

Eromanga Hydrocarbons Ltd

A.B.N. 41 000 752 849

and Controlled Entities

**31 DECEMBER 2010
HALF-YEAR FINANCIAL REPORT**

Eromanga Hydrocarbons Ltd (A.B.N. 41 000 752 849) and Controlled Entities

Company Directory

Directors

Mr Michael Goldhirsch
Mr Philip Galloway
Mr Christian Turner
Mr Stephen Shnider
Mr Joshua Goldhirsch
Mr John Weston

Secretary

Mr Joshua Goldhirsch

Solicitors to the Company

Quinert Rodda & Associates
Level 19
500 Collins Street
Melbourne. Vic. 3000

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne. Vic. 3000

Registered Office

Level 12
390 St Kilda Road
Melbourne. Vic. 3004

Auditors

Grant Thornton Audit Pty Ltd
Level 2
215 Spring Street
Melbourne. Vic. 3000

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford. Vic. 3067

Stock Exchange Listing

Shares are listed on the Australian Stock
Exchange. Code ERH, ERHOA

Eromanga Hydrocarbons Ltd (A.B.N. 41 000 752 849) and Controlled Entities Directors' Report

Your directors submit their report for the half-year ended 31 December 2010.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Michael Goldhirsch (Chairman)
Philip Galloway (Managing Director)
Stephen Shnider
Christian Turner
Joshua Goldhirsch
John Weston

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity incurred a comprehensive loss of \$1,819,949 (2009 loss: \$2,067,494) for the half year ended 31 December 2010.

Review of Operations

1. Gavea Oil and Gas Joint Venture (ERH 40%)

Sergipe-Alagoas Basin, On-shore Brazil

- Guara Field (Former Block 430 - Tatu Discovery)
- Harpia Field (Former Block 330 - Paca Discovery)

During the Half Year, Brazil's oil industry regulator, the ANP, approved the Guara field as a "Production Phase, Development Stage" field. Further technical information has been requested by the ANP prior to finalizing the production area ring-fence. The approval is based on the results of the Tatu 1 and Tatu 2 discovery wells and existing seismic over the block.

The Harpia oil field has a 27 square kilometre production ring fence. The ANP approved the production ring fence following a technical evaluation of the PACA 1 flow test, the appraisal well at PACA 2 and an assessment of the seismic on the block.

Eromanga Hydrocarbons Ltd (A.B.N. 41 000 752 849) and Controlled Entities

Directors' Report

2. Klick Oil Field (ERH 49.22% Net Working Interest)

Woods County, Oklahoma USA

- Klick East Oil Field (Production Stage)
- Klick West (Option)

The Joint Venture drilled the Klick 22-1H Horizontal Well during the Half Year. The well was completed for production and surface facilities successfully constructed and commissioned in Early January.

Eromanga's 49.22% interest in the field was acquired during the Half Year. The acquisition includes rights to access water disposal and other infrastructure and an option over the neighbouring 320 acre Klick West block. Participants in the Blocks are CMX Inc (49.22% NWI), an independent oil and gas producer with significant local knowledge and expertise; and Chesapeake Exploration Limited Partnership (1.56% NWI).

The Klick acquisition resulted from a strategic review and a screening process to identify horizontal drilling opportunities that was completed during the financial year ended 30 June 2010. The project will expose Eromanga to leading edge drilling techniques that could have important applications to its project's in Brazil. Specifically the vertically fractured Mississippian carbonate reservoir at the Klick Project is analogous to reservoirs at the Harpia Oil Field (ERH 40%) and the Tatu discovery (ERH 40%) in Brazil.

3. Kansas Acreage Acquisition (ERH 50% Net working interest)

Eromanga executed a Participation Agreement ("PA") to secure a large acreage position covering existing mature oil fields that include the Mississippian reservoir in Kansas, USA. The Parties' intention is to prove-up horizontal drilling opportunities that would significantly increase oil recovery from these fields.

The PA is with CMX Inc ("CMX") the independent oil company that is Eromanga's 50% joint venture partner in the Klick East Oil Field. CMX will be the operator of the new leases.

4. Portfolio Management

Eromanga continues to evaluate numerous exploration, farm-in and acquisition opportunities consistent with its strategic objectives.

Onshore Brazil, Eromanga completed an evaluation of existing 3D and 2D seismic covering blocks Rec-T-131, 132, 144 and 157, which were awarded to Alvorada Petroleo S.A. ("Alvorada") in the ANP's 9th exploration round. Following discussions with Alvorada, Eromanga determined that the risk/return profile of the project did not meet its requirements.

Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION

An independence declaration has been provided by the company's auditor, Grant Thornton Audit Pty Ltd. A copy of this declaration is attached to, and forms part of the interim financial report for the half year ended 31 December 2010.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'P. Galloway', with a long horizontal stroke extending to the right.

Philip Galloway

Director

Melbourne, 11 March 2011

Directors' Declaration

The directors of Eromanga Hydrocarbons Ltd declare that the financial statements and notes set out on pages 7 to 15;

- (a) comply with Accounting Standards, the Corporations Act 2001 and other mandatory professional requirements, and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flow.
- (c) In the opinion of the directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Made in accordance with a resolution of the directors.

On behalf of the directors



Philip Galloway – Director
Melbourne, 11 March 2011

Eromanga Hydrocarbons Ltd and Controlled Entities
Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2010

	<i>Notes</i>	CONSOLIDATED	
		2010	2009
		\$	\$
Oil Sales	2	-	5,136
Other income	2	42,831	79,203
Total revenue		42,831	84,339
Exploration expenses	2	(31,500)	(37,434)
Occupancy expenses		(33,535)	(17,043)
Share registry expenses		(9,246)	(15,273)
ASX expenses		(28,037)	(39,817)
Audit fees		(38,313)	(40,818)
Accounting expense		(11,300)	(27,065)
Employee expenses	2	(363,405)	(1,416,487)
Consultancy expenses		(10,442)	(376,927)
Legal expenses		(26,249)	(83,593)
Office expenses		(83,187)	(25,173)
Travel expense		(66,397)	(80,763)
Directors fee expense		(25,001)	(25,000)
Regulatory expenses		(631)	(1,998)
Foreign exchange gain\loss)		(2,673,288)	(2,139,429)
Other expenses		(30,676)	(35,450)
Loss before income tax		(3,388,376)	(4,277,931)
Income tax expense		--	--
Loss after tax for the period		(3,388,376)	(4,277,931)
Other comprehensive income			
Exchange differences on translation of foreign operations		1,568,427	2,210,437
Other comprehensive income net of tax		1,568,428	2,210,437
Total comprehensive income for the period		(1,819,949)	(2,067,494)
Earnings per share (cents per share)			
-Basic\diluted for loss for the half-year		(1.52)	(1.95)
-Basic\diluted for loss for the half-year (total comprehensive income)		(0.82)	(0.94)

Eromanga Hydrocarbons Ltd and Controlled Entities
Consolidated Statement of Financial Position
as at 31 December 2010

<i>CONSOLIDATED</i>			
	<i>Notes</i>	<i>As at 31 December 2010 \$</i>	<i>As at 30 June 2010 \$</i>
ASSETS			
Current Assets			
Cash and cash equivalents		1,047,498	3,738,632
Receivables		7,770	44,444
Total Current Assets		<u>1,055,268</u>	<u>3,783,076</u>
Non-current Assets			
Other financial assets	8	62,369	62,369
Deferred Exploration Expenditure	9	10,835,315	9,277,164
Total Non-current Assets		<u>10,897,684</u>	<u>9,339,533</u>
TOTAL ASSETS		<u>11,952,952</u>	<u>13,122,609</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		154,639	340,290
Total Current Liabilities		<u>154,639</u>	<u>340,290</u>
Non-Current Liabilities			
Payables		500	500
Total Non-Current Liabilities		<u>500</u>	<u>500</u>
TOTAL LIABILITIES		<u>155,139</u>	<u>340,790</u>
NET ASSETS		<u>11,797,813</u>	<u>12,781,819</u>
EQUITY			
Issued capital	7	52,958,010	52,121,213
Reserves	6	11,211,717	9,643,290
Accumulated losses		(52,371,914)	(48,982,684)
TOTAL EQUITY		<u>11,797,813</u>	<u>12,781,819</u>

Eromanga Hydrocarbons Ltd and Controlled Entities
Consolidated Statement of Cash Flows
for the half-year ended 31 December 2010

	<i>CONSOLIDATED</i>	
	<i>2010</i>	<i>2009</i>
	\$	\$
Cash flows from operating activities		
Receipts from customers	-	5,136
Payments to suppliers and employees	(1,181,136)	(1,252,523)
Interest Received	79,504	75,710
Net cash flows from operating activities	<u>(1,101,632)</u>	<u>(1,171,677)</u>
Cash flows from investing activities		
Payments for exploration costs	(2,426,299)	(722,635)
Net cash flows used in investing activities	<u>(2,426,299)</u>	<u>(722,635)</u>
Cash flows from financing activities		
Proceeds from issue of shares (net of share issue costs)	836,797	2,130,097
Advance to joint venture partner	-	(455,370)
Net cash inflow from financing activities	<u>836,797</u>	<u>1,674,727</u>
Net decrease in cash held	(2,691,134)	(219,586)
Cash at beginning of period	3,738,632	4,644,301
Cash at end of period	<u>1,047,498</u>	<u>4,424,715</u>

Eromanga Hydrocarbons Ltd and Controlled Entities
Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2010

CONSOLIDATED

	Issued Capital	Reserves	Retained Earnings	Total
Balance at 1 July 2009	49,733,124	6,400,119	(43,233,666)	12,899,577
Loss for the period	--	--	(4,277,931)	(4,277,931)
Shares issued during the period	2,059,089	--	--	2,059,089
Share based payment	--	1,053,730	--	1,053,730
Exchange differences on translation of foreign operations	--	2,210,437	--	2,210,437
Balance at 31 December 2009	51,792,213	9,664,286	(47,511,597)	13,944,902
Balance at 1 July 2010	52,121,213	9,643,290	(48,983,538)	12,780,965
Loss for the period	--	--	(3,388,376)	(3,388,376)
Exchange differences on translation of foreign operations	--	1,568,427	--	1,568,427
Shares issued during the period	885,500	--	--	885,500
Share issue costs during the period	(48,703)	--	--	(48,703)
Balance at 31 December 2010	52,958,010	11,211,717	(52,371,914)	11,797,813

Eromanga Hydrocarbons Ltd and Controlled Entities

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Eromanga Hydrocarbons Ltd as at 30 June 2010.

It is also recommended that the half-year financial report be considered together with any public announcements made by Eromanga Hydrocarbons Ltd and its controlled entities during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies adapted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 “Interim Financial Reporting” and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis and available-for-sale financial assets that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2010.

(c) Accounting Standards not Previously Applied

The Group has adopted any new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

(d) Going Concern

The financial report has been prepared on a going concern basis. This contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business even though the Company has experienced operating losses of \$3,388,376 during the half year period ending 31 December 2010 (2009: \$4,277,931). The directors believe that the following factors support the going concern assumption: (i) Cash reserves at 31 December 2010 of \$1,047,498 (ii) Access to a \$10 million equity placement facility with Fortrend Securities Pty Ltd (iii) Control over discretionary exploration expenditure.

Eromanga Hydrocarbons Ltd and Controlled Entities

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	<i>CONSOLIDATED</i>	
	<i>2010</i>	<i>2009</i>
	\$	\$
2 REVENUE AND EXPENSES		
Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(i) Other income		
Interest Revenue	42,831	79,203
Oil Sales	-	5,136
	<u>42,831</u>	<u>84,339</u>
(iii) Expenses		
Exploration costs	31,500	37,434
Employment Costs	363,405	362,757
Share Based Payments	-	1,053,730
	<u>394,905</u>	<u>1,453,921</u>

3 EVENTS AFTER THE BALANCE SHEET DATE

Production from horizontal well Klick 22-1H (ERH 49.22%) continued to ramp-up following final commissioning of surface facilities in February. Oil and gas sales from the well commenced in March.

In February, Eromanga received notice from the International Chamber of Commerce (“ICC”) in Paris that a request for Arbitration had been filed by Nord. The ICC provides independent dispute resolution services and is the forum agreed by both Parties to resolve disputes under the Joint Venture Agreements. Eromanga has responded to the ICC and Nord seeking to clarify some procedural and legal matters. Eromanga considers the Request for Arbitration as a positive step in resolving commercial and technical differences between the Parties with respect to the development of the Harpia and Guara oil fields.

4 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

Eromanga Hydrocarbons Ltd and Controlled Entities

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

5 SEGMENTAL INFORMATION

During the period the group identified the following segments in which Mining and Geological operated in Brazil and the USA, and Equity and Investment operated in Australia.

Industry Segments

	Mining & Geological		Equity & Investment		Consolidated	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Revenue						
From external customers	-	5,136	-	-	-	5,136
Interest Income	-	-	42,831	79,203	42,831	79,203
Segment Revenues	-	5,136	42,831	79,203	42,831	84,339
Employee benefits expense	-	-	(363,405)	(1,416,487)	(363,405)	(1,416,487)
Exploration costs	(31,500)	(37,434)	-	-	(31,500)	(37,434)
Other expenses	-	-	(3,036,302)	(2,908,349)	(3,036,302)	(2,908,349)
Segment Operating Loss	(31,500)	(37,434)	(3,356,876)	(4,240,497)	(3,388,376)	(4,277,931)
Segment Assets	10,835,315	9,554,360	1,117,637	4,511,111	11,952,952	14,065,471
Segment Liabilities	117,487	--	37,652	120,569	155,139	120,569

Eromanga Hydrocarbons Ltd and Controlled Entities

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6 RESERVES

	<i>CONSOLIDATED</i>	
	31 December 2010	30 June 2010
	\$	\$
Capital Profits	2,887,131	2,887,131
Asset Revaluation Reserve	9,397	9,397
Equity Benefits Reserve (share based payment) (a)	3,750,000	3,750,000
Foreign Currency Translation Reserve	4,565,189	2,996,762
	11,211,717	9,643,290

Movement during the year:

(a) Equity Benefits Reserve

The equity benefits reserve recognises the fair value of equity settled share based payments.

Balance at the beginning of the period	3,750,000	2,893,910
Share based payment expense – employee	-	1,141,090
Exercise of performance rights	-	(285,000)
	3,750,000	3,750,000

7 SHARE CAPITAL

Issued and Paid up capital

220,751,669 Ordinary shares fully paid	47,657,638	47,657,638
11,500,000 Ordinary shares fully paid (a)	885,500	-
Forfeited partly paid shares	5,236,068	5,236,068
Share issue costs	(821,196)	(772,493)
	52,958,010	52,121,213

(a) On 24 November 2010, a placement of 11,500,000 Ordinary shares fully paid were issued to shareholders for a consideration of \$0.077 per ordinary share.

Eromanga Hydrocarbons Ltd and Controlled Entities

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

8. OTHER FINANCIAL ASSETS

	<i>CONSOLIDATED</i>	
	31 December 2010	30 June 2010
NON CURRENT		
Available for sale financial assets		
Shares at fair value – other entities (a)	2,705	2,705
Shares in other related parties at fair value	59,662	59,662
Acquired interest in joint venture operation (b)	409,091	409,091
Less provision for impairment	(409,091)	(409,091)
Investments in other corporation	2	2
	62,369	62,369

(a) Relates to a minority interest in listed companies.

(b) Relates to an acquired interest in the Edward Creek Base Metals Joint Venture (ECBMJV). Eromanga purchased a 21% contributing interest in the Edward Creek Base Metal Joint Venture (ECBMJV) for a consideration of \$450,000 (inc GST). The consideration was satisfied by the issue of nine million fully paid ordinary shares and nine million options. The ECBMJV relates to an interest in exploration licence EL 3250 that covers an area of approximately 440 sq km in the Gawler Craton in South Australia. This interest has been fully impaired.

9. DEFERRED EXPLORATION EXPENDITURE

Cost	10,835,315	9,277,164
Accumulated impairment	--	--
	10,835,315	9,277,164

The recoverability of the carrying amount of deferred exploration and evaluation expenditure is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 2
215 Spring Street
Melbourne
Victoria 3000
GPO Box 4984WW
Melbourne
Victoria
3001

T +61 3 8663 6000
F +61 3 8663 6333
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report To the Members of Eromanga Hydrocarbons Ltd

We have reviewed the accompanying half-year financial report of Eromanga Hydrocarbons Ltd ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year 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 controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the

auditor of Eromanga Hydrocarbons Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Eromanga Hydrocarbons Ltd is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M. A. Cunningham
Director - Audit & Assurance Services

Melbourne, 11 March 2011

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 2
215 Spring Street
Melbourne
Victoria 3000
GPO Box 4984WW
Melbourne
Victoria
3001

T +61 3 8663 6000
F +61 3 8663 6333
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration To The Directors of Eromanga Hydrocarbons Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Eromanga Hydrocarbons Ltd for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M.A. Cunningham
Director - Audit & Assurance Services

Melbourne, 11 March 2011