



**ERO Mining Limited**

ABN 40 119 031 864

**Financial report  
for the year ended 30 June 2011**

# ERO Mining Limited ABN 40 119 031 864

## Financial report - 30 June 2011

### Contents

	Page
Directors' report	1
Auditor's Independence Declaration	11
Corporate governance statement	12
Financial statements	
Consolidated statement of comprehensive income	18
Consolidated statement of financial position	19
Consolidated statement of changes in equity	20
Consolidated statement of cash flows	21
Notes to the consolidated financial statements	22
Directors' declaration	56
Independent auditor's report to the members	57

These financial statements are the consolidated financial statements of 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, is listed on the Australian Securities Exchange (ASX) under the code "ERO" and is incorporated and domiciled in Australia. The registered office and principal place of business is:

ERO Mining Limited  
Level 3, 100 Pirie Street  
Adelaide  
SA 5000

Registered postal address is:

ERO Mining Limited  
PO Box 3126  
Adelaide  
SA 5067

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1 to 10, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 30 September 2011. 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 Group) consisting of ERO Mining Limited (referred to hereafter as the Parent Entity or the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2011.

### Directors

The following persons were directors of the Parent Entity during the whole of the financial year and up to the date of this report, unless otherwise stated:

Robert Michael Kennedy (Non-executive chairman)

Shane Robin Gale (Executive director from 24 January 2011 to 31 August 2011)

Hector Mackenzie Gordon (Non-executive director, since 24 January 2011)

Michael Ivor Hatcher (Non-executive director since 28 June 2011, Alternate director for N F Alley from 23 March 2011 to 28 June 2011)

Ian Roy Witton (Alternate director for R M Kennedy since 26 August 2010 and alternate director for K J Lines from 10 September 2010 to 24 January 2011)

Neville Foster Alley (Executive director from 24 January 2011 to 28 June 2011)

Kevin James Lines (Managing Director, resigned 24 January 2011)

Ewan John Vickery (Non-executive director, resigned 24 January 2011)

Adam Simon Bannister (Alternate director for E J Vickery, ceased 24 January 2011)

### Principal activities

The principal activities of the Group during the financial year were natural resources exploration and development.

### Dividends - ERO Mining Limited

There were no dividends declared or paid during the year (2010: Nil).

### Operating results and financial position

The net result of operations for the financial year was a loss of \$11,760,015 (2010: \$3,437,002).

The net assets of the Group have decreased by \$6,558,400 during the financial year from \$13,963,910 at 30 June 2010 to \$7,405,510 at 30 June 2011.

### Review of operations

The 2010/11 financial year saw the Group initiate a strategy to explore for lithium within continental brines and sediments beneath Lake Frome and Lake Torrens in South Australia and to focus on gold and uranium in the Tanami Northern Territory and Billa Kalina in South Australia. As part of the strategy the Group acquired 100% of the issued capital of South East Energy Limited, an unlisted South Australian based lithium and uranium explorer. Subsequent to the acquisition the Group commenced a rationalisation of tenements and non-core assets including the wholly-owned Georgetown Alluvial Gold Operations in central-northern Queensland.

A significant development during the year for the Billa Kalina Project was the Federal Government approval of mineral exploration and mining in certain zones of the Woomera Prohibited Area (WPA) in South Australia. The final report of the Government's enquiry into mining and military activities in the WPA confirmed both can coexist in the area. An application for the grant of a temporary Deed of Access (Exploration) from the WPA Coordination Office of the Department of Defence was negotiated. Access approval when gained shall enable a gravity survey to be conducted over the Peeweena Dam Gravity Anomaly (10 MGal). A single point gravity anomaly, Peeweena Dam was originally surveyed in 1969.

The Group further strengthened its tenement holding position in the Tanami gold province. The Central Lands Council consented to the grant of Suplejack (ELA26625) with a Deed for Exploration executed. ERO was also the successful applicant for the Groundrush Extension (ELA28493) competing application.

At Lake Frome detailed planning was completed for a drilling program on EL4601. Negotiations were successfully concluded with the Adnyamathanha Traditional Lands Association with the signing of a Work Area Clearance Agreement. By the end of the reporting period a single sonic drillhole was drilled to a depth of 150.3 metre through 149 metres of Cainozoic sediments and terminated in Cretaceous mudstone. Only the top 3.2 metres were mostly salt lake gypsiferous clayey sand sediments and this was underlain by a thin alluvial stream deposit of 0.6 metre and 35 metres of undifferentiated ferruginous clay. The salt lake gypsiferous mixed clay sand sediments were not water bearing and the thin interbedded sand units within the Namba Formation were not brine bearing aquifers. Test results revealed lithium levels up to 69 ppm at 27 metres and uranium levels to a high of 6 ppm at 133 metres. The lithium results were less than those reported by COMALCO from the same area in the 1970's where 10 metre intervals were reported to contain up to 250ppm Li. The Group believes differences in a comparison with historical results are due to the improvement in analytical techniques.

**(continued)**

As part of the rationalisation of tenements the Group engaged GEOS Mining Mineral Consultants to undertake an assessment of the heavy mineral sands (HMS) potential across the Padthaway area tenements. GEOS' background assessment, together with the Group's own review significantly contributed to the Group understanding of the geology of the area and enabled the Group to further evaluate potential joint ventures for mineral sands exploration. Following year end the Group announced that it had entered into an agreement to farm-out an interest in tenements held by South East Energy Limited to Iluka Resources Limited to explore for HMS.

The Georgetown Alluvial Gold mining operations were closed due to the La Nina climate phase with rehabilitation and site access works undertaken to areas affected by flooding associated with cyclone Yasi. The Group continued to evaluate options for the Georgetown mine operations, conducted site visits and assisted due diligence reviews by a number of interested parties.

During the year the Group reviewed the results of the Nackara Arc drilling program in the Peterborough region of South Australia and determined that no further ground based exploration activities would be undertaken. Prior to year end the Nackara Arc Project Joint Venture agreement was terminated.

**Significant changes in the state of affairs**

During the year the Board decided on a strategy to focus on exploration for lithium, uranium and gold. In January 2011 the Group successfully completed the acquisition of South East Energy Limited and appointed a new highly qualified Board and management team with considerable resource industry experience and a track record of developing and bringing projects to the capital markets. The post transaction Board comprised; Mr Robert Kennedy – Non-Executive Chairman, Mr Shane Gale – CEO, Dr Neville Alley – Executive Director and Mr Hector Gordon – Non-Executive Director.

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

Subsequent to the balance date, Mr Shane Robin Gale resigned as Managing Director of the Company with effect from 31 August 2011, having been Managing Director since 24 January 2011. Mr Kevin James Lines was appointed Acting Chief Executive Officer of the Company with effect from 31 August 2011.

Also subsequent to the balance date, the Company reached in principle agreement with Maximus Resources Limited regarding an amendment to the Company's Billa Kalina Joint Venture covering EL 4468 and ELAs 351/10, 350/10, 78/10 and 33/10. For further information refer to note 30.

Subsequent to the balance date, the Company also raised \$319,089 by the issue of 11,818,146 shares at \$0.027 each, pursuant to a non-renounceable rights issue.

Apart from the above, 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

**Future developments, prospects and business strategy**

The Group's strategy is to explore for lithium, gold and uranium within South Australia and the Northern Territory.

The Group has upgraded the current status of the Billa Kalina Project as the Group anticipates the grant of a temporary Deed of Access (Exploration) from the WPA Coordination Office of the Department of Defence. Whilst the Peeweena Dam gravity anomaly had been identified by previous explorers access restrictions imposed prohibited further exploration of the anomaly. An initial gravity survey will be completed to confirm the single point gravity anomaly prior to the commitment to a drilling program.

The Tanami Region in the Northern Territory is considered one of the prospective provinces in Australia capable of hosting multi-million ounce gold deposits. The team within the Group 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 the Suplejack and Talbots tenement areas exploration shall commence with field exploration activities on previously untested areas. Field work shall comprise surface mapping, rock chip sampling and elemental assaying. The area shall be checked to establish ease of access for ground support to a potential airborne EM survey. An EM survey would be modelled to identify zones of graphic shale juxtaposed against major structural breaks which may represent sites for the development of unconformity related uranium mineralisation. EM surveying will assist in the definition of drill targets for gold mineralisation within the fold hinges of the underlying Dead Bullock Formation sediments.

The Wertaloona Project area is contained by the nearby Flinders and Olary Ranges and covers the south central part of the Lake Frome depositional basin. Ongoing exploration activities will be reviewed as an outcome of the lake margin drilling where no brines were encountered, low Li levels were obtained and historical anomalous Li results could not be repeated.

The Group intends to finalise and accomplish the sale of the Georgetown Gold Operations.

### **Environmental regulation**

The Group'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 Group on any of its tenements. The Group 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.  
*Independent Non-executive Chairman.*

#### **Experience and expertise**

Mr Kennedy is a chartered accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. He joined ERO in March 2006 as a non-executive director and has been the Chairman of ERO since that date. 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 ERO. He has participated in the Diggers & Dealers Mining Industry conferences for the last 3 years. He also conducts the review of the Board including the Managing Director in his executive role.

Apart from his attendance at Board and Committee meetings Mr Kennedy leads the Board's external engagement of the company meeting with industry participants Government and the Media. He is a regular attendee of Audit Committee functions of the major accounting firms. During the year he attended the Masterclass of the Australian Institute of Directors with members of top ASX200 company boards. He has been appointed the Chairman of the University of Adelaide's Institute of Minerals and Energy Resources, is a mentor in the AICD's diversity program and is a regular presenter on topics relating to directors with the AICD and the CSA. In the area of Community Engagement he regularly attends functions held by institutions.

He was recently awarded Entrepreneur of the Year in the Ernst & Young Central Region awards in the listed category.

In assessing Mr Kennedy's independence, the Board (excluding Mr Kennedy), took into account his stamina, his ability to think independently across a wide range of issues and his relentless availability. Whilst Mr Kennedy has been appointed to a number of Resource Industry Boards, due to his extensive knowledge of the industry, the time required across these companies in no way impedes on his dedication to his role as Chairman of ERO. In taking all of these issues into account, the Board (excluding Mr Kennedy), were unanimous in declaring Mr Kennedy as independent.

#### **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 1995) and Somerton Energy Limited (since 2010).

#### **Special responsibilities**

Chairman of the Board.

Member of the Audit Committee.

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

26,256,005 ordinary shares in ERO Mining Limited.

35,564,002 options over ordinary shares in ERO Mining Limited.

**Shane Robin Gale** MAICD. *Executive Director and Chief Executive Officer.*

#### **Experience and expertise**

A director from 24 January 2011 until his resignation on 31 August 2011. Mr Gale is experienced in the formation, development and team leadership of start-up ventures that have achieved organisational growth. Most recently, he was Logistics Manager with Cheetham Salt Limited and has been involved with exploration and mining in the Northern Territory.

Mr Gale brings to the Company a confidence and persistence displayed with his involvement in the formation, development and team leadership of start-up ventures.

Subsequent to financial year end, Mr Gale resigned as Director and CEO effective 31 August 2011.

#### **Special responsibilities**

Chief Executive Officer.

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

18,666,081 ordinary shares in ERO Mining Limited.

31,066,521 options over ordinary shares in ERO Mining Limited.

**Information on directors (continued)**

**Hector Mackenzie Gordon BSc (Hons), FAICD. *Non-executive Director.***

***Experience and expertise***

A director since 24 January 2011, Mr Gordon is a geologist with more than 30 years of experience in the resources industry. He is a fellow of the Australian Institute of Company Directors and a member of the American Association of Petroleum Geologists and the Society of Petroleum Engineers.

***Other current directorships***

Mr Gordon is the Managing Director of ASX listed company Somerton Energy Limited.

***Special responsibilities***

Chairman of the Audit Committee.

***Interests in shares and options***

20,883,333 ordinary shares in ERO Mining Limited.  
30,720,834 options over ordinary shares in ERO Mining Limited.

**Michael Ivor Hatcher BSc (Hons), MAusIMM. *Non-executive Director.***

***Experience and expertise***

A director since 28 June 2011, Mr Hatcher was previously Dr N F Alley's alternate on the Board from 23 March 2011 to 28 June 2011. Mr Hatcher has a geology degree from the University of Adelaide and over 40 years' experience in the resources industry during which time he has held a range of senior technical and managerial positions.

Mr Hatcher's career included 16 years with the Newmont/Normandy/North Flinders Mines corporate group. During this period he held positions including Director Geology-Ghana, and was chief operations geologist for Normandy/Newmont's many Australian mines, including Golden Grove, Tanami, Jundee and Pajingo, as well as its New Zealand (Waihi), Turkey (Ovacik) and USA (Midas) operations.

Mr Hatcher's exploration roles include Exploration Manager for Greenbushes Mines and its subsidiary Lithium Australia; Exploration Manager and Director of Driffield Mining, a consortium of private exploration companies active in the Northern Territory. Mr Hatcher has extensive experience in near mine exploration programmes conducted at the many operations with which he has been involved.

Mr Hatcher is a member of the Australian Institute of Mining and Metallurgy

***Other current directorships***

Mr Hatcher is a non-executive director of ASX-listed Outback Metals Limited and Adelaide Resources Limited.

***Interests in shares and options***

2,000,000 options over ordinary shares in ERO Mining Limited.

**Ian Roy Witton Snr Assoc Dip Accy (SAIT), FCPA, FAICD. *Alternate director for R M Kennedy.***

***Experience and expertise***

An alternate director for Mr R M Kennedy since 26 August 2010, Mr Witton was previously an alternate director for Mr K J Lines from 10 September 2010 to 24 January 2011.

Mr Witton has been a company director on various Boards for over 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. His principal experience is in funds and investment management, strategic development, risk management and corporate governance.

***Other current directorships***

Mr Witton is also a director of a pharmacy and optical company, a public charitable trust fund and he is an alternate director for ASX-listed company Monax Mining Limited.

**Information on directors (continued)**

**Neville Foster Alley** PhD, PSM. *Non-executive Director*

**Experience and expertise**

A director from 24 January 2011 until his resignation on 28 June 2011, Dr Alley is an internationally known earth science researcher and has wide experience in geological research in Australia and overseas. Dr. Alley's contribution to the Board included his technical and commercial knowledge of the resources industry. He holds a Doctorate in Philosophy degree.

In 2004 he was awarded the Verco Medal for his contribution and leadership in the earth sciences and the Public Service Medal (PSM) in 2005 for his contribution to geology and the minerals industry.

**Other current directorships**

Dr Alley is also a non-executive director of ASX listed companies Monax Mining Limited (since 2004) and Beach Energy Ltd (since 2007), executive director of ASX listed company Marmota Energy Limited (since 2007) and Visiting Research Fellow, School of Earth and Environmental Sciences, the University of Adelaide (since 2004).

**Former directorships in last 3 years**

Dr Alley was a non-executive director of ASX listed company InterMet Resources Limited from 2005 until retiring from the Board in August 2009.

**Interests in shares and options**

20,208,338 ordinary shares in ERO Mining Limited.  
31,452,086 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 until his resignation on 24 January 2011. Mr Lines has over 28 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 non-executive director of Ramelius Resources Limited (since 2008).

**Interests in shares and options**

4,805,001 ordinary shares in ERO Mining Limited.  
4,375,001 options over ordinary shares in ERO Mining Limited.

**Ewan John Vickery** LLB. *Non-executive Director.*

**Experience and expertise**

A director from 22 May 2006 until his resignation on 24 January 2011. 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 ASX listed companies Flinders Mines Limited (since 2001) and Maximus Resources Limited (since 2004).

**Interests in shares and options**

606,327 ordinary shares in ERO Mining Limited.  
227,125 options over ordinary shares in ERO Mining Limited.

**Information on directors (continued)**

**Adam Simon Bannister LL.B.** *Alternate director for E J Vickery (non-executive).*

**Experience and expertise**

Alternate director from 22 May 2006 to 24 January 2011. Mr Bannister is a lawyer who has specialised 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 organisations 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.

**Company Secretary**

**Peter John Kupniewski LL.B/LLP.**

**Experience and expertise**

Mr Kupniewski was appointed Company Secretary on 30 June 2011. He is a partner with DMAW Lawyers. He is experienced in advising listed companies in relation to compliance with the Corporations Act and ASX Listing Rules, the acquisition and disposal of assets and the resolution of disputes. He has also acted in IPOs, placements, rights issues, capital reductions and reconstructions, share plans, option issues and all aspects of corporate law.

**David Wayne Godfrey BCom, GradDipAcc, ASA, FFin, CFTP (Snr), MAICD.**

**Experience and expertise**

Mr Godfrey was the Company Secretary and Chief Financial Officer from 11 November 2008 until his resignation on 30 June 2011. 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.

**Interests in shares and options**

86,667 ordinary shares in ERO Mining Limited.

21,667 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 2011, and the numbers of meetings attended by each director were:

	Full meetings of directors		Audit committee meetings	
	A	B	A	B
Robert Michael Kennedy	18	18	2	2
Shane Robin Gale	9	9	-	-
Hector Mackenzie Gordon	8	9	1	1
Michael Ivor Hatcher	1	1	-	-
Ian Roy Witton	1	1	-	-
Neville Foster Alley	9	9	-	-
Kevin James Lines	4	4	-	-
Ewan John Vickery	10	10	1	1
Adam Simon Bannister	-	-	-	-

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 Group is required to indemnify the directors and other officers of the Company and its Australian-based controlled entities against any liabilities incurred by the directors and officers that may arise from their position as directors and officers of the Group. No costs were incurred during the year pursuant to this indemnity.

The companies within the Group have entered into deeds of indemnity with each director whereby, to the extent permitted by the *Corporations Act 2001*, the Group agreed to indemnify each director against all loss and liability incurred as an officer of the relevant company, including all liability in defending any relevant proceedings.

**Insurance premiums**

Since the end of the previous year the Group has paid insurance premiums of \$17,074 to insure the directors and officers in respect of directors' and officers' liability and legal expenses insurance contracts.

**Proceedings on behalf of the Group**

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

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

**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 or payable to the external auditors of the Parent Entity, its related practices or non-related audit firms during the year ended 30 June 2011.

### 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 Group's policy for determining the nature and amounts of emoluments of board members and senior executive officers of the Group 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 Gale, 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 S R Gale - Executive Director and Chief Executive Officer (from 24 January 2011 to 31 August 2011)
- Mr H M Gordon - Director, non-executive (since 24 January 2011)
- Mr M I Hatcher - Director, non-executive (since 28 June 2011) (Alternate director for N F Alley from 23 March 2011 to 28 June 2011)
- Mr I R Witton - Alternate director for R M Kennedy (since 26 August 2010), alternate director for K J Lines (from 10 September 2010 to 24 January 2011).
- Mr N F Alley - Director, Executive (from 24 January 2011 to 28 June 2011)
- Mr K J Lines - Former Managing Director (resigned 24 January 2011)

Remuneration report - audited (continued)

**B Details of remuneration (continued)**  
 (continued)

- Mr E J Vickery - Director, non-executive (resigned 24 January 2011)
- Mr A S Bannister - Alternate director for E J Vickery (ceased 24 January 2011)
- Mr D W Godfrey - Chief Financial Officer & Company Secretary (resigned 30 June 2011)

**Key management personnel of the Group and other executives of the Company and the Group**

2011

Name	Short-term employee benefits	Post-employment benefits	Share-based payments	Total
	Salary \$	Super-annuation \$	Options \$	
<i>Non-executive directors</i>				
Robert Michael Kennedy*	-	-	-	-
Shane Robin Gale	87,650	7,888	-	95,538
Hector Mackenzie Gordon*	-	-	-	-
Michael Ivor Hatcher*	-	-	-	-
Ian Roy Witton	-	-	-	-
Neville Foster Alley*	-	-	-	-
Kevin James Lines	-	-	-	-
Ewan John Vickery*	-	-	-	-
Adam Simon Bannister	-	-	-	-
David Wayne Godfrey**	206,880	18,619	-	225,499
<b>Total key management personnel compensation (Group)</b>	<b>294,530</b>	<b>26,507</b>	<b>-</b>	<b>321,037</b>

\* The non-executive directors have voluntarily agreed to forgo entitlement to directors' fees for the year ended 30 June 2011.

\*\* 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 25. 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 Group and other executives of the Company and the Group**

2010

Name	Short-term employee benefits		Post-employment benefits	Share-based payments	Total
	Directors' fees \$	Salary \$	Super-annuation \$	Options \$	
Robert Michael Kennedy	55,107	-	4,960	-	60,067
Ian Roy Witton	-	-	-	-	-
Kevin James Lines	-	231,269	20,814	-	252,083
Ewan John Vickery*	33,333	-	750	-	34,083
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 (Group)</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 25. This agreement was formalised 3 August 2006.

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

Remuneration report - audited (continued)

**C Service agreements**

During the financial year, Mr Kevin Lines resigned as Managing Director and was replaced by Mr Shane Gale. The Board negotiated a contract with Mr Gale with no fixed term at a salary of \$180,000 per annum inclusive of superannuation guarantee contributions to be reviewed annually and with termination on one month's notice. Messrs Kennedy, Gordon and Hatcher and Dr Alley were 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.

*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 21 of the financial statements.

**Shares under option**

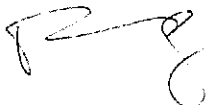
Unissued ordinary shares of ERO Mining Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price	Number under option
10 April 2007	20 March 2012	\$0.220	228,000
16 November 2007	19 November 2012	\$0.220	50,000
5 March 2008	5 March 2013	\$0.165	313,000
4 February 2009	3 February 2014	\$0.028	441,666
8 December 2010	31 October 2011	\$0.050	196,250,000
9 May 2011	28 September 2012	\$0.060	86,824,029
			<u>284,106,695</u>

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

This report is signed and dated in Adelaide on this 30th day of September 2011 and made in accordance with a resolution of the directors.



Robert M Kennedy  
 Director

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  
W 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 2011, 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.

*Grant Thornton*

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants



P S Paterson  
Partner

Adelaide, 30 September 2011

## Corporate governance statement

The Board of Directors is 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 Group's corporate governance practices that were in place during the financial year and how those practices relate to the revised ASX Recommendations. The Group elected to undergo an early transition to the revised Principles and Recommendations and as such has reported against these for the financial years ended 30 June 2008 through to 30 June 2011.

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 Group. The Board is, nevertheless, committed to ensuring that appropriate corporate governance practices are in place for the proper direction and management of the Group. This statement outlines the main corporate governance practices of the Group 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 2011.

### 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 four directors, three of whom including the chairman, are independent directors.

The Audit Committee currently consists of two independent directors.

**Recommendation 2.2 - Recommendation followed**

The Chairman is an independent director.

**Recommendation 2.3 - Recommendation followed**

The role of Chairman of the Board is separate from that of the CEO, 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 future, 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.

The non-executive directors 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 deal 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

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.html](http://www.eromining.com/governance.html).

**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 directors, Messrs Gordon and Kennedy, and is chaired by Mr Gordon.

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**

**Recommendation 5.1 & 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.html](http://www.eromining.com/governance.html).

**Principle 6 – Respect the rights of shareholders**

**Recommendation 6.1 & 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 ASX and Australian Securities and Investments Commission (ASIC) 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 website; 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 website, [www.eromining.com/governance.html](http://www.eromining.com/governance.html).

**Principle 7: Recognise and manage risk**

**Recommendation 7.1, 7.2 & 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 website, [www.eromining.com/governance.html](http://www.eromining.com/governance.html).

**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 2001* 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.

**Recommendation 8.2 - Recommendation not followed**

The Board does not have a separate remuneration committee given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company.

**Recommendation 8.3 - Recommendation followed**

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.html](http://www.eromining.com/governance.html).

**ERO Mining Limited**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2011**

		<b>Consolidated</b>	
		<b>30 June</b>	<b>30 June</b>
	<b>Notes</b>	<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from continuing operations</b>	4	<b>222,705</b>	222,832
Raw materials and consumables used		<b>(721,285)</b>	(337,259)
Other expenses		<b>(9,568)</b>	(39,827)
Marketing expenses	5	<b>(48,037)</b>	(62,206)
Administrative expenses	5	<b>(655,771)</b>	(806,447)
Finance costs		<b>(1,069)</b>	(1,098)
Exploration expenditure written off	5	<b>(8,253,155)</b>	(2,662,801)
Impairment of assets	5	<b>(2,283,947)</b>	-
<b>(Loss) before income tax</b>		<b>(11,750,127)</b>	(3,686,806)
Income tax (expense)/benefit	6	<b>(9,888)</b>	249,804
<b>(Loss) for the year</b>		<b>(11,760,015)</b>	(3,437,002)
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Other comprehensive income for the year (net of tax)</b>		-	-
<b>Total comprehensive income for the year</b>		<b>(11,760,015)</b>	(3,437,002)
(Loss) is attributable to:			
Owners of ERO Mining Limited		<b>(11,760,015)</b>	(3,437,002)
		<b>(11,760,015)</b>	(3,437,002)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Parent Entity:</b>			
Basic earnings per share	32	<b>(4.94)</b>	(2.26)
Diluted earnings per share	32	<b>(4.94)</b>	(2.26)

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

ERO Mining Limited  
Consolidated statement of financial position  
As at 30 June 2011

		Consolidated	
		30 June 2011	30 June 2010
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	119,135	361,294
Trade and other receivables	8	35,761	390,630
Inventories	9	-	41,086
Other current assets	11	<u>19,360</u>	<u>19,897</u>
		<u>174,256</u>	<u>812,907</u>
Non-current assets classified as held for sale	10	<u>350,000</u>	-
Total current assets		<u>524,256</u>	<u>812,907</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method	12	-	1
Plant and equipment	13	177,170	822,496
Exploration and evaluation	14(a)	6,941,105	10,307,911
Mine properties	14(b)	-	2,326,431
Other non-current assets	15	<u>17,750</u>	<u>17,750</u>
Total non-current assets		<u>7,136,025</u>	<u>13,474,589</u>
<b>Total assets</b>		<u>7,660,281</u>	<u>14,287,496</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	211,346	267,348
Provisions	17	<u>43,425</u>	<u>28,165</u>
Total current liabilities		<u>254,771</u>	<u>295,513</u>
<b>Non-current liabilities</b>			
Provisions	18	-	28,073
Total non-current liabilities		<u>-</u>	<u>28,073</u>
<b>Total liabilities</b>		<u>254,771</u>	<u>323,586</u>
<b>Net assets</b>		<u>7,405,510</u>	<u>13,963,910</u>
<b>EQUITY</b>			
Contributed equity	19	30,688,343	25,588,199
Reserves	20(a)	983,478	882,007
Retained losses	20(b)	<u>(24,266,311)</u>	<u>(12,506,296)</u>
Total equity		<u>7,405,510</u>	<u>13,963,910</u>

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

ERO Mining Limited  
Consolidated statement of changes in equity  
For the year ended 30 June 2011

Consolidated	Notes	Contributed equity \$	Reserves \$	Retained losses \$	Total equity \$
<b>Balance at 1 July 2009</b>		<u>23,551,107</u>	<u>882,007</u>	<u>(9,069,294)</u>	<u>15,363,820</u>
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the year		-	-	<u>(3,437,002)</u>	<u>(3,437,002)</u>
		-	-	<u>(3,437,002)</u>	<u>(3,437,002)</u>
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity (net of tax)	19	2,068,200	-	-	2,068,200
Transaction costs (net of tax)	19	<u>(31,108)</u>	-	-	<u>(31,108)</u>
		<u>2,037,092</u>	-	-	<u>2,037,092</u>
<b>Balance at 30 June 2010</b>		<u>25,588,199</u>	<u>882,007</u>	<u>(12,506,296)</u>	<u>13,963,910</u>
<b>Consolidated</b>	Notes	Contributed equity \$	Reserves \$	Retained losses \$	Total equity \$
<b>Balance at 1 July 2010</b>		<u>25,588,199</u>	<u>882,007</u>	<u>(12,506,296)</u>	<u>13,963,910</u>
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the year		-	-	<u>(11,760,015)</u>	<u>(11,760,015)</u>
		-	-	<u>(11,760,015)</u>	<u>(11,760,015)</u>
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity (net of tax)	19	5,123,215	-	-	5,123,215
Transaction costs (net of tax)	19	<u>(23,071)</u>	-	-	<u>(23,071)</u>
Options issued during the year	20	-	<u>101,471</u>	-	<u>101,471</u>
		<u>5,100,144</u>	<u>101,471</u>	-	<u>5,201,615</u>
<b>Balance at 30 June 2011</b>		<u>30,688,343</u>	<u>983,478</u>	<u>(24,266,311)</u>	<u>7,405,510</u>

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

**ERO Mining Limited**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2011**

		<b>Consolidated</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2011</b>	<b>2010</b>
Notes		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
	Receipts from customers (inclusive of goods and services tax)	227,752	192,457
	Payments to suppliers and employees (inclusive of goods and services tax)	(1,360,116)	(992,991)
	Interest received	15,659	30,686
	Income taxes received	<u>263,136</u>	<u>329,450</u>
31	<b>Net cash (outflow) inflow from operating activities</b>	<u>(853,569)</u>	<u>(440,398)</u>
<b>Cash flows from investing activities</b>			
	Proceeds from acquisition of subsidiary, net of cash acquired	73,891	-
26(b)	Payments for plant and equipment	-	(194,032)
	Payments for development assets	-	(1,104,530)
	Payments for exploration assets	(819,613)	(851,554)
	Proceeds from sale of plant and equipment	-	94,864
25	Repayment of loans by related parties	<u>75,000</u>	<u>75,000</u>
	<b>Net cash (outflow) inflow from investing activities</b>	<u>(670,722)</u>	<u>(1,980,252)</u>
<b>Cash flows from financing activities</b>			
	Proceeds from issues of shares and other equity securities	1,315,090	2,068,200
	Share issue transaction costs	(32,958)	(44,440)
	<b>Net cash inflow (outflow) from financing activities</b>	<u>1,282,132</u>	<u>2,023,760</u>
	<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(242,159)</b>	<b>(396,890)</b>
	Cash and cash equivalents at the beginning of the financial year	<u>361,294</u>	<u>758,184</u>
7	<b>Cash and cash equivalents at the end of the financial year</b>	<u>119,135</u>	<u>361,294</u>

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

## 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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### (i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

#### (ii) New and revised accounting standards

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of new and revised Accounting Standards effective for the financial statements for the annual period beginning 1 July 2010 did not have a material impact on the Group's financial statements.

#### (iii) 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 and certain classes of property, plant and equipment.

#### (iv) 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 Group.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ERO Mining Limited ("Company" or "Parent entity") as at 30 June 2011 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 Group.

Subsidiaries are all entities (including special purpose entities) over which the Group 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 Group controls another entity.

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group 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 Group.

#### (ii) Joint ventures

##### Jointly controlled assets

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 venture are set out in note 29.

## 1 Summary of significant accounting policies (continued)

### Joint venture entities

The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in the profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details relating to the partnership are set out in note 29.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

### (c) 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.

### (d) Revenue recognition

Revenue is recognised for the major business activities as follows:

#### (i) Sale of goods

Revenue from sale of goods includes sales 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 income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

## 1 Summary of significant accounting policies (continued)

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.

### (f) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any minority interests in the acquiree either at fair value or at the minority interests's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any minority interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (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 consolidated 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 12 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 consolidated statement of financial position.

### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

## 1 Summary of significant accounting policies (continued)

### (j) 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.

### (k) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the consolidated statement of financial position.

### (l) Investments in associates

Associates are all entities over which the Group 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 Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 28).

### (m) Joint ventures

#### *(i) Jointly controlled assets*

The Group's share of the assets, liabilities, revenue and expenses of joint venture operations are recognised in the appropriate items of the financial statements. Details of the joint ventures are set out in note 29.

#### *(ii) Joint venture entities*

The Group's interests in joint ventures are accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of a joint venture is recognised in the consolidated statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the consolidated statement of financial position. Details relating to the joint venture entities are set out in note 29.

### (n) 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 Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group 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.

#### **Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

## 1 Summary of significant accounting policies (continued)

Loans and receivables and held to maturity investments are subsequently 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 Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

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 Group 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 Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is evidence of impairment for any of the Group'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.

### **(o) Plant and equipment**

Each class of plant and equipment is carried at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

#### *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 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 recognised 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 statement of comprehensive income during the financial period in which they are incurred.

## 1 Summary of significant accounting policies (continued)

### *Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. The depreciation rates used for plant and equipment range 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 (note 1(g)).

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

### **(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **(q) Employee benefits**

#### *(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for annual leave. All other short-term employee benefit obligations are presented as payables.

#### *(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 reporting period in which the employees render the related service is recognised in non-current liabilities - provisions 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 33.

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.

### **(r) Earnings per share (EPS)**

#### *(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.

#### *(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 after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

## 1 Summary of significant accounting policies (continued)

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

### (s) 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 consolidated 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 end of each reporting period 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.

### (t) Development properties

Development expenditure incurred by or on behalf of the Group 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).

### (u) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the Group 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).

## 1 Summary of significant accounting policies (continued)

### (v) 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.

### (w) Comparative figures

Comparative figures are adjusted to conform to Accounting Standards when required.

### (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.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of ERO Mining Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of ERO Mining Limited

### (y) Key estimates

The preparation of the financial statements requires management to make estimates and judgements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Impairment*

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 Group's policy for exploration and evaluation is discussed in Note 1(s). 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.

#### *Share-based payments*

The Group measures share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instrument was granted, as discussed in note 33.

### (z) New accounting standards and interpretations

The Australian Accounting Standards Board (AASB) has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group is set out below.

## 1 Summary of significant accounting policies (continued)

The Group 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] and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (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;
- 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;
- revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from AASB 139: *Financial Instruments: Recognition and Measurement*; and
- changes in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss (applicable where an entity chooses to measure a liability at fair value through profit or loss).

**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 Group.

**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 Group.

**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 Group.

**AASB 2010-6: Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods commencing on or after 1 July 2011)**

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

## 1 Summary of significant accounting policies (continued)

### **AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applicable for annual reporting periods commencing on or after 1 January 2012)**

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

#### **(aa) Impact of the Carbon Tax Legislation**

On 10 July 2011, the Commonwealth Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan". Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both Houses of Parliament. In addition, as the Group will not fall within the "Top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have a significant impact upon the operation costs within the business, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

#### **(ab) Parent Entity financial information**

The financial information for the Parent Entity, ERO Mining Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

##### *(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of ERO Mining Limited. Dividends received from associates are recognised in the Parent Entity's profit or loss, rather than being deducted from the carrying amount of these investments.

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group'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 Group.

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 Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, 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 Group holds the following financial instruments:

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>Financial assets</b>		
Cash and cash equivalents	119,135	361,294
Trade and other receivables	35,761	390,630
Investments accounted for using the equity method	-	1
	<u>154,896</u>	<u>751,925</u>
<b>Financial liabilities</b>		
Trade and other payable	<u>211,346</u>	<u>267,348</u>
	<u>211,346</u>	<u>267,348</u>

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk is the risk that financial loss will be suffered due to adverse movements in exchange rates. The Group is not exposed to foreign exchange risk.

#### (ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from foreign exchange or interest rate risk). The Group 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 Group with the use of rolling short-term deposits.

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

As at the end of the reporting period, the Group had the following variable rate cash and cash equivalent holdings:

Consolidated	30 June 2011		30 June 2010	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Cash and cash equivalents	3.75 %	<u>119,135</u>	3.75 %	<u>361,294</u>
Net exposure to cash flow interest rate risk		<u>119,135</u>		<u>361,294</u>

#### Interest rate sensitivity analysis

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

## 2 Financial risk management (continued)

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

Consolidated 30 June 2011	Carrying amount \$	Interest rate risk			
		Increase 2% Profit \$	Equity \$	Decrease 2% Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	119,135	<u>2,383</u>	<u>2,383</u>	<u>(2,383)</u>	<u>(2,383)</u>
Total increase/ (decrease)		<u>2,383</u>	<u>2,383</u>	<u>(2,383)</u>	<u>(2,383)</u>

Consolidated 30 June 2010	Carrying amount \$	Interest rate risk			
		Increase 2% Profit \$	Equity \$	Decrease 2% Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	361,294	<u>7,226</u>	<u>7,226</u>	<u>(7,226)</u>	<u>(7,226)</u>
Total increase/ (decrease)		<u>7,226</u>	<u>7,226</u>	<u>(7,226)</u>	<u>(7,226)</u>

### (b) Credit risk

Credit risk is the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

### (c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in settling its debts or otherwise meeting its obligations. The Group manages liquidity risk by monitoring cash flows and ensuring that adequate funds are available to meet cash demands.

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The Group did not have any financial assets or liabilities measured at fair value at 30 June 2011 (2010: Nil).

### 3 Segment information

#### (a) Description of segments

##### Identification of reportable segments

Management has determined the operating segments based on the reports reviewed and used by the Board of Directors (the chief operating decision maker) that are used to make strategic decisions. The Group is managed primarily on the basis of geographical area of interest, since the diversification of Group operations inherently has 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

##### Operations

The Georgetown Development segment will mine for alluvial gold. Further listed segmented assets for the Group 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 the Group.

### 3 Segment information (continued)

#### (b) Business segments

2011	South East Energy \$	Georgetown Gold \$	Abminga Gold \$	Billa Kalina Uranium \$	Other \$	Total \$
Segment revenue	-	207,047	-	-	-	207,047
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)	-	(3,477,397)	(5,395,665)	(57,622)	(1,463,628)	(10,394,312)
Cost of goods sold	-	(721,535)	-	-	250	(721,285)
Impairment	-	(3,214,171)	(5,395,665)	(57,622)	(1,463,878)	(10,131,336)
Segment assets	<u>4,053,948</u>	<u>378,376</u>	<u>-</u>	<u>2,382,740</u>	<u>476,041</u>	<u>7,291,105</u>
Segment asset movements for the year:						
Capital expenditure	-	255,597	4,352	327,918	244,534	832,401
Additions through acquisition of subsidiary	4,053,948	-	-	-	-	4,053,948
Transfer of plant & equipment assets to non-current assets classified as held for sale	-	150,000	-	-	-	150,000
Change in inventory	-	(41,086)	-	-	-	(41,086)
Capital expenditure impaired	-	(1,590,962)	(5,380,870)	(289,937)	(991,386)	(8,253,155)
Amortisation	-	(248,250)	-	-	-	(248,250)
Impairment of development property	-	(1,878,181)	-	-	-	(1,878,181)
Total movement for the year	<u>4,053,948</u>	<u>(3,352,882)</u>	<u>(5,376,518)</u>	<u>37,981</u>	<u>(746,852)</u>	<u>(5,384,323)</u>
Segment assets						7,291,105
Unallocated assets						369,176
Total assets						<u>7,660,281</u>
Total segment liabilities	-	-	-	-	-	-
Unallocated liabilities						254,771
Total liabilities						<u>254,771</u>
2010		Georgetown Gold \$	Abminga Gold \$	Billa Kalina Uranium \$	Other \$	Total \$
Segment revenue		192,457	-	-	-	192,457
Adjusted EBITDA		(20,677)	-	-	(2,662,801)	(2,683,478)
Cost of goods sold		(337,259)	-	-	-	(337,259)
Impairment		-	-	-	(2,569,994)	(2,569,994)
Segment assets		<u>3,731,258</u>	<u>5,376,518</u>	<u>2,344,759</u>	<u>1,222,893</u>	<u>12,675,428</u>
Segment asset movements for the year:						
Capital expenditure		1,510,892	45,550	12,326	294,509	1,863,277
Capital expenditure impaired		-	-	-	(2,569,994)	(2,569,994)
Total movement for the year		<u>1,510,892</u>	<u>45,550</u>	<u>12,326</u>	<u>(2,275,485)</u>	<u>(706,717)</u>
Segment assets						12,675,428
Unallocated assets						1,612,068
Total assets						<u>14,287,496</u>
Total segment liabilities						-
Unallocated liabilities						323,586
Total liabilities						<u>323,586</u>

### 3 Segment information (continued)

(i) *Segment revenue*

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

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
<b>Total segment revenue</b>	<b>207,047</b>	<b>192,457</b>
Interest revenue	<u>15,658</u>	<u>30,375</u>
<b>Total revenue from continuing operations (note 4)</b>	<b><u>222,705</u></b>	<b><u>222,832</u></b>

(ii) *Adjusted EBITDA*

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

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
<b>Allocated:</b>		
Adjusted EBITDA	(10,394,312)	(2,683,478)
<b>Unallocated:</b>		
Interest revenue	15,658	30,375
Other expenses	(12,579)	(39,827)
Marketing expenses	(48,037)	(62,206)
Administrative expenses	(655,771)	(806,447)
Finance costs	(1,069)	(1,098)
Amortisation	(248,250)	(124,125)
Impairment of other assets	(405,767)	-
<b>Profit before income tax</b>	<b><u>(11,750,127)</u></b>	<b><u>(3,686,806)</u></b>

(iii) *Segment assets*

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

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
<b>Allocated:</b>		
Segment assets	7,291,105	12,675,428
<b>Unallocated:</b>		
Cash and cash equivalents	119,135	361,294
Trade and other receivables	35,761	390,630
Other current assets	19,360	19,897
Investments accounted for using the equity method	-	1
Property, plant and equipment	177,170	822,496
Other non-current assets	17,750	17,750
<b>Total assets as per the consolidated statement of financial position</b>	<b><u>7,660,281</u></b>	<b><u>14,287,496</u></b>

(iv) *Segment liabilities*

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

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
<b>Allocated:</b>		
Segment liabilities	-	-
<b>Unallocated:</b>		
Trade and other payables	211,346	267,348
Provisions	43,425	56,238
<b>Total liabilities as per the consolidated statement of financial position</b>	<b><u>254,771</u></b>	<b><u>323,586</u></b>

#### 4 Revenue

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Gold sales	<u>207,047</u>	<u>192,457</u>
	<u>207,047</u>	<u>192,457</u>
<i>Other revenue</i>		
Interest received	<u>15,658</u>	<u>30,375</u>
	<u>15,658</u>	<u>30,375</u>
	<u>222,705</u>	<u>222,832</u>

#### 5 Expenses

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>Marketing</b>		
Marketing and promotion	<u>48,037</u>	<u>62,206</u>
	<u>48,037</u>	<u>62,206</u>
<b>Administration</b>		
Compliance	315,933	140,049
Consulting fees	115,818	-
Depreciation	67,202	77,776
Legal fees	(9,307)	11,310
Administration costs	49,800	173,239
Employment costs	116,325	402,946
Other	-	1,127
	<u>655,771</u>	<u>806,447</u>
<b>Exploration expenditure</b>		
General exploration expenditure written off	103,329	92,807
Capitalised exploration expenditure written off	<u>8,149,826</u>	<u>2,569,994</u>
	<u>8,253,155</u>	<u>2,662,801</u>
<b>Impairment of assets</b>		
Machinery and vehicles (note 13)	260,835	-
Plant and equipment (note 13)	144,931	-
Mine property (note 14(b))	<u>1,878,181</u>	-
	<u>2,283,947</u>	-

## 6 Income tax expense

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>(a) Income tax expense:</b>		
Deferred tax	9,888	13,332
Research and development tax offset	-	(263,136)
	<u>9,888</u>	<u>(249,804)</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	<u>(11,750,127)</u>	<u>(3,686,806)</u>
Tax at the Australian tax rate of 30% (2010: 30%)	<u>(3,525,038)</u>	<u>(1,106,042)</u>
<i>Tax effect of amounts which are not deductible (assessable) in calculating taxable income:</i>		
Temporary differences not brought to account	3,598,447	1,119,374
Non-assessable items	(63,521)	-
Research and development tax offset	-	(263,136)
Income tax expense	<u>9,888</u>	<u>(249,804)</u>

A deferred tax asset (DTA) has not been recognised in respect of temporary differences as they do not meet the recognition criteria as outlined in Note 1(e) of the financial statements. A DTA has not been recognised in respect of tax losses either as realisation of the benefit is not regarded as probable.

The Group has unrecognised DTAs of \$3,100,799 (2010: \$3,495,318) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The tax rates applicable to each potential tax benefit are as follows:

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

## 7 Current assets - Cash and cash equivalents

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Cash at bank and in hand	<u>119,135</u>	<u>361,294</u>
	<u>119,135</u>	<u>361,294</u>

### (a) Risk exposure

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

### (b) Cash at bank

Cash at bank is bearing a weighted average interest rate of 3.75% (2010: 3.75%).

## 8 Current assets - Trade and other receivables

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>Net trade receivables</b>		
Trade receivables	45,864	321,324
GST paid on purchases	<u>(10,103)</u>	<u>(5,694)</u>
	<u>35,761</u>	<u>315,630</u>
<b>Net receivables from related parties</b>		
Receivable from FME Exploration Services Pty Ltd *	-	75,000
	<u>-</u>	<u>75,000</u>
	<u>35,761</u>	<u>390,630</u>

\* The Company advanced this amount to assist in the funding of working capital. The Company provides support to FME Exploration Services Pty Ltd to ensure it can pay its debts as and when they fall due and payable. This arrangement was terminated on 30 June 2011 by mutual agreement.

### (a) Past due but not impaired

As at 30 June 2011 there were no material trade and other receivables that were considered to be past due and impaired (2010: Nil).

### (b) Related party receivables

This receivable from FME Exploration Services Pty Ltd is repayable at call and interest at market rates can be charged at the discretion of the directors of the Company. The Group will not seek repayment where such repayments would prejudice the related party's ability to meet any obligations as and when they fall due.

## 9 Current assets - Inventories

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Finished goods		
- at net realisable value	-	41,086
	<u>-</u>	<u>41,086</u>

## 10 Non-current assets classified as held for sale

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Plant and equipment	150,000	-
Mine properties	<u>200,000</u>	<u>-</u>
	<u>350,000</u>	<u>-</u>

### 10 Non-current assets classified as held for sale (continued)

During the financial year, the directors of the Company decided to sell the Georgetown gold mining operations. There are several interested parties and the sale is expected to be completed before the end of December 2011. The assets associated with the Georgetown gold mining operations are presented within total assets of the Georgetown Gold segment in note 3.

### 11 Current assets - Other current assets

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Pre-paid insurance	19,360	19,897
	<u>19,360</u>	<u>19,897</u>

### 12 Non-current assets - Investments accounted for using the equity method

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Shares in associates (note 28)	-	1
	<u>-</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 Group's share of post acquisition reserves of its associates.

### 13 Non-current assets - Plant and equipment

Consolidated	Plant and equipment \$	Furniture, fittings and equipment \$	Machinery and vehicles \$	Computer equipment \$	Computer software \$	Total \$
<b>At 1 July 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	<u>496,671</u>	<u>2,030</u>	<u>318,322</u>	<u>2,315</u>	<u>963</u>	<u>820,301</u>
<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	<u>420,155</u>	<u>2,511</u>	<u>398,163</u>	<u>1,149</u>	<u>518</u>	<u>822,496</u>
<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	<u>420,155</u>	<u>2,511</u>	<u>398,163</u>	<u>1,149</u>	<u>518</u>	<u>822,496</u>

### 13 Non-current assets - Plant and equipment (continued)

Consolidated	Plant and equipment \$	Furniture, fittings and equipment \$	Machinery and vehicles \$	Computer equipment \$	Computer software \$	Total \$
<b>Year ended 30 June 2011</b>						
Opening net book amount	420,155	2,511	398,163	1,149	518	822,496
Additions	-	-	-	-	-	-
Disposals	(9,567)	-	-	-	-	(9,567)
Transfers to non-current assets classified as held-for- sale	(150,000)	-	-	-	-	(150,000)
Depreciation charge	(61,156)	(512)	(17,063)	(879)	(383)	(79,993)
Impairment charge	(144,931)	-	(260,835)	-	-	(405,766)
Closing net book amount	<u>54,501</u>	<u>1,999</u>	<u>120,265</u>	<u>270</u>	<u>135</u>	<u>177,170</u>
<b>At 30 June 2011</b>						
Cost or fair value	102,324	3,527	252,119	4,664	3,158	365,792
Accumulated depreciation	<u>(47,823)</u>	<u>(1,528)</u>	<u>(131,854)</u>	<u>(4,394)</u>	<u>(3,023)</u>	<u>(188,622)</u>
Net book amount	<u>54,501</u>	<u>1,999</u>	<u>120,265</u>	<u>270</u>	<u>135</u>	<u>177,170</u>

### 14 Non-current assets - Exploration and evaluation, development and mine properties

#### (a) Exploration and evaluation

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<i>Exploration and evaluation</i>		
<b>Movement:</b>		
Opening balance	10,307,911	12,119,158
Expenditure incurred	832,401	758,747
Additions through acquisition of subsidiary (refer note 26(c))	4,053,948	-
Less: expenditure impaired	<u>(8,253,155)</u>	<u>(2,569,994)</u>
Closing balance	<u>6,941,105</u>	<u>10,307,911</u>
<b>Closing balance comprises:</b>		
Exploration and evaluation - 100% owned	4,340,563	2,953,698
Exploration and evaluation phases - joint ventures	<u>2,600,542</u>	<u>7,354,213</u>
	<u>6,941,105</u>	<u>10,307,911</u>

**14 Non-current assets - Exploration and evaluation, development and mine properties  
(continued)**

**(b) Mine properties**

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<i>Mine properties</i>		
<b>Movement:</b>		
Opening balance	2,326,431	1,346,026
Expenditure incurred	-	1,104,530
Less: amortisation	(248,250)	(124,125)
Impairment charge	(1,878,181)	-
Transfers to non-current assets classified as held-for-sale	(200,000)	-
Closing balance	<u>-</u>	<u>2,326,431</u>

**15 Non-current assets - Other non-current assets**

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Security deposits	<u>17,750</u>	<u>17,750</u>
	<u>17,750</u>	<u>17,750</u>

**16 Current liabilities - Trade and other payables**

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Trade payables	158,982	112,829
Accrued expenses	45,058	119,872
Credit cards	5,904	17,709
GST collected on sales	1,402	16,938
	<u>211,346</u>	<u>267,348</u>

**17 Current liabilities - Provisions**

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Annual leave	<u>43,425</u>	<u>28,165</u>
	<u>43,425</u>	<u>28,165</u>

**18 Non-current liabilities - Provisions**

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Long service leave	-	28,073
	-	28,073

**19 Contributed equity**

	30 June 2011 Shares	30 June 2010 Shares	30 June 2011 \$	30 June 2010 \$
<b>(a) Share capital</b>				
Ordinary shares				
Fully paid	<b>348,298,731</b>	<b>160,175,576</b>	<b>30,688,343</b>	<b>25,588,199</b>

**(b) Movements in ordinary share capital:**

Date	Details	Number of shares	Issue price	\$
1 July 2009	Opening balance	125,705,680		23,551,107
	Share purchase plan			
	Proceeds received	34,469,896	\$0.060	2,068,200
	Less: Transaction costs arising on share issue			(44,441)
	Deferred tax credit recognised directly in equity			13,333
30 June 2010	Balance	160,175,576		25,588,199
8 December 2010	Share placement			
	Proceeds received	11,250,000	\$0.040	450,000
24 January 2011	Shares issued relating to acquisition of South East Energy Ltd			
	Proceeds received	152,325,015	\$0.025	3,808,125
11 February 2011	Exercise of options			
	Proceeds received	6,250,000	\$0.050	312,500
15 April 2011	Share purchase plan			
	Proceeds received	18,176,632	\$0.030	545,299
6 June 2011	Exercise of options			
	Proceeds received	6,000	\$0.060	360
14 June 2011	Exercise of options			
	Proceeds received	77,316	\$0.060	4,639
29 June 2011	Exercise of options			
	Proceeds received	38,192	\$0.060	2,292
				30,711,414
	Less: Transaction costs arising on share issue			(32,958)
	Deferred tax credit recognised directly in equity			9,887
30 June 2011	Balance	<b>348,298,731</b>		<b>30,688,343</b>

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

## 19 Contributed equity (continued)

At shareholders' meetings, on a show of hands every holder of ordinary shares present in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### (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 33.

### (e) Capital risk management

The Group 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 Group has no debt.

## 20 Reserves and retained losses

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
<b>(a) Reserves</b>		
Share-based payments	<u>983,478</u>	<u>882,007</u>
<b>Movements:</b>		
<i>Share-based payments</i>		
Balance 1 July	882,007	882,007
Options issued during the year	<u>101,471</u>	<u>-</u>
Balance 30 June	<u>983,478</u>	<u>882,007</u>

### (b) Retained losses

Movements in retained losses were as follows:

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Balance 1 July	(12,506,296)	(9,069,294)
Net loss for the year	<u>(11,760,015)</u>	<u>(3,437,002)</u>
Balance 30 June	<u>(24,266,311)</u>	<u>(12,506,296)</u>

### (c) Nature and purpose of reserves

#### (i) Share-based payments

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

## 21 Key management personnel disclosures

### (a) Directors

The following persons were directors of ERO Mining Limited during the financial year:

*(i) Chairman - non-executive*

R M Kennedy

*(ii) Executive directors*

S R Gale, Director and Chief Executive Officer (from 24 January 2011 to 31 August 2011)

N F Alley (from 24 January 2011 to 28 June 2011)

K J Lines, former Managing Director (resigned 24 January 2011)

*(iii) Non-executive directors*

H M Gordon (since 24 January 2011)

M I Hatcher (since 28 June 2011) (Alternate director for N F Alley from 23 March 2011 to 28 June 2011)

I R Witton (Alternate director for R M Kennedy since 26 August 2010) (Alternate director for K J Lines from 10 September 2010 to 24 January 2011)

E J Vickery (resigned 24 January 2011)

A S Bannister (Alternate director for E J Vickery, resigned 24 January 2011)

### (b) Other key management personnel

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

<i>Name</i>	<i>Position</i>	<i>Employer</i>
D W Godfrey	Chief Financial Officer/Company Secretary	FME Exploration Services Pty Ltd

### (c) Key management personnel compensation

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Short-term employee benefits	294,530	510,764
Post-employment benefits	<u>26,507</u>	<u>43,719</u>
	<u><b>321,037</b></u>	<u><b>554,483</b></u>

Detailed remuneration disclosures are provided in sections A to D of the remuneration report on pages 8 to 10.

## 21 Key management personnel disclosures (continued)

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

#### (i) Option holdings

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

#### 2011

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
R M Kennedy	3,500,000	-	(1,000,000)	33,564,002	36,064,002	36,064,002	-
S R Gale	-	-	(100,000)	31,666,521	31,566,521	31,566,521	-
H M Gordon	-	-	(1,000,000)	32,220,834	31,220,834	31,220,834	-
M I Hatcher	-	-	-	-	-	-	-
I R Witton	-	-	-	36,667	36,667	36,667	-
N F Alley	-	-	(100,000)	32,052,086	31,952,086	31,952,086	-
K J Lines	4,375,001	-	-	-	4,375,001	4,375,001	-
E J Vickery	227,125	-	-	-	227,125	227,125	-
A S Bannister	-	-	-	-	-	-	-
D W Godfrey	-	-	-	21,667	21,667	21,667	-

#### 2010

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
R M Kennedy	3,500,000	-	-	-	3,500,000	3,500,000	-
I R Witton	-	-	-	-	-	-	-
K J Lines	4,375,001	-	-	-	4,375,001	4,375,001	-
E J Vickery	3,500,000	-	(3,272,875)	-	227,125	227,125	-
A S Bannister	-	-	-	-	-	-	-
K J A Wills	3,500,555	-	-	-	3,500,555	3,500,555	-
D W Godfrey	-	-	-	-	-	-	-

Subsequent to year end, off market transfers between directors resulted in changes to the directors' option holdings. For each director's option holding at the date this report was signed, please refer to the Directors' report on pages 1 to 10.

## 21 Key management personnel disclosures (continued)

### (ii) Share holdings

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

#### 2011

Name	Balance at the start of the year	Granted as compensation	Exercise of options	Acquired/ (disposed)	Balance at the end of the year
R M Kennedy	3,956,000	-	1,000,000	21,300,005	26,256,005
S R Gale	66,081	-	100,000	18,500,000	18,666,081
H M Gordon	-	-	1,000,000	19,883,333	20,883,333
M I Hatcher	-	-	-	-	-
I R Witton	63,333	-	-	83,333	146,666
N F Alley	-	-	100,000	20,108,338	20,208,338
K J Lines	4,805,001	-	-	-	4,805,001
E J Vickery	606,327	-	-	-	606,327
A S Bannister	-	-	-	-	-
D W Godfrey	86,667	-	-	-	86,667

#### 2010

Name	Balance at the start of the year	Received as compensation	Exercise of options	Acquired/ (disposed)	Balance at the end of the year
R M Kennedy	3,706,000	-	-	250,000	3,956,000
I R Witton	30,000	-	-	33,333	63,333
K J Lines	4,475,001	-	-	330,000	4,805,001
E J Vickery	3,974,726	-	-	(3,368,399)	606,327
A S Bannister	-	-	-	-	-
K J A Wills	3,500,000	-	-	83,333	3,583,333
D W Godfrey	53,334	-	-	33,333	86,667

## 22 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 and non-related audit firms:

	Consolidated	
	30 June 2011 \$	30 June 2010 \$
Grant Thornton		
Audit and review of financial reports	27,650	28,250
<b>Total auditors' remuneration</b>	<b>27,650</b>	<b>28,250</b>

## 23 Contingencies

### Contingent liabilities

The Group had no known contingent liabilities as at 30 June 2011 (2010: Nil).

## 24 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 amounts totalling approximately \$2,050,000 during the year ending 30 June 2012 (2011: \$1,825,000) in respect of tenement lease rentals and to meet minimum expenditure requirements pursuant to various joint venture requirements.

## 25 Related party transactions

### (a) Parent entities

The Parent Entity within the Group is ERO Mining Limited. Maximus Resources Limited's holding of the Issued Capital of ERO Mining Limited decreased during the year to 12.81% (2010: 27.85%). Additionally, there is only one director of Maximus Resources Limited that is also a director of ERO Mining Limited (a Board consisting of four directors). As a result, Maximus Resources Limited is no longer the ultimate controlling party of ERO Mining Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 27.

### (c) Investments in associates

Investments in associates are set out in note 28.

### (d) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

### (e) 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 during the period 1 July 2010 to 28 February 2011 for \$88,800 (30 June 2010: \$199,800).
- FME Exploration Services Pty Ltd repaid \$75,000 (2010: \$75,000) of the working capital loan from ERO Mining Limited. The total amount receivable from FME Exploration Services Pty Ltd at 28 February 2011 was Nil (30 June 2010: \$75,000).

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

## 26 Business combination

### (a) Summary of acquisition

On 23 January 2011 the Parent Entity acquired 100% of the issued share capital of South East Energy Ltd, a mineral exploration company. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$
Purchase consideration (refer note (b) below)	
Cash paid	-
Fair value of shares issued	3,808,125
Fair value of options issued	<u>101,472</u>
Total purchase consideration	<u>3,909,597</u>
Fair value of net identifiable assets acquired (refer to (c) below)	<u>3,909,597</u>
Goodwill	<u>-</u>

### (b) Cash flow information

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
Outflow of cash to acquire subsidiary (net of cash acquired)		
Cash consideration	-	-
Less: Balances acquired:		
Cash	<u>(73,891)</u>	-
(Inflow) / outflow of cash	<u>(73,891)</u>	<u>-</u>

### (c) Assets and liabilities acquired

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

	Fair value \$
Cash and cash equivalents	73,891
Exploration and evaluation assets	4,053,948
Trade and other creditors	<u>(218,242)</u>
Net identifiable assets acquired	<u>3,909,597</u>

There were no acquisitions during the year ended 30 June 2010.

## 27 Subsidiaries

### Significant investments in 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(b).

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011 %	2010 %
<b>Subsidiaries of Eromanga Uranium 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
South East Energy Limited	Australia	Ordinary	100	-

## 28 Investments in associates

An interest was held in FME Exploration Services Pty Ltd, an associated company incorporated in Australia, until the disposal of the holding on 28 February 2011. Information relating to this holding is set out below:

Consolidated	
30 June 2011 \$	30 June 2010 \$

### (a) Movements in carrying amounts

Carrying amount at the beginning of the financial year	1	1
Disposal of shares	(1)	-
Carrying amount at the end of the financial year	<u>-</u>	<u>1</u>

### (b) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	Company's share of:			
		Assets \$	Liabilities \$	Revenues \$	Profit \$
<b>2010</b>					
FME Exploration Services Pty Ltd	<u>33</u>	<u>253,515</u>	<u>281,721</u>	<u>444,052</u>	<u>5,699</u>
		<u>253,515</u>	<u>281,721</u>	<u>444,052</u>	<u>5,699</u>

Consolidated	
30 June 2011 \$	30 June 2010 \$

### (c) Contingent liabilities of associates

Share of contingent liabilities incurred jointly with other investors	<u>-</u>	<u>85,028</u>
	<u>-</u>	<u>85,028</u>

## 29 Interests in joint ventures

The Group has the following interests in unincorporated joint ventures:

State	Agreement Name	Parties	Summary
SA & NT	Eromanga Basin Agreement	ERO Mining Ltd (ERO) and Maximus Resources Ltd (MXR) and Flinders Mines Ltd (FMS)	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 Agreement	ERO and MXR and FMS	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.

## 30 Events occurring after the reporting period

Subsequent to the balance date, Mr Shane Robin Gale resigned as Managing Director of the Company with effect from 31 August 2011, having been Managing Director since 24 January 2011. Mr Kevin James Lines was appointed Acting Chief Executive Officer of the Company with effect from 31 August 2011.

Also subsequent to the balance date, the Company reached in principle agreement with Maximus Resources Limited regarding an amendment to the Company's Billa Kalina Joint Venture covering EL 4468 and ELAs 351/10, 350/10, 78/10 and 33/10.

Under the terms of the revised agreement, the Company intends to conduct a high resolution gravity survey over the Peeweena Dam Project at Billa Kalina, after which it will earn a 5% equity interest in the tenements. On the basis of the success of this program, the Company will then conduct a drilling program, at its cost, to test the potential of the significant IOCGU anomaly.

On completion of that drilling program the Company will have earned a 30% interest in the joint venture. The Company also has the option to earn a further 20% equity interest (total of 50% equity interest) by funding further exploration to a total value of \$3 million (including expenditure to date of \$1.529 million).

Under the terms of the proposed agreement and post completion of the revised drilling program, Maximus Resources Limited would receive a 70% equity interest in the adjoining tenement (ELA 32/10) that is currently 100% owned by the Company.

Subsequent to the balance date, the Company also raised \$319,089 by the issue of 11,818,146 shares at \$0.027 each, pursuant to a non-renounceable rights issue.

Apart from the above, no matter or circumstance has occurred subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

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

	Consolidated	
	30 June 2011	30 June 2010
	\$	\$
Loss for the year	(11,760,015)	(3,437,002)
Depreciation and amortisation	315,454	191,907
Income tax on share issue costs	9,887	13,332
Loss on disposal of assets	9,568	29,190
Exploration and evaluation expenditure written off during the year	8,253,155	2,662,801
Impairment of mine properties and plant & equipment	2,283,947	-
<i>Change in operating assets and liabilities (net of effects from purchase of controlled entity):</i>		
Decrease/(increase) in trade and other receivables	293,048	18,400
Decrease/(increase) in inventories	41,086	(41,086)
Decrease/(increase) in other assets	537	(19,897)
(Decrease)/increase in trade and other payables	(287,423)	119,915
(Decrease)/increase in provisions	(12,813)	22,042
Net cash inflow/(outflow) from operating activities	<u>(853,569)</u>	<u>(440,398)</u>

### 32 Earnings per share

	Consolidated	
	30 June 2011	30 June 2010
<b>(a) Basic earnings per share</b>		
Loss attributable to the ordinary equity holders	(11,760,015)	(3,437,002)
Weighted average number of ordinary shares outstanding during the year used to calculate basic earnings per share	<u>238,152,619</u>	<u>152,148,340</u>
Basic earnings per share (cents)	<u>(4.94)</u>	<u>(2.26)</u>
<b>(b) Diluted earnings per share</b>		
Loss attributable to the ordinary equity holders	(11,760,015)	(3,437,002)
Weighted average number of options outstanding during the year used to calculate diluted earnings per share	-	-
Weighted average number of ordinary shares outstanding during the year used to calculate diluted earnings per share	<u>238,152,619</u>	<u>152,148,340</u>
Diluted earnings per share (cents)	<u>(4.94)</u>	<u>(2.26)</u>

*(i) Options*

Options granted to employees under ERO Mining Limited Employee Share 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 \$11,760,015 this financial year (2010: \$3,437,002), the options have not been included in the determination of diluted earnings per share. Details relating to the options are set out in note 33.

### 33 Share-based payments

#### (a) Employee Option Plan

The following share-based payment arrangements existed at 30 June 2011:

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. The options granted under the plan carry no voting or dividend 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.

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.

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.

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.

Set out below is a summary of the options granted under the plan:

2011	Number of options	Weighted average exercise price \$
Outstanding at beginning of the year	28,733,380	0.287
Granted	-	-
Exercised	-	-
Expired	<u>(27,700,714)</u>	<u>0.293</u>
Outstanding at the end of the year	<u>1,032,666</u>	<u>0.121</u>
2010	Number of options	Weighted average exercise price \$
Outstanding at beginning of the year	28,870,880	0.287
Granted	-	-
Exercised	-	-
Expired	<u>(137,500)</u>	<u>0.187</u>
Total	<u>28,733,380</u>	<u>0.287</u>

The options outstanding at 30 June 2011 had a weighted average exercise price of \$0.121 (2010: \$0.287) and a weighted average remaining contractual life of 22 months (2010: 14 months). Exercise prices range from \$0.165 to \$0.220 in respect of options outstanding at 30 June 2011.

#### *Fair value of options granted*

No employee options were granted during the year ended 30 June 2011 (2010: Nil). Therefore no calculation of the fair value of options granted during the year was required to be made using the Black-Scholes option pricing model.

### 34 Parent Entity financial information

#### (a) Summary financial information

The individual financial statements for ERO Mining Limited (the Parent Entity) show the following aggregate amounts:

	Parent Entity	
	30 June 2011	30 June 2010
	\$	\$
<b>Statement of financial position</b>		
Current assets	6,098,666	11,667,407
Non-current assets	<u>5,309,882</u>	<u>2,827,750</u>
Total assets	<u>11,408,548</u>	<u>14,495,157</u>
Current liabilities	257,371	282,589
Non-current liabilities	<u>80,000</u>	<u>28,073</u>
Total liabilities	<u>337,371</u>	<u>310,662</u>
Net Assets	<u>11,071,177</u>	<u>14,184,495</u>
<i>Shareholders' equity</i>		
Contributed equity	30,688,343	25,588,199
Reserves	983,478	882,007
Retained losses	<u>(20,600,644)</u>	<u>(12,285,711)</u>
	<u>11,071,177</u>	<u>14,184,495</u>
<b>(Loss) for the year</b>	<u>(8,314,933)</u>	<u>(3,216,416)</u>
<b>Total comprehensive income for the year</b>	<u>(8,314,933)</u>	<u>(3,216,416)</u>

#### (b) Guarantees entered into by the Parent Entity

The Parent Entity did not provide any guarantees during the year ended 30 June 2011 (2010: Nil).

#### (c) Contingent liabilities of the Parent Entity

The Parent Entity did not have any known contingent liabilities as at 30 June 2011 (2010: Nil). For information about guarantees given by the Parent Entity, please see above.

#### (d) Contractual commitments

As at 30 June 2011, the Parent Entity had contractual commitments to maintain the rights of tenure to exploration tenements totalling approximately \$869,000 (2010: \$1,825,000). These commitments are not recognised as liabilities at 30 June 2011 as the rights relate to the year ending 20 June 2012 and therefore were not incurred before the end of the current financial year.

As at 30 June 2011, the Parent Entity had no contractual commitments for the acquisition of property, plant or equipment (2010: Nil).

### **35 Going concern**

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

The cash flow projections of the Group indicate that it will require positive cash flows from additional capital for continued operations.

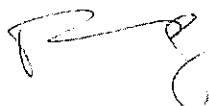
The Group's ability to continue as a going concern is contingent on obtaining additional capital. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary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

In the directors' opinion:

- (a) the financial statements and notes set out on pages 18 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 Group's financial position as at 30 June 2011 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 comply with International Financial Reporting Standards as confirmed in note 1(a).

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 2011



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.granthornton.com.au](http://www.granthornton.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 consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. 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.

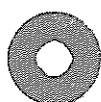
### **Auditor's responsibility**

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 41 127 556 306

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



# Grant Thornton

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 Company'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 Company'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.

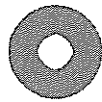
## **Auditor's opinion**

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 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards 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 35 – Going Concern Basis of Accounting 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.



# Grant Thornton

**Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the Corporations Act 2001.

*Grant Thornton*

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants

P S Paterson  
Partner

Adelaide, 30 September 2011