

**PO VALLEY ENERGY LIMITED**

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

**CONSOLIDATED FINANCIAL REPORT FOR THE**

**YEAR ENDED 31 DECEMBER 2017**

## 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 2017.

### 1. Directors

The directors of the Company at any time during or since the end of the financial year are:

**Michael Masterman — Chief Executive Officer and Chairman, BEcHons, Age 55**  
**Director since 22 June 1999**

Michael is a co-founder of PVE. Michael took up the position of CEO of PVE and Northsun Italia S.p.A. in 2002 up to October 2010 when he took 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 was appointed as Chairman of PVE following the retirement of Graham Bradley on 22 April 2016 and took up the role of Chief Executive Officer on 1 November 2017.

**Byron Pirola — Non Executive Director, BSc, PhD, Age 57**  
**Director since 10 May 2002**

Byron is a co-founder of PVE and is based in Sydney. He is currently a Director and Managing 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.

**Kevin Bailey AM — Non Executive Director, DipFP, Age 57**  
**Director since 3 May 2016**

Kevin was appointed as a director on 22 April 2016. He has been a shareholder of the Company since April 2008 and brings significant business acumen and experience to the Board. Mr Bailey is a highly successful businessman with a range of business interests, both local and overseas. He worked for 28 years as a Certified Financial Planner and was a founding director of the Shadforth Financial Group Limited. He is a member of the Prime Minister's Community Business Partnership and devotes considerable time to philanthropic interests. Mr Bailey is currently a director of various entities including the Investment Advisory Board of the Timor Leste Petroleum Fund, the \$17Bn Sovereign Wealth Fund of Timor Leste. He is also a director of Outward Looking International Pty Ltd, Halftime Australia Pty Ltd, Alpha Australia, Empart Inc, Dads4Kids Fatherhood Foundation and he is Chairman of Parousia Media Pty Ltd.

### 2. Company Secretary

**Zoe Levendel – Company Secretary, BInSt, JD and MIB (Appointed 3 July 2017)**

Zoe Levendel of Company Matters Pty Ltd was appointed to the position of Company Secretary on 3 July 2017. Zoe joined the Company Matters team from Suncorp Group Limited, where she spent four years in the Legal and Secretariat team. Prior to Suncorp, Zoe was a Policy Advisory at AMA Queensland.

**Lisa Jones – Company Secretary, LLB (Resigned 3 July 2017)**

Lisa was appointed to the position of Company Secretary in October 2009. She is a corporate lawyer with over 17 years of 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>Michael Masterman</b>	<b>Byron Pirola</b>	<b>Kevin Bailey</b>
No. of board meetings held	6	6	6
No. of board meetings attended	6	6	6

Following the reduction of the size of the board to three members in 2016 the roles and responsibilities normally undertaken by the Audit and Risk Committee and the Remunerations and Nominations Committee have been dealt with by the full board as part of its duly convened meetings rather than through separate committees.

### 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 0.19 €cents (2016: loss 2.06 €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 less than 10% of total gas consumption in Italy the majority of which is produced by industry majors including Eni Spa and Edison Spa. Consequently, the Company has few comparable peers to contrast its operations.

#### *Strategy*

PVE is focused on the European market and its assets are currently in Italy which is a high quality gas high margin market.

In 2017 PVE successfully listed Saffron Energy Plc ("Saffron") to fund and bring into production the assets within its NorthSun Italia Spa subsidiary. This step also provided solid funding for the smaller gas development fields – Sillaro, Bezzecca and Sant Alberto – while freeing PVE to advance development of its larger assets. Saffron successfully brought the Bezzecca gas field in to production commencing in April 2017 and plans to bring the Sant Alberto gas field which into production in late 2018.

Saffron, following agreement with Sound Energy Plc, has purchased Sound's Italian gas assets and has completed a GBP14m placement strongly capitalizing Saffron. The company will be renamed Coro Energy Plc (Coro) as part of this acquisition and refinancing. PVE will have a minority interest in the enlarged Coro and no Board representation.

Following the completion of this step, PVE plans to pro-rata distribute 80% of its holding in Saffron to PVE shareholders and continue to focus on its larger scale development assets – Selva, Teodorico, and Torre del Morro – which have progressed significantly during the year, including the successful drilling and gas discovery in the Selva Gas field

#### *Operations*

During 2017 gas production increased significantly with Bezzecca coming on stream in April and continued production from Sillaro. Annual production increased 58% to 7 million cubic meters for the year.

### Exploration

In 2017 a highlight was the successful drilling of the Podere Maiar 1dir well in the Selva Gasfield in the Podere Gallina licence. The well was successfully drilled and completed for production in December 2017 and successful flow tests in January confirmed a successful flow test.

### Development

The key development asset of the company Teodorico in our offshore Adriatic licence advanced very substantially to development in 2017 with the very important grant of a preliminary production concession by the Italian Government. PVE has subsequently applied for environmental approval and this process is also advanced.

The onshore Selva gas field was also successfully drilled with a significant gas discovery being confirmed. Work to evaluate the reserves associated with this discovery are being completed, along with the preparation of a production concession application.

During the year Bezzecca was brought in to production and contributed solidly to gas sales during the year.

### Financial performance

Total revenue from the full year of gas production was €1.39m, a year on year increase 45%. This increase in revenue is attributable to the increased production from the Bezzecca field throughout the year. Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) for the year was a loss €2,350,981 and a slight increase over the previous year reflecting increased corporate costs associated with the planned Coro transaction.

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

<b>Comprehensive profit reconciliation table (in Euro)</b>	<b>2017</b>	<b>2016</b>
Net loss before impairment expense (unaudited)	(3,231,611)	(2,296,874)
Impairment on resource property costs for the Sillaro field	(653,538)	(4,615,215)
Impairment on resource property costs for the Sant' Alberto licence	(767,914)	(1,495,036)
Impairment on resource property costs for the Bezzecca field	(2,941,449)	-
Exploration costs expensed	(4,192)	(291,928)
Reversal of prior period impairment losses on resource property costs	3,263,661	-
<b>Comprehensive loss for the year</b>	<b>(4,335,043)</b>	<b>(8,699,053)</b>

Net loss before impairment expense, which is not reviewed or audited, is calculated to show impact of impairment losses on the total comprehensive loss for the year.

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to a loss of €2,350,981 for the year.

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

<b>EBITDA reconciliation table (in Euro)</b>	<b>2017</b>	<b>2016</b>
EBITDA	(2,350,981)	(1,809,070)
Depreciation and amortisation expense – production assets	(256,470)	(878,147)
Depreciation expense	(8,008)	(10,732)
Impairment losses	(1,584,199)	(6,402,179)
Other miscellaneous income	366,470	193,857
<b>Results from operating activities</b>	<b>(3,833,188)</b>	<b>(8,906,271)</b>

The Board believes EBITDA, however not reviewed or audited, is a good measure of the operating results of the Company but are not in accordance with IFRS.

### *Financial position*

The Company completed a private placement during the year raising €802,930 (A\$1,179,256) by the issuance of 42,882,037 fully paid ordinary shares; part of the proceeds was used as repayment of shareholders loans.

In February 2017, the Company successfully complete the spin off and listing on the AIM board of the LSE of its subsidiary Saffron Energy Plc (‘Saffron’), raising GBP2,500,000 before costs. In September 2017, Saffron completed a second placement raising a further GBP1,250,000 reducing the Company’s holding in Saffron from 65% to 54%.

Cash and cash equivalents for the Group at 31 December 2017 amounted to €390,114.

### *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 2017, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report.

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.

### **External risks**

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

Uncertainty of timing of regulatory approvals	infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.
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### **Operating risks**

Exploration, development and production	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.
Estimation of reserves	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.
Tenure security	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.
Health, safety and environmental matters	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.

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 2017.

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

Following the balance sheet date

- Po Valley successfully tested the Podere Maiar 1dir well in the Selva gas field
- Saffron Energy completed a restructuring to allow acquisition of Sound Energy's Italian assets and completion of a GBP14m placement

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 Board is responsible for reviewing and recommending compensation arrangements for the Directors, the Chief Executive Officer and the senior executive team. The Board 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.

### 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	2017	2016	2015	2014	2013	2012
Production (scm'000)	7,155	4,461	9,991	18,560	23,983	24,673
Average realised gas price (€cents per cubic metre)	19	21	25	27	28	33
EBITDA (unaudited) (€000s)	(2,350)	(1,809)	(795)	1,540	1,755	4,473
Profit / (loss) attributable to owners of the Company (€000s)	(1,048)	(8,699)	(6,658)	(1,262)	(5,796)	2,373
Earnings / (loss) per share (€cents per share)	(0.19)	(2.06)	(5.02)	(1.03)	(4.76)	2.12
Share Price at year end - AU\$	0.041	0.025	0.026	0.10	0.12	0.12

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 – Sara Edmondson	95%	5%	-

### **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.

### **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:**

##### **Michael Masterman, Chairman and Chief Executive Officer**

- Commencement Date: 22 June 1999 (re-elected 31 May 2017)
- Fixed remuneration for the year ended 31 December 2017: €31,200 p.a. as Chairman
- Fixed remuneration for the year ended 31 December 2017: €77,000 p.a. as Chief Executive Officer
- 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 2017: €15,600
- No termination benefits

##### **Kevin Bailey, Non-Executive Director**

- Commencement Date: 3 May 2016
- Fixed remuneration for the year ended 31 December 2017: €20,000
- 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 (up to 31 October 2017)**

- 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 €156,000 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.

On 31 October 2017, Sara took on the role as Chief Executive Officer with Saffron Energy Plc, which is 50% owned by the Company.

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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 €	Car €	Other €	Termination payments €	Total €
<b>Directors</b>						
M Masterman Chairman Non-Executive	2017	109,810	-	5,000	-	114,810
	2016	42,000	-	-	-	42,000
B Pirola Non-Executive	2017	15,600	-	-	-	15,600
	2016	28,000	-	-	-	28,000
K Bailey (Appointed 3 May 2016) Non-Executive	2017	21,071	-	-	-	21,071
	2016	28,000	-	-	-	28,000
Total for Directors	2017	146,481	-	5,000	-	151,481
	2016	98,000	-	-	-	98,000

**Short term**

		Salary & fees €	Car €	Other €	Total Base €	Share based payments €	STI Cash €	Total Short- term €	Terminatio n payments €	Defined contribution plan €	Total €	Proportion of remuneration performance related %
<b>KMP</b>												
Sara Edmonson CEO	2017	151,538	6,124	-	157,662	57,090	-	214,752	-	21,989	236,741	24%*
	2016	129,997	6,124	-	136,121	-	7,500	143,621	-	6,250	149,871	5%
Total for KMP	2017	151,538	6,124	-	157,662	57,090	-	214,752	-	21,989	236,741	
	2016	129,997	6,124	-	136,121	-	7,500	143,621	-	6,250	149,871	
Total Directors and KMP	2016	298,019	6,124	5,000	309,143	57,090	-	366,233	-	21,989	388,222	
	2016	237,758	6,124	-	243,882	-	7,500	251,382	-	6,250	257,632	

\*% of remuneration that is share based is 24%

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### **Analysis of bonuses included in remuneration**

Details of the vesting profile of the short-term incentive bonus awarded as remuneration are detailed below.

Directors and executives	2017		2016	
	Cash Bonus €	% vested in year	Cash Bonus €	% vested in year
S Edmonson	-	-	7,500	100%
	Share based payment Bonus €	% vested in year	Share based payment Bonus €	% vested in year
S Edmonson	57,090*	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 bonus awarded to Ms. Edmonson was based on performance, 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 (2016: Nil). No options vested during 2017. (2016: 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 2017.

There were no options outstanding during 2017.

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 2017.

## 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 2016	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2017
<b>Directors</b>						
M Masterman <sup>(i)</sup>	147,602,085	9,090,909	-	-	-	156,692,994
B Pirola	56,818,518	2,675,617	-	-	-	54,494,135
K Bailey	117,230,533	15,497,636	-	-	-	132,728,169
	<u>329,827,216</u>	<u>27,264,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,915,298</u>
<b>Executives</b>						
S. Edmonson	1,148,224	1,818,182	-	-	-	2,966,406
	<u>1,148,224</u>	<u>1,818,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,966,406</u>

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

	Held at 31 Dec 2015	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2016
<b>Directors</b>						
M Masterman <sup>(i)</sup>	33,656,222	112,284,496	1,661,367	-	-	147,602,085
B Pirola	7,112,782	46,383,002	3,322,734	-	-	56,818,518
K Bailey	104,753,469 <sup>(ii)</sup>	12,477,064	-	-	-	117,230,533
G Bradley (retired 22 Apr 2016)	1,478,880	3,697,200	-	-	-	5,176,080 <sup>(iii)</sup>
K Eley (retired 22 Apr 2016)	800,000	2,000,000	-	-	-	2,800,000 <sup>(iii)</sup>
G Short (retired 25 Jan 2016)	200,000	-	-	-	-	200,000 <sup>(iii)</sup>
	<u>148,001,353</u>	<u>176,841,762</u>	<u>4,984,101</u>	<u>-</u>	<u>-</u>	<u>329,827,216</u>
<b>Executives</b>						
S. Edmonson	28,064	1,120,160	-	-	-	1,148,224
	<u>28,064</u>	<u>1,120,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,148,224</u>

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

<sup>(ii)</sup> Shares held at date of appointment.

<sup>(iii)</sup> Shares held at date of retirement.

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### Other transactions and balances with KMP and their related parties

During 2016 the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors of the Company. Refer to Note 23 for further details.

The amounts outstanding at 31 December 2017 are as follows:

<b>Related Party</b>	<b>Loan Amount 2017</b>	<b>Loan Amount 2016</b>	<b>Interest</b>	<b>Repayment Term</b>
Beronia Investments Pty Ltd	A\$236,181	A\$756,518	10% p.a.	12 months
Beronia Investments Pty Ltd	A\$227,238	-	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	-	A\$826,873	10% p.a.	12 months
Kevin Bailey	A\$237,305	-	10% p.a.	6 months
Fuiloro Pty Ltd	A\$6,191	A\$230,769	10% p.a.	12 months
G. Bradley	A\$94,927	A\$144,927	10% p.a.	12 Months

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>
M Masterman	156,692,994
B Pirola	54,494,135
K Bailey	132,728,169

### **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 has elected to publish its Statement of Corporate Governance Practices on its website [www.povalley.com](http://www.povalley.com). In addition, each year the Key to Disclosures - Corporate Governance Council Principles and Recommendations will be available to shareholders at the same time this report is released.

### **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. Indemnification of auditors**

To the extent permitted by law, the Company has agreed to indemnify its auditors, Bentleys NSW Pty Ltd, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Bentleys during or since the financial year.

### **17. Non audit services**

During the year Bentleys, the Group's auditor, provided corporate taxation services. Refer to note 6 of the financial report for details of auditor's remuneration.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

### **18. 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.

**20. Lead Auditor's independence declaration**

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' report for the financial year ended 31 December 2017.

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

A handwritten signature in black ink that reads "Michael Masterman". The signature is written in a cursive style and is contained within a thin black rectangular border.

Michael Masterman  
**Chairman**  
Sydney, NSW Australia

29 March 2018

**Po Valley Energy Limited**  
**ABN: 33 087 741 571**

### **Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Po Valley Energy Limited**

As lead auditor for the audit of Po Valley Energy Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**Bentleys NSW Audit Pty Ltd**



**Robert Evett**  
Director  
Sydney

29 March 2018

**PO VALLEY ENERGY LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

	NOTES	<b>CONSOLIDATED</b>	
		2017	2016
		€	€
<b>Current Assets</b>			
Cash and cash equivalents	10 (a)	390,114	166,459
Trade and other receivables	12	2,292,724	262,512
<b>Total Current Assets</b>		2,682,838	428,971
<b>Non-Current Assets</b>			
Inventory	11	252,034	732,801
Other assets		100,031	155,956
Deferred tax assets	15	2,598,509	2,684,360
Property, plant & equipment	13	2,158,869	2,347,604
Resource property costs	14	9,341,801	8,982,190
<b>Total Non-Current Assets</b>		14,451,244	14,902,911
<b>Total Assets</b>		17,134,082	15,331,882
<b>Liability and equity</b>			
<b>Current Liabilities</b>			
Trade and other payables	16	4,739,681	1,815,336
Provisions	17	58,270	70,136
Interest bearing loans	18	526,892	1,406,017
<b>Total Current Liabilities</b>		5,324,843	3,291,489
<b>Non-Current Liabilities</b>			
Provisions	17	4,802,873	4,961,907
<b>Total Non-Current Liabilities</b>		4,802,873	4,961,907
<b>Total Liabilities</b>		10,127,716	8,253,397
<b>Equity</b>			
Issued capital	19	49,462,268	48,659,337
Reserve	19	1,192,269	1,192,269
Accumulated losses		(43,860,729)	(42,773,120)
Minority interests		212,558	-
<b>Total Equity</b>		7,006,366	7,078,486
<b>Total Equity and liabilities</b>		17,134,082	15,331,882

The above 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 2017**

		<b>CONSOLIDATED</b>	
	<b>NOTES</b>	<b>2017</b>	<b>2016</b>
		<b>€</b>	<b>€</b>
<b>Continuing Operations</b>			
Revenue	<b>3</b>	1,389,196	958,501
Operating costs		(1,116,958)	(544,407)
Depreciation and amortisation expense		(256,470)	(878,147)
Gross Profit / (loss)		15,768	(464,053)
Other income		366,470	193,857
Employee benefit expenses	<b>4</b>	(1,085,127)	(1,100,363)
Depreciation expense		(8,008)	(10,732)
Corporate overheads	<b>5</b>	(1,538,092)	(1,122,801)
Impairment losses	<b>14</b>	(1,584,199)	(6,402,179)
<b>Operating loss</b>		<b>(3,833,188)</b>	<b>(8,906,271)</b>
Finance income	<b>7</b>	97	1,017
Finance expenses	<b>7</b>	(416,101)	(461,100)
<b>Net finance expenses</b>		<b>(416,004)</b>	<b>(460,083)</b>
<b>Loss before tax</b>		<b>(4,249,192)</b>	<b>(9,366,354)</b>
Income tax (expense) / benefit	<b>8</b>	(85,851)	667,301
<b>Loss for the year</b>		<b>(4,335,043)</b>	<b>(8,699,053)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year, net of tax</b>		<b>(4,335,043)</b>	<b>(8,699,053)</b>
<b>Loss attributable to:</b>			
Owners of the Company		(1,087,609)	(8,699,053)
Non-controlling interests		(3,247,434)	-
Loss for the period		(4,335,043)	(8,699,053)
<b>Total comprehensive loss attributable to:</b>			
Owners of the Company		(1,087,609)	(8,699,053)
Non-controlling interests		(3,247,434)	-
Total comprehensive loss for the period		(4,335,043)	(8,699,053)
<b>Basic and diluted loss per share</b>	<b>9</b>	<b>(0.19) cents</b>	<b>(2.06) cents</b>

The above statement of profit or loss and other comprehensive income 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 2017**

<b>Consolidated</b>	<b>Attributable to equity holders of the Company</b>				<b>Total €</b>
	<b>Issued capital €</b>	<b>Translation Reserve €</b>	<b>Accumulated Losses €</b>	<b>Non- controlling Interests €</b>	
Balance at 1 January 2016	46,692,830	1,192,269	(34,074,067)	-	13,811,032
Total comprehensive income:					
Loss for the year	-	-	(8,699,053)	-	(8,699,053)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss			(8,699,053)	-	(8,699,053)
<b>Transactions with owners recorded directly in equity:</b>					
Contributions by and distributions to owners –					
Issue of shares	1,817,466	-	-	-	1,817,466
Share based payments	149,041	-	-	-	149,041
<b>Balance at 31 December 2016</b>	<b>48,659,337</b>	<b>1,192,269</b>	<b>(42,773,120)</b>	<b>-</b>	<b>7,078,486</b>
Balance at 1 January 2017	<b>48,659,337</b>	<b>1,192,269</b>	<b>(42,773,120)</b>	<b>-</b>	<b>7,078,486</b>
Total comprehensive income:					
Loss for the year	-	-	(1,087,609)	(3,247,434)	(4,335,043)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	-	-	(1,087,609)	(3,247,434)	(4,335,043)
<b>Transactions with owners recorded directly in equity:</b>					
Contributions by and distributions to owners –					
Issue of shares	441,843	-	-	3,459,992	3,901,835
Share based payments	361,088	-	-	-	361,088
<b>Balance at 31 December 2017</b>	<b>49,462,268</b>	<b>1,192,269</b>	<b>(43,860,729)</b>	<b>212,558</b>	<b>7,006,366</b>

The above 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 2017**

	NOTES	CONSOLIDATED	
		2017 €	2016 €
<b>Operating activities</b>			
Receipts from customers		1,352,004	1,213,620
Payments to suppliers and employees		(3,684,811)	(3,627,381)
Interest received		97	1,017
Interest paid		(75,283)	(17,320)
<b>Net cash used in operating activities</b>	<b>10 (b)</b>	<b>(2,407,993)</b>	<b>(2,430,064)</b>
<b>Investing activities</b>			
Payments for non-current assets		-	(10,322)
Receipts for resource property costs from joint operations partners		1,263,539	521,741
Payments for resource property costs		(2,172,232)	(690,177)
<b>Net cash flows used in investing activities</b>		<b>(908,693)</b>	<b>(178,758)</b>
<b>Financing activities</b>			
Proceeds from the issues of shares		444,377	1,833,261
Payment of share issue costs		(2,534)	(15,795)
Net proceeds from issue of shares to non-controlling interests		3,686,750	-
Proceeds from borrowings	<b>18</b>	1,076,486	1,406,017
Repayments of borrowings	<b>18</b>	(1,664,738)	(2,776,048)
Payment of borrowing costs			(118,159)
<b>Net cash flows from financing activities</b>		<b>3,540,341</b>	<b>329,276</b>
Net increase in cash and cash equivalents		223,655	(2,279,546)
<b>Cash and cash equivalents at 1 January</b>		<b>166,459</b>	<b>2,446,005</b>
<b>Cash and cash equivalents at 31 December</b>	<b>10 (a)</b>	<b>390,114</b>	<b>166,459</b>

The above statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**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 2017 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 29 March 2018.

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 the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the year ended 31 December 2017, the Group has recorded a loss of €4,335,043, it has a cash balance of €390,114 net current liabilities of €2,642,055 and had net cash outflows from operations of €2,407,993.

The Directors are currently reviewing a range of financing options which may include the further issue of new equity, convertible debt, sale of operating or non-operating interests in assets or a combination of these and other funding instruments and options. In September 2017, the Company entered into an agreement to sell two onshore Italian oil exploration licences, for consideration of €1,130,000. The sale is subject to formal approval by the Italian Ministry of Economic Department is and is expected to be completed in the second quarter of 2018.

The Directors have reviewed the Group’s cashflow requirements for the 15 months ended 31 March 2019 and are of the opinion that sufficient funds will be available in order to meet its ongoing obligations.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 or CGU 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 post-tax discount rate used for impairment purposes is 10%.

**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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**

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.

All new and amended Accounting standards and interpretations effective from 1 January 2017 have been adopted as listed below:

AASB2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised losses AASB 112	The amendment clarify how to account for deferred tax assets related to debt instruments measured at fair Value.
AASB2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

**(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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

**(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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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, 2017.

**(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.

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:

	<b>2017</b>	<b>2016</b>
Sillaro	5.23%	11.29%
Bezzecca	3.40%	-

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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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:

	<b>2017</b>	<b>2016</b>
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**

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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

*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.

**(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 related to drilling 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.

**NOTES TO THE FINANCIAL STATEMENTS  
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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.

***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>2017</b>	<b>2016</b>
Sillaro	5.23%	11.29%
Bezzecca	3.40%	-

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**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

**(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 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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**

**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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

(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 2017 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	Adoption of this standard will not have a material impact on the financial report.	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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>			

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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><i>Impairment</i></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>			

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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>			

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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 adoption of this standard will not have a material impact on the financial report as the price and performance obligations criteria under this standard for sales for the Group are determined on the same basis as the current standard AASB111.	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2014-10	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>	1 January 2018	Adoption of these amendments will not have a material impact on the financial report.	1 January 2018
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.</p> <p>A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</p> <p>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 AASB16	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 16	Leases	<p>Lessor accounting</p> <p>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.</p> <p>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.</p> <p>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
IFRIC Interpretation 22	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	This addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.	1 January 2018	Adoption of this pronouncement will not have a material impact on the financial report.	1 January 2018

## PO VALLEY ENERGY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 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.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**(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.

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>2017</b>	<b>2016</b>
	€	€
<b>NOTE 3: REVENUE</b>		
Gas sales	1,389,196	958,501
<b>NOTE 4: EMPLOYEE BENEFIT EXPENSES</b>		
Wages and salaries	913,234	909,221
Share based payments	57,089	14,506
Contributions to defined contribution plans	114,804	176,636
	1,085,127	1,100,363
<b>NOTE 5: CORPORATE OVERHEADS</b>		
Corporate overheads comprises:		
Company administration and compliance	250,522	192,770
Professional fees	886,242	629,059
Office costs	162,051	176,719
Travel and entertainment	124,317	65,749
Other expenses	114,960	58,504
	1,538,092	1,122,301



**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

Loss for the year before tax	(4,249,192)	(9,366,354)
Income tax (benefit) / expense using the Company's domestic tax rate of 27.5 per cent (2016: 30%)	(1,168,528)	(2,809,906)
Non-deductible expenses:		
Borrowing costs	-	33,338
Fair value adjustments	(358,905)	1,995,494
Other	-	130,695
Effect of tax rates in foreign jurisdictions	327,483	63,879
Current year losses and temporary differences for which no deferred tax asset was recognised	1,045,880	546,540
Changes in temporary differences	239,921	(597,941)
	<hr/>	<hr/>
Income tax expense / (benefit)	85,851	(667,301)

**NOTE 9: EARNINGS PER SHARE**

Basic loss per share (€cents)	(0.19)	(2.06)
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The calculation of earnings per share was based on the loss attributable to shareholders of €1,087,609 (2016: €8,699,053) and a weighted average number of ordinary shares outstanding during the year of 587,519,266 (2016: 421,741,568).

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

		<b>2017</b>	<b>2016</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	365	550,378,091	132,670,893
14,526,966 shares issued on 5 April 2017	271	11,998,448	
28,355,071 shares issued on 7 June 2017	208	25,142,727	
350,392,300 shares issued on 20 April 2016	256	-	245,083,139
14,828,871 shares issued on 30 June 2016	185	-	10,716,177
9,272,997 shares issued on 14 September 2016	109	-	5,463,550
35,727,003 shares issued on 31 October 2016	62	-	20,321,782
		<hr/>	<hr/>
		587,519,266	421,741,568

**NOTE 10: CASH AND CASH EQUIVALENTS**

(a) Cash and cash equivalents	<hr/>	<hr/>
	390,114	166,459

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 10: CASH AND CASH EQUIVALENTS (continued)**

(b) Reconciliation of cash flows from operating activities		
Loss	(4,335,043)	(8,699,053)
<u>Adjustment for non-cash items:</u>		
Depreciation and amortisation	264,478	888,879
Resource property costs impairment	1,584,199	6,402,179
Unwind of discount on site restoration provision	58,771	85,769
Amortisation of borrowing costs	-	308,640
Share based payments	198,479	14,506
Loss on sale of project	-	-
Borrowing costs paid for financing activities	-	118,159
<u>Change in operating assets and liabilities:</u>		
Decrease in receivables	(115,191)	150,257
Other assets	55,925	(125,578)
Decrease in trade and other payables	(193,596)	(759,445)
(Decrease)/Increase in provisions	(11,866)	(147,076)
(Increase)/Decrease in deferred tax assets	85,851	(667,301)
Net cash inflow from operating activities	(2,407,993)	(2,430,064)

**CONSOLIDATED**

**2017                      2016**  
**€                              €**

**NOTE 11: INVENTORY**

**Non-Current**

Well equipment – at net realisable value	252,034	732,801
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Well equipment represents inventory expected to be utilised in future development of known wells with specific characteristics. During the period, inventory was written down to net realisable value with and impairment of €480,766 recognised in the statement of profit and loss and other comprehensive income.

**NOTE 12: TRADE AND OTHER RECEIVABLES**

**Current**

Trade receivables	1,243,696	80,189
Accrued gas sales revenue	158,507	76,008
Sundry debtors	70,697	28,696
Deposit	7	7
Indirect taxes receivable (a)	819,817	77,612
	2,292,724	262,512

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 13: PROPERTY PLANT & EQUIPMENT**

Office Furniture & Equipment:		
<i>At cost</i>	221,843	217,518
<i>Accumulated depreciation</i>	(203,585)	(195,577)
	18,258	21,941

Gas producing plant and equipment		
<i>At cost</i>	8,509,086	8,503,197
<i>Accumulated depreciation and impairment losses</i>	(6,368,475)	(6,177,534)
	2,140,611	2,325,663
	2,158,869	2,347,604

**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	21,941	22,351
Additions	4,325	10,322
Depreciation expense	(8,008)	(10,732)
Carrying amount at end of year	18,258	21,941

Gas Producing plant and equipment:		
Carrying amount at beginning of period	2,356,663	2,592,842
Additions / Reclassification	5,889	-
Depreciation expense	(119,998)	(267,179)
Impairment losses	(70,943)	-
Carrying amount at end of period	2,140,611	2,325,663
	2,158,869	2,347,604

**NOTE 14: RESOURCE PROPERTY COSTS**

Resource Property costs		
Exploration Phase	9,182,411	8,383,017
Production Phase	159,390	599,173
	9,341,801	8,982,190

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 14: RESOURCE PROPERTY COSTS (continued)**

	<b>CONSOLIDATED</b>	
	<b>2017</b>	<b>2016</b>
	€	€
Reconciliation of carrying amount of resource properties		
<i>Exploration Phase</i>		
Carrying amount at beginning of period	8,383,017	9,646,269
Exploration expenditure	1,466,203	473,923
Change in estimate of rehabilitation assets	(131,699)	49,789
Transfer to production phase	(2,524,310)	
Adjustment resulting from reorganisation	(506,547)	-
Impairment losses	(767,914)	(1,786,964)
Reversal of prior impairment losses	3,263,661	
Carrying amount at end of period	9,182,411	8,383,017

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. Where exploration permits have expired or not renewed, the costs previously capitalised are expensed to the statement of profit and loss.

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU; in particular a valuation on Sant' Alberto, Selva and Teodorico was calculated by CGG Services (UK) Limited ("CGG report) for the purposes of the Admission Document used by Saffron Energy Plc for the proposed acquisition of two entities and the readmission of Saffron to AIM of the enlarged group.

As a result of this assessment, the recoverable value of Sant' Alberto at 31 December 2017 was €2.0million resulting in an impairment of €767,914 being recognised in respect of this field.

The recoverable value, as determined by the CGG report, of Selva and Teodorico was €5.3million and €17.9million respectively. The carrying value at these assets was significantly lower at €2.12million and €1.24million respectively. To account for the significant Reserve and Resource upgrade the Board have determined it appropriate to reverse prior period impairment losses of €3,263,661.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 14: RESOURCE PROPERTY COSTS (continued)**

	<b>CONSOLIDATED</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<i>Production Phase</i>		
Carrying amount at beginning of period	599,173	5,521,279
Additions	782,529	257,573
Transfer from exploration phase	2,524,310	-
Change in estimate of rehabilitation assets	(86,106)	46,504
Amortisation of producing assets	(136,472)	(610,968)
Impairment losses	(3,524,044)	(4,615,215)
Carrying amount at end of period	159,390	599,173

The Group assessed each asset or cash generating unit (CGU) for the year ended 31 December 2017 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, Bezzecca production CGU was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used by Saffron Energy Plc for the proposed acquisition of two entities and the readmission of Saffron to AIM of the enlarged group.

The Admission Document including the complete Competent Persons Report is available on Saffron Energy's web site [www.saffronenergy.co.uk](http://www.saffronenergy.co.uk). As disclosed in that report, the VIU was based on the following main assumptions:

1. Future gas production is assumed sold at Italian spot gas price, the Puntodi Soambrio Virtuale (PSV) price, unless a specifically agreed price. The PSV assumption is based on PSV forward curve for 2018 and 2019 and thereafter escalated at 2% p.a. for inflation.
2. A post-tax discount rate of 10%;
3. Variable operating expenses as projected by the Group;
4. Reserves and production volumes determined by recent Competent Persons Report

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.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 14: RESOURCE PROPERTY COSTS (continued)**

	<b>CONSOLIDATED</b>	
	<b>2017</b>	<b>2016</b>
	€	€
Impairment losses are reconciled as follows:		
<i>Impairment expense</i>		
<b><i>Production phase:</i></b>		
Sillaro gas field	(653,538)	(4,615,215)
Bezzecca gas field	(2,941,449)	-
<b><i>Exploration and Development phase:</i></b>		
Sant' Alberto licence	(767,914)	(1,495,036)
Exploration costs	(4,192)	(291,928)
Reversal of prior year impairments	3,263,661	-
 <i>Inventory of well equipment (refer note 11)</i>	 (480,767)	 -
Total impairment loss	<u>(1,584,199)</u>	<u>(6,402,179)</u>

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

**Recognised deferred tax assets**

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

	<b>CONSOLIDATED</b>	
	<b>2017</b>	<b>2016</b>
	€	€
Tax losses	1,970,177	1,888,687
Accrued expenses and liabilities	628,332	795,679
Recognised deferred tax assets	<u>2,598,509</u>	<u>2,684,366</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.

**Unrecognised deferred tax assets**

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

Tax losses	3,830,154	2,745,469
Deductible temporary differences	1,840,721	2,162,878
Unrecognised deferred tax assets	<u>5,670,875</u>	<u>4,908,347</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 2017**

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

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

<b>Consolidated</b>	<b>Balance 1 January 2016 €</b>	<b>Profit and loss €</b>	<b>Equity €</b>	<b>Balance 31 December 2016 €</b>	<b>Profit and loss €</b>	<b>Equity €</b>	<b>Balance 31 December 2017 €</b>
Tax losses	1,691,137	197,550	-	1,888,687	81,490	-	1,970,177
Accrued expenses and liabilities	325,922	469,757	-	795,679	(167,341)	-	628,332
<b>Total recognised deferred tax asset</b>	<b>2,017,059</b>	<b>667,307</b>	<b>-</b>	<b>2,684,366</b>	<b>(85,851)</b>	<b>-</b>	<b>2,598,509</b>

**NOTE 16: TRADE AND OTHER PAYABLES**

	<b>CONSOLIDATED</b>	
	<b>2017 €</b>	<b>2016 €</b>
Trade payables and accruals	4,555,543	1,737,740
Other payables	184,138	77,597
	<b>4,739,681</b>	<b>1,815,337</b>

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 21.

**NOTE 17: PROVISIONS**

	<b>CONSOLIDATED</b>	
	<b>2017 €</b>	<b>2016 €</b>
<b>Current:</b>		
Employee leave entitlements	58,270	50,136
Other provisions	-	20,000
	<b>58,270</b>	<b>70,136</b>
<b>Non Current:</b>		
Restoration provision	4,802,873	4,961,907
<b>Reconciliation of restoration provision:</b>		
Opening balance	4,961,907	4,779,855
Increase in provision due to revised estimates	(217,805)	96,283
Increase in provision from unwind of discount rate	58,771	85,769
<b>Closing balance</b>	<b>4,802,873</b>	<b>4,961,907</b>

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.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**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>2017</b>	<b>2016</b>
	€	€
<b>Current liabilities</b>		
Loans	526,892	1,406,017
	526,892	1,406,017

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest rate	Year of Maturity	<b>31 December 2017</b>		<b>31 December 2016</b>	
				Face Value €	Carrying Amount €	Face Value €	Carrying Amount €

**Current liabilities**

Unsecured loans	AUD	10%	2018	526,892	526,892	1,406,017	1,406,017
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The Group obtained financing through a streamlined facility provided by existing and former Directors of the Company and longstanding shareholders. The facility arrangement has a term of 12 months and an interest rate of 10%. (refer note 23 for details of related party balances)

The Group's exposure to currency, interest and liquidity risk related to interest bearing loans are disclosed in note 21.

**NOTE 19: CAPITAL AND RESERVES**

	<b>Ordinary Shares</b>		<b>2017</b>	<b>2016</b>
	<b>2017</b>	<b>2016</b>		
	Number	Number	€	€
<b>Share Capital</b>				
Opening balance - 1 January	550,378,091	140,156,920	48,659,337	46,692,830
<u>Shares issued during the year:</u>				
Placement issue on 5 April 2017	9,818,182	-	192,471	-
Settlement of short terms loans by issue of shares on 5 April 2017	4,708,784	-	90,528	-
Placement issue on 7 June 2017	13,818,181	-	251,906	-
Settlement of short term loans by issue of shares on 7 June 2017	14,536,890	-	270,560	-
Rights issue on 20 April 2016	-	350,392,300	-	1,208,213
Issued on 30 June 2016 in lieu of directors remuneration	-	14,828,871	-	149,041
Placement issue on 14 September 2016	-	9,272,997	-	125,306
Placement issue on 31 October 2016	-	35,727,003	-	499,742
Share issue costs	-	-	(2,534)	(15,795)
Closing balance – 31 December	550,378,091	550,378,091	49,462,268	48,659,337

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 19: CAPITAL AND RESERVES**

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 (2016: 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 (2016: Nil).

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**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	
	2017	2016	2017	2016	2017	2016
	€	€	€	€	€	€
External revenues	-	-	1,389,195	958,501	1,389,195	958,501
Segment (loss) / profit before tax	2,491,555	(1,786,964)	(4,059,987)	(5,079,268)	(1,568,432)	(6,866,232)
Depreciation and amortisation	-	-	(256,470)	(878,147)	(256,470)	(878,147)
Impairment on resource property costs	2,491,555	(1,786,964)	(4,075,754)	(4,615,215)	(1,584,199)	(6,402,179)
Reportable segment assets:						
Resource property costs	9,182,411	8,383,017	159,390	599,173	9,341,801	8,982,190
Plant & Equipment	-	-	2,140,611	2,325,663	2,140,611	2,325,663
Receivables	1,115,084	-	267,446	145,461	1,382,530	145,461
Inventory	-	-	252,034	732,801	252,034	732,801
Capital expenditure	1,466,203	439,620	782,528	64,283	2,248,731	503,903
Movement in rehabilitation assets	(131,699)	49,790	(86,106)	46,504	(217,805)	96,293
Reportable segment liabilities	(3,560,846)	(2,340,148)	(4,897,593)	(3,937,294)	(8,458,439)	(6,277,442)

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

<b>Reconciliation of reportable segment profit or loss, assets and liabilities</b>	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<b>Profit or loss:</b>		
Total profit / (loss) for reportable segments	(1,568,432)	(6,866,232)
<i>Unallocated amounts:</i>		
Net finance expense	(416,003)	(460,083)
Other corporate expenses	(2,264,757)	(2,040,039)
Consolidated loss before income tax	<u>(4,249,192)</u>	<u>(9,366,354)</u>
 <b>Assets:</b>		
Total assets for reportable segments	13,116,976	12,186,115
Other assets	4,017,106	3,145,767
Consolidated total assets	<u>17,134,082</u>	<u>15,331,882</u>
 <b>Liabilities:</b>		
Total liabilities for reportable segments	(8,458,439)	(6,277,442)
Other liabilities	(1,669,277)	(1,978,454)
Consolidated total liabilities	<u>(10,127,716)</u>	<u>(8,256,396)</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>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
<b>Variable rate instruments</b>		
Financial assets	390,114	166,459
Financial liabilities	-	-
	<u>390,114</u>	<u>166,459</u>
 <b>Fixed rate instruments</b>		
Financial assets	-	-
Financial liabilities	(526,892)	(1,406,017)
	<u>(526,892)</u>	<u>(1,406,017)</u>

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**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 2016.

<i>Effect in €'s</i>	<b>Profit or loss</b>		<b>Equity</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>31 December</b>				
Variable rate instruments	1,951	832	-	-

**(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 originally expired in October 2017 but was subsequently amended (in March 2017) to expire in October 2018. Shell currently has an option to extend the contract a second Gas Year from October 2018 to September 2019.

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>2017</b>	<b>2016</b>
		<b>€</b>	<b>€</b>
Cash and cash equivalents	10	390,114	166,459
Receivables – Current	12	2,292,724	262,512
Other assets		100,031	155,956
		2,782,869	584,927

**(c) Liquidity risk**

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

**Consolidated**

**31 December 2017**

<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	(4,739,681)	(4,739,681)	(4,739,681)	-	-	-
Secured bank loan	(526,892)	(602,083)	(602,083)	-	-	-
	(5,132,643)	(5,341,764)	(5,341,764)	-	-	-

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**Consolidated  
31 December 2016**

<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	(1,815,337)	(1,815,337)	(1,815,337)	-	-	-
Secured bank loan	(1,406,017)	(1,546,619)	(1,114,855)	(431,764)	-	-
	<u>(3,221,354)</u>	<u>(3,361,956)</u>	<u>(2,930,192)</u>	<u>(431,764)</u>	-	-

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

**(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 currencies giving rise to this risk is primarily Australian Dollars and Pound Sterling.

	<b>CONSOLIDATED</b>	
	<b>2017</b>	<b>2016</b>
Amounts receivable/(payable) in foreign currency other than functional currency:	€	€
Cash	266,382	26,658
Current – Payables	(188,370)	(69,343)
Current – Interest bearing loans	(526,892)	-
Net Exposure	<u>(448,880)</u>	<u>(42,685)</u>

The following significant exchange rates applied during the year:

	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Australian Dollar (\$)	0.679	0.6768	0.651	0.6840
Pound Sterling (£)	1.142	-	1.126	-

*Sensitivity Analysis*

A 5 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 for 2016 was prepared using a 10 percent variable.

	<b>CONSOLIDATED</b>	
	<b>Profit or loss</b>	<b>Equity</b>
<b>31 December 2017</b>	€	€
Australian Dollar to Euro (€)	(52,526)	-
Pound Sterling (£)	6,012	-
<b>31 December 2016</b>		
Australian Dollar to Euro (€)	(1,869)	-
Pound Sterling (£)	-	-

A 5 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.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 22: COMMITMENTS AND CONTINGENCIES**

**Contractual Commitments and contingencies**

There are no other material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 31 December 2017.

**NOTE 23: RELATED PARTIES**

**KEY MANAGEMENT PERSONNEL COMPENSATION**

The key management personnel compensation included in employee benefit expenses (see note 4) is as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>€</b>	<b>€</b>
Short-term employee benefits	309,143	237,326
Termination benefits	-	-
Other long term benefits	-	-
Post-employment benefits	21,989	6,250
Share-based payments	57,090	14,056
	388,222	257,632

**INTEREST BEARING LOANS**

During 2016 the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors of the Company. The new facility agreement has been reached with entities associated with Byron Pirola and Kevin Bailey (current directors) and Graham Bradly (former director).

<b>Related Party</b>	<b>Loan Amount 2017</b>	<b>Loan Amount 2016</b>	<b>Interest</b>	<b>Repayment Term</b>
Beronia Investments Pty Ltd	A\$236,181	A\$756,518	10% p.a.	12 months
Beronia Investments Pty Ltd	A\$227,238	-	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	-	A\$826.873	10% p.a.	12 months
Kevin Bailey	A\$237,305	-	10% p.a.	6 months
Fuiloro Pty Ltd	A\$6,191	A\$230,769	10% p.a.	12 months
G. Bradley	A\$94,927	A\$144,927	10% p.a.	12 Months

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 23: RELATED PARTIES (continued)**

**SHARE BASED PAYMENTS**

The following payments for services rendered were settled by issue of shares in Saffron Energy Plc:

	No of shares '000s	Value of service €
Recognised in profit and loss and other comprehensive income:		
Sara Edmondson – bonus for completion of AIM listing	1,000	57,089
Spencer Davey – consultant to the Company	1,000	57,089
Cassiopeia – for services provided	720	41,532
	2,720	155,710
Recognised as share issue costs in equity of subsidiary:		
Broker remuneration for completion of AIM listing	1,000	57,683
Broker fees	938	42,603
	1,938	100,586

In the prior year, shareholders approved the issue of shares to directors in lieu of directors fees unpaid for 2015 and for up to 50% of the fees accrued in the first quarter of 2016. The share price, for the issue was deemed to be A\$0.015 per share. No shares were issued to directors in 2017.

The following shares were issued to directors (and former directors) in lieu of directors fees:

<b>Director</b>	<b>No. Of Shares</b>	<b>2016 Fees €</b>	<b>No. Of Shares</b>	<b>2015 Fees €</b>	<b>No. Of Shares</b>	<b>Total €</b>
Michael Masterman	173,576	1,750	1,487,791	15,000	1,661,367	16,750
Byron Pirola	347,151	3,500	2,975,583	30,000	3,322,734	33,500
Kevin Bailey	-	-	-	-	-	-
Graham Bradley (retired 22 April 2016)	520,727	5,250	4,463,374	45,000	4,984,101	50,250
Kevin Eley (retired 22 April 2016)	347,151	3,500	2,975,583	30,000	3,322,734	33,500
Gregory Short (retired 25 January 2016)	50,146	506	1,487,789	15,000	1,537,935	15,506
<b>Total of shares issued</b>	1,438,751	14,506	13,390,120	135,000	14,828,871	149,506

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**NOTE 24: PARENT ENTITY DISCLOSURES**

	<b>2017</b>	<b>2016</b>
	€	€
<i>Financial Position</i>		
Assets		
Current assets	17,304	45,226
Non-current assets	10,021,070	15,972,596
Total assets	10,038,374	16,017,822
Liabilities		
Current liabilities	466,249	1,267,306
Non-current liabilities	-	-
Total liabilities	466,249	1,267,306
Net Assets	9,706,055	14,750,516
Equity		
Issued capital	49,462,268	48,659,337
Accumulated losses	(39,890,143)	(33,908,821)
Total equity	9,572,125	14,750,516
<i>Financial Performance</i>		
Loss	(5,981,321)	(1,027,023)
Other comprehensive loss	-	-
Total Comprehensive loss	(5,942,391)	(1,027,023)

**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>2017 Investment €</b>	<b>2016 Investment €</b>	<b>Holding %</b>
Northsun Italia S.p.A (“NSI”)	Italy	Ordinary	-	6,079,441	<b>75*</b>
Po Valley Operations Pty Limited (“PVO”)	Australia	Ordinary	2,544,225	631,056	<b>100</b>
Saffron Energy Plc (“Saffron”)	UK	Ordinary	5,227,273	60,000	<b>54</b>
			5,771,498	6,760,497	

\*the investment in NSI was transferred to Saffron Plc during 2017.

**NOTE 26: SUBSEQUENT EVENT**

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.

**PO VALLEY ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**DIRECTORS' DECLARATION**

1. In the opinion of the directors of PVE ("the Company"):
  - i) the financial statements and notes, as set out on pages 16 to 57, 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 2017 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 2017.
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 29 March 2018.

Signed in accordance with a resolution of the directors:



Michael Masterman  
**Chief Executive Officer**



Byron Pirola  
**Non-Executive Director**

**Po Valley Energy Limited**  
ABN: 33 087 741 571

## **Independent Auditor's Report to the Members of Po Valley Energy Limited and Controlled Entities**

### **Report on the Audit of the Financial Report**

We have audited the financial report of Po Valley Energy Limited (the Company) and its Controlled Entities ("the Group"), which comprises the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the year.

In our opinion:

- a) the financial report of the Group is in accordance with the *Corporations Act 2001* including:
  - i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### *Basis of Opinion*

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. Our responsibilities under those standards are further described in the *Auditor's responsibility* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Carrying value of Resource Property Costs</b></p> <p>The Group has an exploration asset of €9.2m at 31 December 2017. The carrying value of exploration and evaluation assets can be subjective based on the Group's ability, and intention, to continue to explore the asset.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's assessment of the carrying value of exploration and evaluation assets.</li> <li>• We have considered the Group's right to explore in the relevant exploration area.</li> </ul>
<p><b>Carrying value of production assets</b></p> <p>The Group has an exploration asset of €2.2m at 31 December 2017. The asset may be impaired.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We evaluated the Group's assessment of the carrying value of the production asset.</li> <li>• We considered whether any indicators of impairment were present.</li> <li>• We assessed the Group's future cash flow forecasts included in the value in use impairment model.</li> </ul>
<p><b>Valuation of site rehabilitation provision</b></p> <p>At 31 December 2017 the Group has a rehabilitation provision of €4.8m. There is the risk that the value of this provision is misstated.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Verified its mathematical accuracy.</li> <li>• Verified estimates to supporting documents where possible.</li> <li>• Challenged the estimate made.</li> <li>• Ensured all required rehabilitation obligations were included therein.</li> <li>• Ensured that appropriate disclosures were made.</li> </ul>
<p><b>Income taxes – recoverability of deferred tax assets</b></p> <p>At 31 December 2017 the Group has deferred tax assets relating to deductible temporary differences and carry forward tax losses of €2.6m.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We have performed audit procedures to evaluate and test the key assumptions used to determine the amounts recognised.</li> <li>• We assessed the basis for the recognition of deferred tax balances based on the requirements of each local tax jurisdiction.</li> <li>• We considered the recoverability of the deferred tax assets by considering the likelihood of sufficient estimated future taxable income being generated.</li> </ul>
<p><b>Going Concern</b></p> <p>The Group has incurred a loss of €4.3m and net operating cash outflows of €2.4m for the year ended 31 December 2017.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We have obtained the current cash flow forecasts and budgets and discussed the assumptions with management.</li> <li>• We have examined and reviewed the agreement to sell two onshore Italian oil exploration licences.</li> <li>• We have reviewed the disclosure in Note 1.2 for consistency with management's forecasts and assertions.</li> </ul>

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as directors determine is necessary to enable the preparation of the financial report that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standards AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the remuneration report included in pages 7 to 12 of the Directors' Report for the year ended 31 December 2017.

In our opinion the remuneration report of Po Valley Energy Limited for the year ended 31 December 2017 complies with s300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s300A 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.



**Bentleys NSW Audit Pty Ltd**



**Robert Evett**  
Director

Sydney, 29 March 2018