated its borrowing arrangements with Nedbank Limited converting the existing facility from a reserved based arrangement to a standard loan with a defined repayment plan through monthly instalments that will extinguish the loan by September 2016.

As disclosed in the market update released on the ASX 18 March 2016, the Board is currently progressing its strategy to recapitalise and restructure the Company with the aim to preserve maximum value for shareholders. One key step to this strategy was a pro rata renounceable rights issue which was launched on 18 March 2016 to raise approximately \$1.75 million (€1.1 million). Additionally a short



## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

term bridging facility was provided by Beronia Investments Pty Ltd, an entity associated with Director Dr. Byron Pirola to provide up to €300,000 pending completion of the Sillaro rework which, as at the date of this report, is currently ongoing.

The Directors are confident of being able to raise the required capital, but note that the current cash balance, rights issue and bridging financing will not be sufficient to address the Company's committed and uncommitted but current planned expenditure for the next 12 month period. The market update released 18 March outlines the additional range of financing options that the Company is currently considering or actively pursuing including the sale of operating or non-operating interests in assets, other funding instruments and options or a combination of these. We refer to the ASX media release for more details in this respect.

Should the Group not achieve the matters set out above, there is uncertainty whether the 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 pre-tax discount rate used for impairment purposes is 12.7%.

# PO VALLEY ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 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

### 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 recognised 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 recognised 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.

Reference	Title
AASB 2013-9	<i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

Reference	Title
	<p>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.</p> <p>Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i>. These amendments do not have impact on the Group's financial position and performance.</p>
AASB 2014-1 Part A - Annual Improvements 2010–2012 Cycle	<p>AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) <i>Annual Improvements to IFRSs 2010–2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011–2013 Cycle</i>.</p> <p>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:</p> <ul style="list-style-type: none"> <li>▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</li> <li>▶ AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.</li> <li>▶ AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.</li> <li>▶ AASB 116 &amp; AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.</li> <li>▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related Party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</li> </ul> <p>These amendments do not have impact on the Group's financial position and performance.</p>
AASB 2014-1 Part A - Annual Improvements	<p>Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:</p> <p>AASB 13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.</p> <p>AASB 140 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.</p> <p>These amendments do not have impact on the Group's financial position and performance.</p>
Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements [AASB 1053]	<p>The Standard makes amendments to AASB 1053 Application of Tiers of Australian Accounting Standards to:</p> <ul style="list-style-type: none"> <li>• Clarify that AASB 1053 relates only to general purpose financial statements.</li> <li>• Make AASB 1053 consistent with the availability of the AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> option in AASB 1 <i>First-time Adoption of Australian Accounting Standards</i>.</li> <li>• Clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1; permit an entity</li> </ul>

# PO VALLEY ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Reference	Title
	<p>applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather than applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements.</p> <ul style="list-style-type: none"><li>Specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements.</li></ul> <p>These amendments do not have impact on the Group's financial position and performance.</p>

### (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 – 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 2015

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.

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

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 (12.7%) 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.

Please refer to Note 14 for further details on the impairment test results for the year ended December 31, 2015.

#### **(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.

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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:

	2015	2014
Castello	13.96%	13.16%
Sillaro	14.37%	17.66%

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:

	2015	2014
Office furniture & equipment	3 – 5 years	3 – 5 years

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

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015

#### (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 2015

#### *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:

	<b>2015</b>	<b>2014</b>
Castello	-	13.16%
Sillaro	14.37%	17.66%

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 unwinding of the discount rate are accounted for in the statement of profit or loss as finance expense.

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

#### **(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

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

#### **(l) EARNINGS/LOSS PER SHARE**

Basic earnings per share ("EPS") 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**

## **PO VALLEY ENERGY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **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.

#### **(o) REVENUE**

Revenue is measured at the fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") 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 recognised in profit or loss on a straight line basis over the term of the lease.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**(q) CHANGES IN ACCOUNTING POLICIES, DISCLOSURES, STANDARDS AND INTERPRETATIONS**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2015 are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	<p>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.</p> <p>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.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p>	1 January 2018	The entity has not yet assessed the full impact of these amendments.	1 January 2018

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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments (continued)	<p>The main changes are described below.</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ul>			

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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments (continued)	<p><i>Financial liabilities</i></p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>- The change attributable to changes credit risk are presented in other comprehensive income (OCI)</li> <li>- The remaining change is presented in profit or loss</li> </ul> <p>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 or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p><b>Impairment</b></p> <p>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.</p>			



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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments (continued)	<p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and 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.</p> <p>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 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>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.</p>			
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	<p>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:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, 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</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.</p> <p>This Standard also makes an editorial correction to AASB 11</p>	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016

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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i> , and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> , to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127. AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 <i>Property Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016

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**NOTES TO THE FINANCIAL STATEMENTS  
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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services</i> and Interpretation 1042 <i>Subscriber Acquisition Costs in the Telecommunications Industry</i>).</p> <p>AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). 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:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>	1 January 2018	The entity has not yet assessed the full impact of this standard.	1 January 2018

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**NOTES TO THE FINANCIAL STATEMENTS  
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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1057	Application of Australian Accounting Standards	<p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.</p> <p>The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.</p>	1 January 2016	The entity has not yet assessed the full impact of this standard.	1 January 2016
AASB 2014-10 AASB 2015-10*	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and</p> <p>(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p> <p>AASB 2015-10 was issued subsequently and deferred the application date of AASB 2014-10 to annual reporting periods beginning on or after 1 January 2018.</p> <p>*The amendments issued by the IASB has been deferred indefinitely.</p>	1 January 2018	The entity has not yet assessed the full impact of these amendments.	1 January 2018

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**NOTES TO THE FINANCIAL STATEMENTS  
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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012– 2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i> Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</p> <p><i>AASB 7 Financial Instruments: Disclosures:</i> Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</p> <p>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</p>	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016

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**NOTES TO THE FINANCIAL STATEMENTS  
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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012– 2014 Cycle	<p><i>AASB 119 Employee Benefits:</i> Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</p> <p><i>AASB 134 Interim Financial Reporting:</i> Disclosure of information ‘elsewhere in the interim financial report’ - amends AASB 134 to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</p>	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB’s Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	The entity will consider these amendments going forward.	1 January 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 <i>Materiality</i>	The Standard completes the AASB’s project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	There is no impact on the entity.	1 January 2016

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2015-4	Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent	The amendment aligns the relief available in AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> in respect of the financial reporting requirements for Australian groups with a foreign parent.	1 July 2015	There is no impact on the entity.	1 January 2016
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	The entity has not yet assessed the full impact of these amendments.	1 January 2016
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <p>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</p> <p>AASB 16 contains disclosure requirements for lessees.</p>	1 January 2019	The entity has not yet assessed the full impact of IFRS 16.	1 January 2019

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**NOTES TO THE FINANCIAL STATEMENTS  
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Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 16	Leases	<p>Lessor accounting AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. AASB 116 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor’s risk exposure, particularly to residual value risk. AASB 16 supersedes:</p> <ul style="list-style-type: none"> <li>a) AASB 117 Leases;</li> <li>b) Interpretation 4 Determining whether an Arrangement contains a Lease;</li> <li>c) Interpretation 115 Operating Leases—Incentives; and</li> <li>d) Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</li> </ul> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	The entity has not yet assessed the full impact of AASB 16.	1 January 2019



## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 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.

Cash and short term deposits are made with institutions that have a credit rating of at least A1 from Standard & Poor's 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 2015**

**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.

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
<b>NOTE 3: REVENUE</b>		
Gas sales	<u>2,496,267</u>	<u>5,033,833</u>
<b>NOTE 4: EMPLOYEE BENEFIT EXPENSES</b>		
Wages and salaries	912,740	1,071,316
Contributions to defined contribution plans	<u>192,754</u>	<u>214,579</u>
	<u>1,105,494</u>	<u>1,285,895</u>
<b>NOTE 5: CORPORATE OVERHEADS</b>		
Corporate overheads comprises:		
Company administration and compliance	194,675	193,344
Professional fees	344,754	395,017
Office costs	249,374	243,100
Travel and entertainment	111,143	95,620
Other expenses	<u>208,494</u>	<u>252,918</u>
	<u>1,108,440</u>	<u>1,179,999</u>
<b>NOTE 6: AUDITORS' REMUNERATION</b>		
Auditors of the Company		
Audit and review of the Group financial statements	<u>48,530</u>	<u>47,780</u>

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CONSOLIDATED**

**2015**                      **2014**  
€                                      €

**NOTE 7: FINANCE INCOME AND EXPENSE**

**Recognised in profit and loss:**

Interest income	1,777	526
Finance income	1,777	526
Interest expense	172,344	296,392
Amortisation of borrowing costs	129,092	129,092
Unwinding of discount on site restoration provision	113,623	179,280
Foreign exchange losses (net)	32,367	7,639
Finance expense	447,426	612,403
Net finance expense	(445,649)	(611,877)

**NOTE 8: INCOME TAX BENEFIT / (EXPENSE)**

**Current tax**

Current year	-	89,134
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**Deferred tax**

Origination and reversal of temporary differences	231,434	53,872
Deferred tax benefit	231,434	53,872
Total income tax expense	231,434	143,006

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

Loss for the year before tax	(6,426,392)	(1,119,356)
Income tax (benefit) / expense using the Company's domestic tax rate of 30 per cent (2014: 30%)	(1,927,918)	(335,807)
Non-deductible expenses:		
Borrowing costs	19,157	3,027
IFRS adjustments	786,424	238,037
Other	211,087	43,133
Effect of tax rates in foreign jurisdictions	148,144	(13,284)
Current year losses and temporary differences for which no deferred tax asset was recognised	775,697	208,857
Changes in temporary differences	216,571	56,029
Utilisation of tax losses	2,272	(146,119)
Tax effect of regional taxes in Italy – current	-	89,134
Income tax (benefit) / expense	231,434	143,006

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
	€	€
<b>NOTE 9: EARNINGS PER SHARE</b>		
Basic loss per share (€cents)	(5.02)	(1.03)

The calculation of earnings per share was based on the loss attributable to shareholders of €6,657,826 (2014: €1,262,362) and a weighted average number of ordinary shares outstanding during the year of 132,670,893 (2014: 122,414,063).

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

		<b>2015</b>	<b>2014</b>
	No. of days	Weighted average no.	Weighted average no.
The number of weighted average shares is calculated as follows:			
Number of shares on issue at beginning of the year	154 (365 for 2014)	122,414,063	122,414,063
17,742,857 shares issued on 4 June 2015	211	10,256,830	-
		132,670,893	122,414,063

**NOTE 10: CASH AND CASH EQUIVALENTS**

(a) Cash and cash equivalents	2,446,005	1,579,585
(b) Reconciliation of cash flows from operating activities		
Loss	(6,657,826)	(1,262,362)
<u>Adjustment for non-cash items:</u>		
Depreciation and amortisation	1,654,575	2,257,850
Resource property costs impairments	2,820,696	20,180
Unwind of discount on site restoration provision	113,623	179,280
Amortisation of borrowing costs	129,092	129,092
Loss on sale of project	822,203	-
<u>Change in operating assets and liabilities:</u>		
Decrease in receivables	310,191	1,589,646
Decrease in trade and other payables	(61,922)	(1,063,809)
Increase in provisions	37,498	41,322
Increase in deferred tax assets	231,434	53,872
Net cash inflow from operating activities	(600,436)	1,945,071

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CONSOLIDATED**  
**2015**                      **2014**  
€                                      €

**NOTE 11: INVENTORY**

**Non-Current**

Well equipment – at cost	732,801	783,669
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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	235,820	443,211
Accrued gas sales revenue	124,268	-
Sundry debtors	147,513	131,423
Deposit	7	202,485
Indirect taxes receivable (a)	141,833	308,999
	649,441	1,086,118

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 in the prior period as follows:

Current	-	169,718
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**NOTE 13: PROPERTY PLANT & EQUIPMENT**

Office Furniture & Equipment:

<i>At cost</i>	207,196	200,672
<i>Accumulated depreciation</i>	(184,845)	(170,825)
	22,351	29,847

Gas producing plant and equipment

<i>At cost</i>	8,503,197	8,483,197
<i>Accumulated depreciation and impairment losses</i>	(5,910,355)	(5,479,223)
	2,592,842	3,003,974
	2,615,193	3,033,821

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**CONSOLIDATED**  
**2015**                      **2014**  
€                                      €

**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	29,847	43,098
Additions	6,524	540
Depreciation expense	(14,020)	(13,791)
Carrying amount at end of year	22,351	29,847

Gas Producing plant and equipment:

Carrying amount at beginning of period	3,003,974	3,529,067
Additions / Reclassification	20,000	80,446
Depreciation expense	(431,132)	(605,539)
Carrying amount at end of period	2,592,842	3,003,974
	2,615,193	3,033,821

**NOTE 14:      RESOURCE PROPERTY COSTS**

Resource Property costs

Exploration Phase	9,646,269	11,624,796
Development Phase	-	-
Production Phase	5,521,279	8,156,839
	15,167,548	19,781,635

**CONSOLIDATED**  
**2015**                      **2014**  
€                                      €

Reconciliation of carrying amount of resource properties

***Exploration Phase***

Carrying amount at beginning of period	11,624,796	10,060,661
Exploration expenditure	669,988	1,584,315
Change in estimate of rehabilitation assets	(67,671)	-
Disposal of project	(2,551,990)	-
Impairment losses	(28,854)	(20,180)
Carrying amount at end of period	9,646,269	11,624,796

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

On December 23, 2015 the Group sold its 75% interest in the La Prospera exploration licence. The carrying amount of the disposed projects at the deal closing date was €2,621,334. As part of the deal also inventory items for €50,869 were also sold. The consideration received was €1,850,000 generating a loss of €822,203. The sale contract also included a bonus payment of €200,000 subject to the obtainment of the final production concession status for Gradizza (part of the assets sold) by August 31, 2016.

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	8,156,839	9,811,589
Additions / Reclass to property plant & equipment	799,908	4,112
Change in estimate of rehabilitation assets	565,797	-
Amortisation of producing assets	(1,209,423)	(1,658,862)
Impairment losses	(2,791,842)	-
Carrying amount at end of period	5,521,279	8,156,839

The Company reviewed the carrying value of its assets and cash generating units due to the following material events that took place during the year ended December 31, 2015:

1. ***Reserves and resources:*** Reservoir depletion and performance has resulted in production reduction at Sillaro over the last 18 months. Throughout 2015 the technical team reviewed the residual potential of the field. A rework was initiated in December 2015 and will be completed after the date of this report. Once results are clear a revised reserve estimate and production forecast will be available.
2. ***Gas and oil price trend:*** during 2015 the global decreasing trend in oil & gas prices continued. Prices in the month of December 2015 when compared to December 2014 decreased on average by 27% (daily spot price recorded in PSV market);
3. ***Increase in cost of capital:*** the pressure described in the point above on market prices for oil&gas resulted in an increase in cost of capital for natural resources companies, and particularly for junior companies.

Considering the above events/information, and any new information available, an impairment of €2,558,276 has been recognised in the Financial Statements for field Sillaro.

**CONSOLIDATED**  
**2015**                      **2014**  
€                                      €

Impairment losses are reconciled as follows:

<i>Impairment expense</i>		
Sillaro gas field	(2,558,276)	-
Castello gas field	(233,566)	-
Exploration costs	(28,854)	(20,180)
Total impairment loss	(2,820,696)	(20,180)

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The Group assessed each asset or cash generating unit (CGU) for the year ended 31 December 2015 to determine whether any indication of impairment exists. When an indication of impairment exists, a formal estimate of the recoverable amount was made, which is considered to be higher of the fair value less cost to sell and Value in Use (VIU). The Group has used VIU method for all the CGUs identified.

Value in Use of Sillaro CGU was calculated using a pre-tax Discounted Cash Flow model based on the following main assumptions:

1. Gas price of €21,1/Mwh for the years 2016-2019;
2. A pre-tax discount rate of 12.7%;
3. Variable operating expenses of €0.02/scm produced;
4. Production from Sillaro will increase from a current average of approximately 10,000 scm/day to 30,000 scm/day in 2016 once the rigless rework is completed;
5. Rehabilitation costs of €500k per well;

These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact the projections, which may impact the recoverable amounts of assets and/or CGUs.

It is estimated that changes in key assumptions, in isolation, would impact the recoverable amount of Sillaro at December 31, 2015 as follows:

Gas price -5%	(717,477)
Gas price +5%	717,477
Discount rate +1%	(197,597)
Discount rate -1%	204,275
Opex +5%	(127,293)
Opex -5%	127,293
Capex +5%	(339,865)
Capex -5%	339,865
Yearly production +10%	1,275,165
Yearly production -10%	(1,275,165)

#### NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

##### Recognised deferred tax assets

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

	CONSOLIDATED	
	2015	2014
	€	€
Tax losses	1,691,137	1,884,192
Accrued expenses and liabilities	325,922	432,075
Recognised deferred tax assets	<u>2,017,059</u>	<u>2,316,267</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.



**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**Unrecognised deferred tax assets**

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

Tax losses	2,462,399	2,308,116
Deductible temporary differences	<u>1,735,629</u>	<u>2,016,301</u>
Unrecognised deferred tax assets	<u>4,198,028</u>	<u>4,324,417</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 2015**

**NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)**

**Movement in recognised temporary differences during the year**

<b>Consolidated</b>	<b>Balance 1 January 2014</b>	<b>Profit and loss</b>	<b>Equity</b>	<b>Balance 31 December 2014</b>	<b>Profit and loss</b>	<b>Equity</b>	<b>Balance 31 December 2015</b>
Tax losses	2,030,650	(146,458)	-	1,884,192	(193,005)	-	1,691,137
Accrued expenses and liabilities	339,489	92,586	-	432,075	(106,203)	-	325,922
Total recognised deferred tax asset	2,370,139	(53,872)	-	2,316,267	(299,208)	-	2,017,059

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**NOTE 16: TRADE AND OTHER PAYABLES**

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
	€	€
Trade payables and accruals	1,947,197	1,391,960
Other payables	435,271	306,885
	2,382,918	1,698,845

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	91,867	119,714
Other provisions	125,345	60,000
	217,212	179,714

**Non Current:**

Restoration provision	4,779,855	4,168,104
Reconciliation of restoration provision:		
Opening balance	4,168,104	3,988,825
Increase in provision due to revised estimates	498,128	-
Increase in provision from unwind of discount rate	113,623	179,279
Closing balance	4,779,855	4,168,104

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.

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
	€	€
<b>Current liabilities</b>		
Finance facility	2,467,408	2,968,858

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 2015		31 December 2014	
				Face Value €	Carrying Amount €	Face Value €	Carrying Amount €
<b>Current liabilities</b>							
Secured bank loan	Euro	Euribor + 3.75%	2016	2,776,048	2,467,408	3,406,590	2,968,858

The amount presented is disclosed net of borrowing costs of €308,640 (2014: €437,732).

The company has a finance facility with Nedbank Group Ltd. The facility is a Senior Secured Revolving Reducing Borrowing Base Facility of €20 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 down €5,000,000 of the facility in order to settle the facility previously held with Lloyds and pay transaction costs. The facility Borrowing Base was determined semi-annually by Nedbank.

Subsequent to the year end the Company, following the sale of its interest in La Prospera, repaid €2,200,000 on the loan facility with Nedbank Group Ltd. After the repayment, the facility has changed from a reserve based loan to a standard loan with an agreed repayment plan in the form of monthly instalments in order to extinguish the facility by 30 September 2016.

At December 31, 2015 PVE was compliant with all the covenants related to the Nedbank's facility.

Interest is currently payable at Euribor plus 375 basis points. Principal repayments of €30,542 (of which €20,478 were accounted for in the Debt Service Reserve Account) have been made during the year to December 2015 in regards to the Nedbank facility.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**NOTE 19: CAPITAL AND RESERVES**

	<b>Ordinary Shares</b>	
	<b>2015 Number</b>	<b>2014 Number</b>
<b>Share Capital</b>		
Opening balance - 1 January	122,414,063	122,414,063
<u>Shares issued during the year:</u>		
Issued on 4 June 2015	17,742,857	-
Closing balance – 31 December	<u>140,156,920</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 (2014: 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 (2014: Nil).

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**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	
	2015	2014	2015	2014	2015	2014
	€	€	€	€	€	€
External revenues	-	-	2,496,267	5,033,833	2,496,267	5,033,833
Segment (loss) / profit before tax	(851,057)	(20,180)	(3,013,869)	1,741,005	(3,864,926)	1,720,825
Depreciation and amortisation	-	-	(1,640,555)	(2,264,401)	(1,640,555)	(2,264,401)
Impairment on resource property costs	(28,854)	(20,180)	(2,791,842)	-	(2,820,696)	(20,180)
Loss on sale of project	(822,203)	-	-	-	(822,203)	-
Reportable segment assets:						
Resource property costs	9,646,269	11,624,796	5,521,279	8,156,839	15,167,548	19,781,635
Plant & Equipment	-	-	2,592,842	3,003,974	2,592,842	3,003,974
Receivables	-	-	360,088	443,211	360,088	443,221
Inventory	-	-	732,081	783,669	732,081	783,669
Capital expenditure	669,988	1,568,715	799,908	84,589	1,469,896	1,653,304
Movement in rehabilitation assets	(67,691)	-	620,149	-	552,478	-
Reportable segment liabilities	(1,967,787)	(2,510,250)	(4,390,251)	(2,807,091)	(6,358,038)	(5,317,341)

**NOTE 20: FINANCIAL REPORTING BY SEGMENTS (continued)**

<b>Reconciliation of reportable segment profit or loss, assets and liabilities</b>	<b>2015</b>	<b>2014</b>
<b>Profit or loss:</b>	<b>€</b>	<b>€</b>
Total profit / (loss) for reportable segments	(3,864,926)	1,720,825
<i>Unallocated amounts:</i>		
Net finance expense	(445,649)	(611,876)
Other corporate expenses	(2,115,817)	(2,228,305)
Consolidated loss before income tax	<u>(6,426,392)</u>	<u>(1,119,356)</u>
 <b>Assets:</b>		
Total assets for reportable segments	18,853,279	23,986,577
Other assets	4,805,146	4,624,896
Consolidated total assets	<u>23,658,425</u>	<u>28,611,473</u>
 <b>Liabilities:</b>		
Total liabilities for reportable segments	(6,358,038)	(5,317,341)
Other liabilities	(3,489,355)	(3,698,180)
Consolidated total liabilities	<u>(9,847,393)</u>	<u>(9,015,521)</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:

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
<b>Variable rate instruments</b>		
Financial assets	2,446,005	1,579,585
Financial liabilities	(2,467,408)	(2,968,858)
	<u>(21,403)</u>	<u>(1,389,273)</u>

**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 2014.

<i>Effect in €'s</i>	<b>Profit or loss</b>		<b>Equity</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>31 December</b>				
Variable rate instruments	(13,765)	(17,500)	-	-

**(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 2017. Shell currently has an option to extend the contract a second Gas Year from October 2017 to September 2018.

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.

	<b>Note</b>	<b>CONSOLIDATED Carrying Amount</b>	
		<b>2015</b>	<b>2014</b>
		<b>€</b>	<b>€</b>
Cash and cash equivalents	10	2,446,005	1,579,585
Receivables – Current	12	649,441	1,086,118
Other assets		30,378	30,378
		<u>3,125,824</u>	<u>2,696,081</u>



**NOTE 21: FINANCIAL INSTRUMENTS (continued)**

**(c) Liquidity risk**

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

**Consolidated  
31 December 2015**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(2,382,918)	(2,382,918)	(2,382,918)	-	-	-
Secured bank loan	(2,467,408)	(2,792,805)	(2,211,172)	(581,633)	-	-
	<u>(4,850,326)</u>	<u>(5,175,723)</u>	<u>(4,594,090)</u>	<u>(581,633)</u>	<u>-</u>	<u>-</u>

**Consolidated  
31 December 2014**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 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>

**(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.

	<b>CONSOLIDATED</b>	
	<b>2015</b>	<b>2014</b>
Amounts receivable/(payable) in foreign currency other than functional currency:	€	€
Cash	12,977	17,652
Current – Payables	(60,884)	(39,479)
Net Exposure	<u>(47,908)</u>	<u>(21,827)</u>

**NOTE 21: FINANCIAL INSTRUMENTS (continued)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
Australian Dollar (\$)	0.6741	0.6792	0.6691	0.6710

*Sensitivity Analysis*

A 10 percent strengthening of the Australian dollar against the Euro (€) 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 2014.

	CONSOLIDATED	
	Profit or loss	Equity
<b>31 December 2015</b>	€	€
Australian Dollar to Euro (€)	3,707	-
<b>31 December 2014</b>		
Australian Dollar to Euro (€)	1,373	-

A 10 percent weakening of the Australian dollar against the Euro (€) 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 2015.

**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	
	2015	2014
	€	€
Short-term employee benefits	376,124	376,000
Termination benefits	-	-
Other long term benefits	-	-
Post-employment benefits	9,761	9,742
Share-based payments	-	-
	<u>385,885</u>	<u>385,742</u>

**NOTE 24: PARENT ENTITY DISCLOSURES**

	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
<b><i>Financial Position</i></b>		
Assets		
Current assets	935,382	1,232,577
Non-current assets	15,592,225	21,504,730
Total assets	<u>16,527,607</u>	<u>22,737,307</u>
Liabilities		
Current liabilities	2,716,575	3,141,355
Non-current liabilities	-	-
Total liabilities	<u>2,716,575</u>	<u>3,141,355</u>
Net Assets	<u>13,811,032</u>	<u>19,595,952</u>
Equity		
Issued capital	46,692,830	45,819,924
Accumulated losses	(32,881,798)	(26,223,972)
Total equity	<u>13,811,032</u>	<u>19,595,952</u>
<b><i>Financial Performance</i></b>		
Loss	(6,657,826)	(11,170,626)
Other comprehensive loss	-	-
Total Comprehensive loss	<u>(6,657,826)</u>	<u>(11,170,626)</u>

**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.

<b>Name:</b>	<b>Country of Incorporation</b>	<b>Class of Shares</b>	<b>2015</b>	<b>2014</b>	<b>Holding %</b>
			<b>Investment €</b>	<b>Investment €</b>	
Northsun Italia S.p.A (“NSI”)	Italy	Ordinary	14,961,169	21,083,268	<b>100</b>
Po Valley Operations Pty Limited (“PVO”)	Australia	Ordinary	631,056	631,056	<b>100</b>
			<u>15,592,225</u>	<u>21,714,324</u>	

## **NOTE 26: SUBSEQUENT EVENT**

On 20 January 2016, the Company announced the restructure of its borrowing arrangements with Nedbank Limited, its primary lender. In accordance with the agreed terms, the Company repaid €2.2 million on 19 January 2016 reducing the outstanding amount to €76,000. Under the revised agreement, the Loan Facility will be changed from a reserve based loan to a standard loan with an agreed repayment plan in the form of monthly instalments in order to extinguish the facility by 30 September 2016. The Company's shares were temporarily halted from 14 January to 20 January 2016 whilst the new terms of the arrangement were under negotiation.

On 18 March 2016 the Board updated the market on its strategy to recapitalise and restructure the Company with the aim to preserve maximum value for shareholders. This strategy includes an unmarketable parcel sale facility that was announced and initiated on 10 March 2016 and will close on 27 April 2016. Another key step to restructure the Company was a pro rata renounceable rights issue to raise approximately \$1.75 million (Euro 1.1 million) which was also announced on 18 March 2016.

On 18 March 2016 the Company entered into a short term unsecured bridging loan facility pending completion of the Sillaro rework which, as at the date of this report, is currently ongoing. The Facility was provided by Beronia Investments Pty Ltd, an entity associated with Director Dr. Byron Pirola. Under the facility the Company may draw down up to €300,000.

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 20 to 68, 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 2015 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 2015.
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 31 March 2016.

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 2015, 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 2015 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

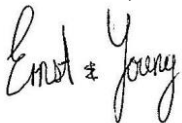
Without qualifying our opinion, we draw attention to Note 1.2 in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant 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 9 to 17 of the directors' report for the year ended 31 December 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Russell J Curtin  
Partner  
Perth  
31 March 2016