



29 October 2009

The Manager  
Company Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**2010 Annual Report**

Please find attached for release to the market the 2010 Annual Report for ERO Mining Limited (ASX: ERO).

The 2010 Annual Report will also be sent by post to those shareholders who have previously elected to receive a hard copy Annual Report.

An electronic copy of the 2010 Annual Report is available on the Company's website at:  
[www.eromining.com/corporate/reports/2010/ero\\_ar2010.pdf](http://www.eromining.com/corporate/reports/2010/ero_ar2010.pdf).

Yours faithfully

A handwritten signature in black ink, appearing to read "D W Godfrey", written over a white rectangular area.

D W Godfrey  
Company Secretary



annual  
report  
2010

# ERO MINING LIMITED

ACN 119 031 864

## CONTENTS

1	Chairman's Report
2	Managing Director's Report
3	Highlights
3	Project Reviews
12	Tenement Schedule
13	Financial Report
14	Directors' Report
21	Auditor's Independence Declaration
22	Corporate Governance Statement
27	Statement of comprehensive income
28	Statement of financial position
29	Statement of changes in equity
30	Statement of cash flows
31	Notes to the Financial Statements
56	Directors' Declaration
57	Independent Audit Report
60	ASX Additional Information

## COMPLIANCE STATEMENTS

### Disclaimer

This Annual report contains forward looking statements that are subject to risk factors associated with the exploration and mining industry.

It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables which could cause actual results or trends to differ materially.

### EXPLORATION TARGETS

Exploration Targets are reported according to Clause 18 of the JORC Code. This means that the potential quantity and grade is conceptual in nature and that considerable further exploration is necessary before any Identified Mineral Resource can be reported. It is uncertain if further exploration will lead to a larger, smaller or any Mineral Resource.

### COMPETENT PERSON

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Kevin Lines who is a Member of the Australasian Institute of Mining and Metallurgy, and who has sufficient experience relevant to the style of mineralisation, the type of deposit under consideration, and the activity he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves (the JORC Code). This report is issued in the form and context in which it appears with the written consent of the Competent Person, who is Managing Director of the Company.

## DIRECTORS

Robert Michael Kennedy (Chairman)  
Kevin James Lines (Managing Director)  
Ewan John Vickery (Non-executive Director)  
Adam Simon Bannister (Alternate for Mr Vickery)  
Ian Roy Witton (Alternate for Messrs Lines and Kennedy)

## COMPANY SECRETARY

David Wayne Godfrey

## REGISTERED AND PRINCIPAL OFFICE

62 Beulah Road  
Norwood, South Australia 5067  
Telephone +61 8 8132 7970  
Facsimile +61 8 8132 7999

## SOLICITOR

### DMAW Lawyers

Level 3, 80 King William Street  
Adelaide, South Australia 5000  
Telephone +61 8 8210 2222  
Facsimile +61 8 8210 2233

## SHARE REGISTRY

### Computershare Investor Services

Level 5, 115 Grenfell Street  
Adelaide, South Australia 5000  
Telephone +61 8 8236 2300  
Facsimile +61 8 8236 2305

## AUDITOR

### Grant Thornton

67 Greenhill Road  
Wayville, South Australia 5034

## BANKER

### National Australia Bank

161-167 Glynburn Road  
Firle, South Australia 5070

## STOCK EXCHANGE LISTING

### Australian Securities Exchange (Adelaide)

ERO Mining Limited shares are listed on the Australian Securities Exchange

## ASX CODE: ERO

## WEBSITE

[www.eromining.com](http://www.eromining.com)

The website includes information about the Company, its strategies, projects, reports and ASX announcements.

## Chairman's report

### Dear fellow shareholders,

Our change of name to ERO Mining Limited reflects our new exploration strategy. Our first year as a company realigned to this strategy, which takes a greater exposure to the gold sector, has been enhanced by the acquisition of highly prospective tenements in the Tanami Region of the Northern Territory.

Since my last report, the tentative steps towards recovery from what is now known as the Great Recession, have continued but there are still global concerns regarding the ability of governments to continue their quantitative easing to increase the money supply in the large economies of the world.

This is overlaid by the great uncertainty created by the Rudd Government in the precipitous proposed imposition of a Resources Super Profits Tax. This proposition sent the resources market into an immediate downward spiral and caused capital for small mining companies to dry up. Following the sacking of the Rudd Government and a hastily cobbled together compromise by the Gillard Government and the mining majors, the small mining companies were again left out in the cold with no proposition regarding a flow-through share scheme.

The Mineral Resources Rent Tax leaves it open for minerals other than coal and iron ore to be included, probably by regulation. The effect is to move capital out of our sector to overseas or other sectors of the economy. Our ability to raise capital is, in my view, restricted by the imposition of additional taxes on the minerals and energy sectors.

The capital raised in the last financial year has been applied in part to progress our exploration efforts at the Nackara Arc Gold Project, which discovered no economically significant gold intersections and although the intensity and extent of the veined development delineated by the first drill testing was encouraging, the ongoing review of the results did not reveal any further targets.

We developed an expanding portfolio of exploration tenements in the highly prospective Tanami Region and we are in the process of obtaining the necessary statutory approvals to commence exploration on these tenements. These tenements are considered by us to be highly prospective for gold. The Suplejack project in the Tanami Region, in which we hope to discover a high grade unconformity-style uranium deposit, has also been progressed, but we still await final approvals. We continue to rationalise the remainder of our tenement holdings in order to focus on gold and uranium.

We have continued our efforts to progress the granite hosted IOCGU prospect at Peeweena Dam which is in the Woomera Prohibited Area restricted zone and we await a decision that will hopefully allow us to progress this exciting prospect.



We strongly believe that our Georgetown alluvial gold project, on which we do not have a JORC defined resource, supports an estimate of 40–45,000 ozs of recoverable gold. After acquisition, this project was placed on care and maintenance whilst we rehabilitated previous mining disturbance and undertook extensive upgrades to mobile plant and equipment and associated camp facilities to comply with the regulatory regime applicable to this type of project. We also carried out test costeaning and applied for the nearby Tunnels and True Blue prospects which we believe are highly prospective for gold. The commencement of alluvial mining in mid April was affected by the unseasonable wet and mining since then has been affected by continuing minor breakdowns and stoppages.

As announced on 26 August 2010, we have decided to commit to the sale of our Georgetown Gold Operations due to a review of our options and the receipt of unsolicited expressions of interest in purchasing the operations. As a consequence of this decision, we have suspended the planned exploration drilling programme over True Blue and the Tunnels.

Our future direction will be determined over the next few months. We hope by then we will know the outcome of the proposed sale. The difficult economic conditions have caused us to severely restrict our activities and to reduce staff to a bare minimum.

I express my thanks to shareholders, staff, contractors and my fellow Directors, who have again contributed in a committed fashion to our Company over the past year.

A handwritten signature in blue ink, appearing to read 'Bob Kennedy'. The signature is stylized and fluid, with a long horizontal stroke extending to the right.

**Bob Kennedy**  
CHAIRMAN

## Managing Director's report

Our commitment to diversify the Company's exploration approach from a singular focus on uranium to include a strong exposure to the gold sector has, I believe, positioned ERO Mining for growth. The Company's modest gold production from March 2010 provided us with exposure to the commodity sector most likely to be of benefit during the current period of global uncertainty. Similarly we believe that the medium term outlook for gold remains strong and will be underpinned by concerns over rising inflation as global economies deal with the aftermath of the Global Financial Crisis (GFC). Balancing our commitment to gold is ERO Mining's continuing commitment to uranium, specifically unconformity related uranium deposits, which are large, high grade deposits. This provides the Company with the opportunity to benefit from the demands of a world increasingly hungry for energy and the increasingly important role that nuclear energy will play in meeting that demand.

In order to build the gold component of the Company's project portfolio quickly we have embarked on a campaign targeting exploration projects with the potential to move rapidly to the drill testing phase. Unfortunately, initial drill testing of our first selected project, failed to intersect economic mineralisation.

Other companies also found themselves affected by the GFC, which has resulted in ground in the tightly held and highly prospective Tanami Province being relinquished. ERO personnel have extensive experience in the Province and maintained a close watch on developments, by conducting a regional prospectivity analysis. This has allowed ERO to quickly expand its Tanami exploration portfolio to seven tenements that it now holds in its own right. Strong belief in the Tanami Province continues and several other areas remain under close watch. Our competitors in the Tanami continue to maintain extensive exploration portfolios which, we consider, reflects their belief in the Province, but betrays their understanding of the critical factors in the development of gold and uranium mineralisation in this Province. All our tenements are located within reasonable haulage distances to established gold processing plants which further enhances value in the event of a discovery. While the process from application to eventual access for exploration is slow, (2–3 years), the Tanami Province is well known for having a rapid discovery history once ground access is obtained. Several significant deposits within the Tanami Province have been found literally within days of exploration access being granted. The Tanami is the final frontier for gold in Australia and is also highly prospective for high grade uranium deposits of the unconformity style. Uranium is a commodity that has in the past been excluded from exploration and mining agreements at the wishes of the Traditional Owners. It is therefore a credit to the ERO Mining team to have negotiated an exploration agreement with the Traditional Owners that allows for uranium exploration, and subsequent mining, at our prospective Suplejack Tenement. Access to this tenement is eagerly awaited and expected either late 2010, or early 2011. Our other six tenements will flow through the system over the coming 1–2 years and allow us to increase our exploration presence in the Tanami.

The second major element of the Company's gold strategy has been to identify a smaller scale gold mining operation with the capacity to generate early positive cash flows for the Company. This key strategic objective was met in June of last year when the Company finalised the purchase of

the Georgetown Alluvial Gold Operations. While the company maintains positive cash flows from the operation, the combination of inherited rehabilitation requirements and poorly maintained equipment and plant, has restricted our ability to make a worthwhile profit. The inability to raise sufficient working capital in the aftermath of the GFC, has constrained our ability to get the current operations into optimal working shape, or to fund expansion of the operation to achieve significant profits. That said, the plant is currently operating and incremental improvements in both plant and associated equipment, and mining and grade control methods continue to be rewarded with incremental improvement of plant availability, and cash flows. Our inability to re-capitalise the operation has led the company to the decision to pursue a sale of the Georgetown Alluvial Operations in the best interests of shareholders.

Our exploration programs across the Company's sandstone-hosted uranium and iron-oxide-copper-gold-uranium (IOCGU) properties have been restricted during 2010. This has been brought about by the need to conserve financial resources while realigning our exploration strategy and the reassignment of exploration personnel from uranium to gold projects. We have taken the opportunity to rationalize our tenement holdings whilst retaining our core tenements for possible renewed exploration in the 2011 calendar year.

At our Billa Kalina IOCGU project, further exploration is awaiting entry clearances from the Defence Department before we can evaluate gravity anomalies located within the more sensitive portions of the Woomera Prohibited Area. The Peeweena Dam Gravity feature is a 10 Mgal single point anomaly revealed from a wide spaced regional gravity survey conducted in the 1970s. By comparison the giant Olympic Dam deposit is revealed from the same data set as a 12 Mgal anomaly, and Prominent Hill as a 6 Mgal anomaly. Peeweena Dam is therefore a significant anomaly by comparison.

Peeweena Dam has never been subjected to drill testing, and represents a unique discovery opportunity for ERO Mining. Should access be granted, and the gravity anomaly validated, this Project will become a major focus for the Company, in the shortest possible timeframe.

It is impossible to achieve exploration success without the support of a team of quality people. Modern exploration demands excellence in such diverse fields as aboriginal and community relations, environmental management, occupational health and safety, financial management and publications. ERO Mining has been fortunate to have maintained a core group of highly skilled, dedicated and very loyal staff who have supported the Company throughout a challenging year.

I would take this opportunity to express my great thanks and appreciation for the commitment of all those involved with the Company in 2010 and believe that their efforts will see ERO Mining well positioned for an exciting and successful future.



**Kevin Lines**  
MANAGING DIRECTOR

## Highlights

- Significant progress made in realigning ERO Mining Limited's exploration strategy toward a greater emphasis on the gold sector.
- Upgrading of the Georgetown Alluvial Gold Operations, Queensland.
- Maiden gold production from Georgetown achieved in April 2010, with potential for future growth.

## Project reviews

### GOLD

#### GEORGETOWN GOLD OPERATION

ERO Mining 100% in ML3438, 3488, 3498, 3539, 6721, 30017, 30018, 30019, 30084, 30091, 30122, 30124 and 30148

The Georgetown Alluvial Gold Mine and surrounding exploration areas are located to the south-southwest of the township of Georgetown in far northern Queensland. Georgetown is approximately 375 km by sealed road, or five hours by road west of Cairns (Figure 1). Access from Georgetown to the mine site is via 32 km of sealed and well maintained gravel roads. Georgetown is the major service centre for the region and its proximity to the mining operations ensures excellent access to key goods and services.

The project area is subject to pronounced wet and dry seasons that cause restrictions on mining activities during the peak of the wet season. As a result the alluvial gold mining is conducted from March to November of each year with no gold production during the December to February period.

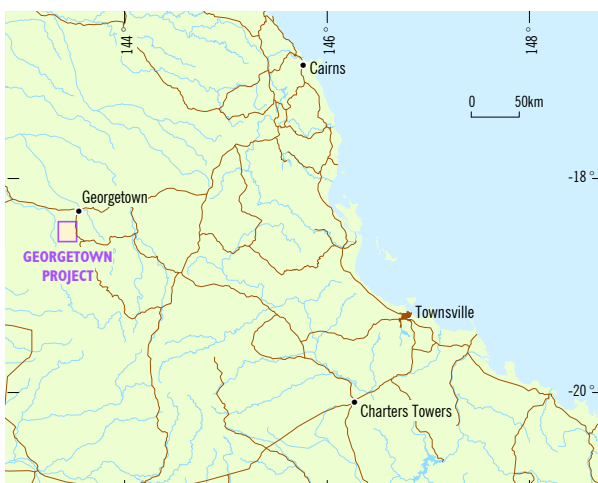


Figure 1 Location of Georgetown Gold Project.



The Georgetown Gold Project is made up of the operating alluvial gold mine, the surrounding granted exploration licence, EPM15995, and the exploration licence application, EPMA18130.

The mining operation consists of thirteen (13) granted mining leases, covering a total 389.39 hectares, which are positioned over alluvial wash within Tabletop Creek and the un-mined headwaters of the adjacent Western Creek (Figure 2). The gold recovery plant is currently positioned at the western limits of ML30091 with all mining activities occurring entirely within this tenement (Figure 2).

The gold recovery plant has the capacity to treat 40 loose cubic metres (lcm) per hour, and is a conventional alluvial gold plant consisting of scrubber/trommel, screens, jigs and Knudsen concentrator. Whilst the recovery plant is fully mobile, it is sited such that it will not require relocation during the remainder of the 2010 calendar year. Water required for the processing plant is sourced from both temporary and permanent dams located within the catchments of Tabletop and Western Creeks. The mine area has a number of large dams built during the mining of Western Creek in the late 1980s and these provide water storages that are well in excess of current mining requirements.

## Project reviews continued

Mining is conducted utilising a conventional excavator/truck configuration with the gold bearing alluvial wash hauled from active mining areas to the centrally located gold recovery plant. Quality control during the mining phase is relatively simple with a thin topsoil layer removed prior to excavation of the alluvial gravels. The gravels are visually identifiable and rest immediately on weathered basement. Rehabilitation of mined areas is conducted on an ongoing basis in order to limit the area of ground disturbance to a maximum of two hectares at any point in time. The mining and processing activities are supported by a fully equipped workshop, office and accommodation facilities.

There are currently no delineated alluvial gold resources, within the project area, that could be classified under the Code of the Joint Ore Reserves Committee (JORC). However, the area of the mining leases has been subjected to extensive bulk sampling, by both costeaning and test pitting, with the recoverable gold grades determined by processing of these samples through a gold recovery plant. ERO Mining has contracted the individual responsible for the initial testing and resource estimates to visit the site and provide detail of the methodology that was applied

and to verify the location of bulk sample sites. ERO Mining is satisfied that the initial sampling has been conducted in line with accepted industry standards and in a manner appropriate to the style of gold mineralisation under evaluation (Figure 3). Whilst this initial phase of bulk sampling has been conducted in an acceptable manner, the quality of documentation of the completed works is not considered, by the Company, to support classification of a JORC compliant resource.

The Company believes that bulk sampling and grade estimation conducted across the granted mining leases at the Georgetown Gold Project strongly supports an Exploration Target\* of 1.75 to 2.25 million lcm at an average grade of 0.45 to 0.55 g/lcm. Should an exploration target of this size be defined by further bulk sampling it would contain 40,000 to 45,000 ounces of recoverable gold.

Conversion of the Company's Exploration Target\* to JORC compliant resources will allow the Company to significantly expand the mine operations. The Company believes that the potential alluvial resources within the granted mining leases would support a staged expansion of operations.

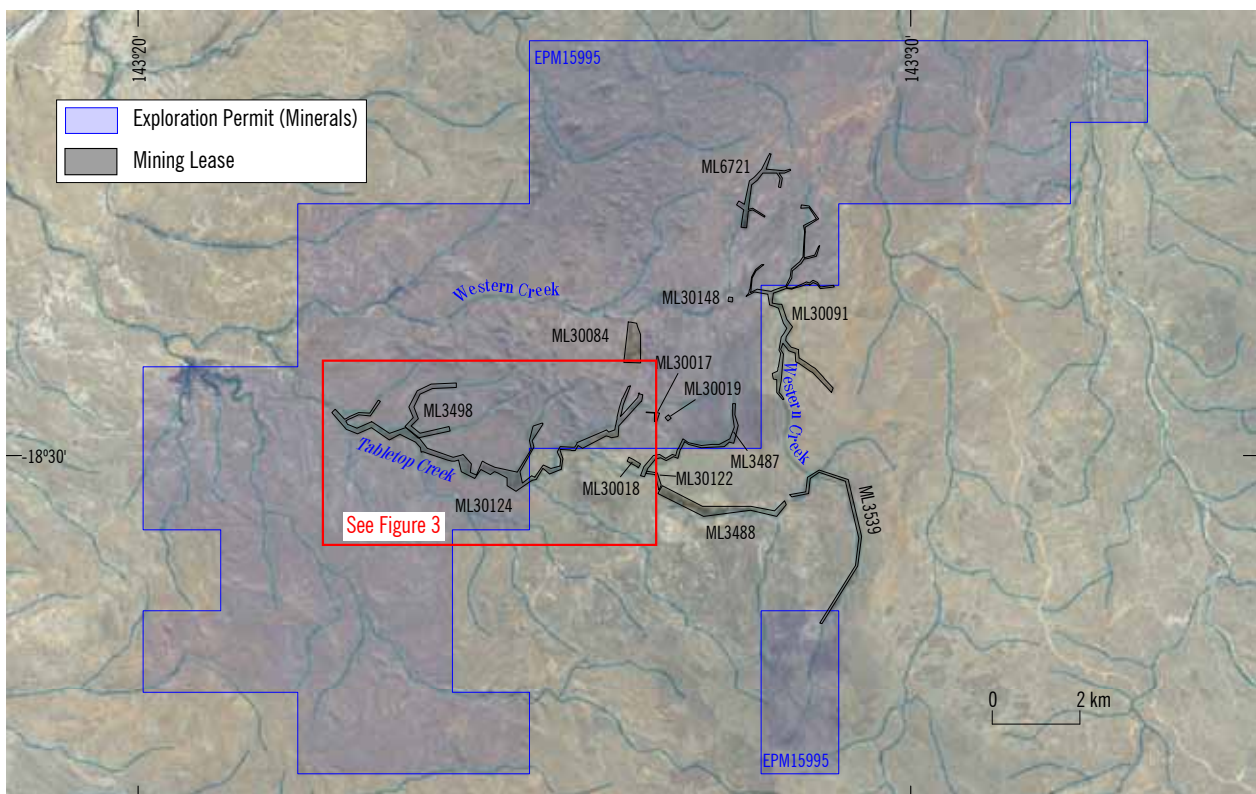


Figure 2 Location of the 13 mining leases and granted Exploration Licence EPM15995.

\* See inside front cover for definition of Exploration Target.

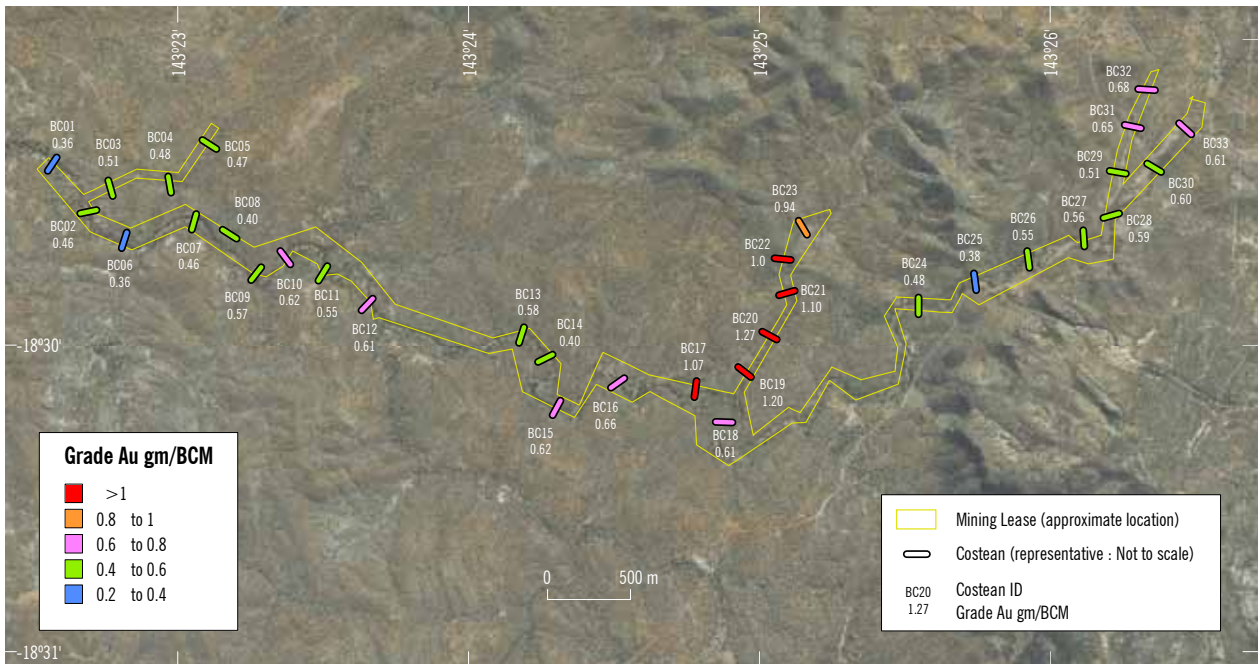


Figure 3 Location of bulk sampling sites, Georgetown Gold Operation.

## GEORGETOWN REGIONAL

ERO Mining 100% in EPM15995, EPMA18130

### True Blue Prospect

The True Blue Prospect is located within the granted EPM15995 that was part of the acquisition by the Company of the Georgetown Alluvial Gold Operations in June 2009 (Figure 4). The prospect area is located in the headwaters of a tributary of Tabletop Creek and contains a cluster of pits and shallow workings associated with prospecting during the 1930s. Access to the area is excellent with the Company's mine camp and workshop located within two kilometres of the prospect.

The workings occur within Proterozoic metasediments (graphitic shales, phyllites and minor quartzite) over an area of 700 m by 400 m.

Geological mapping revealed five main mineralised zones each of up to 200 m in strike length composed of gold bearing quartz veins within narrow 1–2 m wide shear zones. These veins appear to be fault controlled and thicken where the faults change orientation.

The Company has completed a surface rock chip sampling program designed to validate results from previous exploration completed in the 1980s. A total of 17 samples were collected from spoil heaps associated with shafts and

adits at the True Blue Main and The Tunnels historic workings. The results ranged from a low of 0.03 g/t up to 33.72 g/t gold with six samples returning values in excess of 4 g/t Au. No drilling has been undertaken to test these very encouraging surface sampling results.

During the year the Company successfully completed Aboriginal Heritage surveys over the True Blue and Tunnels prospects. Approval to undertake drill testing of both prospects has been received by the Company. ERO Mining is targeting shallow high grade gold mineralisation beneath historic mine workings at both prospects which we believe would be suitable for toll treatment through the Georgetown CIP Plant currently under refurbishment by Deutsche-Rohstoff Australia Pty Ltd. This plant is located only 15 km to the north of True Blue

The True Blue prospect is the first of what the Company anticipates will be a number of hard-rock gold projects on our Georgetown leases. Analysis of the alluvial deposits within the Company's mining leases indicates there are at least seven separate primary gold sources feeding into the drainage network.

## Project reviews continued

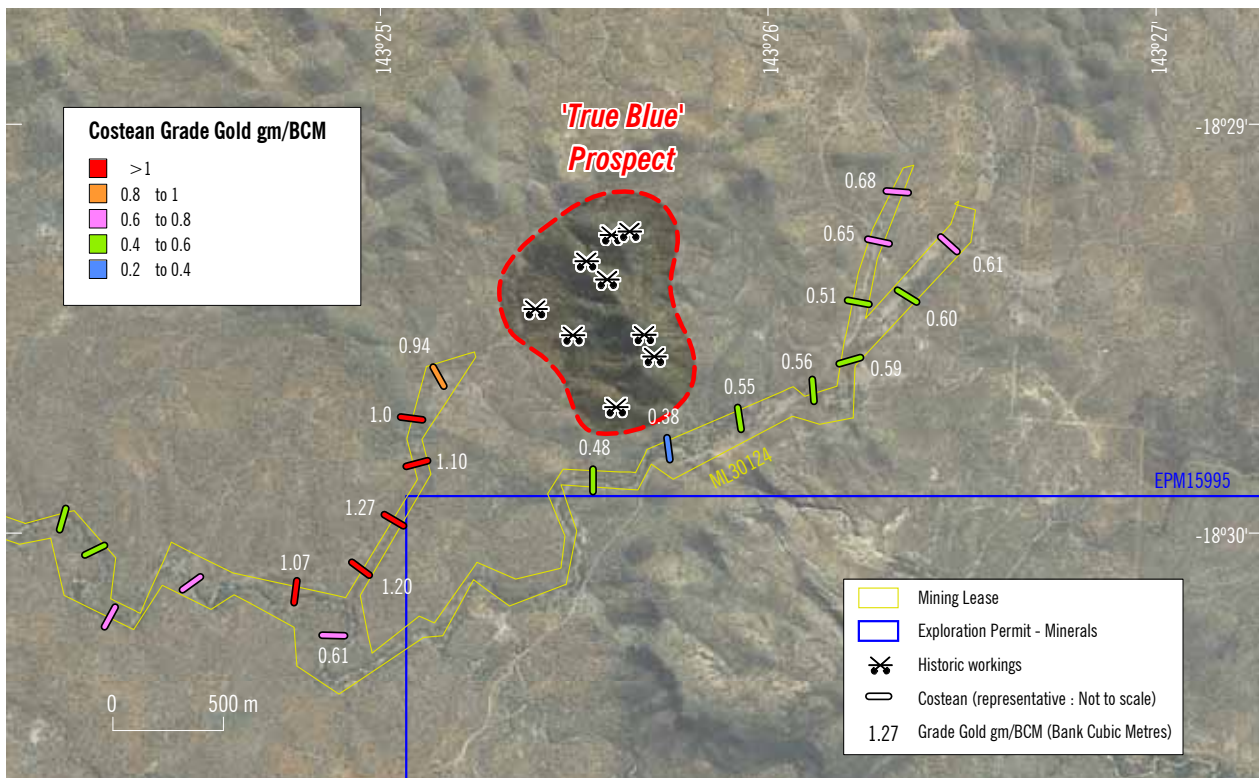


Figure 4 Location of the True Blue Prospect.

The Company has continued to advance the negotiation of an Indigenous Land Use Agreement (ILUA) with the local Traditional Owners. We are now in receipt of a draft ILUA with the Ewamian people for consideration by the Company.

The Board considered two options with respect to the future directions of our mining activities at Georgetown.

### Option 1: Staged expansion

Now that operations have been underway on a continuous basis for six months, the Company has a clear understanding of the cost and revenue capabilities of the current processing plant and support equipment. The current scale of operations is not matched with the gold potential of the operations and expansion of operations is required to increase revenue streams and reduce cash costs per ounce. A two staged expansion initially involving the introduction of night shift operations followed by the commissioning of a new 100 lcm/hr processing plant has been reviewed. The impact of this expansion, at a cost of \$1.5m to \$2.0m, is forecast to result in a fourfold increase in gold production and significant reduction in operating costs.

### Option 2: Sale of the operations

The Company is in receipt of a number of unsolicited expressions of interest in the purchase of the Georgetown Gold operations. The Board has quantified the value to the Company of the outright sale of the Georgetown assets.

The Board of ERO Mining considers that the sale of its Georgetown Gold Operations is in the best interests of its shareholders and has committed the Company to the sale process.

Should the sale be successful, the resulting funds would be applied to ERO Mining's gold-uranium, and IOCGU exploration projects.



## COPPER-GOLD-URANIUM

### BILLA KALINA

ERO Mining earning 50% in EL 3526, EL 3525, EL 4463, ELA 78/10, ELA 33/10, and ERO Mining 100% in ELA 32/10

The Billa Kalina project comprises three exploration licences and three exploration licence applications located approximately 70 km northwest of the Olympic Dam copper-uranium-gold mine and 45 km east of the Prominent Hill copper-gold deposit (Figure 5). The project, which is managed by ERO is, with the exception of ELA 32/10, subject to a 50:50 joint venture with Maximus Resources Limited (MXR). The project is considered to be prospective for iron-oxide-copper-gold-uranium (IOCGU) mineralisation.

Exploration during the year has been limited to data review while the JV partners continue to negotiate with the Defence Department over exploration access to test a high amplitude gravity anomaly at Peeweena Dam (Figure 6) within the southernmost tenements located in the Woomera Prohibited Area.

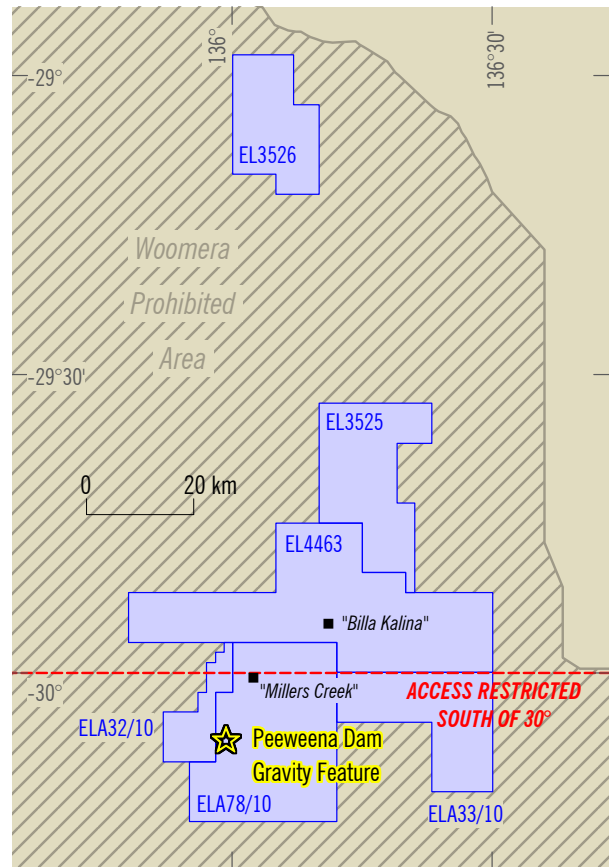


Figure 5 Location of Peeweena Dam.

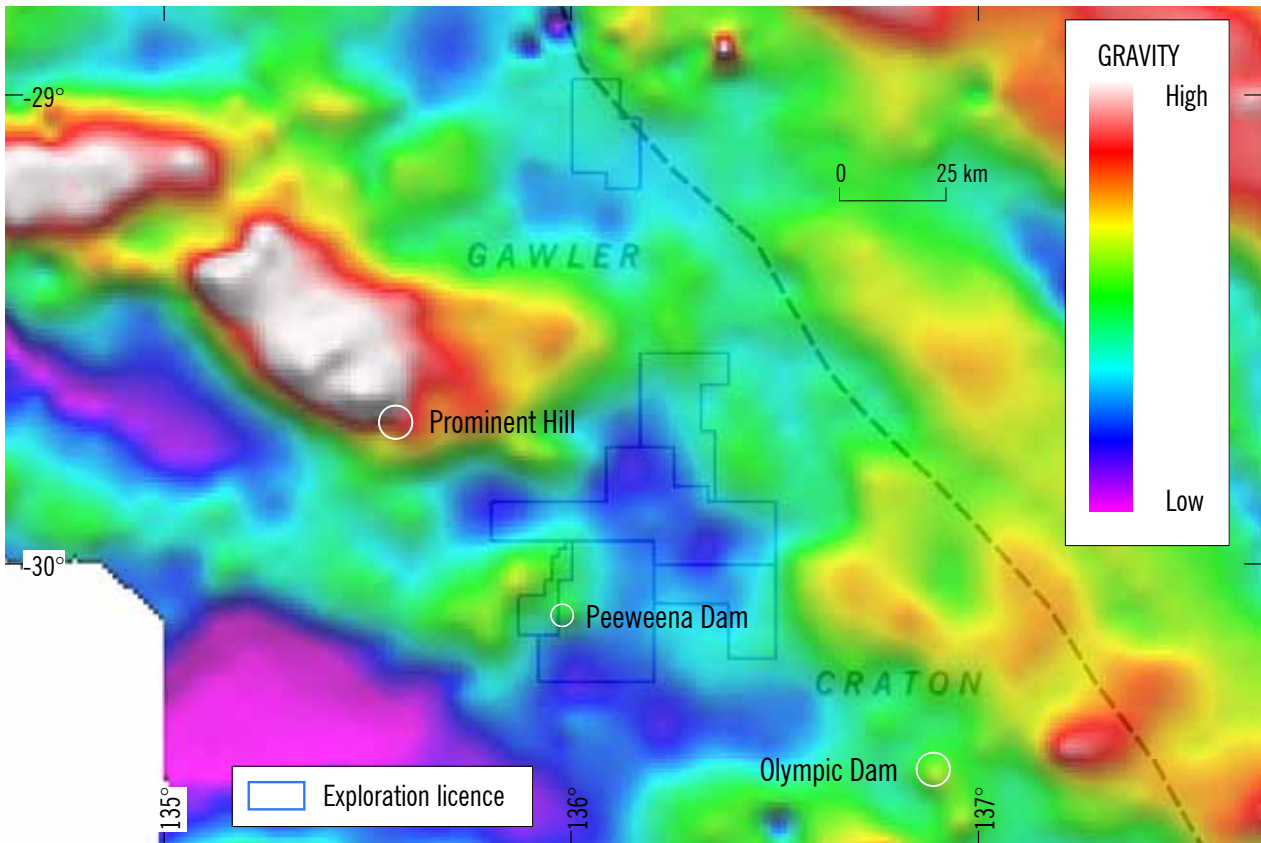
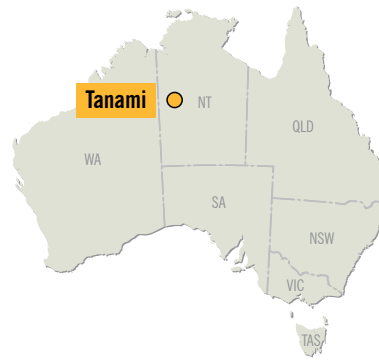


Figure 6 Circa 1970 Gawler Craton regional gravity survey.

## Project reviews continued



ERO Mining has received notification of the Defence Department's review of the submission for access into the Woomera Prohibited Area (WPA) for the purpose of exploration activities. The Defence Department reiterated that the location of the Peeweena Dam gravity anomaly, and the proposed gravity survey and subsequent drilling raises some concerns. They have requested further clarification of several points from the submission, which the Company has supplied.

Given that the area of interest to ERO lies very close to the margin of the Restricted Zone, the Company is hopeful that permission to proceed will be forthcoming from the Defence Department and in such an event will immediately embark on the ground gravity program.

The Peeweena Dam gravity anomaly has not been subjected to drill testing in the past, and represents a unique discovery opportunity for the Company within the highly prospective Gawler Craton.

The anomalous data point that defines the Peeweena Dam target has amplitude of approximately 10 mgal, and is based upon a single data reading from 6–7 km spaced gravity stations. The survey was conducted by the Bureau of Mineral Resources. The gravity feature is located adjacent to a major northeast trending structure, separating the contact between the Archean basement to the west, and Proterozoic/Palaeozoic sediment to the east, within the regionally dominant northwest trending G2 structural corridor.

Significant single point gravity data from the same regional dataset highlighted both the Olympic Dam and Prominent Hill Deposits, prior to their eventual discoveries.

Should the Company receive a positive response to its exploration submission the Peeweena Dam Prospect would become a priority exploration program for ERO Mining.

### WELBOURN HILL/NICHOLSON

*ERO Mining 100%*

No exploration was conducted over the Welbourn Hill and Nicholson Projects during the year under review.

## GOLD-URANIUM

### TANAMI EXPLORATION INITIATIVE

The Tanami Region, located approximately 600 km northwest of Alice Springs, in the Northern Territory, has become Australia's premier Proterozoic Gold Province with virtually all discoveries made since the mid-1980s. The Tanami Region is one of the last remaining provinces in Australia capable of hosting multi-million ounce gold deposits. It is the host to the Callie Gold Mine, containing 7 Mozs of gold, and several other 0.5 Mozs to 1 Mozs deposits. Despite the operation of major processing facilities and considerable gold production, the Tanami remains sparsely explored and ERO Mining considers the probability for further discoveries to be high. Outcrop in the region is poor, and this has led to a lack of geological knowledge. While the discovery history of the Tanami has been essentially continuous since the mid-1980s, proprietary information on discoveries has been closely guarded. The release, by major gold companies, of large areas of highly prospective land in the Tanami has resulted in a rapid significant increase in exploration activity across the Tanami and further supports the Company's exploration strategy in the region.

The team at ERO Mining has extensive experience in the discovery, and subsequent development of gold deposits in the Tanami, and is applying this knowledge to identify key areas for detailed assessment.

ERO Mining's approach is to undertake mineral systems analysis of each deposit style in the Tanami. These detailed studies lead to a predictive mineral discovery model. This model is tested against open file geophysical, geochemical and geological data and, if the model is validated, tenements are to be acquired, either by application, or Joint Venture Agreement with the tenement holders.

Over the last two years the Company has assembled a portfolio of seven carefully selected project areas (Figure 7) and has been progressing each of these projects through the approvals process. The individual projects are discussed in more detail below. The Company is pleased with the progress made to date, as evidenced by the recent grant of the Talbot North Exploration Licence and the anticipated near term approval of the Deed of Exploration over the Suplejack gold-uranium project.

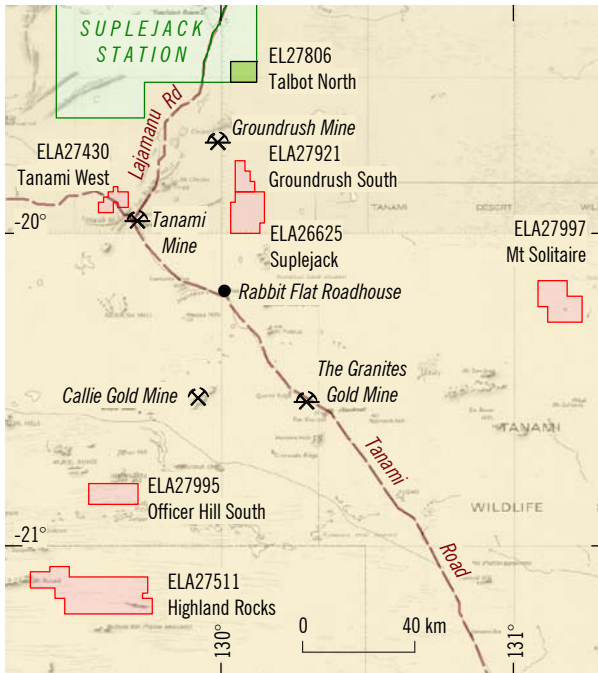


Figure 7 Location of ERO Mining tenements in the Tanami region.

## GOLD-URANIUM

### Suplejack

ERO Mining 100% in EL26625

The Suplejack Project covers an area of 168 km<sup>2</sup> and is situated approximately 30 km east of the Tanami Gold Mine owned by Tanami Gold. The company considers this tenement to be prospective for both high grade, unconformity related uranium mineralisation and gold deposits of the Ranger and Callie Styles respectively (Figure 8).

Previous exploration within the tenement has confirmed the presence of Gardiner Sandstone, in unconformable contact with the poly deformed and folded Dead Bullock Formation. The tenement area is also traversed by the Suplejack Shear Zone, a major north-south trending crustal scale structure, known to be a critical element in the formation of gold and uranium deposits in the region.

The final meeting for Aboriginal approval of the Deed for Exploration was conducted on the 29 June 2010. The Company is awaiting formal notification from the Central Land Council of the outcomes of this meeting but remains confident that the notification of acceptance of the Deed of Exploration will be forthcoming in the very near future.

In the interim the Company has been given approval to conduct an airborne EM survey over the project area. This survey has been scheduled for completion in Quarter 4 2010 and is designed to identify zones of graphic shale juxtaposed against major structural breaks that represent sites for the development of unconformity related uranium mineralisation. The EM survey will also assist in the definition of drill targets for gold mineralisation within the fold hinges of the underlying Dead Bullock Formation sediments.

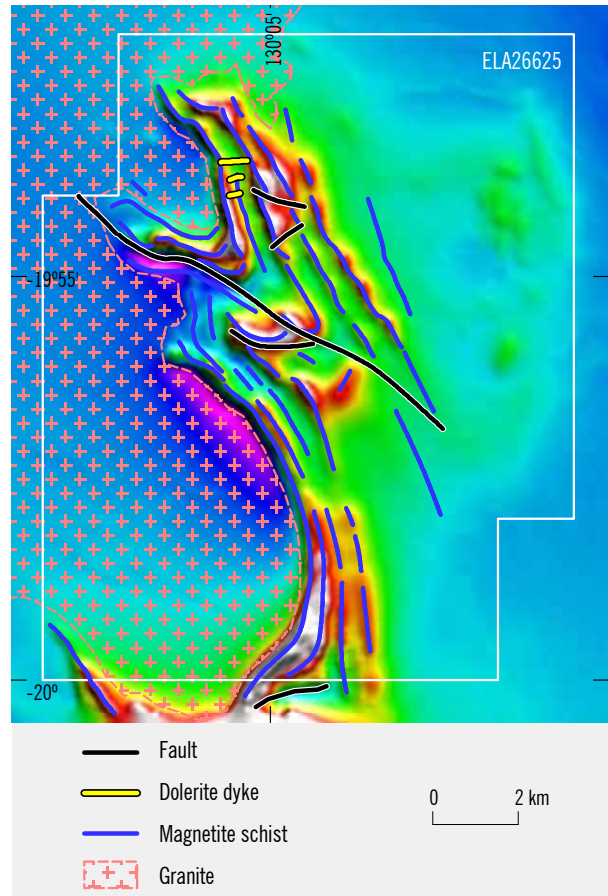


Figure 8 Suplejack preliminary magnetic interpretation.

## GOLD

### Talbot North

ERO Mining 100% in EL27809

The Talbot North Project covers an area of 69 km<sup>2</sup> and is located on Suplejack Downs Pastoral Lease. The lease area is along strike to the north of ABN Resources Hyperion Project (Figure 9) where the company has recently announced encouraging results from their review of previous exploration data. This earlier work has been successful in identifying multiple areas of significant gold mineralisation, including an intersection of 28 m @ 5.07 g/t gold at the Hyperion Prospect. ERO Mining will be targeting de-magnetised zones within favourable portions of this gold bearing sequence.

The Company's exploration licence application over the Talbot North Project has now been granted. As the licence area is entirely within pastoral lease, rather than aboriginal freehold, land the processes required for heritage clearance and approval for on-ground exploration are greatly accelerated. As the first stage of exploration, a focussed airborne EM survey will be conducted in Quarter 4 of 2010 to better define the non-magnetic stratigraphy and assist in identification of follow-up drill targets.

## Project reviews continued

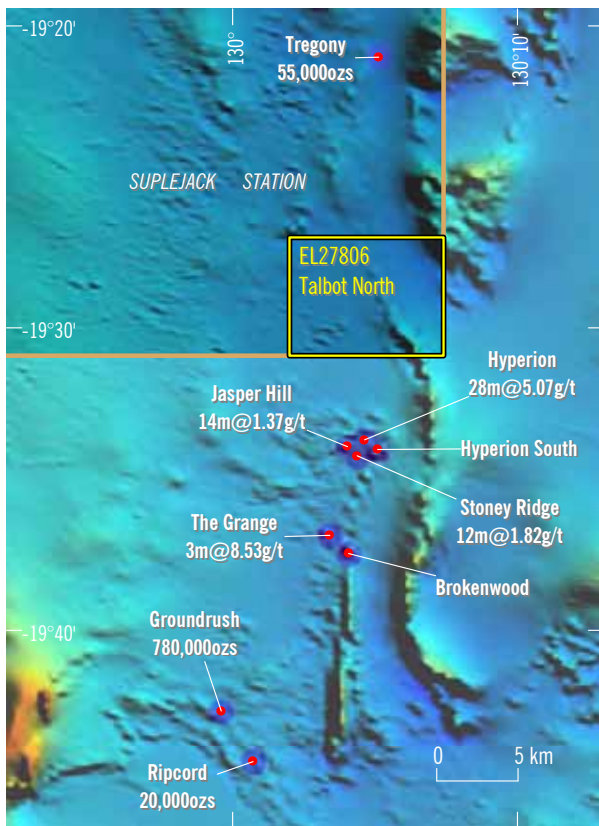


Figure 9 Talbot North.

### GOLD

#### Highland Rocks

ERO Mining 100% in EL27511

The Highland Rocks Project covers an area of 484 km<sup>2</sup> and is located approximately 70 km southeast of Newmont's multi-million ounce Callie Gold Mine. The area of this tenement application is one of the very few areas of the Tanami that has not been subjected to any modern exploration. Recent mapping by the Northern Territory Geological Survey has highlighted the presence of large crustal scale structures hosting very significant quartz vein development within host rocks of green-schist grade metamorphism. All these geological features are fundamental elements in the development of major gold systems in the Tanami.

The Northern Territory Mining Minister has consented to the company entering into negotiations with the Traditional Owners, and ERO Mining has submitted an Exploration and Mining Proposal which has been accepted.

### GOLD

#### Tanami West

ERO Mining 100% in EL27430

The Tanami West Project covers an area of 58 km<sup>2</sup> and is located approximately 10 km to the northwest of the Tanami Mine which has recently been purchased by Tanami Gold Limited with a view to recommencing mining operations in the near future.

The Northern Territory Mining Minister has consented to the company entering into negotiations with the Traditional Owners, and ERO Mining has submitted an Exploration and Mining Proposal which has been accepted. ERO Mining will shortly outline its proposal to Traditional Owners in an on country meeting, yet to be scheduled.

### GOLD

#### Groundrush South

ERO Mining 100% in EL27921

The Groundrush South Project covers an area of approximately 70 km<sup>2</sup>. The lease area covers the southeastern extensions of the host rocks and structures that control the 0.75 Moz Groundrush gold deposit. Regional magnetic data indicates that this geological setting continues through the tenement under a thin veneer of cover.

The Northern Territory Mining Minister has consented to the company entering into negotiations with the Traditional Owners. An Exploration and Mining Proposal will be lodged shortly.

### GOLD

#### Officer Hill South

ERO Mining 100% in EL27995

The Officer Hill South Project covers an area of 128 km<sup>2</sup> and is located approximately 40 km south of Newmont's Callie Gold Mine. The lease area covers the same stratigraphic sequence to that which hosts the Callie gold deposit and is within an area of known gold anomalism in soils.

The Northern Territory Mining Minister has consented to the company entering into negotiations with the Traditional Owners, and ERO Mining has submitted an Exploration and Mining Proposal. A meeting with the Traditional Owners is yet to be scheduled.

### GOLD

#### Mount Solitaire

ERO Mining 100% in EL27997

The Mount Solitaire Project covers an area of 187 km<sup>2</sup> and is located 90 km to the northeast of the Granites Gold Mine. The lease area targets an area of major favourable large scale structures and hosts several multi-kilometre long quartz vein arrays.

The Company is awaiting Ministerial consent to begin negotiations with the Traditional Owners.



## SANDSTONE-HOSTED URANIUM

### EROMANGA BASIN PROJECTS

#### Abminga

*ERO Mining earning 70% in EL 3601 and 3602: ERO Mining 100% in EL 3964 and 3982*

#### Marree

*ERO Mining earning 70% in EL 3579*

The Eromanga Basin projects consists of two major project areas extending around the southern margins of the Eromanga Basin in South Australia. The tenure is considered to be prospective for sandstone-hosted uranium mineralisation. All tenements are subject to a joint venture with Maximus Resources Ltd (MXR), with ERO Mining earning 70% and being the managers of the joint venture.

Exploration across the tenement portfolio comprising the Eromanga Basin Joint Venture has been restricted to ongoing review of the very large databases generated from exploration in 2006–08. On the basis of this review the tenure held under the JV has been substantially reduced. This tenement rationalisation has allowed the joint venture to significantly reduce holding costs whilst maintaining title over the key tenements retaining the greatest prospectivity.

Following discussions with the management of the Woomera Prohibited Area a full review of the Kingoonya Project was completed by the Company. The five exploration licenses, which make up the Kingoonya Project are directly located beneath the main flight path for testing at the Woomera facilities and it was clear that any future ground based exploration at Kingoonya would be subject to significant operational constraints. These limitations, combined with the joint venture partner's assessment of residual exploration potential, did not justify the substantial costs of maintaining our tenure. On this basis title over the Kingoonya Project was surrendered.

## GOLD

### NACKARA ARC GOLD PROJECT

*ERO Mining earning 80% in EL 3692*

The Joint Venture agreement covers all of the granted Exploration Licence EL 3692 (375 km<sup>2</sup>) located approximately 35 km east of the township of Peterborough, South Australia approximately three hours drive northeast of Adelaide (Figure 9).

The Nackara Arc Project covers an area of extensive historic, small scale, gold workings and has previously been the subject of limited exploration, primarily focussed around regions of higher grade vein style mineralisation. ERO Mining believes that significant potential exists for the development of larger gold systems within sedimentary sequences that surround the known mineralisation. These sediments are outcropping at surface and are strongly altered, very soft and extremely friable.

The results of the sampling program clearly defined a significant gold anomaly centred along the contact between the Tapley Hill Formation and the underlying Wilyerpa Formation. The drilling program intersected extensive intervals of carbonate–pyrite–quartz veining with only anomalous values of gold, however no returned intervals could be considered economic. Exploration of the Nackara Arc Gold Project has focused on an ongoing review of the results from the drilling program and rehabilitation of drill sites.

# Tenement schedule

Tenement / application number	Tenement name	Date granted/ applied for	Expiry date	Area (sq km)	Registered holder or applicant	Related agreement
<b>QUEENSLAND</b>						
<b>Georgetown Project</b>						
EPM15995	Tabletop Creek	21/02/08	20/02/13	159	ERO Georgetown Gold Operations Pty Ltd	
EPM18130	Green Hills	11/06/09		93	ERO Georgetown Gold Operations Pty Ltd	
ML3487	Stranna No. 2	27/04/89	30/04/2010*	0.23	ERO Georgetown Gold Operations Pty Ltd	
ML3488	Stranna No. 3	17/11/88	30/11/2009*	0.48	ERO Georgetown Gold Operations Pty Ltd	
ML3498	Stranna No.4	26/01/89	21/01/2010*	0.28	ERO Georgetown Gold Operations Pty Ltd	
ML3539	Stranna No.3 Extension	5/10/89	31/10/10	0.27	ERO Georgetown Gold Operations Pty Ltd	
ML6721	Black Orchid	12/09/91	30/09/11	0.25	ERO Georgetown Gold Operations Pty Ltd	
ML30017	Stranna Plant Site Stage 1	30/01/92	31/01/12	0.01	ERO Georgetown Gold Operations Pty Ltd	
ML30018	Re-start 7-9	26/03/92	30/06/17	0.03	ERO Georgetown Gold Operations Pty Ltd	
ML30019	New Start Six	5/03/92	30/11/12	0.01	ERO Georgetown Gold Operations Pty Ltd	
ML30084	Stranna Plant Site No.2	28/01/93	31/01/13	0.29	ERO Georgetown Gold Operations Pty Ltd	
ML30091	Last Laugh	22/04/93	30/04/13	0.62	ERO Georgetown Gold Operations Pty Ltd	
ML30122	All together	10/02/94	28/02/14	0.03	ERO Georgetown Gold Operations Pty Ltd	
ML30124	The Golden Tabletop	7/04/94	30/04/11	1.31	ERO Georgetown Gold Operations Pty Ltd	
ML30148	Golden Bar	30/03/95	31/03/15	0.01	ERO Georgetown Gold Operations Pty Ltd	
ML30227	Airstrip Lease	3/03/10			ERO Georgetown Gold Operations Pty Ltd	
<b>NORTHERN TERRITORY</b>						
<b>Tanami Project</b>						
EL26625	Suplejack	4/02/2008		168	ERO Mining Ltd	
EL27430	Tanami West	29/06/2009		58	ERO Metals Pty Ltd	
EL27511	Highland Rocks	27/07/2009		450	ERO Metals Pty Ltd	
EL27806	Talbot North	23/10/2009		69	ERO Metals Pty Ltd	
EL27921	Groundrush	29/01/2010		58	ERO Mining Ltd	
EL27995	Officer Hills South	19/03/2010		128	ERO Mining Ltd	
EL27997	Mount Solitaire	25/03/2010		184	ERO Mining Ltd	
<b>SOUTH AUSTRALIA</b>						
<b>Abminga</b>						
EL3601	Black Hill Dam	17/07/2006	16/07/2010	485	Maximus Resources Ltd	Eromanga Basin Agreement
EL3602	Mt Anthony	17/07/2006	16/07/2010	409	Maximus Resources Ltd	Eromanga Basin Agreement
EL3964	Enungareenna Hill	22/10/2007	21/10/2010	877	ERO Mining Ltd	
EL3982	Mount Treloar	19/11/2007	18/11/2010	990	ERO Mining Ltd	
EL4019	Nicholson Hill	15/01/2008	14/01/2011	726	ERO Mining Ltd	
EL4020	Welbourn Hill	15/01/2008	14/01/2011	289	ERO Mining Ltd	
<b>Billa Kalina</b>						
EL3526	Francis	23/02/2006	22/02/2011	345	Flinders Mines Ltd	Billa Kalina Agreement
EL3525	Margaret	23/02/2006	22/02/2011	477	Flinders Mines Ltd	Billa Kalina Agreement
EL4463	Billa Kalina	13/04/2010	12/04/2011	1,023	Flinders Mines Ltd	Billa Kalina Agreement
Pt EL3170 (ELA33/10)	Bamboo Lagoon	17/02/2010*		412	Flinders Mines Ltd	Billa Kalina Agreement
EL3338 (ELA78/10)	Millers Creek	18/03/2010*		771	Flinders Mines Ltd	Billa Kalina Agreement
ELA32/10	Millers Creek Homestead	12/02/2010*		136	ERO Mining Ltd	Billa Kalina Agreement
<b>Marree</b>						
EL3579	Calcutta	21/06/2006	20/06/2010*	984	Maximus Resources Ltd	Eromanga Basin Agreement
<b>Nackara Arc</b>						
EL3692	Mount Grainger	6/02/2007	05/02/2010*	375	IR, MA & WJ Filsell	Filsell Agreement

\* Replacement or renewal pending

# FINANCIAL REPORT

for the year ended 30 June 2010

## ERO Mining Limited

ABN 40 119 031 864

### CONTENTS

14	Directors' report
21	Auditor's Independence Declaration
22	Corporate governance statement
	Financial statements
27	Statement of comprehensive income
28	Statement of financial position
29	Statement of changes in equity
30	Statement of cash flows
31	Notes to the financial statements
56	Directors' declaration
57	Independent auditor's report to the members
60	Shareholder information

These financial statements cover the consolidated financial statements for the consolidated entity consisting of ERO Mining Limited and its subsidiaries. The financial statements are presented in the Australian currency.

ERO Mining Limited is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

ERO Mining Limited  
62 Beulah Road  
Norwood South Australia 5067

Registered postal address is:

ERO Mining Limited  
PO Box 3126  
Norwood SA 5067

The financial statements were authorised for issue by the directors on 30 September 2010. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available on our website: [www.eromining.com](http://www.eromining.com)

## Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the consolidated entity) consisting of ERO Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

### Directors

The following persons were directors of ERO Mining Limited at any time during the financial year and up to the date of this report:

Robert Michael Kennedy

Ewan John Vickery

Kevin James Lines

Adam Simon Bannister  
(Alternate for E J Vickery)

Ian Roy Witton  
(Alternate for R M Kennedy since 26 August 2010,  
Alternate Director for K J Lines since 10 September 2010)  
(Alternate for K J A Wills, ceased 30 September 2009)

Kevin John Anson Wills  
(ceased 30 September 2009)

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### Principal activities

During the year the principal continuing activities of the consolidated entity consisted of natural resources exploration and development.

### Dividends

There were no dividends declared or paid during the year.

### Operating results and financial position

The net result of operations for the financial year was a loss of \$3,437,002 (2009: \$8,404,905).

The net assets of the consolidated entity have decreased by \$1,399,910 during the financial year from \$15,363,820 at 30 June 2009 to \$13,963,910 at 30 June 2010.

### Review of operations

The 2010 financial year saw ERO Mining (ERO) continue development and upgrade of its wholly owned Georgetown Alluvial Gold Operations in central northern Queensland, commencing with an aggressive bulk sampling program designed to provide the detailed mineral resource information required to support an expanded mining operation. This bulk sampling program ran continuously until the onset of the Northern Australian wet season in mid December 2009.

Commissioning of the processing plant identified a number of deficiencies in key aspects of the plant's performance and modifications were progressively made to the trommel screen, water management systems and final recovery jigs to improve throughput and gold recovery. The Company completed rehabilitation of areas of disturbance resulting from mining activities undertaken prior to the acquisition of the Georgetown properties by ERO.

ERO commenced full scale mining and gold processing in early April 2010. Recovered gold grades were pleasing and broadly in line with expectations and supported the bulk sampling grades undertaken earlier in the period. Mechanical failures within the processing plant, mostly due to poor preventative maintenance by the previous owners, have resulted in plant availability falling below the Company's requirements. As a result of the receipt of unsolicited expressions of interest, the Company has decided to commit to the sale of the Georgetown Gold Operations.

During the December 2009 quarter, ERO completed a first phase of drill testing of the Hillside Prospect within the greater Nackara Arc in the Peterborough region of South Australia, involving the drilling of three RC/diamond holes designed to test the surface geochemical gold anomaly below the weathering and oxidation. The results showed the veining is anomalous in gold but contained no economically significant gold intersections.

ERO continued to progress the Suplejack Project (NT) through the negotiation of a Deed for Exploration with the Traditional Owners and the Company is now awaiting formal notification from the Central Land Council and remains confident of acceptance in the near future.

Approvals for the Billa Kalina Project (SA) continue to be progressed with the Defence Department. Under newly formulated guidelines controlling exploration within the Woomera Prohibited Area, ERO has submitted a request on behalf of the Joint Venture to undertake a small gravity survey to confirm and better define the potentially significant single point gravity anomaly located just within the recently defined Restricted Zone. The submission was lodged in early May 2010 and the Company is anticipating a response in the near future.

In the December quarter the Company completed a successful capital raising by way of a Share Purchase Plan. Total proceeds of the SPP, before costs, were just over \$2 million. The funds raised were used to accelerate

exploration at ERO's Nackara Arc, Georgetown Regional and Supplejack Projects in parallel with continued development of the Georgetown Gold Operations.

#### **Significant changes in the state of affairs**

During the year the Board decided on a change of focus to concentrate mainly on gold. Just before the previous year end the Company reinforced this change towards a focus on gold when it purchased all of the capital of Douglas Resources Pty Ltd, an alluvial gold operation in north Queensland.

#### **Matters subsequent to the end of the financial year**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

#### **Future developments, prospects and business strategy**

During the coming year ERO intends to pursue the sale of the Georgetown Gold Operations whilst maintaining gold production at optimum levels which will provide essential cash flows.

The Tanami Region in the Northern Territory will continue to be a focus in the coming year. The Tanami Region is considered one of the last remaining provinces in Australia capable of hosting multi million ounce gold deposits. The team at ERO has extensive experience in the discovery and subsequent development of gold deposits in the Tanami and will continue to apply this knowledge to identify key areas for detailed assessment.

At Supplejack, the Company has been given approval to conduct an airborne EM survey over the project area. This survey is anticipated to be completed in the 4th Quarter 2010 and is designed to identify zones of graphic shale juxtaposed against major structural breaks which may represent sites for the development of unconformity related uranium mineralisation. The survey will also assist in the definition of drill targets for gold mineralisation within the fold hinges of the underlying Dead Bullock Formation sediments.

Should the Company receive a positive response to its exploration submission, the Peeweena Dam Prospect will become a priority exploration program.

#### **Environmental regulation**

The consolidated entity's operations are subject to significant environmental regulation under both Commonwealth and relevant State legislation in relation to discharge of hazardous waste and materials arising from any exploration or mining activities and development conducted by the consolidated entity on any of its tenements. The consolidated entity believes it is not in breach of any environmental obligation.

#### **Information on directors**

##### **Robert Michael Kennedy**

*ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD*

*Non-executive Chairman.*

##### **Experience and expertise**

A Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Mr Kennedy has been a director since incorporation 26 March 2006.

Mr Kennedy brings to the Board his expertise in finance and management consultancy and extensive experience as chairman and non executive director of a range of listed public companies. Mr Kennedy leads the development of strategies for the development and future growth of the Company.

##### **Other current directorships**

Mr Kennedy is also a director of ASX listed companies Beach Energy Limited (Director since 1991, Chairman since 1995), Flinders Mines Limited (since 2001), Marmota Energy Limited (since 2007), Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004), Ramelius Resources Limited (since 2004) and Somerton Energy Limited (since 2010).

##### **Special responsibilities**

Chairman of the Board.

Member of the Audit Committee.

##### **Interests in shares and options**

3,500,000 ordinary shares in ERO Mining Limited.

3,706,000 options over ordinary shares in ERO Mining Limited.

##### **Ewan John Vickery**

*LLB*

*Non-executive Director*

##### **Experience and expertise**

A Director since 22 May 2006. Mr Vickery is a corporate and business lawyer with over 31 years experience in private practice in Adelaide. He has acted as an advisor to companies on a variety of corporate and business issues including capital and corporate restructuring, native title and land access issues, and as lead native title advisor and negotiator for numerous mining and petroleum companies.

He is a member of the Exploration Committee of the South Australian Chamber of Mines and Energy Inc, the International Bar Association Energy and Resources Law Section, the Australian Institute of Company Directors and is a past national president of Australian Mining and Petroleum Law Association (AMPLA Limited).

##### **Other current directorships**

Mr Vickery is a Non-executive Director of Flinders Mines Limited (since 2001) and Maximus Resources Limited (since 2004).

## Directors' report continued

### Special responsibilities

Chair of the Audit Committee.

### Interests in shares and options

3,500,000 ordinary shares in ERO Mining Limited.

3,974,726 options over ordinary shares in ERO Mining Limited.

### Kevin James Lines

BSc (Geology), MAusIMM

Managing Director

### Experience and expertise

A Director since incorporation 29 March 2006. Mr Lines has over 27 years experience in mineral exploration and mining for gold, copper, lead/zinc and tin. He has held senior geological and management positions within Newmont Australia Limited, Normandy Mining Limited and CRA group of companies. He was the foundation Chief Geologist at Kalgoorlie Consolidated Gold Mines where he led the team that developed the ore body models and geological systems for the Super Pit Operations in Kalgoorlie. He has managed the Eastern Australian Exploration Division of Newmont Australia that included responsibility for the expansive tenement holdings of the Tanami region.

Mr Lines has extensive experience in the assessment and evaluation of exploration projects, development properties and mining operations globally. During the last decade he has completed assignments in China, South America, North America, West Africa, Indonesia and multiple regions of the former Soviet Union. Most recently he has acted as Consulting Geologist Newmont Australia with responsibility for the Western Pacific Region. He is a member of the Australasian Institute of Mining and Metallurgy.

### Other current directorships

Mr Lines is a director of Ramelius Resources Limited (since 2008).

### Special responsibilities

Managing Director.

### Interests in shares and options

4,375,000 ordinary shares in ERO Mining Limited.

4,475,001 options over ordinary shares in ERO Mining Limited.

### Adam Simon Bannister

LLB

Alternate Director for E J Vickery

### Experience and expertise

Alternate Director since 22 May 2006. Mr Bannister is a lawyer who has specialized in commercial litigation for 21 years. He is the Lead litigation lawyer for the Adelaide and Darwin partnership of Minter Ellison and sits on the firm's Board.

Mr Bannister has successfully prosecuted and defended claims on behalf of public and private organizations across every industry sector. He has a special interest in competition law, regulatory matters and complex large scale litigation chiefly in the areas of building and construction and technology and information law.

### Ian Roy Witton

Snr Assoc Dip Accy (SAIT), FCPA, FAICD

Alternate Director for R M Kennedy and K J Lines.

Former Alternate Director for K J A Wills. (Non-executive).

### Experience and expertise

Mr Witton has been a company director for 26 years. Originally qualified as a CPA he worked as an auditor and taxation agent and was subsequently appointed CEO and later Managing Director for 27 years of a Licensed Investment Dealer developing and managing superannuation and investment funds, savings, loans and a retirement village. He is also a director of a pharmacy and optical company and a public charitable trust fund. His principal experience is in funds and investment management, strategic development, risk management and corporate governance.

### Kevin John Anson Wills

BSc, PhD, ARSM, FAusIMM

Non-executive Director

A Director from incorporation 29 March 2006, until 30 September 2009. Dr Wills is a geologist with 36 years experience in multi commodity mineral exploration including feasibility studies and mine operations in Australasia. Dr Wills spent seven years with CRA Exploration Pty Ltd, the highlight of which was involvement with the location and evaluation of the Argyle Diamond Deposit. Later, with Penarroya Australia Pty Ltd, his work led to an expansion of reserves at Thalanga and the discovery of the Waterloo base metals deposit.

In the late 1980s, Dr Wills was exploration manager with Metana Minerals NL. He built up a successful exploration team which extended known gold ore bodies and made new discoveries in the Murchison Region of Western Australia. In the early 1990s Dr Wills was regional exploration manager with Dominion Mining Limited, based in Adelaide. His work on the Gawler Craton led to the development of a calcrete sampling technique which, later on, was instrumental in the Challenger gold discovery.

### Interests in shares and options

3,500,555 ordinary shares in ERO Mining Limited.

3,500,000 options over ordinary shares in ERO Mining Limited.

## Company Secretary

### David Wayne Godfrey

BCom (Fin), GradDipAcc, ASA, FFin, CFTP (Snr), MAICD

#### Experience and expertise

Mr Godfrey has more than 25 years experience in the resources and finance industries and is a member of Australian Society of CPAs, Chartered Secretaries Australia, Australian Institute of Company Directors and a Fellow of the Financial Services Institute. He has previously held senior finance roles in major corporations and for the Treasury of New Zealand and has served as secretary of numerous publicly listed and subsidiary companies for the Normandy Mining Limited Group, Newmont Australia Limited Group and Uranium Exploration Australia Limited. He has been the Company Secretary and Chief Financial Officer since 11 November 2008 and to the date of this report.

#### Interests in shares and options

53,334 options over ordinary shares in ERO Mining Limited.

#### Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		Audit committee meetings	
	A	B	A	B
Robert Michael Kennedy	9	9	2	2
Ewan John Vickery	9	9	2	2
Kevin James Lines	9	9		
Adam Simon Bannister				
Ian Roy Witton	3	3		
Kevin John Anson Wills	3	3		

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

#### Indemnification and insurance of officers

The consolidated entity is required to indemnify the Directors and other Officers of the company against any liabilities incurred by the Directors and Officers that may arise from their position as Directors and Officers of the Company. No costs were incurred during the year pursuant to this indemnity.

The consolidated entity has entered into deeds of indemnity with each Director whereby, to the extent permitted by the *Corporations Act 2001*, the Company agreed to indemnify each Director against all loss and liability incurred as an officer of the Company, including all liability in defending any relevant proceedings.

#### Insurance premiums

Since the end of the previous year the consolidated entity has paid insurance premiums of \$15,540 to insure the Directors and Officers in respect of Directors and Officers' liability and legal expenses insurance contracts.

#### Proceedings on behalf of consolidated entity

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

The Company was not a party to any such proceedings during the financial year.

#### Non audit services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision on non audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non audit services paid/payable to the external auditors during the year ended 30 June 2010.

## Directors' report continued

### Remuneration report – audited

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### A Principles used to determine the nature and amount of remuneration

The Company's policy for determining the nature and amounts of emoluments of board members and senior executive officers of the Company is as follows:

The Company's Constitution specifies that the total amount of remuneration of Non executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of Non executive Directors has been set at \$300,000 per annum. Directors may apportion any amount up to this maximum amount amongst the Non executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as Directors. The remuneration of the Managing Director is determined by the Non executive Directors on the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of other executive officers and employees is determined by the Managing Director subject to the approval of the Board.

Non executive Director remuneration is by way of fees and statutory superannuation contributions. Non executive Directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Company does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Company given the nature of the Company's business as a recently listed mineral exploration entity and the current status of its activities. However the

Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, options for ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company.

The employment conditions of the Managing Director, Mr Lines are formalised in a contract of employment. The base salary as set out in the employment contract is reviewed annually. The Managing Director's contract may be terminated at any time on one month's notice by either party. The Company may terminate these contracts without notice in serious instances of misconduct.

#### B Details of remuneration

This report details the nature and amount of remuneration for each key management person of the Company and for the executives receiving the highest remuneration.

The names and positions held by Directors and key management personnel of the Company during the financial year are:

**Mr R M Kennedy**

Chairman, Non-executive

**Mr E J Vickery**

Director, Non-executive

**Mr K J Lines**

Managing Director, Executive

**Mr A S Bannister**

Alternate Director, Non-executive

**Mr I R Witton**

Alternate Director, Non-executive (Alternate for R M Kennedy since 26 August 2010, Alternate Director for K J Lines since 10 September 2010) (Alternate for K J A Wills, ceased 30 September 2009)

**Dr K J A Wills**

Director, Non-executive (ceased 30 September 2010)

**Mr D W Godfrey**

Chief Financial Officer and Company Secretary

**Key management personnel of the consolidated entity and other executives of the company and the consolidated entity**

2010	Short term employee benefits	Short term employee benefits	Post employment benefits	Share based payments	Total
	Directors fees	Salary	Superannuation	Options	
	\$	\$	\$	\$	
<b>Name</b>					
Robert Michael Kennedy	55,107	-	4,960	-	60,067
Ewan John Vickery*	33,333	-	750	-	34,083
Kevin James Lines	-	231,269	20,814	-	252,083
Adam Simon Bannister	-	-	-	-	-
Ian Roy Witton	-	-	-	-	-
Kevin John Anson Wills	-	12,156	1,094	-	13,250
David Wayne Godfrey**	-	178,899	16,101	-	195,000
<b>Total key management personnel compensation (consolidated entity)</b>	<b>88,440</b>	<b>422,324</b>	<b>43,719</b>	<b>-</b>	<b>554,483</b>

\* For part of the year, director fees for Mr Vickery are paid to a related entity of the Director.

\*\* Mr Godfrey is employed by FME Exploration Services Pty Ltd. His services are provided as part of the services agreement in place between FME Exploration Services Pty Ltd and ERO Mining Ltd. The management fees paid by ERO Mining Ltd are outlined in Note 24. This agreement was formalised 3 August 2006.

The Directors conclude that there are no executives requiring disclosure other than those listed.

**Key management personnel of the consolidated entity and other executives of the company and the consolidated entity**

2009	Short term employee benefits	Short term employee benefits	Post employment benefits	Share based payments	Total
	Directors fees	Salary	Superannuation	Options	
	\$	\$	\$	\$	
<b>Name</b>					
Robert Michael Kennedy	82,661	-	7,439	-	90,100
Ewan John Vickery	50,000	-	-	-	50,000
Kevin James Lines	-	253,293	22,707	-	276,000
Kevin John Anson Wills	48,624	-	4,376	-	53,000
David Wayne Godfrey	-	104,975	9,358	1,535	115,868
Richard Wilson	-	95,520	6,865	-	102,385
<b>Total key management personnel compensation (consolidated entity)</b>	<b>181,285</b>	<b>453,788</b>	<b>50,745</b>	<b>1,535</b>	<b>687,353</b>

**C Service agreements**

During the financial year, the Company reviewed the employment agreement of Mr Lines in respect of his services as Managing Director. A new contract with no fixed term was agreed with a salary set at \$325,000 per annum inclusive of superannuation guarantee contributions to be reviewed periodically and with termination on three month's notice by either party. Messrs Kennedy and Vickery are engaged as directors without formal employment agreements. There were no post employment retirement benefits approved by members of the Company in a general meeting, nor were any paid to Directors of the Company.

**D Share based compensation**

**Employee Share Option Plan**

The Company has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, options to acquire ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the Plan. During the year, employee share options were not issued.

## Directors' report continued

### Options granted as remuneration

Apart from the options granted under the Company's Employee Share Option Plan as detailed above, no other options were granted to Directors or key management personnel of the Company during the financial year.

### Shares issued on exercise of remuneration options

No shares were issued to Directors as a result of the exercise of remuneration options during the financial year.

### Directors interests in shares and options

Directors' relevant interests in shares and options of the Company are disclosed in Note 22 to the accounts.

### Shares under option

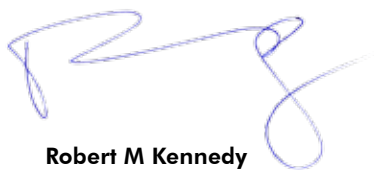
Unissued ordinary shares of ERO Mining Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price	Number under option
4 April 2006	30 June 2011	\$0.30	26,785,714
10 April 2007	20 March 2012	\$0.22	228,000
16 November 2007	19 November 2012	\$0.22	225,000
5 March 2008	5 March 2013	\$0.165	553,000
4 February 2009	3 February 2014	\$0.028	941,666
<b>Total</b>			<b>28,733,380</b>

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 21.

Dated at Adelaide this 30th day of September 2010 and signed in accordance with a resolution of the Directors.



**Robert M Kennedy**  
DIRECTOR

## Auditor's Independence Declaration



Level 1,  
67 Greenhill Rd  
Wayville SA 5034  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E [info.sa@au.gt.com](mailto:info.sa@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

### **AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ERO MINING LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of ERO Mining Limited for the year ended 30 June 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ERO Mining Limited and the entities it controlled during the year.

GRANT THORNTON  
South Australian Partnership  
Chartered Accountants

A handwritten signature in black ink, appearing to read "P S Paterson".

P S Paterson  
Partner

Adelaide, 30 September 2010

Grant Thornton South Australian Partnership ABN 27 244 906 724  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation

## Corporate governance statement

The Board of Directors of ERO Mining Limited are committed to improving and achieving good standards of corporate governance and has established corporate government policies and procedures, where appropriate and practicable, consistent with the revised Corporate Governance Principles and Recommendations – 2nd Edition issued by the ASX Corporate Governance Council (“ASX Recommendations”).

The following statement sets out a summary of the Company’s corporate governance practices that were in place during the financial year and how those practices relate to the revised ASX Recommendations. The Company elected to undergo an early transition to the revised Principles and Recommendations and as such has reported against these for the financial years ended June 2008, June 2009 and June 2010.

These recommendations are not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an effective, quality and integrity outcome. The Corporate Governance Council has recognised that a “one size fits all” approach to corporate governance is not required. Instead, it states aspirations of good practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is inappropriate to its particular circumstances and has flexibility not to adopt it and explain why.

In ensuring a good standard of ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the above ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company. The Board is, nevertheless, committed to ensuring that appropriate corporate governance practices are in place for the proper direction and management of the Company. This statement outlines the main corporate governance practices of the Company disclosed under the ASX Recommendations, including those that comply with good practice and which unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2010.

### **Principle 1: Lay solid foundations for management and oversight**

#### **Recommendation 1.1**

##### **Recommendation followed**

The Board is governed by the *Corporations Act 2001*, ASX Listing Rules and a formal constitution adopted by the company in 2006.

The role of the Board is to provide leadership and direction to management and to agree with management the aims, strategies and policies of the Company for the protection and enhancement of long term shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal control, risk management and financial reporting.

The Board has an established framework for the management of the entity including a system of internal control, a business risk management process and appropriate ethical standards. In fulfilling its responsibilities, the Board is supported by an Audit Committee to deal with internal control, ethical standards and financial reporting.

The Board appoints a Managing Director responsible for the day to day management of the Company including management of financial, physical and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board.

The board has not adopted a formal statement of matters reserved to them or a formal board charter that details their functions and responsibilities nor a formal statement of the areas of authority delegated to senior executives.

#### **Recommendation 1.2**

##### **Recommendation followed**

The Board takes responsibility for monitoring the composition of the Board and reviewing the performance and compensation of the Company’s Executive Directors and senior management with the overall objective of motivating and appropriately rewarding performance.

The board considers the Company’s present circumstances and goals ensure maximum shareholder benefits from the attraction and retention of a high quality Board and senior management team. The Board on a regular basis reviews the performance of and remuneration for Executive Director’s and senior management including any equity participation by such Executive Directors and senior management. The Board evaluates the performance of the Managing Director and Company Secretary on a regular basis and encourages continuing professional development.

#### **Recommendation 1.3**

##### **Recommendation followed**

During the period the Board undertook an informal performance evaluation of the Managing Director, Company Secretary and senior management. The evaluation was in accordance with the Company’s process for evaluation of senior executives.

## **Principle 2: Structure the board to add value**

### **Recommendation 2.1**

#### **Recommendation followed**

The composition of the Board consists of three directors, two of whom including the Chairman, are Independent Directors.

The Audit Committee currently consists of two Independent directors.

### **Recommendation 2.2**

#### **Recommendation followed**

The Chairman, Mr Kennedy is an Independent Director

### **Recommendation 2.3**

#### **Recommendation followed**

Mr Kennedy's role as Chairman of the Board is separate from that of the Managing Director, Mr Lines who is responsible for the day to day management of the Company and is in compliance with the ASX Recommendation that these roles not be exercised by the same individual.

### **Recommendation 2.4**

#### **Recommendation not followed**

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing a nomination committee in line with ASX Recommendation 2.4 and establishing a formal charter as recommended by ASX Recommendation 2.4 cannot be justified by the perceived benefits of doing so. As such, the whole Board currently carries out this function. It is anticipated that a formal charter will be developed in the coming year, as the Company develops further.

### **Recommendation 2.5**

#### **Recommendation not followed**

The Board recognises that as a result of the Company's size and the stage of the entity's life as a publicly listed junior exploration company, the assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis. Whilst this is at variance with the ASX Recommendation 2.5, the Directors consider that at the date of this report an appropriate and adequate process for the evaluation of Directors is in place. A more formal process of Board assessment will be considered in the future as the Company develops.

### **Recommendation 2.6**

#### **Recommendation followed**

The names of the directors of the Company and terms in office at the date of this Statement together with their skills, experience, expertise and financial interests in the Company are set out in the Directors' Report section of this report.

Messrs Kennedy and Vickery are considered to be independent.

The Company has no relationships with any of the independent directors which the company believes would compromise the independence of these directors.

All directors are entitled to take such legal advice as they require at any time and from time to time on any matter concerning or in relation to their rights, duties and obligations as directors in relation to the affairs of the Company at the expense of the Company.

The Company's constitution specifies the number of directors must be at least three and at most ten. The Board may at any time appoint a director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re election at least every three years. The tenure for executive directors is linked to their holding of executive office.

As the board does not have a nominations Committee, the functions of this Committee in its absence are dealt with by the Board as a whole.

An assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis and was done so during the year by the Chairman.

## **Principle 3: Promote ethical and responsible decision making**

### **Recommendation 3.1**

#### **Recommendation not followed**

While the Company does not have a formal code of conduct, as the Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing and managing a formal code of conduct cannot be justified, the Company requires all its directors and employees to abide by good standards of behaviour, business ethics and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- act in good faith and in the best interests of the Company;
- exercise care and diligence that a reasonable person in that role would exercise;
- exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- disclose material personal interests and avoid actual or potential conflicts of interests;
- keep themselves informed of relevant Company matters;
- keep confidential the business of all directors meetings; and
- observe and support the Board's Corporate Governance practices and procedures.

## Corporate governance statement continued

Directors also required to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the *Corporations Act 2001* and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the *Corporations Act 2001*, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

### Recommendation 3.2

#### Recommendation followed

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the *Corporations Act 2001* also prohibits the acquisition and disposal of securities where a person possess information that is not generally available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available. A securities trading policy has been established and all employees and Directors are obliged to comply.

All directors have signed agreements with the Company which require them to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the *Corporations Act 2001* and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the *Corporations Act 2001*, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

### Recommendation 3.3

#### Recommendation followed

A summary of the Company's Trading Policy can be found at [www.eromining.com/governance](http://www.eromining.com/governance)

## Principle 4: Safeguard integrity in financial reporting

### Recommendation 4.1

#### Recommendation followed

The Company was not a company required by ASX Listing Rule 12.7 to have an Audit Committee during the year although it is an ASX Recommendation. Notwithstanding the Listing Rule requirement, an Audit Committee has been established to oversee corporate governance over internal controls, ethical standards, financial reporting, and external accounting and compliance procedures.

The main responsibilities of the Audit and Corporate Governance Committee include:

- reviewing, assessing and making recommendations to the Board on the annual and half year financial reports released to the market by the Company;
- overseeing establishment, maintenance and reviewing the effectiveness of the Company's internal control and ensuring efficacy and efficiency of operations, reliability of financial reporting and compliance with applicable Accounting Standards and ASX Listing Rules;
- liaising with and reviewing reports of the external auditor; and
- reviewing performance and independence of the external auditor and where necessary making recommendations for appointment and removal of the Company's auditor.

### Recommendation 4.2

#### Recommendation not followed

The Audit Committee consists of two non executive, independent Board directors, Messrs Vickery and Kennedy, and is chaired by Mr Vickery.

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing an audit committee with at least three members in line with ASX Recommendation 4.2 cannot be justified by the perceived benefits of doing so. The existing composition of the Audit Committee is such that review and authorisation of the integrity of the Company's financial reporting and the independence of the external auditor is via the exercise of independent and informed judgement.

### Recommendation 4.3

#### Recommendation followed

A formal Audit Committee Charter has been adopted, that details the functions and responsibilities of the Audit Committee.

#### **Recommendation 4.4**

##### **Recommendation followed**

Mr Kennedy is a qualified Chartered Accountant. Details of the Audit Committee member's qualifications and attendance at meetings are set out in the Directors' Report section of this report.

The Committee meets at least twice per annum and reports to the Board. The Managing Director, Company Secretary and external auditor may by invitation attend meetings at the discretion of the Committee.

#### **Principles 5: Make timely and balanced disclosures**

##### **Recommendations 5.1 and 5.2**

##### **Recommendations followed**

The Company has adopted a continuous disclosure policy and operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. The information is made publicly available on the Company's website, following release to the ASX, [www.eromining.com/governance](http://www.eromining.com/governance)

#### **Principle 6: Respect the rights of shareholders**

##### **Recommendations 6.1 and 6.2**

##### **Recommendations not followed**

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs.

In accordance with the ASX Recommendations, information is communicated to shareholders as follows:

- the annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to the other disclosures required by the *Corporations Act 2001*;
- the half yearly financial report lodged with the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- notices of all meetings of shareholders;
- publicly released documents including full text of notices of meetings and explanatory material made available on the Company's web site; and
- disclosure of the Company's Corporate Governance practices and communications strategy on the entity's website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to section 249K of the *Corporations Act 2001* the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, the Board does not believe a formal policy for shareholder communication is required. However, a summary describing how the Company will communicate with its shareholders is posted on the Company's web site, [www.eromining.com/governance](http://www.eromining.com/governance)

#### **Principle 7: Recognise and manage risk**

##### **Recommendations 7.1, 7.2 and 7.4**

##### **Recommendations not followed**

The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration and mining, environmental, title and native title, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed. No formal report in relation to the Company's management of its material business risk is presented to the Board.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, and the inherent risks associated with the industry it operates in, the Board does not believe formal policies for oversight and management of risk is required nor a mechanism for formal review be established. A summary describing how the Company manages risk by procedures established at Board and executive level can be found posted on the Company's web site, [www.eromining.com/governance](http://www.eromining.com/governance)

#### **Recommendation 7.3**

##### **Recommendation followed**

In accordance with ASX Recommendation 7.3 the Chief Executive Officer and Chief Financial Officer have provided assurances that the written declarations under s295A of the *Corporations Act* are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Both the Chief Executive Officer and Chief Financial Officer provided said assurances at the time the s295A declarations were provided to the Board.

### Principle 8: Remunerate fairly and responsibly

#### Recommendation 8.1

##### Recommendation not followed

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing a formal remuneration committee in line with ASX Recommendation 8.1 cannot be justified by the perceived benefits of doing so.

The Board takes responsibility for monitoring the composition of the Board and reviewing the compensation of the Company's Executive Directors and senior management with the overall objective of motivating and appropriately rewarding performance.

#### Recommendations 8.2 and 8.3

##### Recommendations followed

In accordance with ASX Recommendation 8.2 the Company's remuneration practices are set out as follows.

The Company's Constitution specifies that the total amount of remuneration of non executive directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non executive directors has been set at \$300,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non executive directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors.

Non executive director remuneration is by way of fees and statutory superannuation contributions. Non executive directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The remuneration of the Managing Director is determined by the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of employees is determined by the Managing Director subject to the approval of the Board.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Company does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Company given the nature of the Company's business as a recently listed mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to ordinary fully paid shares in the Company. Under the terms of the Plan, options to ordinary fully paid shares may be offered to the Company's eligible employees at no cost in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company. The non executive directors are not eligible to participate in the Plan.

The employment conditions of the Managing Director are formalised in a contract of employment. The Managing Director's contract may be terminated at any time by mutual agreement or without notice in serious instances of misconduct.

Further details of director's remuneration, superannuation and retirement payments are set out in the Remuneration Report section of the Directors' Report.

The Company's Corporate Governance Policies can be found at [www.eromining.com/governance](http://www.eromining.com/governance)

## Consolidated statement of comprehensive income

For the year ended 30 June 2010

	Notes	Consolidated 30 June 2010 \$	Consolidated 30 June 2009 \$
<b>Revenue from continuing operations</b>	4	222,832	258,539
Raw materials and consumables used		(337,259)	-
Other expenses		(39,827)	(887)
Marketing expense	5	(62,206)	(127,043)
Administrative expense	5	(806,447)	(847,250)
Finance costs		(1,098)	(1,159)
Exploration expenditure written off	5	(2,662,801)	(8,016,555)
<b>(Loss) before income tax</b>		<b>(3,686,806)</b>	<b>(8,734,355)</b>
Income tax (expense)/ income	6	249,804	329,450
(Loss) from continuing operations		(3,437,002)	(8,404,905)
<b>(Loss) for the year</b>		<b>(3,437,002)</b>	<b>(8,404,905)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year attributable to:</b>		<b>(3,437,002)</b>	<b>(8,404,905)</b>
Owners of ERO Mining Limited		(3,437,002)	(8,404,905)
		(3,437,002)	(8,404,905)

		Cents	Cents
<b>Earnings per share for (loss) attributable to the ordinary equity holders of the parent entity:</b>			
Basic earnings per share	28	(2.26)	(6.70)
Diluted earnings per share	28	(2.26)	(6.70)

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

## Consolidated statement of financial position

As at 30 June 2010

	Notes	Consolidated 30 June 2010 \$	Consolidated 30 June 2009 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	361,294	758,184
Trade and other receivables	8	410,527	486,379
Inventories	9	41,086	-
Total current assets		812,907	1,244,563
<b>Non current assets</b>			
Investments accounted for using the equity method	10	1	1
Property, plant and equipment	14	822,496	820,301
Exploration and evaluation	15(a)	10,307,911	12,119,158
Mine properties	15(b)	2,326,431	1,346,026
Other non current assets	16	17,750	17,750
Total non current assets		13,474,589	14,303,236
<b>Total assets</b>		14,287,496	15,547,799
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	267,348	149,782
Provisions	18	28,165	34,197
Total current liabilities		295,513	183,979
<b>Non current liabilities</b>			
Provisions	19	28,073	-
Total non current liabilities		28,073	-
<b>Total liabilities</b>		323,586	183,979
<b>Net assets</b>		13,963,910	15,363,820
<b>EQUITY</b>			
Contributed equity	20	25,588,199	23,551,107
Reserves	21(a)	882,007	882,007
Retained earnings	21(b)	(12,506,296)	(9,069,294)
<b>Total equity</b>		13,963,910	15,363,820

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

## Statement of changes in equity

For the year ended 30 June 2010

Consolidated	Notes	Contributed equity	Reserves	Retained earnings	Total equity
		\$	\$	\$	\$
<b>Balance at 1 July 2008</b>		23,543,734	847,332	(664,389)	23,726,677
<b>Total comprehensive income for the year</b>					
Profit/ (loss) for the year	21	-	-	(8,404,905)	(8,404,905)
<b>Transactions with owners in their capacity as owners:</b>					
Options issued during the period	20	-	34,675	-	34,675
Contributions of equity	20	7,373	-	-	7,373
Transaction costs (net of tax)	20	-	-	-	-
<b>Subtotal</b>		7,373	34,675	-	42,048
<b>Balance at 30 June 2009</b>		23,551,107	882,007	(9,069,294)	15,363,820
Consolidated	Notes	Contributed equity	Reserves	Retained earnings	Total equity
		\$	\$	\$	\$
<b>Balance at 1 July 2009</b>		23,551,107	882,007	(9,069,294)	15,363,820
<b>Total comprehensive income for the year</b>					
Profit/ (loss) for the year	21	-	-	(3,437,002)	(3,437,002)
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity	20	2,068,200	-	-	2,068,200
Transaction costs, net of tax	20	(31,108)	-	-	(31,108)
<b>Subtotal</b>		2,037,092	-	-	2,037,092
<b>Balance at 30 June 2010</b>		25,588,199	882,007	(12,506,296)	13,963,910

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

## Statements of Cash Flows

For the year ended 30 June 2010

	Notes	Consolidated 30 June 2010 \$	Consolidated 30 June 2009 \$
<b>Cash flows from operating activities</b>			
Receipts from operating activities		192,457	-
Payments to suppliers and employees		(992,991)	(1,116,521)
Interest received		30,686	356,236
Income taxes received		329,450	-
<b>Net cash (outflow) inflow from operating activities</b>	27	<b>(440,398)</b>	<b>(760,285)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(194,032)	(17,422)
Payment for purchase of subsidiary, net of cash acquired	31	-	(2,645,329)
Payments for development assets		(1,104,530)	-
Payments for exploration expense		(851,554)	(2,465,208)
Proceeds from sale of property, plant and equipment		94,864	-
Loans to related parties		75,000	100,000
<b>Net cash (outflow) inflow from investing activities</b>		<b>(1,980,252)</b>	<b>(5,027,959)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		2,023,760	7,373
<b>Net cash inflow (outflow) from financing activities</b>		<b>2,023,760</b>	<b>7,373</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(396,890)</b>	<b>(5,780,871)</b>
Cash and cash equivalents at the beginning of the financial year		758,184	6,539,055
<b>Cash and cash equivalents at end of year</b>	7	<b>361,294</b>	<b>758,184</b>

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

# Notes to the financial statements

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of ERO Mining Limited and its subsidiaries.

### a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### Compliance with Australian Accounting Standards – reduced disclosure requirements

The consolidated financial statements of the ERO Mining Limited consolidated entity also comply with Australian Accounting Standards – Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

### Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of ERO Mining Limited complies with International Financial Reporting Standards (IFRS).

### Historical cost convention

These financial statements have been prepared on an accrual basis, under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

### Critical accounting estimates

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

### b) Accounting standards not previously applied

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

## Presentation of financial statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in these financial statements include:

- the replacement of Income Statement with Statement 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 separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

### Third statement of financial position

Two comparative periods are presented for the statement of financial position when the Company:

- i) Applies an accounting policy retrospectively,
- ii) Makes a retrospective restatement of items in its financial statements, or
- iii) Reclassifies items in the financial statements

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

### 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. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and the Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the financial reports have been included.

### c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ERO Mining Limited ("company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. ERO Mining Limited and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

## Notes to the financial statements continued

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the consolidated entity (refer to note 1).

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

### d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

### e) Revenue recognition

#### i) Sale of goods

Revenue from sale of refined gold production and internet sales of gold nuggets. Recognition is at point of sale of the product, when the risks and rewards of ownership are transferred.

#### ii) Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

### f) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset or deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the period when the asset is realized or the liability is settled, based on tax

rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognized only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilized.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognized where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set off exists and it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

ERO Mining Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, ERO Mining Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, ERO Mining Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

### g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **h) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### **i) Trade receivables**

Trade receivables are recognised initially at fair value and are generally due for settlement within 30 days.

#### **j) Investments in associates**

Associates are all entities over which the consolidated entity has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. (refer to note 13).

#### **k) Joint ventures**

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 32.

The consolidated group's interests in joint venture entities are brought to account using the equity method accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

#### **l) Investments and other financial assets**

##### **Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade date – the date on which the consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

##### **Subsequent measurement**

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss

within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the consolidated entity's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non monetary securities classified as available for sale are recognised in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

##### **Fair value**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

##### **Impairment**

The consolidated entity assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through profit or loss.

If there is evidence of impairment for any of the consolidated entity's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

#### **m) Plant and equipment**

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### **Plant and equipment**

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of

## Notes to the financial statements continued

the recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognized as separate assets as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. The depreciation rates used for plant and equipment are from 12.5 to 40%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is consolidated entity policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

### n) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### o) Employee benefits

#### i) Short term obligations

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on costs. Employee benefits payable later than one year have been discounted using the government bond rate closest to expiry date.

#### ii) Other long term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees

up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### iii) Share based payments

Share based compensation benefits are provided to employees via the ERO Mining Limited Employee Share Option Plan. Information relating to this scheme is set out in note 29.

The cost of equity settled transactions is measured by the fair value at the date at which the equity instruments are granted. The fair value is determined using the Black Scholes pricing model. The cost is recognised as an expense in the income statement with a corresponding increase in the share option reserve or issued capital when the options or shares are issued.

### p) Earnings per share

#### i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 20).

#### ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### q) Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest are written off as incurred except they may be carried forward as an item in the statement of financial position, where the rights of tenure of an area are current and one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the area of interest to which the asset relates.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 3 Business Combinations.

Exploration and evaluation expenditure incurred subsequent to the acquisition in respect of an exploration asset acquired is accounted for in accordance with the policy outlined above.

All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

#### r) Development properties

Development expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure having a specific nexus with the development property.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the cost of development and classified under non current assets as "development properties".

A development property is reclassified as "mine property" at the end of the commissioning phase, when the production reaches a previously determined capacity.

No amortisation is provided in respect of development properties until they are reclassified as "mine properties".

Development properties are tested for impairment in accordance with the policy in note 1(g).

#### s) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the consolidated entity in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when it is probable that the additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditure is classified as part of the cost of production.

Mine properties are tested for impairment in accordance with the policy in note 1(g).

#### t) Decommissioning and site rehabilitation

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the exploration, development or ongoing production. Costs are estimated on the basis of a formal closure plan and are subject to regular review.

The costs for restoration of site damage, which is created on an ongoing basis during production, are provided at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production is charged against operating profit.

#### u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### v) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### w) Inventories

##### i) Raw materials, stores and finished goods

Refined gold production and gold nuggets on hand at year end, are stated at the lower of cost and net realisable value. Cost of goods sold comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### x) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

## Notes to the financial statements continued

If the entity reacquires its own equity instruments, for example as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### y) Key estimates

#### Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

#### Exploration and Evaluation

The consolidated entity's policy for exploration and evaluation is discussed in Note 1(q). The application of this policy requires management to make certain assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploration, then the relevant capitalised amount will be written off through the statement of comprehensive income.

### z) New accounting standards and interpretations

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the consolidated entity follows:

The Company does not anticipate the early adoption of any of the below Australian Accounting Standards.

**AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).**

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The consolidated entity has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;

- removing the tainting rules associated with held to maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets;
  - b. the characteristics of the contractual cash flows.

**AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).**

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the consolidated entity.

**AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009 5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).**

These standards detail numerous non urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the consolidated entity.

**AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash settled Share based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).**

These amendments clarify the accounting for group cash settled share based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the consolidated entity.

**AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).**

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the consolidated entity.

**AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). Amendments to Australian Accounting Standards Classification of Rights Issues [AASB 132]The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.**

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non derivative equity instruments. These amendments are not expected to impact the consolidated entity.

**AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).**

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the consolidated entity.

**AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).**

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the consolidated entity.

**AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).**

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. These amendments are not expected to impact the consolidated entity.

**AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).**

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the consolidated entity.

## Notes to the financial statements continued

### 2 Financial risk management

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co operation with the consolidated entity's operating units. The Board provides principles for overall risk management, such as interest rate risk, credit risk and investment of excess liquidity. The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to associated companies.

The consolidated entity holds the following financial instruments:

	Consolidated 30 June 2010 \$	Consolidated 30 June 2009 \$
<b>Financial assets</b>		
Cash and cash equivalents	361,294	758,184
Trade and other receivables	410,527	486,379
Investments accounted for using the equity method	1	1
	771,822	1,244,564
<b>Financial liabilities</b>		
Trade and other payable	267,348	149,782
	267,348	149,782

#### a) Market risk

##### i) Foreign exchange risk

The consolidated entity is not exposed to foreign exchange risk.

##### ii) Price risk

The consolidated entity is not exposed to any material price risk.

##### iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted interest rates on classes of financial assets and financial liabilities. Interest rate risk is managed by the consolidated entity with the use of rolling short term deposits.

The consolidated entity has no long term financial liabilities upon which it pays interest.

#### b) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in settling it's debts or otherwise meeting it's obligations.

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available to meet the cash demands.

#### c) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

### 3 Segment information

#### a) Description of segments

##### Identification of reportable segments

ERO Mining Limited has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. ERO Mining Limited is managed primarily on the basis of geographical area of interest, since the diversification of ERO Mining Limited operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- external regulatory requirements
- geographical and geological styles.

##### Mining

The Georgetown Development segment will mine for alluvial gold. Further listed segmented assets for ERO Mining Limited including development costs and costs associated with the mining lease are reported on in this segment.

##### Accounting policies developed

Unless stated otherwise, all amounts reported to the Board of Directors as chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of ERO Mining Limited.

##### Comparative Information

This is the first reporting period in which AASB 8: Operating segments has been adopted. Comparative information has been stated to conform to the requirements of the standard.

#### b) Primary reporting format – business segments

2010	Georgetown	Abminga	Billa Kalina	Other	Total
	Gold	Gold	Uranium		
	\$	\$	\$	\$	\$
<b>Segment revenue</b>	192,457	-	-	-	192,457
<b>Adjusted EBITDA</b>	(268,927)	-	-	(2,563,204)	(2,714,796)
Cost of goods sold	(337,259)	-	-	-	(337,259)
Impairment	-	-	-	(2,569,994)	(2,569,994)
<b>Segment assets</b>	3,731,258	5,376,518	2,344,759	1,222,893	12,675,428
<b>Segment asset movements for the period</b>					
Capital expenditure	1,510,892	45,550	12,326	294,509	1,863,277
Acquisition	-	-	-	-	-
Impairment	-	-	-	(2,569,994)	(2,569,994)
<b>Total movement</b>	1,510,892	45,550	12,326	(2,275,485)	(706,717)
Total allocated assets					12,675,428
Unallocated assets					1,612,068
<b>Total assets</b>					14,287,496
<b>Total segment liabilities</b>	-	-	-	-	-
Unallocated liabilities					323,586
<b>Total liabilities</b>					323,586

## Notes to the financial statements continued

2009	Georgetown	Abminga	Billa Kalina	Other	Total
	Gold	Gold	Uranium		
	\$	\$	\$	\$	\$
<b>Segment revenue</b>	-	-	-	-	-
<b>Adjusted EBITDA</b>	-	(2,251,962)	(713,692)	(4,642,239)	(7,589,893)
Impairment	-	(2,251,962)	(713,692)	(4,642,239)	(7,589,893)
<b>Segment assets</b>	2,303,405	5,022,730	2,640,671	3,498,378	13,465,184
<b>Segment asset movements for the period</b>					
Capital expenditure	-	1,224,247	180,929	632,483	2,037,659
Acquisitions	2,157,976	-	-	-	2,157,976
Impairment	-	(2,251,962)	(713,692)	(4,624,239)	(7,589,893)
<b>Total movement</b>	2,157,976	(1,027,715)	(532,763)	(3,991,756)	(3,394,258)
Total allocated assets					13,465,184
Unallocated assets					2,082,615
<b>Total assets</b>					15,547,799
<b>Total segment liabilities</b>	-	-	-	-	-
Unallocated liabilities					183,979
<b>Total liabilities</b>					183,979

### i) Segment revenue

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
<b>Total segment revenue</b>		
Gold sales	192,457	-
Interest revenue	30,375	258,539
<b>Total revenue from continuing operations (note 4)</b>	222,832	258,539

ii) **Adjusted EBITDA**

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	<b>Consolidated</b> <b>30 June 2010</b>	<b>Consolidated</b> <b>30 June 2009</b>
	\$	\$
<b>Adjusted EBITDA</b>		
Allocated adjusted EBITDA	(2,714,796)	(7,589,893)
<b>Unallocated:</b>		
Interest revenue	30,375	258,539
Other expenses	(39,827)	(887)
Marketing expenses	(62,206)	(127,043)
Administrative expenses	(806,447)	(847,250)
Finance costs	(1,098)	(1,159)
Exploration general written off	(92,807)	(426,662)
<b>Profit before income tax from continuing operations</b>	<u>(3,686,806)</u>	<u>(8,734,355)</u>

iii) **Segment assets**

Reportable segments' assets are reconciled to total assets as follows:

	<b>Consolidated</b> <b>30 June 2010</b>	<b>Consolidated</b> <b>30 June 2009</b>
	\$	\$
<b>Segment assets</b>		
Allocated segment assets	12,675,428	13,465,184
<b>Unallocated:</b>		
Investments accounted for using the equity method	1	1
Cash and cash equivalents	361,294	758,184
Trade and other receivables	410,527	486,379
Property, plant and equipment	822,496	820,301
Security deposit	17,750	17,750
<b>Total assets as per the statement of financial position</b>	<u>14,287,496</u>	<u>15,547,799</u>

iv) **Segment liabilities**

Reportable segments' liabilities are reconciled to total liabilities as follows:

	<b>Consolidated</b> <b>30 June 2010</b>	<b>Consolidated</b> <b>30 June 2009</b>
	\$	\$
<b>Segment liabilities</b>		
Allocated segment liabilities	-	-
<b>Unallocated:</b>		
Trade and other payables	250,410	149,782
Provisions	56,238	34,197
<b>Total liabilities as per the statement of financial position</b>	<u>306,648</u>	<u>183,979</u>

## Notes to the financial statements continued

### 4 Revenue

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
<b>From continuing operations</b>		
Interest received	30,375	258,539
Gold sales	192,457	-
	<u>222,832</u>	<u>258,539</u>

### 5 Expenses

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
<b>Marketing</b>		
Marketing and promotion	62,206	127,043
	<u>62,206</u>	<u>127,043</u>
<b>Administration</b>		
Compliance	140,049	128,797
Depreciation	77,776	2,301
Legal fees	11,310	1,670
Administration costs	173,239	278,213
Employment costs	402,946	172,595
Other	1,127	263,674
	<u>806,447</u>	<u>847,250</u>
<b>Exploration expenditure</b>		
General exploration expenditure written off	92,807	426,662
Capitalised exploration expenditure written off	2,569,994	7,589,893
	<u>2,662,801</u>	<u>8,016,555</u>

## 6 Income tax expense

### a) Income tax expense

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Deferred tax	13,332	-
Research and development tax offset	(263,136)	(329,450)
	<u>(249,804)</u>	<u>(329,450)</u>

### b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Profit from continuing operations before income tax expense	(3,686,806)	(8,734,355)
Tax at the Australian tax rate of 30% (2009 30%)		
Consolidated entity	(1,106,042)	(2,620,306)
<b>Add:</b>		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non allowable items	773,701	1,529,347
Share options expensed during year	13,332	10,402
Share placement issue costs	-	-
Temporary differences not brought to account	831,949	1,080,557
	<u>512,940</u>	<u>-</u>
<b>Less:</b>		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research and development tax offset	(263,136)	(329,450)
	<u>(249,804)</u>	<u>(329,450)</u>

Deferred tax assets on the timing differences have not been recognised as they do not meet the recognition criteria as outlined in Note 1(f) in the financial statements. Deferred Tax Asset (DTA) arising from tax losses of a controlled entity is not recognized at reporting date as realization of the benefit is not regarded as probable:

- timing differences at 30%
- tax losses at 30%

The Group has deferred tax assets arising in Australia of \$3,495,318 (2009: \$2,795,642) that are available indefinitely for offset against future taxable profits of the companies in which the losses arise.

## Notes to the financial statements continued

### 7 Current assets – Cash and cash equivalents

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Cash at bank and in hand	361,294	558,184
Term Deposits	-	200,000
	361,294	758,184

#### a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Balance per statement of cash flows	361,294	758,184
	361,294	758,184

#### b) Risk exposure

The consolidated entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

### 8 Current assets – Trade and other receivables

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
<b>Net trade receivables</b>		
Trade receivables	321,324	336,379
GST paid on purchases	(5,694)	-
	315,630	336,379
<b>Net associated company receivables</b>		
Receivable from FME Exploration Services Pty Ltd *	75,000	150,000
	75,000	150,000
<b>Prepayments</b>		
Prepaid insurance	19,897	-
	19,897	-
	410,527	486,379

\* The entity advanced this amount to assist in the funding of working capital. The entity provides support to the associated company to ensure it can pay its debts as and when they fall due and payable.

#### a) Past due but not impaired

As at 30 June 2010, there are no material trade and other receivables that are considered to be past due and impaired.

#### b) Related party receivables

These receivables from associated companies are repayable at call, and interest at market rates can be charged at the discretion of the Directors of ERO Mining Limited. The consolidated entity will not seek repayment where such repayments would prejudice the associated companies' ability to meet any obligations as and when they fall due.

## 9 Current assets – Inventories

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Finished goods		
- at net realisable value	41,086	-
	<u>41,086</u>	<u>-</u>

## 10 Non current assets – Investments accounted for using the equity method

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Shares in associates (note 13)	1	1
	<u>1</u>	<u>1</u>

### a) Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. The equity method of accounting recognises the consolidated entity's share of post acquisition reserves of its associates.

## 11 Contingencies

### Contingent liabilities

The consolidated entity had no known contingent liabilities as at 30 June 2010 (2009: nil).

## 12 Commitments

### Commitments for exploration and joint venture expenditure

In order to maintain current rights of tenure to exploration tenements the group will be required to outlay in the year ending 30 June 2011 amounts of approximately \$1,825,000 (2010: \$2,189,000) in respect of tenement lease rentals and to meet minimum expenditure requirements pursuant to various joint venture requirements.

## 13 Investments in associate

Interest is held in the following associated company:

FME Exploration Services Pty Ltd

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Current assets	512,545	386,586
Non current assets	341,159	428,969
Net assets	<u>853,704</u>	<u>815,555</u>
Current liabilities	853,701	815,552
	<u>853,701</u>	<u>815,552</u>
Net assets	3	3
Shares of associate's profit after tax	-	-
a) Contingent liabilities of associates		
Share of contingent liabilities incurred jointly with other investors	85,028	83,334
	<u>85,028</u>	<u>83,334</u>

## Notes to the financial statements continued

### 14 Non current assets – Property, plant and equipment

	Plant and equipment	Furniture, fittings and equipment	Machinery and vehicles	Computer equipment	Computer software	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 30 June 2009</b>						
Opening net book amount	138,191	2,353	253,651	2,791	942	397,927
Acquisition through business combination	363,575	-	102,135	-	-	465,710
Additions	15,899	-	-	565	958	17,422
Depreciation charge	(20,994)	(323)	(37,464)	(1,042)	(937)	(60,758)
Closing net book amount	496,671	2,030	318,322	2,315	963	820,301
<b>At 30 June 2009</b>						
Cost or fair value	540,998	2,580	401,845	4,664	3,158	953,245
Accumulated depreciation	(44,327)	(550)	(83,523)	(2,349)	(2,195)	(132,944)
Net book amount	496,671	2,030	318,322	2,315	963	820,301

	Plant and equipment	Furniture, fittings and equipment	Machinery and vehicles	Computer equipment	Computer software	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 30 June 2010</b>						
Opening net book amount	496,671	2,030	318,322	2,315	963	820,301
Additions	48,307	927	170,700	-	-	219,934
Disposals	(61,175)	-	(59,591)	-	-	(120,766)
Loss on disposal	(29,191)	-	-	-	-	(29,191)
Depreciation charge	(34,457)	(446)	(31,268)	(1,166)	(445)	(67,782)
Closing net book amount	420,155	2,511	398,163	1,149	518	822,496
<b>At 30 June 2010</b>						
Cost or fair value	499,619	3,527	512,954	4,664	3,158	1,023,922
Accumulated depreciation	(79,464)	(1,016)	(114,791)	(3,515)	(2,640)	(201,426)
Net book amount	420,155	2,511	398,163	1,149	518	822,496

### 15 Non current assets – Exploration and evaluation, development and mine properties

#### a) Exploration and evaluation

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Exploration and evaluation		
Opening balance	12,119,158	16,859,442
Additions through normal acquisition	758,747	2,037,659
Additions through normal business combinations	-	811,950
Impairment	(2,569,994)	(7,589,893)
	10,307,911	12,119,158
Exploration and evaluation – 100% owned	2,953,698	811,950
Exploration and evaluation phases – joint ventures	7,354,213	11,307,208
	10,307,911	12,119,158

**b) Mine properties**

	<b>Consolidated 30 June 2010</b>	<b>Consolidated 30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Opening balance	1,346,026	-
Additions through normal acquisition	1,104,530	-
Additions through business combination	-	1,346,026
	<u>2,450,556</u>	<u>1,346,026</u>
Less: accumulated amortisation	(124,125)	-
	<u>2,326,431</u>	<u>1,346,026</u>

**16 Non current assets – Other non current assets**

	<b>Consolidated 30 June 2010</b>	<b>Consolidated 30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Security bonds	<u>17,750</u>	<u>17,750</u>

**17 Current liabilities – Trade and other payables**

	<b>Consolidated 30 June 2010</b>	<b>Consolidated 30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Unsecured:		
Trade payables	112,829	85,571
Accrued expenses	119,872	48,693
Credit cards	17,709	15,518
GST collected on sales	16,938	-
	<u>267,348</u>	<u>149,782</u>

**18 Current liabilities – Provisions**

	<b>Consolidated 30 June 2010</b>	<b>Consolidated 30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Annual leave	28,165	34,197
	<u>28,165</u>	<u>34,197</u>

**19 Non current liabilities – Provisions**

	<b>Consolidated 30 June 2010</b>	<b>Consolidated 30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Long service leave	28,073	-
	<u>28,073</u>	<u>-</u>

## Notes to the financial statements continued

### 20 Contributed equity

#### a) Share capital

	Parent entity 30 June 2010	Parent entity 30 June 2009	Parent entity 30 June 2010	Parent entity 30 June 2009
	Shares	Shares	\$	\$
Ordinary shares				
Fully paid	160,175,576	125,705,680	25,588,199	23,551,107

#### b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2008	Opening balance	125,442,346		23,543,734
	Shares issued during the year	263,334		7,373
	Less: Transaction costs arising on share issue	-		-
<b>30 June 2009</b>	<b>Balance</b>	<b>125,705,680</b>		<b>23,551,107</b>
1 July 2009	Opening balance	125,705,680		23,551,107
24 September 2009	Share purchase plan	34,469,896		
	Proceeds received		\$0.06	2,068,200
				25,619,307
	Less: Transaction costs arising on share issue			(44,441)
	Deferred tax credit recognised directly in equity			13,333
<b>30 June 2010</b>	<b>Balance</b>	<b>160,175,576</b>		<b>25,588,199</b>

#### c) Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### d) Options

Information relating to the ERO Mining Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 29.

#### e) Capital risk management

The consolidated entity has no debt capital. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the consolidated entity has no debt.

## 21 Reserves and retained earnings

### a) Reserves

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Options	882,007	882,007
	<u>882,007</u>	<u>882,007</u>

### b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Balance 1 July	(9,069,294)	(664,389)
Net profit/ (loss) for the year	(3,437,002)	(8,404,905)
Balance 30 June	<u>(12,506,296)</u>	<u>(9,069,294)</u>

### c) Nature and purpose of reserves

#### i) Options

The share option reserve records items recognised as expenses on valuation of employee options and options issued to external parties in consideration for goods and services rendered.

## 22 Key management personnel disclosures

### a) Directors

#### i) Chairman – non-executive

R M Kennedy

#### ii) Executive directors

K J Lines, Managing Director

#### iii) Non-executive directors

E J Vickery

A S Bannister, Alternate for E J Vickery

Ian Roy Witton (Alternate for R M Kennedy since 26 August 2010, Alternate Director for K J Lines since 10 September 2010) (Alternate for K J A Wills, ceased 30 September 2009)

K J A Wills (ceased 30 September 2009)

### b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, during the financial year:

D W Godfrey Chief Financial Officer/Company Secretary FME Exploration Services Pty Ltd

### c) Key management personnel compensation

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Short term employee benefits	510,764	635,073
Post employment benefits	43,719	50,745
Share based payments	-	1,535
	<u>554,483</u>	<u>687,353</u>

Details of the remuneration of each director of ERO Mining Limited and the specified executives of the consolidated entity, are included in sections A to D of the Remuneration Report.

## Notes to the financial statements continued

### d) Equity instrument disclosures relating to key management personnel

#### i) Option holdings

The numbers of options over ordinary shares in the consolidated entity held during the financial year by each director of ERO Mining Limited and other key management personnel of the consolidated entity, including their personally related parties, are set out below.

Name	Balance at start of the year	Issued as remuneration	Exercised (expired/purchased)	Acquired during the year	Balance at end of the year	Vested and exercisable	Unvested
<b>2010</b>							
R M Kennedy	3,500,000	-	-	-	3,500,000	3,500,000	-
E J Vickery	3,500,000	-	(3,272,875)	-	227,125	227,125	-
K J Lines	4,375,000	-	-	-	4,375,000	4,375,000	-
A S Bannister	-	-	-	-	-	-	-
I R Witton	-	-	-	-	-	-	-
K J A Wills	3,500,555	-	-	-	3,500,555	3,500,555	-
D W Godfrey	-	-	-	-	-	-	-
<b>2009</b>							
R M Kennedy	3,500,000	-	-	-	3,500,000	3,500,000	-
K J Lines	4,375,000	-	-	-	4,375,000	4,375,000	-
E J Vickery	227,125	-	3,272,875	-	3,500,000	3,500,000	-
K J A Wills	3,500,555	-	-	-	3,500,555	3,500,555	-
A S Bannister	-	-	-	-	-	-	-
I R Witton	-	-	-	-	-	-	-
D W Godfrey	-	53,334	(53,334)	-	-	-	-
R W C Wilson	382,000	-	-	-	-	-	-

#### ii) Share holdings

The numbers of shares in the consolidated entity held during the financial year by each director of ERO Mining Limited and other key management personnel of the consolidated entity, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Name	Balance at start of the year	Granted as remuneration	Exercise of options	Acquired/(disposed)	Balance at end of the year
<b>2010</b>					
R M Kennedy	3,706,000	-	-	250,000	3,956,000
E J Vickery	3,974,726	-	-	(3,368,399)	606,327
K J Lines	4,475,001	-	-	(20,000)	4,455,001
A S Bannister	-	-	-	-	-
I R Witton	-	-	-	-	-
K J A Wills	3,500,000	-	-	83,333	3,583,333
D W Godfrey	53,334	-	-	33,333	86,667
<b>2009</b>					
R M Kennedy	3,706,000	-	-	-	3,706,000
K J Lines	4,475,001	-	-	-	4,475,001
E J Vickery	356,327	-	-	3,618,399	3,974,726
K J A Wills	3,500,000	-	-	-	3,500,000
A S Bannister	-	-	-	-	-
I R Witton	-	-	-	-	-
D W Godfrey	-	-	53,334	-	53,334
R W C Wilson	200,000	-	-	-	200,000

## 23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices:

### a) Grant Thornton

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Audit and review of financial reports	28,250	21,000
<b>Total auditors' remuneration</b>	<b>28,250</b>	<b>21,000</b>

## 24 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Maximus Resources Limited holds 27.85% (2009: 35.3%) of the Issued Capital of ERO Mining Limited. Additionally, two of the Directors of Maximus Resources Limited are also Directors of ERO Mining Limited (a Board currently consisting of three Directors). As a result, Maximus Resources Limited is the ultimate controlling party of ERO Mining Limited.

Transactions with other related parties

The following transactions occurred with related parties:

- Administrative services were provided by FME Exploration Services Pty Ltd to ERO Mining Limited for \$199,800 (2009: \$235,694).
- FME Exploration Services Pty Ltd repaid \$75,000 (2009: \$100,000 repaid) of the working capital loan from ERO Mining Limited.
- The total amount receivable from FME Exploration Services Pty Ltd at year end is \$75,000 (2009: \$150,000).

## 25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	Equity holding
			2010	2009
			%	%
<b>Parent Entity</b>				
ERO Mining Limited	Australia	Ordinary		
<b>Subsidiaries of ERO Mining Limited</b>				
ERO Metals Pty Ltd	Australia	Ordinary	100	100
ERO Georgetown Gold Operations Pty Ltd	Australia	Ordinary	100	100
Eromanga Uranium Resources Pty Ltd	Australia	Ordinary	100	100

## 26 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company or economic entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

## Notes to the financial statements continued

### 27 Reconciliation of profit after income tax to net cash inflow from operating activities

#### a) Reconciliation of net cash inflow (outflow) from operating activities to profit (loss)

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
(Loss)/profit for the year	(3,437,002)	(8,404,905)
<b>Non-cash flows in profit</b>		
Depreciation and amortisation	191,907	60,758
Income tax on share issue costs	13,332	-
Issue of options to employees	-	34,675
Loss on disposal of assets	29,190	887
Impairment of exploration and evaluation assets	2,662,801	8,016,555
<b>Changes in operating assets and liabilities</b>		
Decrease/(increase) in inventories	(41,086)	-
(Increase)/decrease in trade and other receivables	18,400	(117,116)
(Decrease)/increase in trade creditors	119,915	(361,143)
(Increase)/decrease in other assets	(19,897)	-
(Decrease)/increase in other provisions	22,042	10,004
Net cash inflow (outflow) from operating activities	(440,398)	(760,285)

### 28 Earnings per share

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
<b>a) Basic earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the company	(3,437,002)	(8,404,905)
Weighted average number of ordinary shares outstanding during the year used to calculate basic EPS	152,148,340	125,442,346
<b>b) Diluted earnings per share</b>		
Weighted average number of options outstanding during the year used to calculate diluted EPS	(3,437,002)	(8,404,905)
Weighted average number of options outstanding during the year used to calculate diluted EPS	-	-
Weighted average number of ordinary shares outstanding during the year used to calculate diluted EPS	152,148,340	125,442,346

#### i) Options

Options granted to employees under ERO Mining Limited Employee Option Plan are considered to be potential ordinary shares. These have a dilutive effect on the weighted average number of ordinary shares. As ERO Mining Limited has reported a loss of (\$3,437,002) this financial year, the options have not been included in the determination of diluted earnings per share. Details relating to the options are set out in note 29.

## 29 Share-based payments

### a) Employee Option Plan

The following share-based payment arrangements existed at 30 June 2010.

On 20 June 2006, 1,250,000 options were issued to the Company Secretary and the Company's Corporate Advisors. The options are exercisable at 30 cents on or before 30 June 2011. The options hold no voting or dividend rights.

On 26 October 2006, 8,035,714 options were issued as part consideration for the purchase of Eromanga Uranium Resources Pty Ltd. The options are exercisable at 30 cents on or before 30 June 2011. The options hold no voting or dividend rights.

The ERO Limited Employee Share Option Plan enables the Board at its discretion, to issue options to employees of the Company or its associated companies. Each option will have a life of five years and be exercisable at a price determined by the Board. This price will not be below the market price of a share at the time of issue. Options granted under the plan carry no dividend or voting rights.

On 10 April 2007 283,000 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 22 cents on or before 20 March 2012. The options hold no voting or dividend rights.

On 16 November 2007 225,000 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 22 cents on or before 10 November 2012. The options hold no voting or dividend rights.

On 5 March 2008 635,500 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 16.5 cents on or before 5 March 2013. The options hold no voting or dividend rights.

On 4 February 2009 1,205,000 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 2.8 cents on or before 3 February 2014. The options hold no voting or dividend rights.

Set out below are summaries of options granted under the plan:

	Number of options	Weighted average exercise price \$
<b>2010</b>		
Outstanding at beginning of the year	28,870,880	0.2870
Granted	-	-
Exercised	-	-
Expired	(137,500)	0.1870
Outstanding at the end of the year	28,733,380	0.287
<b>2009</b>		
Outstanding at beginning of the year	27,929,214	0.2920
Granted	1,205,000	0.0280
Exercised	(263,334)	0.0280
Expired	-	-
Total	28,870,880	0.287

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.287 (2009: \$0.287) and a weighted average remaining contractual life of 14 months (2009: 26 months).

## Notes to the financial statements continued

### 30 Parent entity financial information

	Parent entity 30 June 2010	Parent entity 30 June 2009
	\$	\$
<b>Consolidated statement of financial position</b>		
Current assets	11,667,407	10,667,414
Non current assets	2,827,750	4,884,398
Total assets	<u>14,495,157</u>	<u>15,551,812</u>
Current liabilities	282,589	187,991
Non current liabilities	28,073	-
Total liabilities	<u>310,662</u>	<u>187,991</u>
<b>Shareholders' equity</b>		
Contributed equity	25,588,199	23,551,107
Options	882,007	882,007
Retained earnings	(12,285,711)	(9,069,294)
Capital and reserves attributable to owners of ERO Mining Limited	<u>14,184,495</u>	<u>15,363,820</u>
<b>Profit or loss for the year</b>	<u>(3,216,416)</u>	<u>(8,404,905)</u>
<b>Total comprehensive income</b>	<u>(3,216,416)</u>	<u>(8,404,905)</u>

**a) Guarantees entered into by the parent entity**

The parent entity did not have any guarantees as at 30 June 2010 or 30 June 2009.

**b) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

**c) Contractual commitments for the acquisition of property, plant or equipment**

The parent entity did not have any commitments for the acquisition of property, plant and equipment as at 30 June 2010 or 30 June 2009.

### 31 Business combination

#### a) Summary of acquisition

On 10 June 2009 ERO Metals Pty Ltd, a wholly owned subsidiary of the Company, acquired 100% of the issued capital of Douglas Resources Pty Ltd. Consideration for the acquisition was \$2,650,001 and included mining leases and the associated development assets, stationary and mobile plant and equipment, workshop and accommodation. Subsequent to year end, the name of Douglas Resources Pty Ltd was changed to ERO Georgetown Gold Operations Pty Ltd.

Purchase consideration (refer Note (b) below).

Cash paid	2,650,001
Fair value of net identifiable assets acquired (refer Note (c) below)	2,650,001

#### b) Purchase consideration

	Consolidated 30 June 2010	Consolidated 30 June 2009
	\$	\$
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	-	2,650,001
Less: cash acquired	-	4,672
Outflow of cash	-	2,645,329

#### c) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	\$
Cash and cash equivalents	4,672
Receivables	3,893
Property, plant and equipment	465,710
Development assets	1,346,026
Mining leases	811,950
EPM deposit	17,750
Net identifiable assets acquired	2,650,001

### 32 Interests in joint ventures

The consolidated entity has the following interests in unincorporated joint ventures:

State	Agreement Name	Parties	Summary
SA & NT	Eromanga Basin Joint Venture	ERO Mining Ltd (ERO) and Maximus Resources Ltd (MXR)	ERO can earn a 70% interest in MXR's Eromanga Basin project tenements in SA and the NT by spending \$7 million on the tenements within 6 years.
SA	Billa Kalina Joint Venture	ERO Mining Ltd (ERO) and Maximus Resources Ltd (MXR)	ERO can earn a 50% interest in the non diamond mineral rights of MXR's Billa Kalina project tenements by spending \$3 million on the tenements within 6 years.
SA	Nackara Arc Project	ERO Mining Ltd and Ian R, Mark A, and William J Filsell	ERO has met the requirement of spending a minimum \$200 000 by 18 September 2009 and may now earn a 51% interest in all mineral rights except diamonds in EL3692 by exploration expenditure of \$750 000 and an 80% interest by exploration expenditure of \$2 million. If the Filsell Party's interest dilutes to 10% it will revert to a 2% net profit royalty from any future production.

### 33 Going concern

The financial report has been prepared on the basis of going concern.

The cash flow projections of the consolidated entity evidence that the consolidated entity will require positive cash flows from gold mining operations and/or additional capital for continued operations.

The consolidated entity's ability to continue as a going concern is contingent on obtaining additional capital or generating sufficient cash flows from gold mining operations. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

## Directors' declaration

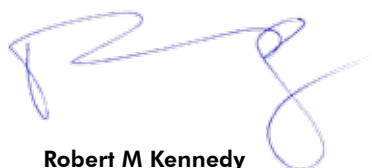
30 June 2010

In the directors' opinion:

- a) the financial statements and notes set out on pages 27 to 55 are in accordance with the *Corporations Act 2001*, including:
  - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- c) The financial statements also comply with International Financial Reporting Standards as disclosed in note 1.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



**Robert M Kennedy**

DIRECTOR

Adelaide

30 September 2010

# Independent auditor's report to the members

30 June 2010



Level 1,  
67 Greenhill Rd  
Wayville SA 5034  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E [info.sa@au.gt.com](mailto:info.sa@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERO MINING LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of Ero Mining Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity 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 controls relevant to the preparation and fair presentation of the financial report that are 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. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures 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 which require us to 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.

Grant Thornton South Australian Partnership ABN 27 244 906 724  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERO MINING LIMITED Cont**

### **Auditor's responsibility Cont**

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 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 Ero Mining Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its 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; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

### **Material uncertainty regarding continuation as a going concern**

Without qualifying our opinion, we draw attention to Note 32 in the financial report. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF ERO MINING LIMITED Cont**

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the Remuneration Report of Ero Mining Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



P S Paterson  
Partner

Adelaide, 30 September 2010

## ASX additional information

30 June 2010

The shareholder information set out below was applicable as at 1 October 2010.

### A DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Holding	Shares	Options
1–1000	70	-
1,001–5,000	244	1
5,001–10,000	653	-
10,001– 100,000	995	15
100,001 and over	205	15
	2,167	31

There were 1,368 holders of less than a marketable parcel of ordinary shares. At a share price of 2.2 cents, an unmarketable parcel is 22,728 shares.

### B EQUITY SECURITY HOLDERS

#### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	Ordinary shares
	Number held	Percentage of issued shares
Maximus Resources Limited	44,607,143	27.85
Senil Pty Ltd	4,375,001	2.73
Chaffey Consulting Pty Ltd	3,736,000	2.33
Triple Eight Gold Pty Ltd	3,606,000	2.25
Dr Kevin Wills	3,583,333	2.24
J P Morgan Nominees Australia Limited	2,264,734	1.41
Mr Alan Brien & Mrs Melinda Brien	1,854,540	1.16
Mr Gary Maddocks & Mrs Paula Maddocks	1,625,000	1.01
Mrs Ingrid Burnheim	1,345,667	0.84
Mr Michael Dilettoso & Mr Vincent Dilettoso	1,000,000	0.62
Mr Colin Hough	1,000,000	0.62
Mr Ian Turner	983,316	0.61
Dr John McMahon	810,007	0.51
Mr Lyndon Florance	774,575	0.48
Mr Eric Evans & Mrs Anne Evans	750,000	0.47
Mr Henry Szalacki	681,000	0.43
Mrs Yan Zhang	632,000	0.39
Mr Robert Cameron	600,000	0.37
Mr Stephen Hogan	600,000	0.37
Mrs Kirtida Soni	561,995	0.35
	75,390,311	47.04

### Unquoted equity securities

#### Unlisted options over ordinary shares

Options	Options Number on issue	Options Number of holders
Options @ \$0.30, expiring 30 June 2011	26,785,714	9
Options @ \$0.22, expiring 20 March 2012	228,000	7
Options @ \$0.22, expiring 19 November 2012	225,000	5
Options @ \$0.165, expiring 5 March 2013	553,000	11
Options @ \$0.028, expiring 3 February 2014	941,666	16

Maximus Resources Limited holds 8,035,714 options @ \$0.30, expiring 30 June 2011.

### C SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares	Number held	Percentage of issued shares
Maximus Resources Limited	44,607,143	27.85%

### D VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

#### a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### b) Options

No voting rights.



