

PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

CONSOLIDATED FINANCIAL REPORT FOR THE

YEAR ENDED 31 DECEMBER 2010

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 2010.

1. Directors

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

<u>Directors</u>	<u>Date of Appointment</u>
M Masterman	22 June 1999 (Managing Director) 11 October 2010 (Non-Executive Director)
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	30 September 2004
G Short	5 July 2010

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 62

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. Mr Bradley is currently a director of Singapore Telecommunications Limited. He is currently Chairman of Stockland Corporation Limited, HSBC Bank Australia Limited and Anglo American Australia Limited. Graham is Chairman of the Remuneration and Nomination Committee and was a member of the Audit and Risk Committee until December 2010.

Michael Masterman — Non Executive Director, BEcHons, Age 48

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 on an executive role with Fortescue Metals Group Limited. Prior to joining PVE he was CFO and Executive Director of Anaconda Nickel (now Minara Resources). Michael oversaw the financing of the US\$1 billion Murrin Murrin Nickel and Cobalt project in Western Australia, involving the negotiation of a US\$220m joint venture agreement with Glencore International and the raising of US\$420m in project finance from a US capital markets issue – the first of its kind for a green fields mining project. Prior to joining Anaconda Nickel, he spent 8 years at McKinsey & Company serving major international resources companies principally in the area of strategy and development. He is also Executive Chairman of Caspian Holdings Plc, an AIM listed company with oil interests in the US. Mr. Masterman became a member of the Remuneration & Nomination Committee from 1 January 2011.

David McEvoy — Non Executive Director, BSc, Grad Diploma (Appl. Geophysics), Age 64

David joined PVE as a Director in September 2004 and is based in Sydney. He has over 37 years experience in the oil and gas industry since joining Esso Australia Limited in 1969. Key positions held within Exxon affiliates included Esso Australia Limited's Exploration General Manager, Exploration and Development Vice President for Esso Resources Canada and Regional Vice President of Exxon Exploration Company responsible for Exxon's exploration activities in the Far East, USA, Canada and South America. He was recently the Business Development Vice President and member of the Management Committee of Exxon (subsequently ExxonMobil) Exploration Company, responsible for new exploration and development opportunities worldwide. He is currently a Non-Executive Director of Woodside Petroleum Limited, AWE Limited and Innamincka Petroleum Limited. David is a member of the Audit and Risk Committee.

Byron Pirola — Non Executive Director, BSc, PhD, Age 50

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 strategy 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 Chairman of the Audit and Risk Committee and member of the Remuneration and Nominations Committee.

Gregory Short — Non Executive Director, BSc, Age 60

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 and Pryme Oil and Gas Limited. Greg became a member of the Audit and Risk Committee from 1 January 2011.

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	D McEvoy	B Pirola	G Short*
No. of board meetings held	11	11	11	11	5
No. of board meetings attended	11	11	11	11	5
No. of Audit Committee meetings held	2	n/a	2	2	n/a
No. of Audit Committee meetings attended	2	n/a	2	2	n/a
No. of Remuneration Committee meetings held	3	n/a	n/a	3	n/a
No. of Remuneration Committee meetings attended	3	n/a	n/a	3	n/a

* Appointed 5 July 2010 - was eligible to attend 5 meetings

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 2.11€ cents (2009: 6.99 € cents).

6. Operating and financial review

During the year, the Company continued production from the Castello gas field and commenced production from the Sillaro gas field in May 2010. The Company's 2010 full year production was 26.8 million cubic metres of gas (946 million cubic feet).

Castello, which started on 17 December 2009, produced 8.3 million cubic metres during the full year. The newly installed plant ramped up smoothly to around 60,000 cubic metres per day through the period to April 2010. At this point the Company became concerned with the rate of pressure decline and the field was stopped for testing. Following evaluation work the ensuing three month period, the Company concluded that future production from the Vitalba-1dir well would be limited and that a new deviated well Vitalba-1dirA would be required to access the original reserves updip of the older Agnadello 1 well 400m to the South of Vitalba-1dir. Production continues from the Castello well at a low rate ahead of drilling the new Vitalba-1dirA well. The planned Vitalba-1dirA well will be deviated from the current Castello plant location and connected to the existing Castello production plant. Subject to drilling success, production is planned to recommence in the second half of 2011.

The development plan has been modified to incorporate the new well and submitted to the responsible Italian regulatory authorities. The final authorisation was issued in the 1st Quarter of 2011. In the interim, Vitalba-1dir has been operating at limited rates and is currently producing at approximately 3,000 cubic metres per day.

Sillaro commenced production initially from Sillaro-2dir (Pliocene PL2-A and PL2-E levels) on 18 May 2010, followed by Sillaro-1 (PL2 C1/C2 levels) on 14 June 2010. The Sillaro gas field demonstrated stable plant and pressure performance during the balance of 2010. The rate of production from the Sillaro field was gradually increased during the commissioning period and subsequently stabilised at the start of the Gas Thermal Year, 1 October 2010. In 2010, Sillaro produced 18.5 million cubic meters following May start up and is currently running at approximately 83,000 cubic metres per day (2.9 million cubic feet per day) in accordance with the contracted gas rates for the 2010 – 2011 Gas Thermal Year.

Progress was also made on the development front with plans and applications for Bezzecca and Sant' Alberto gas fields. New seismic will be shot on the Sant' Alberto field in the first quarter of 2011. As reported in detail in the 2010 March quarterly, the 3.1 bcf of 2P gas reserves of the Bezzecca field were significantly decreased compared to the pre-drilling reserve estimates of 44 bcf. Detailed field reservoir modelling and production forecast simulations on the Bezzecca gas field were carried out by independent experts during 2010 (based on the appraisal well drilled and tested in April 2009). The Company has finalised a phased development plan for the field which was submitted to the relevant authorities in January 2011.

Geological, exploration and appraisal work advanced on a number of the company's prospects. Based on this work our forward drilling program for the next 24 months is expected to cover the appraisal of the Fantuzza gas field, the appraisal of Quaternary gas prospects in Correggio and the drilling of the exploration gas prospects of Gradizza and Cembalina, subject to ongoing technical assessments, regulatory approvals and available finance.

In 2010, with the production from the Castello and Sillaro gas fields, the company generated €7,157,331 in revenues. Operating efficiencies were achieved and evidenced by the improvement in operating margin during the last six months of the year. Earnings before interest, tax, depreciations and amortisation amounted to €2,218,895 for the full year 2010.

The consolidated loss after income tax amounted to €2,323,598 (2009: €7,202,805). Included in the results is an amount totalling €1,075,168 (2009: €5,108,595) relating to production, exploration and evaluation expenditure impaired.

During the period, repayments of borrowings totalled €4,279,269 effectively reducing the Company's drawings on the Bank of Scotland facility from €10,279,269 to €6,000,000 at 31 December 2010. Share issues during the period were limited to employee bonuses. A total of 368,980 shares were issued at a price of €0.16 (A\$0.21) (156,338 shares issued) and €0.22 (A\$0.33) (212,642 shares issued). The share price was calculated as the weighted average price for the first 15 days of the month in which the shares were issued.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2010.

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 invest €700,000 – 800,000 in geological and geophysical studies in 2011 including a reserve audit by RPS, the purchase and acquisition of seismic data for Sant'Alberto, Cembalina and Gradizza. The Vitalba-1dirA well is planned to be drilled in 2011 and, subject to identification of a suitable partner, the Company also plans to drill the Fantuzza-1 well in 2011.

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 & Nominations 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.

After reviewing external market benchmarks and considering the company's financial position, the board has determined an appropriate remuneration package for the new Chief Executive Officer, Giovanni Catalano comprising base pay, benefits and bonus incentives based on agreed performance objectives and payable, if earned, in cash or shares at the Company's direction.

Since listing in 2004, the Company has largely based its long-term incentive plans on issues of shares and options vesting over 3 year periods rather than cash payments to minimise calls on the company's cash reserves. In 2010, employees were given the choice to receive their short-term bonus in shares or cash. Depending on the Company's cash reserves, on an annual basis the Board will review the method of payment (i.e. cash compared to share-based payments) for employee short-term bonuses.

Consequences of performance on shareholder wealth

In considering the consolidated entity'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	2010	2009	2008	2007	2006
Loss attributable to owners of the company (€'000s) *	(2,324)	(7,203)	(4,172)	(1,572)	(1,614)
Earning / (loss) per share (€ cents per share) *	(2.11)	(6.99)	(4.54)	(1.78)	(1.95)
Dividends paid	NIL	NIL	NIL	NIL	NIL
Share Price at year end - AU \$	0.21	1.68	1.10	1.50	1.66

* 2008, 2007, 2006 are 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 had regard for the stage of development of the Company's business and given consideration to each of the indices outlined above and other operational and business development achievements of future benefit to the Company but not reflected in those financial measures.

Senior Executives

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 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. 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.

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 since April 2008 and has no plans to issue options in the immediate future.

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees and superannuation contributions. There is no current scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors. Given the size of PVE, and the focussed nature of its business and shareholdings structure, issues of share options to Non-Executive Directors have previously been made, and may in the future be made subject to approval by shareholders, to enhance overall shareholder wealth creation. The board of directors and shareholders last approved the maximum agreed remuneration pool for Non-Executive Directors at a meeting of the Company in late 2004 at AS\$200,000 per annum (€152,860 as at 31 December 2010). This pool has not varied since listing in 2004.

The total fees paid in 2010 to Non-Executive Directors was €104,900 (2009 €70,000).

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: 19 May 2010
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2010: €36,000
- No termination benefits

David McEvoy, Non-executive director

- Commencement Date: 19 May 2010
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2010: €24,000
- No termination benefits

Byron Pirola, Non-executive director

- Commencement Date: 30 May 2008
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December 2010: €24,000
- No termination benefits

Gregory Short, Non-executive director

- Commencement Date: 21 July 2010
- Term of Appointment: 3 years until AGM in May when Mr. Short intends to stand for re-election
- Fixed remuneration for the year ended 31 December 2010: €24,000
- No termination benefits

Michael Masterman, Non -executive director (previously Chief Executive Officer)

- Commencement Date: 11 October 2010
- Term of Agreement: until AGM in May when Mr. Masterman intends to stand for re-election
- Fixed remuneration as a non-executive director: €24,000
- No termination benefits

Executives:

Michael Masterman, Chief Executive Officer (resigned 10 October 2010)

- Commencement Date: 14 December 2008
- Term of Agreement: Indefinite terms subject to termination by either party
- Fixed remuneration for the year ended 31 December 2010: €200,000 per annum (inclusive of non-monetary benefits). Remuneration was paid on a pro rata basis in light of Mr. Masterman's resignation effective October 2010
- Annual performance based fee of up to 100% of his contracted service fee subject to the achievement of performance criteria agreed with the Board
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year total fixed remuneration

Giovanni Catalano, Chief Executive Officer (previously Deputy Chief Executive Officer and Chief Operating Officer)

- Commencement Date: 1 July 2010 as Chief Operating Officer (COO); as of 11 October 2010 as Chief Executive Officer (CEO)
- Term of Agreement: The services of Mr. Catalano were originally provided through a service contract with a management company for 2 years with a further 1 year extension at the option of either the Company or the service company. A new agreement for services as the CEO provide for an indefinite term subject to termination by either party on three month's notice
- Fixed service contract fee of €180,000 per annum plus accommodation costs and other non-monetary benefits

- Sign on bonus for a total of €100,000 payable in four quarterly installments, 50% of which is to be paid through the issue of shares and 50% in cash. The first two installments were settled in 2010 through the issue of shares. Mr. Catalano retains the sign-on entitlements under his new CEO agreement
- Annual performance based fee of up to 70% of his contracted service 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 three months' service fee

Doug Colkin, Chief Operating Officer (resigned 31 July 2010)

- Commencement Date: 1 April 2008
- Term of Agreement: The services of Mr. Colkin were provided through a service contract with a management company which terminated on 31 July 2010
- Fixed service contract fee of €14,583 per calendar month plus accommodation costs
- No termination benefit

Lisa Jones, Company Secretary

- Commencement Date: 21 October 2009
- Term of Agreement: Indefinite but terminable by either party on one month's notice
- Contracted on a fixed monthly retainer (A\$2,250 to the end of 31 December 2010) to provide company secretarial and corporate governance services
- No termination benefit

Directors and executive officers' remuneration - Consolidated

The remuneration details of each Director and specified executives during the year is presented in the table below. There are no executive officers of the Group other than those listed.

		Short-term					Post-Employment	Share-based payments			Proportion of remuneration performance related	Value of options as proportion of remuneration	
		Salary & fees €	Accommo- -dation €	Car €	Other €	Total Base	STI Cash €	Superannuati on benefits €	Short term incentive bonus Shares €	Options €	Total €	%	%
Directors													
G Bradley Chairman Non-executive	2010	36,000	-	-	-	36,000	-	-	-	13,801	49,801	-	28%
	2009	30,000	-	-	-	30,000	-	-	-	51,288	81,288	-	63%
D McEvoy Non-executive	2010	24,000	-	-	-	24,000	-	-	-	13,801	37,801	-	37%
	2009	20,000	-	-	-	20,000	-	-	-	51,288	71,288	-	72%
B Pirola Non-executive	2010	24,000	-	-	-	24,000	-	-	-	13,801	37,801	-	37%
	2009	20,000	-	-	-	20,000	-	-	-	51,288	71,288	-	72%
G Short Non-executive Appointed 5 July 2010	2010	12,500	-	-	-	12,500	-	-	-	-	12,500	-	-
	2009	-	-	-	-	-	-	-	-	-	-	-	-
M Masterman Non-executive Up to 11 October 2010 as Chief Executive Officer	2010	132,000	26,717	518	5,106	164,341	140,000*	-	-	23,001	327,342	50%	6%
	2009	144,000	31,312	10,203	14,485	200,000	-	-	59,600	85,481	345,081	42%	25%
Total for Directors	2010	228,500	26,717	518	5,106	260,841	140,000	-	-	64,404	465,245		
	2009	214,000	31,312	10,203	14,485	270,000	-	-	59,600	239,345	568,945		

* Paid in respect of 2009 calendar year performance. No bonus was paid for the 2010 calendar year.

Directors and executive officers' remuneration - Consolidated (Continued)

		Short-term				Total Base	STI Cash €	Post-Employment Superannuation benefits €	Share-based payments		Total €	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees €	Accommodation €	Car €	Other €				Short term incentive bonus Shares €	Options €			
Specified Executives													
G Catalano													
Chief Executive Officer													
Appointed 1 July 2010													
From 11 October 2010													
as CEO*													
2010	96,750	15,781	-	-	112,531	-	-	43,327	-	155,858	28%	-	
2009	-	-	-	-	-	-	-	-	-	-	-	-	
D Colkin													
Chief Operating Officer													
Resigned 31 July 2010													
2010	94,789	13,236	-	771	108,796	43,750	-	-	4,601	157,147	28%	3%	
2009	174,996	26,736	-	1,593	203,325	-	-	37,251	17,096	257,672	21%	7%	
Lisa Jones													
Company Secretary													
2010	19,204	-	-	-	19,204	-	-	-	-	19,204	-	-	
2009	3,155	-	-	-	3,155	-	-	-	-	3,155	-	-	
D Del Borrello													
Resigned 21 Oct 2009													
2010	-	-	-	-	-	-	-	-	-	-	-	-	
2009	119,875	-	-	4,000	123,875	-	-	62,581	18,298	204,754	40%	9%	
Total for Specified Executives													
2010	210,743	29,017	-	771	240,531	43,750	-	43,327	4,601	332,209			
2009	298,026	26,736	-	5,593	330,355	-	-	99,832	35,394	465,581			
Total Directors and Executives													
2010	439,243	55,734	518	5,877	501,372	183,750	-	43,327	69,005	797,454			
2009	512,026	58,048	10,203	20,078	600,355	-	-	159,432	274,739	1,034,526			

*Mr. Catalano received a share- based performance bonus in 1Q2011 for the equivalent of Euro 10,000 relative to the 2010 calendar year.

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

- A. Short term incentive bonuses awarded as remuneration to specified executives is related to performance hurdles established by the Remuneration Committee. The performance hurdles are a combination of company targets and objectives specific to the executive.
- B. The fair value of the options is calculated at the date of grant using a binomial option-pricing model (for options granted in 2008) and Black-Scholes formula (for options granted in 2006 and 2009) and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. Market conditions have been taken into account within the valuation model including share price hurdles.

The following factors and assumptions were used in determining the fair value of options on grant date.

Grant Date	Option Life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate
30 April 2009	2.08 years	€0.18 (A\$0.32)	€1.00(A\$1.75)	€0.91 (A\$1.60)	40%	5.45%
31 May 2008	3.00 years	€0.28 (A\$0.49)	€1.00(A\$1.75)	€0.98 (A\$1.73)	40%	6.75%

The fair value, exercise price and price on grant date have been translated into Euro at the rate on the day of transition from Australian dollars to Euro functional currency.

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 and included in share based payments to each director and specified executive.

Directors and specified executives	2010			2009		
	Cash Bonus €	Bonus paid by issue of shares €	% vested in year	Cash Bonus €	Bonus paid by issue of shares €	% vested in year
M Masterman	140,000	-	70%	-	59,600	100%
D Colkin	43,750	-	100%	-	37,251	100%
G Catalano	-	43,327	100%	-	-	-
D Del Borrello	-	-	100%	-	62,581	100%

Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2009 and 2010 financial years.

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. (2009: 150,000)

The following options vested in the period:

	No. of options vested during 2010	No. of options vested during 2009
Directors		
G Bradley	200,000	200,000
D McEvoy	200,000	200,000
B Pirola	200,000	200,000
M Masterman	333,333	333,333
Executives		
D Colkin (Resigned 31 July 2010)	66,666	66,666
D Del Borrello (Resigned 21 Oct 2009)	-	100,000

Options granted in 2009:

	No of options granted during 2009	Grant date	Fair value per option at grant date €	Exercise price per option €	Expiry date
Executives					
D Del Borrello(a) Resigned 21 Oct 2009	150,000	30 Apr 2009	0.18	1.00	31 May 2011

(a) The options were provided at no cost. 100,000 Options vested during the year, 50,000 options granted in the year were forfeited as they had not vested on termination of employment. The vested options will only become exercisable once the Company's closing share price has been equal to or greater than A\$2.25 for 30 consecutive trading days. The fair value of the options vested granted as compensation in 2009 was determined as €18,298.

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 2010.

75,000 options granted as compensation in prior periods lapsed on expiration date of 1 December 2010.

Analysis of options over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to each director of the Company and key management personnel are detailed below:

	Number	Date Granted	% vested	% forfeited in year	Financial year in which grant vests
<i>Directors:</i>					
G Bradley	200,000	30 May 2008	100%	-	31 Dec 2008
	200,000	30 May 2008	100%	-	31 Dec 2009
	200,000	30 May 2008	100%	-	31 Dec 2010
D McEvoy	200,000	30 May 2008	100%	-	31 Dec 2008
	200,000	30 May 2008	100%	-	31 Dec 2009
	200,000	30 May 2008	100%	-	31 Dec 2010
B Pirola	200,000	30 May 2008	100%	-	31 Dec 2008
	200,000	30 May 2008	100%	-	31 Dec 2009
	200,000	30 May 2008	100%	-	31 Dec 2010
M Masterman	333,333	30 May 2008	100%	-	31 Dec 2008
	333,333	30 May 2008	100%	-	31 Dec 2009
	333,334	30 May 2008	100%	-	31 Dec 2010
<i>Specified Executives</i>					
D Colkin	66,666	30 May 2008	100%	-	31 Dec 2008
Resigned 31 July 2010	66,666	30 May 2008	100%	-	31 Dec 2009
	66,667	30 May 2008	100%	-	31 Dec 2010
D Del Borrello	75,000	30 Nov 2006	100%	-	31 Dec 2008
Resigned 21 October 2009	75,000	30 Nov 2006	100%	-	31 Dec 2010
	100,000	30 April 2009	100%	-	31 Dec 2009
	50,000	30 April 2009	-	-	-

Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the specified executives is detailed below:

	Granted in year €	Value of options exercised in year €	Lapsed in year €(A)
<i>Directors</i>			
G Bradley	-	-	-
D McEvoy	-	-	-
B Pirola	-	-	-
G Short	-	-	-
M Masterman	-	-	-
<i>Specified Executives</i>			
G Catalano	-	-	-
L Jones	-	-	-
D Colkin (Resigned 31 July 2010)	-	-	-
D Del Borrello (Resigned 21 Oct 2009)	-	-	294

(A) The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using Black-Scholes formula assuming the performance criteria had been achieved. 75,000 options lapsed in the year.

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	Options over Ordinary Shares \$1.75 expiring 31 May 2011
G Bradley	1,123,880	600,000
M Masterman	26,222,569	1,000,000
D McEvoy	314,210	600,000
B Pirola	7,112,782	600,000
G Short	-	-

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 unissued ordinary shares of the Company under option are:

Expiry Date	Exercise price	Number of shares
31 May 2011	€1.00 (A\$1.75)	3,100,000

All options expire on the earlier of their expiry or termination of employee's employment (at the Board's discretion).

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

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 has not performed any other services in addition to their statutory duties as auditors to the Company. 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 15 and forms part of the Directors' report for the financial year ended 31 December 2010.

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



Graham Bradley
Chairman
Sydney, NSW Australia

14 March 2011



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 2010 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

A handwritten signature in blue ink, appearing to be 'R Gambitta', written over a horizontal line.

R Gambitta

Partner

Perth

14 March 2011

PO VALLEY ENERGY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	NOTES	CONSOLIDATED 2010 €	2009 €
Current Assets			
Cash and cash equivalents	10 (a)	969,352	6,622,329
Trade and other receivables	12	2,443,955	2,348,206
Inventory	11	897,134	810,749
Total Current Assets		<u>4,310,441</u>	<u>9,781,824</u>
Non-Current Assets			
Receivables	12	1,478,819	1,953,326
Other assets		39,661	23,062
Property, plant & equipment	13	7,015,905	5,831,885
Resource property costs	14	25,995,048	28,911,578
Total Non-Current Assets		<u>34,529,433</u>	<u>36,719,851</u>
Total Assets		<u>38,839,874</u>	<u>46,501,135</u>
Current Liabilities			
Trade and other payables	16	2,206,138	3,090,601
Provisions	17	75,994	184,285
Unearned revenue		-	841,004
Total Current Liabilities		<u>2,282,132</u>	<u>4,115,890</u>
Non-Current Liabilities			
Provisions	17	2,846,186	2,361,575
Interest bearing loans	18	5,519,347	9,637,183
Total Non-Current Liabilities		<u>8,365,533</u>	<u>11,998,758</u>
Total Liabilities		<u>10,647,665</u>	<u>16,114,649</u>
Net Assets		<u>28,192,209</u>	<u>30,386,486</u>
Equity			
Issued capital	19	44,659,630	44,599,315
Reserves	19	2,080,996	2,011,990
Accumulated losses		(18,548,417)	(16,224,819)
Total Equity		<u>28,192,209</u>	<u>30,386,486</u>

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

PO VALLEY ENERGY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

		CONSOLIDATED	
	NOTES	2010	2009
		€	€
Revenue	3	7,157,331	-
Operating costs		(1,726,944)	-
Depreciation and amortisation expense		(2,821,596)	-
Gross Profit		2,608,791	-
Other income		60,658	38,607
Employee benefit expense	4	(1,784,129)	(1,375,594)
Share based payments	4	(130,390)	(544,792)
Depreciation expense		(18,603)	(12,573)
Corporate overheads	5	(1,398,582)	(973,604)
Resource property costs impairment losses		(1,075,168)	(5,108,595)
Results from operating activities		(1,737,423)	(7,976,551)
Finance income		283,841	1,001,603
Finance expenses		(803,315)	(227,857)
Net finance income / (expenses)	7	(519,474)	773,746
Loss before income tax expense		(2,256,897)	(7,202,805)
Income tax benefit / (expense)	8	(66,701)	-
Loss for the period		(2,323,598)	(7,202,805)
Other comprehensive income			
Foreign currency translation differences for foreign operations		-	(4,858,090)
Other comprehensive loss for the period		-	(4,858,090)
Total comprehensive loss for the period		(2,323,598)	(12,060,895)
Loss attributable to:			
Owners of the company		(2,323,598)	(7,202,805)
Loss for the period		(2,323,598)	(7,202,805)
Total comprehensive loss attributable to:			
Owners of the Company		(2,323,598)	(12,060,895)
Total comprehensive loss for the period		(2,323,598)	(12,060,895)
Basic and Diluted loss per share	9	(2.11) cents	(6.99) cents

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

PO VALLEY ENERGY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

Consolidated	Share capital €	Attributable to equity holders of the Company Translation Reserve €	Option Reserve €	Accumulated Losses €	Total €
Balance at 1 January 2009	32,736,250	6,050,359	544,982	(9,022,014)	30,309,577
Total comprehensive income for the period:					
Loss for the period	-	-	-	(7,202,805)	(7,202,805)
Other comprehensive income:					
Foreign currency translation differences	-	(4,858,090)	-	-	(4,858,090)
Total comprehensive income for the period	-	(4,858,090)	-	(7,202,805)	(12,060,895)
Transactions with owners recorded directly in equity: Contributions by and distributions to owners					
Shares issued	12,097,050	-	-	-	12,097,050
Share issue costs	(504,038)	-	-	-	(504,038)
Share based payments	270,053	-	274,739	-	544,792
Balance at 31 December 2009	44,599,315	1,192,269	819,721	(16,224,819)	30,386,486
Balance at 1 January 2010	44,599,315	1,192,269	819,721	(16,224,819)	30,386,486
Total comprehensive income for the period:					
Loss for the period	-	-	-	(2,323,598)	(2,323,598)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(2,323,598)	(2,323,598)
Transactions with owners recorded directly in equity: Contributions by and distributions to owners					
Share issue costs	(1,069)	-	-	-	(1,069)
Share based payments	61,384	-	69,006	-	130,390
Balance at 31 December 2010	44,659,630	1,192,269	888,727	(18,548,417)	28,192,209

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

PO VALLEY ENERGY LIMITED
STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	CONSOLIDATED 2010 €	2009 €
Cash flows from operating activities			
Receipts from customers		6,533,658	-
Payments to suppliers and employees		(4,959,381)	(2,020,656)
Interest received		49,558	129,502
Interest paid		(345,604)	(400,708)
Net cash inflow / (outflow) from operating activities	10 (b)	<u>1,278,231</u>	<u>(2,291,862)</u>
Cash flows from investing activities			
Payments for non-current assets		(44,339)	(8,442)
Payments on security deposits		(16,600)	-
Payments for resource property costs		(2,678,680)	(12,043,902)
Revenues received during commissioning phase		-	981,321
Proceeds from sale of financial assets		-	630,000
Net cash outflow from investing activities		<u>(2,739,619)</u>	<u>(10,441,023)</u>
Cash flows from financing activities			
Proceeds from the issues of shares		-	12,097,050
Payments for share issue costs		(1,069)	(499,615)
Proceeds from borrowings		-	5,279,269
Repayments of borrowings		(4,279,269)	-
Payments for borrowing costs		(150,752)	(297,637)
Net cash inflow / (outflow) from financing activities		<u>(4,431,090)</u>	<u>16,579,067</u>
Net increase / (decrease) in cash held		(5,892,478)	3,846,182
Cash and cash equivalents at 1 January 2010		6,622,329	2,948,689
Effects of exchange rate fluctuations on cash held		239,501	(172,542)
Cash and cash equivalents at 31 December 2010	10 (a)	<u><u>969,352</u></u>	<u><u>6,622,329</u></u>

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

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associated and jointly controlled entities.

The Group primarily is involved in the exploration for gas in the Po Valley region in Italy and appraisal, development and production of gas properties.

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 and the financial report of the Company comply 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 14 March 2011.

(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.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current financial year amounts and other disclosures.

(c) FUNCTIONAL AND PRESENTATION CURRENCY

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

(d) 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 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) USE OF ESTIMATES AND JUDGEMENTS (continued)

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 and judgment in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation and judgement 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
- Independent valuations of underlying assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant judgment 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 figure costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include judgemental assumptions 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1.3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by Group entities.

(a) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) PRINCIPLES OF CONSOLIDATION (continued)

(ii) Joint controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably 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 assets 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) IMPAIRMENT (continued)

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 then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) PROPERTY, PLANT AND EQUIPMENT (continued)

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) 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:

Castello	8.67%
Sillaro	8.08%

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.

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

	2010	2009
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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) FINANCIAL INSTRUMENTS (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note (i).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss as finance income or expense.

Financial assets at fair value through profit and loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss as finance income or expense.

Other

Other non-derivative financial instruments are measured at amortised 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and 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 and accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure relating to 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.

Cumulative exploration and evaluation expenditure which no longer satisfies the above policy is no longer carried forward as an asset, but is charged against, and shown as a deduction from profit.

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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) RESOURCE PROPERTIES (continued)

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:

Castello	8.67%
Sillaro	8.08%

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated (refer Note 1.3 (c) (ii)).

(h) PROVISIONS

Rehabilitation costs

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

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that has occurred up to the balance sheet date and abandonment of the well site and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining useful lives of the areas of interest.

Annual increases in the provision relating to the change in net present value of the provision 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 (c) above).

(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 item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(l) EARNINGS/LOSS PER SHARE

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

Diluted EPS is calculated by dividing the basic EPS earnings, 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, and the associated costs can be estimated reliably there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Sale of gas

Gas sales revenue is recognised when control of the gas passes at the delivery point. Proceeds received in advance of control passing are recognized as unearned revenue.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(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 2010, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 31 December 2013 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.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 31 December 2011 financial statements, are not expected to have any impact on the financial statements.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 31 December 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB9* make amendments to a number of statements as a consequence of issuance of AASB 9 *Financial Instruments* in December 2010. The amendments will become mandatory for the Group's 31 December 2013 financial statements. The Group has not yet determined the potential effect of these amendments.

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 Company's and 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 Company's objectives of creating and maintaining shareholder value, and the successful execution of the Company's strategies in gas exploration and development. The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit and Risk Committee. Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group invests in short term deposits and trades with recognised, creditworthy third parties. 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.

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

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 2: FINANCIAL RISK MANAGEMENT (continued)

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings.

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.

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.

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.

	CONSOLIDATED	
	2010	2009
	€	€
NOTE 3: REVENUE		
Gas sales	7,157,331	-

NOTE 4: EMPLOYEE BENEFIT EXPENSES

Wages and salaries	1,784,129	1,375,594
Equity settled share-based payment transactions		
• Shares issued in lieu of salaries and bonus	61,384	270,053
• Options vested during the period	69,006	274,739
	<u>130,390</u>	<u>544,792</u>
	<u>1,914,519</u>	<u>1,920,386</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONSOLIDATED
2010 **2009**
€ **€**

NOTE 5: CORPORATE OVERHEADS

Corporate overheads comprises:

Company administration and compliance	179,377	136,389
Professional fees	541,756	411,652
Office costs	328,428	199,222
Travel and entertainment	180,470	184,318
Other expenses	168,551	42,023
	<u>1,398,582</u>	<u>973,604</u>

NOTE 6: AUDITORS' REMUNERATION

Remuneration for audit or review of the financial reports of the subsidiary NSI and the Group:

Auditors of the Company – KPMG Australia

Audit and review services	67,809	39,961
Under-accrued from prior year	10,132	-
	<u>77,941</u>	<u>39,961</u>

The auditors received no other benefits.

NOTE 7: FINANCE INCOME AND EXPENSE

Recognised in profit and loss:

Interest income	40,951	129,521
Foreign exchange gains	242,890	872,082
Finance income	<u>283,841</u>	<u>1,001,603</u>

Interest expense	380,301	6,038
Amortisation of borrowing costs	212,185	-
Unwind of discount on site restoration provision	210,829	249,315
Fair value movement on financial assets	-	(27,496)
Finance expense	<u>803,315</u>	<u>227,857</u>
Net finance income / (expense)	<u>(519,474)</u>	<u>773,746</u>

Recognised in other comprehensive income:

Foreign currency translation differences for foreign operations	-	(4,858,090)
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PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONSOLIDATED

2010 2009
€ €

NOTE 8: INCOME TAX EXPENSE

Current tax

Current period	66,701	-
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Deferred tax

Origination and reversal of temporary differences	(3,931)	725
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Changes in unrecognised deductible temporary differences	3,931	(725)
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Deferred tax benefit	-	-
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Total income tax expense	66,701	-
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Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)

Loss for the period before tax	(2,256,897)	(7,202,805)
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Income tax (benefit) / expense using the Company's domestic tax rate of 30 per cent (2009: 30%)	(677,069)	(2,160,842)
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Non-deductible expenses:

Share based payments	32,138	163,438
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Impairment losses	322,550	1,532,586
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Other	34,448	218,098
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Foreign exchange differences	-	(261,762)
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Effect of tax rates in foreign jurisdictions	(6,287)	33,037
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Current year losses for which no deferred tax asset was recognised	367,301	474,720
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Tax losses utilised in current year	(69,150)	-
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Change in unrecognised temporary differences	(3,931)	725
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Tax effect of regional taxes in Italy – current	66,701	-
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Income tax expense	66,701	-
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PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONSOLIDATED
2010 **2009**
€ €

NOTE 9: LOSS PER SHARE

Basic loss per share (€ cents)	(2.11)	(6.99)
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The calculation of basic loss per share was based on the loss attributable to shareholders of €2,323,598 (2009: €7,202,805) and a weighted average number of ordinary shares outstanding during the year of 110,240,942 (2009: 102,990,833).

Diluted loss per share is the same as basic loss per share.

	No. of	2010 Weighted average no.	2009 Weighted average no.
The number of weighted average shares is calculated as follows:	days		
Number of shares on issue at beginning of the year	365	110,179,926	94,768,096
212,642 issued on 19 September 2010	104	60,588	
156,338 issued on 31 December 2010	1	428	
7,004,167 issued on 26 February 2009	309		5,929,555
495,833 issued on 3 March 2009	302		410,251
294,729 issued on 6 May 2009	240		193,794
833,333 issued on 16 September 2009	106		242,009
5,500,000 issued on 6 October 2009	86		1,295,890
1,283,768 issued on 18 November 2009	43		151,238
		110,240,942	102,990,833

NOTE 10: (a) CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents	969,352	6,622,329
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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		
Loss for the period	(2,323,598)	(7,202,805)
Adjustment for non-cash items:		
Unrealised net foreign exchange (gains) / loss	(239,501)	(935,681)
Share-based payments	130,390	544,792
Depreciation and amortisation	2,840,198	12,573
Resource property costs impairments	1,075,168	5,108,595
Fair value movement on financial assets	-	(27,496)
Unwind of discount on site restoration provision	210,829	249,314
Amortisation of borrowing costs	212,185	-
Capitalised interest	-	(394,670)
Change in operating assets and liabilities:		
(Increase) decrease in receivables	378,758	80,012
Decrease (increase) in other assets	-	(6,391)
Increase (decrease) in trade and other payables	(897,907)	275,133
Increase in provisions and accruals	(108,291)	4,762
Net cash outflow from operating activities	1,278,231	(2,291,862)

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONSOLIDATED
2010 **2009**
€ **€**

NOTE 11: INVENTORY

Well equipment – at cost	897,134	810,749
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NOTE 12: TRADE AND OTHER RECEIVABLES

Accrued gas sales revenue	376,638	-
Sundry debtors	75,080	236,071
Indirect taxes receivable (a)	1,992,237	2,112,135
	<u>1,866,838</u>	<u>2,348,206</u>

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	1,985,308	2,078,848
Non-current	1,478,819	1,953,326

The indirect taxes relate to Italian Value Added Tax ("VAT"), which is typically 20% 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. We note that VAT remitted on oil and gas sales in Italy is 10%.

NOTE 13: PROPERTY PLANT & EQUIPMENT

Office Furniture & Equipment:

<i>At cost</i>	163,168	118,829
<i>Accumulated depreciation</i>	(98,878)	(80,275)
	<u>64,290</u>	<u>38,554</u>

Plant & Equipment under construction

<i>At cost</i>	-	5,793,331
<i>Accumulated depreciation</i>	-	-
	<u>-</u>	<u>5,793,331</u>

Gas producing plant and equipment

<i>At cost</i>	7,557,376	-
<i>Accumulated depreciation</i>	(605,761)	-
	<u>6,951,615</u>	<u>-</u>
	<u>7,015,905</u>	<u>5,831,885</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	CONSOLIDATED	
	2010	2009
	€	€
NOTE 13: PROPERTY PLANT & EQUIPMENT (continued)		
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
Office Furniture & Equipment:		
Carrying amount at beginning of year	38,554	42,971
Additions	44,339	8,442
Depreciation expense	(18,603)	(12,573)
Foreign exchange difference	-	(286)
Carrying amount at end of year	64,290	38,554
		-
Plant & Equipment under construction:		
Carrying amount at beginning of year	5,793,331	5,793,331
Additions	1,078,081	-
Transfer to gas producing assets	(6,871,412)	-
Carrying amount at end of year	-	5,793,331
		-
Gas Producing assets:		
Carrying amount at beginning of period	-	-
Transferred from exploration and development assets	685,964	-
Transferred from plant and equipment under construction	6,871,412	-
Additions	-	-
Depreciation expense	(605,761)	-
Carrying amount at end of period	6,951,615	-
	7,015,905	5,831,885
NOTE 14: RESOURCE PROPERTY COSTS		
Resource Property costs		
Exploration Phase	5,923,127	6,139,221
Development Phase	-	22,772,357
Production Phase	20,071,921	-
	<u>25,995,048</u>	<u>28,911,578</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2010	2009
	€	€
Reconciliation of carrying amount of resource properties		
<i>Exploration Phase</i>		
Carrying amount at beginning of period	6,139,221	7,689,974
Foreign exchange difference	-	(1,060,034)
Exploration expenditure	323,077	4,617,876
Change in estimate of rehabilitation assets	(265,357)	-
Impairment losses	(273,814)	(5,108,595)
Carrying amount at end of period	<u>5,923,127</u>	<u>6,139,221</u>

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.

<i>Development Phase</i>		
Carrying amount at beginning of period	22,772,357	22,366,345
Foreign exchange difference	-	(3,151,065)
Development expenditure	200,704	9,490,725
Commissioning revenue received (i)	-	(140,317)
Reclassified as Plant & Equipment	(685,964)	(5,793,331)
Transfer to production assets	<u>(22,287,097)</u>	<u>-</u>
Carrying amount at end of period	<u>-</u>	<u>22,772,357</u>
(i)	Relates to gas sales generated prior to commercial production having occurred.	

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 14: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2010	2009
	€	€
<i>Production Phase</i>		
Carrying amount at beginning of period	-	-
Reclassified from development expenditure (i)	22,287,097	-
Additions	262,873	-
Change in estimate of rehabilitation assets	539,139	-
Amortisation of producing assets	(2,215,834)	-
Impairment loss	(801,354)	-
Carrying amount at end of period	<u>20,071,921</u>	-

Commercial production on the Castello well began on 12 January 2010. An impairment trigger was identified with regard to Castello during the second quarter of 2010 as a result of decline in pressure and the field was stopped for testing. Accordingly, the associated resource property costs and related plant and equipment (as a cash generating unit) have been tested for impairment. The recoverable amount has been determined by reference to a discounted cashflow forecast model. The key assumptions adopted in that model, based on a two well development, include gas pricing, expected gas production, operating and capital expenditure and a discount rate. The expected production and reserves have been independently reviewed. The recoverable amount is most sensitive to the gas production, gas price assumption and the discount rate. As result of the impairment test, the recoverable amount for Castello has been determined to be €9.1million resulting in an impairment expense of €801,354.

Commercial production from the Sillaro well commenced on 18 May 2010.

(i) Reclassification from development expenditure relates to capitalised costs for gas fields classified as production assets in 2010.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

CONSOLIDATED	
2010	2009
€	€

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

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

Losses available for offset against future taxable income	3,795,144	3,269,073
Share issue expenses	101,821	144,869
Capitalised borrowing costs	117,389	185,143
Accrued expenses and liabilities	22,230	8,163
Unrecognised deferred tax assets	4,036,584	3,607,248

Unrecognised deferred tax liabilities

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

Interest receivable	-	(2,754)
Unrecognised deferred tax liabilities	-	(2,754)
Net deferred tax asset not recognised	4,036,584	3,604,494

Deferred tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the relevant company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) No changes in tax legislation adversely affect the relevant company in realising the benefit from the deductions for the losses.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year

	Balance 1 January 2009	Profit and loss	Equity	Balance 31 December 2009	Profit or loss	Equity	Balance 31 December 2010
Consolidated							
Losses available for offset against future taxable income	2,566,860	642,845	59,368	3,269,073	481,376	44,696	3,795,145
Share issue expenses	54,351	-	90,518	144,869	-	(43,048)	101,821
Capitalised borrowing costs	148,169	36,974	-	185,143	(67,754)	-	117,389
Accrued expenses and liabilities	7,433	730	-	8,163	14,067	-	22,230
Income receivable	(2,748)	(6)	-	(2,754)	2,754	-	-
Total unrecognised deferred tax asset	2,774,065	680,543	149,886	3,604,494	430,442	1,648	4,036,585

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2010	2009
	€	€
Trade payables and accruals	2,136,289	3,079,103
Other payables	69,849	11,498
	<u>2,206,138</u>	<u>3,090,601</u>

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

NOTE 17: PROVISIONS

Current:

Provision for legal claim	-	125,000
Employee leave entitlements	75,994	59,285
	<u>75,994</u>	<u>184,285</u>

Non Current:

Restoration provision	<u>2,846,186</u>	<u>2,361,575</u>
Reconciliation of restoration provision:		
Opening balance	2,361,575	1,239,301
Increase in provision due to revised estimates	273,782	872,959
Increase in provision from unwind of discount rate	210,829	249,315
Closing balance	<u>2,846,186</u>	<u>2,361,575</u>

Provision has been made based on the net present value of the estimated cost of restoring the environmental disturbances that has 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 Company's and Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

	CONSOLIDATED	
	2010	2009
	€	€
Non-current liabilities		
Bank of Scotland finance facility	<u>5,519,347</u>	<u>9,637,183</u>

The Group's exposure to currency, interest rate and liquidity risks related to loans are disclosed in note 22.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 18: INTEREST BEARING LOANS (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2010		31 December 2009	
	Currency	Nominal Interest rate	Year of Maturity	Face Value \$	Carrying Amount \$	Face Value \$	Carrying Amount \$
Current liabilities							
Secured bank loan	Euro	Euribor + 1.8%	2013	5,519,347	5,519,347	9,637,183	9,637,183

The amount presented is disclosed net of borrowing costs of €480,653 (2009: €642,085).

Bank of Scotland have provided a €25,000,000 finance facility which provided an initial borrowing base of €5,000,000 to the Group to finance the construction program of the Castello and Sillaro fields and a senior facility of €20,000,000.

The senior facility became available on 19 June 2009 when the Company received its formal production concessions and final development approval for the Castello and Sillaro fields. This senior debt replaced the initial tranche of €5,000,000 and matures on 15 November 2013.

The current borrowing limit for the six months to 30 June 2011 is set to €9,110,000 and incorporates the semi annual borrowing base review during December 2010. Interest is currently payable at Euribor plus 180 basis points. In 2010, the Company repaid €4,279,269 of the senior facility.

The facility is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd.

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares	
	2010 Number	2009 Number
Share Capital		
Opening balance - 1 January	110,179,926	94,768,096
<u>Shares issued during the year:</u>		
Share issue at €0.24 (\$0.33) each on 19 September 2010	212,642	-
Share issue at €0.16 (\$0.21) each on 31 December 2010	156,338	-
Share issue at €0.69 (\$1.20) each on 26 February 2009	-	7,004,167
Share issue at €0.69 (\$1.20) each on 3 March 2009	-	495,833
Share issue at €0.91 (\$1.60) each on 6 May 2009	-	294,729
Share issue at €0.69 (\$1.20) each on 16 September 2009	-	833,333
Share issue at €0.93 (\$1.55) each on 6 October 2009	-	5,500,000
Share issue at €0.97 (\$1.55) each on 18 November 2009	-	1,283,768
Closing balance – 31 December	110,548,906	110,179,926

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 19: CAPITAL AND RESERVES (continued)

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.

The Company issued 368,980 shares to employees pursuant to the employees share purchase plan. These shares were issued at a price as detailed in the table below:

Date Issued	No of shares	Issue Price
19 September 2010	212,642	€ 0.24 (A\$0.33)
31 December 2010	156,338	€ 0.16 (A\$0.21)

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Options Reserve

The option reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 20 for further details of these plans.

Dividends

No dividends were paid or declared during the current year (2009: 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.

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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 20: SHARE BASED PAYMENTS (continued)

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.

The number and weighted average exercise prices of share options is as follows:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of year	3,175,000	€1.00	3,150,000	€1.00
Granted	-	-	150,000	€1.00
Exercised	-	-	-	-
Lapsed	(75,000)	€1.11	(125,000)	€1.07
Balance at end of year	<u>3,100,000</u>	€1.00	<u>3,175,000</u>	€1.00
Exercisable at end of year	<u>3,100,000</u>		<u>2,175,000</u>	

The options outstanding at 31 December 2010 have an exercise of A\$1.75 (€1.00) and a weighted average contractual life of 3 years.

Options granted during the reporting period pursuant to EIOS:

No options were granted in the reporting period.

	2010	2009
Number granted	-	150,000
Grant date	-	30 April 2009
Vesting period	-	2.08 years
Expiry date	-	31 May 2011
Exercise price	-	€1.00 (A\$1.75)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a Black-Scholes model, with the following inputs:

Fair value of share options and assumptions	2010	2009
Fair value at grant date	-	€0.18
Share price at grant date	-	€0.91 (A\$1.60)
Exercise price	-	€1.00 (A\$1.75)
Expected volatility	-	40%
Option life	-	2.08 years
Risk-free interest rate	-	5.45%

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

Number of Options	Grant date	Vesting date	Expiry date	Exercise price
		33 % 1 June 2008		
3,000,000	31 May 2008	33% 1 June 2009 34 % 1 June 2010	31 May 2011	€1.00 (A\$1.75)
100,000	30 April 2009	1 June 2009	31 May 2011	€1.00 (A\$1.75)

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 operations have been aggregated.

In euro	Exploration		Development and Production		Total	
	2010	2009	2010	2009	2010	2009
	€	€	€	€	€	€
External revenues	-	-	7,157,331	-	7,157,331	-
Segment (loss) / profit before tax	(273,814)	(5,108,595)	1,807,438	-	1,533,624	(5,108,595)
Depreciation and amortisation	-	-	(2,821,595)	-	(2,821,595)	-
Impairment on resource property costs	(273,814)	(5,108,595)	(801,354)	-	(1,075,168)	(5,108,595)
Reportable segment assets:						
Resource property costs	5,923,127	6,139,221	20,071,921	22,772,357	25,995,048	28,911,578
Plant & Equipment	-	-	6,951,614	5,793,330	6,951,614	5,793,330
Receivables	-	-	376,638	-	376,638	-
Inventory	-	-	897,134	810,749	897,134	810,749
Capital expenditure	323,077	4,617,876	463,577	9,624,733	786,654	14,242,609
Movement in rehabilitation assets	(265,357)	-	539,139	-	273,782	-
Reportable segment liabilities	(1,466,206)	(1,755,316)	(2,908,420)	(3,878,186)	(4,374,626)	(5,633,502)

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 21: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	2010	2009
Profit or loss:	€	€
Total profit / (loss) for reportable segments	1,533,624	(5,108,595)
<i>Unallocated amounts:</i>		
Net finance income / (expense)	(519,474)	773,746
Other corporate expenses	(3,271,047)	(2,867,956)
Consolidated loss before income tax	<u>(2,256,897)</u>	<u>(7,202,805)</u>
 Assets:		
Total assets for reportable segments	34,220,434	35,515,657
Other assets	4,619,439	10,985,478
Consolidated total assets	<u>38,839,873</u>	<u>46,501,135</u>
 Liabilities:		
Total liabilities for reportable segments	(4,374,626)	(5,633,502)
Other liabilities	(6,273,039)	(10,481,146)
Consolidated total liabilities	<u>(10,647,665)</u>	<u>(16,114,648)</u>

Other Segment Information

All of the Group's revenue is currently attributed to gas sales in Italy with two customers.

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	
	2010	2009
	€	€
Variable rate instruments		
Financial assets	969,352	6,622,329
Financial liabilities	(5,519,347)	(9,637,183)
	<u>(4,549,995)</u>	<u>(3,014,854)</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 22: FINANCIAL INSTRUMENTS (continued)

Fair Value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect the profit or loss or equity.

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 2009.

<i>Effect in €'s</i>	Profit or loss		Equity	
	2010	2009	2010	2009
31 December				
Variable rate instruments	(50,306)	66,623	(50,306)	(35,569)

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 Company has limited its credit risk with current gas customers by requiring each customer to either (i) make a prepayment on gas sales; or (ii) issue a bank guarantee on the Company's behalf in the event of no payment or late payments.

The Group has a concentration of credit risk exposure to the Italian Government for VAT receivable (see note 12.)

The carrying amount of the Group's financial assets represents the maximum credit exposure and is shown in the table below.

	Note	CONSOLIDATED Carrying Amount	
		2010	2009
		€	€
Cash and cash equivalents	10	969,352	6,622,329
Receivables – Current	12	2,443,955	2,348,206
Receivables – Non-current	12	1,478,819	1,953,326
Other assets		39,661	23,062
		<u>4,931,787</u>	<u>10,946,923</u>

No receivables are considered past due nor were any impairment losses recognised during the period.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 22: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

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

**Consolidated
31 December 2010**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(2,206,138)	(2,206,138)	(2,206,138)	-	-	-
Secured bank loan	(5,519,347)	(6,462,033)	(78,090)	(78,090)	(156,180)	(6,305,853)-
	(7,725,485)	(8,668,171)	(2,284,228)	(78,090)	(156,180)	(6,305,853)-

**Consolidated
31 December 2009**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(3,090,601)	(3,090,601)	(3,090,601)	-	-	-
Secured bank loan	(9,637,183)	(11,677,516)	(178,500)	(178,500)	(713,998)	(10,606,518)
	(12,627,784)	(14,768,117)	(3,269,101)	(178,500)	(713,998)	(10,606,518)

(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.

Amounts receivable/(payable) in foreign currency other than functional currency:

	CONSOLIDATED	
	2010	2009
	€	€
Cash	73,852	4,647,220
Current – Payables	(45,591)	(104,713)
Net Exposure	28,261	4,542,507

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 22: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
Australian Dollar (\$)	0.6939	0.5631	0.7669	0.6231

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 2009.

	CONSOLIDATED	
	Profit or loss	Equity
31 December 2010	€	€
Australian Dollar to Euro (€)	2,826	2,826
31 December 2009		
Australian Dollar to Euro (€)	454,251	454,251

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 2010.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 24: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated	
	2010	2009
	€	€
Short-term employee benefits	676,578	597,200
Other long term benefits	-	-
Post-employment benefits	-	-
Share-based payments	112,332	434,171
	788,910	1,031,371

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. Lisa Jones, Company Secretary, is not a key management personnel ("KMP") but is a specified executive, and her remuneration is included in the tables in the remuneration 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

The movement during the reporting period in the number of options over ordinary shares in the Company held directly or indirectly by each key management person, including their personally-related parties, is as follows:

	Held at 31 Dec 2009	Granted	Exercised	Forfeited	Held at 31 Dec 2010 (i)
Directors					
G Bradley	600,000	-	-	-	600,000
M Masterman	1,000,000	-	-	-	1,000,000
D McEvoy	600,000	-	-	-	600,000
B Pirola	600,000	-	-	-	600,000
G Short	-	-	-	-	-
	2,800,000	-	-	-	2,800,000
Executives					
G Catalano	-	-	-	-	-
D Colkin (resigned 31 July 2010)	200,000	-	-	-	200,000
	200,000	-	-	-	200,000

(i) Or the date of ceasing to be a KMP

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 24: RELATED PARTIES (continued)

Options over equity instruments

	Held at 31 Dec 2008	Granted	Exercised	Expired	Held at 31 Dec 2009 (i)
Directors					
G Bradley	600,000	-	-	-	600,000
M Masterman	1,000,000	-	-	-	1,000,000
D McEvoy	600,000	-	-	-	600,000
B Pirola	600,000	-	-	-	600,000
	<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>
Executives					
D Colkin	200,000	-	-	-	200,000
D Del Borrello (resigned 21 October 2009)	150,000	150,000	-	(125,000)	175,000
	<u>350,000</u>	<u>150,000</u>	<u>-</u>	<u>(125,000)</u>	<u>375,000</u>

(i) Or the date of ceasing to be a KMP

The details of the number of options held by key management personnel at 31 December 2010 are as follows:

	\$1.75 Exercise price, expiring 31 May 2011	Total - 2010	Total - 2009
Directors			
G Bradley	600,000	600,000	600,000
M Masterman	1,000,000	1,000,000	1,000,000
D McEvoy	600,000	600,000	600,000
B Pirola	600,000	600,000	600,000
G Short	-	-	-
Executives			
G Catalano	-	-	-
D Colkin (resigned 31 July 2010)	200,000	200,000	200,000
	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>

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 2009	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2010 (iii)
Directors						
G Bradley	1,123,880					1,123,880
M Masterman (i)	23,972,569	3,750,000	-	-	(1,500,000)	26,222,569
D McEvoy	314,270	-	-	-	-	314,270
B Pirola (ii)	7,112,782	-	-	-	-	7,112,782
G Short	-	-	-	-	-	-
	<u>32,523,501</u>	<u>3,750,000</u>	<u>-</u>	<u>-</u>	<u>(1,500,000)</u>	<u>34,773,501</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 24: RELATED PARTIES (continued)

Equity holdings and transactions (continued)

	Held at 31 Dec 2009	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2010 (iii)
Executives						
G. Catalano	-	-	268,255	-	-	268,255
D Colkin (resigned 31 July 2010)	40,935	-	-	-	-	40,935
	<u>40,935</u>	<u>-</u>	<u>268,255</u>	<u>-</u>	<u>-</u>	<u>309,190</u>

	Held at 31 Dec 2008	Purchased	Share based payments	Options Exercised	Sold	Held at 31 Dec 2009 (iii)
Directors						
G Bradley	1,133,981	-	-	-	(10,101)	1,123,880
M Masterman ⁽ⁱ⁾	23,447,064	898,905	59,600	-	(433,000)	23,972,569
D McEvoy	304,593	9,677	-	-	-	314,270
B Pirola ⁽ⁱⁱ⁾	7,112,782	-	-	-	-	7,112,782
	<u>31,998,420</u>	<u>908,582</u>	<u>59,600</u>	<u>-</u>	<u>(443,101)</u>	<u>32,523,501</u>

Executives						
D Colkin	-	3,684	37,251	-	-	40,935
D Del Borrello (resigned 21 October 2009) ⁽ⁱⁱ⁾	114,796	6,189	62,581	-	(118,769)	64,797
	<u>114,796</u>	<u>9,873</u>	<u>99,832</u>	<u>-</u>	<u>(118,769)</u>	<u>105,732</u>

(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) Or the date ceasing to be a KMP

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) Loans advanced by the Company to its controlled entities. These loans are interest free, unsecured and repayable at call. As at 31 December 2010, loans to controlled entities amounted to €37,012,016 (2009: €37,881,346)
- b) Technical services provided to controlled entities by consultants and contractors. Technical service recharges to controlled entities is included in other income of the Company. During the year the Company recharged to its controlled entities €150,255 for technical services.
- c) Expenses incurred by the Company are on-charged to controlled entities at cost.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 25: PARENT ENTITY DISCLOSURES

	2010	2009
	€	€
<i>Financial Position</i>		
Assets		
Current assets	743,905	6,437,740
Non-current assets	48,203,947	48,021,776
Total assets	<u>48,947,852</u>	<u>54,459,516</u>
Liabilities		
Current liabilities	246,858	442,923
Non-current liabilities	5,519,347	9,637,183
Total liabilities	<u>5,766,205</u>	<u>10,080,106</u>
Net Assets	<u>43,181,647</u>	<u>44,379,410</u>
Equity		
Issued capital	44,659,630	44,599,315
Reserves	888,727	819,721
Accumulated losses	(2,366,710)	(1,039,626)
Total equity	<u>43,181,647</u>	<u>44,379,410</u>
<i>Financial Performance</i>		
Loss for the year	(1,327,084)	(4,134,941)
Other comprehensive income	-	-
Total Comprehensive income	<u>(1,327,084)</u>	<u>(4,134,941)</u>

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: GROUP ENTITIES

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 at 31 December 2010 and 2009 and are as follows:

Name:	Country of Incorporation	Class of Shares	2010 Investment €	2009 Investment €	Holding %
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	9,570,433	9,535,924	100
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	597,870	594,259	100
PVE USA Inc.	United States of America	Ordinary	806	806	100
			<u>10,169,109</u>	<u>10,130,989</u>	

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTE 27: 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.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS' DECLARATION

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 16 to 57 , and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Company and the Group's financial position as at 31 December 2010 and of their 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 2010 pursuant to Section.

Dated at Sydney this 14th day of March 2011.

Signed in accordance with a resolution of the directors:



Graham Bradley
Chairman



Byron Pirola
Non-Executive Director



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 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 27 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 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 the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2010 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 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R Gambitta
Partner

Perth
14 March 2011