ANNUAL REPORT 2009

PO VALLEY ENERGY LIMITED ABN 33 087 741 571

CONTENTS

CORPORATE DIRECTORY

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Graham Bradley, Chairman
Michael Masterman, Managing Director
David McEvoy, Non-Executive Director
Byron Pirola, Non-Executive Director

Company Secretary

Lisa Jones

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108 St George's Tce
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155 Bishopsgate
London, UK EC2M 3YB

Stock Exchange Listing

Po Valley Energy Limited shares are listed on the Australian Stock Exchange under the code PVE.

The Company is limited by shares, incorporated and domiciled in Australia.

HIGHLIGHTS

Maiden gas flow at Castello

- Start up on 17 December 2009 and commercial production from 12 January 2010
- First new gas field to come into production in north Italy since deregulation in 1998
- Average production for the March quarter 2010 of 1.9 million cubic feet per day

Commissioning commences at 2nd field Sillaro

- Sillaro-2 drilled to target depth of 2,300 metres in August 2009
- Sillaro-2 completed and tested, with a combined flow of 13 million cubic feet per day
- Two new levels tested and total of six production levels confirmed
- Commissioning commenced in April 2010

Bezzecca-1 progresses towards production with solid drilling result

- Bezzecca-1 drilled to target depth of 2,010 metres in March 2009
- Bezzecca-1 tested at a combined flow of 3.9 million cubic feet per day
- Three well development planned and production application under preparation

Active drilling and development program planned for 2010 and early 2011

- Fantuzza-1 well planned to test Miocene level below Sillaro in second half 2010
- 2D Seismic acquisition planned to support Sant' Alberto development planning and Cembalina drillable prospect
- Gradizza exploration well planned for late 2010/early 2011
- Correggio appraisal well planned for first half 2011

Balance sheet strengthened through placements of €10.8 million (AUD18.5 million) to institutional shareholders and through a well supported €1.24 million (AUD1.99 million) Share Purchase Plan

Chairman's Letter to Shareholders

Dear Shareholders,

One behalf of the Board of Directors, I am pleased to present the Annual Report of the Company for 2009.

The Company has had a very active and successful year. We have commenced maiden production at our Castello field which is a pioneering achievement for the Company. Castello production should be followed shortly by first production at Sillaro where construction is near completion.

In March 2009 Po Valley drilled Bezzecca-1 which was tested at a combined flow rate of 3.9 million cubic feet per day. We plan to submit a Bezzecca development plan to the Italian Ministry in May 2010.

Considerable progress is being made with geological and geophysical studies to identify attractive gas and oil targets in our new licence areas in Northern Italy. Further details of our expanded portfolio of licences are contained in the Managing Director's report.

In line with expectations, the Company incurred an operating loss of €7,202,805 in 2009. During the year the Company raised €10,854,693 (AUD18.5 million) through the placement of shares to institutional shareholders. Also late in 2009 the Company further raised €1,242,357 (AUD1.9 million) by way of a Share Purchase Plan of 1,283,768 ordinary Po Valley shares at a price of a $1.55 per share to 179 eligible shareholders. We thank our investors for their continued support.

The Company ended 2009 with debt of €10.3 million (AUD15.1 million) and cash at bank of €6.6 million (AUD9.7 million).

On behalf of all shareholders, I thank our small but hard working management team for its efforts during 2009. In particular we thank Dom Del Borrello, who left mid year, for his three years as our Chief Financial Officer and Company Secretary. I also thank my Board colleagues for their continued dedication and commitment.

Graham Bradley
Chairman

Managing Director's Report

Dear Shareholders,

Po Valley achieved first gasflow and cashflow from our 100% owned Castello gas field: a crucial milestone for the Company in making the transition from an exploration and development company to a development and production company. Importantly, Castello became the first new gas production field in northern Italy's Po Valley region since the end of the country's energy monopoly by ENI-AGIP and the liberalisation of the Italian gas market in 1998.

First gas has been a long while coming but we are pleased that the commissioning of the new plant has gone smoothly and that Po Valley has banked its first operating revenue. Production is scheduled to expand significantly with the start up of the Sillaro gas production facility in the second quarter of 2010. During the past 12 months, Sillaro-2 has been successfully drilled and construction on the Sillaro surface plant is almost completed at the time of writing this report.

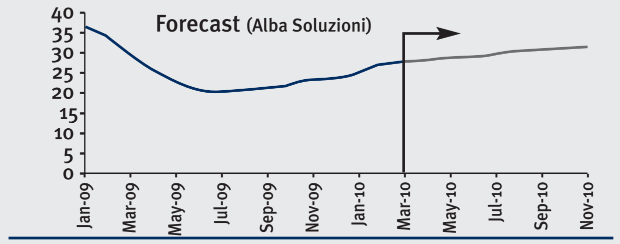
Work on Po Valley's the next generation of gas fields has progressed with Bezzecca and Sant'Alberto moving into production concession approval processes and Fantuzza-1 set to be drilled in the second half of 2010. New exploration activities will also kick off in 2010 with a series of new gas exploration targets to be drilled commencing with Gradizza-1 in the final quarter of 2010.

Italian Market and Gas Sales

In a year of global financial uncertainty, Italian gas demand was adversely affected by falls in Italian industrial production. Demand has picked-up in recent months and is expected to recover to trend levels as the European economies recover. The market has also absorbed the impact of LNG imports from the new Rovigo import terminal.

Po Valley gas production is contracted under formula based contracts with two leading gas distributors, Elettrogas and Italtrading. These contracts, tendered and set in 2008, provide a strong base for sales from both Sillaro and Castello. Pricing is based on the ENI gas release formula which is driven by diesel, fuel oil and crude oil prices. Prices under the formula averaged €0.25 per cubic metre through 2009, rising to €0.26 in the first quarter 2010.

ENI GAS RELEASE (€ CENT/M3)



Italian Sustainability

Po Valley's Castello project is an excellent example of the Company's commitment to safety, environment and community support. The surface plant was completed with no Lost Time Injuries and strong safety controls. The next generation facility has a small foot print, cannot easily be seen from the road and very low environmental emissions. Both the Mayor and the President of the local Cremona province spoke strongly in favor of the project as part of the inauguration ceremony demonstrating the solid support most of Po Valley's natural gas projects have received in Italy. Strong support was also provided from the Prime Minister of Australia, the Hon Kevin Rudd, on his July trip to Italy for the G8 Summit.

Business leaders meet Hon Kevin Rudd in Rome

During the year the Company also supported fund raising activities for l'Aquila earthquake victims, providing funds for the construction of a new pharmacy and medical centre.

The hard working team at Po Valley has had a successful year and I thank them for their effort and the Board for their support.

Michael Masterman
Managing Director &
Chief Executive Officer

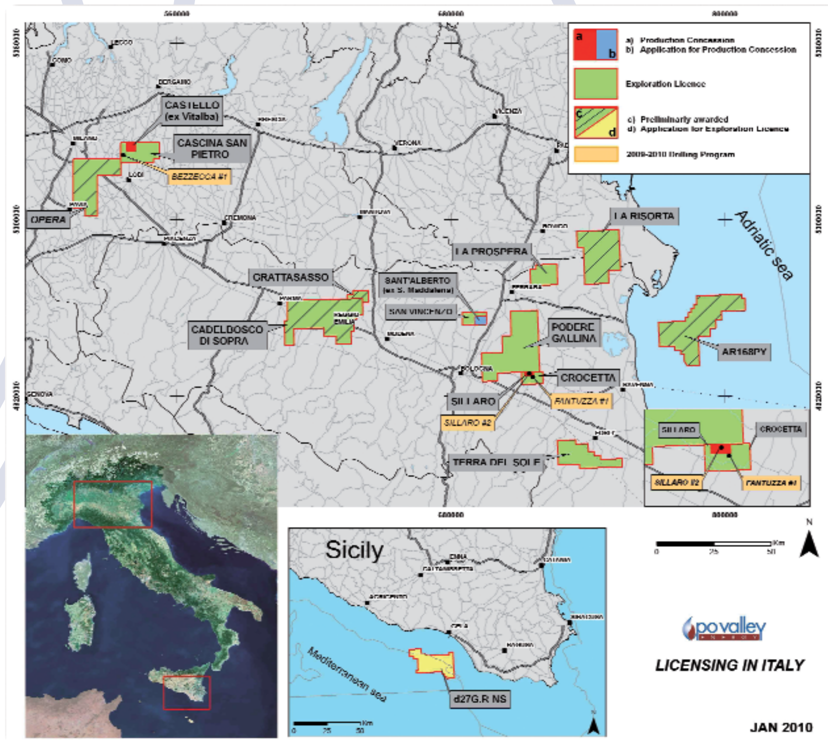
PRODUCTION, DEVELOPMENT, EXPLORATION

Overview

Po Valley operates mainly in the large hydrocarbon system of the Po River basin located in northern Italy. This basin was previously the exclusive exploration and production domain of ENI - the Italian oil and gas company founded in the 1950s by Enrico Mattei.

Although Italy has a concrete and solid potential for gas production, it imports 80-90% of its internal energy needs compared to other European countries, which typically import in the order of 40%. Italian production of natural gas decreased in the past 15 years from 20 to 8 billion cubic metres per year, compared with an actual consumption of more than 80 billion cubic metres per year.

Po Valley specialises in identifying and developing production from existing discovered resources and reserves. With one field already in production and a second about to commence start-up we are now well positioned as a gas producer in the under-supplied Italian market. Our portfolio of licences is composed of an expanding number of exploration/appraisal targets, focusing primarily on gas but also including oil targets. We are continuing to work hard to expand this portfolio. Italy remains a country with significant opportunities and with 10 years in-country operating experience, we are well placed to continue to capitalise on these as they emerge.



EXPANDED PROJECT PIPELINE AND OPERATIONS – MARCH 2010

Exploration		Development/Appraisal		Production/Development
12 gas prospects		8 discoveries		4 fields moving into production
APPLICATIONS	GRANTED LICENCES	ONSHORE	OFFSHORE	IN PRODUCTION
• Donnino • Corcrevà • Ariano • D. Delle Anime • D27G.R - NS - (Sicily)	• Gradizza • Cembalina • C. Rossa • Terra del Sole • Pioppette • Capitello • F. Perino	GAS • Fantuzza • Correggio OIL • Bagnolo in Piano • Ravizza	GAS • Azzurra • Ginevra • Carola • Irma	• Castello • Sillaro (Pliocene) DEVELOPMENT PENDING* • Sant'Alberto • Bezzecca
Undiscovered Prospective Resources		*Discovered Contingent Resources		Discovered Recoverable Reserves

Castello

Where: Castello is located east of Milan in the north-west of Italy's Po Valley.

Development History: The field was drilled in 2005 at a location updip from the former ENI Agnadello well, which produced 13 billion cubic feet of gas (bcf) over a period of five years in the 1980s.

Licence Status: The field was re-drilled by Po Valley in 2005 with the Vitalba-1 well and, after being awarded the environmental approval in March 2008 and the 20-year production concession in November of the same year, the Company, through its contractor SEMAT, commenced production plant construction in June 2009, after final installation approval from the Ministry of Economic Development. This milestone was achieved in September 2009 and Castello production plant operations commenced on the 17th December 2009.

2009 Work: During 2009 Po Valley was awarded a production concession milestone, installed the plant and started production operations. The historic commencement of production was celebrated with a formal inauguration ceremony, led by Australia's Ambassador to Italy, Ms Amanda Vanstone. Ambassador Vanstone was joined by the entire Po Valley team in Italy, Italian customers and contractors as well as senior personnel from the Ministry of Economic Development, the President of Cremona Province and the Major of Rivolta d'Adda.

Development Plan: Continue the production of natural gas. In the first production quarter the plant produced 190 million cubic feet, an average of 2.12 million cubic feet of gas per day. Reserves estimate will be updated based on production and pressure performance in mid 2010.

KEY STRUCTURE

Licence/Extension	Castello	Interest	100%
Location	Milan Lombardia	Wells	1 in place
Production Start	Dec 2009	Production	2.3 mmcf/day
Invested Capital	€8.62 m	Reserves	1P 4.6 bcf 2P 6.3 bcf

Bezzecca

Where: Bezzecca is located east of Milan, 8 kilometres from the Vitalba-1 well.

Development History: The field was drilled in the 1950s by ENI and produced 5 bcf.

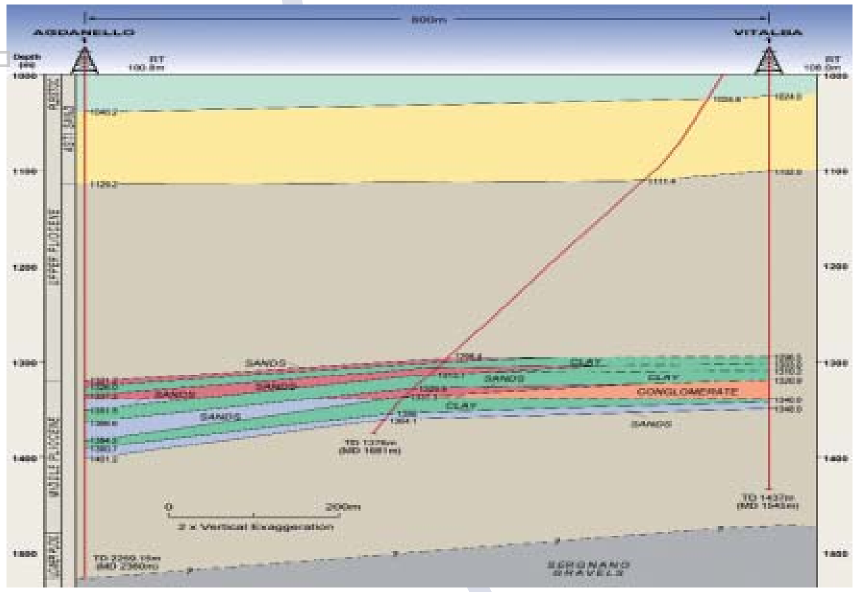
Licence Status: Production concession application is in preparation.

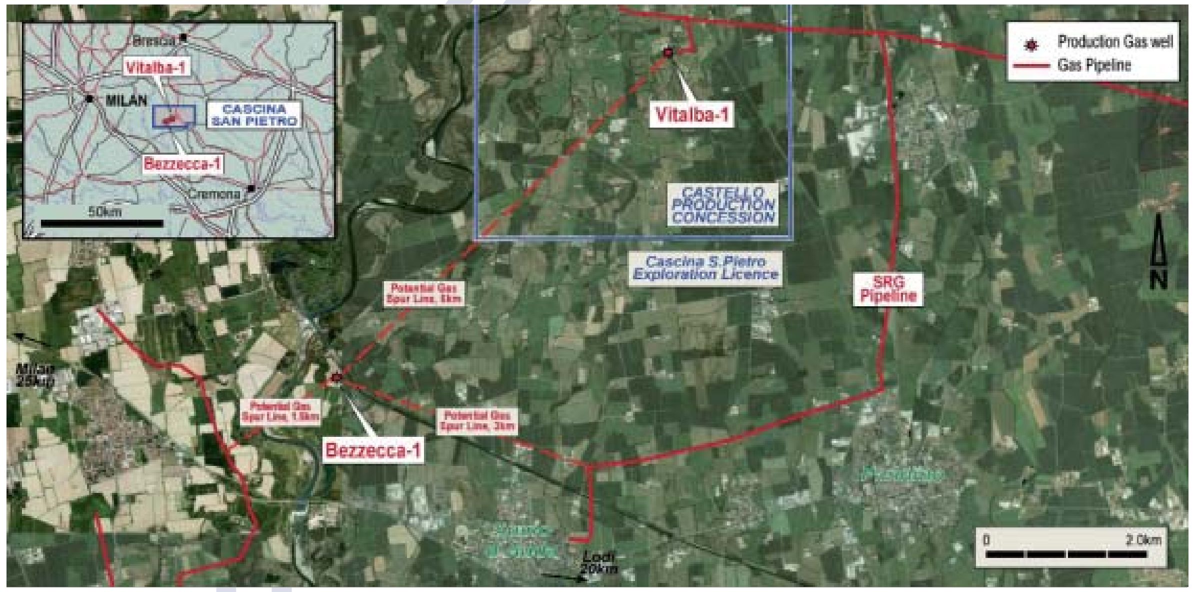
2009 Work: Bezzecca-1 well was successfully drilled in March-May 2009 to a depth of 2,010 metres and tested across three gas bearing levels – in the upper Miocene (deep and shallow) and in the lower Pliocene. Initial flow from the deep Miocene level from 1925m to 1945m was 2.2 million cubic feet per day on a ¼ inch choke at a pressure of 1.760psi. The tested flows stabilized and exhibited rapid and full pressure recovery.

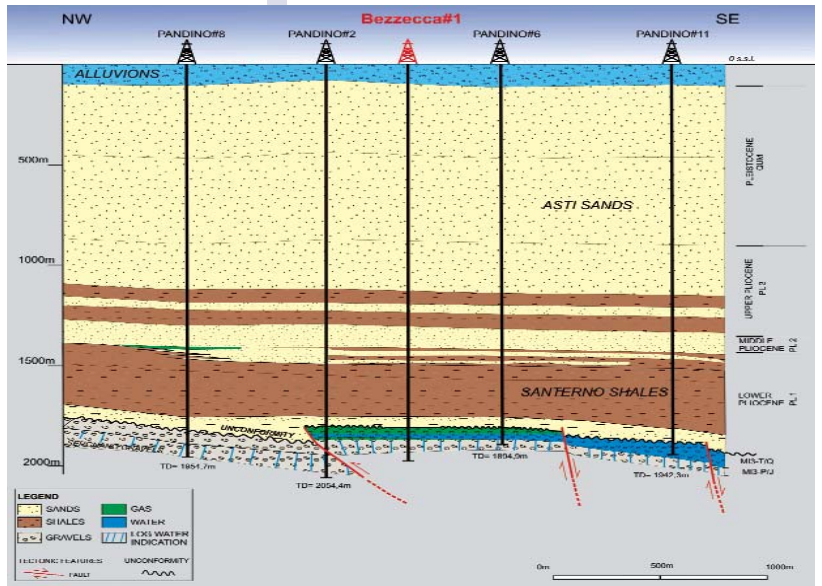
Development Plan: Bezzecca data is being evaluated through an integrated reservoir study comprising seismic re-mapping, petrophysical evaluation and reservoir simulation. Po Valley is considering various development options, including connecting Bezzecca to the Castello production plant by way of an 8 kilometre gathering line, or alternatively building a new plant closer to the site.

KEY STRUCTURE

Licence/Extension	Cascina San Pietro	Interest	100%
Location	Milan Lombardia	Wells	1 in place 1+1 appraisal
Production Start	2012-2013	Expected Production	1.5-2.0 mmcf/day
Invested Capital	€4.39 m	Contingent Resources	1P 0.7 bcf 2P 3.1 bcf







Sillaro

KEY STRUCTURE

Licence/Extension	Sillaro	Interest	100%
Location	Bologna Emilia Romagna	Wells	2 in place
Production Start	Q2 2010	Expected Production	3.8 mmcf/day
Invested Capital	€15.12 m	Reserves	1P 10.4 bcf 2P 14.4 bcf

Where: Sillaro is located east of Bologna in Emilia Romagna.

Development History: The field was originally explored by ENI between 1955 and 1982 with seven wells drilled.

Licence Status: Po Valley successfully drilled and tested Sillaro-1d well between November 2005 and January 2006. Environmental approval was granted in January 2008 and in November 2008 Po Valley was granted a 20-year production concession.

2009 Work: In September 2009 Po Valley was granted the official government approval for the installation of surface plant, a second milestone for the Company, after the Castello grant.

In July 2009 the Company drilled a second production well – Sillaro-2d – into the Pliocene gas reservoir. This well is designed to produce from multiple levels to increase overall flow rates and optimise total field recovery, thereby increasing reserves. Testing at Sillaro-2d confirmed six productive gas bearing levels in the field. The combined flow rate from the four tested levels was 13 million cubic feet per day. Production plant installation commenced post drilling. Dramatic weather conditions during last winter caused delays to site works but, at the time of report, preparation of the production plant was fully installed and awaiting final safety approvals before commencing commissioning.

The Sillaro field has Proven and Probable (2P) gas reserves of 14.4 bcf, and is expected to have an initial gas production rate of 3.8 mmcf/day when it commences production.

Development Plan: Commission the plant and bring the field into full commercial production.

Fantuzza

KEY STRUCTURE

Licence/Extension	Crocetta	Interest	100%
Location	Bologna Emilia Romagna	Wells	-
Production Start	Q3 2011	Expected Production	3.2-4.0 mmcf/day
Invested Capital	€0.60 m	Contingent resources	1P - 2P 26.0 bcf

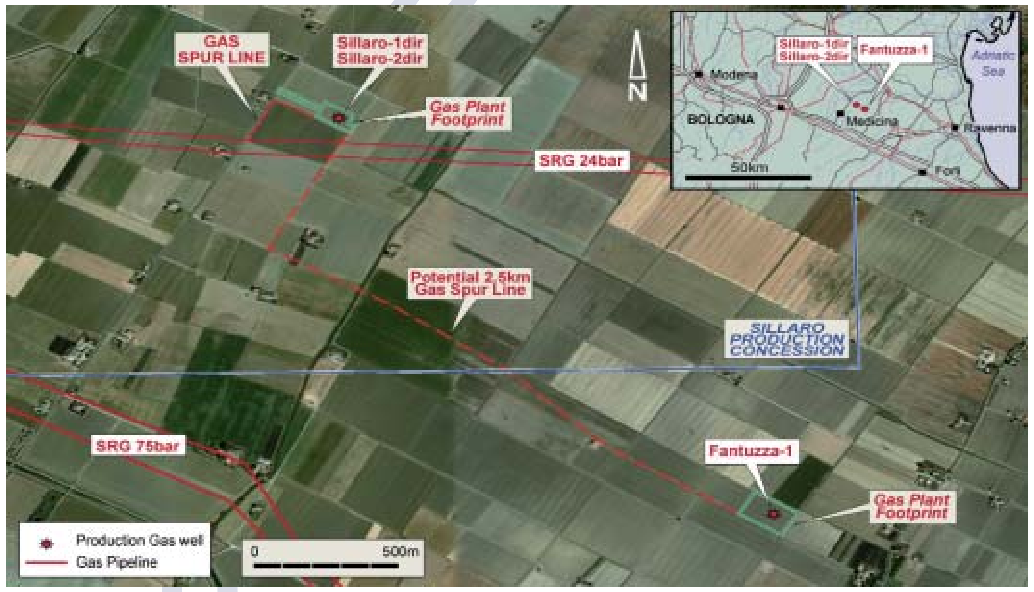
Where: Fantuzza is located in the Crocetta exploration licence, in the Bologna province, adjacent to the Sillaro production concession.

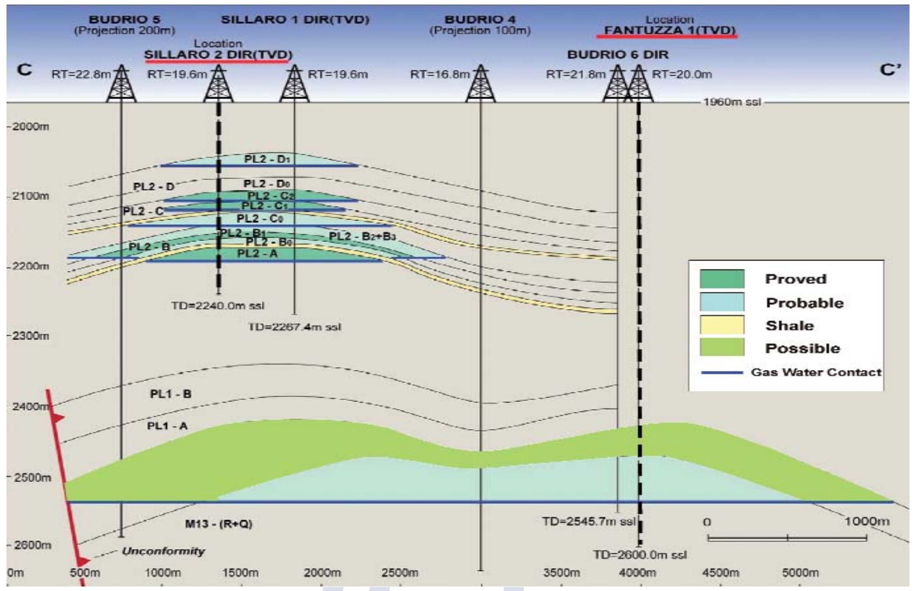
Development History: After the discovery of the Sillaro gas field, the Crocetta exploration licence has been reshaped, and the Company applied in October 2006 for a three year extension of the exploration licence over the remaining area. The Company received the grant of the extension in August 2007 and a drilling program for the 2,600 metre deep Fantuzza-1 well was prepared and submitted to the authorities for approval in September 2007.

Licence Status: Final drilling approval pending.

2009 Work: The drilling program received Environmental clearance and the final drilling approval from UNMIG is expected shortly.

Development Plan: This well, near the former ENI Budrio-6 well, is targeted to exploit potential deeper Sillaro Miocene reserves. The surface plant and pipeline connection at the Sillaro production facility located about 2 kilometres west of Fantuzza-1, has been sized to process gas from a success at Fantuzza-1 production site. The Company plans to drill the well in the second half of 2010.





Sant'Alberto

KEY STRUCTURE

Licence/Extension	Sant'Alberto/ San Vincenzo	Interest	100%
Location	Bologna Emilia Romagna	Wells	1 in place
Production Start	Q4 2012	Expected Production	1.2-2.0 mmcf/day
Invested Capital	€1.28 m	Contingent resources	1P 8.0 bcf 2P 12.9 bcf

Where: Sant'Alberto, located north of Bologna, is the third field in the portfolio progressing towards commercial gas production.

Development History: Edison, the previous partner and operator, submitted the production concession application in July 2006. In March 2008, Po Valley reached an agreement with Edison to take over the licence and moved to 100% ownership.

Licence Status: Production concession pending.

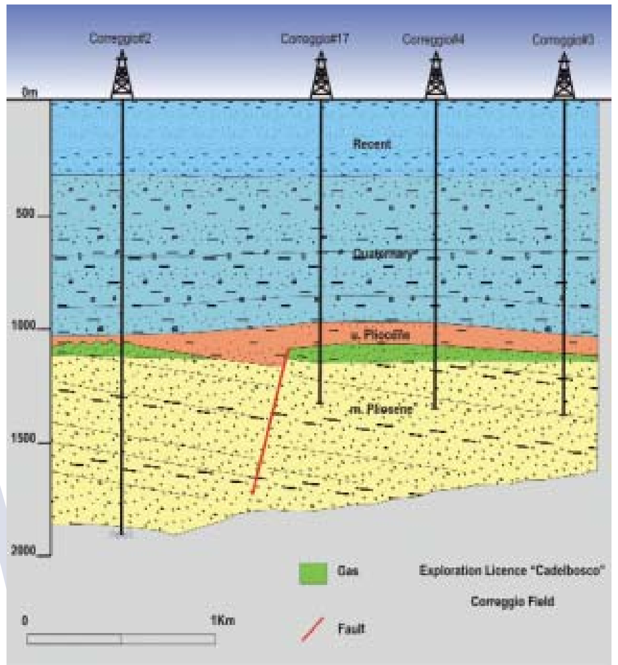
2009 Work: In February 2009 the Italian Ministry confirmed that Po Valley is now the operator/owner effective from the 29th October 2008.

Development Plan: The Ministry has accepted the Company's work program for the San Vincenzo licence and a new 2D seismic acquisition program of approximately 30 kilometres is planned to commence in 2Q 2010. In addition, a new reservoir study combined with production history matching has been completed to define a suitable subsurface target area for a production drilling campaign starting in late 2010. Our renewed focus on the field aims to achieve commercialisation within a short timeframe.

Correggio

KEY STRUCTURE

Licence/Extension	Cadelbosco di Sopra	Interest	100%
Location	Reggio Emilia Emilia Romagna	Wells	-
Production Start	Q3 2013	Expected Production	4.0-5.0 mmcf/day
Invested Capital	€0.17 m	Contingent Resources	1P - 2P 35.0 bcf



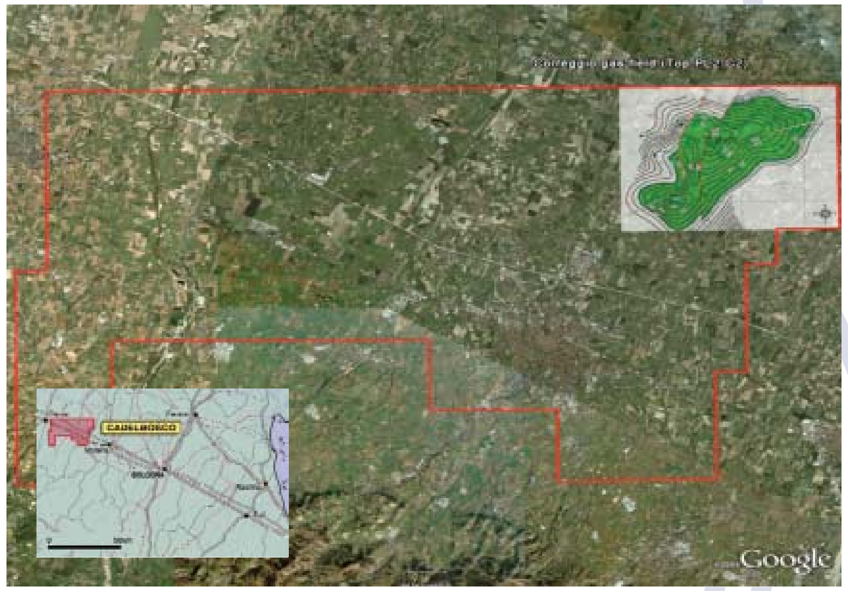
Where: Correggio, which is named after a famous Italian painter, is situated in Reggio Emilia province, west of Bologna. The field is located in the exploration licence application named "Cadelbosco di Sopra".

Development History: The Correggio field is a former ENI gas field discovered in the 1950s. During ENI's production operations 23 wells were drilled and the field produced more than 240 bcf of gas from a stacked multipool reservoir – one of the largest onshore fields in the Po Valley.

Licence Status: The exploration licence was preliminarily awarded to Po Valley in 2008 and during 2009 environmental clearance procedures were initiated. We expect full grant of the licence in mid 2010.

2009 Work: During 2009 Po Valley completed initial well correlation, seismic and reservoir evaluation. Based on our work to date we estimate that there are 35 bcf of 2P contingent resources remaining in the field.

Development Plan: Po Valley has identified a minimum of 2 prospective well locations and as a matter of priority will move to complete the geological work and prepare drilling program with the objective of drilling the first appraisal well in the field in 2011.



NATURAL GAS DEVELOPMENT

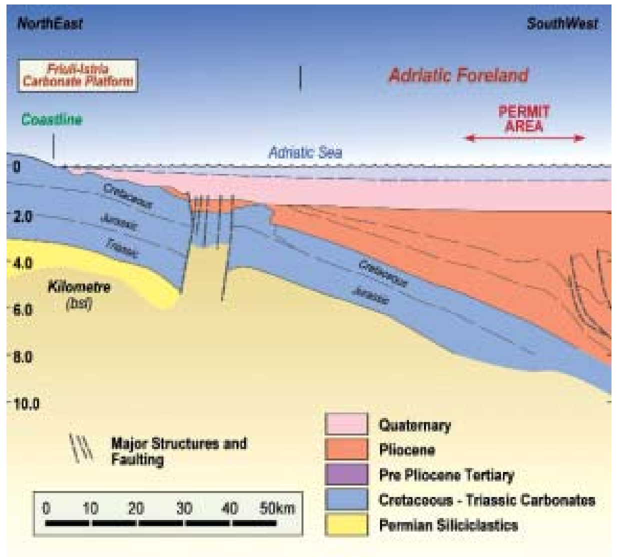
Azzurra

Where: The AR168PY (Azzurra) exploration licence is located offshore in the north Adriatic and covers an area of 526 square kilometres. The AR168PY licence includes four gas discoveries – Irma, Azzurra, Ginevra and Carola.

Development History: ENI previously drilled and tested positive gas flows in separate wells during the 1980s and 1990s – Azzurra-1, Ginevra-1dir, Irma-1 and Carola-1 – prior to relinquishing the area. The licence area also has extensive 3D seismic coverage acquired during 1990 by ENI. The Company will consider purchasing a portion of it following final permit award, enabling the completion of an integrated G&G study of the discoveries prior to commitment to a drilling program.

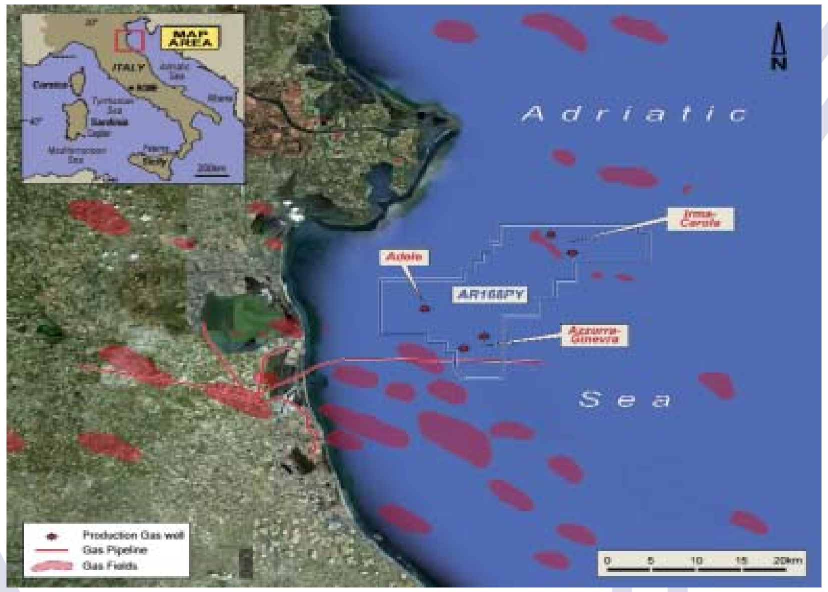
Licence Status: The exploration licence was preliminarily awarded to Po Valley in 2008 and during 2009 environmental clearance procedures were completed. We expect full grant of the licence late in 2010. The preliminary award of the licence to Po Valley was challenged in the TAR (Regional Administrative Tribunal) by the losing bidder but we expect a positive resolution of this issue in the first half of 2010.

KEY STRUCTURE			
Licence/Extension	AR168PY	Interest	100%
Location	North Adriatic Sea	Wells	0
Production Start	2016	Expected Production	-
Invested Capital	€0.16 m	Contingent resources	1P TBE 2P TBE



2009 Work: During 2009 Po Valley completed preliminary seismic review and wells correlations. This work highlighted the significant size of the discoveries, in particular the Carola/Irma structure.

Development Plan: Await the resolution of the Tribunal and the final award of the licence, then move quickly to the integrated G&G, reservoir and facilities study.



EXPLORATION

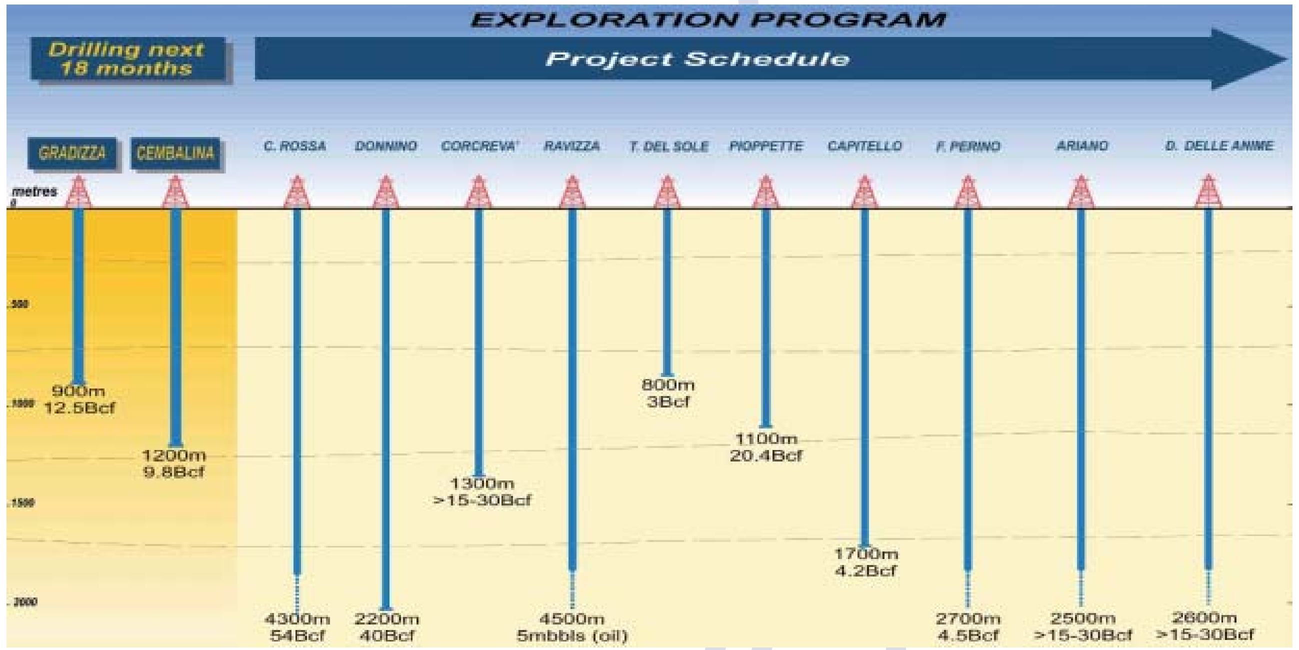
12 New Prospects

The Company has worked hard during the year to speed up the development of the numerous projects in Po Valley's portfolio.

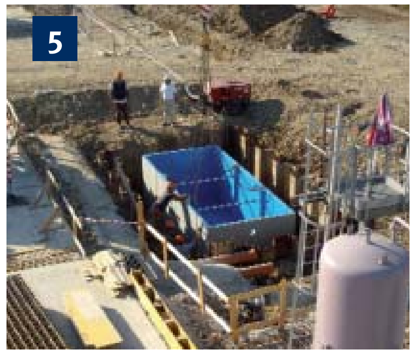
On the La Prospera Licence the environmental application necessary for the Gradizza prospect drilling campaign, planned for the end of 2010, has been prepared and is ready for submission to the authorities. Further interpretation work continues on other gas prospects in the same licence, Pioppette and Capitello, in preparation towards maturing a future drilling program in 2011.

Po Valley is also moving rapidly towards the development of the Cembalina prospect – a promising target in the Podere Gallina licence. Cembalina has prospective P50 resources of 12 bcf and will be backed by the acquisition of a 2D infill seismic asset, approximately 15 line kilometres, to be completed for summer 2010. This seismic acquisition will ensure that an optimum location is chosen for the Cembalina prospect, prior to the drilling program which is planned to take place early in 2011. Additional geophysical and geological interpretation work is also planned for the Casa Rossa and Fondo Perino prospects on the same licence.

An important milestone early in 2010 was the environmental clearance submission to the authorities for the Grattasasso permit. This is a further step along the route to final permit award which was granted in 2008 on a preliminary basis to the Company. The Ravizza oil discovery in the permit, P50 contingent resources 5 mmbbls, is adjacent to the Cadelbosco di Sopra permit, which contains the Correggio gas field. The Ravizza discovery is under evaluation to determine potential commerciality. In addition to the Ravizza prospect the permit also includes a Quaternary gas prospect with prospective P50 resources of 19 bcf. This prospect also overlaps the adjoining Cadelbosco di Sopra permit.



"2009/2010 PVE photostory"



1 - March/April 2009: Drilling Bezzecca-1
2 - June 2009: Installation start at Castello production plant
3 - July 2009: Drilling Sillaro-2
4 - September 2009: Installation start at Sillaro production plant
5 - October 2009: Progress at Sillaro construction site
6 - Novembre 2009: Latest adjustements to the Castello Production plant
7 - December 2009: Castello production plant start-up
8 - January 2010: Inauguration Castello production plant

FINANCIAL REPORT

Corporate Governance Statement

PO VALLEY ENERGY ("the Company" or "PVE") and its Board of Directors are committed to achieving the highest standards of corporate governance and acknowledge that this is essential in creating and building sustainable value for shareholders. The Directors aim to meet the standards of best corporate governance for listed companies as set out in the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council, although as noted below there are some instances where it is not practical for the Company to apply all specific recommendations given the limited size and scope of the Company at this time. A description of the Company's main corporate governance practices is set out below.

BOARD & MANAGEMENT

The Board and management believe their primary responsibility is to maintain and grow the value of the Company for its shareholders, while respecting the legitimate interests and expectations of employees, customers, creditors, the communities in which PVE operates and other stakeholders. The Board accepts that it has the responsibility for establishing a culture of high ethical, environmental, health and safety standards and internal control procedures within the Company.

The Board has a formal charter and has established the functions reserved to the Board and those delegated to senior management.

The key responsibilities of the Board are to review, advance and approve PVE's objectives and strategies, business plan and annual budget, exploration and development programmes and capital management. The Board monitors PVE's businesses, financial performance and corporate governance, overseeing the financial position of PVE and reports to Shareholders, ensuring effective management processes and control systems are in place. The Board is responsible for appointing and appraising the CEO and oversees the senior management team in terms of performance evaluation, succession planning and remuneration.

Structure of the Board

The Board comprises four Directors; three Non-Executive Directors and one Executive Director. The Board has been structured to provide a team of Directors with a range of skills, expertise and experience appropriate for it to undertake its duties and its role and responsibilities for the proper and effective management of the Company's business and affairs. In particular the composition of skills, expertise and experience of the Directors span the areas of resources and mining, finance, management consulting, public company affairs and corporate governance. Please refer to the Directors Report on page 20 for details of the skills and experience of each Director and their term of office.

Under the Company's Constitution, one-third of the Board is subject to re-election at each annual general meeting.

Independence

The Company currently has two independent Directors being Graham Bradley (the Chairman) and David McEvoy (Non-Executive Director) and a further Non-Executive Director, Byron Pirola. Mr Pirola is not considered to be independent as he currently controls slightly more than 5% of the Company's shares. Although the Company does not have a majority of independent Directors, the Board believes that its composition is appropriate for its stage of development. The Board regularly assesses the independence of its Directors and in doing so has careful regard for, amongst other things, the ASX Corporate Governance Council guidelines on independence of Directors.

In determining whether an interest or relationship is considered to interfere with a Director's independence, the Board has regard to the materiality of the interest or relationship and with respect to relationships. PVE considers the relationship to be material when:

- Where the Director is a professional adviser or consultant to PVE or its affiliates (or officer of or associated with such person) the payments from PVE to such adviser or consultant exceed 10% of PVE's annual expenditure to all advisers and consultants or where such payments exceed 10% of the recipient's annual revenue for advisory or consulting services;
- Where the Director is a supplier or customer to PVE or its affiliates (or officer of or associated with such person) the company considers the relationship to be material where the payments from PVE to that supplier or customer exceed 10% of the annual consolidated gross revenue of either PVE or the customer or supplier.

Independent Advice

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

EVALUATION OF PERFORMANCE OF SENIOR EXECUTIVES

The Remuneration Committee is responsible for reviewing the ongoing performance of the CEO and ensuring there is an appropriate process to review the performance of senior Executives and for setting and approving performance objectives of senior Executives in relation to bonus payments and options. Each year, the Remuneration Committee approves company and individual performance hurdles for the CEO and senior Executives for the coming year and evaluates performance and approves any bonuses or option vesting for the CEO and senior management in respect of the preceding 12 month period. Performance hurdles are a combination of company targets and objectives specific to the Executive. The Remuneration Committee evaluated the performance of the CEO and senior management in accordance with this process in April 2009 and, most recently, in January 2010.

NOMINATIONS COMMITTEE

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

- Composition of the Board and competencies of Board members to add value to the Company;
- Suitable candidates for the Board having regard to the skills desired and skills represented;
- Appointment and evaluation of the Chief Executive Officer;
- Succession planning for Board members and senior management; and
- Processes for the evaluation of the performance of the Chief Executive Officers and Directors.

The current members of this committee are Graham Bradley (Chairman) and Byron Pirola. Details of attendance of committee meetings during 2009 can be found on page 21 of the Directors Report.

The Nominations Committee reviews Board performance annually, as set out in the Company's Board Charter. As part of the annual Board review, all Directors must complete a Board Evaluation Questionnaire, the results of which are then analysed and considered by the Board.

The last such review was conducted in January 2010.

AUDIT AND RISK COMMITTEE

The Company has established an Audit & Risk Committee to provide advice and assistance to the Board in discharging its corporate governance and oversight responsibilities in relation to the Company's financial and market reporting, internal accounting and financial control systems, internal audit, external audit, risk management system and such other matters as the Board may request from time to time.

The Committee has adopted a formal charter. In discharging its obligations, the committee has direct access to employees, the auditors or any other independent experts and advisers it considers appropriate to carry out its duties.

The current members of the committee are Byron Pirola, who chairs the committee, Graham Bradley and David McEvoy. The committee has been structured so that it:

- Comprises only Non-Executive Directors;
- Has a majority of independent Directors;
- Has a chairman who is not the chairman of the Board; and
- Comprises members with the appropriate financial and business expertise to act effectively as a member of the Audit Committee.

The qualifications of the members of the Audit Committee, the number of meetings and attendance at those meetings is set out in the Directors Report on page 21.

RISK MANAGEMENT

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 has been required to design and implement a risk management and internal control system to manage material business risk and reported to the Board during the year on whether those risks are being managed effectively.

The CEO has provided written statements to the Board for each reporting period confirming that the Company's system of risk management and internal compliance and control complies with the recommendations set out in the Corporate Governance Principles and Best Practice Recommendations.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to provide assistance to the Board in relation to remuneration policies and practices and the remuneration of the CEO, senior Executives, and Non-Executive Directors.

The committee recommends to the Board appropriate terms and conditions of engagement and remuneration of Directors within the aggregate limits approved by shareholders. For details of Directors' remuneration please refer to page 25 of this Annual Report.

In assessing the performance of the CEO and senior Executives, the Committee gives considerable weight to the contribution of the employee towards the achievement of key performance indicators of the Company. Where necessary the Committee can obtain external advice in respect to the structure and level of remuneration packages.

The Remuneration Committee must be comprised of a minimum of two Non-Executive Directors. The current members of the committee are Graham Bradley (Chairman) and Byron Pirola. For details of attendance at meetings of the Remuneration Committee refer to the Directors Report on page 21.

STANDARDS AND CODES OF CONDUCT

All executives and employees are required to abide by laws and regulations, to respect confidentiality and the proper handling of information and act with the highest standards of honesty, integrity, objectivity and ethics in all dealings with each other, the Company, customers, suppliers and the community. The Company has adopted a code of conduct, which will be regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism.

CONTINUOUS DISCLOSURE

The Company is committed to complying with its continuous disclosure obligations as set out in the ASX Listing Rules and the Corporate Governance Principles and Recommendations. The Company has adopted a Continuous Disclosure Policy designed to ensure that investors can readily have sufficient information to ascribe to a fair value to the Company's securities, understand the Company's objectives and strategies and examine the Company's financial position and growth prospects. In this context, the legitimate information needs of investors are balanced with the Company's need to retain confidentiality of commercially sensitive of proprietary information.

SHARE TRADING

The Company has adopted a Securities Trading Policy which provides guidance to Directors and employees on the law relating to insider trading, and provides them with practical guidance for avoiding unlawful transactions in Company securities. Specifically, Directors, management and other nominated employees are not permitted to engage in short term trading of the Company's securities and are generally prohibited from trading in securities during "black-out" periods being the six weeks prior to release of half yearly and annual results. In any event, any trading in securities by Directors and management is subject to the prior approval of the Chairman (in the case of Directors), the Chairman of the Audit Committee (in the case of the Chairman) or the CEO (in the case of management).

RELATED PARTY MATTERS

Directors and senior management are required to advise the Chairman of any related party contract or potential contract. The Chairman will inform the Board and the reporting party will be required to remove himself/herself from all discussions and decisions involving the matter. The Board may, when appropriate, take further steps to avoid conflicts of interest in related party matters.

SHAREHOLDER COMMUNICATIONS

The Company aims to ensure that shareholders, on behalf of whom they act, and the financial market have timely access to material information concerning the Company. The Company's shareholder communications policy sets out the communication guidelines established by the Company. The Company uses its website to complement the official release of material information and periodic reports to the market including ensuring that all press releases, ASX announcements and notices of and presentations made at general meetings for at least the past three years are available on the Company's website.

CORPORATE GOVERNANCE POLICIES AND CHARTERS

Information on PVE's corporate governance practices and policies is available on the Company's web site, www.povalley.com. In particular, copies of the following documents are available in the corporate governance section of the Company's website:

- Board & Governance Charter;
- Code of Conduct;
- Continuous disclosure Policy;
- Securities Trading Policy;
- Risk Management Policy;
- Audit & Risk Committee Charter;
- Remuneration Committee Charter;
- Nomination Committee Charter;
- Shareholder Communication Policy.

Directors Report

THE DIRECTORS PRESENT their report together with the financial report of Po Valley Energy Limited ("the Company" or "PVE") and of the Group, being the Company and its controlled entities, for the year ended 31 December 2009.

1. Directors

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

Directors	Date of Appointment
M Masterman	22 June 1999
B Pirola	10 May 2002
G Bradley	30 September 2004
D McEvoy	30 September 2004

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 61
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 Trustees Australia. He was Managing Partner and Chief Executive Officer of a national law firm, Blake Dawson Waldron and was a senior Partner of McKinsey & Company. Graham is currently a Director of Singapore Telecommunications Limited. He is Chairman of HSBC Bank Australia Limited, Anglo American Australia Limited, Stockland Corporation Limited and Boart Longyear Limited. Graham is Chairman of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Michael Masterman - Managing Director and CEO,
BEcHons, Age 47
Michael is a co-founder of PVE and is based in Europe. Michael took up the position of Executive Chairman and CEO of PVE and Northsun Italia S.p.A. in 2002. 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$220 million joint venture agreement with Glencore International and the raising of US$420 million 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 eight 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.

David McEvoy - Non-Executive Director
BSc, Grad Diploma (Appl. Geophysics), Age 63
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 Exxon Mobil) Exploration Company, responsible for new exploration and development opportunities worldwide. He is currently a Non-Executive Director of Woodside Petroleum Limited, Australian Worldwide Exploration and Innamincka Petroleum Limited. David is a member of the Audit and Risk Committee.

Byron Pirola - Non-Executive Director
BSc, PhD, Age 49
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.

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.

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.

5. EARNINGS PER SHARE

The basic and diluted loss per share for the Company was 6.99€ cents (2008: 4.54€ cents).

6. OPERATING AND FINANCIAL REVIEW

The consolidated loss after income tax amounted to €7,202,805 (2008: €4,172,407). Included in the results from operating activities is an amount totalling €5,108,595 (2008: €801,298) relating to exploration and evaluation expenditure impaired.

During the year the Company achieved maiden gas production with the commencement of the Castello gas field on 17 December 2009. The plant was officially inaugurated in a ceremony on 12 January 2010.

At Sillaro, the second production well, Sillaro 2 was successfully drilled and installation of the surface plant is near completion. Sillaro is expected to commence commissioning in the first half of 2010 - a second major milestone for the Company.

The Company was active on the appraisal drilling front with Bezzecca-1 drilled and tested in April 2009. The test results while positive suggest the need for a step by step approach to field developments. Therefore the carrying value was reviewed, requiring a write down Cascina San Pietro License (Bezzecca) to €1.5 million resulting in an impairment of €4.2 million. The management team is working forward on a development plan for the field which will be submitted in early 2010.

With Castello and soon Sillaro in production, the Company is moving decisively from a exploration development phase to a development production phase with what are expected to be strong revenues and profits in 2010.

The Company is advancing its development plans for Sant' Alberto, Bezzecca, Fantuzza and Correggio fields and

	G Bradley	M Masterman	D McEvoy	B Pirola
No. of Board meetings held	8	8	8	8
No. of Board meetings attended	8	8	8	8
No. of Audit Committee meetings held	2	n/a	2	2
No. of Audit Committee meetings attended	2	n/a	2	2
No. of Remuneration Committee meetings held	2	n/a	n/a	2
No. of Remuneration Committee meetings attended	2	n/a	n/a	2
No. of Nominations Committee meetings held	2	n/a	n/a	2
No of Nominations Committee meetings attended	2	n/a	n/a	2

will also actively explore for gas and liquid, natural gas opportunities.

The Company issued 294,729 shares to employees pursuant to the employees share purchase plan. These shares were issued at a price of €0.91 ($1.60). The Company raised €10,854,693 by private placement of 13,833,333 shares during the year. Shareholders took part in a share purchase plan in November of 2009 resulting in a further 1,283,768 shares issued with proceeds of €1,242,357.

The Company utilised the Bank of Scotland finance facility, which was drawn to €10,279,269 (2008: €5,000,000) as at the end of 31 December 2009.

7. DIVIDENDS

No dividends have been paid or declared by the Company during the year ended 31 December 2009.

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

Fantuzza-1 – (appraisal) and Gradizza-1 (exploration) are planned to be drilled in 2010 providing a strong base of new project initiatives. Fantuzza is expected to spud mid year.

10. ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulations under both Federal 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 (RESTATED)*

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 Committee is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of entitlements of such officers on a periodic basis by 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 for the internationally competitive industry in which the Company operates.

All of the Company's senior executives except the company secretary are based in Rome and when setting remuneration the Board must therefore 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 did not increase the Chief Executive Officer's base pay or potential bonus incentives in 2009.

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. Similarly, executives elected to receive their short-term bonus is shares rather than cash in 2009. This philosophy will be reviewed by the Board in 2010 now that the Company has moved into gas production.

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.

	2009	2008	2007	2006	2005
Profit / Loss attributable to owners of the company (€'ooos) *	(7,202)	(4,172)	(1,572)	(1,614)	(1,296)
Earning / (loss) per share (€ cents per share) *	(6.99)	(4.54)	(1.78)	(1.95)	(1.82)
Dividends paid	NIL	NIL	NIL	NIL	NIL
Share Price at year end - AU $	1.68	1.10	1.50	1.66	1.00
Return on capital	NIL	NIL	NIL	NIL	NIL

* 2008, 2007, 2006 and 2005 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. Long term incentives are in the form of options which have a hurdle of AU$2.25 per share 2008 and 2009 were years of global financial crisis and associated volatility in the share market. Executive have in this environment met their milestones to commence and grow commercial production with a strengthened financial position.

Executives Directors and Senior Executives

The remuneration of PVE Executive Directors and senior executives comprises some or all of the following elements: fixed salary; short term incentive bonus based on performance; long term incentive shares and/or option scheme; and other benefits including 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 of the Company and of the relevant executive during the year.

The performance targets for short term performance awards (awarded annually in cash or shares at the executive's election) are structured into critical, core and value added targets. All critical targets must be achieved for an executive to be entitled to receive any bonus. Achievement of all critical targets and core targets entitles the executives to receive up to 75% of their total potential bonus and achievement of all targets including value added targets is required in order to receive 100% of the potential bonus. The Board evaluates the achievement of the Company targets and then evaluates each individual's contribution to the Company's performance and their performance against their individual targets before determining the final bonus award for each executive. Currently, the Chief Executive Officer is entitled to receive up to 100% of fixed remuneration whereas executives may receive between 40-50% of their fixed salary as a short term bonus.

Long-term performance benefits in the form of employee share options have historically been granted to senior executives. Vesting of the options is 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 pending the outcome of its review of the new taxation legislation applying to options recently implemented by the Federal Government.

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 other than superannuation contributions. Non-Executive Directors typically do not participate in equity or options schemes of the Company. Given the size of PVE, and its focussed nature of the business and shareholdings structure, issues of share options to Non-Executive Directors have previously been made, and may in the future be 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 $200,000 per annum (€124,620 as at 31 December 2009). The Board has not sought shareholder approval to increase this pool since listing in 2004.

The total salary and fees paid in 2009 to Non-Executive Directors was €70,000 (2008 €83,682).

*Remuneration Report has been restated for the correction of error, refer note 28 of financial report

Service contracts

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

Directors:

- Graham Bradley, Chairman
- Commencement Date: 30 May 2007
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2009: €30,000
- No termination benefits

David McEvoy, Non-Executive Director

- Commencement Date: 30 May 2007
- Term of Appointment: 3 years
- Fixed remuneration for the year ended 31 December, 2009: €20,000
- 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, 2009: €20,000
- No termination benefits

Michael Masterman, Chief Executive Officer & Executive Director

- Commencement Date: 14 December 2008
- Term of Agreement: Indefinite terms subject to termination by either party
- Fixed remuneration for the year ended 31 December, 2009: €200,000 (inclusive of non-monetary benefits)
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year total fixed remuneration.

Executives:

Doug Colkin, Chief Operating Officer

- Commencement Date: 1 April 2008
- Term of Agreement: The services of Mr. Colkin are provided through a service contract with a management company for one year with a further one year extension at the option of either the Company or the service company. This contract has been extended for a further year.
- Fixed Service contract fee of €14,583 per calendar month plus accommodation costs.
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three month service fee.

Dom Del Borrello, Company Secretary and Chief Financial Officer (Resigned 21 October 2009)

- Commencement Date: 1 September 2006
- Term of Agreement: The services of Mr Del Borrello are 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.
- Fixed Service contract fee of €14,000 per calendar month.
- Payment of termination benefit on termination by the Company (other than for gross misconduct) equal to three month service fee or six months in event of change of control.

Lisa Jones, Company Secretary

- Commencement Date: 21 October 2009
- Term of Agreement: Monthy fixed term
- Contracted on a fixed monthly rate A$1,688 to provide company secretarial services
- No termination benefits

Directors and Executive Officers' Remuneration (Company and Consolidated) (Restated)*

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.

Value in Euro		Short-term						Post employment	Share-based payments				
Bonus		Salary & fees	Accom-modation	Car	Other	Total Base	STI Cash	Superan-nuation benefits	Short term incentive bonus Shares	Options	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors													
G Bradley, Chairman													
Non-Executive	2009	30,000	-	-	-	30,000	-	-	-	51,288	81,288	-	63%
	2008	35,864	-	-	-	35,864	-	-	-	105,413	141,277	-	75%
D McEvoy													
Non-Executive	2009	20,000	-	-	-	20,000	-	-	-	51,288	71,288	-	72%
	2008	23,909	-	-	-	23,909	-	-	-	105,413	129,322	-	82%
B Pirola													
Non-Executive	2009	20,000	-	-	-	20,000	-	-	-	51,288	71,288	-	72%
	2008	23,909	-	-	-	23,909	-	-	-	105,413	129,322	-	82%
M Masterman													
Chief Executive Officer	2009	144,000	31,312	10,203	14,485	200,000	-	-	59,600	85,481	345,081	42%	25%
	2008	143,360	33,473	12,169	4,806	193,808	-	-	166,291	175,689	535,788	64%	33%
Specified Executives													
D Colkin													
Chief Operating Officer	2009	174,996	26,736	-	1,593	203,325	-	-	37,251	17,096	257,672	21%	7%
Appointed 1 April 2008	2008	130,752	27,209	-		157,961	-	-	-	35,138	193,099	-	18%
D Del Borrello													
Company Secretary	2009	119,875	-	-	4,000	123,875	-	-	62,581	18,298	204,754	40%	9%
Resigned 21 Oct 2009	2008	167,366	-	-	-	167,366	-	-	69,529	17,916	254,811	34%	7%
Lisa Jones													
Company Secretary	2009	3,155	-	-	-	3,155	-	-	-	-	3,155	-	-
Appointed 21 Oct 2009	2008	-	-	-	-	-	-	-	-	-	-	-	-
	2009	**512,026**	**58,048**	**10,203**	**20,078**	**600,355**	**-**	**-**	**159,432**	**274,739**	**1,034,526**		
	2008	**525,160**	**60,682**	**12,169**	**4,806**	**602,817**	**-**	**-**	**235,820**	**544,982**	**1,383,619**		

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 rate interest
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%
30 Nov 2006	3.92 years	€0.40 (A$0.70)	€1.11(A$1.95)	€0.95 (A$1.66)	53%	5.80%

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 (refer note 1.2 (c)).

Analysis of Bonuses Included in Remuneration

Details of the vesting profile of the short-term incentive bonus awarded as remuneration paid in shares and included in share based payments to each director and specified executives are detailed below.

Directors and specified Executives	Short term incentive bonus Included in remuneration 2009 € (a)	% vested in year
M Masterman	59,600	100%
Doug Colkin	37,251	100%
D Del Borrello	62,581	100%

(a) 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 financial year.

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

Details on options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details on options that vested during that period are as follows.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients. 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. For options granted in 2008, the earliest exercise date was 31 May 2009.

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 of Options Granted as Compensation

No options granted as compensation were exercised during 2009.

	No. of options granted during 2009	Grant date	Fair value per option at grant date (€)	Exercise price per option (€)	Expiry date	No. of options vested during 2009
Directors						
G Bradley	-	-	-	-	-	200,000
D McEvoy	-	-	-	-	-	200,000
B Pirola	-	-	-	-	-	200,000
M Masterman	-	-	-	-	-	333,333
Executives						
D Colkin	-	-	-	-	-	66,666
D Del Borrello(a) Resigned 21 Oct 2009	150,000	30 Apr 2009	0.18	1.00	31 May 2011	100,000

(a) The options were provided at no cost to the recipients. 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 has been determined as €18,298.

	No of options granted during 2008	Grant date	Fair value per option at grant date (€)	Exercise price per option (€)	Expiry date	No. of options vested during 2008
Directors						
G Bradley	600,000	30 May 2008	0.28	1.00	31 May 2011	200,000
D McEvoy	600,000	30 May 2008	0.28	1.00	31 May 2011	200,000
B Pirola	600,000	30 May 2008	0.28	1.00	31 May 2011	200,000
M Masterman	1,000,000	30 May 2008	0.28	1.00	31 May 2011	333,333
Executives						
DD Colkin	200,000	30 May 2008	0.28	1.00	31 May 2011	66,666
D Del Borrello Resigned 21 Oct 2009	-	-	-	-	-	75,000

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 in year	% forfeited in year	Financial year in which grant vests
Non-Executive Directors					
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	-	-	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
Executive Directors					
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	-	-	31 Dec 2010
Specified Executives					
D Colkin	66,666	30 May 2008	100%	-	31 Dec 2008
	66,666	30 May 2008	100%	-	31 Dec 2009
	66,667	30 May 2008	-	-	31 Dec 2010
D Del Borrello	75,000	30 Nov 2006	100%	-	31 Dec 2008
Resigned 21 Oct 2009	75,000	30 Nov 2006	-	100%	-
	100,000	30 Apr 2009	100%	-	31 Dec 2009
	50,000	30 Apr 2009	-	100%	-

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 € (A)	Value of options exercised in year €	Lapsed in year € (B)
Non-Executive Directors			
G Bradley	-	-	-
D McEvoy	-	-	-
B Pirola	-	-	-
Executive Directors			
M Masterman	-	-	-
Specified Executives			
D Colkin	-	-	-
D Del Borrello Resigned 21 Oct2009	27,447	-	34,772

A. The value of 150,000 options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes formula. The total value of options granted is included in the table above. This amount is allocated to remuneration over the vesting period (100,000 options vested in this period, 50,000 options did not vest and were forfeited in the period).

B. 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. 125,000 options were forfeited in the year on termination of employment.

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	23,972,569	1,000,000
D McEvoy	314,270	600,000
B Pirola	7,112,782	600,000

13. SHARE OPTIONS

Details of share options over ordinary shares granted during the year and on issue at 31 December 2009 are set out in Note 27 to the Financial Statements and form part of this report. No options have been exercised or forfeited between the end of the financial year and the date of this report.

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 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 5 of the financial report for details of auditor's remuneration.

17. PROCEEDINGS ON BEHALF OF THE COMPANY

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

18. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 29 and forms part of the Directors' report for the financial year ended 31 December 2009.

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

Graham Bradley
Chairman
Sydney, NSW Australia

26th February 2010

PO VALLEY ENERGY LIMITED

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 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

R Gambitta
Partner

Perth
26 February 2010

PO VALLEY ENERGY LIMITED

Statements of Financial Position

as at 31 December 2009

Value in Euro		CONSOLIDATED		COMPANY	
	NOTES	2009	2008 Restated*	2009	2008 Restated*
Current Assets					
Cash and cash equivalents	9	6,622,329	2,948,689	5,945,220	2,533,083
Financial assets		-	703,185	-	-
Trade and other Receivables	11	2,348,206	2,594,125	492,520	12,359
Inventory	10	810,749	2,416,567	-	-
Total Current Assets		**9,781,284**	**8,662,566**	**6,437,740**	**2,545,442**
Non-Current Assets					
Investments	12	-	-	10,130,989	9,228,448
Receivables	13	1,953,326	651,424	37,881,346	30,079,710
Other assets		23,062	16,671	9,441	4,977
Property, plant & equipment	14	5,831,885	42,971	-	-
Resource property costs	16	28,911,578	30,056,319	-	-
Total Non-Current Assets		**36,719,851**	**30,767,385**	**48,021,776**	**39,313,135**
Total Assets		**46,501,135**	**39,429,951**	**54,459,516**	**41,858,577**
Current Liabilities					
Trade and other payables	17	3,090,601	2,392,563	442,923	160,974
Provisions	19	184,285	167,454	-	-
Unearned revenue		841,005	-	-	-
Interest bearing loans	20	-	5,321,056	-	5,321,056
Total Current Liabilities		**4,115,890**	**7,881,073**	**442,923**	**5,482,030**
Non-Current Liabilities					
Provisions	19	2,361,575	1,239,301	-	-
Interest bearing loans	20	9,637,183	-	9,637,183	-
Total Non-Current Liabilities		**11,998,758**	**1,239,301**	**9,637,183**	**-**
Total Liabilities		**16,114,649**	**9,120,374**	**10,080,106**	**5,482,030**
Net Assets		**30,386,486**	**30,309,577**	**44,379,410**	**36,376,547**
Equity					
Issued capital		44,599,315	32,736,250	44,599,315	32,736,250
Reserves/(Accumulated losses)		2,011,990	6,595,341	819,721	544,982
Retained Earnings		(16,224,819)	(9,022,014)	(1,039,626)	3,095,315
Total Equity	21	**30,386,486**	**30,309,577**	**44,379,410**	**36,376,547**

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

* Refer note 1.2 (c) - restated to Euro; refer note 28 restated for correction of error.

PO VALLEY ENERGY LIMITED

Statements of Comprehensive Income

for the year ended 31 December 2009

Value in Euro		CONSOLIDATED		COMPANY	
	NOTES	2009	2008 Restated*	2009	2008 Restated*
Other income		38,607	5,472	305,037	-
Employee benefit expense	3	(1,375,594)	(910,531)	(328,238)	(50,806)
Share based payments	3	(544,792)	(846,362)	(342,252)	(544,982)
Depreciation and amortisation expense	14	(12,573)	(22,246)	-	-
Corporate overheads	4	(973,604)	(1,179,058)	(459,352)	(568,970)
Resource property costs written off	16	(5,108,595)	(801,298)	-	-
Results from operating activities		**(7,976,551)**	**(3,754,023)**	**(824,805)**	**(1,164,758)**
Finance income	6	1,001,603	655,755	113,804	4,761,089
Finance expenses	6	(227,857)	(1,074,139)	(3,423,940)	(910)
Net finance income / (expenses)	**6**	**773,746**	**(418,384)**	**(3,310,136)**	**4,760,179**
(Loss) / Profit before income tax expense		**(7,202,805)**	**(4,172,407)**	**(4,134,941)**	**3,595,421**
Income tax benefit / (expense)	7	-	-	-	-
(Loss) / Profit for the period		**(7,202,805)**	**(4,172,407)**	**(4,134,941)**	**3,595,421**
Other comprehensive income:					
Foreign currency translation differences for foreign operations		(4,858,090)	5,657,239	-	-
Other comprehensive income for the period		(4,858,090)	5,657,239	-	-
Total comprehensive income for the period		**(12,060,895)**	**1,484,832**	**(4,134,941)**	**3,595,421**
Loss attributable to:					
Owners of the company		(7,202,805)	(4,172,407)	(4,134,941)	3,595,421
Loss for the period		**(7,202,805)**	**(4,172,407)**	**(4,134,941)**	**3,595,421**
Total comprehensive income attributable to:					
Owners of the Company		(12,060,895)	1,484,832	(4,134,941)	3,595,421
Total comprehensive income for the period		**(12,060,895)**	**1,484,832**	**(4,134,941)**	**3,595,421**
Basic and Diluted loss per share	8	(6.99) cents	(4.54) cents		

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

* Refer note 1.2 (c) - restated to Euro; refer note 28 restated for correction of error.

PO VALLEY ENERGY LIMITED

Statements of Changes in Equity

for the year ended 31 December 2009

Value in Euro	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Consolidated	Share Capital	Translation Reserve	Option Reserve	Accumulated Losses/Retained Earnings	Total
Balance at 1 January 2008	**29,761,432**	**393,12**	**-**	**(4,849,607)**	**25,304,945**
Total comprehensive income for the period:					
Loss for the period (restated)*	-	-	-	(4,172,407)	(4,172,407)
Other comprehensive income:					
Foreign currency translation differences	-	5,657,239	-	-	5,657,239
Total other comprehensive income	**-**	**5,657,239**	**-**	**-**	**5,657,239**
Total comprehensive income for the period	**-**	**5,657,239**	**-**	**(4,172,407)**	**1,484,832**
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Share issue costs	(5,286)	-	-	-	(5,286)
Share options exercised	2,678,724	-	-	-	2,678,724
Share based payments (restated)*	301,380	-	544,982	-	846,362
Balance at 31 December 2008	**32,736,250**	**6,050,359**	**544,982**	**(9,022,014)**	**30,309,577**
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 other comprehensive income	**-**	**(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**

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

*Refer note 28 - restated for error.

PO VALLEY ENERGY LIMITED

Statements of Changes in Equity

for the year ended 31 December 2009

Value in Euro	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Company	Share Capital	Translation Reserve	Option Reserve	(Accumulated Losses)/Retained Earnings	Total
Balance at 1 January 2008	**29,761,432**	**-**	**-**	**(500,106)**	**29,261,326**
Total comprehensive income for the period:					
Profit for the period (restated)*	-	-	-	3,595,421	3,595,421
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**3,595,421**	**3,595,421**
Transactions with owners recorded directly in equity:					
Contributions by and distributions to owners					
Share issue costs	(5,286)	-	-	-	(5,286)
Share options exercised	2,678,724	-	-	-	2,678,724
Share based payments (restated)*	301,380	-	544,982	-	846,362
Balance at 31 December 2008	**32,736,250**	**-**	**544,982**	**3,095,315**	**36,376,547**
Balance at 1 January 2009	**32,736,250**	**-**	**544,982**	**3,095,315**	**36,376,547**
Total comprehensive income for the period:					
Loss for the period	-	-	-	(4,134,941)	(4,134,941)
Other comprehensive income					
Total comprehensive income for the period	**-**	**-**	**-**	**(4,134,941)**	**(4,134,941)**
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**	**-**	**819,721**	**(1,039,626)**	**44,379,410**

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

*Refer note 28 – restated for error

PO VALLEY ENERGY LIMITED

Statements of Cash Flow

for the year ended 31 December 2009

Value in Euro		CONSOLIDATED		COMPANY	
	NOTES	2009	2008	2009	2008
Cash flows from operating activities:					
Payments to suppliers and employees		(2,020,656)	(2,032,818)	(680,886)	(634,004)
Interest received		129,502	163,371	113,785	144,129
Interest paid		(400,708)	(224,743)	(400,275)	(204,402)
Net cash outflow from operating activities	26	**(2,291,862)**	**(2,094,190)**	**(967,376)**	**(694,277)**
Cash flows from investing activities:					
Payments for non-current assets		(8,442)	(26,594)	-	-
Payments for well equipment		-	(70,589)	-	-
Payments on security deposits		-	(291,774)	-	-
Payments for resource property costs		(12,043,902)	(5,380,107)	-	-
Revenues received during commissioning phase		981,321		-	
Payments for financial assets		-	(92,724)	-	(92,724)
Proceeds from sale of financial assets		630,000	586,114	-	586,114
Amounts advanced to controlled entities		-	-	(12,086,513)	(7,548,114)
Net cash outflow from investing activities		**(10,441,023)**	**(5,275,674)**	**(12,086,513)**	**(7,054,724)**
Cash flows from financing activities:					
Proceeds from the issues of shares		12,097,050	2,678,724	12,097,050	2,678,724
Payments for share issue costs		(499,615)	(5,285)	(499,615)	(5,285)
Proceeds from borrowings		5,279,269	4,850,566	5,279,269	4,850,566
Payments for borrowing costs		(297,637)	(618,446)	(297,637)	(618,446)
Net cash inflow from financing activities		**16,579,067**	**6,905,559**	**16,579,067**	**6,905,559**
Net increase / (decrease) in cash held		**3,846,182**	**(464,305)**	**3,525,178**	**(843,442)**
Cash and cash equivalents at 1 January		**2,948,689**	**3,412,174**	**2,533,083**	**3,382,157**
Effects of exchange rate fluctuations on cash held		**(172,542)**	**820**	**(113,041)**	**(5,632)**
Cash and cash equivalents at 31 December	9	**6,622,329**	**2,948,689**	**5,945,220**	**2,533,083**

The statements of cash flow are to 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 2009

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 2009 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 and development 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 26 February 2010.

(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. Items included in the financial statements of each of the Group's entities are measured using the currency of their primary economic environment in which the entity operates ("the functional currency").

On 19 June 2009 there was a trigger event which produced a change in the functional currency for the Company to Euro from Australian dollars. The trigger event was the Company being granted access to the senior facility of the Bank of Scotland financing facility of €20 million as a result of the Group receiving formal production concessions and final development approval for the Castello and Sillaro fields.

The Company has accounted for the change in functional currency in accordance with IFRS which involves initial translation of the Company's Australian dollar functional currency accounts into Euro at a fixed exchange rate on the day of transition (Euro: A$1.7499).

The presentation currency for a Group is the currency in which the Group chooses to present its financial reports. As the functional currency of the Company changed on 19 June 2009 to Euro, the Company has decided to change the presentation currency for financial statements from Australian dollars to Euro in order to better reflect the Group's financial position and performance.

The comparatives for the consolidated financial statements of the Group and the Company has accounted for this change in presentation currency by translating the comparative amounts using the rate on the date of transition above.

(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.

continued NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

IMPAIRMENT OF RESOURCE PROPERTY COSTS (IN THE EXPLORATION PHASE)

The ultimate recoupment of the value of exploration and evaluation assets, the Company's investment in subsidiaries and loans to subsidiaries 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
- The Group's market capitalisation compared to its net assets.

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.

(E) CHANGES IN ACCOUNTING POLICIES

Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments – refer note 1.3 (n).
- Presentation of financial statements – refer note 1.3 (o).

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, except as explained in note 1.2 (e) above.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(A) PRINCIPLES OF CONSOLIDATION

(I) SUBSIDIARIES

Subsidiaries are entities controlled by the Company. 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.

(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 *continued* NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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

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

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.

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. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(II) Depreciation

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.

continued NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

	2009	2008
Office furniture & equipment	3-5 years	3-5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

(E) FINANCIAL INSTRUMENTS

(I) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially as fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial assets at fair value through profit and loss

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

Other

Other non-derivative financial instruments are measured at amortised costs using the effective interest method, less any impairment losses.

(II) Derivative financial instruments

Derivatives are initially recognised at fair value; attributable costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for in the profit and loss as finance income or expense.

(III) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

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

(F) INVENTORIES

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(G) RESOURCE PROPERTIES

Resource property costs are accumulated in respect of each separate area of interest. Resource property costs are carried *continued* NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Resource properties include the cost of acquiring and developing resource properties, mineral rights and exploration, evaluation and development expenditure relating to an area of interest.

Resource properties are amortised using the unit of production basis over the economically recoverable reserves. Amortisation of resource properties commences from the date when commercial production commences. When there is low likelihood of the resource property being exploited, or the value of the exploitable the resource property has diminished below cost, the asset is written down to its recoverable amount.

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.

Once 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, the exploration and evaluation assets attributable to that area of interest will then be tested for impairment and reclassified to development assets.

(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 as appropriate for changes in legislation, technology or other circumstances including drilling activity and are accounted for an a prospective basis. Cost estimates are not reduced by potential proceeds from the sale of assets.

(I) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested and 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. All borrowing costs are capitalised 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.

(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 the income statement 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 Australian dollars (prior to the change to functional currency) 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 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.

(M) OTHER 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 gross 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

As of 1 January 2009 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. The change in accounting policy is due to the adoption of the revised AASB 8 *Operating Segments*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segments information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn *continued* **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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) PRESENTATION OF FINANCIAL STATEMENTS

The Group applies revised AASB 1 *Presentation* of financial statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statements of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these interim financial statements as of and for the six month period ended 30 June 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(P) 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 2009, but have not been applied in preparing this financial report.

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Imprvoments Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 31 December 2010 financial statements. The impact on the financial statements is yet to be determined.
- AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 31 December 2010 financial statements. The impact on the financial statements is yet to be determined.

(Q) REVENUE

Revenues from the sale of gas is measured at fair value of the consideration received or receivable, net of the amount of goods and services tax ("GST") 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 and possible return of goods 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.

(R) 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.

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 (see note 11).

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 future customers and parties the Company and its subsidiaries deal with. The exposure to credit risk is monitored on an ongoing basis.

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

(II) Market Risk

Interest rate risk

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

Currency risk

On 19 June 2009 there was a trigger event which produced a change in the functional currency for the Company to Euro from Australian dollars (refer note1.2 (c)). 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's seek to encourage all employees of the Group to hold ordinary shares. Both management and employees participate in the Group's employee share scheme and prefers to pay earned bonuses to staff in shares in lieu of cash.

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. It seeks to maintain an upper level of borrowing of €10 million which it considers prudent for the stage of development of the company and the current economic cycle.

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.

To assist with liquidity, the Company has raised equity during the year through private placements during the year as well as a share purchase plan; raising a total of €12.09 million. It also drew down a further €5.3 million of a bank finance facility with the Bank of Scotland.

NOTE 3: EMPLOYEE BENEFIT EXPENSES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008 Restated	2009	2008 Restated
Wages and salaries	**1,375,594**	**910,531**	**328,238**	**50,806**
Equity settled share-based payment transactions				
Shares issued in lieu of salaries	270,053	50,409	67,513	-
Shares issued in lieu of bonus	-	250,971	-	-
Options vested during the period	274,739	544,982	274,739	544,982
Total	**544,792**	**846,362**	**342,252**	**544,982**
Total	1,920,386	1,756,893	670,491	595,788

NOTE 4: CORPORATE OVERHEADS

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Corporate overheads comprises:				
Company administration and compliance	136,389	135,212	116,045	103,094
Professional fees	411,652	671,277	264,559	373,993
Office costs	199,222	212,533	13,102	16,744
Travel and entertainment	184,318	131,386	61,924	69,457
Other expenses	42,023	28,650	3,722	5,682
Total	973,604	1,179,058	459,352	568,970

NOTE 5: AUDITORS' REMUNERATION

Remuneration for audit or review of the financial reports of the parent entity and the Group:

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Auditors of the Company – KPMG Australia	39,961	33,573	39,961	33,573

The auditors received no other benefits.

NOTE 6: FINANCE INCOME AND EXPENSE

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Recognised in profit and loss				
Interest income	129,521	162,365	113,804	143,122
Foreign exchange gains	872,082	-	-	4,124,577
Profit on sale of financial instruments	-	493,390	-	493,390
Finance income	**1,001,603**	**655,755**	**113,804**	**4,761,089**
Interest expense	6,038	21,253	5,605	910
Unwind of discount on site restoration provision	249,315	69,560	-	-
Foreign exchange losses	-	961,241	3,418,335	-
Fair value movement on financial assets	**(27,496)**	**22,085**	**-**	**-**
Finance expense	227,857	1,074,139	3,423,940	910
Net finance income / (expense)	773,746	(418,384)	(3,310,136)	4,760,179
Recognised in other comprehensive income				
Foreign currency translation differences for foreign operations	(4,858,090)	5,657,239	-	-

NOTE 7: INCOME TAX EXPENSE

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Current tax				
Current period	-	-	-	-
Adjustment for prior periods	-	-	-	-
Deferred tax				
Origination and reversal of temporary differences	725	(9,923)	980	(9,641)
Changes in unrecognised deductible temporary differences	(725)	9,923	(980)	9,641
Total income tax expense	-	-	-	-
Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)				
Profit / (loss) for the period before tax	(7,202,805)	(4,172,407)	(4,134,941)	3,595,421
Income tax expense / (benefit) using the Company's domestic tax rate of 30 per cent	(2,160,842)	(1,251,722)	(1,240,482)	1,078,626
Non-deductible expenses:				
Foreign exchange differences	-	283,395	1,287,262	283,395
Share based payments	163,438	254,251	102,676	163,495
Impairment losses	1,532,586	240,389	-	-
Other	218,098	60,826	-	33,826
Foreign exchange differences	(261,762)	-	(261,762)	(1,525,741)
Effect of tax rates in foreign jurisdictions	33,037	37,229	-	-
Current year losses for which no deferred tax asset was recognised	474,720	385,555	111,326	(23,960)
Change in unrecognised temporary differences	725	(9,923)	980	(9,641)
	-	-	-	-

NOTE 8: LOSS PER SHARE

	CONSOLIDATED	
	2009	2008
Basic loss per share (€ cents)	(6.99)	(4.54)

The calculation of basic loss per share was based on the loss attributable to shareholders of €7,202,805 (2008: €4,172,407) and a weighted average number of ordinary shares outstanding during the year of 102,990,833 (2008: €91,856,597).

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

continued NOTE 8: LOSS PER SHARE

		2009	2008
The number of weighted average shares is calculated as follows	**No. of days**	**Weighted average no.**	**Weighted average no**
Number of shares on issue at beginning of the year	365	94,768,096	90,415,633
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	-
262,463 issued on 5 May 2008	240	-	172,578
200,000 issued on 10 June 2008	205	-	112,329
500,000 issued on 24 June 2008	191	-	261,644
500,000 issued on 30 June 2008	185	-	253,425
1,015,000 issued on 11 September 2008	111	-	308,671
514,148 issued on 23 October 2008	70	-	98,604
310,852 issued on 28 October 2008	65	-	55,357
1,050,000 issued on 31 October 2008	62	-	178,356
		102,990,833	91,856,597

NOTE 9: CASH AND CASH EQUIVALENTS

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Cash at bank and on hand	6,622,329	2,948,689	5,945,220	2,533,083

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

NOTE 10: INVENTORY

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Well equipment - at cost	810,749	2,416,567	-	-

NOTE 11: TRADE AND OTHER RECEIVABLES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Sundry debtors	236,071	156,054	459,233	9,161
Vendor advances for well equipment	-	285,679	-	-
Indirect taxes receivable (a)	2,112,135	2,152,392	33,287	3,198
Total	**2,348,206**	**2,594,125**	**492,520**	**12,359**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

(a) Included in receivables are Italian indirect taxes recoverable as follows:				
Current	2,078,848	2,149,194	-	-
Non-current	1,953,326	651,424	-	-

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.

NOTE 12: INVESTMENTS

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Shares in controlled entities, at cost	-	-	10,130,989	9,228,448

The investments held in controlled entities are included in the financial statements at cost at 31 December 2009 and 2008 and are as follows:

Value in Euro					
Name	**Country of Incorporation**	**Class Shares**	**2009 Investment**	**2008 Investment**	**Holding %**
Northsun Italia S.p.A ("NSI")	Italy	Ordinary	9,535,924	8,818,539	100
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	594,259	409,103	100
PVE USA Inc.	United States of America	Ordinary	806	806	100
Total			**10,130,989**	**9,228,448**	

NOTE 13: NON - CURRENT ASSETS - RECEIVABLES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Indirect taxes receivable (refer Note 11)	1,953,326	651,424	-	-
Loans – Controlled Entities (i)	-	-	37,881,346	30,079,710
Total	**1,953,326**	**651,424**	**37,881,346**	**30,079,710**

(i) These loans are unsecured, interest free and repayable on demand in Euro.

NOTE 14: PROPERTY PLANT & EQUIPMENT

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Office Furniture & Equipment				
At cost	118,829	140,081	-	-
Accumulated depreciation	(80,275)	(97,110)	-	-
Total	**38,554**	**42,971**	-	-
Plant & Equipment under construction				
At cost	5,793,331	-	-	-
Accumulated depreciation	-	-	-	-
Total	**5,793,331**	-	-	-
	5,831,885	**42,971**	-	-
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	42,971	31,805	-	-
Additions	8,442	26,611	-	-
Depreciation expense	(12,573)	22,246	-	-
Foreign exchange difference	(286)	6,801	-	-
Carrying amount at end of year	**38,554**	**42,971**	-	-
Plant & Equipment under construction				
Carrying amount at beginning of year				
Additions	5,793,331	-	-	-
Depreciation expense	-	-	-	-
Carrying amount at end of year	**5,793,331**	-	-	-
	5,831,885	**42,971**	-	-

NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

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

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Losses available for offset against future taxable income	3,269,073	2,566,860	1,046,261	707,442
Share issue expenses	144,869	54,351	144,869	54,351
Capitalised borrowing costs	185,143	148,169	185,143	148,169
Accrued expenses and liabilities	8,163	7,433	8,700	7,715
Unrecognised deferred tax assets	**3,607,248**	**2,776,813**	**1,384,973**	**917,677**

continued NOTE 15: DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax liabilities

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

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Interest receivable	(2,754)	(2,748)	(2,754)	(2,748)
Unrecognised deferred tax assets	(2,754)	(2,748)	(2,754)	(2,748)
Net deferred tax asset not recognised	**3,604,494**	**2,774,065**	**1,382,219**	**914,929**

Deferred tax benefit will only be obtained if:

(i) The relevant company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) The relevant company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the relevant company in realising the benefit from the deductions for the losses.

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

Value in Euro

	Balance 1 January 2008	Profit and loss	Equity	Balance 31 December 2008	Profit or loss	Equity	Balance 31 December 2009
Consolidated							
Losses available for offset against future taxable income	1,994,502	498,926	73,432	2,566,860	642,845	59,368	3,269,073
Share issue expenses	123,253	-	(68,902)	54,351	-	90,518	144,869
Capitalised borrowing costs	-	148,169	-	148,169	36,974	-	185,143
Accrued expenses and liabilities	17,658	(10,225)	-	7,433	730	-	8,163
Income receivable	(3,050)	302	-	(2,748)	(6)	-	(2,754)
Total unrecognised deferred tax asset	2,132,363	637,172	4,530	2,774,065	680,543	149,886	3,604,494
Company							
Losses available for offset against future taxable income	544,597	89,413	73,432	707,442	279,452	59,367	1,046,261
Share issue expenses	123,253	-	(68,902)	54,351	-	90,518	144,869
Capitalised borrowing costs	-	148,169	-	148,169	36,974	-	185,143
Accrued expenses and liabilities	17,658	(9,943)	-	7,715	985	-	8,700
Income receivable	(3,050)	302	-	(2,748)	(6)	-	(2,754)
Total unrecognised deferred tax asset	682,458	227,941	4,530	914,929	317,405	149,885	1,382,219

NOTE 16: DEFERRED TAX ASSETS AND LIABILITIES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Resource Property costs				
Exploration Phase	6,139,221	7,689,974	-	-
Development Phase	22,772,357	22,366,345	-	
	28,911,578	**30,056,319**	**-**	**-**
Reconciliation of carrying amount of resource properties				
Exploration Phase				
Carrying amount at beginning of year	7,689,974	5,255,169	-	-
Foreign exchange difference	(1,060,034)	997,995		
Exploration expenditure	4,617,876	2,238,108	-	-
Exploration expenditure written off	(5,108,595)	(801,298)	-	-
Carrying amount at end of year	**6,139,221**	**7,689,974**	**-**	**-**

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 that or equal to the carrying value.

An impairment trigger was identified with regard to the Bezzecca 1 well drilled in April 2009. Accordingly, the associated resource property costs 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 single well development, include gas pricing, expected gas production, operating and capital expenditure and a discount rate. The recoverable amount is most sensitive to the gas price assumption and the discount rate. As result of the impairment test, the recoverable amount has been determined to be €1.48million resulting in an impairment expense of €4.23 million. This impairment represents the majority of the total impairment expense for the year.

	CONSOLIDATED 2009	CONSOLIDATED 2008	COMPANY 2009	COMPANY 2008
Development Phase				
Carrying amount at beginning of year	22,366,345	14,086,743	-	-
Foreign exchange difference	(3,151,065)	2,981,451	-	-
Development expenditure	9,490,725	5,298,151	-	-
Commissioning revenue received(i)	(140,317)	-	-	-
Reclassed as Plant & Equipment under construction	(5,793,331)	-	-	-
Carrying amount at end of year	**22,772,357**	**22,366,345**	**-**	**-**

(i) Relates to gas sales generated prior to commercial production having occurred.

NOTE 17: TRADE AND OTHER PAYABLES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Trade payables and accruals	3,079,103	2,383,894	442,923	160,974
Other payables	11,498	8,669	-	-
Total	3,090,601	2,392,563	442,923	160,974

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 23.

NOTE 18: SHARE BASED PAYMENTS

The Company has issued options to Directors, Executives and nominated employees.
Details of Employee Options are summarised below. Details of the options issued to Directors and Executives are in Note 27.

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 who were instrumental to the initial public offering of the Company.

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.

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:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	€	$	€	$
Balance at beginning of year	3,150,000	1.00	3,150,000	0.73
Granted	150,000	1.00	3,000,000	1.00
Exercised	-	-	(3,000,000)	0.71
Lapsed	**(125,000)**	**1.07**	**-**	
Balance at end of year	**3,175,000**	**1.00**	**3,150,000**	**1.00**
Exercisable at end of year	2,175,000		1,075,000	0.71

The options outstanding at 31 December 2009 have an exercise price in the range of A$1.75 (€1.00) to A$1.95 (€1.11) and a weighted average contractual life of 3 years.

Options granted during the reporting period pursuant to EIOS

	2009	2008
Number granted	150,000	3,000,000
Grant date	30 April 2009	31 May 2008
Vesting period	2.08 years	3 years
Expiry date	31 May 2011	31 May 2011
Exercise price	€ 1.00 (A$1.75)	€1.00 (A$1.75)

continued NOTE 18: SHARE BASED PAYMENTS

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 binomial lattice model, with the following inputs:

FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

	2009	2008
Fair value at grant date	€0.18	€0.28
Share price at grant date	€0.91 (A$1.60)	€0.99 (A$1.73)
Exercise price	€1.00 (A$1.75)	€1.00 (A$1.75)
Expected volatility	40%	40%
Option life	2.08 years	3.0 years
Risk-free interest rate	5.45%	6.75%

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

Number of Options	Grant date	Vesting date	Expiry date	Exercise price $
75,000	30 Nov 2006	1 Dec 2008	1 Dec 2010	$1.95 (€1.11)
3,000,000	31 May 2008	33 % 1 June 2008	31 May 2011	$1.75 (€1.00)
		33% 1 June 2009		
		34 % 1 June 2010		
100,000	30 April 2009	1 June 2009	31 May 2011	$1.75 (€1.00)

NOTE 19: PROVISIONS

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Current:				
Provision for legal claim	125,000	116,710	-	-
Employee leave entitlements	59,285	50,745	-	-
	184,285	**167,454**	**-**	**-**
Non Current:				
Restoration provision	2,361,575	1,239,301	-	-
Reconciliation of restoration provision:				
Opening balance	1,239,301	-	-	-
Increase in provision due to revised costs estimates	872,959	1,169,741	-	-
Increase in provision from unwind of discount rate	249,315	69,560	-	-
Closing balance	**2,361,575**	**1,239,301**	**-**	**-**

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 20: 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 23.

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Current liabilities				
Bank of Scotland finance facility	-	5,321,056	-	5,321,056
Non-current liabilities				
Bank of Scotland finance facility	9,637,183	-	9,637,183	-

The Group's exposure to currency, interest rate and liquidity risks related to loans are disclosed in note 23.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Value in Euro				31 DECEMBER 2009		31 DECEMBER 2008	
Consolidated and Company	Currency	Nominal Interest rate	Year of Maturity	Face Value $	Carrying Amount $	Face Value $	Carrying Amount $
Current liabilities							
Secured bank loan	Euro	Euribor + 3%	2013	9,637,183	9,637,183	5,321,056	5,321,056

The amount presented is disclosed net of borrowing costs of €642,085 (2008: €514,420).

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 of €20,000,000 of senior debt 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. Interest is payable at Euribor plus 3.00%. The facility can be drawn up to a borrowing base limit determined by Bank of Scotland on a semi annual basis in accordance with Facility agreement.

The facility is secured over the assets of Northsun Italia SpA and Po Valley Operations Pty Ltd including the Castello, Sillaro and Sant' Alberto gas fields and licence areas.

NOTE 21: CAPITAL AND RESERVES

	ORDINARY SHARES	
	2009 number	2008 number
Share Capital		
Opening balance - 1 January	94,768,096	90,415,633
Shares issued during the year:		
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	-
Share issue at €1.06 ($1.85) each on 5 May 08	-	262,463
Options exercised at €0.71 ($1.25) each on 10 June 2008	-	200,000
Options exercised at €0.71 ($1.25) each on 24 June 2008	-	500,000
Options exercised at €0.71 ($1.25) each on 30June2008	-	500,000
Options exercised at €0.71 ($1.25) each on 11 September 2008	-	1,015,000
Options exercised at €0.71 ($1.25) each on 23 October 2008	-	14,148
Options exercised at €0.57 ($1.00) each on 23 October 2008	-	500,000
Options exercised at €0.71 ($1.25) each on 28 October 2008	-	60,852
Options exercised at €0.57 ($1.00) each on 28 October 2008	-	250,000
Options exercised at €0.57 ($1.00) each on 31October 2008	-	950,000
Options exercised at €0.71 ($1.25) each on 31October 2008	-	100,000
Closing balance – 31 December	110,179,926	94,768,096

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.

The Company issued 294,729 shares to employees pursuant to the employees share purchase plan. These shares were issued at a price of €0.91 ($1.60). The Company raised €10,854,693 by private placement of 13,833,333 shares during the year. Shareholders took part in a share purchase plan in November of 2009 resulting in a further 1,283,768 shares issued with proceeds of €1,242,357.

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 18 for further details of these plans.

Dividends

No dividends were paid or declared during the current year (2008: NIL).

NOTE 22: FINANCIAL REPORTING BY SEGMENTS

The Group has two reportable segments, as described below, which 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 and Development gas and oil are the operating segments identified for the Group. The individual exploration and development operations have been aggregated.

Value in Euro	EXPLORATION		DEVELOPMENT		TOTAL	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008	31 December 2009	31 December 2008
External revenues						
Segment loss before tax	(5,108,595)	(801,298)	-	-	(5,108,595)	(801,298)
Impairment on resource property costs	(5,108,595)	(801,298)	-	-	(5,108,595)	(801,298)
Reportable segment assets						
Resource property costs	6,139,221	7,689,974	22,772,357	22,366,345	28,911,578	30,056,319
Plant & Equipment under construction	-	-	5,793,330	-	5,793,330	-
Capital expenditure	4,617,876	5,298,151	9,624,733	2,238,108	14,242,609	7,536,259
Reportable segment liabilities	1,755,316	1,325,090	3,878,186	1,600,170	5,633,502	2,925,260

Value in Euro	31 DECEMBER 2009	31 DECEMBER 2008
Reconciliation of reportable segment profit or loss, assets and liabilities		
Profit or loss:		
Total loss for reportable segments	(5,108,595)	(801,298)
Unallocated amounts:		
Other corporate expenses	(2,094,210)	(3,371,109)
Consolidated loss before income tax	**(7,202,805)**	**(4,172,407)**
Assets:		
Total assets for reportable segments	34,704,908	30,056,319
Other assets	11,796,227	9,373,632
Consolidated total assets	**46,501,135**	**39,429,951**
Liabilities:		
Total liabilities for reportable segments	5,633,502	2,925,260
Other liabilities	10,481,146	6,195,114
Consolidated total liabilities	**16,114,648**	**9,120,374**

NOTE 23: FINANCIAL INSTRUMENTS

(A) Interest Rate Risk Exposures Profile

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Variable rate instruments				
Financial assets	6,622,329	3,661,035	5,945,220	2,542,244
Financial liabilities	(9,637,183)	(5,321,056)	(9,637,183)	(5,321,056)
	(3,014,854)	(1,660,021)	(3,691,963)	(2,778,812)

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.

Cash flow Sensitivity analysis for variable rate instruments

A strengthing 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 2008.

Value in Euro	PROFIT OR LOSS		EQUITY	
Effect in Euro's	Group	Company	Group	Company
31 December 2009				
Variable rate instruments	66,623	59,452	(35,569)	(43,340)
31 December 2008				
Variable rate instruments	(21,745)	(32,932)	(21,745)	(32,932)

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

continued NOTE 23: FINANCIAL INSTRUMENTS

(B) Credit Risk

Exposure to credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.

The Group has a concentration of credit risk exposure to the Italian Government for VAT receivable (see note 11.)

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

Value in Euro	CONSOLIDATED		
		Carrying Amount	
	Note	2009	2008
Cash and cash equivalents	9	6,622,329	2,948,689
Financial assets		-	703,185
Receivables – Current	11	2,348,206	2,594,125
Receivables – Non-current	13	1,953,326	651,424
Other assets		23,062	16,671
		10,946,923	6,914,094

The Company's maximum exposure to credit risk at the reporting date is shown in the table below:

Value in Euro	COMPANY		
		Carrying Amount	
	Note	2009	2008
Cash and cash equivalents	9	5,945,220	2,533,083
Receivables – Current	11	492,520	12,359
Receivables – Non-current	13	37,881,346	30,079,710
Other assets		9,441	4,977
		44,328,527	32,630,129

continued NOTE 23: FINANCIAL INSTRUMENTS

(C) Liquidity risk

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

Value in Euro			PROFIT OR LOSS			EQUITY
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 moths	1-2 Years	2-5 Years
GROUP						
31 December 2009						
Trade and other payables	(2,990,601)	(2,990,601)	(2,990,601)	-	-	-
Secured bank loan	(9,637,183)	(11,677,516)	(178,500)	(178,500)	(713,998)	(10,606,518)
	(12,627,784)	**(14,668,117)**	**(3,169,101)**	**(178,500)**	**(713,998)**	**(10,606,518)**
31 December 2008						
Trade and other payables	(2,392,563)	(2,392,563)	(2,392,563)	-	-	-
Secured bank loan	(5,321,056)	(6,056,308)	(6,056,308)	-	-	-
	7,713,619	**(8,448,871)**	**(8,448,871)**	**-**	**-**	**-**
COMPANY						
31 December 2009						
Trade and other payables	(442,923)	(442,923)	(442,923)	-	-	-
Secured bank loan	(9,637,183)	(11,677,516)	(178,500)	(178,500)	(713,998)	(10,606,518)
	(10,080,106)	**(12,120,439)**	**(621,423)**	**(178,500)**	**(713,998)**	**(10,606,518)**
31 December 2008						
Trade and other payables	(160,974)	(160,974)	(160,974)	-	-	-
Secured bank loan	(5,321,056)	(6,056,308)	(6,056,308)	-	-	-
	(5,482,030)	**(6,217,282)**	**(6,217,282)**	**-**	**-**	**-**

(D) Net Fair Values of financial assets and liabilities

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

continued NOTE 23: FINANCIAL INSTRUMENTS

(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.

On 19 June 2009 there was a trigger event which produced a change in the functional currency for the Company to Euro from Australian dollars (refer note 1.2 (c)). In the prior year, foreign currency risk was calculated with reference to the Australian dollar being the functional currency.

Value in Euro	CONSOLIDATED	COMPANY
	2009	2009
Amounts receivable/(payable) in foreign currency other than functional currency		
Cash	4,647,220	4,647,220
Current – Payables	(104,713)	(104,713)
Net Exposure	4,542,507	4,542,507
	2008	2008
Amounts receivable/(payable) in foreign currency other than functional currency		
Cash	381,841	381,841
Non-current – Receivables	-	29,811,105
Current – Payables	(37,844)	(37,844)
Interest bearing loans	(5,835,476)	(5,835,476)
Net Exposure	(5,491,479)	24,319,626

The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2009	2008	2009	2008
Australian Dollar ($)	0.5631	0.5736	0.6231	0.4896

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 2008.

	CONSOLIDATED	COMPANY
	Profit or loss	Profit or loss
31 December 2009		
Euro (€)	454,251	454,251
31 December 2008		
Euro (€)	499,225	(2,212,517)

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 24: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

The Group has entered into a contract with civil contractor SEMAT SpA that undertakes the final engineering design, procurement, construction and installation of both the Sillaro and Castello production surface plants. In addition to this contact the Group has a contract with engineering firm Orion Energy which is responsible for the supervision and project management of the above contract. Both contracts are fixed price contracts totalling €6.4 million. 5% of the contract with SEMAT is payable upon completion of commissioning testing on installed plant and equipment and the remaining 5% after the 12 months of maintenance period.

Other than the above, 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 2009. There were not commitments in the prior year.

NOTE 25: JOINT VENTURES

As at the 31 December 2009 the Group held interests in the following Joint Ventures and permits in Italy:

Value in Euro	
Titles of Permits preliminary awarded	**Ossola**
Participation percentages	NSI 32.5%
	PVO 17.5%
Other registered holders and relevant percentages	Edison 50%

Assets and liabilities of the Joint Venture at 31 December 2009 were as follows:

	31 DECEMBER 2009	31 DECEMBER 2008
Resource Property Costs	-	668,338

As at 31 December 2009 there are no joint ventures.

NOTE 26: RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
(Loss) / Profit for the period	**(7,202,805)**	**(4,172,407)**	**(4,134,941)**	**3,595,421**
Adjustment for non-cash items:				
Net foreign exchange (gains) / loss	(935,681)	961,241	3,551,363	(4,124,576)
Share-based payments	544,792	846,362	342,252	544,982
Depreciation-office furniture & equipment	12,573	22,246	-	-
Exploration expenditure written off	5,108,595	801,298	-	-
Fair value movement on financial assets	(27,496)	22,085	-	(493,390)
Profit on unwind of put options	-	(493,39)	-	-
Unwind of discount on site restoration provision	249,314	69,56	-	(203,489)
Interest on loan	(394,670)	(203,489)	(394,670)	-
Change in operating assets and liabilities:				
(Increase) decrease in receivables	80,012	(91,829)	(446,874)	626
Decrease (increase) in other assets	(6,391)	(3,743)	(4,464)	-
Increase (decrease) in trade and other creditors	275,132	111,9	104,221	(13,851)
Increase in provisions and accruals	4,762	35,976	15,737	-
Net cash outflow from operating activities	(2,291,862)	(2,094,190)	(967,376)	(694,277)

NOTE 27: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATIOn

The key management personnel compensation included in employee benefit expense (see note 3) is as follows:

Value in Euro	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Short-term employee benefits	597,200	602,817	250,582	157,961
Other long term benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Share-based payments	434,171	780,802	342,252	181,892
Total	1,031,371	1,383,619	592,834	339,853

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 2008	GRANTED	EXERCISED	EXPIRED	HELD AT 31 DEC 2009
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
	2,800,000	-	-	-	2,800,000
Executives					
D Colkin	200,000	-	-		200,000
D Del Borrello (resigned 21 October 2009)	150,000	150,000	-	(125,000)	175,000
	350,000	150,000	,	(125,000)	375,000

(i) On the date of leasing to be a KMP.

continued NOTE 27: RELATED PARTIES

	HELD AT 31 DEC 2007	GRANTED	EXERCISED	EXPIRED	HELD AT 31 DEC 2008
Specified Directors					
G Bradley	1,000,000	600,000	(1,000,000)	-	600,000
M Masterman	1,500,000	1,000,000	(1,100,000)	(400,000)	1,000,000
D McEvoy	500,000	600,000	(500,000)	-	600,000
B Pirola	200,000	600,000	(200,000)	-	600,000
	3,200,000	2,800,000	(2,800,000)	(400,000)	2,800,000
Executives					
D Colkin	-	200,000	-	-	200,000
D Del Borrello (resigned 21 October 2009)	300,000	-	(75,000)	(75,000)	150,000
	300,000	200,000	(75,000)	(75,000)	350,000

The details of the options held at 31 December 2009 are as follows:

	$1.75 EXERCISE PRICE, EXPIRING 31 MAY 2011	$1.95 EXERCISE PRICE, EXPIRING 31 DEC 10	TOTAL 2009	TOTAL 2008
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
Executives				
D Colkin	200,000	-	200,000	200,000
D Del Borrello (resigned 21 October 2009)	100,000	75,000	175,000	150,000
	3,100,000	75,000	3,175,000	3,150,000

continued NOTE 27: RELATED PARTIES

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:

Value in Euro	HELD AT 31 DEC 2008	PURCHASED	SHARE BASED PAYMENTS	OPTIONS EXERCISED	SOLD	HELD AT 31 DEC 2009 (ii)
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[i]	7,112,782	-	-	-	-	7,112,782
	31,998,420	908,582	59,600	-	(443,101)	32,523,501
Executives						
D Colkin	-	3,684	37,251	-	-	40,935
D Del Borrello[i]	114,796	6,189	62,581	-	(118,769)	64,797
	114,796	9,873	99,832	-	(118,769)	105,732

(i) Included above are shares held by related parties
(ii) On the date ceasing to be a KMP

Value in Euro	HELD AT 31 DEC 2007	PURCHASED	SHARE BASED PAYMENTS	OPTIONS EXERCISED	SOLD	HELD AT 31 DEC 2008
Directors						
G Bradley	378,981	5,000	-	1,000,000	(250,000)	1,133,981
M Masterman[i]	21,573,844	715,927	157,293	1,100,000	(100,000)	23,447,064
D McEvoy	129,593	-	-	500,000	(325,000)	304,593
B Pirola[i][ii]	12,010,821	261,961	-	200,000	(5,360,000)	7,112,782
	34,093,239	982,888	157,293	2,800,000	(6,035,000)	31,998,420
Executives						
D Colkin	-	-	-	-	-	-
D Del Borrello[i]	94,597	50,000	65,767	75,000	(170,568)	114,796
	94,597	50,000	65,767	75,000	(170,568)	114,796

(i) Included above are shares held by related parties.
(ii) Of the shares sold by Director Mr Pirola during the year, 5,210,000 shares related to a single disposal as part of an agreement between ANZ Bank and Mr Pirola over a margin lending arrangement with Opes Prime Stockbroking.

NOTE 28: CORRECTION OF ERROR

The comparative numbers to this financial report have been corrected for an error in the calculation in share based payments expense during 2008. The error occurred due to an incorrect calculation of vesting period of options that were issued to Directors and Executives during 2008. The correction does not result in any greater value to option holders but merely allocates a different proportion of the expense to each year of vesting period. In 2008, the option value of Tranche 1 was expensed over a period 7 months from the date of grant whereas the restated position recognises an immediate expense for tranche 1 in 2008. Tranches 2 and 3 were previously expensed over 12 months longer that the approved vesting period. The effect of the correction is an increase in the Group and Company share based payment expense and losses of €363,091 in 2008, with an equal increase in reserves. Earnings per share has been restated from a loss of 4.15 cents per share to a loss of 4.54 cents per share. The correction has no impact on the cash flow statements for 2008.

The table below indicates the effect on individual key personnel management compensation:

Value in Euro	OPTION EXPENSE AS PREVIOUSLY REPORTED (RESTATED IN EURO)	CORRECTED OPTION EXPENSE	INCREASE IN SHARE BASED EXPENSE
Specified Directors			
G Bradley	32,795	105,413	72,618
M Masterman	54,658	175,689	121,031
D McEvoy	32,795	105,413	72,618
B Pirola	32,795	105,413	72,618
	153,043	491,928	338,885
Specified Executives			
D Colkin	10,932	35,138	24,206
D Del Borrello	17,916	17,916	-
	28,848	53,054	24,206
	181,891	544,982	363,091

NOTE 29: SUBSEQUENT EVENT

Subsequent to 31 December 2009, the Castello field reached commercial levels of production on 12 January 2010. Other than this, 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

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 13 to [48], 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 2009 and of their performance, for the financial year ended on that date.

      b. complying with Australian Accounting Standards and the Corporations Regulations 2001;

   (ii) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1;

   (iii) 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 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2009 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 26 February 2010.

Signed in accordance with a resolution of the Directors:

Graham Bradley
Chairman

Byron Pirola
Non-Executive Director

PO VALLEY ENERGY LIMITED

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 statements of financial position as at 31 December 2009, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes i to 29 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1.2 the directors also state, in accordance with Australian Accounting Standard, AASB 101 *Presentation of Financial Statements*, that the financial report comprising the financial statements and notes complies 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Independence

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

Auditor's opinion
In our opinion:

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

(i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1.2 (a).

Report on the remuneration report

We have audited the Remuneration Report included in director's report for the year ended 31 December 2009. 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 2009, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

R Gambitta
Partner

Perth
26 February 2010

PO VALLEY ENERGY LIMITED

Shareholder Information 2009/2010

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information was prepared based on share registry information processed up to 1 March, 2010.

SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held
Michael Masterman	23,972,569	21.76%
Hunter Hall Investment Management Pty Ltd	20,356,767	18.48%
Beronia Investments Pty Ltd1	7,112,782	6.46%
Platypus Asset Management	5,527,606	5.02%

1.Interests associated with Non-Executive Director, Byron Pirola

DISTRIBUTION OF SHARE AND OPTION HOLDINGS

Size of Holdings	Ordinary Shares		Options	
	Number of holders	Number of shares	Number of holders	Number of options
1-1,000	195	73,510	0	0
1,001-5,000	293	852,906	0	0
5,001-10,000	151	1,158,769	0	0
10,001-100,000	266	7,857,733	0	0
100,001-over	57	100,237,008	6	3,175,000
Total	962	110,179,926	6	3,175,000
Number of ordinary shareholders with less than a marketable parcel	104	7,470		

VOTING RIGHTS OF SHARES AND OPTIONS

Refer to Note 18 and Note 21.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

TWENTY LARGEST SHAREHOLDERS

		Number of ordinary shared held	Percentage of capital held
1	Cogent Nominees Pty Limited	21,952,702	19.92%
2	Michael Masterman	21,163,632	19.21%
3	J P Morgan Nominees Australia	8,857,731	8.04%
4	National Nominees Limited	6,360,842	5.77%
5	HSBC Custody Nominees	4,900,996	4.45%
6	Joan Masterman	4,788,444	4.35%
7	Equity Trustees Limited<SGH Smaller Co's Fund>	3,654,741	3.32%
8	Beronia Investments Pty Ltd	2,871,721	2.61%
9	Symmall Pty Ltd	2,808,937	2.55%
10	Beronia FS Pty Ltd<Beronia family superfund 1A/C>	1,680,000	1.52%
11	Beronia FS Pty Ltd<Beronia family superfund 2A/C>	1,600,240	1.45%
12	Roy Rigotti	1,588,000	1.44%
13	RBC Dexia Investor Services	1,564,987	1.42%
14	Cogent Nominees Pty Limited<SMP Accounts>	1,507,416	1.37%
15	Ken Ambrecht	1,224,649	1.11%
16	Gwynvill Trading Pty Ltd	1,175,912	1.07%
17	Beronia Investments Pty Ltd<Duke Account>	1,076,202	0.98%
18	Citicorp Nominees Pty Limited	1,059,874	0.96%
19	ANZ Nominees Limited	1,015,430	0.92%
20	Graham Bradley	573,981	0.52%
Total		91,426,437	82.98%

OPTION HOLDERS – UNQUOTED

		Number of ordinary options held	Percentage of options held
1	Michael Masterman	1,000,000	31.49%
2	Graham Bradley	600,000	18.89%
3	David McEvoy	600,000	18.89%
4	Byron Pirola	600,000	18.89%
5	Douglas Colkin	200,000	6.29%
6	Dom Del Borrello (Resigned 21 October 2009)	175,000	5.51%
Total		3,175,000	100.00%

The total number of option holders is 6.

Notes

PO VALLEY ENERGY LIMITED
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