



ERO Mining Limited

ABN 40 119 031 864

**Financial report
for the half-year ended 31 December
2010**

ERO Mining Limited ABN 40 119 031 864

Financial report - 31 December 2010

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

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

ERO Mining Limited
62 Beulah Road
Norwood
SA 5067

Registered postal address is:

ERO Mining Limited
PO Box 3126
Norwood
SA 5067

The financial statements were authorised for issue by the directors on 16 March 2011. The directors have the power to amend and reissue the financial statements.

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

Directors' report

Your directors present their report on the consolidated entity consisting of ERO Mining Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

Directors

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

Robert Michael Kennedy (Chairman)
Shane Gale (Managing Director, appointed 24 January 2011)
Neville Foster Alley (Executive Director, appointed 24 January 2011)
Hector Mackenzie Gordon (Non-Executive Director, appointed 24 January 2011)
Ian Roy Witton (Alternate for R M Kennedy since 26 August 2010, Alternate for K J Lines from 10 September 2010 to 24 January 2011)
Ewan John Vickery (Non-Executive Director, ceased 24 January 2011)
Kevin James Lines (Managing Director, ceased 24 January 2011)
Adam Simon Bannister (Alternate for E J Vickery, ceased 24 January 2011)

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

Review of operations

The loss for the consolidated entity for the half-year ended 31 December 2010 is (\$9,062,991) (2009: \$586,867).

During the half-year, the company proposed to acquire unlisted lithium and uranium explorer South East Energy Limited (South East). Just weeks after the end of this report the company successfully acquired South East making the transition from a more diversified explorer and gold mining company to one primarily intent on exploration for lithium, uranium and gold. As a result of the transaction ERO acquired exploration licences at Lake Frome (EL4601 and EL4602), at the southern end of Lake Torrens (EL4580), and nine Exploration Licences totalling 4,400 km² of freehold land straddling the Padthaway Ridge and the on-lapping Murray Basin sediments.

In respect of the tenements named Abminga (EL3601, EL3602, EL3964, EL3982, EL4019 & EL4020), Marree (EL3579), Mount Grainger/Nackara (EL3692, EL3741, EL3832, EL4294, EL4593 & EL4638) and Kingoonya (EL3573, EL3576, EL3590, EL 3591 & EL3613) the ERO Mining Limited Board (ERO) has decided it is reasonable to recognise impairment to the tenement package and continue to focus mineral exploration activities on other tenements that provide the best prospects. The Georgetown Gold Operation is available for sale and an impairment has been recognised on the measurement of alluvial and hard rock gold assets to a fair value less costs to sell. The result in total is an impairment write off of \$8,341,318.

The Company's key Wertaloona Project is located northeast of Port Augusta in the Lake Frome district where two previous Comalco holes (CF1 and CF2) intersected lithium ranging up to 250 parts per million (ppm). The Company held eight exploration licences in the Tanami Desert region, within Aboriginal Freehold Land and Pastoral land. Following collaborative and final consultation the Traditional Owners agreed to a Deed for Exploration consenting to grant an exploration licence over the prospective Suplejack tenement (ELA26625).

At the Georgetown Gold Mining Operation, the company completed a Heritage Survey with the Traditional Landowners and accessed the unmined alluvial terraces to the south and eastern portions of ML30091. The gold recovery plant worked the western limits of ML30091 with all mining activities occurring entirely within this tenement. Due to the onset of the wet season the gold recovery plant and site operations shut down effective 1 December 2010. All plant and equipment has been relocated to high ground, away from flood prone areas or taken off site for scheduled maintenance. The December half year gold sales totalled \$196,538 from the production of 150 ounces of gold. The Company is reviewing options for the Georgetown operations and is in discussions with a number of interested parties.

The company raised \$450,000 via the issue of 11,250,000 ordinary shares at 4 cents per share, together with one free attaching option exercisable at 5 cents each on or before 31 October 2011 for each share issued (the "Placement"). The Placement was made to sophisticated and professional investors under the Company's 15% placement capacity and as a result did not require shareholder approval.

Matters subsequent to the end of the financial half-year

Subsequent to reporting date, ERO Mining Limited shareholders gave approval for the acquisition of 100% of the capital of South East Energy Limited. The consideration for the acquisition of South East Energy Limited shares and cancellation of options was as follows:

- 4.5 ERO Mining Limited shares issued for each existing South East Energy Limited share
- 4.5 ERO Mining Limited options exercisable before 31 October 2011 at \$0.05 for every existing South East Energy Limited option.

A total of 152,325,015 shares and 191,250,000 options were issued.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 December 2010 has been received and can be found on page 3.

Dated at Adelaide this 16th day of March 2011 and signed in accordance with a resolution of the Directors.

A handwritten signature in blue ink, appearing to read 'R. Kennedy', with a stylized flourish at the end.

Robert M Kennedy
Director

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Ero Mining Limited for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



P S Paterson
Partner

Adelaide, 16 March 2011

ERO Mining Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2010

	Half-year	
	31 December 2010	31 December 2009
	\$	\$
Revenue from continuing operations	204,773	18,950
Cost of goods sold	(716,875)	-
Marketing expense	(42,334)	(3,695)
Administrative expense	(158,532)	(494,599)
Finance costs	(605)	(524)
Impairment of exploration assets	(7,863,137)	(93,667)
Impairment of development assets	(478,181)	-
(Loss) before income tax	(9,054,891)	(573,535)
Income tax (expense)/ income	(8,100)	(13,332)
(Loss) from continuing operations	(9,062,991)	(586,867)
(Loss) for the half-year	(9,062,991)	(586,867)
Other comprehensive income	-	-
Total comprehensive income for the half-year	(9,062,991)	(586,867)
Total comprehensive income for the half-year is attributable to:		
Owners of ERO Mining Limited	(9,062,991)	(586,867)
	(9,062,991)	(586,867)
	Cents	Cents
Earnings per share for (loss) attributable to the ordinary equity holders of the parent entity:		
Basic earnings per share	(5.61)	(0.41)
Diluted earnings per share	(5.61)	(0.41)

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

ERO Mining Limited
Consolidated statement of financial position
As at 31 December 2010

	31 December 2010	30 June 2010
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	290,188	361,294
Trade and other receivables	188,263	410,527
Inventories	1,567	41,086
Available-for-sale assets	<u>1,600,000</u>	<u>-</u>
Total current assets	<u>2,080,018</u>	<u>812,907</u>
Non-current assets		
Investments accounted for using the equity method	1	1
Property, plant and equipment	757,652	822,496
Exploration and evaluation	2,729,222	10,307,911
Mine properties	-	2,326,431
Other non-current assets	<u>17,750</u>	<u>17,750</u>
Total non-current assets	<u>3,504,625</u>	<u>13,474,589</u>
Total assets	<u>5,584,643</u>	<u>14,287,496</u>
LIABILITIES		
Current liabilities		
Trade and other payables	205,140	267,348
Provisions	<u>28,050</u>	<u>28,165</u>
Total current liabilities	<u>233,190</u>	<u>295,513</u>
Non-current liabilities		
Provisions	<u>19,434</u>	<u>28,073</u>
Total non-current liabilities	<u>19,434</u>	<u>28,073</u>
Total liabilities	<u>252,624</u>	<u>323,586</u>
Net assets	<u>5,332,019</u>	<u>13,963,910</u>
EQUITY		
Contributed equity	4 26,019,299	25,588,199
Reserves	5(a) 882,007	882,007
Retained earnings/ (losses)	5(b) <u>(21,569,287)</u>	<u>(12,506,296)</u>
Total equity	<u>5,332,019</u>	<u>13,963,910</u>

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

ERO Mining Limited
Statement of changes in equity
For the half-year ended 31 December 2010

Consolidated	Notes	Contributed equity \$	Reserves \$	Retained earnings \$	Total equity \$
Balance at 1 July 2009		<u>23,551,107</u>	<u>882,007</u>	<u>(9,069,294)</u>	<u>15,363,820</u>
Total comprehensive income for the half-year as reported in the 2009 financial statements					
Profit/ (loss) for the period		-	-	(586,867)	(586,867)
Transactions with owners in their capacity as owners:					
Contributions of equity		2,068,201	-	-	2,068,201
Transaction costs, net of tax		(31,110)	-	-	(31,110)
		<u>2,037,091</u>	<u>-</u>	<u>-</u>	<u>2,037,091</u>
Balance at 31 December 2009		<u>25,588,198</u>	<u>882,007</u>	<u>(9,656,161)</u>	<u>16,814,044</u>

Consolidated	Notes	Contributed equity \$	Reserves \$	Retained earnings \$	Total equity \$
Balance at 1 July 2010		25,588,199	882,007	(12,506,296)	13,963,910
Total comprehensive income for the half-year					
Profit/ (loss) for the period	5(b)	-	-	(9,062,991)	(9,062,991)
Transactions with owners in their capacity as owners:					
Contributions of equity	4	450,000	-	-	450,000
Transaction costs, net of tax	4	(18,900)	-	-	(18,900)
		<u>431,100</u>	<u>-</u>	<u>-</u>	<u>431,100</u>
Balance at 31 December 2010		<u>26,019,299</u>	<u>882,007</u>	<u>(21,569,287)</u>	<u>5,332,019</u>

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

ERO Mining Limited
Statements of Cash Flows
For the half-year ended 31 December 2010

	Half-year	
	31 December 2010	31 December 2009
	\$	\$
Cash flows from operating activities		
Receipts from operating activities	196,538	-
Interest received	8,235	18,957
Tax receipts received	263,136	328,319
Payments to suppliers and employees	<u>(690,359)</u>	<u>(461,665)</u>
Net cash (outflow) inflow from operating activities	<u>(222,450)</u>	<u>(114,389)</u>
 Cash flows from investing activities		
Purchase of property, plant and equipment	-	(221,407)
Payment for development assets	-	(313,369)
Payment for exploration activities	(346,656)	(1,060,676)
Repayment of loans to related parties	<u>75,000</u>	<u>-</u>
Net cash (outflow) inflow from investing activities	<u>(271,656)</u>	<u>(1,595,452)</u>
 Cash flows from financing activities		
Proceeds from issues of shares	450,000	2,068,201
Capital raising costs	<u>(27,000)</u>	<u>(31,110)</u>
Net cash (outflow) inflow from financing activities	<u>423,000</u>	<u>2,037,091</u>
 Net (decrease) increase in cash and cash equivalents	(71,106)	327,250
Cash and cash equivalents at the beginning of the half-year	<u>361,294</u>	<u>758,184</u>
Cash and cash equivalents at end of the half-year	<u>290,188</u>	<u>1,085,434</u>

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

1 Summary of significant accounting policies

Basis of preparation of half-year financial report

Reporting Entity

ERO Mining Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company as at and for the half year ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at 62 Beulah Road, Norwood SA or at www.eromining.com.au.

Statement of Compliance

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Compliance with the Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by ERO Mining Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies applied by the entities in the consolidated group in this half-year report are consistent with those applied by the consolidated entity in its consolidated financial report for the year ended 30 June 2010.

Reporting Basis and Conventions

The half year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

2 Segment information

(a) Description of segments

Identification of reportable segments

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

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

- external regulatory requirements
- geographical and geological styles

Mining

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

Accounting policies developed

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

2 Segment information (continued)

(b) Business segments

Period ending 31 December 2010

	Georgetown Gold \$	Abminga Gold \$	Billa Kalina Uranium \$	Other \$	Total \$
Segment revenue	196,538	-	-	-	196,538
Adjusted EBITDA	(2,590,105)	(5,072,632)	-	(1,166,871)	(8,829,608)
Cost of goods sold	(468,625)	-	-	-	(468,625)
Amortisation	(248,250)	-	-	-	(248,250)
Impairment	(2,069,768)	(5,072,632)	-	(1,166,871)	(8,309,271)
Segment assets for the period ending 31 December 2010	<u>1,600,000</u>	-	<u>2,654,170</u>	<u>75,052</u>	<u>4,329,222</u>
Segment asset movements for the period					
Capital expenditure	227,846	4,352	1,173	19,028	252,399
Impairment	(2,069,768)	(5,072,632)	-	(1,166,871)	(8,309,271)
Amortisation	(248,250)	-	-	-	(248,250)
Total movement for the period	<u>(2,090,172)</u>	<u>(5,068,280)</u>	<u>1,173</u>	<u>(1,147,843)</u>	<u>(8,305,122)</u>
Total segment assets	-	-	-	-	4,329,222
Unallocated assets					1,255,421
Total assets					<u>5,584,643</u>
Total segment liabilities	53,168	9,042	-	-	62,210
Unallocated liabilities					190,414
Total liabilities					<u>252,624</u>

2 Segment information (continued)

Period ending 31 December 2009	Georgetown Gold \$	Abminga Gold \$	Billa Kalina Uranium \$	Other \$	Total \$
Segment revenue	-	-	-	-	-
Adjusted EBITDA	-	-	-	-	-
Cost of goods sold	-	-	-	-	-
Impairment	-	-	-	-	-
Segment assets for period ending 30 June 2010	<u>3,731,258</u>	<u>5,376,518</u>	<u>2,344,759</u>	<u>1,222,893</u>	<u>12,675,428</u>
Segment asset movements for the period					
Capital expenditure	1,510,892	45,550	12,326	294,509	1,863,277
Amortisation	(124,125)	-	-	-	(124,125)
Impairment	-	-	-	(2,569,994)	(2,569,994)
Total movement for the period	<u>1,386,767</u>	<u>45,550</u>	<u>12,326</u>	<u>(2,275,485)</u>	<u>(830,842)</u>
Total segment assets	-	-	-	-	12,675,428
Unallocated assets					1,612,068
Total assets					<u>14,287,496</u>
Total segment liabilities	-	-	-	-	-
Unallocated liabilities					323,586
Total liabilities					<u>323,586</u>

	Half-year	
	31 December 2010 \$	31 December 2009 \$
Adjusted EBITDA		
Allocated adjusted EBITDA	(8,829,608)	-
Unallocated:		
Interest revenue	8,235	18,950
Marketing expenses	(42,334)	(3,695)
Administrative expenses	(158,532)	(494,599)
Finance costs	(605)	(524)
Exploration general written off	(32,047)	(93,667)
Profit before income tax from continuing operations	<u>(9,054,891)</u>	<u>(573,535)</u>

3 Contingencies

Contingent liabilities

There have been no changes in contingent liabilities since the last reporting date.

4 Contributed equity

	31 December 2010 Shares	30 June 2010 Shares	31 December 2010 \$	30 June 2010 \$
(a) Share capital				
Ordinary shares Fully paid	<u>171,425,576</u>	<u>160,175,576</u>	<u>26,019,299</u>	<u>25,588,199</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2009	Opening balance	125,705,680		24,222,176
	Shares issued during the year	34,469,896	\$0.06	2,068,200
	Less: Transaction costs arising on share issue			<u>(702,178)</u>
31 December 2009	Balance	160,175,576		25,588,199
1 July 2010	Opening balance	160,175,576		25,588,199
24 September 2009	Share placement	11,250,000		
	Proceeds received		\$0.04	<u>450,000</u>
				26,038,199
	Less: Transaction costs arising on share issue			<u>(18,900)</u>
31 December 2010	Balance	<u>171,425,576</u>		<u>26,019,299</u>

5 Reserves and retained earnings

	31 December 2010 \$	30 June 2010 \$
(a) Reserves		
Share-based payments	<u>882,007</u>	<u>882,007</u>
	<u>882,007</u>	<u>882,007</u>

5 Reserves and retained earnings (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

	31 December 2010 \$	30 June 2010 \$
Balance at beginning of period	(12,506,296)	(9,069,294)
Net profit/ (loss) for the period	<u>(9,062,991)</u>	<u>(3,437,002)</u>
Balance at end of period	<u>(21,569,287)</u>	<u>(12,506,296)</u>

6 Events occurring after the reporting period

Subsequent to reporting date, ERO Mining shareholders gave approval for the acquisition of 100% of the capital of unlisted South Australian based lithium and uranium mineral explorer South East Energy Limited. The fair value of assets acquired and liabilities assumed have not yet been determined.

4.5 ERO Mining Limited shares were issued for each existing South East Energy Limited share. A total of 152,325,015 shares were issued.

4.5 ERO Mining Limited options exercisable before 31 October 2011 at \$0.05 for every existing South East Energy Limited option. A total of 191,250,000 options were issued.

Apart from the above, no further events have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

7 Going concern

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

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

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

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 12 are in accordance with the *Corporations Act 2001*, including
 - (i) complying with Accounting Standard AASB 134: Interim Financial Reportings, and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

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



Robert M Kennedy
Director

Adelaide
16 March 2011

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

We have reviewed the accompanying half-year financial report of Ero Mining Limited (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity’s financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Ero Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ero Mining Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 7 - going concern basis of accounting to the Half Year Financial Report. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the ordinary course of business, and at the amounts stated in the financial report.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



P S Paterson
Partner

Adelaide, 16 March 2011