ERO Mining Limited

ABN 40 119 031 864

Financial report
for the year ended 30 June 2010

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Financial report - 30 June 2010

Contents

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

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

ERO Mining Limited
62 Beulah Road
Norwood
SA 5067

Registered postal address is:

ERO Mining Limited
PO Box 3126
Norwood
SA 5067

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

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

Directors' report

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

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

Robert Michael Kennedy
Ewan John Vickery
Kevin James Lines
Adam Simon Bannister (Alternate for E J Vickery)
Ian Roy Witton (Alternate for R M Kennedy since 26 August 2010, Alternate Director for K J Lines since 10 September 2010) (Alternate for K J A Wills, ceased 30 September 2009)
Kevin John Anson Wills (ceased 30 September 2009)

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

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

Dividends - ERO Mining Limited
There were no dividends declared or paid during the year.

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

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

Review of operations

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

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

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

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

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

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

In the December quarter the Company completed a successful capital raising by way of a Share Purchase Plan. Total proceeds of the SPP, before costs, were just over $2 million. The funds raised were used to accelerate exploration at ERO's Nackara Arc, Georgetown Regional and Suplejack Projects in parallel with continued development of the Georgetown Gold Operations.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Future developments, prospects and business strategy
During the coming year ERO intends to pursue the sale of the Georgetown Gold Operations whilst maintaining gold production at optimum levels which will provide essential cash flows.

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

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

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

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

Information on directors
Robert Michael Kennedy ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD. *Non-executive Chairman.*
Experience and expertise
A Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Mr Kennedy has been a director since incorporation 26 March 2006.

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

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

Special responsibilities
Chairman of the Board.
Member of the Audit Committee.

Interests in shares and options
3,500,000 ordinary shares in ERO Mining Limited.
3,706,000 options over ordinary shares in ERO Mining Limited.

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

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

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

Information on directors (continued)
Special responsibilities
Chair of the Audit Committee.

Interests in shares and options
3,500,000 ordinary shares in ERO Mining Limited.
3,974,726 options over ordinary shares in ERO Mining Limited.

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

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

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

Special responsibilities
Managing Director.

Interests in shares and options
4,375,000 ordinary shares in ERO Mining Limited.
4,475,001 options over ordinary shares in ERO Mining Limited.

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

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

Ian Roy Witton Snr Assoc Dip Accy (SAIT), FCPA, FAICD. *Alternate Director for R M Kennedy and K J Lines. Former Alternate Director for K J A Wills. (Non-executive).*
Experience and expertise
Mr Witton has been a company director for 26 years. Originally qualified as a CPA he worked as an auditor and taxation agent and was subsequently appointed CEO and later Managing Director for 27 years of a Licensed Investment Dealer developing and managing superannuation and investment funds, savings, loans and a retirement village. He is also s director of a pharmacy and optical company and a public charitable trust fund. His principal experience is in funds and investment management, strategic development, risk management and corporate governance.

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

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

Interests in shares and options
3,500,555 ordinary shares in ERO Mining Limited.
3,500,000 options over ordinary shares in ERO Mining Limited.

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

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

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

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

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

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

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

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

Proceedings on behalf of consolidated entity
No person has applied for leave of Court under section 237 of the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.
The Company was not a party to any such proceedings during the financial year.

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

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

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

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

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

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

A Principles used to determine the nature and amount of remuneration
The Company's policy for determining the nature and amounts of emoluments of board members and senior executive officers of the Company is as follows:

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

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

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

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

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

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

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

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

- Mr R M Kennedy - Chairman, Non-executive
- Mr E J Vickery - Director, Non-executive
- Mr K J Lines - Managing Director, Executive
- Mr A S Bannister - Alternate Director, Non-executive
- Mr I R Witton - Alternate Director, Non-executive (Alternate for R M Kenndy since 26 August 2010, Alternate Director for K J Lines since 10 September 2010) (Alternate for K J A Wills, ceased 30 September 2009)
- Dr K J A Wills - Director, Non-executive (ceased 30 September 2010)
- Mr D W Godfrey - Chief Financial Officer & Company Secretary

Remuneration report - audited (continued)

B Details of remuneration (continued)
(continued)
Key management personnel of the consolidated entity and other executives of the company and the consolidated entity

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

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

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

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

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

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

C Service agreements

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

D Share-based compensation

Employee Share Option Plan

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

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.

Remuneration report - audited (continued)

D Share-based compensation (continued)
Shares issued on exercise of remuneration options
No shares were issued to Directors as a result of the exercise of remuneration options during the financial year.

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

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

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

Auditor's Independence Declaration
The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 10.

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

Robert M Kennedy
Director

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of ERO Mining Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants

P S Paterson
Partner

Adelaide, 30 September 2010

Corporate governance statement

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

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

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

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

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - Recommendation followed
The Board is governed by the Corporations Act 2001, ASX Listing Rules and a formal constitution adopted by the company in 2006.

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

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

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

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

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

Recommendation 1.2 - Recommendation followed
The Board takes responsibility for monitoring the composition of the Board and reviewing the performance and compensation of the Company's Executive Directors and senior management with the overall objective of motivating and appropriately rewarding performance.

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

Recommendation 1.3 - Recommendation followed
During the period the Board undertook an informal performance evaluation of the Managing Director, Company Secretary and senior management. The evaluation was in accordance with the Company's process for evaluation of senior executives.

Principle 2: Structure the board to add value

Recommendation 2.1 - Recommendation followed
The composition of the Board consists of three directors, two of whom including the Chairman, are Independent Directors.

The Audit Committee currently consists of two Independent directors.

Recommendation 2.2 - Recommendation followed
The Chairman, Mr Kennedy is an Independent Director

Recommendation 2.3 - Recommendation followed
Mr Kennedy's role as Chairman of the Board is separate from that of the Managing Director, Mr Lines who is responsible for the day to day management of the Company and is in compliance with the ASX Recommendation that these roles not be exercised by the same individual.

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

Recommendation 2.5 - Recommendation not followed
The Board recognises that as a result of the Company's size and the stage of the entity's life as a publicly listed junior exploration company, the assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis. Whilst this is at variance with the ASX Recommendation 2.5, the Directors consider that at the date of this report an appropriate and adequate process for the evaluation of Directors is in place. A more formal process of Board assessment will be considered in the future as the Company develops.

Recommendation 2.6 - Recommendation followed
The names of the directors of the Company and terms in office at the date of this Statement together with their skills, experience, expertise and financial interests in the Company are set out in the Directors' Report section of this report.

Messer's Kennedy and Vickery are considered to be independent.

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

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

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

As the board does not have a nominations Committee, the functions of this Committee in its absence are 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

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 - Recommendation followed
The Company was not a company required by ASX Listing Rule 12.7 to have an Audit Committee during the year although it is an ASX Recommendation. Notwithstanding the Listing Rule requirement, an Audit Committee has been established to oversee corporate governance over internal controls, ethical standards, financial reporting, and external accounting and compliance procedures.

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

Recommendation 4.2 - Recommendation not followed
The Audit Committee consists of two non executive, independent Board directors, Messrs Vickery and Kennedy, and is chaired by Mr Vickery.

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

Recommendation 4.3 - Recommendation followed
A formal Audit Committee Charter has been adopted, that details the functions and responsibilities of the Audit Committee.

Recommendation 4.4 - Recommendation followed
Mr Kennedy is a qualified Chartered Accountant. Details of the Audit Committee member's qualifications and attendance at meetings are set out in the Directors' Report section of this report.

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

Principles 5: Make timely and balanced disclosures

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.

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 the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- notices of all meetings of shareholders;
- publicly released documents including full text of notices of meetings and explanatory material made available on the Company's web-site; and
- disclosure of the Company's Corporate Governance practices and communications strategy on the entity's web-site.

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

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

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 web-site, www.eromining.com/governance.

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

Principle 8: Remunerate fairly and responsibly

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

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

Recommendation 8.2 & 8.3 - Recommendations followed
In accordance with ASX Recommendation 8.2 the Company's remuneration practices are set out as follows.

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

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

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

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

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

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

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

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

The Company's Corporate Governance Policies can be found at www.eromining.com/governance

	Notes	Consolidated 30 June 2010 $	30 June 2009 $
Revenue from continuing operations	4	**222,832**	258,539
Raw materials and consumables used		**(337,259)**	-
Other expenses		**(39,827)**	(887)
Marketing Expense	5	**(62,206)**	(127,043)
Administrative Expense	5	**(806,447)**	(847,250)
Finance Costs		**(1,098)**	(1,159)
Exploration expenditure written off	5	**(2,662,801)**	(8,016,555)
(Loss) before income tax		**(3,686,806)**	(8,734,355)
Income tax (expense)/ income	6	**249,804**	329,450
(Loss) from continuing operations		**(3,437,002)**	(8,404,905)
(Loss) for the year		**(3,437,002)**	(8,404,905)
Other comprehensive income		**-**	-
Total comprehensive income for the year attributable to:		**(3,437,002)**	(8,404,905)
Owners of ERO Mining Limited		**(3,437,002)**	(8,404,905)
		(3,437,002)	(8,404,905)
		Cents	Cents
Earnings per share for (loss) attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share	28	**(2.26)**	(6.70)
Diluted earnings per share	28	**(2.26)**	(6.70)

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

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

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

Consolidated	Notes	**Contributed equity $**	**Reserves $**	**Retained earnings $**	**Total equity $**
Balance at 1 July 2008		**23,543,734**	**847,332**	**(664,389)**	**23,726,677**
Total comprehensive income for the year					
Profit/ (loss) for the year	21	-	-	(8,404,905)	(8,404,905)
Transactions with owners in their capacity as owners:					
Options issued during the period	20	-	34,675	-	34,675
Contributions of equity	20	7,373	-	-	7,373
Transaction costs (net of tax)	20	-	-	-	-
Subtotal		**7,373**	**34,675**	**-**	**42,048**
Balance at 30 June 2009		**23,551,107**	**882,007**	**(9,069,294)**	**15,363,820**

Consolidated	Notes	**Contributed equity $**	**Reserves $**	**Retained earnings $**	**Total equity $**
Balance at 1 July 2009		**23,551,107**	**882,007**	**(9,069,294)**	**15,363,820**
Total comprehensive income for the year					
Profit/ (loss) for the year	21	-	-	(3,437,002)	(3,437,002)
Transactions with owners in their capacity as owners:					
Contributions of equity	20	2,068,200	-	-	2,068,200
Transaction costs, net of tax	20	(31,108)	-	-	(31,108)
Subtotal		**2,037,092**	**-**	**-**	**2,037,092**
Balance at 30 June 2010		**25,588,199**	**882,007**	**(12,506,296)**	**13,963,910**

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

ERO Mining Limited
Statements of Cash Flows
For the year ended 30 June 2010

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

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

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

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

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

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

(b) Accounting Standards not Previously Applied

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

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

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of ‘other comprehensive income’. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Third statement of financial position

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

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

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

1 Summary of significant accounting policies (continued)

Operating Segments
From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and the Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the financial reports have been included.

(c) Principles of consolidation

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

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

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

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

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

(d) Segment reporting

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

(e) Revenue recognition

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

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

(f) Income tax

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

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

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

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

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

1 Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the period when the asset is realized or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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

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

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

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

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

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

(g) Impairment of non-financial assets

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

(h) Cash and cash equivalents

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

(i) Trade receivables

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

(j) Investments in associates

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

1 Summary of significant accounting policies (continued)

(k) Joint ventures

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

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

(l) Investments and other financial assets

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

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the consolidated entity's right to receive payments is established.

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(m) Plant and equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

Depreciation

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

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

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

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

(n) Trade and other payables

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

(o) Employee benefits

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

(ii) Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

1 Summary of significant accounting policies (continued)

(p) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing:

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

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

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

(q) Exploration and evaluation expenditure

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

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

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

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

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

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

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

(r) Development properties

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(s) Mine properties

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

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

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

(t) Decommissioning and site rehabilitation

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

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

(u) Goods and Services Tax (GST)

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

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

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

(v) Comparative figures

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

(w) Inventories

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

(x) Contributed equity

Ordinary shares are classified as equity.

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

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

1 Summary of significant accounting policies (continued)

(y) Key estimates

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

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

(z) New accounting standards and interpretations

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

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

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).
These standards are applicable retrospectively and amend the classification and measurement of financial assets. The consolidated entity has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

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

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the consolidated entity.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).
These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the consolidated entity.

1 Summary of significant accounting policies (continued)

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).
These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the consolidated entity.

AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).
These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the consolidated entity.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). ***Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132*** The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.
These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the consolidated entity.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the consolidated entity.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).
This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the consolidated entity.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. These amendments are not expected to impact the consolidated entity.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).
This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the consolidated entity.

2 Financial risk management

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

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

The consolidated entity holds the following financial instruments:

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

(a) Market risk

(i) Foreign exchange risk
The consolidated entity is not exposed to foreign exchange risk.

(ii) Price risk
The consolidated entity is not exposed to any material price risk.

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

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

(b) Liquidity risk

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

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

(c) Fair value measurements

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

3 Segment information

(a) Description of segments

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

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

- external regulatory requirements
- geographical and geological styles

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

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

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

3 Segment information (continued)

(b) Primary reporting format - business segments

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

3 Segment information (continued)

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

(i) Segment revenue
Segment revenue reconciles to total revenue from continuing operations as follows:

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

3 Segment information (continued)

(ii) *Adjusted EBITDA*
A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

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

(iii) Segment assets
Reportable segments' assets are reconciled to total assets as follows:

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

(iv) *Segment liabilities*
Reportable segments' liabilities are reconciled to total liabilities as follows:

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

4 Revenue

	Consolidated	
	30 June 2010 $	30 June 2009 $
From continuing operations		
Interest received	**30,375**	258,539
Gold sales	**192,457**	-
	222,832	258,539

5 Expenses

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

6 Income tax expense

	Consolidated	
	30 June 2010 $	30 June 2009 $
(a) Income tax expense		
Deferred tax	**13,332**	-
Research and development tax offset	**(263,136)**	(329,450)
	(249,804)	(329,450)

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

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

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

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

7 Current assets - Cash and cash equivalents

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

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

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

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

(b) Risk exposure

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

8 Current assets - Trade and other receivables

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

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

(a) Past due but not impaired

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

8 Current assets - Trade and other receivables (continued)

(b) Related party receivables

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

9 Current assets - Inventories

	Consolidated	
	30 June 2010 $	30 June 2009 $
Finished goods		
- at net realisable value	**41,086**	-
	41,086	-

10 Non-current assets - Investments accounted for using the equity method

	Consolidated	
	30 June 2010 $	30 June 2009 $
Shares in associates (note 13)	**1**	1
	1	1

(a) Shares in associates

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

11 Contingencies

Contingent liabilities

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

12 Commitments

Commitments for exploration and joint venture expenditure

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

13 Investments in associate

Interest is held in the following associated company:

FME Exploration Services Pty Ltd

	Consolidated	
	30 June 2010 $	30 June 2009 $
Current assets	**512,545**	386,586
Non-current assets	**341,159**	428,969
Net assets	**853,704**	815,555
Current liabilities	**853,701**	815,552
	853,701	815,552
Net assets	**3**	3
Shares of associate's profit after tax	**-**	-

(a) Contingent liabilities of associates

Share of contingent liabilities incurred jointly with other investors	**85,028**	83,334
	85,028	83,334

14 Non-current assets - Property, plant and equipment

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

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

15 Non-current assets - Exploration and evaluation, development and mine properties

(a) Exploration and evaluation

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

(b) Mine properties

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

16 Non-current assets - Other non-current assets

	Consolidated	
	30 June 2010 $	30 June 2009 $
Security bonds	**17,750**	17,750

17 Current liabilities - Trade and other payables

	Consolidated	
	30 June 2010 $	30 June 2009 $
Unsecured:		
Trade payables	**112,829**	85,571
Accrued expenses	**119,872**	48,693
Credit cards	**17,709**	15,518
GST collected on sales	**16,938**	-

17 Current liabilities - Trade and other payables (continued)

	267,348	149,782

18 Current liabilities - Provisions

	Consolidated	
	30 June 2010 $	30 June 2009 $
Annual leave	**28,165**	34,197
	28,165	34,197

19 Non-current liabilities - Provisions

	Consolidated	
	30 June 2010 $	30 June 2009 $
Long service leave	**28,073**	-
	28,073	-

20 Contributed equity

	Parent entity		Parent entity	
	30 June 2010 Shares	30 June 2009 Shares	**30 June 2010 $**	30 June 2009 $
(a) Share capital				
Ordinary shares				
Fully paid	**160,175,576**	125,705,680	**25,588,199**	23,551,107

(b) Movements in ordinary share capital:

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

(c) Ordinary shares

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

(d) Options

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

(e) Capital risk management

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

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

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

21 Reserves and retained earnings

	Consolidated	
	30 June 2010 $	30 June 2009 $

(a) Reserves

Options	**882,007**	882,007
	882,007	882,007

(b) Retained earnings

Movements in retained earnings were as follows:

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

(c) Nature and purpose of reserves

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

22 Key management personnel disclosures

(a) Directors

(i) Chairman - non-executive
R M Kennedy

(ii) Executive directors
K J Lines, Managing Director

(iii) Non-executive directors
E J Vickery
A S Bannister, Alternate for E J Vickery
Ian Roy Witton (Alternate for R M Kenndy since 26 August 2010, Alternate Director for K J Lines since 10 September 2010) (Alternate for K J A Wills, ceased 30 September 2009)
K J A Wills (ceased 30 September 2009)

(b) Other key management personnel

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

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

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation

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

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

(d) Equity instrument disclosures relating to key management personnel

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

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

2009

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	-
K J Lines	4,375,000	-	-	-	4,375,000	4,375,000	-
E J Vickery	227,125	-	3,272,875	-	3,500,000	3,500,000	-
K J A Wills	3,500,555	-	-	-	3,500,555	3,500,555	-
A S Bannister	-	-	-	-	-	-	-
I R Witton	-	-	-	-	-	-	-
D W Godfrey	-	53,334	(53,334)	-	-	-	
R W C Wilson	382,000	-	-	-	-	-	-

22 Key management personnel disclosures (continued)

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

2010

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	3,706,000	-	-	250,000	3,956,000
E J Vickery	3,974,726	-	-	(3,368,399)	606,327
K J Lines	4,475,001	-	-	(20,000)	4,455,001
A S Bannister	-	-	-	-	-
I R Witton	-	-	-	-	-
K J A Wills	3,500,000	-	-	83,333	3,583,333
D W Godfrey	53,334	-	-	33,333	86,667

2009

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	-	-	-	3,706,000
K J Lines	4,475,001	-	-	-	4,475,001
E J Vickery	356,327	-	-	3,618,399	3,974,726
K J A Wills	3,500,000	-	-	-	3,500,000
A S Bannister	-	-	-	-	-
I R Witton	-	-	-	-	-
D W Godfrey	-	-	53,334	-	53,334
R W C Wilson	200,000	-	-	-	200,000

23 Remuneration of auditors

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

	Consolidated	
	30 June 2010 $	30 June 2009 $
(a) Grant Thornton		
Audit and review of financial reports	**28,250**	21,000
Total auditors' remuneration	**28,250**	21,000

24 Related party transactions

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

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

Transactions with other related parties

The following transactions occurred with related parties:

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

25 Subsidiaries

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

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

26 Events occurring after the reporting period

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

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

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

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

28 Earnings per share

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

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

29 Share-based payments

(a) Employee Option Plan

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

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

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

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

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

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

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

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

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

2010	**Number of options**	**Weighted average exercise price $**
Outstanding at beginning of the year	28,870,880	0.2870
Granted	-	-
Exercised	-	-
Expired	(137,500)	0.1870
Outstanding at the end of the year	28,733,380	0.287

2009	**Number of options**	**Weighted average exercise price $**
Outstanding at beginning of the year	27,929,214	0.2920
Granted	1,205,000	0.0280
Exercised	(263,334)	0.0280
Expired	-	-
Total	28,870,880	0.287

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

30 Parent entity financial information

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

(a) Guarantees entered into by the parent entity

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

(b) Contingent liabilities of the parent entity

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

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

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

31 Business combination

(a) Summary of acquisition

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

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

(b) Purchase consideration

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

(c) Assets and liabilities acquired

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

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

32 Going concern

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

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

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 18 to 52 are in accordance with the *Corporations Act 2001,* in
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable,and

(c) The financial statements also comply with International Financial Reporting Standards as disclosed in note 1.

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

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

Robert M Kennedy

Director

Adelaide
30 September 2010

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

Report on the financial report

We have audited the accompanying financial report of Ero Mining Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Auditor's responsibility Cont

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion,

a the financial report of Ero Mining Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

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

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

Report on the remuneration report

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

Auditor's opinion on the remuneration report

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants

P S Paterson
Partner

Adelaide, 30 September 2010