po valley ENERGY



2013 ANNUAL REPORT

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Corporate Directory

Directors
Graham Bradley, Chairman
Michael Masterman, Non Executive Director
Byron Pirola, Non Executive Director
Gregory Short, Non Executive Director
Kevin Eley, Non Executive Director

Acting Chief Executive Officer
Sara Edmonson

Company Secretary Lisa Jones

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Perth, WA Australia 6000
Tel: +61 8 92116679

Solicitors
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Level 4, 16 Milligan St
Perth, WA Australia 6000

Ughi e Nunziante
Studio Legale
Via Venti Settembre, 1
00187 Roma, Italy

Auditor
KPMG
235 St George's Tce
Perth, WA Australia 6000

Banks
Bankwest
108 St George's Tce
Perth, WA Australia 6000

Nedbank Limited
Old Mutual Place
2 Lambeth Hill
London, Uk, EC4V 4GG

Stock Exchange Listing
Po Valley Energy Limited shares are listed on the Australian Stock Exchange under the code PVE.
The Company is limited by shares, incorporated and domiciled in Australia.

Highlights

- Gas production 0.85 bcf (23.98 million standard cubic metres)
- €6.7 million (AUD 9.2 million) revenue
- €3.3 million (AUD 4.5 million) net cash flow from operating activities of which €2.2 million (AUD 3 million) invested in exploration activities and geoscience studies
- €2.2 million (AUD 3 million) EBITDA
- €5.8 million (AUD 7.9 million) loss for the period, including a non-cash write down of €5 million relating to the Company's Vitalba (Castello) well and related production assets
- Gradizza-1 well successfully drilled and tested: production concession application lodged with the Italian Ministry of Economic Development
- First offshore exploration permit AR94PY advanced toward development
- One new high-potential gas exploration licence, Tozzona, fully awarded
- €20 million Reserve Based Lending (RBL) facility finalised with Nedbank
- Indirect tax (VAT) refund of €1.3 million received from the Italian Tax Authorities
- New off-take gas sale agreement executed with Shell Italia Spa

Chairman's letter to Shareholders

Dear Shareholder,

The past year has been a challenging one for the Company but substantial progress was made on a number of fronts.

Total gas production in 2013 was 24 million standard cubic metres, slightly below production in 2012 (24.7 Mscm). Our 2013 revenues were €6.7 million (AUD 9.2 million) being €1.5 million (AUD 1 million) lower than 2012 due principally to lower gas prices which averaged €0.28 cents per cubic metre compared to €0.33 cents achieved in 2012. As a result, our 2013 EBITDA was €2.2 million (AUD 3 million) compared to €4.5 million (AUD 5.6 million) in 2012.

The Company recorded a statutory loss of €5.8 million (AUD 7.9 million) in 2013 largely due to the decision to significantly reduce production at our Vitalba well due to water encroachment. The Board subsequently decided to write down the value of this asset by €5.0 million. The Company declared no dividend in 2013.

As approved by the EGM in February 2013, the Company issued 3,850,000 new ordinary shares to raise AUD 1.35 million in order to fund an upgrade to the Sillaro gas plant and for general working capital purposes. Further funds were received in December 2013 from a tax refund of VAT of €1.28 million.

In a challenging European banking market, in mid-2013 we were pleased to secure a new €20 million Reserve Based Lending (RBL) facility with the Nedbank Group. The new 5-year facility will allow us to fund the Company's growth opportunities over coming years, including two planned new production wells, Bezzecca and Sant' Alberto. Our initial drawing under the RBL facility was €5.0 million. By year-end, however, the Company had reduced the amount borrowed to €3.5 million after two repayments totalling €1.5 million.

Another highlight of the year was securing a new gas off-take agreement with Shell Italia Spa, a part of the Royal Dutch Shell Group. The contract is benchmarked to gas prices in Italy and commenced on 1 July 2013.

During the second half of the year, the Company initiated an internal restructure to reduce costs and reorganise the leadership team. Giovanni Catalano stepped down as CEO in August and our CFO, Sara Edmonson, was appointed as Acting CEO. I would like to thank Giovanni for his efforts during his three years with the Company. With the restructure now largely in place, the Company has reset its priorities and put in place cost saving initiatives. The Board believes we can move our key operations forward with a lower cost base.

Chairman's letter to Shareholders

Looking ahead, in addition to bringing our fields Bezzecca and Sant'Alberto into production, the Company's priorities are to move several high potential new projects closer to development, including our highly prospective Teodorico offshore field (2C Contingent Resources 47.3 bcf) and our onshore Selva Stratigraphic field (2C Contingent Resources 17 bcf).

In all, the Company invested €2.2 million (AUD 3 million) in exploration and development in 2013, including funds invested to drill the Gradizza-1 well with our farm-in partners.

In conclusion, I would like to thank our shareholders for their ongoing support, my board colleagues for their commitment and our hardworking team in Rome, ably led by our Acting CEO, Sara Edmonson, for their dedication during the past year.



Graham Bradley
Chairman

Acting Chief Executive Officer's Report

Dear Shareholder,

I am pleased to report that during 2013 the Company strengthened its exploration asset portfolio and refocused its resources on the development of select Company assets, namely Bezzecca, Teodorico, Gradizza and Selva.

During the first half of the year, the Company successfully completed installation of the three-phase separator at the Sillaro gas field. In July, the Company made the decision to reduce the production rate at Vitalba where water encroachment had started to increase. The Vitalba plant will be used to treat gas fed from the nearby Bezzecca field, which received the Environmental Impact Assessment (EIA) approval in early 2014.

The Bezzecca EIA award is a considerable milestone for the Company as it is often the most time consuming and complex phase of the Italian regulatory process as it involves numerous stakeholders including municipalities, local environmental entities and regional authorities. Closure of this critical step for Bezzecca paves the way to receive the full award needed to start pipeline construction. In early 2014, the Company finalised the engineering and design of the pipeline and related surface facilities.

The bid process for the construction and installation has commenced, and the proposals are due at end of May 2014. The pipeline to connect the Bezzecca gas field to the Vitalba plant will be funded through a combination of operating cash flow and our RBL facility with Nedbank.

The high potential development project AR94PY (including Teodorico located offshore in the Adriatic Sea) significantly increased its certified Contingent Resources (1C:34.6 bcf, 2C:47.3 bcf, 3C:62.2 bcf) following a Competent Persons Report produced by Robertson CGG. Preparatory work was carried out in the second half of 2013 including a preliminary front end engineering and design study and reprocessing of an enlarged seismic dataset by TEEC Geophysics. This progress has put the Company in a position to accelerate development by applying directly for a production concession without the need to first apply for exploration approval.

Acting Chief Executive Officer's Report

The Company successfully drilled the exploration well Gradizza-1 in August 2013 with its joint venture partners AleAnna Resources LLC and Petrorep Italiana Spa. Subsequent to testing in September and further rig-less testing in December, the gas flow from the well was judged to be commercially viable and in February 2014 the Company applied for a production concession.[1]

Notable progress was made in 2013 on several exploration assets, namely the identification of the prospect Selva Stratigraphic within the Podere Gallina licence. A drilling application for one well on this prospect was filed with the Ministry in summer 2013. Approximately 55km of 2D seismic was also purchased from Eni to evaluate further exploration potential. The Company's exploration portfolio was further strengthened by the addition of a new licence, Tozzona, which was awarded to the Company in June.

The Company's commitment to pursue the highest health, safety and environmental standards in all facets of operations continued in 2013. This approach has resulted in all of our 2013 activities, including the drilling of the exploration well Gradizza-1, having been executed without any lost time incident.

In closing, I would like to thank the Management team, the Board and all the Company's staff for their hard work, commitment and enthusiasm throughout 2013.



Sara Edmonson

Acting CEO and CFO

[1] On 3 February 2014, the Company released a technical announcement regarding Gradizza-1 and its related development on the ASX and on the Company's website (as per listing rule 5.30). For further information on Gradizza please refer to this release.

Corporate Governance Statement

The Board is committed to implementing the standards of best corporate governance for listed companies as set out in the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (ASX Corporate Governance Recommendations) as appropriate for a company of PVE's nature and size. This Corporate Governance Statement summarises the corporate governance practices that have been adopted by the Company and, as required by the ASX Listing Rules, provides details of the extent to which the Company has followed the ASX Corporate Governance Recommendations during the reporting period.

ASX Principle 1 – Lay solid foundations for management and oversight

Role of the Board

The primary responsibility of the Board and management is to preserve and increase the value of the Company for its shareholders, while respecting the legitimate interests and expectations of employees, customers, creditors, the communities in which PVE operates and other stakeholders. The Board is responsible for establishing a company culture of high ethical, environmental, health and safety standards.

The Board has general responsibility for the oversight, management and performance of the Company. Its specific responsibilities include the following:

- Set the strategic direction for the Company and monitor implementation of those strategies;
- Monitor performance of the Company, the Board and management;
- Appoint and manage performance of the CEO, approve the Company's overall remuneration policy and oversee the senior management team in terms of performance evaluation, succession planning and remuneration;
- Approve and monitor the business plan, annual exploration and development work programs and budgets in accordance with the approved strategy and monitor the Company's overall financial position and capital requirements;
- Authorise and monitor significant investment and strategic commitments;
- Approve and monitor financial and other reporting to shareholders;
- Review and ratify the Company's policies and systems for health, safety and environmental management, risk management and internal control; codes of conduct and regulatory compliance;
- Appoint and remove the external auditors;
- Evaluate the performance of the Board and identify and appoint new directors to the Board;
- Take responsibility for corporate governance.

Delegation to Senior Management

Other than the matters specifically reserved for the Board, responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer. Internal control processes are in place to allow management to operate within board approved limits and the Chief Executive Officer cannot commit the Company to additional obligations or expenditure outside of those delegated authorities without Board approval.

ASX Principle 2 – Structure the Board to Add Value

Composition of the Board

There are currently five Non-Executive Directors on the Board (Mr Catalano, CEO and Managing Director resigned in August 2013). The Board has been structured to include directors with a versatile set of skills, expertise and experience to enable the Board to execute its duties and responsibilities for the proper and effective management of the Company. The Board seeks to ensure that its members together have the following combination of skills and experience:

- Technical expertise and experience in oil and gas exploration, development and production;
- Finance and accounting;
- Company strategy and business planning and business and corporate development;
- Local and international experience; and
- Public company affairs and corporate governance.

The Directors Report contains further details of the experience of each Director and their term of office.

Retirement and Rotation

Retirement and rotation of the directors is governed by the Corporations Act 2001 and the Company's Constitution. In accordance with the Constitution, one-third of the Board is required to retire at each annual general meeting with retiring directors being eligible for re-election.

Independence

The Board is currently composed of Non-Executive Directors, 3 of whom are independent including the Chairman. The independence of Directors is regularly assessed by the Board and in doing so it has careful regard to the guidelines set out in the ASX Corporate Governance Recommendations for the evaluation of director independence. Based on the application of those guidelines, the Board currently considers that it has three independent Directors being Graham Bradley (the Chairman), Kevin Eley and Gregory Short. Byron Pirola and Michael Masterman are not considered to be independent as they each have substantial shareholdings of more than 5% of the Company's shares.

Independent Advice

In connection with their duties and responsibilities, Directors have the right to seek independent professional advice at the Company's reasonable expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

Board Committees

Remuneration & Nominations Committee

The Company has a Remuneration & Nominations Committee which provides recommendations to the Board on matters including:

- The appointment and evaluation of the CEO and the process for evaluation of senior executives;
- The Company's remuneration policies and practices and the remuneration of the CEO, senior executives and Non-Executive Directors;
- The composition of the Board and competencies of Board members;
- Succession planning for Directors and senior management;

- Processes for the evaluation of the performance of the Directors.

Graham Bradley (Chairman), Byron Pirola and Michael Masterman are the current members of the committee.

Attendance details of the committee meetings held during 2013 can be found in the Directors Report.

The committee is structured in accordance with the ASX Corporate Governance Recommendations in so far as it is chaired by an independent chair and has three members, however, it does not consist of a majority of independent Directors given that two of its members, Mr Masterman and Dr Pirola are not considered independent due to their substantial shareholdings.

Board performance is reviewed annually by the committee. The last review was conducted in April 2014. The Board has not formalised the procedures for selection and appointment of new Directors or re-election of incumbent Directors, however, the Board regularly reviews its composition to determine whether it has the right mix of skills and experience.

The Remuneration & Nominations Committee is also responsible for ensuring an appropriate process is followed for the review of the performance of the CEO and senior executives.

At the beginning of each year, the committee approves company and individual performance objectives for the CEO and senior executives. Performance is evaluated and any performance based remuneration for the CEO, senior executives and management is approved at the end of each year.

Performance objectives are a combination of company and individual objectives. In August 2013 the Chief Executive Officer and Managing Director, Mr Giovanni Catalano, resigned as an executive and director of the Company. Since that time the CFO, Ms Sara Edmonson, has filled the role of Acting CEO. In September 2013 the Remuneration & Nominations Committee conducted a performance evaluation of the senior executives (other than the exiting CEO) against their performance objectives. The committee made recommendations to the Board regarding performance based remuneration for those executives and also recommended an interim adjusted salary package for the Acting CEO.

Audit & Risk Committee

The Company has established an Audit & Risk Committee which provides advice and assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to internal and external audit, risk management systems, financial and market reporting, internal accounting, financial control systems and other items as requested by the Board.

The committee has adopted a formal charter. In fulfilling its obligations, the committee has direct access to employees, the auditors or any other independent experts and advisers it considers appropriate to carry out its duties. Kevin Eley (who chairs the committee), Byron Pirola and Gregory Short are the current members of the committee. The committee has been structured to comply with the ASX Corporate Governance Recommendations so that it:

- Has three members;
- Consists only of Non-Executive Directors;
- Has a majority of independent Directors;
- Is chaired by an independent chair, who is not the chair of the Board; and
- Comprises members with the appropriate financial and business expertise to act effectively as a member of the committee.

The number of Audit & Risk Committee meetings held in 2013 and director attendance is set out in the Directors Report on page 14. Committee member qualifications are set out on page 12 and 13.

ASX Principle 3 – Promote Ethical and Responsible Decision-Making

Code of Conduct

All executives and employees are required to abide by laws and regulations, to respect confidentiality and the proper handling of information and act with the highest standards of honesty, integrity, objectivity and ethics in all dealings with each other, the Company, customers, suppliers and the community. The Company has adopted a code of conduct.

Diversity

The Company's policy is to ensure that hiring, employment and board selection policies avoid gender bias and encourage diversity to the extent possible for a small organisation.

Po Valley currently employs 16 full time employees, of whom, 7 are men and 9 are women. The Company's senior executives include women in the roles of Acting CEO, Chief Financial Officer and Company Secretary. Women also hold key roles in the areas of accounting, corporate and public relations. The Company's employees are drawn from a variety of nationalities, age, ethnic and cultural backgrounds. The Company currently has no female directors.

The Board believes that, given the highly specialised nature of the Company's most senior positions which are of a technical nature, it is unrealistic to set gender diversity targets at this time in the Company's evolution.

The Board is committed to maintaining a corporate culture which supports workplace diversity.

Securities Trading Policy

The Company has adopted a Securities Trading Policy which complies with ASX Listing Rule 12.2. This policy provides guidance to Directors and employees on the laws relating to insider trading and provides them with practical guidance to avoid unlawful transactions in Company securities. Directors and employees are prohibited from trading the Company's securities at any time while in possession of price sensitive information and are also prohibited from trading securities during "blackout" periods around the announcement of the Company's half yearly and yearly results. Directors and employees must not engage in short term trading of the Company's securities and are also prohibited from dealing in any derivative products issued in respect of the Company's shares. In any event, any trading in securities by Directors or employees is subject to the prior approval of the Chairman (in the case of Directors), the Chairman of the Audit & Risk Committee (in the case of the Chairman) or the CEO or Company Secretary (in the case of other employees).

ASX Principle 4 – Safeguard Integrity in Financial Reporting

The Board is committed to ensuring that the Company's financial reports present a true and fair view of the Company's financial position and comply with relevant accounting standards. The Audit & Risk Committee assists the Board in discharging its responsibilities for financial reporting and to ensure that appropriate internal controls are in place.

Please refer to the commentary on ASX Principle 2 above for further details in relation to the Audit & Risk Committee and to the Directors' Report for details of the names and qualifications of the members of the committee and attendance at meetings in 2013.

ASX Principle 5 – Make Timely and Balanced Disclosure

The Board is committed to ensuring that investors can readily access sufficient information to ascribe a fair value to the Company's securities, understand the Company's objectives and strategies and evaluate the Company's financial position and growth prospects. The Company has adopted policies and procedures, including a Continuous Disclosure Policy, designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance.

ASX Principle 6 – Respect the Rights of Shareholders

Shareholder Communications

The Company has implemented a Shareholder Communications Policy to ensure that shareholders, on behalf of whom they act, and the financial market have timely access to material information concerning the Company.

The Company website is used to complement the official ASX release of material information and periodic reports to the market. The website ensures that all press releases, ASX announcements, notices and presentations from the past three years are easily accessible to the public.

The Company is committed to ensuring that all shareholders have the opportunity to participate in the Company's annual general meetings. In order to facilitate this, from 2010 the Company has provided shareholders the opportunity to submit written questions for consideration by the Board at the annual general meeting.

ASX Principle 7 – Recognise and Manage Risk

Risk Management

Risk recognition and management are considered critical in creating and maintaining shareholder value and the successful execution of the Company's strategies in gas exploration and development. The Board has 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 & Risk Committee.

The Board requires management to design and implement a risk management and internal control system for the management of material business risk and, during the year, management reported to the Board on the on the effectiveness of this system.

The CEO and CFO have confirmed in writing to the Board for each reporting period confirming that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Reserves Reporting

The progression of the Company's discovered hydrocarbon reserves from appraisal studies through to development and production is core to the Company's purpose and market value. The Company has adopted a Hydrocarbon Reserves Policy in order to assist in the implementation of processes, standard and controls to ensure reliable hydrocarbon reserves estimates, consistent with industry best practice to facilitate effective business management decision-making and accurate reporting of the Company's reserves. The CEO is responsible for the implementation of the policy while the Board oversees and approves the policy and monitors its implementation.

Health, Safety and Environment

Po Valley Energy is dedicated to pursuing the highest Health and Safety standards in the workplace.

We regard Environmental awareness and Sustainability as key strengths in planning and carrying out our business activities. PVE's daily operations are conducted in a way that adheres to these principles and we are committed to their continuous improvement.

Environmental sustainability and Health and Safety in the workplace are recognised as an integral part of our business strategy and corporate citizenship.

In every instance, we aim to employ the most advanced technology and know-how and to apply the most suitable precautionary measures to each situation while adhering to the highest safety.

Appropriate protection policies are an important selection criteria for contractors, whose activities are monitored for compliance.

The Company has adopted an HSE Management System which provides for a series of procedures and routine checks (including periodical audits) to ensure the Company's compliance with all legal and regulatory requirements and best practices in this area.

ASX Principle 8 – Remuneration Fairly and Responsibly

The Board seeks to ensure that the Company adopts remuneration practices which will enable it to attract and retain high calibre and qualified employees, executives and directors whose interests are aligned with those of shareholders.

The Remuneration & Nominations Committee is responsible for reviewing and recommending compensation arrangements for the Directors, the CEO and senior management. For full details regarding the Company's remuneration practices and the composition and responsibilities of the Remuneration & Nominations Committee please refer to the commentary in relation to ASX Principle 2 above and to the Remuneration Report.

Corporate Governance Policies and Charters

Further information regarding PVE's corporate governance practices and policies is available on the Company's web site, www.povalley.com. In particular, copies of the following documents are available under the 'About Us' / 'Corporate Governance' link.

- Constitution;
- Corporate Governance Statement;
- Code of Conduct;
- Hydrocarbons Reserve Policy;
- Continuous Disclosure Policy;
- Securities Trading Policy;
- Shareholder Communications Policy;
- Audit & Risk Committee Charter;
- Remuneration & Nominations Committee Charter;
- Risk Management Policy.

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 2013.

1. Directors

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

Directors	Date of Appointment/Resignation
M Masterman	22 June 1999 (Managing Director)
	11 October 2010 (Non-Executive Director)
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	Retired 28 May 2012
G Short	5 July 2010
K Eley	19 June 2012
G Catalano	Resigned 12 August 2013

Information on Directors

The Board is composed of a majority of Non-Executive Directors, including the Chairman. The Chairman of the Board is elected by the Board and is an independent director.

Graham Bradley — Chairman BA, LLB (Hons), LLM, FAICD, Age 65

Graham joined PVE as a director and Chairman in September 2004 and is based in Sydney. He is an experienced Chief Executive Officer and listed public company director. Graham previously served as Chief Executive Officer of one of Australia's major listed funds management and financial services groups, Perpetual Limited. He was formerly Managing Partner of a national law firm, Blake Dawson Waldron and was a senior Partner of McKinsey & Company. Graham is currently Chairman of Stockland Corporation Limited, HSBC Bank Australia Limited, Energy Australia Holdings Limited and Infrastructure NSW and a director of GI Dynamics Inc. Graham is Chairman of the Remuneration and Nomination Committee and was a member of the Audit and Risk Committee until December 2010.

Giovanni Catalano — Managing Director and Chief Executive Officer MGeol, Age 60
Resigned 12 August 2013

Giovanni joined PVE in October 2010 as Chief Executive Officer and was appointed Managing Director in June 2012. Giovanni holds a masters degree in Geology and has had almost thirty years in the upstream oil and gas industry. His last position held was as CEO with Mediterranean Oil & Gas plc in UK and Italy. Prior to that, Giovanni was with Woodside Energy Pty Ltd, Perth, Western Australia as Business Development Manager Far East and North Africa. Prior to Woodside, Giovanni was posted worldwide with AGIP and LASMO International. He is a former Director of Mediterranean Oil & Gas Plc, Director of Woodside Energy UK and AGIP Mauritania BV companies and former Chairman of Woodside Energias SA in Spain. He is member of SEAPEX and AAPG. Giovanni resigned as Managing Director and Chief Executive Officer of PVE on 12 August 2013.

Michael Masterman — Non-Executive Director, BEcHons, Age 51

Michael is a co-founder of PVE. Michael took up the position of Executive Chairman and CEO of PVE and Northsun Italia S.p.A. in 2002 and resigned in October 2010 to take up an executive position at Fortescue Metal Group where he is currently CEO of FMG Iron Bridge iron ore company and recently completed the US$1.15bn sale of a 31% interest in the project to Formosa Plastics Group. Prior to joining PVE, Michael was CFO and Executive Director of Anaconda Nickel (now Minara Resources),

and he spent 8 years at McKinsey & Company serving major international resource companies principally in the area of strategy and development. He is also Chairman of W Resources Plc, an AIM listed company with tungsten and gold assets in Spain and Portugal. Michael became a member of the Remuneration & Nomination Committee from 1 January 2011.

Byron Pirola — Non-Executive Director, BSc, PhD, Age 53

Byron is a co-founder of PVE and is based in Sydney. He is currently a Director of Port Jackson Partners Limited, a Sydney based strategic management consulting firm. Prior to joining Port Jackson Partners in 1992, Byron spent six years with McKinsey & Company working out of the Sydney, New York and London Offices and across the Asian Region. He has extensive experience in advising CEOs and boards of both large public and small developing companies across a wide range of industries and geographies. Byron is a member of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

Gregory Short — Non-Executive Director, BSc, Age 63

Greg Short was appointed Non-Executive Director in July 2010. Greg is a geologist who worked with Exxon in exploration, development and production geosciences and management for 33 years in Australia, Malaysia, USA, Europe and Angola. During his time in Europe, Greg was actively involved in Exxon's activities in the Netherlands and Germany. Greg was Geoscience Director of Exxon's successful development of its Angola offshore operations. Greg retired from Exxon in 2006 and is a Non-Executive director of ASX listed MEO Australia, Metgasco Limited and Pryme Oil and Gas Limited. Greg became a member of the Audit and Risk Committee from 1 January 2011.

Kevin Eley — Non-Executive Director, CA, F FIN, Age 64

Kevin Eley was appointed Non-Executive Director in June 2012. Kevin is based in Sydney and was the Chief Executive of HGL Limited for 25 years until his retirement in 2011. He has management and investment experience in a broad range of industries including manufacturing, mining, retail and financial services with experience in the direction of early stage companies and public company governance. Kevin joined the PVE Audit & Risk Committee as Chairman and is currently a Non-Executive director of HGL Ltd, Milton Corporation Limited and Equity Trustees Limited.

2. Company Secretary

Lisa Jones – Company Secretary, LLB

Lisa was appointed to the position of Company Secretary in October 2009. She is a corporate lawyer with over 16 years experience in commercial law and corporate affairs, working with large public companies and emerging companies in Australia and in Europe. She was a senior associate in the corporate & commercial practice of Allen Allen & Hemsley and spent several years working in Italy, including as international legal counsel at Pirelli Cavi and as an associate in the Rome office of a national Italian firm.

3. Directors Meetings

The number of formal meetings of the Board of Directors held during the financial year and the number of meetings attended by each director is provided below:

	G Bradley	M Masterman	B Pirola	G Short	K Eley	G Catalano[1]
No. of board meetings held	10	10	10	10	10	6
No. of board meetings attended	10	10	9	10	10	6
No. of Audit & Risk Committee meetings held	-	-	2	2	2	-
No. of Audit & Risk Committee meetings attended	2*	2*	2	2	2	2*
No. of Remuneration & Nomination Committee meetings held	1	1	1	-	-	-
No. of Remuneration & Nomination Committee meetings attended	1	1	1	-	-	-

** attended meeting as an observer*

Notes: 1. Mr Catalano resigned as a Director on 12 August 2013.

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 4.76 € cents (2012: earnings 2.12 € cents).

6. Operating and financial review

Italian gas market is dominated by gas imports. According to the 2012 Annual Report prepared by the Italian Ministry of Economic Development, the domestic exploration and production industry represents approximately 7% 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

Po Valley's strategy is to create value for shareholders and stakeholders using our existing and growing Italian oil and gas resource base. Po Valley's strategy focuses on optimising our near term production to maximise profitability and expanding the Company's resources through exploration and development activities.

The Company's core portfolio includes 11 onshore assets and more recently acquired its first offshore asset – a game changer in the Company's resource potential. The Company's operations are located in Italy and are run by a local management team which we believe represents a significant competitive advantage not enjoyed by newer entrants seeking to find success in the Italian market. Italy remains an attractive market with gas and oil being of high quality, an accessible and low cost transportation network and a pricing environment that has been stable and higher than other comparable European countries.

This year has been a period of organizational change as we have sought to refocus our leadership team and strengthen our strategic position, and we have made substantial progress on multiple fronts.

Operations

During the year, the Company produced from both its Castello and Sillaro fields with a total combined production of 23.9 million cubic metres of gas (0.85 billion cubic feet).

In July, the installation at Sillaro of the 3 phase separator was completed and subsequently the main producing levels PL2 C1+C2 were re-opened allowing a significant increase in daily production rates. Total production for the period from the Sillaro field amounted to 20.9 million cubic metres of gas (0.73 billion cubic feet).

The Castello gas field produced steadily at approximately 17,000 Scm/day until late May. Subsequently, the field experienced increased water production and gas production was reduced to around 5,000 cubic metres per day in June and subsequently to 2,600 cubic metres per day in late November. Total production for the period from the Castello field amounted to 3.1 million cubic metres of gas (0.01 billion cubic feet). Due to the uncertainty of the prospective future returns from the well, the Board wrote down the value of the well and associated production plant substantially at 30 June 2013, reducing its value to a nominal amount.

Exploration

We continue to make significant investments in exploration projects which we believe are the most material value drivers. Of the €3.3 million in cash flow generated from operating activities, the Company invested €2.2 million in exploration activities and geoscience studies.

In April, the Company commissioned a Competent Persons Report on its core asset portfolio from Robertson CGG (formerly Fugro Robertson), a leading geological and petroleum reservoir company based in the United Kingdom. The Robertson CGG report confirmed the high potential of AR94PY, the Company's first offshore exploration permit awarded in 2012. Specifically, the certified 2C Contingent Resources doubled from 24.8 billion cubic feet to 47.3 billion cubic feet ("bcf") as was reported in the Company's Quarterly Activities Report lodged with ASX on 30 April 2013. The notable increase was supported by the purchase and analysis of 78 sq. km of existing 3D seismic data in January 2013. The PVE technical team commenced work on a preliminary front-end engineering and design (FEED) study and related development plan, aimed to fast track the development of the offshore gas project named Teodorico (formerly Carola-Irma).

On the exploration front, the Company drilled the Gradizza-1 exploration well (La Prospera licence) in August with Joint Venture ("JV") partners AleAnna Resources LLC (10% equity) and Petrorep Italiana S.p.a. (15% equity). After analysis of the initial test data from the well, the Company completed additional rig-less testing in December in order to complete the well cleanup and perform further production tests. Based on the results the Company applied for a Production Concession in February 2014. Please refer to the ASX announcement "Gradizza-1 Contingent Resource Assessment" released on 3 February 2014 which contains further details including information required by Chapter 5 of the ASX Listing Rules in relation to the reporting of Oil & Gas activities and contingent resources.

In addition to Gradizza, geological, exploration and appraisal work advanced on a number of the Company's prospects. A new low risk prospect named Selva Stratigraphic was identified within the Podere Gallina licence and the associated drilling program of Podere Maiar-1d has been lodged with the Ministry. As was reported in the Company's Quarterly Activities Report lodged with ASX on 30 April 2013, Robertson CGG has certified 2C Contingent Resources of 17 bcf to the Selva prospect and a structure identical in concept - East Selva - has been identified nearby within the same license.

Based on geological, exploration and appraisal work our forward drilling program for the next 12 months is expected to cover the appraisal gas prospect Selva located in the Podere Gallina License subject to ongoing regulatory approvals and available finances.

In June 2013, the Company received the full award of a new exploration licence Tozzona. The area lies along the eastern border of the existing ENI gas production licence containing the Santerno gas field (circa 35 bcf of gas produced to date). The Company will purchase a semi-regional grid of 2D seismic lines in order to complete the geological and geophysical studies aimed at evaluating several identified opportunities.

Development

In reference to forthcoming development, the gas field Sant' Alberto was discussed at the Hydrocarbon Commission meeting held in December 2013 at the Ministry of Economic Development. No issues or areas of concern were raised therefore the Company expects to receive the preliminary production concession in the near future. Immediately following the preliminary concession award, the Company will submit the Environmental Impact Study to the Emilia Romagna Region. The final production concession will be subject to Environmental Impact Assessment (EIA) clearance.

As regards to Bezzecca, the EIA Decree was awarded by the Lombardy Region in early 2014.The Region / Ministry approval process continues with two formal signoffs remaining. Upon formal granting of the Production Concessions by the Italian Ministry of Economic Development, subsequent approval by the Ministry office in Bologna of the formal Development Plan is required. It is expected that the

award of the concession will follow in the third quarter of 2014 with pipeline installation commencing shortly thereafter.

Financial performance

Total revenue from the full year of gas production was €6,662,777, a year on year decline of €1,545,691 or 19%. This decrease in revenue is attributable to a re-stabilisation of lower gas prices compared to the previous year. The decrease in revenue had a direct impact on earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) as operating expenses and corporate overheads remained relatively in line with the previous year. In August 2013 the Company committed to undertaking a review of its cost and organisational structure with the aim to reduce fixed and other overhead costs. In addition, the Company executed an off-take agreement with a global oil and gas major which secures the gas price until September 2014 with the option to extend to September 2015.

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

Comprehensive profit reconciliation table (in Euro)	**2013**	**2012**
Net profit / (loss) before impairment expense (unaudited)	(700,259)	2,418,792
Impairment on resource property costs for the Castello field	(5,021,112)	-
Impairment on exploration assets	(74,895)	(45,951)
Comprehensive profit / (loss) for the year	**(5,796,266)**	**2,372,841**

Earnings before interest, tax, impairment, depreciation and amortisation (EBITDA) amounted to €2,192,192 for the year.

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

EBITDA reconciliation table (in Euro)	**2013**	**2012**
EBITDA	2,192,192	4,473,015
Depreciation and amortisation expense	(2,325,656)	(3,455,620)
Depreciation expense	(18,406)	(16,425)
Impairment losses	(5,096,007)	(45,951)
Results from operating activities	**(5,247,877)**	**955,019**

Financial position

In May 2013, Po Valley Energy announced the completion of a €20 million Reserve Based Lending (RBL) facility with the London branch of Nedbank Group Limited, one of the four largest banking groups in South Africa. The new five year term RBL facility replaced the Company's former loan with Lloyds TSB Bank which was to expire in November 2013. The Company's drawings on the Nedbank facility amounted to €3.5 million at 31 December 2013. Two repayments totalling €1.5 million were made during the year. The borrowing base ceiling review in December resulted in a borrowing limit of €5.4 million for the first half of 2014.

The Company issued 3,850,000 ordinary shares as approved by an EGM on 15 February 2013. No other share issues were made during the year. During the year, the Company received an indirect tax (VAT) refund of €1,285,372 from the Italian Tax Authorities. Cash and cash equivalents at year end 2013 amounted to €1,528,633.

Health and safety

Paramount to PVE's ability to pursue its strategic priorities is a safe workplace and a culture of safety first. We regard Environmental awareness and Sustainability as key strengths in planning and carrying out our business activities. PVE's daily operations are conducted in a way that adheres to these principles and we are committed to their continuous improvement. Whilst growing from our exploration roots, the Company has strived to continually improve our 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 the Company's compliance with all legal and regulatory requirements and best practices in this area. In 2013, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report during the 62,841 man-hours worked at the well sites and in the administrative offices. Approximately one fifth of total hours are associated with the drilling of the Gradizza-1 well which was successfully completed with no lost-time injuries.

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.

Information required by ASX Listing Rule 5.43

The Company confirms that it is not aware of any new information or data that materially affects the information included in the two market announcements referred to above (Quarterly Activities Report lodged with ASX on 30 April 2013 and ASX announcement "Gradizza-1 Contingent Resource Assessment" lodged with ASX on 3 February 2014) and that all material assumptions and technical parameters underpinning the estimates in those announcements continue to apply and have not materially changed.

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 Po Valley Energy's future performance are described on the following page.

External risks

Exposure to gas pricing	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 Po Valley Energy. The Company does not currently hedge its exposures to gas price movements. 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.
Changes to law, regulations or Government policy	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.
Uncertainty of timing of regulatory approvals	Delays in the regulatory process could hinder the Company's ability to pursue operational activities in a timely manner including drilling exploration and development wells, to install infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.

Operating risks

Exploration and development	The future value of PVE will depend on its ability to find and develop oil and gas that are economically recoverable. The ultimate success or otherwise of such ventures requires successful exploration, establishment of commercial reserves, establishment of 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, 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 2013.

8. Events subsequent to reporting date

There were no events between the end of the financial year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

9. Likely Developments

The Company plans to seek a suitable farm-out partner for selected assets. The Company also plans to continue to invest in its current exploration portfolio through geological and geophysical studies and, subject to available finances, in its planned drilling program for high potential gas prospects.

10. Environmental Regulation

The Company's operations are subject to environmental regulations under both national and local municipality legislation in relation to its mining exploration and development activities in Italy. Company management monitor compliance with the relevant environmental legislation. The Directors are not aware of any breaches of legislation during the period covered by this report.

11. Remuneration Report - audited

The Remuneration Report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report, for the Directors and executives of the Company.

Remuneration Policy

The Remuneration & Nomination Committee (Committee) is responsible for reviewing and recommending compensation arrangements for the Directors, the Chief Executive Officer and the senior executive team. The Committee assesses the appropriateness of the size and structure of remuneration of those officers on a periodic basis, with reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Company aims to ensure that the level and composition of remuneration of its directors and executives is sufficient and reasonable in the context of the internationally competitive industry in which the Company operates.

All senior executives except the company secretary are based in Rome and when setting their remuneration the Board must have regard to remuneration levels and benefit arrangements that prevail in the European oil and gas industry which remains highly competitive.

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 period.

Indices	2013	2012	2011	2010	2009	2008*
Production (scm'000)	23,983	24,673	28,995	26,793	638	-
Average realised gas price (€ cents per cubic metre)	28	33	31	27	n/a	-n/a
EBITDA (€'000s)	2,192	4,473	4,411	2,219	(6,935)	(4,097)
Profit / (loss) attributable to owners of the Company (€'000s) *	(5,538)	2,373	(5,071)	(2,324)	(7,203)	(4,172)
Earnings / (loss) per share (€ cents per share) *	(4.55)	2.12	(4.57)	(2.11)	(6.99)	(4.54)
Share Price at year end - AU$	0.12	0.12	0.16	0.21	1.68	1.10

* 2008 restated to Euro

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.

In past years, long-term performance benefits were in the form of employee share options granted to senior executives. Vesting of the options was subject to service vesting and price hurdles must be met before the options can be exercised. The Company has not awarded any options in the financial year to 31 December 2013 and has no plans to issue options in the immediate future.

The table below represents the target remuneration mix for group executives in the current year. The short-term incentive is provided at target levels, and the long-term incentive amount is provided based on the value granted in the current year.

		At risk	
	Fixed remuneration	**Short-term incentive**	**Long-term incentive**
Acting Chief Executive Officer and Chief Financial Officer	73%	27%	-
Previous Chief Executive Officer	59%	41%	-

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors. The Board of Directors and shareholders approved the maximum agreed remuneration pool for Non-Executive Directors at the annual general meeting in May 2011 at €250,000 per annum.

The total fees paid in 2013 to Non-Executive Directors was €220,000 (2012: €210,500). No increase in board fees was made in 2013 and none are proposed in 2014.

Service contracts

The major provisions of the service contracts held with the specified Directors and executives, in addition to any performance related bonuses and/or options are as follows:

Directors:

Graham Bradley, Chairman

- Commencement Date: 30 September 2004 (re-elected 28 May 2012)
- Fixed remuneration for the year ended 31 December 2012: €60,000
- No termination benefits

Byron Pirola, Non-Executive Director

- Commencement Date: 10 May 2002 (re-elected 13 May 2011)
- Fixed remuneration for the year ended 31 December 2012: €40,000
- No termination benefits

Gregory Short, Non-Executive Director

- Commencement Date: 5 July 2010 (re-elected 24 May 2013)
- Fixed remuneration for the year ended 31 December 2013: €40,000
- No termination benefits

Michael Masterman, Non-Executive Director

- Commencement Date: 22 June 1999 (elected 13 May 2011)
- Fixed remuneration for the year ended 31 December 2013: €40,000
- No termination benefits

Kevin Eley, Non-Executive Director

- Commencement Date: 19 June 2012 (re-elected 24 May 2013)
- Fixed remuneration for the year ended 31 December 2013: €40,000
- No termination benefits

The Non-Executive Directors are not appointed for any fixed term but rather are required to retire and stand for re-election in accordance with the Company's constitution and the ASX Listing Rules.

Giovanni Catalano, Managing Director and Chief Executive Officer (resigned 12 August 2013)

- Commencement Date: 11 October 2010 as Chief Executive Officer (CEO) and 19 June 2012 as Managing Director
- Term of Agreement: Indefinite but terminable by either party on three month's notice
- Fixed service contract fee of €200,000 per annum plus accommodation costs and other non-monetary benefits
- Annual performance based fee of up to 70% of his contracted service fee subject to the achievement of performance criteria including operating performance of the producing fields, operating profit, progress on asset development as agreed annually with the Board.
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three months' service fee

Executives:

Lisa Jones, Company Secretary

- Commencement Date: 21 October 2009
- Term of Agreement: Indefinite but terminable by either party on one month's notice
- Paid a minimum monthly retainer (A$2,800 to the end of 31 December 2013) to provide company secretarial and corporate governance services plus an agreed hourly rate in respect of additional services
- No termination benefit

Sara Edmonson, Chief Financial Officer (as of 10 August 2013 Acting Chief Executive Officer)

- Commencement Date: 26 July 2010 as Finance Manager and 1 September 2012 as Chief Financial Officer
- Term of Agreement: Indefinite but terminable by either party on three month's notice
- Fixed salary of €120,000 per annum
- Annual performance based fee of up to 40% of her contracted salary fee 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

Directors and executive officers' remuneration – Consolidated

The remuneration details of each Director and and other key management personnel (KMP) during the year is presented in the table next page.

		Short-term						Post-Employment	Share-based payments				
		Salary & fees	Accommo-dation	Car	Other	Termin-ation payments	Total Base	STI Cash	Defined contribution plan	Short term incentive bonus Shares	Options	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
Directors		€	€	€	€	€		€	€	€	€	€	%	%
G Bradley Chairman Non-Executive	**2013**	**60,000**	**-**	**-**	**-**	**-**	**60,000**	**-**	**-**	**-**	**-**	**60,000**	**-**	**-**
	2012	57,500	-	-	-	-	57,500	-	-	-	-	57,500	-	-
B Pirola Non-Executive	**2013**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**
	2012	38,250	-	-	-	-	38,250	-	-	-	-	38,250	-	-
G Short, Non-Executive	**2013**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**
	2012	38,250	-	-	-	-	38,250	-	-	-	-	38,250	-	-
M Masterman Non-Executive	**2013**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**
	2012	38,250	-	-	-	-	38,250	-	-	-	-	38,250	-	-
K Eley Non-Executive	**2013**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**	**-**	**-**	**40,000**	**-**	**-**
App. 19/6/12*	2012	30,000	-	-	-	-	30, 000	-	-	-	-	30,000	-	-
G Catalano M D/ CEO	**2013**	**124,344**	**21,832**	**4,600**	**2,533**	**51,552**	**204,861**	**-**	**-**	**-**	**-**	**204,861**	**-**	**-**
Res. 12/8/13	2012	198,249	29,338	6,280	4,850	-	238,717	-	-	-	-	238,717	-	-
D McEvoy, Non-Executive	**2013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Ret. 28/5/012	2012	8,250	-	-	-	-	8,250	-	-	-	-	8,250	-	-
Total for Directors	**2013**	**344,344**	**21,832**	**4,600**	**2,533**	**51,552**	**424,861**	**-**	**-**	**-**	**-**	**424,861**	-	-
	2012	408,749	29,338	6,280	4,850	-	449,217	-	-		-	449,217		

** Mr Eley attended prior meetings as an observer and was compensated during that period*

Directors and executive officers' remuneration - Consolidated (Continued)

		Short-term						Post-Employment	Share-based payments				
		Salary & fees	Accommo-dation	Car	Other	Termin-ation payments	Total Base	STI Cash	Defined contribution plan	Short term incentive bonus Shares	Options	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
Specified Executive		€	€	€	€	€		€	€	€	€	€	%	%
Lisa Jones Company Secretary	**2013**	**37,834**	**-**	**-**	**-**	**-**	**37,834**	-	-	**-**	**-**	**37,834**	-	**-**
	2012	25,151	-	-	-	-	25,151	-	-	-	-	25,151	-	-
Sara Edmonson Acting CEO Chief Financial Officer**	**2013**	**120,000**	**-**	**-**	**-**	**-**	**120,000**	**33,260**	**8,106**	**-**	**-**	**161,366**	**21%**	**-**
	2012	36,923	-	-	-	-	36,923	-	2,513	-	-	39,436	-	-
Total for Executive	**2013**	**157,834**	**-**	**-**	**-**	**-**	**157,834**	**33,260**	**8,106**	**-**	**-**	**199,200**		
	2012	62,074	-	-	-	-	62,074	-	2,513	-	-	64,587		
Total Directors and Executives	**2013**	**502,178**	**21,832**	**4,600**	**2,533**	**51,552**	**582,695**	**33,260**	**8,106**	**-**	**-**	**624,061**		
	2012	470,823	29,338	6,280	4,850	-	511,291	-	2,513	-	-	513,804		

*** Remuneration included from date of becoming a KMP*

Notes in relation to the table of Directors' and executive officers' remuneration

A. Short term incentive bonuses as remuneration to key management personnel are related to performance hurdles established by the Remuneration & Nomination Committee. The performance hurdles are a combination of company targets and objectives specific to the executive.

Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive bonus awarded as remuneration are detailed below. Bonuses paid by issue of shares are included in share based payments to each Director and Executive.

	2013			2012		
Directors and specified executives	**Cash Bonus**	**Bonus paid by issue of shares**	**% vested in year**	**Cash Bonus**	**Bonus paid by issue of shares**	**% vested in year**
	€	€	€	€	€	€
S Edmonson	33,260	Nil	100%	Nil	Nil	Nil

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 performance criteria. More specifically, the cash bonus awarded to S. Edmonson in 2013 is based on the individual's contribution to securing and executing the new RBL Facility with Nedbank Capital in May 2013 and the additional effort put forth while carrying out duplicate roles. No amounts vest in future financial years in respect of the bonus. No bonuses vested during 2012.

Equity instruments

All options refer to options over ordinary shares of Po Valley Energy Limited, which are exercisable on a one-for-one basis.

Options over equity instruments granted as compensation

No options were granted as compensation to directors or key management personnel during the reporting period (2012: Nil). No options vested during 2013. (2012: 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 2013.

There were no options outstanding during 2013.

Analysis of options over equity instruments granted as compensation

No options were exercised by directors or key management personnel.

Analysis of movements in options

No options over ordinary shares in the Company were held by any key management personnel during 2013.

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:

	Ordinary Shares
G Bradley	1,373,880
M Masterman	33,177,327
B Pirola	7,112,782
G Short	200,000
K Eley	800,000

13. Share Options

Options granted to directors and executives of the Company

The Company has not granted any options over unissued ordinary shares in the Company to any directors or specified executive during or since the end of the financial year.

Unissued shares under option

At the date of this report there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

The Company has not issued any shares as a result of the exercise of options during or since the end of the financial year end.

14. Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of PVE support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the ASX Corporate Governance Council and considers that PVE is in compliance with those guidelines which are of importance to the commercial operation of a junior listed gas exploration and production company.

The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report and are also available on the Company's website at www.povalley.com

15. Indemnification and insurance of officers

The Company has agreed to indemnify current Directors against any liability or legal costs incurred by a Director as an officer of the Company or entities within the Group or in connection with any legal proceeding involving the Company or entities within the Group which is brought against the director as a result of his capacity as an officer.

During the financial year the Company paid premiums to insure the Directors against certain liabilities arising out of the conduct while acting on behalf of the Company. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

16. Non audit services

During the year KPMG, the Group's auditor, did not perform other services in addition to their statutory duties. Refer to note 6 of the financial report for details of auditor's remuneration.

17. Proceedings on behalf of the Company

No person has applied for leave of Court, pursuant to section 237 of the Corporations Act 2001, to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

18. Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 29 and forms part of the Directors' report for the financial year ended 31 December 2013.

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

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Graham Bradley

Chairman

Sydney, NSW Australia

18 March 2014

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Po Valley Energy Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2013 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.

KPMG.

KPMG

R Gambitta
Partner

Perth

18 March 2014

Statement of Financial Position

As at 31 December 2013

	NOTES	CONSOLIDATED 2013 €	2012 €
Current Assets			
Cash and cash equivalents	10 (a)	1,528,633	1,226,348
Trade and other receivables	12	2,675,764	2,581,026
Total Current Assets		**4,204,397**	**3,807,374**
Non-Current Assets			
Receivables	12	-	1,285,372
Inventory	11	634,694	701,187
Other assets		27,716	43,657
Deferred tax assets	15	2,370,139	2,228,095
Property, plant & equipment	13	3,572,165	5,636,768
Resource property costs	14	19,872,250	22,017,610
Total Non-Current Assets		**26,476,964**	**31,912,689**
Total Assets		**30,681,361**	**35,720,063**
Current Liabilities			
Trade and other payables	16	2,762,654	1,718,168
Interest bearing loans	18	-	3,984,896
Provisions	17	138,392	113,825
Total Current Liabilities		**2,901,046**	**5,816,889**
Non-Current Liabilities			
Provisions	17	3,988,825	3,608,421
Interest bearing loans	18	2,933,176	-
Total Non-Current Liabilities		6,922,001	3,608,421
Total Liabilities		**9,823,047**	**9,425,310**
Net Assets		**20,858,314**	**26,294,753**
Equity			
Issued capital	19	45,819,924	45,460,097
Reserve	19	1,192,269	1,192,269
Accumulated losses		(26,153,879)	(20,357,613)
Total Equity		**20,858,314**	**26,294,753**

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

Statement of Comprehensive Income / (Loss)

For the year ended 31 December 2013

	NOTES	CONSOLIDATED 2013 €	2012 €
Revenue	3	6,662,777	8,208,468
Operating costs		(1,285,575)	(1,225,124)
Depreciation and amortisation expense		(2,325,656)	(3,455,620)
Gross Profit		3,051,546	3,527,724
Other income		437,056	700,226
Employee benefit expenses	4	(2,031,184)	(1,856,627)
Depreciation expense		(18,406)	(16,425)
Corporate overheads	5	(1,590,882)	(1,353,928)
Impairment losses	14	(5,096,007)	(45,951)
Results from operating activities		(5,247,877)	955,019
Finance income		22,333	38,071
Finance expenses		(638,206)	(791,520)
Net finance expenses	7	(615,873)	(753,449)
Profit / (loss) before tax		(5,863,750)	201,570
Income tax benefit	8	67,484	(2,171,271)
Profit / (loss)		(5,796,266)	2,372,841
Other comprehensive income		-	-
Total comprehensive income / (loss)		(5,796,266)	2,372,841
Profit / (loss) attributable to:			
Owners of the company		(5,796,266)	2,372,841
Profit / (loss)		(5,796,266)	2,372,841
Total comprehensive income / (loss) attributable to:			
Owners of the Company		(5,796,266)	2,372,841
Total comprehensive profit / (loss) for the period		(5,796,266)	2,372,841
Basic and diluted earnings / (loss) per share	9	(4.76) cents	2.12 cents

The above consolidated statement of comprehensive income / loss should be read in conjunction with the accompanying notes to the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2013

Consolidated	Attributable to equity holders of the Company			
	Issued Capital	**Translation Reserve**	**Accumulated Losses**	**Total**
	€	**€**	**€**	**€**
Balance at 1 January 2012	44,753,650	1,192,269	(22,730,454)	23,215,465
Total comprehensive income:				
Profit	-	-	2,372,841	2,372,841
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,372,841	2,372,841
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners – Issue of shares	706,447	-	-	706,447
Balance at 31 December 2012	**45,460,097**	**1,192,269**	**(20,357,613)**	**26,294,753**
Balance at 1 January 2013	**45,460,097**	**1,192,269**	**(20,357,613)**	**26,294,753**
Total comprehensive income:				
Loss	-	-	(5,796,266)	(5,796,266)
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**5,796,266**	**5,796,266**
Transactions with owners recorded directly in equity:				
Contributions by and distributions to owners – Issue of shares	359,827	-	-	359,827
Balance at 31 December 2013	**45,819,924**	**1,192,269**	**(26,153,879)**	**20,858,314**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements

Statement of Cash Flow

For the year ended 31 December 2013

	NOTES	CONSOLIDATED	
		2013	2012
		€	€
Cash flows from operating activities			
Receipts from customers		7,192,510	10,007,832
Payments to suppliers and employees		(3,460,747)	(5,372,274)
Interest received		22,333	38,071
Interest paid		(364,353)	(336,893)
Income tax paid		(107,810)	-
Net cash inflow from operating activities	10 (b)	**3,281,933**	**4,336,736**
Cash flows from investing activities			
Payments for non-current assets		(2,920)	(30,218)
Payments on security deposits		-	(4,375)
Receipts for resource property costs from joint operations partners		671,959	-
Payments for resource property costs		(2,863,055)	(3,672,121)
Net cash outflow from investing activities		**(2,194,016)**	**(3,706,714)**
Cash flows from financing activities			
Proceeds from the issues of shares		359,827	706,447
Proceeds from borrowings	18	5,000,000	-
Repayments of borrowings	18	(5,500,000)	(2,000,000)
Payment of borrowing costs		(645,459)	-
Net cash outflow from financing activities		(785,632)	(1,293,553)
Net increase / (decrease) in cash and cash equivalents		302,285	(663,531)
Cash and cash equivalents at 1 January		**1,226,348**	**1,889,879**
Cash and cash equivalents at 31 December	10 (a)	**1,528,633**	**1,226,348**

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

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 Level 28, 140 St Georges Terrace, Perth WA 6000. The consolidated financial statements of the Company for the year ended 31 December 2013 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 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 complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 18 March 2014.

(b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the basis of historical cost, except for financial assets, liabilities and share based payments recognised at fair value.

(c) GOING CONCERN

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business and at the amounts stated in the financial report.

Whilst the Group made a loss of €5,796,266 (2012: Profit €2,372,841) in the current year, the loss arose mainly on account of an impairment on Castello of €5,021,112. The Group has a cash balance of €1,528,633, working capital of €1,303,351, net cash inflows from operating activities of €3,281,933 and an unutilised loan facility available of €1,934,000. Accordingly the Directors believe that the use of the going concern assumption is appropriate in the preparation of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 BASIS OF PREPARATION (continued)

(d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, which is the Company's and each of the Group entity's functional currency.

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-current assets

The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest is tested for impairment. There is significant estimation involved in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation involved in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 BASIS OF PREPARATION (continued)

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable Reserves include estimates regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate Reserves may change from period to period. A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognized 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 recognized in the profit or loss

Recognition of deferred tax assets

The recoupment of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

1.3 SIGNIFICANT ACCOUNTING POLICIES

Except for the changes noted below, the Group has consistently applied the accounting policies set out in notes 1.3 (a) to 1.3 (q) to all periods presented in the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- AASB 10 Consolidated Financial Statements (2011)

  As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances. The Group has reassessed the control conclusion for its investees at 1 January 2013 and there have been no changes in the control determination of subsidiaries, joint arrangements and/or associates. Consequently there has been no impact on the financial statements for the change in this policy.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

- AASB 11 Joint Arrangements
  As a result of AASB 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11, the Group has classified its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations 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. Previously, the structure of the arrangement was the sole focus of classification. The Group has evaluated its involvement in its joint arrangements and there has been no material impact to the financial statements as result of this change in accounting policy.

- AASB 12 Disclosure of Interests in other entities

  There are no additional disclosure impacts on adoption of AASB 12.

- AASB 13 Fair Value Measurement
  AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*. In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

- AASB 119 Employee Benefits
  In the current year, the Group adopted AASB 119 Employee Benefits (2011), which revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. The change requires a measurement of annual leave liability of the Group's employees as a long term benefit, where the benefits are expected to be settled after 12 months after the end of the reporting period. There has been no material impact on the financial statements for the change in this policy.

(a) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. In the Company's financial statements, investments in subsidiaries are carried at cost.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceed its interest in an equity accounted investee, the carrying amount of the investment, including any long-term interest that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation - when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangement, it accounts for its interest using the equity method adopted for associates as noted in (a) (ii) above

(iv) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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 carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and them to reduce the carrying amount of the other assets in the unit on a pro rata basis.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(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:

	2012	2013
Castello	16.77%	12.70%
Sillaro	10.51%	12.10%

Changes in factors such as estimates of economically recoverable reserves that affect the depreciation do not give rise to prior period financial period adjustments and are dealt with on a prospective basis.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimated useful lives of each class of asset fall within the following ranges:

	2012	2013
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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Other

Other non-derivative financial instruments are measured at amortised costs 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 and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) INVENTORIES

Inventories are measured at the lower of cost and net realisable value and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price less selling expenses.

(g) RESOURCE PROPERTIES

Resource property costs are accumulated in respect of each separate area of interest.

Exploration properties

Exploration properties are carried at balance sheet date at cost less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of an area of interest.

Exploration properties are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technically feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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:

	2012	2013
Castello	16.77%	12.70%
Sillaro	10.51%	12.10%

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)).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) PROVISIONS

Rehabilitation costs

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the balance sheet date and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwind of the discount rate are accounted for in the income statement 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Share-based payments

The executive and employee share option plan grants options to employees as part of their remuneration. The fair value of options granted is recognised as an employee expense with a corresponding increase in reserves. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured, using an options pricing model; taking into account the market related vesting conditions upon which the options were granted.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

When a Company grants options over its shares to employees of subsidiaries, the fair value at the grant date is recognised as an increase in investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

(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 Po Valley Energy Limited's 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) EARNINGS/LOSS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the net profit attributable to members of the parent entity, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(m) OTHER INDIRECT TAXES

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) and value added tax (VAT) except where the amount of GST or VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST or VAT included. The net amount of GST or VAT recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis. The GST and VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(n) SEGMENT REPORTING

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

Revenues is measured at 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized in profit or loss on a straight line basis over the term of the lease.

(q) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2013, but have not been applied in preparing this financial report.

- *AASB 9 Financial Instruments (December 2010)* & *AASB2010-7 Amendments to Australian Accounting Standards arising from AASB9 (2010)*; introduces new requirements for the classification and measurement of financial assets. Under AASB 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

- AASB 9 will become mandatory for the Group's 31 December 2015 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 December 2012 or earlier. The Group has not yet determined the potential effect of the standard.

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.

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk

The Group invests in short term deposits and trades with recognised, creditworthy third parties. There is a concentration of credit risk in relation to receivables due to indirect tax from the Italian tax authorities (see note 12).

Cash and short term deposits are made with institutions that have a credit rating of at least A1 from Standard & Poors 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. Please refer to Note 22 (b) for further details on customer credit risk management.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings. The Group does not hedge its exposure to movements in market interest rates. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in bank accounts earning interest.

Currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currencies of consolidated entities. The currency giving rise to this risk is primarily Australian dollars.

In respect to monetary assets held in currencies other than Euro, the Group ensures that the net exposure is kept to an acceptable level by minimising their holdings in the foreign currency where possible by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(iii) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of issued share capital plus accumulated losses/earnings. The Board monitors accumulated losses/earnings.

The Board seeks to encourage all employees of the Group to hold ordinary shares. Both management and employees participate in the Group's employee share scheme and to date the Company has encouraged employees to opt for shares in lieu of cash for earned bonuses. 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.

NOTE 3: REVENUE

	CONSOLIDATED 2013 €	2012 €
Gas sales	6,662,777	8,208,468

NOTE 4: EMPLOYEE BENEFIT EXPENSES

Wages and salaries	1,978,148	1,809,539
Contributions to defined contribution plans	53,036	47,088
	2,031,184	1,856,627

NOTE 5: CORPORATE OVERHEADS

Corporate overheads comprises:		
Company administration and compliance	263,215	329,713
Professional fees	678,247	458,906
Office costs	288,695	336,009
Travel and entertainment	137,730	150,146
Other expenses	222,995	79,154
	1,590,882	1,353,928

NOTE 6: AUDITORS' REMUNERATION

Auditors of the Company – KPMG Australia		
Audit and review of the Group financial statements	57,180	71,959
Audit of subsidiary financial statements	6,157	23,867
	63,337	95,826

NOTE 7: FINANCE INCOME AND EXPENSE

Recognised in profit and loss:		
Interest income	22,333	38,071
Finance income	22,333	38,071
Interest expense	314,955	325,794
Amortisation of borrowing costs	93,739	213,066
Unwind of discount on site restoration provision	163,287	184,111
Foreign exchange losses (net)	66,225	68,549
Finance expense	638,206	791,520
Net finance expense	(615,873)	(753,449)

NOTE 8: INCOME TAX EXPENSE

	CONSOLIDATED	
	2013 €	2012 €
Current tax		
Current year	74,560	56,824
Deferred tax		
Origination and reversal of temporary differences	(142,044)	(124,427)
Changes in previously unrecognised deductible temporary differences	-	(141,133)
Recognition of previously unrecognised tax losses	-	(1,962,535)
Deferred tax benefit	(142,044)	(2,228,095)
Total income tax benefit	(67,484)	(2,171,271)
Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)		
Profit / (loss) for the year before tax	(5,863,750)	201,570
Income tax (benefit) / expense using the Company's domestic tax rate of 30 per cent (2012: 30%)	(1,759,126)	60,471
Non-deductible expenses:		
Borrowing costs	72,533	865
Depreciation	132,265	4,718
Other	17,740	-
Effect of tax rates in foreign jurisdictions	9,796	(23,958)
Current year losses and temporary differences for which no deferred tax asset was recognised	1,384,748	(42,096)
Changes in previously unrecognised temporary differences	-	(265,560)
Recognition of previously unrecognised tax losses	-	(1,962,535)
Tax effect of regional taxes in Italy – current	74,560	56,824
Income tax (benefit) / expense	(67,484)	(2,171,271)

NOTE 9: EARNINGS PER SHARE

	CONSOLIDATED	
	2013 €	2012 €
Basic earnings / (loss) per share (€ cents)	(4.76)	2. 12

The calculation of earnings per share was based on the loss attributable to shareholders of €5,796,266 (2012: profit €2,372,841) and a weighted average number of ordinary shares outstanding during the year of 121,728,447 (2012: 111,675,707).

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

The number of weighted average shares is calculated as follows:	No. of days	2013 Weighted average no.	2012 Weighted average no.
Number of shares on issue at beginning of the year	365	118,564,063	111,147,396
3,850,000 issued on 7 March 2013	300	3,164,384	-
7,416,667 issued on 6 December 2012	26	-	528,311
		121,728,447	111,675,707

NOTE 10: (a) CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents	1,528,633	1,226,348

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

b) Reconciliation of cash flows from operating activities		
Profit / (loss)	(5,796,266)	2,372,841
Adjustment for non-cash items:		
Unrealised net foreign exchange loss	66,225	68,549
Depreciation and amortisation	2,344,062	3,472,045
Resource property costs impairments	5,096,007	45,951
Unwind of discount on site restoration provision	163,287	184,111
Amortisation of borrowing costs	93,739	213,067
Change in operating assets and liabilities:		
Increase in receivables	1,206,575	1,089,078
Increase / (decrease) in trade and other payables	225,781	(903,331)
Increase in provisions	24,567	22,520
Increase in deferred tax assets	(142,044)	(2,228,095)
Net cash inflow from operating activities	3,281,933	4,336,736

NOTE 11: INVENTORY

	CONSOLIDATED	
	2013 €	2012 €
Non - Current		
Well equipment – at cost	634,694	701,187

Well equipment represents inventory expected to be utilised in future development of known wells with specific characteristics.

NOTE 12: TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	587,255	33,484
Accrued gas sales revenue	648,695	-
Sundry debtors	298,645	182,284
Accrued gas sales revenue from related party (note 24(c))	-	1,140,968
Deposit (b)	202,238	-
Indirect taxes receivable (note 12(a))	938,931	1,224,326
	2,675,764	2,581,026

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

(a) Included in receivables are Italian indirect taxes recoverable as follows:

Current	799,650	1,093,577
Non-current	-	1,285,372

The indirect taxes relate to Italian Value Added Tax ("VAT"), which is typically 21% of invoiced amounts (with certain exceptions). The extent of VAT that has not been recovered from the Italian authorities is recognised on the balance sheet as a receivable. Po Valley expects to recover this receivable through reducing VAT remitted on sales, reducing the Group's obligation to pay employee taxes to the authorities and/or applying for an annual refund (capped at the lowest amount of VAT credits generated in any of the past 3 years). The current portion receivable is estimated to be recoverable in the next twelve months. VAT remitted on oil and gas sales in Italy is 10%. A significant VAT refund was received during the year.

(b) The deposit with Nedbank Group Ltd earned interest at 0.15% during the period.

NOTE 13: PROPERTY PLANT & EQUIPMENT

	CONSOLIDATED	
	2013 €	2012 €
Office Furniture & Equipment:		
At cost	200,132	194,212
Accumulated depreciation	(157,034)	(138,628)
	43,098	55,584
Gas producing plant and equipment		
At cost	8,402,751	7,668,967
Accumulated depreciation	(4,873,684)	(2,087,783)
	3,529,067	5,581,184
	3,572,165	5,636,768
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	55,584	41,791
Additions/Reclassification	5,920	30,218
Disposals	-	-
Depreciation expense	(18,406)	(16,425)
Carrying amount at end of year	43,098	55,584
Gas Producing plant and equipment:		
Carrying amount at beginning of period	5,581,184	6,506,310
Additions / Reclassification	733,784	-
Depreciation expense	(621,688)	(925,126)
Impairment (refer note 14)	(2,164,213)	-
Carrying amount at end of period	3,529,067	5,581,184
	3,572,165	5,636,768

NOTE 14: RESOURCE PROPERTY COSTS

	CONSOLIDATED	
	2013 €	2012 €
Resource Property costs		
Exploration Phase	10,060,661	7,272,641
Development Phase	-	-
Production Phase	9,811,589	14,744,969
	19,872,250	22,017,610

Reconciliation of carrying amount of resource properties

Exploration Phase		
Carrying amount at beginning of period	7,272,641	6,814,557
Exploration expenditure	2,518,277	243,886
Change in estimate of rehabilitation assets	344,638	260,149
Impairment losses	(74,895)	(45,951)
Carrying amount at end of period	10,060,661	7,272,641

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of or otherwise of economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

Production Phase		
Carrying amount at beginning of period	14,744,969	16,491,557
Additions / Reclass to property plant & equipment	(244,992)	367,668
Change in estimate of rehabilitation assets	(127,521)	416,238
Amortisation of producing assets	(1,703,968)	(2,530,494)
Impairment loss	(2,856,899)	-
Carrying amount at end of period	9,811,589	14,744,969

During the year, an impairment trigger was identified with regard to Castello as a result of a decrease in the expected daily production rate. Accordingly, the associated resource property cost and related plant and equipment (as a cash generating unit) were tested for impairment. The recoverable amount is determined by reference to a discounted cashflow forecast model (value in use).

NOTE 14: RESOURCE PROPERTY COSTS (continued)

The key assumptions adopted in that model include gas pricing, remaining reserves, expected daily gas production, operating expenditure and discount rate of 10%. The recoverable amount is most sensitive to the remaining reserves and daily gas production.

As a result of this assessment, an impairment of €2,856,899 (2012: €Nil) on resource property costs and €2,164,213 (2012: €Nil) on the related plant and equipment has been recognised. The residual carrying value for the Castello field at 31 December 2013 is €128,809 and relates to plant and equipment.

Increases in the discount rates or changes in other key assumptions, such as gas pricing, operating costs or production rates, may cause the values of cash generating units to exceed their recoverable amounts. The directors believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount due to the low carrying value.

	CONSOLIDATED	
	2013 €	2012 €
Impairment losses are reconciled as follows:		
Impairment expense		
Castello gas field	(5,021,112)	-
Exploration costs	(74,895)	(45,951)
Total impairment loss	(5,096,007)	(45,951)

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

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

Tax losses	2,030,650	1,962,535
Accrued expenses and liabilities	339,489	265,560
Recognised deferred tax assets	2,370,139	2,228,095

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 there from.

Unrecognised deferred tax assets

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

Tax losses	2,042,760	2,051,128
Deductible temporary differences	2,069,569	766,440
Unrecognised deferred tax assets	4,112,329	2,817,568

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

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.

Movement in recognised temporary differences during the year

	Balance 1 Jan 2012	Profit and loss	Equity	Balance 31 December 2012	Profit and loss	Equity	Balance 31 Dec 2013
Consolidated							
Tax losses	-	1,962,535	-	1,962,535	68,115	-	2,030,650
Accrued expenses and liabilities	-	265,560	-	265,560	73,929	-	339,489
Total recognised deferred tax asset	-	2,228,095	-	2,228,095	142,044	-	2,370,139

NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2013 €	2012 €
Trade payables and accruals	2,473,179	1,566,376
Other payables	289,475	151,792
	2,762,654	1,718,168

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 22.

NOTE 17: PROVISIONS

Current:		
Employee leave entitlements	138,392	113,825
Non Current:		
Restoration provision	3,988,825	3,608,421
Reconciliation of restoration provision:		
Opening balance	3,608,421	2,747,922
Increase in provision due to revised estimates	217,117	676,388
Increase in provision from unwind of discount rate	163,287	184,111
Closing balance	3,988,825	3,608,421

NOTE 17: PROVISIONS (continued)

Provision has been made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the balance sheet date and abandonment of the well site and production fields.

NOTE 18: INTEREST BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

	CONSOLIDATED	
	2013 €	2012 €
Current liabilities		
Finance facility	-	3,984,896
Non-current liabilities		
Finance facility	2,933,176	-

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2013		31 December 2012	
	Currency	Nominal Interest rate	Year of Maturity	Face Value $	Carrying Amount $	Face Value $	Carrying Amount $
Current liabilities							
Secured bank loan	Euro	Euribor + 3.75%	2018	3,500,000	2,933,176	-	-
Secured bank loan	Euro	Euribor + 1.80%%	2013	-	-	4,000,000	3,984,896

The amount presented is disclosed net of borrowing costs of €566,824 (2012: €15,104).

The company has secured a new finance facility with Nedbank Group Ltd during the period. The facility is a Senior Secured Revolving Reducing Borrowing Base Facility of €20 million and matures on 3 May 2018; and is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd.

The facility became available on 16 May 2013 and the Company drew €5,000,000 of the facility in order primarily to settle the facility previously held with Lloyds and pay transaction costs. The current borrowing limit for the six months to 30 June 2014 is set to €5,434,000 as of 31 December 2013.

Interest is currently payable at Euribor plus 375 basis points. Principal repayments of €1,500,000 have been made during the year to December 2013 in regards to the Nedbank facility. €4,000,000 was repaid on the Lloyds facility. As at 31 December 2013, there is no contractual requirement to make any principal repayment prior to maturity.

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares	
	2013 Number	2012 Number
Share Capital		
Opening balance - 1 January	118,564,063	111,147,396
Shares issued during the year:		
Shares issued at €0.093 ($0.12) each on 7 March 2013	3,850,000	-
Shares issued at €0.095 ($0.12) each on 6 December 2012	-	7,416,667
Closing balance – 31 December	122,414,063	118,564,063

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 (2012: 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 (2012: Nil).

NOTE 20: SHARE BASED PAYMENTS

Employee Incentive Option Scheme

The issue of Employee Incentive Option Scheme ("EIOS") was approved by the Board of the Company on 15 October 2004.

The opportunity for a number of employees to acquire options over ordinary shares in the Company was offered to employees and consultants.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, must not be less than the market price on the date the options are granted. The terms and conditions with respect to expiry, exercise and vesting provisions are at the discretion of the Board of the Company. The vesting provisions issued during 2009 and 2008 have included share price hurdles and continued employment with the Group.

NOTE 20: SHARE BASED PAYMENTS (continued)

There are no voting or dividend rights attached to the options. Voting and dividend rights will only be attached once an option is exercised into ordinary shares. The total number of shares which are the subject of options issued under the EIOS immediately following an issue of options under the EIOS must not exceed 5% of the then issued share capital of the Company on a diluted basis.

There are no options outstanding or exercisable at the end of the current or previous year.

Options granted during the reporting period pursuant to EIOS:

No options were granted in the reporting period.

Options held at the end of the reporting period pursuant to EIOS.

No options were held at the end of the reporting period

NOTE 21: 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	
	2013 €	2012 €	2013 €	2012 €	2013 €	2012 €
External revenues	-	-	6,662,777	8,208,468	6,662,777	8,208,468
Segment (loss) / profit before tax	(74,895)	(45,951)	(1,969,566)	3,527,724	(2,044,461)	3,481,773
Depreciation and amortisation	-	-	(2,325,656)	(3,455,620)	(2,325, 656)	(3,455,620)
Impairment on resource property costs	(74,895)	(45,951)	(5,021,112)	-	(5,096,007)	(45,951)
Reportable segment assets:						
Resource property costs	10,060,661	7,272,641	9,811,589	14,744,969	19,872,250	22,017,610
Plant & Equipment	-	-	3,529,067	5,581,184	3,529,067	5,581,184
Receivables	-	-	1,356,160	1,170,575	1,356,160	1,170,575
Inventory	-	-	634,694	701,187	634,694	701,187
Capital expenditure	2,518,277	299,433	488,792	367,668	3,007,069	667,101
Movement in rehabilitation assets	344,638	260,149	(127,521)	416,238	217,117	676,387
Reportable segment liabilities	(3,123,266)	(1,314,262)	(2,986,395)	(2,788,064)	(6,109,661)	(4,102,326)

NOTE 21: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	2013	2012
Profit or loss:	€	€
Total profit / (loss) for reportable segments	(2,044,461)	3,481,773
Unallocated amounts:		
Net finance expense	(615,873)	(753,449)
Other corporate expenses	(3,203,416)	(2,526,754)
Consolidated profit / (loss) before income tax	(5,863,750)	201,570
Assets:		
Total assets for reportable segments	25,392,171	29,470,556
Other assets	5,289,190	6,249,507
Consolidated total assets	30,681,361	35,720,063
Liabilities:		
Total liabilities for reportable segments	(6,109,661)	(4,102,326)
Other liabilities	(3,713,386)	(5,322,984)
Consolidated total liabilities	(9,823,047)	(9,425,310)

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 two major customers contributed the entire revenue.

NOTE 22: 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:

	CONSOLIDATED	
	2013	2012
	€	€
Variable rate instruments		
Financial assets	1,528,633	1,226,348
Financial liabilities	(2,933,176)	(3,984,896)
	(1,404,543)	(2,758,548)

NOTE 22: FINANCIAL INSTRUMENTS (continued)

Cash flow sensitivity analysis for variable rate instruments:

A strengthening of 100 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 2012.

	Profit or loss		Equity	
Effect in €'s	**2013**	**2012**	**2013**	**2012**
31 December				
Variable rate instruments	(19,714)	(27,737)	-	-

A decrease of 100 basis points would have an equal and opposite effect on profit or loss.

(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 off-take agreement with Shell Italia which expires in October 2014. Shell currently has an option to extend the contract a second Gas Year from October 2014 to September 2015.

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.

		CONSOLIDATED	
		Carrying Amount	
	Note	2013	2012
		€	€
Cash and cash equivalents	10	1,528,633	1,226,348
Receivables – Current	12	2,675,764	2,581,026
Receivables – Non-current	12	-	1,285,372
Other assets		27,716	43,657
		4,232,113	5,136,403

NOTE 22: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

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

Consolidated
31 December 2013

In €	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(2,762,654)	(2,762,654)	(2,762,654)	-	-	-
Secured bank loan	(2,933,176)	(4,088,316)	(67,883)	(67,883)	(135,766)	(3,816,784)
	(5,695,830)	(6,850,970)	(2,830,537)	(67,883)	(135,766)	(3,816,784)

Consolidated
31 December 2012

In €	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(1,718,168)	(1,718,168)	(1,718,168)	-	-	-
Secured bank loan	(3,984,896)	(4,076,626)	(43,786)	(4,032,840)	-	-
	(5,703,064)	(5,794,794)	(1,761,954)	(4,032,840)	-	-

(d) Net Fair Values of financial assets and liabilities

The carrying amounts of financial assets and liabilities (excluding borrowing costs) as disclosed in the balance sheet equate to their estimated net fair value.

(e) Foreign Currency Risk

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than Euro. The currency giving rise to this risk is primarily Australian Dollars.

	CONSOLIDATED	
Amounts receivable/(payable) in foreign currency other than functional currency:	2013 €	2012 €
Cash	10,549	352,903
Current – Payables	(19,341)	(5,509)
Net Exposure	(8,792)	347,394

NOTE 22: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
Australian Dollar ($)	0.7293	0.8055	0.6445	0.7846

Sensitivity Analysis

A 10 percent strengthening of the Australian dollar against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

	CONSOLIDATED	
	Profit or loss	Equity
31 December 2013	€	€
Australian Dollar to Euro (€)	375	-
31 December 2012		
Australian Dollar to Euro (€)	33,927	-

A 10 percent weakening of the Australian dollar against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTE 23: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

There are no material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 31 December 2013.

NOTE 24: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated	
	2013	2012
	€	€
Short-term employee benefits	526,569	486,140
Termination benefits	51,552	-
Other long term benefits	-	-
Post-employment benefits	8,106	2,513
Share-based payments	-	-
	586,227	488,653

NOTE 24: RELATED PARTIES (continued)

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report. Apart from details disclosed in this note, no director has entered into a material contract with the Group or the Company since the year end of the previous financial year end and there were no material contracts involving directors' interests existing at year-end.

Options over equity instruments

There were no options held or granted during the year by any key management person.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company, held directly and indirectly by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 31 Dec 2012	Purchased	Share based payments	Options Exercited	Sold / Other (iii)	Held at 31 Dec 2013
Directors						
G Bradley	1,123,880	250,000	-	-	-	1,373,880
M Masterman(i)	29,845,302	3,332,025	-	-	-	33,177,327
B Pirola (ii)	7,112,782	-	-	-	-	7,112,782
G Short	-	200,000	-	-	-	200,000
K Eley	400,000	400,000	-	-	-	800,000
G Catalano	528,141	-	-	-	(528,141)	-
	39,010,105	4,182,025	-	-	(528,141)	42,663,989
Executives						
S Edmonson	28,064	-	-	-	-	28,064
	28,064	-	-	-	-	28,064

(i) Does not include shares held by related parties which amount to 1,040,000 shares
(ii) Included above are shares held by related parties
(iii) At the date ceasing to be a KMP

Equity holdings and transactions (continued)

	Held at 31 Dec 2011	Purchased	Share based payments	Options Exercised	Sold/Other (iii)	Held at 31 Dec 2012
Directors						
G Bradley	1,123,880	-	-	-	-	1,123,880
M Masterman (i)	26,722,569	3,422,733	-	-	(300,000)	29,845,302
B Pirola (ii)	7,112,782	-	-	-	-	7,112,782
G Short	-	-	-	-	-	-
K Eley(v)	-	400,000	-	-	-	400,000
G Catalano (iv)	528,141	-	-	-	-	528,141
D McEvoy (iii)	314,270	-	-	-	(314,270)	-
	35,801,642	3,822,733	-	-	(614,270)	39,010,105
Executives						
S. Edmonson	28,064	-	-	-	-	28,064
	28,064	-	-	-	-	28,064

(i) Does not include shares held by related parties which amount to 1,040,000 shares
(ii) Included above are shares held by related parties
(iii) At the date ceasing to be a KMP
(iv) Appointed as Managing Director on 19 June 2012
(v) Appointed as Non-executive Director on 19 June 2012

NOTE 24: RELATED PARTIES (continued)

OTHER RELATED PARTY DISCLOSURES

The Company has a related party relationship with its controlled entities. Transactions between the Company and its controlled entities consisted of:

a) Beginning 1 October 2012 and ending in June 2013, the Company sold its gas via its related party Intrading Srl. Intrading Srl ("Intrading") was incorporated in August 2012. Northsun Italia SpA retains 50% of the shareholding of Intrading while the remaining 50% is owned by Italtrading SpA a former customer. Northsun Italia stipulated a gas sales contract with Intrading and sold 100% of its gas on the spot market via this entity until 30 June 2013 while Italtrading executed a service agreement with the entity and provides logistics and administrative support for the gas sales. As of 1 July 2013, Intrading is dormant.

The following transactions occurred with Intrading during the first 6 months of the year.

	Gas Sales (€) (excluding VAT)	Amount receivable at 31 December (€)
2013	3,012,072	27,988
2012	1,674,950	1,140,968

NOTE 25: PARENT ENTITY DISCLOSURES

	2013 €	2012 €
Financial Position		
Assets		
Current assets	1,494,044	1,110,293
Non-current assets	32,375,760	39,998,138
Total assets	33,869,804	41,108,431
Liabilities		
Current liabilities	170,050	4,178,438
Non-current liabilities	2,933,176	-
Total liabilities	3,103,226	4,178,438
Net Assets	30,766,578	36,929,993
Equity		
Issued capital	45,819,924	45,460,097
Accumulated losses	(15,053,346)	(8,530,104)
Total equity	30,766,578	36,929,993
Financial Performance		
Loss	(6,523,242)	(6,063,313)
Other comprehensive loss	-	-
Total Comprehensive loss	(6,523,242)	(6,063,313)

Contingent liabilities of the parent entity
For details on contingent liabilities, refer note 23.
Commitments of the parent entity
For details on commitments, see note 23.

NOTE 26: 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. Set out below is a list of the significant subsidiaries of the Group:

Name:	Country of Incorporation	Class of Shares	2013 Investment €	2012 Investment €	Holding %
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	21,083,268	21,083,268	**100**
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	631,056	631,056	**100**
			21,714,324	21,714,324	

NOTE 27: INTEREST IN JOINT ARRANGEMENTS

The Group's interests in joint arrangements at 31 December 2013 is as follows

Joint Operation	Manager	Group's Interest	Principal Activity (Exploration)
La Prospera	Northsun Italian S.p.A	75% (2012: -)	Gas

The Group's interest in assets employed in the above joint venture includes capitalised exploration phase expenditure totalling €2,773,303 (2012: nil). These amounts are included under resource property costs (note 14).

NOTE 28: SUBSEQUENT EVENT

There were no 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.

1. In the opinion of the Directors of Po Valley Energy Ltd ("the Company"):

   i) the financial statements and notes, as set out on pages 30 to 66, 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 2013 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) 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 chief executive officer and chief financial officer for the financial year ended 31 December 2013.

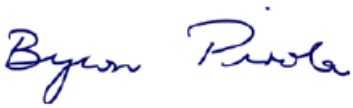
3. The Directors draw attention to Note 1.2 to the Financial Statements which include a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 18th day of March 2014.

Signed in accordance with a resolution of the Directors:



Graham Bradley
Chairman



Byron Pirola
Non-Executive Director

KPMG

Independent auditor's report to the members of Po Valley Energy Limited

Report on the financial report

We have audited the accompanying financial report of Po Valley Energy Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2013, and consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information 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 financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.2, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Po Valley Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2013 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 1.2.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Po Valley Energy Limited for the year ended 31 December 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth

18 March 2014

Shareholders Information 2013-2014

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information was prepared based on the share registry information processed up to 31 March 2014.

SHAREHOLDING

SUBSTANTIAL SHAREHOLDERS

Name	Number of Ordinary Shares Held	Percentage of Capital Held %
Michael Masterman	33,177,327	27.10
Hunter Hall Investment Management Pty Ltd	21,365,804	17.45
Beronia Investments Pty Ltd*	7,112,782	5.81

* Interestes associated with Non Executive Director Byron Pirola

DISTRIBUTION OF SHARES

Size of Holdings	Number of Holders	Number of Shares	Percentage of Capital Held %
1 - 1000	181	51,118	0.04
1,001 - 5,000	198	590,674	0.48
5,001 - 10,000	116	936,838	0.77
10,001 - 100,000	318	10,870,574	8.88
100,001 - over	95	109,964,859	89.83
	908	**122,414,063**	**100**
Unmarketable Parcels	347	481,792	0.39

VOTING RIGHTS OF SHARES AND OPTION

Refer to Note 19 and Note 20

ON-MARKET BUY-BACK

There is no current market buy-back

Shareholders Information 2013-2014

TWENTY LARGEST SHAREHOLDERS

	Name	Number of Ordinary Share Held	Percentage of Capital Held %
1	Michael Masterman	24,163,632	19.74
2	J P Morgan Nominees Australia Limited	23,801,195	19.44
3	Mr Michael George Masterman	6,654,758	5.44
4	Joan Masterman	4,788,444	3.91
5	Mr Laurie Mark Macri	4,000,000	3.27
6	Greenvale Asia Limited	2,938,977	2.40
7	Kevin Bailey Corporation Pty Ltd <Bailey Superannuation A/C>	2,890,000	2.36
8	Beronia Investments Pty Ltd <Duke A/C>	2,776,202	2.27
9	Symmall Pty Ltd <Masterman Superfund A/C >	2,358,937	1.93
10	Beronia FS Pty Ltd <Beronia Family Superfund No 1 A/C>	1,680,000	1.37
11	Beronia FS Pty Ltd <Beronia Family Superfund No 2 A/C>	1,600,240	1.31
12	Mr Ming Lov & Mrs Chiu Lov <Lov family A/C>	1,550,000	1.27
13	Mr John Fyfe & Mrs Evelyn Fyfe <Fyfe family A/C>	1,400,000	1.14
14	Tucabia Investments Pty Ltd	1,299,893	1.06
15	Tangar Boring & Excavations Pty Ltd <Gary&Tania Roser R/F A/C	1,288,653	1.05
16	Beronia Investments Pty Ltd	1,171,721	0.96
17	Mr Chris Carr & Mrs Betsy Carr	1,000,000	0.82
17	Mr Cary Wesley Christian	1,000,000	0.82
18	McIndoe Superannuation Fund Pty Ltd <McIndoe Superfund A/C>	978,592	0.80
19	Equitas Nominee Pty Ltd <PB-600095A/C>	873,880	0.71
20	Mr Stephen Lloyd Jones	850,000	0.69
		89,065,124	**72.76%**

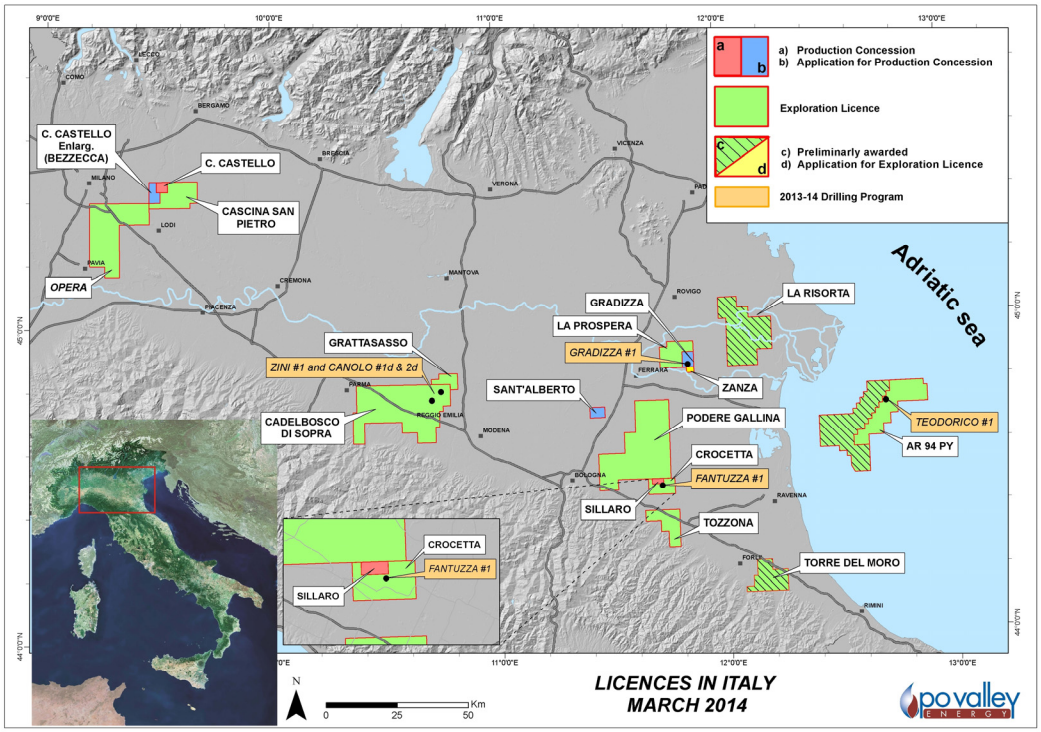
Technical Summary

In December 2013 the ASX introduced new reporting requirements for oil and gas activities through amendments to Chapter 5 of the Listing Rules. The new reporting requirements include general requirements applicable to the public reporting of petroleum resources and also require specific information to be included in the oil and gas exploration entity's Annual Report. The following information is provided in order to comply with Chapter 5 of the Listing Rules:

1) TENEMENTS

The Company's operations are located entirely in the north of Italy, in the Lombardy and Emilia Romagna regions. The Company's core portfolio includes a total of 15 onshore assets and 1 offshore license. Total acreage position of the Company is circa 2,000 km^2. For an illustration of each asset's location please refer to the map and table below. As at 31 December 2013 all tenements are 100% owned with exception of Cadelbosco (85%), La Prospera (75%) and Zanza (75%).

Zanza can be considered the possible extension towards the south of the same play discovered in Gradizza. For this reason the Company and its joint ventures partners Petrorep Italiana Spa and AleAnna Resources LLC have submitted a new exploration licence application in the same equity percentages as La Prospera. (Po Valley holding 75%, Petrorep Italiana Spa 15% and AleAnna Resources LLC 10%). Po Valley and its partners are waiting for notification from the Ministry as to whether any topfile was submitted during the competition period, which expired at the end of March 2014. The Farmin agreement for La Prospera was completed in May 2013 with AleAnna Resources LLC and Petrorep Italiana Spa for disproportionate funding by the new partners for the drilling cost of the Gradizza-1 well, leaving the Company with 75% equity in La Prospera licence post promote; Petrorep at 15% and AleAnna at 10%. Additionally in 1Q 2014 the Company submitted the application for the Gradizza production concession (Po Valley holding 75%, Petrorep Italiana Spa 15% and AleAnna Resources LLC 10%). The Farmin Agreement for Cadelbosco was completed in June 2012 with Petrorep Italiana Spa for its 15% interest; Petrorep committed to a promoted share of future drilling expenditures and reimbursement on past costs.



		TENEMENT	LOCATION	INTEREST HELD FOR 2013*
PROD. CONCESSIONS	GRANTED	**Sillaro** (derived from Crocetta Expl. Licence)	Italy, Emilia Romagna, Bologna	**100%**
		Cascina Castello (derived from C.S. Pietro Expl. Licence)	Italy, Lombardia Cremona	**100%**
	PREL. AWARDED	**Cascina Castello extension** (derived from C.S. Pietro Expl. Licence)	Italy, Lombardia Lodi	**100%**
	IN APPLICATION	**Sant'Alberto** (derived from San Vincenzo Expl. Licence)	Italy, Emilia Romagna, Bologna	**100%**
		Gradizza** (derived from La Prospera Expl. Licence)	Italy, Emilia Romagna, Ferrara	**75%**
EXPLORATION PERMITS	GRANTED	**AR94PY**	Italy, Adriatic Offshore	**100%**
		Cadelbosco di Sopra	Italy, Emilia Romagna	**85%**
		Grattasasso	Italy, Emilia Romagna	**100%**
		Podere Gallina	Italy, Emilia Romagna	**100%**
		La Prospera	Italy, Emilia Romagna	**75%**
		Opera	Italy, Lombardia	**100%**
		Crocetta	Italy, Emilia Romagna	**100%**
		Cascina San Pietro	Italy, Lombardia	**100%**
		Tozzona	Italy, Emilia Romagna	**100%**
	PREL. AWARDED	**La Risorta**	Italy, Emilia Romagna & Veneto	**100%**
		Torre del Moro	Italy, Emilia Romagna.	**100%**
	IN APPLICATION	**Zanza**	Italy, Emilia Romagna	***75%***

**And up to the date of this report*

***Applied for Production Concession in February 2014*

2) RESERVES & RESOURCES

The following table summarises the status of the Company's Reserves & Resources as at 31 December 2013. The Contingent Resource assessment, prepared internally, following the drilling of Gradizza-1 was finalised and released to the market in February 2014.

With the exception of Gradizza and Vitalba, these figures were independently evaluated by the geological and petroleum reservoir consultancy UK firm Robertson CGG during 2013 and are based upon independent evaluations in accordance with SPE/WPC/AAPG/SPEE Petroleum Resource Management System. The Contingent Resource assessment for the Gradizza-1 well (drilled in August 2013) reported in the Annual Report was internally evaluated under the supervision of the qualified petroleum reserves and resources evaluator, Mr. Greg Short.

Technical Summary

Licence	Project	Reserves			Contingent Resources Gas, BCF			Prospective Resources Gas, BCF		
		1P	2P	3P	1C	2C	3C	Low	Best	High
Sillaro	Sillaro	4.7	5.4							
Cascina Castello	Vitalba	0.7	1.5	1.7						
	West Vitalba Quaternary							1.4	2.2	3.1
	West Vitalba Pliocene							1.6	2.4	3.2
Cascina Castello ext	Bezzecca	3.0	4.2	5.8						
Sant'Alberto	Santa Maddalena				1.8	2.1	2.8			
Gradizza	Gradizza [Net]				1.2	2.7	6.6			
AR94PY	Teodorico				34.6	47.3	62.2			
	PL3-C							7.9	15.9	25.0
Crocetta	Fantuzza				1.8	5.7	8.3			
Cadelbosco di Sopra	Zini (Qu-B) [Net]				0.9	2.3	3.9			
	Canolo (Qu-A) [Net]				0.6	0.9	1.4			
	Canolo (Plioc) [Net]				0.3	3.1	8.9			
	Zini(Qu-A) [Net]								1.2	
Podere Gallina	Selva Strat. (Podere Maiar-1)				11.4	17.0	23.0			
	Cembalina							2.1	3.3	4.7
	Fondo Perino							10.2	14.6	20.5
	East Selva							29.1	34.8	40.6
La Prospera	Pioppette [Net]							5.3	9.5	15.6
	Capitello [Net]							4.1	7.0	10.8
La Risorta	Ariano							10.6	16.6	24.7
	Corcrevà							7.0	8.8	11.3
	D. delle Anime							13.8	18.3	24.4
Opera	Barona Lead							3.3	5.0	7.3
	Opera Lead							29.0	47.0	73.0
T. del Moro								UNDER REVIEW		
Tozzona								UNDER REVIEW		

Licence	Project	Contingent Resources Oil, MMbbls		
		1C	2C	3C
Cadelbosco	Bagnolo in Piano	3.7	4.3	5.1
Grattasasso	Ravizza	2.2	5.7	10.7

Qualified Petroleum Reserves and Resources Evaluator:

Statements in this Annual Report regarding estimates of petroleum Reserves and Contingent and Prospective Resources and the Reserves statement are based on and fairly represent information and supporting documentation prepared under the supervision of Mr Gregory Short, a non-executive director of Po Valley Energy Limited. Mr Short is a geologist with over 40 years of oil and gas industry experience and a member of AAPG. Mr Short has approved the Reserves statement as a whole and has consented to: (a) the inclusion of the estimated petroleum Reserves and Contingent and Prospective Resources and supporting information in this Annual Report in the form and context in which they are presented; and (b) the inclusion of the Reserves statement in this Annual Report in the form and context in which it appears.

RESERVES are those quantities of hydrocarbon anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Proved Reserves are those quantities of hydrocarbon, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations (1P).

Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P).

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P) Reserves, which is equivalent to the high estimate scenario.

CONTINGENT RESOURCES are those quantities of hydrocarbon estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

PROSPECTIVE RESOURCES are those quantities of hydrocarbon that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within contingent and Prospective Resources.

Company Reserves

	Reserves as at 31 December 2013		Reserves as at 31 December 2012	
Gas, Italy (bcf)	**1P**	**2P**	**1P**	**2P**
Developed (Sillaro+Vitalba)	5.4	6.9	6.6	8.1
Undeveloped (Bezzecca)	3.0	4.2	0.7	4.2
Total Reserves	8.4	11.1	7.3	12.3

The variation in developed Reserves (1P and 2P) and total Reserves (2P) reflects production from the fields (Sillaro 0.74 bcf and Vitalba 0.11 bcf) achieved during 2013. The increase in the Company's 1P total Reserves is due to the increase in 1P undeveloped Reserves related to Bezzecca resulting from a revised view on the 1P/2P split documented in the latest Robertson CGG Competent Persons Report (updated 31 December 2013).

The reference point for gas flow from Vitalba & Sillaro is measured through a turbine, located on the wells site, using non standard cubic metres. The figure is standardised using a Fiorentini Fiomec

Calculator (FFC) which is a conversion consisting of gas temperature and pressure with gas quality parameters. The outcome of this conversion is the actual gas volume in standard cubic meters injected in the SNAM gridline. (SNAM is an Italian natural gas infrastructure company and manages the national gas transportation network). The SNAM entry points for Sillaro & Vitalba are located 200 metres and 50 metres respectively from site perimeters. The FFC prints a production report which is authenticated by the Ministry of Economic Development and this official data is then accepted by SNAM, our customers and the Taxation Authority.
The Company does not have unconventional petroleum Resources in its portfolio.
The Company does not have any material concentration of undeveloped Reserves in Oil&Gas projects that remained undeveloped for more than 5 years from the date they were initially reported.
In regards to the future development of the undeveloped Reserves the Company states that Bezzecca Reserves have been classified undeveloped under the SPE-PRMS definition as they are expected to be recovered through future investments. Immediately upon the award of the production concession, the Company will commence the installation of the infrastructure to bring the Bezzecca gas field into production, including a 7km pipeline.
As regards the Reserves & Resources estimation process, the Company commits to a regular independent audit in order to obtain a certified update of its Reserves & Resources portfolio. The latest review took place in December 2013 for Sillaro, Bezzecca and Sant'Alberto. For the remaining projects, with the exception of Gradizza, the last review was carried out in April 2013, the results of which were already included in the 2012 Annual Report released at the end of the same month.

Company Contingent Resources

	Contingent Resources as at 31 December 2013*		Contingent Resources as at 31 December 2012	
	1C	2C	1C	2C
Gas (bcf)	52.7	81.1	51.8	79.5
Oil (MMbbls)	5.9	10.0	5.9	10.0

**The Contingent Resources calculated above include the new Contingent Resource estimation for Gradizza, which was assessed internally and released to the market in February 2014.*

The slight increase in Contingent Resources, both 1C and 2C, resulted from the drilling of the exploration well Gradizza-1 in August 2013 in the La Prospera Licence.
Contingent Resources related to Gradizza disclosed in the Company's Annual Report 2012 were classified as Prospective as the undiscovered accumulation of moveable hydrocarbons had not yet been penetrated by a well. The fact that the discovered reservoir has been penetrated by a well (drilled in August 2013), which clearly demonstrated the existence of moveable hydrocarbons in that reservoir by flow to surface, constitutes a reclassification of estimated recoverable quantities as Contingent Resources.
Subsequent to drilling Gradizza-1 and the related log and production test results, Prospective Resources can now be reclassified as Contingent Resources.
All figures have been determined using a probabilistic method except Sillaro, Vitalba, Bezzecca, Santa Maddalena and Fantuzza, which were determined using a deterministic method.



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