ABN 40 119 031 864

Financial Report

For the year ended 30 June 2012

Contents

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of ERO Mining Limited (referred to hereafter as the Parent Entity or the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

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

Robert Michael Kennedy (Non-executive chairman)
Hector Mackenzie Gordon (Non-executive director)
Michael Ivor Hatcher (Non-executive director)
Ian Roy Witton (Alternate director for R M Kennedy since 26 August 2010)
Shane Robin Gale (Executive director resigned 31 August 2011)

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

Dividends - ERO Mining Limited
There were no dividends declared or paid during the year (2011: Nil).

Operating results and financial position
The net result of operations for the financial year was a loss of $864,417 before tax (2011: $11,760,015).

The net assets of the Group have increased by $756,273 during the financial year from $7,405,510 at 30 June 2011 to $8,161,783 at 30 June 2012.

Review of operations

The 2011/12 financial year saw significant changes for the Company both in terms of the strategic direction of exploration and in the make-up of the executive management. Mr Shane Gale resigned his position as Managing Director in August 2011 and was replaced, in the role of Chief Executive Officer, by Mr Kevin Lines. Mr Lines had previously been the foundation Managing Director, from listing of the Company, until his resignation for health reasons in January 2011. This period also saw the implementation, by the Board, of a range of key initiatives designed to reduce overheads and administrative costs and optimize direct exploration expenditures.

The first of these initiatives involved the farm-out of the Company's Padthaway Area Project to Iluka Resources Limited. Under this agreement Iluka committed to spend $300,000 over two years to earn an 80% interest in the project area. The first phase of exploration for Heavy Mineral sands (HMS) was completed during the second quarter of 2011/12 and involved the drilling of 161 holes for 4242m along two major traverses. Results from this initial exploration phase were encouraging however Iluka Resources subsequently announced their decision to withdraw from the joint venture as part of a re-focusing of their Australian exploration programs. ERO retains a 100% interest in this tenement package and is canvassing other explorers who may be interested In ERO's future exploration of this strategic tenement holding.

A second major initiative of the Company in the second half of 2011 was the decision to divest its interests in the Georgetown alluvial gold mining operations. These operations had been heavily impacted by cyclone Yasi and had become an unacceptable drain on the Company's cash resources. Following a protracted search for a suitable buyer the operations were sold in late December 2011. ERO Mining received payment of $200,000 in cash and retained the right to be paid a royalty at the rate of 10% of the price of gold actually received, subject to a cap of $150,000. The successful sale of the Georgetown interests has allowed the Company's to focus on its key exploration assets in South Australia and the Northern Territory.

At the Billa Kalina Project, in joint venture with Maximus Resources, the Company has continued with its efforts to gain access for exploration of the exciting Peeweena Dam prospect, targeting Olympic Dam style IOCGU mineralisation. The Company is proposing to complete a small ground gravity survey to confirm and refine the known gravity anomaly in previous wide spaced data. This program is dependent upon receipt of a Deed of Access – Exploration from the Defence Department allowing entry to the Woomera Prohibited Area. Following the initial offer of a Deed of Access in late 2011 the Company and its joint venture partners have been in negotiations with Defence Department officials over a new Deed that would address some concerns of the Defence Department over foreign ownership of the underlying tenement holder, Flinders Mines Limited. To assist this process the title to the tenements covering Peeweena Dam have been transferred to Maximus Resources and a new Deed of Access is anticipated to be offered to the joint venture in the second half of 2012.

In March 2012 the Company announced a pro rata one-for-one non-renounceable Rights Issue. When the offer closed on 30th April 2012 and following placement of a significant percentage of the shortfall, the offer raised $1.315 million (before costs). The Board of ERO Mining was pleased with the support from shareholders for this capital raising particularly given uncertainties in the capital markets at the time of the offer. The funds raised will be applied to ongoing exploration efforts across the Company's asset portfolio.

The Company is continuing to examine alternative approaches to drill testing of its Wertaloona lithium project in the Lake Frome region of northeastern South Australia. The very high costs associated with the first phase of drill testing cannot be justified in the current financial environment and a more cost effective exploration strategy is being sought. Similarly the Company is actively seeking partners to assist in progressing its gold/uranium exploration portfolio in the Tanami region of the Northern Territory.

Subsequent to the end of the 2011/12 financial year the Company announced that it had entered into a memorandum of understanding with Monax Alliance Pty Ltd to undertake technical due diligence over the North Gawler Craton Project. Pending a successful outcome to this phase of the partnership it is envisaged that a formal joint venture will be established whereby Monax Alliance can earn an 80% interest in the project through the expenditure of approximately $US4million.

Matters subsequent to the end of the financial year

Subsequent to the end of the financial year, Mr Peter Kupniewski resigned from his role as Company Secretary. As of the 1 August 2012 Mr Justin Nelson was appointed as the Company Secretary of ERO Mining Limited.

Apart from the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments, prospects and business strategy

The Group's strategy is to explore for gold, copper lithium and uranium across its portfolio of projects in South Australia and the Northern Territory.

The Board of ERO Mining Limited considers that, in the current environment of constrained capital, the best interests of shareholders in the Company will be served by seeking a balanced approach of direct exploration by ERO and joint venture/alliances with other parties. The Company currently is in joint venture with Maximus Resources Ltd at Billa Kalina and has recently entered into a memorandum of understanding with Monax Alliance over the North Gawler Craton Project.

The primary focus of exploration will continue to be directed at Iron Oxide Copper Gold Uranium (IOCGU) mineralization at the Billa Kalina and North Gawler Craton projects with a secondary focus on gold/uranium in the Tanami region of the Northern Territory and for lithium/HMS in South Australia.
The Company is confident that the prudent application of exploration funds across this balanced geographic/commodity profile has an excellent chance of delivering discovery success.

Environmental regulation

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

Information on directors

ROBERT MICHAEL KENNEDY *ASAIT, Grad. Dip (Systems Analysis), FCA, ACIS, Life member AIM, FAICD*
Independent Non-Executive Chairman

Experience and expertise
Mr Kennedy has been non-executive chairman of ERO Mining Limited since 2006.

He is a Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded.

Mr Kennedy brings to the Board his expertise and extensive experience as chairman and non-executive director of a range o listed public companies in the resources sector.

He conducts the review of the Board including the Managing Director in his executive role. Mr Kennedy leads the developme of strategies for the development and future growth of the Company. Apart from his attendance at Board and Committee meetings Mr Kennedy leads the Board's external engagement of the Company meeting with Government, investors and is engaged with the media. He is a regular attendee of Audit Committee functions of the major accounting firms and is a regular presenter on topics relating to directors with the AICD and the CSA. During the year he attended the Masterclass of the Australian Institute of Directors with members of top ASX200 company boards.

Independence
In assessing Mr Kennedy's independence, the Board (excluding Mr Kennedy), took into account his stamina, his ability to think independently across a wide range of issues and his relentless availability now enhanced by his resignation from the Somerton Energy Ltd Board and his not seeking re-election to the Board of Beach Energy Ltd. Whilst Mr Kennedy has been appointed to a number of Resource Industry Boards, due to his extensive knowledge of the industry, the time required across these companies in no way impedes on his dedication to his role as Chairman of the Board. In taking all of these issues into account, the Board (excluding Mr Kennedy), were unanimous in declaring Mr Kennedy as independent.

Current and former directorships in the last 3 years
Mr Kennedy is a director of ASX listed companies Beach Energy Limited (since 1991), Ramelius Resources Limited (since listing in March 2003), Flinders Mines Limited since December 2001 , Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004), Marmota Energy Limited since listing in April 2006 and formerly Somerton Energy Limited (from 2010 to 2012). He was appointed the Chairman of the University of Adelaide's Institute of Minerals and Energy Resources in 2008.

Responsibilities
His special responsibilities include membership of the Audit Committee.

Interests in shares, options and rights
64,487,212 ordinary shares in the Company.
6,564,002 options over ordinary shares in the Company.

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

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

Current and former directorships in last 3 years
Mr Gordon is the Managing Director of Somerton Energy Limited, which was an ASX listed company until its recent removal from the ASX Official List in June 2012, following a takeover by Cooper Energy Limited. He is also an executive director of ASX listed company Cooper Energy Limited. He was formally a director of Beach Energy Limited. Further details of his current and former directorships in the last 3 years are as follows:

Company	***Period of directorship***
Cooper Energy Limited	Since 26 June 2012
Beach Energy Limited	Appointed 2005 Resigned 1 November 2010
Somerton Energy Limited	Since 22 April 2010

Special responsibilities
Chairman of the Audit Committee.

Interests in shares and options
23,883,333 ordinary shares in ERO Mining Limited.
5,220,834 options over ordinary shares in ERO Mining Limited.

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

Experience and expertise
A director since 28 June 2011, Mr Hatcher has a geology degree from the University of Adelaide and over 40 years' experience in the resources industry during which time he has held a range of senior technical and managerial positions.

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

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

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

Current and former directorships in last 3 years
Mr Hatcher is a non-executive director of ASX-listed Outback Metals Limited (since November 2010) and Adelaide Resources Limited (since 29 July 2011).

Interests in shares and options
1,000,000 ordinary shares in ERO Mining Limited.

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

Experience and expertise
An alternate director for Mr R M Kennedy since 26 August 2010.

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

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

Interests in shares and options
146,666 ordinary shares in ERO Mining Limited.
36,667 options over ordinary shares in ERO Mining Limited.

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

Experience and expertise
Mr Gale is experienced in the formation, development and team leadership of start-up ventures that have achieved organisational growth. He is currently employed in South Australia's Department for Manufacturing, Innovation, Trade, Resources and Energy as an Industry Capability Network Principal Supply Consultant.

Mr Gale resigned as Director and CEO effective 31 August 2011.

Other current directorships
Mr Gale is a director of SEU Pty Ltd.

Interests in shares and options (as at the date Mr Gale ceased to be a director)
18,592,298 ordinary shares in ERO Mining Limited.
31,066,521 options over ordinary shares in ERO Mining Limited.

Kevin James Lines BSc (Geology), MAusIMM. *Chief Executive Officer.*
Experience and expertise
A director since incorporation 29 March 2006 until his resignation, for health reasons on 24 January 2011. Mr Lines rejoined the Company as Chief Executive Officer on 1 September 2011. Mr Lines has over 30 years experience in mineral exploration and mining for gold, copper, lead/zinc and tin. He has held senior geological and management positions within Newmont Australia Limited, Normandy Mining Limited and CRA group of companies. He was the foundation Chief Geologist at Kalgoorlie Consolidated Gold Mines where he led the team that developed the ore-body models and geological systems for the Super-Pit Operations in Kalgoorlie. He has managed the Eastern Australian Exploration Division of Newmont Australia that included responsibility for the expansive tenement holdings of the Tanami region.

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

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

Interests in shares and options
17,235,001 ordinary shares in ERO Mining Limited.
1,181,251 options over ordinary shares in ERO Mining Limited.

Company Secretary
Peter John Kupniewski LL.B/LP.
Experience and expertise
Mr Kupniewski was appointed Company Secretary on 30 June 2011 and resigned from this position 1 August 2012. He is a partner with DMAW Lawyers. He is experienced in advising listed companies in relation to compliance with the Corporations Act and ASX Listing Rules, the acquisition and disposal of assets and the resolution of disputes. He has also acted in IPOs, placements, rights issues, capital reductions and reconstructions, share plans, option issues and all aspects of corporate law.

Company Secretary
Justin Paul Nelson LL.B, B.A(Jur)
Experience and expertise
Mr Nelson was appointed Company Secretary on 1 August 2012. He is Special Council with DMAW Lawyers. He is a former South Australian State Manager of ASX and is experienced in the listed company environment. He has excellent knowledge of the ASX Listing Rules, governance and all other aspects of ASX related matters.

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 2012, and the numbers of meetings attended by each director were:

	Full meetings of directors		Audit committee meetings	
	A	**B**	**A**	**B**
Robert Michael Kennedy	7	7	2	2
Shane Robin Gale	2	2	-	-
Hector Mackenzie Gordon	7	7	2	2
Michael Ivor Hatcher	7	7	-	-
Ian Roy Witton	-	7	-	-

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

Indemnification and insurance of officers

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

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

Insurance premiums

Since the end of the previous year the Group has paid insurance premiums of $25,109.38 to insure the directors and officers in respect of directors' and officers' liability and legal expenses insurance contracts.

Proceedings on behalf of the Group

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

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

Non-audit services

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

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

There were no fees for non-audit services paid or payable to the external auditors of the Parent Entity, its related practices or non-related audit firms during the year ended 30 June 2012.

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

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

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

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

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

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

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

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

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

The employment conditions of the Chief Executive Officer, Mr Lines are formalised in a contract of employment. The base salary as set out in the employment contract is reviewed annually. The Chief Executive Officers 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.

Voting and comments made at the company's 2011 Annual General Meeting
ERO Mining Limited received more than 95% of 'yes' votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

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

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

- Mr R M Kennedy - Chairman, non-executive
- Mr S R Gale - Executive Director and Chief Executive Officer (resigned 31 August 2011)
- Mr H M Gordon - Director, non-executive (since 24 January 2011)
- Mr M I Hatcher - Director, non-executive (since 28 June 2011)
- Mr I R Witton - Alternate director for R M Kennedy (since 26 August 2010).
- Mr K J Lines – Chief Executive Officer (since 1 September 2011)

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

2012	Short-term employee benefits	Post-employment benefits	Share-based payments	
Name	Salary $	Super-annuation $	Shares $	Total $
Non-executive directors				
Robert Michael Kennedy*	13,777	1,240		15,017
Shane Robin Gale	-	-	-	-
Hector Mackenzie Gordon*	8,333	750	-	9,083
Michael Ivor Hatcher*	8,333	750	-	9,083
Ian Roy Witton	-	-	-	-
Chief Executive Officer				
Kevin James Lines**	119,049	3,784	61,724	184,557
Total key management personnel compensation (Group)	**149,492**	**6,524**	**61,724**	**217,741**

** The non-executive directors have voluntarily agreed to forgo entitlement to directors' fees from 1 July 2011 until 30 April 2012.*

*** Includes $77,000 paid to Bridge Water Consulting, a related party.*

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

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

2011	Short-term employee benefits		Post-employment benefits	Share-based payments	
Name	Directors' fees $	Salary $	Super-annuation $	Options $	Total $
Robert Michael Kennedy	-	-	-	-	-
Ian Roy Witton	-	-	-	-	-
Kevin James Lines	-	-	-	-	-
Ewan John Vickery*	-	-	-	-	-
Hector Mackenzie Gordon	-	-	-	-	-
Michael Ivor Hatcher	-	-	-	-	-
Neville Foster Alley	-	-	-	-	-
Adam Simon Bannister	-	-	-	-	-
David Wayne Godfrey**	-	206,880	18,619	-	225,499
Shane Robin Gale	-	87,650	7,888	-	95,538
Total key management personnel compensation (Group)	**-**	**294,530**	**26,507**	**-**	**321,037**

** For part of the year, director fees for Mr Vickery were 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. This agreement was formalized 3 August 2006.*

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

C Service agreements

During the financial year, Mr Shane Gale resigned as Managing Director and was replaced by Mr Kevin Lines in the role of Chief Executive Officer. The Board negotiated a contract with Mr Lines with no fixed term at a salary of $275,000 per annum inclusive of superannuation guarantee contributions to be reviewed annually and with termination on one month's notice.

D Share-based compensation

Employee Share Option Plan

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

Options granted as remuneration

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

Shares issued on exercise of remuneration options

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

Directors' interests in shares and options

Directors' relevant interests in shares and options of the Company are disclosed in note 7 of the financial statements.

Shares under option

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

Date options granted	Expiry date	Exercise price	Number under option
16 November 2007	19 November 2012	$0.220	50,000
5 March 2008	5 March 2013	$0.165	313,000
4 February 2009	3 February 2014	$0.028	441,666
9 May 2011	28 September 2012	$0.060	86,813,229
			87,617,895

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

This report is signed and dated in Adelaide on this 27th day of September 2012 and made in accordance with a resolution of the directors.

Robert M Kennedy

Director

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ero Mining Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S J Gray
Partner

Adelaide, 27 September 2012

Corporate governance statement

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

The following statement sets out a summary of the Group's corporate governance practices that were in place during the financial year and how those practices relate to the revised ASX Recommendations. The Group elected to undergo an early transition to the revised Principles and Recommendations and as such has reported against these for the financial years ended 30 June 2008 through to 30 June 2012.

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

In ensuring a good standard of ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the above ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Group. The Board is, nevertheless, committed to ensuring that appropriate corporate governance practices are in place for the proper direction and management of the Group. This statement outlines the main corporate governance practices of the Group disclosed under the ASX Recommendations, including those that comply with good practice and which unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2012.

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 and as amended in November 2011.

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, all of whom including the chairman, are independent directors.

The Audit Committee currently consists of two independent directors.

Recommendation 2.2 - Recommendation followed
The Chairman is an independent director.

Recommendation 2.3 - Recommendation followed
The role of Chairman of the Board is separate from that of the CEO, who is responsible for the day to day management of the Company and is in compliance with the ASX Recommendation that these roles not be exercised by the same individual.

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

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

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

The non-executive directors are considered to be independent.

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

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

The contribution that people can make because of their individual background and different skills, experiences and perspectives is recognized in determining the membership of the board.

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

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

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

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1 - Recommendation not followed
While the Company does not have a formal code of conduct, as the Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing and managing a formal code of conduct cannot be justified, the Company requires all its directors and employees to abide by good standards of behaviour, business ethics and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- act in good faith and in the best interests of the Company;
- exercise care and diligence that a reasonable person in that role would exercise;
- exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- disclose material personal interests and avoid actual or potential conflicts of interest;
- 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 are 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 partly followed

This recommendation is partly complied with. The Company has established a diversity policy and a summary of the policy will be made available on the Company's website. At this stage, however, given the size of the Company, the Board has not established measurable objectives for achieving gender diversity. The policy does not include requirements for the board to establish and annually assess measurable objectives and the progress towards achieving them.

Recommendation 3.3 – Recommendation not followed

As the Board has not established measurable objectives for achieving gender diversity and the progress towards achieving them, this recommendation is not complied with.

Recommendation 3.4 – Recommendation followed

The proportion of women employees in the organisation, women in senior executive positions and women on the board is as follows:

- Women employees – 1 of a total of 2
- Women in senior executive positions – 0 of a total of 1
- Women on the board – 0 of a total of 3

Recommendation 3.5 – Recommendation followed

The departure from the recommendations has been explained. A summary of the policy will be made available on the Company's website.

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
- overseeing establishment, maintenance and reviewing the effectiveness of the Company's internal control and Accounting Standards and ASX Listing Rules;
- liaising with and reviewing reports of the external auditor; and
- reviewing performance and independence of the external auditor and where necessary making recommendations for appointment and removal of the Company's auditor.

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

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

Recommendation 4.3 - Recommendation not followed
A formal Audit Committee Charter has not been adopted. The main responsibilities of the Audit Committee are set out in respect of the commentary on Recommendation 4.1. It is anticipated that a formal charter will be adopted in the future, as the Company develops further.

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 – Recommendations not followed
The Company has not adopted a continuous disclosure policy. The board believes that given the size of the Company, establishing a written policy is not required at this time. The Company 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 available on the Company's website, following release to the ASX, www.eromining.com/governance.html.

Recommendation 5.2 – Recommendation followed

In accordance with Recommendation 5.1 the relevant material is included in the corporate governance statement.

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
- the half yearly financial report lodged with ASX and Australian Securities and Investments Commission (ASIC);
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights
- notices of all meetings of shareholders;
- publicly released documents including full text of notices of meetings and explanatory material
- disclosure of the Company's Corporate Governance practices and communications strategy on the entity's website.

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

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

Principle 7: Recognise and manage risk

Recommendation 7.1, 7.2 - Recommendations not followed
The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration and mining, environmental, title and native title, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed. No formal report in relation to the Company's management of its material business risk is presented to the Board.

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

Recommendation 7.3 - Recommendation followed
In accordance with ASX Recommendation 7.3 the Chief Executive Officer and Chief Financial Officer have provided assurances that the written declarations under s295A of the *Corporations Act 2001* are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Both the Chief Executive Officer and Chief Financial Officer provided said assurances at the time the s295A declarations were provided to the Board.

Recommendation 7.4 – Recommendation followed

In accordance with Recommendation 7.4, the relevant material is included in the corporate governance statement.

Principle 8: Remunerate fairly and responsibly

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

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

Recommendation 8.2 - Recommendation not followed
The Board does not have a separate remuneration committee given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company.

Recommendation 8.3 - Recommendation followed
The Company's remuneration practices are set out as follows.

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

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

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

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

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

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

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

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

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

Recommendation 8.4 – Recommendation followed

In accordance with Recommendation 8.4, the relevant material is included in the corporate governance statement.

ERO MINING LIMITED ABN: 40119031864
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	2011 $
Revenue from continuing operations	3	32,370	222,705
Raw materials and consumables used		-	(721,285)
Finance costs		(2,138)	(1,069)
Marketing expenses	4	(697)	(48,037)
Administration expenses	4	(500,023)	(655,771)
Exploration expenditure written off	4	(139,278)	(8,253,155)
Loss on disposal of controlled entity	6	(171,665)	-
Loss on disposal of assets	4	(77,437)	-
Impairment of assets	4	-	(2,283,947)
Other expenses		(5,550)	(9,568)
Loss from continuing operations before tax		(864,417)	(11,750,127)
Income tax expense	5	(17,809)	(9,888)
Loss from continuing operations after tax		(882,226)	(11,760,015)
Discontinued operations			
Loss from discontinued operations after tax	6	(529)	-
Net loss for the period		(882,755)	(11,760,015)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(882,755)	(11,760,015)
Net loss attributable to:			
Owners of ERO Mining Limited		(882,755)	(11,760,015)
		(882,755)	(11,760,015)
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents)	9	(0.220)	(4.938)
Diluted earnings per share (cents)	9	(0.220)	(4.938)
From continuing operations:			
Basic earnings per share (cents)	9	(0.178)	(4.938)
Diluted earnings per share (cents)	9	(0.178)	(4.938)

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

ERO MINING LIMITED ABN: 40119031864
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

		Consolidated	
		2012	2011
	Note	$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	1,224,895	119,135
Trade and other receivables	11	16,665	35,761
Non-current asset held for sale	14	-	350,000
Other assets	18	7,972	19,360
TOTAL CURRENT ASSETS		1,249,532	524,256
NON-CURRENT ASSETS			
Property, plant and equipment	16	2,500	177,170
Exploration and evaluation	17	7,028,896	6,941,105
Other non-current assets		-	17,750
TOTAL NON-CURRENT ASSETS		7,031,396	7,136,025
TOTAL ASSETS		8,280,928	7,660,281
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	115,662	211,346
Provisions	20	3,483	43,425
TOTAL CURRENT LIABILITIES		119,145	254,771
TOTAL LIABILITIES		119,145	254,771
NET ASSETS		8,161,783	7,405,510
EQUITY			
Issued capital	21	32,327,371	30,688,343
Reserves	30	983,478	983,478
Retained losses		(25,149,066)	(24,266,311)
TOTAL EQUITY		8,161,783	7,405,510

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

ERO MINING LIMITED ABN: 40119031864
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Note	Contributed equity	Retained losses	Reserve	Total
		$	$	$	$
Consolidated Group					
					-
Balance at 1 July 2010		25,588,199	(12,506,296)	882,007	13,963,910
Comprehensive income					
Loss for the year		-	(11,760,015)	-	(11,760,015)
Total comprehensive income for the year		-	(11,760,015)	-	(11,760,015)
Transactions with owners, in their capacity as owners, and other transfers					
Shares issued during the year	21	5,123,215	-	-	5,123,215
Transaction costs	21	(23,071)	-	-	(23,071)
Options issued during the year		-	-	101,471	101,471
Total transactions with owners and other transfers		5,100,144	-	101,471	5,201,615
Balance at 30 June 2011		30,688,343	(24,266,311)	983,478	7,405,510
Balance at 1 July 2011		30,688,343	(24,266,311)	983,478	7,405,510
Comprehensive income					
Loss for the year		-	(882,226)	-	(882,226)
Total comprehensive income for the year		-	(882,226)	-	(882,226)
Transactions with owners, in their capacity as owners, and other transfers					
Shares issued during the year	21	1,680,583	-	-	1,680,583
Transaction costs	21	(41,555)	-	-	(41,555)
Total transactions with owners and other transfers		1,639,028	-	-	1,639,028
Balance at 30 June 2012		32,327,371	(25,148,537)	983,478	8,162,312

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

ERO MINING LIMITED ABN: 40119031864
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		732	227,752
Interest received		12,370	15,659
Income taxes received		-	263,136
Payments to suppliers and employees (inclusive of GST)		(484,045)	(1,360,116)
Net cash used in operating activities	25a	(470,943)	(853,569)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		99,254	-
Proceeds from disposal of subsidiary	6	200,000	-
Proceeds from acquisition of subsidiary		-	73,891
Repayment of loans from related parties		-	75,000
Purchase of property, plant and equipment		(2,324)	-
Payments for exploration assets		(312,558)	(819,613)
Net cash used in investing activities		(15,628)	(670,722)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,635,899	1,315,090
Share issue transaction costs		(43,568)	(32,958)
Net cash provided by financing activities		1,592,331	1,282,132
Net increase/(decrease) in cash held		1,105,760	(242,159)
Cash and cash equivalents at beginning of financial year	10	119,135	361,294
Cash and cash equivalents at end of financial year	10	1,224,895	119,135

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

These consolidated financial statements and notes represent those of ERO Mining Limited and Controlled Entities (the “Group”). The separate financial statements of the parent entity, ERO Mining Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 27 September 2012 by the directors of the company.

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar ($) unless otherwise stated.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ERO Mining Limited as at 30 June 2012 and the results of all subsidiaries for the year then ended. ERO Mining Limited and its subsidiaries together are referred to in this financial report as the Group.

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

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

The acquisition method of accounting is used to account for business combinations by the Group.

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

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method and are carried at cost in the Company‘s financial statements. Under the equity method, the share of the profits or losses are recognised in the Consolidated Statement of Comprehensive Income, and the share of movements in reserves is recognised in reserves in the Consolidated Statement of Financial Position.

(b) Income Tax

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

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

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

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

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

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

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

(c) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(f) for details of impairment).

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

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets vary from 20 to 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(d) Exploration and evaluation expenditure

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

• the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

• exploration and/or evaluation activities in the area of interest have not at the end of each reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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

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

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

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

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

(e) Non-current assets classified as held for sale

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

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

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

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

(f) Impairment of 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.

(g) Investments in Associates

Associates are all entities in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the Group. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

(h) Interests in Joint Ventures

The Group's share of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 13.

The Group's interests in joint venture entities are recorded using the equity method of accounting (refer to Note 1(l) for details) in the consolidated financial statements.

Under the equity method, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The share of movements in reserves is recognised in the statement of financial position.

(i) Earnings per share (EPS)

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 the year and excluding treasury shares.

Diluted earnings per share

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

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(j) 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.

(j) Business combinations

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

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

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

(j) Employee Benefits

Short term obligations

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

Other long-term employee benefit obligations

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

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 26.

The fair value of options at grant date is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(k) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of four months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the consolidated statement of financial position.

(l) Revenue and Other Income

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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

Revenue from royalty agreements is recognised when the right to receive a royalty has been established.

All revenue is stated net of the amount of goods and services tax (GST) where applicable.

(m) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services provided. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(n) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 ATO is included with other receivables or payables in the 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 ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(p) Contributed equity

Ordinary shares as classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

(q) Comparative Figures

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

(r) Critical Accounting Estimates and Judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within *(i) Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(ii) Exploration and evaluation

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

(s) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

— *AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key 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;
- requiring financial assets to be reclassified 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; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

— *AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).*

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group.

— *AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).*

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either 'joint operations' (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or 'joint ventures' (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a 'structured entity', replacing the 'special purpose entity' concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

— *AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).*

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

— *AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).*

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

— *AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

(i) for an offer that may be withdrawn – when the employee accepts;
(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

Note 2 Parent Information

(a) The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	Consolidated	
STATEMENT OF FINANCIAL POSITION	**2012**	**2011**
ASSETS	**$**	**$**
Current Assets	3,145,319	6,098,666
Non-current Assets	5,135,211	5,309,882
TOTAL ASSETS	8,280,531	11,408,548
LIABILITIES		
Current Liabilities	118,748	257,371
Non-current Liabilities	-	80,000
TOTAL LIABILITIES	118,748	337,371
EQUITY		
Issued Capital	32,327,371	30,688,343
Reserves	983,478	983,478
Retained earnings	(25,149,066)	(20,600,644)
TOTAL EQUITY	8,161,783	11,071,177
STATEMENT OF COMPREHENSIVE INCOME		
Loss for the year	(4,548,422)	(8,314,933)
Total comprehensive income	(4,548,422)	(8,314,933)

(b) **Guarantees entered into by the Parent Entity**
The Parent Entity has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

(c) **Contingent liabilities of the Parent Entity**
The Parent Entity did not have any known contingent liabilities as at 30 June 2012 (2011: Nil).

(d) **Contractual commitments**
In order to maintain current rights of tenure to exploration tenements the Parent Entity will be required to outlay amounts totalling approximately $655,430 during the year ending 30 June 2012 (2011: $869,000) in respect of tenement lease rentals and to meet minimum expenditure requirements pursuant to various joint venture requirements.

As at 30 June 2012, the Parent Entity had no contractual commitments for the acquisition of property, plant or equipment (2011: Nil).

Note 3 Revenue and Other Income

	Consolidated	
	2012	2011
(a) Revenue from continuing operations	$	$
Sales revenue		
Gold sales	-	207,047
	-	207,047
Other revenue		
Interest received	12,170	15,658
Rent received	666	-
Royalties received	19,534	-
	32,370	15,658
Total revenue	32,370	222,705

Note 4 Expenses

	Consolidated	
Profit before income tax from continuing operations includes the following expenses:	2012	2011
	$	$
Marketing		
Marketing and promotion	697	48,037
	697	48,037
Administration		
Compliance	100,176	315,933
Consulting fees	109,234	115,818
Depreciation	181	67,202
Legal fees	8,929	(9,307)
Administration costs	119,234	49,800
Employment costs	162,269	116,325
	500,023	655,771
Exploration expenditure		
General exploration written off	-	103,329
Capitalised exploration expenditure written off	139,278	8,149,826
	139,278	8,253,155
Impairment of assets		
Machinery and vehicles	-	260,835
Plant and equipment	-	144,931
Mine property	-	1,878,181
	-	2,283,947
Disposal of assets		
Loss on disposal of property, plant and equipment	77,437	-
	77,437	-

Note 5 Income Tax Expense

	Consolidated	
	2012	2011
	$	$
(a) The components of tax expense comprise:		
Deferred tax	17,809	9,888
	17,809	9,888
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Profit from continuing operations before income tax expense	(864,946)	(11,750,127)
Tax at the Australian tax rate of 30% (2011: 30%)	(259,484)	(3,525,038)
Tax effect of amounts which are not deductible (assessable) in calculating taxable income		
— non-allowable items	18,756	(63,521)
— disposal of controlled entity	(550,256)	-
— items charged to equity	17,809	-
— temporary differences not bought to account	790,984	3,598,447
Income tax attributable to entity	17,809	9,888

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

The Group has unrecognised DTAs of $5,880,699 (2011: $3,100,799) that are available indefinitely for offset against future taxable profits of the Group.

The tax rates applicable to each potential tax benefit are as follows:
— timing differences - 30%
— tax losses - 30%

Note 6 Sale of ERO Georgetown Gold Operations Pty Ltd ("EROGT")

The sale of EROGT to an external party on 9 December 2011 resulted in a loss on deconsolidation. The deconsolidation of EROGT resulted in the Group incurring a loss of $171,664. The deconsolidation had the following effect on the Group's financial position:

(a) EROGT's assets and liabilities at 9 December 2011:

	$
Property, plant and equipment	150,000
Mining property	200,000
Other assets	17,773
Trade creditors	3,892
Net assets	**371,665**
Consideration received	200,000
Loss on consolidation	**171,665**

(b) EROGT's financial performance for the period 1 July 2011 to 9 December 2011:

	$
Cost of sales	(385)
Administrative expenses	(144)
Loss for the period	**(529)**
Income tax expense	-
Loss attributable to members of the parent entity	**(529)**

(c) EROGT's statement of cash flows for the period 1 July 2011 to 9 December 2011:

	$
Net cash outflow from operating activities	(362)
Net cash outflow from financing activities	(18,693)
Net cash decrease in cash held	(19,055)
Cash held at 1 July 2011	19,055
Cash held at 9 December 2011	-

Loss on disposal of EROGT is disclosed by loss from disposal of controlled entity per the statement of comprehensive income.

Additional consideration, not disclosed above, on the sale of ERO Georgetown Gold Operations is a royalty up to a maximum of $150,000. Royalty payments are treated as revenue upon receipt.

Note 7 Key Management Personnel Compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2012.

(a) **Directors**
The following were directors of ERO Mining Limited during the financial year:

(i) Chairman - non-executive
R M Kennedy

(ii) Executive directors
S R Gale, Director and Chief Executive Officer (resigned 31 August 2011)

(iii) Non-executive directors
H M Gordon
M I Hatcher

(b) **Other key management personnel**
The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year.

Name	**Position**	**Employer**	**Appointed**
K J Lines	Chief Executive Officer	ERO Mining Limited	1 September 2011
P Kupniewski	Company Secretary	DMAW Lawyers	1 July 2011

(c) The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	149,492	294,530
Post-employment benefits	6,524	26,508
Termination benefits	-	-
Share-based payments	-	-
Total KMP compensation	156,016	321,038

(d) **KMP Options and Rights Holdings**

The number of options over ordinary shares held during the financial year by each KMP of the Group is as follows:

30 June 2012	**Balance at beginning of year**	**Issued as remuneration**	**Purchased (exercised / expired)**	**Acquired / (disposed)**	**Balance at end of year**	**Vested and exercisable**	**Unvested**
R M Kennedy	36,064,002	-	(29,000,000)	(500,000)	6,564,002	6,564,002	-
S R Gale	31,566,521	-	(26,900,000)	(500,000)	4,166,521	4,166,521	-
H M Gordon	31,220,834	-	(25,500,000)	(500,000)	5,220,834	5,220,834	-
M I Hatcher	-	-	(2,000,000)	2,000,000	-	-	-
I R Witton	36,667	-	-	-	36,667	36,667	-
K J Lines	1,181,251	-	-	-	1,181,251	1,181,251	-
	100,069,275	-	(83,400,000)	500,000	17,169,275	17,169,275	-

30 June 2011	**Balance at beginning of year**	**Issued as remuneration**	**Exercised (expired/ purchase)**	**Acquired during the year**	**Balance at end of year**	**Vested and exercisable**	**Unvested**
R M Kennedy	3,500,000	-	(1,000,000)	33,564,002	36,064,002	36,064,002	-
S R Gale	-	-	(100,000)	31,666,521	31,566,521	31,566,521	-
H M Gordon	-	-	(1,000,000)	32,220,834	31,220,834	31,220,834	-
M I Hatcher	-	-	-	-	-	-	-
K J Lines	1,181,251	-	-	-	1,181,251	1,181,251	-
I R Witton	-	-	-	36,667	36,667	36,667	-
N F Alley	-	-	(100,000)	32,052,086	31,952,086	31,952,086	-
E J Vickery	227,125	-	-	-	227,125	227,125	-
A S Bannister	-	-	-	-	-	-	-
D W Godfrey	-	-	-	21,667	21,667	21,667	-
	4,908,376	-	(2,200,000)	129,561,777	132,270,153	132,270,153	-

(e) **KMP Shareholdings**

The number of ordinary shares in ERO Mining Limited held by each KMP of the Group during the financial year is as follows:

30 June 2012	**Balance at beginning of year**	**Granted as remuneration**	**Issued on exercise of options**	**Acquired / (disposed)**	**Balance at end of year**
R M Kennedy	26,256,005	-	-	38,231,207	64,487,212
S R Gale	18,666,081	-	-	(73,783)	18,592,298
H M Gordon	20,883,333	-	-	3,000,000	23,883,333
M I Hatcher	-	-	-	1,000,000	1,000,000
I R Witton	146,666	-	-	-	146,666
K J Lines	4,805,001	6,000,000	6,430,000	-	17,235,001
	70,757,086	6,000,000	6,430,000	42,157,424	125,344,510

30 June 2011	**Balance at beginning of year**	**Granted as remuneration during the year**	**Issued on exercise of options during the year**	**Acquired / (disposed)**	**Balance at end of year**
R M Kennedy	3,956,000	-	1,000,000	21,300,005	26,256,005
S R Gale	66,081	-	100,000	18,500,000	18,666,081
H M Gordon	-	-	1,000,000	19,883,333	20,883,333
M I Hatcher	-	-	-	-	-
K J Lines	4,805,001	-	-	-	4,805,001
I R Witton	63,333	-	-	83,333	146,666
N F Alley	-	-	100,000	20,108,338	20,208,338
E J Vickery	606,327	-	-	-	606,327
A S Bannister	-	-	-	-	-
D W Godfrey	86,667	-	-	-	86,667
	9,583,409	-	2,200,000	79,875,009	91,658,418

(f) **Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 28: Related Party Transactions.

For details of loans to KMP, refer to Note 28: Related Party Transactions.

Note 8 Auditors' Remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity:

	Consolidated	
	2012	2011
	$	$
Grant Thornton		
Audit and review of financial reports	27,000	27,650
Total auditors' remuneration	27,000	27,650

Note 9 Earnings per Share

		Consolidated	
		2012	2011
		$	$
(a)	**Basic earnings per share**		
	Loss attributable to the ordinary equity holders	(882,226)	(11,760,015)
	Weighted average number of shares outstanding during the year used to calculate	400,171,650	238,152,619
	Basic earnings per share (cents)	(0.220)	(4.938)
(b)	**Basic earnings per share from continuing operations**		
	Loss attributable to the ordinary equity holders from continuing operations	(710,562)	(11,760,015)
	Weighted average number of shares outstanding during the year used to calculate	400,171,650	238,152,619
	Basic earnings per share from continuing operations (cents)	(0.178)	(4.938)
(c)	**Dilutive earnings per share**		
	Loss attributable to the ordinary equity holders	(882,226)	(11,760,015)
	Weighted average number of shares outstanding during the year used to calculate	400,171,650	238,152,619
	Dilutive earnings per share (cents)	(0.220)	(4.938)
(d)	**Dilutive earnings per share from continuing operations**		
	Loss attributable to the ordinary equity holders from continuing operations	(710,562)	(11,760,015)
	Weighted average number of shares outstanding during the year used to calculate	400,171,650	238,152,619
	Dilutive earnings per share from continuing operations (cents)	(0.178)	(4.938)

Options granted to employees under ERO Mining Limited Employee Share Option Plan are considered to be potential ordinary shares. These have a dilutive effect on the weighted average number of ordinary shares. As ERO Mining Limited has reported a loss of $868,185 this financial year (2011: $11,760,015), the options have not been included in the determination of diluted earnings per share. Details relating to the options are set out in Note 26.

Note 10 Cash and Cash Equivalents

	Consolidated	
	2012	2011
	$	$
Cash at bank and on hand	278,340	119,135
Short-term bank deposits	946,555	-
	1,224,895	119,135

Note 11 Trade and Other Receivables

	Consolidated	
	2012	2011
	$	$
CURRENT		
Trade receivables	2,432	45,864
Other receivables		
— GST paid on purchases	13,892	(10,103)
— Interest receivable	341	-
Total current trade and other receivables	16,665	35,761

Past due but not impaired
As at 30 June 2012 there were no material trade and other receivables that were considered to be past due and impaired (2011: Nil)

Note 12 Investments in Associates

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

(a) **Movements during the year in equity accounted investment in associated companies**

	Consolidated	
	2012	**2011**
	$	**$**
Carrying amount at the beginning of the financial year	-	1
Disposals during the year	-	(1)
Carrying amount at end of the financial year	-	-

The Group had no interests in associated companies during the year.

Note 13 Joint Venture

(a) The Group has the following interests in unincorporated joint ventures

State	Agreement Name	Parties	Summary
SA & NT	Eromanga Basin Agreement	ERO Mining Ltd (ERO) and Maximus Resources Ltd (MXR) and Flinders Mines Ltd (FMS)	ERO can earn a 70% interest in MXR's Eromange Basin project tenements in SA and the NT by spending $7 million on the project within 6 years.
SA	Billa Kailna Agreement	ERO and MXR and FMS	ERO can earn a 50% interest in the non-diamond mineral rights of MXR's Billa Kalina project tenements by spending $3 million on the tenements within 6 years.

Note 14 Non-current assets classified as held for sale

	Consolidated	
	2012	**2011**
	$	**$**
CURRENT		
Plant & equipment	-	150,000
Mine properties	-	200,000
Total current assets	-	350,000
	-	-

During the financial year, the directors of the company sold the Georgetown gold mining operations to an external party. The assets associated with the Georgetown gold mining operations are presented within total assets of the Georgetown Gold segment in Note 24. The loss on disposal of the Georgetown gold mining operations is presented in Note 6.

Note 15 Controlled Entities

(a) **Significant investments in subsidiaries**

Name of entity	Country of Incorporation	Class of shares	Percentage Owned (%) 2012	Percentage Owned (%) 2011
ERO Metals Pty Ltd	Australia	Ordinary	100%	100%
Eromanga Uranium Resources Pty Ltd	Australia	Ordinary	100%	100%
South East Energy Limited	Australia	Ordinary	100%	100%

(b) **Acquisitions**
There were no acquisitions during the 2012 financial year.

(c) **Disposal of Controlled Entities**
As disclosed in Note 6, on 9 December 2011 the parent entity disposed of its 100% interest in ERO Georgetown Gold Operations Pty Ltd. The total loss recognised in respect of the disposal of ERO Georgetown Gold Operations Pty Ltd in the consolidated statement of comprehensive income amounted to $171,665. No remaining interest in the entity was held by any member of the consolidated entity.

Note 16 Property, Plant and Equipment

Consolidated	Plant and Equipment	Furniture, fittings & equipment	Machinery and vehicles	Computer equipment	Computer software	Total
	$	$	$	$	$	$
Consolidated Group:						
At 1 July 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
Year ended 30 June 2011						
Opening net book value	420,155	2,511	398,163	1,149	518	822,496
Additions	-	-	-	-	-	-
Disposals	(9,567)	-	-	-	-	(9,567)
Transfer to non-current assets classified as held for sale	(150,000)	-	-	-	-	(150,000)
Depreciation expense	(61,156)	(512)	(17,063)	(879)	(383)	(79,993)
Impairment charge	(144,931)	-	(260,835)	-	-	(405,766)
Closing net book amount	54,501	1,999	120,265	270	135	177,170
At 30 June 2011						
Cost or fair value	102,324	3,527	252,119	4,664	3,158	365,792
Accumulated depreciation	(47,823)	(1,528)	(131,854)	(4,394)	(3,023)	(188,622)
Net book amount	54,501	1,999	120,265	270	135	177,170
Year ended 30 June 2012						
Opening net book value	54,501	1,999	120,265	270	135	177,170
Additions	-	-	-	1,784	-	1,784
Disposals	(54,501)	(1,385)	(120,265)	-	-	(176,151)
Transfer to non-current assets classified as held for sale	-	-	-	-	-	-
Depreciation expense	-	(116)	-	(138)	(49)	(303)
Impairment charge	-	-	-	-	-	-
Closing net book amount	-	498	-	1,916	86	2,500
At 30 June 2012						
Cost or fair value	-	947	-	6,448	3,158	10,553
Accumulated depreciation	-	(449)	-	(4,532)	(3,072)	(8,053)
Net book amount	-	498	-	1,916	86	2,500

Note 17 Exploration and Evaluation, Development and Mine Properties

Exploration and evaluation	Consolidated 2012	2011
	$	$
Movement:		
Opening balance	6,941,105	10,307,911
Expenditure incurred	227,069	832,401
Additions through acquisition of subsidiary	-	4,053,948
Less: expenditure impaired	(139,278)	(8,253,155)
Closing balance	7,028,896	6,941,105
Closing balance comprises:		
Exploration and evaluation - 100% owned	5,805,018	4,340,563
Exploration and evaluation phases - joint venture	1,223,878	2,600,542
	7,028,896	6,941,105

Mine properties	Consolidated 2012	2011
	$	$
Movement:		
Opening balance	-	2,326,431
Expenditure incurred	-	-
Less: amortisation	-	(248,250)
Less: impairment charge	-	(1,878,181)
Transfer to non-current assets classified as held for sale	-	(200,000)
	-	-

Note 18 Other Assets

	Consolidated 2012 $	Consolidated 2011 $
CURRENT		
Prepayments	7,972	19,360
	7,972	19,360
NON-CURRENT		
Security deposits	-	17,750
	-	17,750

Note 19 Trade and Other Payables

	Consolidated 2012 $	Consolidated 2011 $
CURRENT		
Unsecured liabilities		
Trade payables	17,226	158,982
Accrued expenses	73,090	45,058
Employee benefits	1,892	-
GST collected on sales	6,414	1,402
Credit cards	-	5,904
Unissued shares	17,040	-
	115,662	211,346

Note 20 Current Provisions

	Consolidated 2012 $	Consolidated 2011 $
Annual leave		
Opening balance at 1 July 2011	43,425	28,165
Additional provisions	3,483	15,260
Amounts used	-	-
Unused amounts reversed	(43,425)	-
Balance at 30 June 2012	3,483	43,425

Note 21 Contributed equity

(a) **Share capital**	Consolidated 2012 $	Consolidated 2011 $
625,819,041 (2011: 348,298,731) fully paid ordinary shares	32,327,371	30,688,343
	32,327,371	30,688,343

(b) **Movement in ordinary share capital**

Date	Details	No.	Issue price $	$
01/07/2010	Opening balance	160,175,576		25,588,199
08/12/2010	Share placement proceeds received	11,250,000	0.040	450,000
24/01/2011	Share issued relating to the acquisition of South East Energy Ltd proceeds receivec	152,325,015	0.025	3,808,125
11/02/2011	Exercise of options proceeds received	6,250,000	0.050	312,500
15/04/2011	Share purchase plan proceeds received	18,176,632	0.030	545,299
06/06/2011	Exercise of options proceeds received	6,000	0.060	360
14/06/2011	Exercise of options proceeds received	77,316	0.060	4,639
29/06/2011	Exercise of options proceeds received	38,192	0.060	2,292
		348,298,731		30,711,414
	Less: transaction costs arising on share issue			(32,958)
	Deferred tax credit recognised in equity			9,887
30/06/2011	Balance	348,298,731		30,688,343
15/08/2011	1 for 5 non-renounceable rights offer	11,818,146	0.027	319,090
16/11/2011	Exercise of options proceeds received	3,000	0.060	180
08/12/2011	Exercise of options proceeds received	7,500	0.060	450
28/12/2011	Exercise of options proceeds received	300	0.060	18
15/03/2021	Exercise of options proceeds received	12,084	0.060	725
29/03/2012	Shares issued pursuant to a Service Agreement	6,000,000	0.010	61,724
02/05/2012	1 for 1 non-renounceable rights issue	191,186,480	0.005	955,932
17/05/2012	Shortfall of 1 for 1 non-renounceable rights issue	68,492,800	0.005	342,464
				32,368,926
	Less: transaction costs arising on share issue			(59,364)
	Deferred tax credit recognised in equity			17,809
	Balance	625,819,041		32,327,371

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the 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.

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

(c) **Capital Management**

Management controls the capital of the Group in order to generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group has no debt capital. There are no externally imposed capital requirements.

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

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

Note 22 Commitments

In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay amounts totalling approximately $2,589,067 during the year ending 30 June 2012 (2011: $2,050,000) in respect of tenement lease rentals and to meet minimum expenditure requirements pursuant to various joint venture requirements.

Note 23 Contingent Liabilities

Revenue SA has advised that they are conducting a review of the calculation of the stamp duty paid by the Company on the acquisition of South East Energy Pty Ltd. The Company is in the process of responding to Revenue SA enquiries. No determination has yet to be made as to whether there is any further liability.

Note 24 Segment Information

Identification of reportable segments

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

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

— external regulatory requirements; and
— geographical location.

Accounting policies adopted

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

Operations

The Georgetown Development segment was disposed of during the year. Further listed segmented assets for the Group including exploration costs and costs associated with mining leases are reported on in the segment.

(a) **Business segments**

30 June 2012	South East Energy $	Georgetown Gold $	Abminga Gold $	Billa Kalina Uranium $	All Other Segments $	Total $
Segment revenue	-	-	-	-	-	-
Adjusted earnings before interest, tax, depreciation and amortisation	-	(119,444)	(10,969)	-	(9,250)	(139,663)
Cost of goods sold	-	(385)	-	-	-	(385)
Impairment	-	(119,059)	(10,969)	-	(9,250)	(139,278)
Segment assets	**4,061,012**	**-**	**-**	**2,387,816**	**580,068**	**7,028,896**
Segment asset movements for the year:						-
Capital expenditure	7,064	90,683	10,969	5,076	113,277	227,069
Capital expenditure impaired	-	(119,059)	(10,969)	-	(9,250)	(139,278)
Total movement for the year	7,064	(28,376)	-	5,076	104,027	87,791
Segment assets						7,028,896
Unallocated assets						1,252,032
Total assets						**8,280,928**
Segment liabilities						-
Unallocated liabilities						119,145
Total liabilities						**119,145**

30 June 2011	South East Energy $	Georgetown Gold $	Abminga Gold $	Billa Kalina Uranium $	All Other Segments $	Total $
Segment revenue	-	207,047	-	-	-	207,047
Adjusted earnings before interest, tax, depreciation	-	(3,477,397)	(5,395,665)	(57,622)	(1,463,628)	(10,394,312)
Cost of goods sold	-	(721,535)			250	(721,285)
Impairment	-	(3,214,171)	(5,395,665)	(57,622)	(1,463,878)	(10,131,336)
Segment assets	**4,053,948**	**378,376**	**-**	**2,382,740**	**476,041**	**7,291,105**
Segment asset movements for the year:						-
Capital expenditure	-	255,597	4,352	327,918	244,534	832,401
Additions through acquisition of subsidiary	4,053,948	-	-	-	-	4,053,948
Transfer of plant & equipment assets to non-current assets classified as held for sale	-	150,000	-	-	-	150,000
Change in inventory	-	(41,086)	-	-	-	(41,086)
Capital expenditure impaired	-	(1,590,962)	(5,380,870)	(289,937)	(991,386)	(8,253,155)
Amortisation	-	(248,250)	-	-	-	(248,250)
Impairment in development property	-	(1,878,181)	-	-	-	(1,878,181)
Total movement for the year	4,053,948	(3,352,882)	(5,376,518)	37,981	(746,852)	(5,384,323)
Segment assets						7,291,105
Unallocated assets						369,176
Total assets						**7,660,281**
Segment liabilities						-
Unallocated liabilities						254,771
Total liabilities						**254,771**

(b) **Adjusted EBITDA**

	30 June 2012 $	30 June 2011 $
Allocated	(139,663)	(10,394,312)
Reconciliation of segment liabilities to group liabilities		
Unallocated		
Interest revenue	12,170	15,658
Other revenue	20,200	-
Other expenses	(5,694)	(12,579)
Marketing expenses	(697)	(48,037)
Administrative expenses	(500,023)	(655,771)
Finance costs	(2,138)	(1,069)
Depreciation and amortisation	-	(248,250)
Loss on disposal of assets	(77,436)	-
Loss on disposal of subsidiary	(171,665)	-
Impairment of other assets	-	(405,767)
Profit before income tax	(864,946)	(11,750,127)

(c) **Segment revenue**

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

	30 June 2012 $	30 June 2011 $
Total segment revenue	-	207,047
Interest revenue	12,170	15,658
Other revenue	20,200	-
Total revenue from continuing operations	32,370	222,705

(d) **Segment Assets**

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

	30 June 2012	30 June 2011
Allocated	$	$
Segment assets	7,028,896	7,291,105
Unallocated		
Cash and cash equivalents	1,224,895	119,135
Trade and other receivables	16,665	35,761
Other current assets	7,972	19,360
Property, plant and equipment	2,500	177,170
Other non-current assets	-	17,750
Total Assets	8,280,927	7,660,281

(e) **Segment Liabilities**

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

	30 June 2012	30 June 2011
Allocated	$	$
Segment liabilities	-	-
Unallocated		
Trade and other payables	115,662	211,346
Provisions	3,483	43,425
Total Liabilities	119,145	254,771

Note 25 Cash Flow Information

	Consolidated	
	2012 $	2011 $
(a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax**		
Loss after income tax	(882,755)	(11,760,015)
Non-cash flows in loss		
Depreciation	181	315,454
Loss on disposal of property, plant and equipment	77,437	-
Loss on disposal of controlled entity	171,665	9,568
Exploration asnd evaluation expenditure written off	-	8,253,155
Impairment loss	139,278	2,283,947
Share based payments	61,724	-
Income tax expense	17,809	9,887
(Increase)/decrease in trade and other receivables	1,348	293,048
(Increase)/decreae in inventories	-	41,086
(Increase)/decrease in prepayments	11,389	537
(Increase)/decrease in other non-current assets	41,962	-
Increase/(decrease) in goods and services tax	(31,557)	-
Increase/(decrease) in trade and other payables	(39,483)	(287,423)
Increase/(decrease) in provisions	(39,940)	(12,813)
Cash flow from operations	(470,943)	(853,569)

Note 26 Employee Options

(a) **Employee Option Plan**

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

The following share based payment arrangements existed at 30 June 2012:

On 16 November 2007 225,000 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 22 cents on or before 10 November 2012.

On 5 March 2008 635,500 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 16.5 cents on or before 5 March 2013.

On 4 February 2009 1,205,000 options were issued to employees under the Company's Employee Share Option Plan. The options are exercisable at 2.8 cents on or before 3 February 2014.

Set out below is a summary of the options granted under the Plan.

	Consolidated	
	Number	**Weighted average exercise price**
Options outstanding as at 1 July 2010	28,733,380	$0.287
Granted	-	
Forfeited	-	
Exercised	-	
Expired	(27,700,714)	$0.295
Options outstanding as at 30 June 2011	1,032,666	$0.121
Granted	-	
Forfeited	-	
Exercised	-	
Expired	(228,000)	
Options outstanding as at 30 June 2012	804,666	$0.093

The weighted average remaining contractual life of options outstanding at year end was 14 months (2011: 22 months). Exercise prices range from $0.028 to $0.220 in respect of options outstanding at year end.

No employee options were granted during the year ended 30 June 2012 (2011: Nil). Therefore no calculation of the fair value of options granted during the year was required to be made using the Black-Scholes option pricing model.

(b) **Employee Shares**

On 29 March 2012 K Lines was granted 6,000,000 ERO shares as part of a Service Agreement arrangement. The fair value of the shares issued was $0.0103 per share, being the weighted average of the prices at which shares traded in the ordinary course of trading on the ASX during the one week period up to and including that day.

Note 27 Events After the Reporting Period

Subsequent to balance date, 3,408,000 ERO shares were issued at $0.005 each pursuant to a shortfall under a rights issue.

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

Note 28 Related Party Transactions

(a) **The Group's main related parties are as follows:**

i. **Subsidiaries**
Interests in subsidiaries are set out in Note 15.

ii. **Associates**
Interests in associates are set out in Note 12.

iii. **Key management personnel**

During the year, K J Lines was paid consulting fees to the value of $77,000 (GST inclusive) for services performed during the period 1 September 2011 to 30 April 2012.

All other disclosures relating to key management personnel are set out in Note 7.

(b) **Transactions with related parties:**

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

Note 29 Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to associated companies.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

		Consolidated	
		2012	2011
	Note	$	$
Financial Assets			
Cash and cash equivalents	10	1,224,895	119,135
Trade and other receivables	11e	16,665	35,761
Total Financial Assets		1,241,560	154,896
Financial Liabilities			
Financial liabilities at amortised cost			
Trade and other payables	19	115,662	211,346
Total Financial Liabilities		115,662	211,346

Financial Risk Management Policies

Risk management is carried out by management under policies approved by the Board of Directors. Management monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

(a) **Credit risk**

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

(b) **Liquidity risk**

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

(c) **Market Risk**

Foreign exchange risk

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

Price Risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from foreign exchange or interest rate risk). The Group is not exposed to any material price risk.

Cash flow and fair value interest risk

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

Interest rate risk

At the end of the reporting period, the Group had the following variable cash and cash equivalent holdings

	Consolidated Group			
	Effective Average Fixed Interest Rate Payable		Notional Principal	
	2012	2011	2012	2011
Maturity of notional amounts	%	%	$	$
Less than 1 year	3.82%	3.75%	1,224,895	119,135
			1,224,895	119,135

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table demonstrates the effect on the current year results and equity which could result from a change in these risks.

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as

	Consolidated	
	Profit	Equity
Year ended 30 June 2012	$	$
+2% in interest rates	24,498	24,498
-2% in interest rates	(24,498)	(24,498)

	Consolidated	
	Profit	Equity
Year ended 30 June 2011	$	$
+2% in interest rates	2,383	2,383
-2% in interest rates	(2,383)	(2,383)

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

(d) ***Cash flow and fair value interest risk***

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

Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The Group did not have any financial assets or liabilities measured at fair value at 30 June 2012 (2011: Nil).

Note 30 Reserves

(a) **Share based payments**

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

(b) **Analysis of Each Class of Reserves**

		Consolidated	
		2012	2011
	Note	$	$
Share based payments		983,478	983,478
Movements during the year:			
Opening balance		983,478	882,007
Options issued during the year		-	101,471
Shares issued pursuant to a Service Agreement		-	-
Closing balance		983,478	983,478

Note 31 Going Concern

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

The cash flow projections of the Group indicate that it will require positive cash flows from additional capital for continued operations. The Group incurred a loss of $882,755 (2011: 11,760,015) and operations were funded by a net cash outlay of $470,943.

The Group is currently meeting minimum cash commitments and the Group is actively seeking joint venture partners to achieve a minimum cash outlay. Expenditure will increase in the event that positive gravity anomaly results are received for the Billa Kalina tenement; in this event, the Group will seek to raise capital based on positive exploration results.

The Group's ability to continue as a going concern is contingent on obtaining additional capital. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the 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.

Note 32 Company Details

The registered office of the company is:
ERO Mining Limited
Level 3
100 Pirie Street
Adelaide SA 5000

The principal places of business are:
ERO Mining Limited
Level 3
100 Pirie Street
Adelaide SA 5000

ERO MINING LIMITED ABN: 40119031864
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

In accordance with a resolution of the directors of ERO Mining Limited , the directors of the company declare that:

1. the financial statements and notes as set out on pages 20 to 39 are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   (b) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the consolidated group;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

3. the directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

Robert M Kennedy
Director
Adelaide
27 September 2012

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

Report on the financial report

We have audited the accompanying financial report of Ero Mining Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply 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. Those standards 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.

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 31 in the financial report which indicates that the company and consolidated entity's incurred a net loss of $882,755 during the year ended 30 June 2012 and cash used in operating activities of $470,943. These conditions, along with other matters as set forth in Note 31, indicate the existence of a material uncertainty which may cast significant doubt about the company and consolidated entity's ability to continue as a going concern and therefore, the company and consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S J Gray
Partner

Adelaide, 27 September 2012