

# Eromanga Hydrocarbons Ltd

A.B.N. 41 000 752 849

**and Controlled Entities**

**31 DECEMBER 2009  
HALF-YEAR FINANCIAL REPORT**

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

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## **Company Directory**

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### **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 6  
484 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**

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Your directors submit their report for the half-year ended 31 December 2009.

### **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 net loss of \$4,277,931 (2008: \$6,226,736) for the half year ended 31 December 2009.

#### **Highlights:**

- Exploration Block 330 became the Harpia Oil Field after approval of a 27 square kilometre production licence ring fence by the ANP, Brazil's Oil Industry Regulator. (ERH 40%)
- The TATU 2 well at Block 430 was declared a discovery with +160 meters of oil shows and oil soaked core recovered from three potential reservoir intervals. (Block 430, ERH 40%)
- A simplified capital structure was supported by the members of Eromanga at the AGM. As a result, Eromanga has become a "Limited" entity with a new constitution and a significant reduction in the number of listed securities.
- Eromanga continues to review a number of acquisition and farm-in opportunities in its focus areas on-shore Brazil.

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

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## **Gavea Oil and Gas Joint Venture On-shore Brazil (ERH 40%) Harpia Oil Field, Sergipe-Alagoas Basin (Previously Block 330)**

Exploration Block 330 became the Harpia Oil Field on the 4<sup>th</sup> of August after the Gavea JV's application for a 27 square kilometre production ring fence was accepted by the ANP, Brazil's oil industry regulator. The technical case for the application was based on the results of the Paca 1 and Paca 2 wells and the available seismic data.

**Figure 1 – Oil from the Harpia Field**



Source: Eromanga July 2009

Production from PACA 1 was 9,161 Barrels for the half year ended 31 December 2009 at an average flow rate of 63 Bbl/day. A scheduled shut-in was completed during October 2009.

Engineering work continued on plans to reduce water ingress from behind the casing in PACA 2. The well was shut-in while this work continues.

Planning was underway for the Paca 3 development well which is expected to be drilled during the second quarter of 2010.

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

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## **Gavea Oil and Gas Joint Venture On-shore Brazil Sergipe-Alagoas Basin, Blocks 430 (ERH 40%)**

The Gavea JV drilled Tatu 2, its second well on Block 430. This well was declared a discovery on 16 October. Over 160m of oil shows were encountered during drilling. Approximately 46 meters of core was recovered from three different potential reservoir intervals. For each of the three intervals, the core was described as having good to strong oil shows and as being saturated with light brown oil over significant intervals within the cored length.

The Joint Venture was particularly pleased with the performance of the mud and drilling systems that were developed for this well. Operational delays caused by rig performance and weather were disappointing.

The first intervention in the Tatu 1 well successfully demonstrated that a solvent wash can be used to initiate flow in this well. Relatively light 31 degree API oil was produced under pump over a restricted interval during the two week test period.

Eromanga commenced an independent evaluation of the geology of Block 430 based on the Tatu 1 and Tatu 2 discovery wells and existing 3D Seismic. Initial results indicate stacked stratigraphic traps extending to the north, west and south of the discovery wells. The review indicated that the Manga structure was smaller than previously modelled, and as a result, Eromanga elected not to participate in this well.

## **Simplified Capital Structure**

At the AGM on 18 December 2009, members supported a series of initiatives to simplify Eromanga's capital structure. As a result Eromanga has 217 million Fully Paid Ordinary Shares on issue and has become a "Limited" entity. The company also passed a new constitution that is consistent with modern corporations' law and corporate governance.

## **Silver Marlin Oil & Gas Joint Venture On-shore Brazil Reconcavo Basin, Blocks 59 (ERH 50%)**

A dispute arose in early 2009 over the contribution of each party to drilling costs and it has not yet been resolved. The regulatory deadline to complete a well on Block 59 by 12 January 2009 has been extended by the ANP, Brazil's oil industry regulator.

Eromanga understands that Silver Marlin decided to complete the well at Block 138. Eromanga has not been advised of the drilling results however we note that a discovery has not been reported to the ANP.

## 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 2009.

Signed in accordance with a resolution of the directors.

A handwritten signature in cursive script, appearing to read 'P. Galloway', with a long horizontal flourish extending to the right.

Philip Galloway  
Director  
Melbourne, 16 March 2010

## Directors' Declaration

The directors of Eromanga Hydrocarbons Ltd declare that the financial statements and notes set out on pages 8 to 23;

- (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 2009 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, 16 March 2010**

**Eromanga Hydrocarbons Ltd and Controlled***CONSOLIDATED***Entities****Consolidated Statement of Comprehensive Income****For the half year ended 31 December 2009**

		2009	2008
	<i>Notes</i>	\$	\$
Oil Sales	2	5,136	--
Other income	2	79,203	326,745
<b>Total revenue</b>		<b>84,339</b>	<b>326,745</b>
Exploration expenses	2	(37,434)	(4,137,759)
Occupancy expenses		(17,043)	(21,456)
Share registry expenses		(15,273)	(16,223)
ASX expenses		(39,817)	(57,032)
Audit fees		(40,818)	(53,672)
Accounting expense		(27,065)	(18,790)
Employee expenses	2	(1,416,487)	(1,355,251)
Consultancy expenses		(376,927)	(441,216)
Legal expenses		(83,593)	(77,220)
Office expenses		(25,173)	(37,763)
Travel expense		(80,763)	(59,475)
Directors fee expense		(25,000)	(25,000)
Regulatory expenses		(1,998)	(20,138)
Foreign exchange gain\ (loss)		(2,139,429)	(203,639)
Other expenses		(35,450)	(28,847)
<b>Loss before income tax</b>		<b>(4,277,931)</b>	<b>(6,226,736)</b>
Income tax expense		--	--
<b>Loss after tax for the period</b>		<b>(4,277,931)</b>	<b>(6,226,736)</b>
<b>Other comprehensive income</b>			
Change in fair value of equity securities available for sale		-	(129,264)
Exchange differences on translation of foreign operations		2,210,437	149,457
Other comprehensive income net of tax		-	-
<b>Total comprehensive income for the period</b>		<b>(2,067,494)</b>	<b>(6,206,543)</b>
Earnings per share (cents per share)			
- Basic\ diluted for loss for the half-year		(1.95)	(3.21)
- Basic\ diluted for loss for the half-year (total comprehensive income)		(0.94)	(3.20)

**Eromanga Hydrocarbons Ltd and Controlled Entities**  
**Consolidated Statement of Financial Position**  
**as at 31 December 2009**

CONSOLIDATED

	<i>Notes</i>	<i>As at 31 December 2009</i>	<i>As at 30 June 2009</i>
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	10	4,424,715	4,644,301
Receivables		4,139	646
<b>Total Current Assets</b>		<b>4,428,854</b>	<b>4,644,947</b>
<b>Non-current Assets</b>			
Other financial assets	8	537,627	82,257
Deferred Exploration Expenditure	9	9,098,990	8,376,354
<b>Total Non-current Assets</b>		<b>9,636,617</b>	<b>8,458,611</b>
<b>TOTAL ASSETS</b>		<b>14,065,471</b>	<b>13,103,558</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		120,069	203,481
<b>Total Current Liabilities</b>		<b>120,069</b>	<b>203,481</b>
<b>Non-Current Liabilities</b>			
Payables		500	500
<b>Total Non-Current Liabilities</b>		<b>500</b>	<b>500</b>
<b>TOTAL LIABILITIES</b>		<b>120,569</b>	<b>203,981</b>
<b>NET ASSETS</b>		<b>13,944,902</b>	<b>12,899,577</b>
<b>EQUITY</b>			
Issued capital	7	51,792,213	49,733,124
Reserves	6	9,664,286	6,400,119
Accumulated losses		(47,511,597)	(43,233,666)
<b>TOTAL EQUITY</b>		<b>13,944,902</b>	<b>12,899,577</b>

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009	CONSOLIDATED	
	2009	2008
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	5,136	--
Payments to suppliers and employees	(1,904,151)	(6,388,326)
Interest Received	75,710	251,513
<b>Net cash flows from operating activities</b>	<b>(1,823,305)</b>	<b>(6,136,813)</b>
<b>Cash flows from investing activities</b>		
Payment for non-current assets	--	--
<b>Net cash flows used in investing activities</b>	<b>--</b>	<b>--</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	2,059,089	511,995
Advance to joint venture partner	(455,370)	--
<b>Net cash inflow from financing activities</b>	<b>1,603,719</b>	<b>511,967</b>
<b>Net increase/(decrease) in cash held</b>	<b>(219,586)</b>	<b>(5,624,818)</b>
<b>Cash at beginning of period</b>	<b>4,644,301</b>	<b>12,073,058</b>
<b>Cash at end of period</b>	<b>4,424,715</b>	<b>6,448,240</b>

**Eromanga Hydrocarbons Ltd and Controlled Entities**  
**Consolidated Statement of Changes in Equity**  
**for the half-year ended 31 December 2009**

*CONSOLIDATED*

	Issued Capital	Reserves	Retained Earnings	Total
Balance at 1 July 2008	47,314,598	5,104,516	(33,887,428)	18,531,686
Total comprehensive income for the period	--	20,193	(6,226,736)	(6,206,543)
Shares issued during the period	1,961,995	--	--	1,961,995
Share based payment	--	(458,916)	--	(458,916)
<b>Balance at 31 December 2008</b>	<b>49,276,593</b>	<b>4,665,793</b>	<b>(40,114,164)</b>	<b>13,828,222</b>
Balance at 1 July 2009	49,733,124	6,400,119	(43,233,666)	12,899,577
Total comprehensive income for the period	--	2,210,437	(4,277,931)	(2,067,494)
Shares issued during the period	2,059,089	--	--	2,059,089
Share based payment	--	1,053,730	--	1,053,730
<b>Balance at 31 December 2009</b>	<b>51,792,213</b>	<b>9,664,286</b>	<b>(47,511,597)</b>	<b>13,944,902</b>

## **Eromanga Hydrocarbons Ltd and Controlled Entities**

### **Notes to the Half-Year Financial Statements**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

#### **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 2009.

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 2009 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 financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

# **Eromanga Hydrocarbons Ltd and Controlled Entities**

## **Notes to the Half-Year Financial Statements**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

### **1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)**

#### **(c) Summary of significant accounting policies**

##### **(i) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Eromanga Hydrocarbons Ltd and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Eromanga Hydrocarbons Ltd has control.

##### **(ii) Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified available-for-sale, are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

## **Eromanga Hydrocarbons Ltd and Controlled Entities**

### **Notes to the Half-Year Financial Statements**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

#### **1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)**

##### **(c) Summary of significant accounting policies (continued)**

###### **(iii) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

###### **(iv) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

###### **(v) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

###### **(vi) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

###### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

#### 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

##### (c) Summary of significant accounting policies (continued)

###### (vii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

###### (viii) GST

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

#### 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

##### (c) Summary of significant accounting policies (continued)

##### (viii) GST (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

##### (ix) Share-based payment transaction

Equity settled transaction:

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity investments at the date at which they are granted. The fair value is determined using a black-scholes option pricing model or binomial pricing model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Eromanga Hydrocarbons Ltd (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

# Eromanga Hydrocarbons Ltd and Controlled Entities

## Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

### (x) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are expensed in the income statement as they are incurred.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

### (xi) Interest in a jointly controlled operation

The Group has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognizes its interest in the jointly controlled operation by recognizing its interest in the assets it controls and the liabilities it incurs. The Group also recognizes the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

### (xii) Foreign Currency Translation – Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

### (xiii) Business Combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

## **Eromanga Hydrocarbons Ltd and Controlled Entities**

### **Notes to the Half-Year Financial Statements**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

**(xiv) Intangible Assets – Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**xv) Accounting Standards not Previously Applied**

The Group has adopted the following 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.

**Presentation of Financial Statements**

'- the replacement of Income Statement with Statements of Comprehensive Income. Items of Income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;

'- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income

'- other financial statements are renamed in accordance with the Standard.

**Operating Segments**

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors.

**Business Combinations and Consolidation Procedures**

Revised AASB 3 is applicable prospectively from 1 July 2008. Changes introduced by this Standard, or as a consequence of amendments to the other Standards relating to business combinations which are expected to affect the Group, include the following:

'- All business combinations are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation.

**xvi) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

*CONSOLIDATED*

2009                      2008  
\$                              \$

#### 2 REVENUE AND EXPENSES

Profit 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	79,203	326,745
Oil Sales	5,136	--
	<u>84,339</u>	<u>326,745</u>

**(iii) Expenses**

Exploration and evaluation costs incurred and written off	37,434	4,137,759
Employment Costs	362,757	364,167
Share Based Payments	1,053,730	991,084

#### 3 EVENTS AFTER THE BALANCE SHEET DATE

At the AGM of the Company on 18 December 2009, shareholders agreed to a capital reduction of the Company's partly paid securities (ERHCA) and a change of status for the Company from NL to Ltd. As a result of the capital reduction, partly paid shareholders received 1 fully paid ordinary share for each 3.6097 partly paid shares held. The Company's change to a Ltd status occurred on 5th February 2010. The ERHCA securities were removed from the official list of ASX limited on 23 February 2010.

#### 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 2009

#### 5 SEGMENTAL INFORMATION

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

##### Industry Segments

	Mining & Geological		Equity & Investment		Consolidated	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Operating Revenue	5,136	--	79,203	326,745	84,339	326,745
Segment Results	(414,361)	(4,137,759)	(3,863,570)	(2,088,977)	(4,277,931)	(6,226,736)
Segment Assets	9,554,360	7,109,500	4,511,111	6,760,422	14,065,471	13,869,922
Segment Liabilities	--	--	120,569	41,700	120,569	41,700

#### 6 RESERVES

	CONSOLIDATED	
	31 December 2009	30 June 2009
	\$	\$
Capital Profits	2,887,131	2,887,131
Asset Revaluation Reserve	29,285	29,285
Equity Benefits Reserve (share based payment) (a)	3,947,640	2,893,910
Foreign Currency Translation Reserve	2,800,230	589,793
	<u>9,664,286</u>	<u>6,400,119</u>

##### 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	2,893,910	2,130,405
Share based payment – acquisition of subsidiary	--	--
Share based payment expense – employee	1,053,730	2,213,505
Exercise of performance rights	--	(1,450,000)
<b>Balance at the end of the period</b>	<u>3,947,640</u>	<u>2,893,910</u>

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**7 SHARE CAPITAL**

	<i>CONSOLIDATED</i>	
	31 December 2009	30 June 2009
	\$	\$
<b>Issued and Paid up capital</b>		
165,977,991 Ordinary shares fully paid	27,683,259	27,683,259
20,698,382 Ordinary shares fully paid (a)	2,059,089	--
109,914,313 Ordinary shares of 50 cents paid to 16c	17,586,290	17,586,290
Forfeited partly paid shares	5,236,068	5,236,068
Share issue costs	(772,493)	(772,493)
	<u>51,792,213</u>	<u>49,733,124</u>

- (a) On 1 July 2009, a placement of 345,396 Ordinary shares fully paid were issued to shareholders upon exercise of 345,396 options for a consideration of \$0.10 per ordinary share. On 3 July 2009, a placement of 503,506 Ordinary shares fully paid were issued to shareholders upon exercise of 503,506 options for a consideration of \$0.10 per ordinary share. On 6 July 2009, a placement of 1,292,500 Ordinary shares fully paid were issued to shareholders upon exercise of 1,292,500 options for a consideration of \$0.10 per ordinary share. On 7 July 2009, a placement of 390,706 Ordinary shares fully paid were issued to shareholders upon exercise of 390,706 options for a consideration of \$0.10 per ordinary share. On 13 July 2009, a placement of 204,000 Ordinary shares fully paid were issued to shareholders upon exercise of 204,000 options for a consideration of \$0.10 per ordinary share. On 14 July 2009, a placement of 286,762 Ordinary shares fully paid were issued to shareholders upon exercise of 286,762 options for a consideration of \$0.10 per ordinary share. On 16 July 2009, a placement of 828,133 Ordinary shares fully paid were issued to shareholders upon exercise of 828,133 options for a consideration of \$0.10 per ordinary share. On 17 July 2009, a placement of 257,000 Ordinary shares fully paid were issued to shareholders upon exercise of 257,000 options for a consideration of \$0.10 per ordinary share. On 20 July 2009, a placement of 3,045,823 Ordinary shares fully paid were issued to shareholders upon exercise of 3,045,823 options for a consideration of \$0.10 per ordinary share. On 22 July 2009, a placement of 538,000 Ordinary shares fully paid were issued to shareholders upon exercise of 538,000 options for a consideration of \$0.10 per ordinary share. On 23 July 2009, a placement of 426,348 Ordinary shares fully paid were issued to shareholders upon exercise of 426,348 options for a consideration of \$0.10 per ordinary share. On 24 July 2009, a placement of 1,686,331 Ordinary shares fully paid were issued to shareholders upon exercise of 1,686,331 options for a consideration of \$0.10 per ordinary share. On 27 July 2009, a placement of 1,460,166 Ordinary shares fully paid were issued to shareholders upon exercise of 1,460,166 options for a consideration of \$0.10 per ordinary share. On 28 July 2009, a placement of 4,636,137 Ordinary shares fully paid were issued to shareholders upon exercise of 4,636,137 options for a consideration of \$0.10 per ordinary share. On 29 July 2009, a placement of 4,797,574 Ordinary shares fully paid were issued to shareholders upon exercise of 4,797,574 options for a consideration of \$0.10 per ordinary share.

## Eromanga Hydrocarbons Ltd and Controlled Entities

### Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

#### 8. OTHER FINANCIAL ASSETS

	<i>CONSOLIDATED</i>	
	31 December 2009	30 June 2009
<b>NON CURRENT</b>		
<b>Available for sale financial assets</b>		
Shares at fair value – other entities (a)	2,705	2,705
Shares in other related parties at fair value	79,552	79,552
Acquired interest in joint venture operation (b)	409,091	409,091
Less provision for impairment	(409,091)	(409,091)
	<u>82,257</u>	<u>82,257</u>
<b>Other Financial Assets</b>		
Advance to joint venture partner (c)	455,370	--
	<u>537,627</u>	<u>82,257</u>

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

(b) Relates to an acquired interest in the Edward Creek Base Metals Joint Venture (ECBMJV).

(c) Relates to an advance to a joint venture party for exploration costs in excess of the Company's required contribution.

#### 9. DEFERRED EXPLORATION EXPENDITURE

Cost	9,098,990	8,376,354
Accumulated impairment	--	--
	<u>9,098,990</u>	<u>8,376,354</u>

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.

# Eromanga Hydrocarbons Ltf and Controlled Entities

## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

### 10. ADDITIONAL INFORMATION

#### Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	<i>CONSOLIDATED</i>	
	2009 \$	2008 \$
Cash at bank and in hand	4,424,715	6,448,238
Short-term deposits	--	--
	4,424,715	6,448,238
Cash on deposit and held in trust	--	169,118
	4,424,715	6,617,356

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### **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 2009, 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 Interim and Other Financial Reports 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 2009 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.

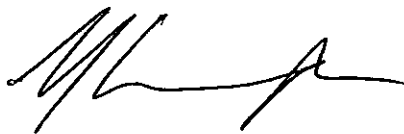
### **Conclusion**

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 2009 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



Michael Cunningham  
Director- Audit & Assurance Services

Melbourne, 16 March 2010

Grant Thornton Audit Pty Ltd  
ACN 130 913 594

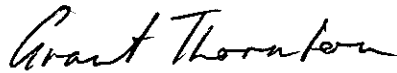
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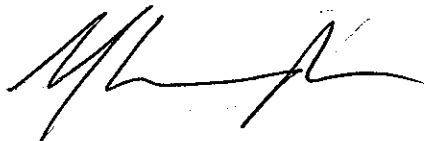
**Auditor's Independence Declaration  
To The Directors of Eromanga Hydrocarbons Ltd**

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 2009, 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



Michael Cunningham  
Director- Audit & Assurance Services

Melbourne, 16 March 2010