Chairman's Address

Po Valley Energy AGM

Friday, 15 May 2015

Ladies & Gentlemen,

Before presenting an update report on the Company's progress over the past year and our plans for the immediate future, we have a short video report from our Acting Chief Executive, Ms Sara Edmondson, which we will now show. This video will be available on the Company's website.

As Sara reported, we achieved a reasonable result in 2014, although our revenues were down from €6.7 million in 2013 to €5.0 million in 2014 due principally to declining production at our major producing wells in the Sillaro field. The Sillaro field has produced the larger part of our total gas revenues over recent years, totalling €36.0 million since production started in 2010.

While we always knew that the Sillaro field production would decline over time, the rapid reduction in volume and the increasing water production that occurred in the fourth quarter of 2014 was unexpected. Fortunately, we had made significant reductions in our underlying cost base and administrative overheads during 2014 in anticipation of reduced revenues, so that our full-year result in 2014, measured by EBITDA, was €1.5 million compared to €2.2 million in the prior year.

Unfortunately, the production at Sillaro continued to decline during the first four months of 2015. After a full technical evaluation of the Sillaro field we believe we can fully exploit its remaining gas reserves and significantly increase revenues. This investment program will see the first step being the workover of the existing Sillaro-2 well at the cost of approximately €1.8 million. This will be followed by redrilling the Sillaro-1 well at an estimated capital cost of €4.1million to access additional gas in the Pliocene sequences and also to seek to extract gas from the deeper Miocene formation which we believe holds further valuable resources.

In parallel we plan to bring the proven reserves at our Bezzecca 1 well into production by building a seven kilometre pipeline to connect to our existing production plant at Vitalba; at a cost of approximately €3.0 million, all approvals are in place to commence this connection. Following this, we plan to drill the Bezzecca 2 well to fully exploit this field. We expect this well to cost in the vicinity of €4.0 million.

Combined, these four initiatives will, we believe, bring the company back to profitable operations in 2016. There is a material capital investment required to fund these initiatives and we believe we are able to fund this program with a combination of farm-ins, modest equity injection and possible further draw down of our funding facility. We already have signed one farm-in agreement with Petrorep, and we are in an advanced stage of negotiation with a second major farm-in partner with whom we have signed a conditional heads of agreement. If this agreement is finalised following a period of due diligence, we would expect to be able to progress all four initiatives with the majority of the capital coming from farm-in partners while the Company retains more than half of the future gas output.

In addition to progressing funding options by way of farm-in arrangements, we are announcing today that the Company has made a private placement at a price of 7 cents to raise A$1.0 million to an existing non-director shareholder. This new capital, combined with contributions from prospective farm-in partners, will be sufficient for the working capital requirements of the Company over coming months, and the Company continues to explore a number of options to secure our long term capital needs.

The directors, all of whom are shareholders, share the disappointment of all of our investors that the Company's share price does not currently reflect what we believe to be the true value of its assets and prospects. The Company has a very attractive portfolio of future gas and oil prospects which have been acquired, researched and prepared for exploration and production licensing by our capable team in Rome over the past several years. Few if any smaller gas exploration and development companies operating in Italy today have such a well-developed or extensive portfolio of prospects as does Po Valley Energy.

We have 15 exploration licences covering a total area of over 2,000 square kilometres with 2P reserves of 13 bcf and an additional 2C resources of over 90 bcf.[1]

The combination of our near term Sillaro and Bezzecca projects, which over the next 6–18 months can significantly increase our gas production, together with the prospect of bringing two new fields into production within the next two years, Sant' Alberto and Gradizza, provide the company with a clear pathway to rebuild revenue and return to profitability.

In addition, Po Valley Energy has in its portfolio three large exploration projects, each capable of producing significantly greater value than the current market valuation of the Company; specifically our:

- Theodorica offshore gas prospect (2C resources of 47.3 bcf)
- Shallow onshore Selva gas prospect (2C resources of 17 bcf), and
- Onshore large oil prospect Torre del Moro.

On a personal note, this is now the 10th AGM which I have had the privilege of chairing Po Valley Energy and I am grateful to both my fellow directors, our management team in Italy and our shareholders for their efforts and support over this time. While a great deal has been achieved during this time, regrettably, this has not yet resulted in returns to shareholders. Your directors remain committed to addressing this situation and better realise value for our shareholders.

[1] Please refer to the Company's Annual Report lodged with ASX on 14 April 2015 for full details of the Company's reserves and resources and information required by chapter 5 of the listing rules. The Company is not aware of any new information or data that materially affects the information included in 2014 Annual Report. All material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.