



24 December 2010

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

Dear Sir/Madam

Notice of General Meeting and Proxy Form

Please find attached for release to the market a Notice of General Meeting and Proxy Form for ERO Mining Limited (ASX: ERO).

The Notice of General Meeting and personalised Proxy Form have been sent to all shareholders.

Yours faithfully

A handwritten signature in black ink, appearing to read "D W Godfrey", written over a horizontal line.

D W Godfrey
Company Secretary



ERO Mining Limited
ACN 119 031 864

62 Beulah Road Norwood
South Australia 5067

PO Box 3126 Norwood
South Australia 5067

Phone 61 8 8132 7970

Fax 61 8 8132 7999

Email info@eromining.com

web www.eromining.com

NOTICE OF GENERAL MEETING

ERO MINING LIMITED ACN 119 031 864 (ERO)

Gives notice that a General Meeting of its members will be held at Enterprise House, 136 Greenhill Road, Unley, South Australia on Monday, 24 January 2011 at 10.00 am (Adelaide time).

AGENDA

1. Issues of shares and options to acquire South East Energy Limited

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of ASX Listing Rules 7.1, 10.1 and 10.11, and for all other purposes, the issues of ERO securities to acquire all of the shares and cancel all of the options in South East Energy Limited, as summarised in the Explanatory Memorandum accompanying the notice convening this meeting, are approved."

Dated this 23rd day of December 2010.

BY ORDER OF THE BOARD

David Godfrey
COMPANY SECRETARY

NOTES

A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on their behalf. If the member is entitled to cast two or more votes at the meeting, they can appoint up to two proxies to attend and vote on their behalf.

If a member appoints two proxies, each proxy must be appointed to represent a specified proportion or number of the member's votes. Absent this specification, each proxy must exercise half the votes.

A proxy need not be a member of the company.

To appoint a proxy, a proxy form must be signed by the member or the member's attorney duly authorised in writing. If the member is a corporation, the proxy form must be signed in accordance with s127 of the *Corporations Act 2001* (Cth).

To be effective, a proxy form (and, if it is signed by an attorney, the authority under which it is signed or a certified copy of the authority) must be received by the company at least 48 hours prior to the commencement of the meeting.

Proxy forms and authorities may be sent to:

- Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne VIC 3001, or
- to the company's registered office, 62 Beulah Road, Norwood SA 5067, or
- by facsimile to Computershare on 1800 783 447, or
- to the company on +61 8 8132 7999.

Members who send their proxy forms by fax must make the original available for production at the meeting, if called upon to do so.

For the purpose of the meeting, shares in the company will be taken to be held by those persons who are registered holders at close of business on 22 January 2011. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Custodian Voting

- For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

EXPLANATORY MEMORANDUM

INTRODUCTION

ERO Mining Limited ("ERO") has entered into agreements with every holder of shares and options in South East Energy Limited ("South East") to acquire those shares and cancel those options. The agreements are subject to ERO's members approving the issues of securities under those agreements.

DETAILS OF THE ACQUISITION

ERO will provide the following consideration for the acquisition of shares and cancellation of options:

- 4.5 ERO shares will be issued to acquire each existing South East share
- 4.5 ERO options exercisable before 31 October 2011 at 5 cents each will be issued in consideration for the cancellation of every existing South East option

Where a fractional entitlement to an ERO share or option exists, it will be rounded up to the nearest whole number.

Shares and options in ERO will be issued to South East's share and option holders as follows:

South East Share/Option Holder	Number of Shares in South East	Number of Options in South East	Number of ERO Shares to be issued	Number of ERO Options to be issued	Related Party
Robert Kennedy	1	0	5	0	Yes – director
Reginald Nelson	1	0	5	0	No
Neville Alley	1	0	5	0	Yes – proposed director
South Australian Resource Investments Pty Ltd	4,010,000	4,000,000	18,045,000	18,000,000	No
Bedrist Pty Ltd	250,000	250,000	1,125,000	1,125,000	No
RMK Super Pty Ltd	4,000,000	6,000,000	18,000,000	27,000,000	Yes – entity controlled by a director, Robert Kennedy
SEU Pty Ltd	4,000,000	6,000,000	18,000,000	27,000,000	Yes – entity controlled by a proposed director, Shane Gale
Smart Family Super Fund	1,000,000	1,000,000	4,500,000	4,500,000	No
Smart Holding Pty Ltd	1,000,000	1,000,000	4,500,000	4,500,000	No
Aurelius Resources Pty Ltd	4,000,000	6,000,000	18,000,000	27,000,000	No
Neville Foster Alley & Bronwyn Dianne Ireland Prospects Trust	4,450,000	6,000,000	20,025,000	27,000,000	Yes – entity controlled by a proposed director, Neville Alley
Aloren (No. 148) Pty Ltd	4,400,000	6,000,000	19,800,000	27,000,000	No
Dom Cosentino	250,000	250,000	1,125,000	1,125,000	No
Reginald George and Susan Margaret Nelson	400,000	0	1,800,000	0	No
Triple Eight Gold Pty Ltd	400,000	0	1,800,000	0	Yes – entity controlled by a director, Robert Kennedy
Hector Gordon	4,440,000	6,000,000	19,800,000	27,000,000	Yes – proposed director
Cairnglen Investments Pty Ltd	400,000	0	1,800,000	0	No
George Mocatta	150,000	0	675,000	0	No
Michael Paul and Fiona Therese Meaney	100,000	0	450,000	0	No
Kathryn Anne Presser	50,000	0	225,000	0	No
Steve Magor	100,000	0	450,000	0	No
Davan Nominees Pty Ltd	100,000	0	450,000	0	No
Marcus D and Rosalie M LaVincente	50,000	0	225,000	0	No
Chesser Investments Pty Ltd	100,000	0	450,000	0	No
Robert James Spiby	20,000	0	90,000	0	No
Andrew McFarlane Consulting Pty Ltd	20,000	0	90,000	0	No
Windsor Corporation Superannuation Fund	100,000	0	450,000	0	No
Shane Kennedy	50,000	0	225,000	0	Yes – child of a director, Robert Kennedy
Dom Francese	50,000	0	225,000	0	No

The effect of the acquisition on the capital structure of ERO will be as follows:

	Number of Shares	Number of Options
Existing ERO Issued Capital	171,425,576	39,983,380
Share and Options issued to South East Energy shareholders	152,325,015	191,250,000
New total	323,750,591	231,233,380

REASONS FOR THE ACQUISITION

ERO considers there has been a strong growth in demand for lithium in recent years and this growth will continue into the future. Lithium is used in the production of glass, aluminium, and lithium batteries, which have extensive use in mobile phones, laptops and hybrid electric vehicles. The acquisition of South East presents a fantastic opportunity to acquire tenements which house a number of projects which are prospective for this increasingly demanded mineral.

The conditions of the Lake Frome and Lake Torrens regions where the tenements are located are extremely favourable for lithium concentration in brine sediments when compared to other global lithium operations. ERO proposes to embark upon a low cost, low capital development exploration strategy to assess these conditions in further detail.

The immediate strategy is to redirect its focus into exploration for lithium within these two regions and also determine if uranium is able to be extracted in commercial quantities from the same regions.

CHANGES TO THE BOARD

Upon completion of the acquisition the ERO board will be restructured.

The board will have the following new members:

- Mr Shane Gale – CEO
- Dr Neville F Alley – Executive Director
- Mr Hector Gordon – Non-Executive Director

The board will also see the following departures:

- Mr Ewan Vickery
- Mr Kevin Lines

Mr Robert Kennedy will remain as Non-Executive Chairman.

ASX LISTING RULES

Listing Rule 7.1

Subject to certain exceptions, ASX Listing Rule 7.1 states that a company must not issue, or agree to issue, more than 15% of its equity securities in a 12 month period, without the approval of ordinary shareholders. The consideration paid by ERO for every share and option held in South East will be over the 15% limit and requires shareholder approval.

Information required under Listing Rule 7.3:

1. The maximum number of shares to be issued is 152,325,015 and the maximum number of options to be issued is 191,250,000.
2. The securities will be issued and allotted within one month of the meeting to which this Explanatory Memorandum relates.
3. Shares and options will be issued on the following basis: 4.5 ERO shares will be issued for every existing South East share, and 4.5 ERO options exercisable before 31 October 2011 at 5 cents each will be issued for every existing South East option. Fractional entitlements to shares and options will be rounded up.
4. The recipients of the shares and options are listed in the table above.
5. The terms of the issue of shares and options are summarised in this Explanatory Memorandum.
6. There will be no funds raised from the issue.

Listing Rule 10.1

Subject to certain exceptions, ASX Listing Rule 10.1 requires the approval of shareholders for transactions involving the acquisition or disposal of "substantial assets" which take place between entities, where there exists between those entities certain defined relationships or a relationship that, in the opinion of ASX, requires a transaction to be approved by shareholders.

A "substantial asset" for the purpose of Listing Rule 10.1 is one where the consideration paid for it or its value (or its value in the opinion of the ASX) exceeds 5% or more of the equity interests as set out in the latest accounts of the Company given to the ASX under the Listing Rules.

For the purposes of ASX Listing Rule 10.1, the acquisition of shares and cancellation of options in South East are subject to shareholder approval because:

1. the interests in South East being acquired by ERO are "substantial assets"; and
2. the transacting parties are in a relationship of the type that will cause ASX to apply Listing Rule 10.1 to the acquisition.

Accordingly, approval is sought from shareholders for the purpose of Listing Rule 10.1.

Where a company is required to seek approval under Listing Rule 10.1, Listing Rule 10.10 requires that the notice of meeting be accompanied by a report on the transaction by an independent expert stating whether the transaction is fair and reasonable to the company's ordinary security holders.

Pursuant to Listing Rule 10.10, ERO commissioned a report on the acquisition by Ernst & Young Transaction Advisory Services Limited. That report is provided to shareholders with this Explanatory Memorandum. The report concludes the transaction is fair and reasonable to non associated ERO shareholders.

Listing Rule 10.11

ASX Listing Rule 10.11 states that a company must not issue or agree to issue equity securities to a related party without the approval of ordinary shareholders. Certain South East share and option holders are ERO related parties. They will receive shares and options in ERO on the same terms as every other South East share and option holder. Shareholder approval is required for the issue of ERO securities to those related parties.

Information required under Listing Rule 10.13:

1. The number of shares and options will be issued to the related parties identified in the table above.
2. The securities will be issued and allotted within one month of the meeting to which this Explanatory Memorandum relates.
3. The issue will be on the terms summarised in this Explanatory Memorandum.
4. There will be no funds raised from the issue.

VOTING EXCLUSION STATEMENT

ERO will disregard any votes cast on the resolution by the persons that will be issued securities and their associates.

However ERO need not disregard a vote if it is cast:

- by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or
- by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as a proxy decides.

RECOMMENDATION BY THE DIRECTORS

The directors (excluding Robert Kennedy, who makes no recommendation) recommend shareholders vote in favour of the resolution. The chair of the meeting intends to vote undirected proxies in favour of the resolution.



Independent Expert's Report and Financial Services Guide

**ERO MINING LIMITED – PROPOSED ACQUISITION
OF SOUTH EAST ENERGY LIMITED**

18 November 2010

PART 1 – INDEPENDENT EXPERT'S REPORT

18 November 2010

The Independent Directors

ERO Mining Limited
62 Beulah Road
Norwood SA 5067

Dear Sirs

PROPOSED ACQUISITION OF SOUTH EAST ENERGY LIMITED

Introduction

On 12 October 2010, ERO Mining Limited ("ERO" or the "Company") announced that it intends to acquire all of the issued shares and options of South East Energy Limited ("SEZ") for a consideration to be satisfied by the issue of 4.5 new ERO shares for every existing SEZ share (the "Consideration Shares") and 4.5 new ERO options for every existing SEZ option (the "Consideration Options") (the "Proposed Transaction").

With SEZ having 33,850,003 shares and 42,500,000 options on issue, under the Proposed Transaction ERO will be issuing 152,325,014 Consideration Shares and 191,250,000 Consideration Options. The Consideration Options are to be exercisable at 5 cents each on or before 31 October 2011. At the date of this report ERO has 160,175,576 shares on issue. If the acquisition of SEZ proceeds, the number of shares the Company will have on issue will increase to 312,500,590. The number of options ERO will have on issue will increase from 28,733,380 to 219,983,380.

Australian Securities Exchange ("ASX") Listing Rule 10.1 prohibits a listed entity from acquiring a substantial asset from a related party without the prior approval of its shareholders. An asset is 'substantial' if its value, or the value of the consideration being paid, is 5% or more of the listed entity's equity as set out in the latest accounts lodged with the ASX. A 'related party' includes a director of the listed entity or their associates and any party that has reasonable grounds to become a related party in the future.

ASX Listing Rule 10.1 is deemed to apply to the Proposed Transaction on the basis that:

- SEZ is a substantial asset; and
- ERO's non-executive Chairman, Mr Robert Kennedy, is also the Chairman of SEZ and SEZ directors Mr Shane Gale, Dr Neville Alley and Mr Hector Gordon will become directors of ERO upon completion of the Proposed Transaction.

Accordingly, approval of the Proposed Transaction is being sought from ERO shareholders for the purpose of ASX Listing Rule 10.1.

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution being put to shareholders for the purposes of ASX Listing Rule 10.1 must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the proposed transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with this requirement, Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") has been appointed by the independent Directors of ERO to prepare an independent expert's report, the purpose of which is to provide an opinion as to whether or not the Proposed Transaction is fair and reasonable to the non-associated shareholders of ERO. The 'Independent Directors' are the Directors of ERO excluding Mr Kennedy. The non-associated shareholders are those shareholders not associated with the Proposed Transaction, SEZ and Mr Kennedy (the "Non-Associated Shareholders").

The Non-Associated Shareholders are to vote on the Proposed Transaction at the Company's General Meeting to be held as soon as practicable (the "Meeting"). Our independent expert's report is to be included with the Notice of General Meeting and Explanatory Notes being sent to the ERO shareholders in relation to the Meeting.

The ASX Listing Rules do not define the term 'fair and reasonable' and provide no guidance on what should be considered when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. In this context, the Australian Securities and Investment Commission ("ASIC") has issued Regulatory Guide 111: Content of expert reports ("RG 111") which provides some direction as to what matters an independent expert should consider and how 'fair and reasonable' should be interpreted in a range of circumstances.

RG 111 states that in deciding on the appropriate form of analysis, the expert needs to keep in mind that the main purpose of the report is to adequately deal with the reasonably anticipated concerns of those persons affected by the proposed transaction (i.e. the shareholders not involved in the transaction). The form of analysis an expert uses to evaluate a transaction should address the issues faced by shareholders.

A key consideration of the shareholders of a company entering into a substantial transaction with a related party is generally whether or not they will be better or worse off because of the transaction. The primary rationale behind ASX Listing Rule 10.1 is to ensure, as far as practicable, that non-associated shareholders are no worse off because of a substantial related party transaction.

Under the Proposed Transaction, ERO is to acquire SEZ for a consideration to be satisfied by the issue of 152,325,014 Consideration Shares and 191,250,000 Consideration Options. As a consequence of the issue of the Consideration Shares, on an undiluted basis, the shareholders of SEZ, as a collective group and including the ERO shares Mr Kennedy has a relevant interest in, will have a shareholding interest in ERO of 50%. The Non-Associated Shareholders' collective interest in ERO will reduce from 97.5% to 50%. No single SEZ shareholder after the Proposed Transaction will have a greater than 10% interest in ERO.

RG 111 provides that where the transaction being considered has a similar outcome on the company's shareholding as a takeover bid then 'fair and reasonable' should be analysed as if the transaction were a takeover bid. A takeover bid generally involves a control transaction where one entity acquires a controlling interest in another entity or increases an already existing controlling interest. While no 'one entity' is acquiring a controlling interest in ERO as a consequence of the Proposed Transaction, given the significance of the acquisition of SEZ on the Non-Associated Shareholders the impact is not dissimilar to a takeover bid.

In this regard, RG 111.10 provides that "An offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the 'offer' ". RG111.62 provides that an expert should usually give a range of values for the securities that are the subject of the offer. In this independent expert's report, we consider that, if the value of the offer price, represented by each share and option in SEZ is equal to or greater than the value assessed for the 4.5 Consideration Shares and the 4.5 Consideration Options to be issued by ERO, representing the securities that are the subject of the 'offer', the Proposed Transaction would be fair to the Non-Associated Shareholders of ERO.

RG 111.11 provides that "An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer. RG 111.12 lists a number of items which experts may consider when assessing the reasonableness of an offer. We have considered these in the preparation of this report.

Summary of Opinion

In Section 10.1, we set out our valuation conclusion. This indicates that the value of the consideration being offered to ERO (being the issued shares and options in SEZ) is greater than the value of the Consideration Shares and the Consideration Options being issued by ERO.

In Section 10.2 we set out some other qualitative factors which should be taken into consideration.

In Section 10.3 we considered the likelihood of a superior proposal being made to shareholders and the other alternatives available to shareholders.

Taking into consideration the matters detailed in our independent expert's report, in the opinion of Ernst & Young Transaction Advisory Services, the Proposed Transaction is considered to be fair and reasonable to the Non-Associated Shareholders of ERO.

Other Matters

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of ERO. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than ERO shareholders in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision as to whether to approve or not approve the Proposed Transaction is a matter for individual ERO shareholders. ERO shareholders should have regard to the Notice of Meeting and Explanatory Notes prepared by the directors and management of ERO in relation to the Proposed Transaction. Shareholders who are in doubt as to the action they should take in relation to Proposed Transaction should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full Independent Expert's Report as attached.

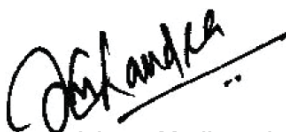
Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Ken Pendergast
Director and Representative



Ishwar Madhyastha
Director and Representative

Contents

Proposed Acquisition of South East Energy Limited	1
1. Detail of the Proposed Transaction	4
1.1 Overview	4
1.2 Conditions Precedent	4
2. Scope of the Report	4
2.1 Purpose of the Report	4
2.2 Basis of Evaluation	5
2.3 ERO Shareholders' Decision	5
2.4 Limitation and Reliance on Information	6
3. Overview of ERO	6
3.1 Company History	6
3.2 Financial Information	8
3.3 Exploration Activities	10
3.4 Capital Structure	11
3.5 Share Price Performance	12
3.6 Board and Executives	13
4. Overview of South East Energy	14
4.1 Company History	14
4.2 Financial Information	14
4.3 Exploration Activities	16
4.4 Capital Structure	16
4.5 Board and Executives	17
5. Overview of ERO after the Proposed Transaction	17
5.1 Introduction	17
5.2 Directors and Management	17
5.3 The FY11 Exploration Program	18
5.4 Capital Structure	18
6. Industry Profile	19
6.1 Lithium	19
6.2 Uranium	20
7. Valuation Methodology and Approach	21
7.1 Definition of Market Value	21
7.2 Valuation Methodology and Approach	21
7.3 Valuation Methodology Adopted	21
7.4 Reliance on Technical Expert	22
8. Valuation of ERO	22
8.1 Approach	22
8.2 Net Asset Value	22
8.3 Recent Share Issues	24
8.4 Market Price Analysis	24
8.5 Valuation Conclusion	25
8.6 Valuation of Consideration Options	25
9. Valuation of SEZ	25
9.1 Approach	25
9.2 Valuation of SEZ's Assets	25
9.3 Valuation Conclusion	26
9.4 Valuation of SEZ Options	26
10. Evaluation of the Proposed Transaction	26
10.1 Valuation Conclusion	26
10.2 Commercial and Qualitative Factors	27
10.3 Alternatives	29
10.4 Other Considerations	29
10.5 Conclusion on the Proposed Transaction	29
Appendix A Statement of Qualifications and Declarations	30
Appendix B Sources of Information	31
Appendix C Glossary	32
Appendix D Report by SRK Consulting Australasia Pty Ltd	33

© 2010 Ernst & Young Australia.

Liability limited by a scheme approved under Professional Standards Legislation.

1 Detail of the Proposed Transaction

1.1 OVERVIEW

ERO is an Adelaide based resource company that has the Georgetown Alluvial Gold project ("Georgetown") in northern Queensland, is earning an interest in the Billa Kalina IOCGU (i.e. iron oxide, copper, gold, uranium) project in South Australia and holds a number of prospective gold and uranium tenements in the Tanami region of the Northern Territory.

Having commissioned Georgetown as a small scale gold production project in April 2010, in its June 2010 Quarterly Report the Company announced that it had received a number of unsolicited expressions of interest for the purchase of Georgetown and as a consequence was considering the various alternative options for those operations. In August 2010, ERO announced that it believed the sale of Georgetown to be in the best interests of shareholders. With this being the Company's intention, ERO has been considering other projects to provide new focus for its exploration activities.

In this regard, on 12 October 2010, ERO Mining Limited ("ERO" or the "Company") announced that it intends to acquire all of the issued shares and options of South East Energy Limited ("SEZ") for a consideration to be satisfied by the issue of 4.5 new ERO shares for every existing SEZ share (the "Consideration Shares") and 4.5 new ERO options for every existing SEZ option (the "Consideration Options") (the "Proposed Transaction").

Incorporated in May 2007, SEZ's principal activity to date has been the exploration of lithium hosted in the brines and sediments of South Australia's Lake Frome and Lake Torrens areas.

If the Proposed Transaction proceeds, SEZ will become a wholly owned subsidiary of ERO, with SEZ's operations becoming the main focus of ERO going forward.

With SEZ having 33,850,003 shares and 42,500,000 options on issue, under the Proposed Transaction ERO will be issuing 152,325,014 Consideration Shares and 191,250,000 Consideration Options. The Consideration Options are to be exercisable at 5 cents each on or before 31 October 2011. With ERO, at the date of this report, having 160,175,576 shares on issue, if the acquisition of SEZ proceeds the number of shares the Company will have on issue will increase to 312,500,590. The number of options ERO will have on issue will increase from 28,733,380 to 219,983,380.

Mr Robert Kennedy, ERO's non-executive Chairman, is also the Chairman of SEZ. Mr Kennedy holds a relevant interest in 4,400,001 shares in SEZ, representing a 13.0% interest, and 6,000,000 SEZ options. Mr Kennedy also holds a relevant interest in 3,956,000 ERO shares, representing a 2.5% interest, and 3,500,000 ERO options.

As a consequence of the issue of the Consideration Shares, on an undiluted basis, the shareholders of SEZ as a collective group and including the ERO shares Mr Kennedy has a relevant interest in, will have a shareholding interest in ERO of 50%. The Non-Associated Shareholders', being those shareholders not associated with the Proposed Transaction, SEZ and Mr Kennedy, collective interest in ERO will reduce from 97.5% to 50%. No single SEZ shareholder after the Proposed Transaction will have a greater than 10% interest in ERO.

Maximus Resources Limited ("Maximus") which is currently ERO's largest shareholder with a 27.8% interest will remain the enlarged company's largest single shareholder with a 14.3% interest.

On a fully diluted basis, if all of the 219,983,380 options that ERO would have on issue after the Proposed Transaction were exercised the number of shares the Company would have on issue would increase to 532,483,970. As a result SEZ shareholders, including Mr Kennedy's relevant interest, would hold a collective 65.9% interest, with the Non-Associated Shareholders having a 34.1% interest.

1.2 CONDITIONS PRECEDENT

The completion of the Proposed Transaction is subject to a number of conditions including:

- ERO undertaking additional due diligence to its satisfaction;
- SEZ warranting to ERO that the information it has given to ERO about SEZ is true and correct in all material respects and that it has not withheld any information that would materially affect the willingness of a person from proceeding with the Proposed Transaction;
- The negotiation and execution of legally binding transaction documents between ERO and the share and option holders of SEZ;
- ERO obtaining board approval to execute the transaction documents; and amongst other conditions; and
- Receipt of ERO shareholder approval.

Full disclosure of the conditions precedent to the Proposed Transaction is included in the Explanatory Notes.

2 Scope of the Report

2.1 PURPOSE OF THE REPORT

ASX Listing Rule 10.1 prohibits a listed entity from acquiring a substantial asset from a related party without the prior approval of its shareholders. An asset is 'substantial' if its value, or the value of the consideration being paid, is 5% or more of the listed entity's equity as set out in the latest accounts lodged with the ASX. A 'related party' includes a director of the listed entity or their associates and any party that has reasonable grounds to become a related party in the future.

ASX Listing Rule 10.1 is deemed to apply to the Proposed Transaction on the basis that:

- SEZ is a substantial asset; and
- ERO's non-executive Chairman, Mr Robert Kennedy, is also the Chairman of SEZ and SEZ directors Mr Shane Gale, Dr Neville Alley and Mr Hector Gordon will become directors of ERO upon completion of the Proposed Transaction.

Accordingly, approval of the Proposed Transaction is being sought from ERO shareholders for the purpose of ASX Listing Rule 10.1.

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution being put to shareholders for the purposes of ASX Listing Rule 10.1 must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the proposed transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with this requirement, Ernst & Young Transaction Advisory Services has been appointed by the independent Directors of ERO to prepare an independent expert's report, the purpose of which is to provide an opinion as to whether or not the Proposed Transaction is fair and reasonable to the non-associated shareholders of ERO. The independent Directors are the Directors of ERO excluding Mr Kennedy (the "Independent Directors"). The non-associated shareholders are those shareholders not associated with the Proposed Transaction, SEZ and Mr Kennedy (the "Non-Associated Shareholders").

Our independent expert's report is to be included with the Notice of General Meeting and Explanatory Notes being sent to the ERO shareholders in relation to the Meeting.

2.2 BASIS OF EVALUATION

The ASX Listing Rules do not define the term 'fair and reasonable' and provide no guidance on what should be considered when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. In this context, the Australian Securities and Investment Commission ("ASIC") has issued Regulatory Guide 111: Content of expert reports ("RG 111") which provides some direction as to what matters an independent expert should consider and how 'fair and reasonable' should be interpreted in a range of circumstances.

RG 111 states that in deciding on the appropriate form of analysis, the expert needs to keep in mind that the main purpose of the report is to adequately deal with the reasonably anticipated concerns of those persons affected by the proposed transaction (i.e. the shareholders not involved in the transaction). The form of analysis an expert uses to evaluate a transaction should address the issues faced by shareholders.

A key consideration of the shareholders of a company entering into a substantial transaction with a related party is generally whether or not they will be better or worse off because of the transaction. The primary rationale behind ASX Listing Rule 10.1 is to ensure, as far as practicable, that non-associated shareholders are no worse off because of a substantial related party transaction.

Under the Proposed Transaction, ERO is to acquire SEZ for a consideration to be satisfied by the issue of 152,325,014 Consideration Shares and 191,250,000 Consideration Options. As a consequence of the issue of the Consideration Shares, on an undiluted basis, the shareholders of SEZ, as a collective group and including the ERO shares Mr Kennedy has a relevant interest in, will have a shareholding interest in ERO of 50%. The Non-Associated Shareholders' collective interest in ERO will reduce from 97.5% to 50%. No single SEZ shareholder after the Proposed Transaction will have a greater than 10% interest in ERO.

RG 111 provides that where the transaction being considered has a similar outcome on the company's shareholding as a takeover bid then 'fair and reasonable' should be analysed as if the transaction were a takeover bid. A takeover bid generally involves a control transaction where one entity acquires a controlling interest in another entity or increases an already existing controlling interest. While no 'one entity' is acquiring a controlling interest in ERO as a consequence of the Proposed Transaction, given the significance of the acquisition of SEZ on the Non-Associated Shareholders the impact is not dissimilar to a takeover bid.

In this regard, RG 111.10 provides that "An offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the 'offer'". RG 111.62 provides that an expert should usually give a range of values for the securities that are the subject of the offer. In this independent expert's report, we consider that, if the value of the offer price, represented by each share and option in SEZ is equal to or greater than the value assessed for the 4.5 Consideration Shares and the 4.5 Consideration Options to be issued by ERO, representing the securities that are the subject of the 'offer', the Proposed Transaction would be fair to the Non-Associated Shareholders of ERO.

RG 111.11 provides that "An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer." RG 111.12 lists a number of items which experts may consider when assessing the reasonableness of an offer. We have considered these in the preparation of this report.

Consistent with this guidance, in assessing whether or not the Proposed Transaction is 'fair' to the Non-Associated Shareholders we have compared the fair value of a SEZ share, representing, in the context of the Proposed Transaction being likened to a takeover bid, the 'offer price or consideration' with the fair value of ERO shares, representing the 'securities that are subject of the offer'. The comparison of values is required to be on a basis consistent with the relative terms of the Proposed Transaction. In assessing the value of ERO shares we have valued ERO on a controlling interest basis.

"Fair value" in this context is considered to be *"the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length"*.

In considering the fair value of SEZ we have relied on the independent report prepared by SRK Consulting Australasia Pty Ltd ("SRK"), mineral and base metal industry specialists, in which the value of SEZ's lithium and uranium mineral assets have been determined. A copy of SRK's report is attached in full at Appendix D.

In placing reliance on the report prepared by SRK we have satisfied ourselves as to SRK's competence and expertise. We are also satisfied that the methodologies and source data used by SRK is reasonable and appropriate and that the report contains sufficient information to support the conclusions drawn.

In determining the fair value of ERO and SEZ we had access to the management of ERO and SEZ and management information in relation to both ERO and SEZ. Our fair value assessment of ERO and ERO's shares are summarised in Section 8. Our assessment of the fair value of ERO after the Proposed Transaction is summarised in Section 10.1.

The other factors considered in assessing the reasonableness of the Proposed Transaction include the following matters:

- Other qualitative factors which we believe represent either advantages or disadvantages to the Non-Associated Shareholders;
- The level of control to be achieved by the SEZ shareholders in ERO;
- The existence of any premium for control;
- The alternatives available to Non-Associated Shareholders; and
- The market reaction to the Proposed Transaction.

The consideration of other significant factors is contained in Section 10.4.

Our assessment of the Proposed Transaction is based on the economic, political, social, market and other conditions prevailing at the date of this report.

A glossary detailing the abbreviations we have used in this report is contained in Appendix C.

2.3 ERO SHAREHOLDERS' DECISION

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of ERO at the request of ERO with respect to the Proposed Transaction. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than ERO's Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision to approve or not approve the Proposed Transaction is a matter for individual shareholders. Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Shareholders should have regard to the Notice of Meeting and Explanatory Notes prepared by the Independent Directors

and management of the Company. ERO shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Our opinion on the merits of the Proposed Transaction should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underpinning the opinion.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

2.4 LIMITATION AND RELIANCE ON INFORMATION

We have considered a number of sources in preparing this independent expert's report and arriving at our opinion. These sources of information are detailed in Appendix B.

This report is based upon financial and other information provided by ERO, SEZ and other parties including SRK. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to the merits of the Proposed Transaction from the perspective of the Non-Associated Shareholders. However, we do not warrant that our enquiries have identified all of the matters that an audit, or an extensive examination or due diligence might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of ERO or SEZ. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including Australian equivalents to International Financial Reporting Standards as applicable.

In forming our opinion we have also assumed that:

- Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- The information set out in the Notice of Meeting and Explanatory Memorandum to be sent by ERO to shareholders is complete, accurate and fairly presented in all material respects; and
- The publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analyses was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the Non-Executive Directors and management of ERO and SEZ for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

3. Overview of ERO

3.1 COMPANY HISTORY

ERO, formerly Eromanga Uranium Limited, is an Australia-based company. The Company is engaged in mineral exploration. ERO raised \$14.75 million through an initial public offering ("IPO") and listed on the ASX on 30 October 2006. At that time, the Company issued 61,339,203 shares at \$0.25 each.

At the time of listing, ERO had 20,000km² of tenements in South Australia and the Northern Territory. This included:

- 16,000km² in the Eromanga Basin Initiative projects, which related to the exploration of sedimentary uranium. ERO's exploration rights were governed by the Eromanga Basin JV agreement with Maximus. This agreement provided the opportunity to earn 70% in the Eromanga Basin Initiative; and
- 4,000km² in the Billa Kalina project which related to the exploration of sedimentary uranium and iron ore copper gold uranium (IOCGU) mineralisation. ERO exploration rights were governed by the Billa Kalina JV agreement with Maximus. This agreement provided the opportunity to earn 50% in the Billa Kalina projects.

In February 2008, ERO obtained an exploration licence ("EL") for Suplejack (EL26625) and in January 2009, the entity obtained a licence for Tanami West (EL27430). These two licences initially formed the Tanami project. The exploration area of Suplejack and Tanami West are 168km² and 58km² respectively. The Tanami Region, located approximately 600km north west of Alice Springs in the Northern Territory, is considered by management as one of the last remaining provinces in Australia capable of hosting multi-million ounce gold deposits.

On 1 December 2009, Eromanga Uranium Limited changed its name to 'ERO Mining Limited'. This coincided with the Company's strategy to re-align its exploration portfolio from uranium only to a dual focus of uranium and gold. This was consistent with the acquisition of Georgetown in June 2009 at a cost of \$2.65 million and signing of a Joint Venture agreement over the Nackara Arc Gold Project ("Nackara") where ERO had the opportunity to earn an 80% interest.

Georgetown was commissioned as a small scale gold operation in April 2010 and in the six month period to 30 September 2010 had produced 250 ounces of gold, realising revenues of approximately \$335,000. In August 2010, the ERO board announced its commitment to the sale of Georgetown. As a consequence of this decision, the exploration drilling program has been suspended until the outcome of the sale is clarified.

ERO's current portfolio of ELs, Exploration Licence Applications ("ELA"), Exploration Permits for Minerals ("EPM") and Mining Leases ("ML") is set out in the table on the following page.

Licence Number	Name	Date Granted / Applied for	Expiry Date	Area km ²
QUEENSLAND			Total	245.17
Georgetown			Total	245.17
EPM 15995	Tabletop Creek	21-Feb-08	20-Feb-13	150
EPM 18130	Green Hills	11-Jun-09		90
ML 3487	Stranna No. 2	27-Apr-89	30-Apr-10	0.23
ML 3488	Stranna No. 3	17-Nov-88	30-Nov-09	0.48
ML 3498	Stranna No.4	26-Jan-89	21-Jan-10	0.28
ML 3539	Stranna No.3 Extension	05-Oct-89	31-Oct-10	0.27
ML 6721	Black Orchid	12-Sep-91	30-Sep-11	0.25
ML 30017	Stranna Plant Site Stage 1	30-Jan-92	31-Jan-12	0.02
ML 30018	Re-start 7-9	26-Mar-92	30-Jun-17	0.03
ML 30019	New Start Six	05-Mar-92	30-Nov-12	0.01
ML 30084	Stranna Plant Site No.2	28-Jan-93	31-Jan-13	0.29
ML 30091	Last Laugh	22-Apr-93	30-Apr-13	0.62
ML 30122	All together	10-Feb-94	28-Feb-14	0.03
ML 30124	The Golden Tabletop	07-Apr-94	30-Apr-11	1.31
ML 30148	Golden Bar	30-Mar-95	31-Mar-15	0.01
ML 30227	Airstrip Lease	03-Mar-10		1.34
NORTHERN TERRITORY			Total	779
Tanami Exploration Initiative			Total	779
EL 26625	Suplejack	04-Feb-08		168
EL 27430	Tanami West	29-Jun-09		58
EL 27511	Highland Rocks	27-Jul-09		484
EL 27806	Talbot North	14-Jul-10	13-Jul-16	69
EL 27921	Groundrush	29-Jan-10		n/a
EL 27995	Officer Hills South	19-Mar-10		n/a
EL 27997	Mount Solitaire	25-Mar-10		n/a
SOUTH AUSTRALIA			Total	8,163
Billa Kalina			Total	3,028
EL 3526	Francis	23-Feb-06	22-Feb-11	345
EL 3525	Margaret	23-Feb-06	22-Feb-11	477
EL 4463	Billa Kalina	13-Apr-10	12-Apr-11	1,023
(33/10) Prev Pt EL 3170	Bamboo Lagoon	17-Feb-10		412
(78/10) Prev EL 3338	Millers Creek	18-Mar-10		771
ELA 32/10	Millers Creek Homestead	12-Feb-10		n/a
Marree Project			Total	984
EL3579	Calcutta	21-Jun-06		984
Abminga Project			Total	3776
EL 3601	Black Hill Dam	17-Jul-06	16-Jul-10	485
EL 3602	Mt Anthony	17-Jul-06	16-Jul-10	409
EL 3964	Enungareenna Hill	22-Oct-07	21-Oct-10	877
EL 3982	Mount Treloar	19-Nov-07	18-Nov-09	990
EL 4019	Nicholson Hill	15-Jan-08	14-Jan-11	726
EL 4020	Welbourn Hill	15-Jan-08	14-Jan-11	289
Nackara Project			Total	375
EL 3692	Mount Grainger	06-Feb-07	05-Feb-12	375
			Total	9,187

Source: ERO Tenement Status dated 6 October 2010

- As set out in the table on the preceding page, one EPM (EPM 18130) and four MLs (ML 3487, ML 3488, ML 3498 and ML 3539) in the Georgetown project have expired. Applications for the renewal of these licences have been submitted. As at 28 October 2010 confirmation of renewal was still outstanding. ERO management expects the renewals to be granted in the near future.
- We note that all of the ELs in the Tanami project area, except for Talbot North (EL 27806), are located on Aboriginal land and are subject to approval of the Exploration Agreement between the licence applicant and the appropriate Land Council, representing the traditional land owners. The Exploration Agreement is still under negotiation as at 28 October 2010. Management advised that none of the applications have been placed in moratorium by the traditional owners.
- We note that there are two ELAs (78/10 Prev EL 3338 and ELA 32/10) in the Billa Kalina project area. The renewal for 78/10 Prev EL 3338 and the granting of ELA 32/10 were still outstanding as at 28 October 2010.
- We note that EL 3170 in the Billa Kalina project area falls within the recently defined Restricted Zone of the larger Woomera Prohibited Area. ERO has submitted an exploration submission to the Australian Department of Defence on 5 May 2010 in respect to exploration in this area. The Australian Department of Defence guideline requirements is to respond within 120 days, however, no response has been received to date.
- We note that there are five exploration licence renewal applications (EL 3579, EL 3601, EL 3602, EL 3964 and EL 3982) in the Marree and Abminga project area. The renewal of the licences were still outstanding as at 28 October 2010.

3.2 FINANCIAL INFORMATION

3.2.1 ERO's Financial Performance

The table below sets out ERO's audited statement of financial performance for the two financial years ended 30 June 2009 and 2010. As at 28 October 2010, FY11 year to date results were not available. ERO management has confirmed that no significant or unusual transactions have occurred since 30 June 2010 that materially affects ERO's statement of financial performance.

Currency: A\$000	FY09A	FY10A	Note
Revenue from continuing operations	259	223	1
Raw materials and consumables used	-	(337)	2
Other expenses	(1)	(39)	
Marketing expense	(127)	(62)	
Administrative expense	(847)	(806)	
Finance costs	(1)	(1)	
Exploration expenditure written off	(8,017)	(2,663)	3
(Loss) before tax	(8,734)	(3,686)	
Income tax (expense)/income	329	250	
Loss for the year	(8,405)	(3,436)	

Source: ERO 30 June 2010 Financial Statement

We make the following observations:

1. All of the \$259,000 revenue recorded in FY09A related to interest received on term deposits. In FY10A, interest received decreased to \$30,000. This decrease of \$229,000 is due ERO having a cash balance of \$6.5 million at the beginning of FY09A. A significant amount of this cash was spent during FY09A on exploration and the acquisition of Georgetown. The decrease in interest received from FY09A to FY10A was offset by \$192,000 revenue related to the sale of gold produced from Georgetown in the last quarter of FY10A. Total gold production to 30 June 2010 was 140 ounces.
2. The increase in costs related to raw materials and consumables is due to the Georgetown operations which commenced in April 2010.
3. In FY09A, \$7.59 million of exploration expenditure written off was related to capitalised exploration expenditure and \$427,000 related to general exploration expenditure. In FY10A, capitalised exploration expenditure written off and general exploration expenditure written off were \$2.570 million and \$93,000 respectively. The amount of exploration assets written off per project in FY09A and FY10A is as follows:

Currency: A\$000	FY09A	FY10A
Georgetown	-	-
Abminga Gold	1,241	-
Billa Kalina Uranium	-	638
Tanami Exploration Initiative	-	-
Marree Project	1,183	-
Nackara Project	-	-
Eromanga Uranium Resources Ltd	5,097	1,932
Other	69	-
Total exploration assets written off	7,590	2,570
General exploration expenditure	427	93
	8,017	2,663

Source: ERO 30 June 2010 Financial Statement and ERO Mining Tenement Schedule June 10 and June 09

We note the following:

- The Abminga write-off in FY09A relates to exploration expenditure in the Woomera restricted area where it is unlikely that approval to operate or continue exploration from the Australian Department of Defence will be obtained.
- The Billa Kalina write-off in FY10A relates to the full write down of the Kingoonya licence.
- The write-off in the Marree Project in FY09A relates to three exploration licences being fully written down due to no commercially viable minerals being identified within these licences.
- Eromanga Uranium Resources Ltd was acquired upon incorporation of the Company and is a 100% owned subsidiary. The write down in Eromanga Uranium Resources Ltd in FY09A and FY10A is the difference between the book value of the investment and what the Directors' consider to be recoverable.

3.2.2 ERO's Financial Position

The table below sets out ERO's audited statement of financial position as at 30 June 2009 and 2010. ERO management has confirmed that there has been no significant change to the statement of financial position since 30 June 2010.

Currency: A\$000	Jun09A	Jun10A	Notes
Current assets			
Cash and cash equivalents	758	361	1
Trade and other receivables	486	411	2
Inventories	-	41	3
Total current assets	1,245	813	
Non-current assets			
Property, plant & equipment	820	822	
Exploration and evaluation	12,119	10,308	4
Mine properties	1,346	2,326	5
Other non-current assets	18	18	
Total non-current assets	14,303	13,475	
Current liabilities			
Trade and other payables	150	267	
Provisions	34	28	
Total current liabilities	184	296	
Non-current liabilities			
Provisions	-	28	
Total non-current liabilities	-	28	
Net assets	15,364	13,964	
Equity			
Contributed equity	23,551	25,588	6
Reserves	882	882	
Retained losses	(9,069)	(12,506)	
Total equity	15,364	13,964	

Source: ERO 30 June 2010 Financial Statements

We make the following observations:

1. Although ERO raised \$2.1 million through the issue of shares in FY10A, cash decreased by \$397,000 due to the development of the Georgetown operations and general exploration.
2. The decrease in trade receivables from Jun09A to Jun10A is due to the payment of \$75,000 by FME Exploration Services Pty Ltd ("FME"). The payment relates to a working capital loan that ERO provided to FME. The amount still to be paid by FME as at Jun10A was \$75,000. We note that the full balance has since been repaid.
3. Inventory increased from nil to \$41,000 as at Jun10A due to the Georgetown operations.
4. Exploration and evaluation assets have decreased by \$1.8 million being in line with the exploration expenditure written off during the year. The amount written off was partly offset by exploration and evaluation expenditure capitalised during FY10A. The book value and capital expenditure for each project is set out in the following table.

Currency: A\$000	FY09A Capitalised expenditure	Jun09A Book value	FY10A Capitalised expenditure	Jun10A Book value
Georgetown	145	957	1,511	1,364
Abminga Gold	1,297	4,108	46	4,154
Billa Kalina Uranium	214	2,062	12	1,430
Tanami Exploration Initiative	7	9	55	64
Marree Project	167	253	12	265
Nackara Project	200	200	227	427
Eromanga Uranium Resources Ltd	-	4,530	-	2,604
Other	8	-	-	-
Total	2,038	12,119	1,863	10,308

Source: ERO 30 June 2010 Financial Statement and ERO Mining Tenement Schedule June 10 and June 09

5. The mine properties balance represents the Georgetown project. The increase from Jun09A to Jun10A reflects the transfer to mine properties of ML 30091 and ML 30124.
6. Contributed equity increased in line with the issue of 34,469,896 ordinary shares at \$0.06 per share in September 2009.

3.2.3 ERO's Cash Flow

The table below sets out ERO's audited statement of cash flows for the two financial years ended 30 June 2009 and 2010.

Currency: A\$000	FY09A	FY10A	Notes
Cash flow from operating activities			
Receipts from operating activities	-	192	1
Payments to suppliers and employees	(1,117)	(993)	2
Interest received	356	31	1
Income tax received/ (paid)	-	329	3
Net cash from operating activities	(760)	(440)	
Cash flow from investing activities			
Payments for property, plant and equipment	(17)	(194)	
Payment for purchase of subsidiary, net of cash acquired	(2,645)	-	4
Payments for development assets	-	(1,105)	5
Payments for exploration expense	(2,465)	(852)	6
Proceeds from sale of property, plant and equipment	-	95	
Loans to related parties	100	75	
Net cash from investing activities	(5,028)	(1,980)	
Cash flow from financing activities			
Proceeds from issue of shares and other equity securities	7	2,024	7
Net cash from financing activities	7	2,024	
Net decrease in cash held	(5,781)	(397)	
Cash at beginning of period	6,539	758	
Cash at end of period	758	361	

Source: ERO 30 June 2010 Financial Statements

We make the following observations:

1. The movement in receipts from operating activities and interest received are in line with the movement observed in the statement of financial performance of ERO.
2. The decrease in payment to suppliers is in line with the decrease in exploration activity.
3. The amount of income tax received is equal to the FY09A income tax income.
4. The payment for purchase of subsidiary in FY09A relates to the acquisition of Georgetown in June 2009.
5. Payment for development assets in FY10A relates to expenditure incurred at Georgetown to enable the project to commence production of gold in April 2010. The two Georgetown tenements that commenced production were Last Laugh (ML 30091) and Golden Tabletop (ML 30124).
6. Payment for exploration has declined by \$1.6 million from FY09A to FY10A. This is in line with the decrease in capital expenditure in FY10A in exploration assets as noted in section 3.2.2 above.
7. Proceeds from issue of shares in FY10A are associated with the issue of 34,469,896 ordinary shares in September 2009.

3.3 EXPLORATION ACTIVITIES

ERO exploration activities are divided into six main projects. The capital expenditure and commitment for each project is outlined in the table below.

Currency: A\$000	Area km ²	Minimum annual expenditure	FY 10A	YTD Aug 10A
Georgetown Gold Project	245	80	1,511	81.0
Tanami Exploration Initiative	779	1,089	55	2.9
Billa Kalina	3,028	645	12	0.9
Marree Project	984	125	12	(0.2)
Abminga Project	3,776	815	46	0.7
Nackara Project	375	130	227	7.5
Total	9,187	2,884	1,863	92.8

Source: ERO Tenement Status dated 6 October 2010

While we have presented the minimum annual exploration expenditure for each project area, we understand that ERO management have historically managed their exploration expenditure subject to strategic considerations and as such, in circumstances whereby the minimum expenditure conditions are not expected to be met, have selectively reduced the tenement area of the licence.

Management further note that minimal exploration activity has occurred since 30 June 2010 due to a lack of available cash. Accordingly, most physical exploration activity has ceased. The Georgetown operation is continuing to produce gold, however, the cash generated is insufficient to continue any substantial exploration activity. Currently, ERO management are only progressing the approvals for applicable tenements.

Besides Georgetown, all of ERO's mineral interests are early stage projects with limited exploration success. Each project is discussed in detail in the following sub-sections.

3.3.1 Georgetown (ERO earning 100%)

The Georgetown Alluvial Gold Mine and surrounding exploration areas are located in northern Queensland approximately five hours by sealed road from Cairns. ERO acquired 100% of the issued share capital in Douglas Resources Pty Ltd, owner of Georgetown, in June 2009 for \$2.65 million.

During FY10, ERO capital expenditure on the Georgetown project amounted to \$1.5 million. In August 2010, the ERO board announced its commitment to the sale of the Georgetown Alluvial Operations. As a consequence of this decision, the exploration drilling program has been suspended until the outcome of the sale is clarified. Please refer to Section 8.2 of this report for further detail in relation to the sale of this operation.

3.3.2 Tanami (ERO earning 100%)

The Tanami exploration region is located 600km north west of Alice Springs. The Tanami project consists of seven exploration licences which the Company has been progressing through the approvals process with recent progress evidenced by the recent grant of the Talbot North Exploration Licence (EL 27806) and the anticipated near term approval of the Deed of Exploration over the Suplejack gold/uranium project (EL 26625). ERO expects to conduct electromagnetic surveys ("EM Surveys") over Suplejack and Talbot North in late 2010. These surveys are intended to detect areas of graphitic shales, adjacent regional structural breaks that represent sites for the location of unconformity-related uranium mineralisation.

During FY10A, ERO capital expenditure on the Tanami Exploration project was \$55,000. We note that past expenditure is below the minimal requirement due to the fact that most licences are on Aboriginal Land and are subject to the signing of exploration agreements with the traditional land owners.

ERO management considers Tanami a highly prospective region.

3.3.3 Billa Kalina (ERO earning 50%)

This project is located 70km north west of the Olympic Dam copper-uranium-gold mine and 45km east of the Prominent Hill copper-gold deposit. ERO is exploring for IOCG deposits in deeper basement rocks and for sandstone-hosted uranium mineralisation.

In June 2010 gravity survey data highlighted a potentially significant single point of gravity anomaly close to the western margin of EL 3338. Management advised that this anomaly is similar to that of Prominent Hill when it was first discovered. However, further exploration in this area is subject to the approval of the exploration program submitted to the Australian Department of Defence as this is a Prohibited Area. If ERO receive a positive response to its exploration submission, the exploration in the area is expected to become a priority for the Company.

During FY10, ERO capital expenditure on the Billa Kalina project was \$12,000. ERO management considers Billa Kalina a highly prospective region.

3.3.4 Marree (ERO earning 70%)

This project was originally part of the Eromanga Basin Projects. During FY10, ERO capital expenditure on the Marree project was \$12,000. This was below the capital requirement as the licence was being renewed.

As noted earlier, the directors' recommended a \$1.2 million write down in FY09A. Management does not consider the Marree project to be a high priority for the Company.

3.3.5 Abminga (ERO earning 70%)

The Abminga project was originally part of the Eromanga Basin Projects. During FY10, ERO capital expenditure on the Abminga project was \$46,000.

As noted earlier, the directors' recommended a \$1.2 million write-down in FY09A. Management does not consider the Abminga project to be a high priority for the Company.

3.3.6 Nackara

A joint venture agreement between Flinders Mines Limited and ERO covers the granted.

EL 3692, located approximately three hours north east from Adelaide. ERO has the right to earn 51% interest in the project by providing expenditure of \$750,000 and to earn 80% interest by providing expenditure of \$2 million. As part of the agreement with the Nackara vendors, ERO agreed to spend a minimum of \$200,000 on exploration in the first six months of the agreement.

In November 2009, ERO announced that detailed surface sampling had defined a gold anomaly extending over 450 meters and first drilling tests were scheduled to commence. To date, further exploration confirmed that the resource was not commercially viable. Management does not consider the Nackara project to be a high priority for the Company and any further work will be reliant on the expected prospectivity of other tenements.

During FY10, ERO capital expenditure on the Nackara project was \$227,000.

3.4 CAPITAL STRUCTURE

As at 29 September 2010, ERO had the following securities on issue:

- 160,175,576 fully paid ordinary shares; and
- 28,733,380 unlisted options summarised in the following table.

ERO - Options on Issue	Number of Options ('000's)
Options exercisable at 30 cents each on or before 30 June 2011	26,785
ESOP exercisable at 22 cents each on or before 20 March 2012	228
ESOP exercisable at 22 cents each on or before 19 November 2012	225
ESOP exercisable at 16.5 cents each on or before 5 March 2013	553
ESOP exercisable at 2.8 cents each on or before 3 February 2014	942
Total issued options	28,733

Source: ERO Share Register as at 29 September 2010

As at 29 September 2010, ERO's top 11 shareholders accounted for 43.1% of the shares on issue. The top 11 shareholders of ERO are summarised in the table below.

ERO - Top 11 shareholders as at 29 September 2010	Number of Shares ('000's)	% Interest
Maximus Resources Limited	44,607	27.8%
Senil Pty Ltd	4,375	2.7%
Chaffey Consulting Pty Ltd <Meit A/C>	3,736	2.3%
Triple Eight Gold Pty Ltd <The Blue Sky A/C>	3,606	2.3%
Mr Kevin John Anson Wills	3,583	2.2%
JP Morgan Nominees Australia Limited <Cash Income A/C>	2,241	1.4%
Mr Alan Brien and Mrs Melinda Brien <A & M Brien Super Fund A/C>	1,855	1.2%
Mr Gary Eric Maddocks and Mrs Paula Maddocks <G & P Maddocks A/C>	1,625	1.0%
Mrs Ingrid Rita Burnheim	1,346	0.8%
Mr Michael Dilettoso and Mr Vincent Dilettoso <Fisher Property A/C>	1,000	0.6%
Colin John Hough	1,000	0.6%
Top 11 shareholders	68,974	43.1%
Other	91,202	56.9%
Total shareholders	160,176	100.0%

Source: ERO Share Register as at 29 September 2010

3.5 SHARE PRICE PERFORMANCE

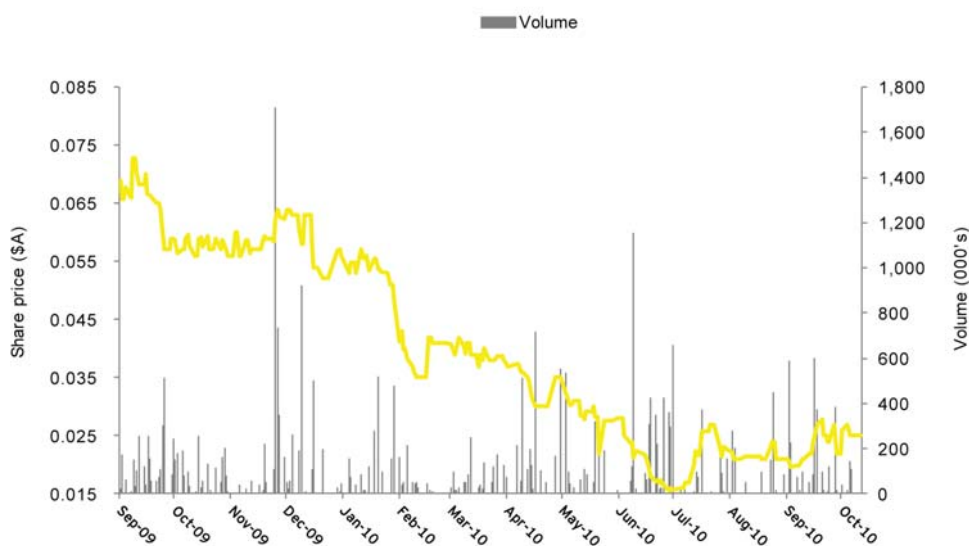
The following table summarises the monthly trading of ERO's shares on the ASX between 1 September 2009 and 11 October 2010. We note that 11 October 2010 was the day prior to the ASX announcement of the Proposed Transaction. The impact of the announcement is detailed in section 10.2.3 of this report.

	High	Low	Close	Volume Weighted Average Price	Number of Trades	Monthly Volume ('000's)	Issued Shares Liquidity
To 11 October 2010	0.027	0.025	0.025	0.025	9	313	0.02%
September 2010	0.028	0.019	0.022	0.023	68	2,785	1.74%
August 2010	0.024	0.020	0.021	0.022	25	1,341	0.84%
July 2010	0.027	0.016	0.022	0.021	27	1,038	0.65%
June 2010	0.025	0.015	0.016	0.021	104	4,637	2.89%
May 2010	0.033	0.022	0.028	0.029	55	1,833	1.14%
April 2010	0.039	0.028	0.035	0.034	47	2,856	1.78%
March 2010	0.045	0.037	0.038	0.039	41	1,437	0.90%
February 2010	0.043	0.035	0.041	0.039	32	740	0.46%
January 2010	0.057	0.043	0.043	0.054	48	2,060	1.29%
December 2009	0.064	0.052	0.056	0.058	48	2,418	1.51%
November 2009	0.064	0.056	0.063	0.059	88	3,544	2.21%
October 2009	0.060	0.055	0.056	0.058	79	1,889	1.18%
September 2009	0.073	0.055	0.059	0.066	104	2,850	2.27%

Source: Bloomberg

The table above shows that ERO's share price traded at levels of around \$0.06 between September 2009 and December 2009. Subsequent to December 2009, the share price declined progressively to a low of \$0.015 in June 2010, increasing to levels of \$0.02 through August and September 2010, as shown in the following chart:

ERO ASX share price and volume trading history



Source: Bloomberg

We note that the highest volume of trade during the period occurred on 25 November 2009. This coincides with the FY09 Annual General Meeting and management's presentation regarding the change of focus from uranium to a dual focus in gold and uranium.

The trading volumes of ERO shares ranged from 0.46% of the issued number of shares in February 2010 to almost 3% in June 2010. In addition to regular quarterly, half-yearly and annual reporting announcements, the material announcements made by ERO between September 2009 and September 2010 that may have had an impact on the Company's share price are summarised below:

- 8 September 2009: ERO announced a share purchase plan ("SPP") that provided eligible holders of shares in ERO with the opportunity to acquire up to 37,711,704 additional shares in the Company. The aim of the SPP was to raise \$2.26 million, to fund the key gold/uranium exploration projects: Georgetown Gold Project in Queensland, Nackara Arc Project in South Australia and Suplejack Gold/Uranium Project in the Northern Territory.
- 24 September 2009: 34,469,896 ordinary shares were issued as part of the SPP announced on 8 September 2009. The total amount raised was \$2.1 million. We note that from 23 September 2009 to 26 September 2009, ERO's share price decreased by one cent.
- 30 September 2009: Kevin Wills, non-executive Director, resigned to concentrate on his role as Managing Director of Flinders Mines Limited. Kevin Wills was a founding member of the Board.
- 25 November 2009: Chairman presentation regarding ERO's change in strategy from its focus in uranium to a dual focus on gold and uranium and update on key exploration sites.
- 30 April 2010: ERO announced its first production from the new gold mining operation at its Georgetown Alluvial Gold Mine. We note that from 30 April 2010 to 5 May 2010 ERO's share price decreased by half a cent.
- 26 August 2010: ERO announced its commitment to sell its Georgetown Gold Operations.
- 27 August 2010: ERO announced Mr Ian Witton as an alternate to Mr Robert Kennedy, non-executive Chairman. Mr Ian Witton is a qualified CPA and has 26 years experience as a company director.
- 13 September 2010: ERO announced Mr Ian Witton as an alternate to Mr Kevin Lines, Managing Director.
- 27 September 2010: ERO announced an exploration update on the Georgetown Gold Operations, Billa Kalina IOCGU Project and Tanami Project with minimal activity reported.

The last price at which ERO shares traded on 11 October 2010, the day before the announcement of the Proposed Transaction, was \$0.025.

3.6 BOARD AND EXECUTIVES

ERO's key executives and their shareholdings as at 30 June 2010 are outlined on the table below.

Name	Position	Qualification	No. of shares (000's)	No. of options (000's)	Other Directorships
Robert Michael Kennedy	Non-executive Chairman	Chartered Accountant and consultant and founder of Kennedy & Co	3,956	3,500	Beach Energy Limited, Flinders Mines Limited, Marmota Energy Limited, Maximus Resources Limited, Monax Mining Limited, Ramelius Resources Limited, Somerton Energy Limited and South East Energy Limited.
Ewan John Vickery	Non-executive Director	Corporate and business lawyer with over 31 years experience in private practice	606	227	Flinders Mines Limited and Maximus Resources Limited
Kevin James Lines	Managing Director	Geologist with 27 years experience in mineral exploration and mining for gold, copper, lead/zinc and tin	4,455	4,375	Ramelius Resources Limited
Adam Simon Bannister	Alternate Director to E Vickery	Lawyer specialised in commercial litigation for 21 years	-	-	n/a
Ian Roy Witton	Alternate Director for R Kennedy and K Lines.	Qualified CPA with 26 years experience as a company director	-	-	n/a
Kevin John Wills	Non-executive Director	Geologist with 36 years experience in multi commodity mineral exploration	3,583	3,501	n/a
David Wayne Godfrey	Company Secretary	Qualified CPA with more than 25 years experience in the resources and finance industry	87	-	n/a

Source: ERO 30 June 2010 Financial Report

4. Overview of South East Energy

4.1 COMPANY HISTORY

SEZ holds a portfolio of lithium brine and uranium exploration projects including the Lake Frome and Lake Torrens sites in northern South Australia and Padthaway area in south eastern South Australia. It holds nine ELs in the Padthaway region, two ELs in the southern part of Lake Frome, and one EL covering two separate areas of the southern section of Lake Torrens. The company was incorporated in May 2007. SEZ's first exploration licence was obtained on 30 January 2008, accordingly SEZ has little operating history.

4.2 FINANCIAL INFORMATION

4.2.1 SEZ's Financial Performance

The table below sets out SEZ's audited statement of financial performance for the two financial years ended 30 June 2009 and 2010. As at 28 October 2010, FY11 year to date results were not available. SEZ management has confirmed that there have been no significant or unusual transactions affecting the statement of financial performance since 30 June 2010.

Currency: A\$000	FY09A	FY10A
Revenue from continuing operations	-	1
Other income	-	-
Impairment of exploration assets	(2)	-
Rental expenses	-	(2)
Other expenses	(8)	(5)
Loss before income tax	(9)	(6)
Income tax expense	-	-
Loss for the year	(9)	(6)

Source: Financial Report for year ended 30 June 2010

As noted above, all items and the total loss in SEZ's statement of financial performance for the past two years are below \$10,000. This is consistent with SEZ being in the early stages of exploration.

4.2.2 SEZ's Financial Position

The table below sets out SEZ's audited statement of financial position for the two financial years ended 30 June 2009 and 2010. As at 28 October 2010, no current statement of financial position was available. SEZ management has confirmed that there has been no significant change to the statement of financial position since 30 June 2010.

Currency: A\$000	Jun09A	Jun10A	Notes
Current assets			
Cash and cash equivalents	3	87	1
Trade and other receivables	1	1	
Other assets	-	-	
Total current assets	4	88	
Non-current assets			
Exploration assets	59	148	2
Other assets	92	97	3
Total non-current assets	151	245	
Total assets	155	332	
Current liabilities			
Trade and other payables	(153)	(101)	4
Total current liabilities	(153)	(101)	
Total liabilities	(153)	(101)	
Net assets	2	231	
Equity			
Contributed equity	27	262	1
Retained losses	(25)	(31)	
Total equity	2	231	

Source: Financial Report for year ended 30 June 2010

We make the following observations:

1. The increase in cash from Jun09A to Jun10A is due to proceeds received from the issue of 235,400 new shares. The net amount raised was \$174,000. The issue of shares also explains the increase in contributed equity.
2. SEZ's other assets relates to prepayments for capital raising expenditure related to the potential IPO process.
3. The increase in exploration assets from Jun09A to Jun10A is due to \$88,000 additional exploration expenses incurred in FY10A. The total capital expenditure and book value of each licence for FY09A and FY10A and projected capital expenditure is summarised in the table overleaf.

Currency: A\$000	FY09A	Jun09A	FY10A	Jun10A
Licence number	Capitalised expenditure	Book value	Capitalised expenditure	Book value
Padthaway Tenements				
EL 4040	6.7	6.7	8.6	15.3
EL 4041	6.7	6.7	17.4	24.1
EL 4042	5.9	5.9	7.0	12.9
EL 4043	6.9	6.9	11.7	18.6
EL 4044	6.8	6.8	11.5	18.3
EL 4045	6.0	6.0	6.4	12.4
EL 4046	2.4	2.4	5.2	7.5
EL 4054	0.2	0.2	0.0	0.2
EL 4418	0.5	0.5	6.0	6.5
Lake Torrens Tenements				
EL 4580	-	-	-	-
Lake Frome Tenements				
EL 4602	-	-	-	-
EL 4601	-	-	1.6	1.6
General exploration	16.9	16.9	13.6	30.5
Total exploration	59.0	59.0	89.0	148.0

Source: South East Energy Ltd Prospectus 9 September 2009 and Renewal of Government Licences, ERO Announcement dated 15 November 2010

We note that the majority of the capitalised expenditure is in relation to the Padthaway tenements which represent over 75% of the book value of exploration assets.

- Trade and other payables decreased from Jun09A to Jun10A due to a \$30,000 short term loan issued by both Mr Glen Davis, SEZ non-executive director and Mr Robert Kennedy, SEZ Chairman, that were converted into ordinary shares during FY10A.

4.2.3 SEZ's Cash Flow

The table below sets out SEZ's audited statement of cash flows for the two financial years ended 30 June 2009 and 2010.

Currency: A\$000	FY09A	FY10A	Notes
Cash flow from operating activities			
Interest received	-	1	
Payments to suppliers and employees	(7)	(8)	
Net cash from operating activities	(7)	(7)	
Cash flow from investing activities			
Purchase of other assets	-	(6)	
Payments for exploration expense	(1)	(88)	1
Net cash from investing activities	(1)	(94)	
Cash flow from financing activities			
Proceeds from issue of shares and other equity securities	-	174	2
Proceeds from borrowings	-	10	
Net cash from financing activities	-	184	
Net increase / (decrease) in cash held	(8)	84	
Cash at beginning of period	11	3	
Cash at end of period	3	87	

Source: Financial Report for year ended 30 June 2010

We make the following observations:

- The increase in exploration payments from FY09A and FY10A is consistent with the increase in the value of exploration assets.
- The proceeds from the issue of shares during FY10A is consistent with the issue of 235,400 shares during the year.

4.3 EXPLORATION ACTIVITIES

SEZ has two exploration licences for Lake Frome, one exploration licence covering two separate areas of the southern section of Lake Torrens and exploration access to nine granted exploration licences in the Padthaway area, located about 160 km southeast of Adelaide. The total lease area covers 7,012 km². The Padthaway project forms 60% of the area. SEZ's current portfolio is summarised in the table below:

Licence Number	Name	Interest %	Date Granted / Applied for	Expiry Date	Area km ²
Padthaway Tenements					
EL 4040	Wolseley	100	30-Jan-08	29-Jan-11	461
EL 4041	Brimbago	100	30-Jan-08	29-Jan-11	973
EL 4042	Frances	100	30-Jan-08	29-Jan-11	245
EL 4043	Mount Edgerley	100	30-Jan-08	29-Jan-11	497
EL 4044	Sugarloaf Hill	100	30-Jan-08	29-Jan-11	411
EL 4045	Gum Flat	100	30-Jan-08	29-Jan-11	286
EL 4046	Field	100	30-Jan-08	29-Jan-11	263
E L 4054	Mt Perry	100	25-Feb-08	24-Feb-11	669
EL 4418	Eden	100	21-Jan-10	20-Jan-11	627
Lake Frome Tenements					
EL 4601	Lake Frome South	100	23-Nov-09	n/a	782
EL 4602	Lake Frome North	100	23-Nov-09	n/a	975
Lake Torrens Tenements					
EL 4580	Lake Torrens	100	18-Oct-10	17-Oct-12	823

Source: South East Energy Ltd Prospectus 9 September 2009 and Renewal of Government Licences, ERO Announcement dated 15 November 2010

SEZ's exploration programs are summarised below. For more detail on SEZ's projects, geology and past exploration please refer to the SRK report attached at Appendix D.

We note that EL 4580, EL 4601 and EL 4602 were granted subsequent to the date of the SRK report.

4.3.1 SEZ's Lithium Exploration Program

The Lake Frome and Lake Torrens Projects will principally target lithium mineralisation but will also assess the uranium potential.

SEZ proposes to undertake systematic closed space drilling on Lake Frome focusing on areas where lithium values are known to be highly anomalous, and test sediments, local, shallow and deeper aquifers and brines for lithium and associated chemicals.

Following the initial exploration program, SEZ expects to expand the drilling and testing program to the remainder of the Lake Frome project areas and seek joint ventures with companies holding northern parts of Lake Frome for other minerals.

SEZ also expects to begin drilling and testing in the company's Lake Torrens project areas, following the initial exploration in the Lake Frome region.

4.3.2 SEZ's Uranium Exploration Program

Sandstone-hosted uranium in palaeochannels and sedimentary basins settings in the proven uranium-rich Beverley-Lake Frome region offer SEZ an important secondary target. Drilling techniques for lithium and uranium are similar, allowing SEZ to explore concurrently for these commodities thus achieving substantial savings in exploration.

Tertiary sediments in the Lake Frome area are known to possess the right ingredients to host sedimentary uranium, confirmed by previous exploration which found uranium well above background levels. The region is underlain by the same geological formations found nearby at the Beverley uranium mine and at the 'Four Mile East' uranium discovery.

The largely untested Lake Torrens and Padthaway Ridge region, where the bedrock and sediments are known to contain uranium well above background levels at some localities provide SEZ with an extensive range of potential uranium targets.

SEZ proposes to:

- Concurrently with lithium drilling, undertake an intensive program of rapid, low cost radon surveys on Lake Frome to delineate areas of high anomalism that may represent drill targets and undertake preliminary drilling to confirm and calibrate the radon survey data;
- Undertake palaeochannel and basin sediment delineation employing a closely spaced gravity, AEM, radiometric and groundwater surveys;
- Undertake an intensive drilling program to test the target areas once the radon anomalies and the potential uranium-bearing sediments are accurately defined and prospective zones are outlined and ranked; and
- Apply to Lake Torrens and the Padthaway area similar exploration steps to those expected to be undertaken in the Lake Frome region. In the Padthaway, focus will be on the areas where uranium anomalism is known to occur.

4.4 CAPITAL STRUCTURE

As at 2 October 2010, SEZ had the following securities on issue:

- 33,850,003 fully paid ordinary shares; and
- 42,500,000 call options exercisable at 30 cents each on or before 30 December 2010.

As at 2 October 2010, SEZ had 28 shareholders. The top 12 shareholders accounted for 95.9% of the shares on issue and are summarised in the following table.

SEZ - Top 12 Shareholders as at 2 October 2010	No. of shares (000's)	% Interest
Neville Foster Alley & Bronwen Dianne Ireland <Prospects Trust>	4,450	13.1%
Aloren (No. 148) Pty Ltd	4,400	13.0%
Hector Gordon	4,400	13.0%
South Australian Resource Investments Pty Ltd	4,010	11.8%
RMK Super Pty Ltd (Mr Kennedy)	4,000	11.8%
SEU PTY Ltd ATF SEU Trust	4,000	11.8%
Aurelius Resources Pty Ltd <The Nelson Superannuation Fund>	4,000	11.8%
Smart Family Super Fund	1,000	3.0%
Smart Holding Pty Ltd <Smart Family Ac>	1,000	3.0%
Reginald George & Susan Margaret Nelson	400	1.2%
Triple Eight Gold Pty Ltd (Mr Kennedy)	400	1.2%
Cairnglen Investments Pty Ltd	400	1.2%
Top 12 shareholders	32,460	95.9%
Others	1,390	4.1%
Total shareholders	33,850	100.0%

Source: SEZ Share Register as at 2 September 2010

4.5 BOARD AND EXECUTIVES

SEZ's key executives and their shareholdings as at 30 June 2010 are outlined in the table below.

Name	Position	Qualification	No. of shares (000's)	No. of options (000's)	Other Directorships
Robert Michael Kennedy	Non-executive Chairman	Chartered Accountant and consultant and founder of Kennedy & Co	4,400	6,000	Beach Energy Limited, Flinders Mines Limited, Marmota Energy Limited, Maximus Resources Limited, Monax Mining Limited, Ramelius Resources Limited, Somerton Energy Limited and ERO Mining Limited
Shane Gale	Non-executive Director	Experienced in the formation, development and team leadership of start-up ventures	4,000	6,000	
Dr Neville F Alley	Executive Director	Internationally known earth science researcher with National awards for outstanding contribution to geology and minerals industry	4,450	6,000	Marmota Energy Limited, Beach Energy Limited and Monax Mining Limited
Hector Gordon	Non-executive Director	Geologist with experience in various companies	4,400	6,000	Somerton Energy Limited

Source: South East Energy Prospectus 9 September 2010 and South East Energy share register 2 September 2010

5. Overview of ERO after the Proposed Transaction

5.1 INTRODUCTION

Following successful completion of the Proposed Transaction, it is our understanding that ERO's immediate strategy will be to focus on the exploration of lithium within Lake Frome and Lake Torrens and to determine whether potentially commercial accumulations of uranium exist within the Lake Frome, Lake Torrens and Padthaway projects. Consequently, ERO expects to rationalise its current exploration portfolio, retaining only those licences that management believe have potential.

ERO management advised that the new Board of Directors would undertake a detailed review of each of ERO's projects. It is envisaged that the Tanami and Billa Kalina projects will remain as high priorities. It is also expected that the process to sell Georgetown will continue, with the proceeds being used to support exploration in SEZ's lithium projects. With respect to the other tenement areas it is not known at this time whether or not ERO will continue to hold these projects.

After the Proposed Transaction, SEZ will be a wholly owned subsidiary of ERO.

5.2 DIRECTORS AND MANAGEMENT

If the Proposed Transaction proceeds, ERO intends to make the following changes to its Board:

- Mr Kevin Lines, ERO's Managing Director will be replaced by Mr Shane Gale, SEZ's Non-executive Director;
- Mr Ewan Vickery will resign from his role as a ERO's Non-executive Director;
- Dr Neville Alley, SEZ's Executive Director will be appointed as an Executive Director; and
- Mr Hector Gordon, a Non-executive Director of SEZ will be appointed as a Non-executive Director of ERO.

It is intended for Mr Robert Kennedy to remain as ERO's Chairman.

As noted above, the main change to the Board relates to the replacement of ERO's Managing Director. Mr Gale, the new Chief Executive Officer, if the Proposed Transaction proceeds, joined SEZ in March 2010 and is experienced in the formation, development and team leadership of start-up ventures that have achieved organisational growth. Mr Gale has extensive understanding of the management of supply chain, logistics and transportation industries. Most recently, he was the logistics manager with Cheetham Salt Limited and has been involved with exploration and mining in the Northern Territory (North Flinders Mines).

Management of both ERO and SEZ believe that Mr Gale brings to the Company a great deal of experience in the formation, development and team leadership of start-up ventures and his appointment to the Board of ERO will further enhance the Company's ability to accelerate growth.

5.3 THE FY11 EXPLORATION PROGRAM

Given the nature of both ERO and SEZ as early stage exploration companies, no forecast statement of financial performance or pro forma statement of financial position has been prepared for ERO subsequent to the completion of the Proposed Transaction. In view of the Proposed Transaction, an exploration program for FY11 was not prepared by ERO's management.

If the Proposed Transaction proceeds, management expects exploration in FY11 to focus on the SEZ projects due to promising preliminary results. As at 28 October 2010, ERO management had not assessed which ERO tenements would remain in the ERO portfolio if the Proposed Transaction is successful. However, management has indicated its intention to keep the Tanami and Billa Kalina tenements and would assess the prospects of the other tenements further. Therefore, a rationalisation of ERO tenements is to be expected.

A summary of the FY11 expected exploration program in relation to the SEZ tenements if the Proposed Transaction proceeds is set out below.

Licence Number	Licence Name	Projected Two Year Expenditure
A\$000		
SEZ licences		
EL 4040	Wolseley	150
EL 4041	Brimbago	250
EL 4042	Frances	108
EL 4043	Mount Edgerley	158
EL 4044	Sugarloaf Hill	140
EL 4045	Gum Flat	116
EL 4046	Field	112
EL 4054	Mt Perry	190
EL 4418	Eden	182
EL 4601	Lake Frome South	212
EL 4602	Lake Frome North	250
EL 4580	Lake Torrens	220
Total expenditure		2,088

Source: SEZ Prospectus 9 September 2010 and Renewal of Government Licences

Under the FY11 exploration program ERO's total spend on SEZ's licences will be \$2.1 million. Any expenditure on ERO's licences would be subject to the rationalisation of ERO's current portfolio after the Proposed Transaction. At 30 September 2010, ERO's cash balance was \$215,000. Management advise that funding for exploration will be sourced from the sale of the Georgetown asset. However, we note that if the sale is not completed in a timely manner ERO will need to source additional funding at some stage in FY11 to ensure it has sufficient cash to commence new exploration activities.

5.4 CAPITAL STRUCTURE

Under the Proposed Transaction, ERO will issue 152,325,014 Consideration Shares and 191,250,000 Consideration Options. All of the Consideration Options issued will carry an exercise price of \$0.05. This is below the exercise price of most of the options already on issue except for 941,666 options exercisable at \$0.028 each on or before 3 February 2014. We note that the 191,250,000 Consideration Options will vest immediately on issue and will expire on 31 October 2011.

The following table summarises the impact of the Proposed Transaction on the capital structure of ERO under the following scenarios.

- Immediately After the Proposed Transaction: Only includes the issue of the 152,325,014 Consideration Shares;
- Partially Diluted After the Proposed Transaction: This assumes those 941,666 existing options with an exercise price of \$0.028 are exercised and 191,250,000 Consideration Options that vest on issue are exercised; and
- Fully Diluted After Proposed Transaction: This assumes all 219,983,380 options, regardless of their exercise price and vesting conditions are exercised. We note that with the exercise price on the majority of the existing ERO options being considerably higher than the current market price, the Company's trading price would need to increase significantly for the options to be in the money.

	After the Proposed Transaction							
	Current		Immediately After		Partially Diluted		Fully Diluted	
	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest
ERO shares on issue	160,176		312,501		504,692		532,484	
ERO shareholders								
Maximus Resources Ltd	44,607	27.8%	44,607	14.3%	44,607	8.8%	52,642	9.9%
Other Non-Associated Shareholders	111,546	69.6%	111,546	35.7%	112,488	22.3%	128,744	24.2%
Total Non-Associated Shareholders	156,153	97.5%	156,153	50.0%	157,095	31.1%	181,387	34.1%
SEZ shareholders								
ERO related parties and their relevant interests								
Robert Kennedy	3,956	2.5%	23,756	7.5%	50,756	10.1%	54,256	10.2%
Neville Foster Alley	-	-%	20,025	6.4%	47,025	9.3%	47,025	8.8%
Hector Gordon	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
Shane Gale	66	0.0%	18,066	5.8%	45,066	8.9%	45,066	8.5%
Other SEZ shareholders								
Aloren (No. 148) Pty Ltd	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
Reginald George Nelson	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
South Australian Resource Investments Pty Ltd	-	-%	18,045	5.8%	36,045	7.1%	36,045	6.8%
Smart Family Super Fund	-	-%	4,500	1.4%	9,000	1.8%	9,000	1.7%
Smart Holding Pty Ltd <Smart Family Ac>	-	-%	4,500	1.4%	9,000	1.8%	9,000	1.7%
Other SEZ shareholders	-	-%	8,055	2.6%	10,305	2.0%	10,305	1.9%
Total SEZ shareholders	4,022	2.5%	156,347	50.0%	347,597	68.9%	351,097	65.9%

Source: ERO Share Register as at 29 September 2010, SEZ Share Register 2 September 2010, EY Analysis

All of these scenarios assume that ERO and / or SEZ do not issue any other shares.

6. Industry Profile

SEZ is a lithium and uranium exploration company holding a number of exploration tenements in the Lake Frome, Lake Torrens and Padthaway regions of South Australia. While it is primarily focused on exploration for lithium and uranium, its strategy encompasses evaluating the market potential for other commodities discovered during exploration.

6.1 LITHIUM

Lithium (Li) is recovered from the hard-rock (spodumene), clay compounds (hectorite) and lithium-rich brines. Due to its reactivity, the mineral only exists naturally on earth as a part of chemical compounds. Lithium and its compounds have a number of industrial applications including use in heat resistant glass and ceramics, high strength-to-weight alloys used in aircraft, lithium batteries, lithium ion batteries and pharmaceuticals.

Canada, China and Australia have the most significant resources of lithium minerals while lithium brine resources are produced mainly in Chile, with smaller amounts produced in Argentina, China, Russia and the USA. Lithium production from brine resources is the preferred method and produces lithium carbonate.

6.1.1 Overview of the Lithium Industry

Lithium is predominantly found as a concentrate in brines, granite and clay. Granitic pegmatites are the most significant lithium containing minerals, however high costs associated with mining make extraction from lithium brine more commercially viable. The element, whilst contained in many rock and brine deposits, is rarely found in high enough concentrations to be of developmental value. More recently Western Lithium Corporation in the United States has focused on the extraction of lithium from hectorite clay, a previously neglected source of the metal despite its high level of concentration.

The world demand is currently estimated at 120,000 tonnes of lithium carbonate equivalent ("LCE") per year, with expectations that it will grow to more than 163,000 tonnes by 2014. The majority of this demand is supplied by Sociedad Quimica y Minera de Chile ("SQM") in Chile (32,600 tonnes), Talison in Australia (28,200 tonnes), Chemetall in Chile (22,500 tonnes) and FMC Lithium in Argentina (16,600). With the exception of Talison, all of the major producers extract lithium from brine.

While production is increasing, the process of recovering lithium from brine or hard rock is quite lengthy and, particularly in the case of brine evaporation, unable to quickly respond to fluctuations in demand.

Australia's identified mineral resources estimate suggests a lithium resource base of 607,000 tonnes (LCE of approximately 3.23 million tonnes) with total world reserves estimated at 9,927,000 tonnes (approximately 53 million tonnes of LCE). According to the U.S Geological Survey conducted in 2009, other major lithium resources are located in Chile (approximately 7.5 million tonnes), Argentina (approximately 800,000 tonnes) and China (approximately 540,000 tonnes).

6.1.2 Commercial Viability

Lithium use has expanded significantly in recent years as a result of increasing use in rechargeable batteries for portable electronic devices such as mobile phones, computers and rechargeable power tools as well as in batteries and electric motors for hybrid and electric cars. Increased demand for lithium based batteries is driven by superior quality with regards to performance, durability and cost

over alternatives such as the nickel metal hydride battery. The demand for lithium batteries in electric vehicles and in the energy storage segment is forecast to grow exponentially in the next two years as the Chinese Government implements policies aimed at reducing greenhouse gas emissions.

The industry is expanding, with exploration now being undertaken in a number of countries worldwide. Current production is predominantly through the brine evaporation process due to its lower costs and shorter establishment time in comparison to the traditional hard rock/spodumene mining process.

6.1.3 Lithium in Australia

The Australian Mines Atlas identified an increase in lithium reserves of 187% over the past two years with 2010 reserves estimated at 607,000 tonnes of lithium metal. The bulk of Australia's lithium resources are located in the Greenbushes spodumene deposit in Western Australia. The Greenbushes lithium project is owned and operated by Talison. Currently there are approximately seven ASX listed companies undertaking exploration within Australia, with the majority focused on spodumene deposits as opposed to brine deposits.

The industry has not seen much competition within Australia, with production mainly being undertaken by Talison, one of the world's largest producers.

6.1.4 Major Industry Participants

The lithium mining industry has a medium level of concentration with eight firms accounting for most of the industry output.

- Talison Lithium Pty Ltd – Talison Lithium has the highest grade lithium mineral resource in the world at their Greenbushes operations and 25 years of lithium production/sales history. In 2009, Talison became the largest lithium producer globally in terms of sales.
- Galaxy Resources Ltd – Galaxy Resources is a S&P/ASX300 emerging mining and chemical company focusing on lithium and tantalum production. Galaxy is at an advanced stage of developing its Mt Cattlin Lithium Project (hard rock spodumene) in Ravensthorpe, Western Australia. Other principal activities include the development of the Jiangsu Lithium Carbonate Plant (China) as well as mineral exploration. The Mt Cattlin Mine is expected to become operational with the first shipment of spodumene concentrate to China due in November 2010. It currently holds approximately 33 mining tenements within Western Australia.
- Altura Mining Ltd (formerly Haddington Resources) – Altura Mining is an exploration and development company focused on resources such as iron ore, industrial garnet, coal, uranium, lithium, tantalum, base metals and gold. It also has its own mining services arm providing drilling, geophysical and project development services. The company has recently undertaken drilling at its Pilgangoora Lithium Project targeting spodumene bearing pegmatites. It also has the Finnis Range Prospect (NT) which is held for future lithium exploration.
- Red River Resources Ltd – Red River Resources is a diversified mineral explorer currently focusing on gold and also exploring for copper, nickel, tin, magnetite iron ore, tantalum and lithium. Its main lithium exploration prospect is the East Kirup project located near Talison's Greenbushes project. It holds a number of tenements in Australia, with three located in lithium prospective areas.
- Reed Resources Ltd – Reed Resources plans on being one of the world's largest producers of lithium bearing spodumene through the development of the Mt Marion Lithium Project. Production is planned to commence in early 2011 subject to obtaining necessary approvals. The Mt Marion Lithium Project is located in Western Australia and is being jointly developed with Mineral Resources Ltd. Its total inferred resource sits at 10,522,000 tonnes of 1.4% Lithium Oxide (a LCE of 146,500 tonnes).
- Reward Minerals Ltd – Reward Minerals is a potash, base metals and gold exploration company listed on the ASX. It has recently acquired an exploration tenement for an area in Western Australia covering Lake Dumbleyung in the South West Mineral Field that is considered a potential lithium brine source.
- Venus Metals Ltd – Venus Metals focuses on the exploration for world-class mineral deposits. Twenty one multi-commodity exploration project targets are held within Western Australia and include iron ore, precious / base metals, diamonds, uranium and lithium. Its operations include lithium exploration but it is not considered the primary focus.
- Orocobre Limited – Orocobre is an ASX listed company with primary operations based in Argentina and other parts of South America. Its brine resource holds approximately 1.5 million tonnes of LCE, along with other mineral compounds.

6.2 URANIUM

6.2.1 Overview of Industry

Australia has about 30% of the world's estimated low-cost uranium reserves and accounts for about 20% of global uranium output. The uranium mining industry is expected to generate revenue of approximately \$1.02 billion in 2009-10, up from \$560.9 million in 2004-05.

Current production is at 10,311 tonnes per year, with expectation that production will expand during the next five years amounting to about 11,400 tonnes by 2013-14. Uranium is currently only mined in Australia at three locations, each operated by independent parties. All current Australian production is exported as there is no local market for the product. Export of uranium is purely for use in power generation and is only provided to countries that are signatories to the Nuclear Non-Proliferation Treaty.

Key external drivers are world GDP growth, the world price of output (uranium), legislative compliance requirements for uranium mining and the US/AUD exchange rate.

6.2.2 Commercial Viability

The Uranium Mining Industry is a mature industry with well known products and established technology. Renewed interest in nuclear power in the context of high oil prices and concern over greenhouse gas emissions may provide a resurgence for the local uranium mining industry, however, significant changes in community attitudes will be required if the industry is to expand substantially.

6.2.3 Uranium in Australia

Exploration spending on uranium in Australia has surged in response to an increased uranium price, but increased activity is not expected to translate into large new mines during the next five years. In addition to the often considerable lead times associated with feasibility studies, consultation with stakeholders and securing funding commitments, there are substantial political hurdles associated with developing new operations. There is currently strong community opposition to uranium mining.

The three projects currently operating within Australia include Olympic Dam (SA), Ranger mine (NT) and the Beverley mine (SA) with the expectation that the smaller Honeymoon mine (SA) will commence operations by the end of 2010.

6.2.4 Major Industry Participants

The uranium mining industry is highly concentrated with three firms accounting for all industry output.

- Energy Resources of Australia Ltd - Energy Resources of Australia ("ERA") is majority owned by Rio Tinto Ltd and accounts for 55% of the market share in Australia. In addition to uranium, Rio Tinto's major products include iron ore, coal, copper, diamonds, uranium, gold and industrial minerals. ERA operates in the Ranger uranium mine in the Northern Territory, which is the second largest uranium mine in the world (based on 2009 output). It also owns the Jabiluka uranium deposit (NT) which is considered to be the world's best undeveloped uranium deposit, however, opposition by the traditional land owners is currently restricting development.
- BHP Billiton Ltd - BHP Billiton holds 40% market share in the uranium mining industry, of which it became a participant after the acquisition of WMC Resources Ltd in August 2005. It operates the Olympic Dam mine in South Australia, which, in addition to uranium, produces copper and gold. Olympic Dam is the largest known uranium deposit in the world.
- Heathgate Resources Pty Ltd - Heathgate Resources, a subsidiary of the privately owned US based firm General Atomic Inc, owns and operates the Beverley uranium mine in South Australia. Being the smallest uranium mining operation in Australia, it holds 9% of market share and produces uranium by the in-situ leaching process.

7. Valuation Methodology and Approach

7.1 DEFINITION OF MARKET VALUE

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders we have determined the value of the issued shares and options of ERO and SEZ on a fair value basis. Fair value is generally defined as:

- "The price that would be negotiated in an open and unrestricted market between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length".

In assessing the value of an ERO share and options and comparing it with the consideration being offered (being the shares and options in SEZ), we have valued ERO on a controlling interest basis.

7.2 VALUATION METHODOLOGY AND APPROACH

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company for the purposes of, amongst others, a control transaction. These methods include the:

- Discounted cash flow method and the estimated realisable value of any surplus assets;
- Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- Amount that would be available for distribution to security holders on an orderly realisation of assets;
- Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets; and
- Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

For share options, RG 111 states that the most commonly used valuation methods are the Binomial Model and the Black-Scholes Model.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas fields). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value. This methodology is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets. This method is also appropriate for companies that are holding assets that are not sufficiently advanced to enable the preparation of long term cash flow forecasts.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

7.3 VALUATION METHODOLOGY ADOPTED

ERO's principal assets other than Georgetown are its exploration tenements located in South Australia, Queensland and Northern Territory. While ERO has actively undertaken exploration for uranium, gold and other minerals within these areas, to date this exploration has not been successful. As noted previously, management is committed to the sale of Georgetown and while expressions of interests have been received, no formal offers from potential purchasers have been made. ERO management are confident of negotiating an acceptable price for Georgetown.

In considering the most appropriate method by which to value ERO it is of note that without the definition of any resources it is not possible to apply any market or transaction multiple assessment.

In valuing ERO we have adopted a net asset backing approach and taken into consideration:

- The market prices at which the Company's shares traded on the ASX;
- The proposed sale of Georgetown; and
- The book value of the net assets of ERO as at 30 June 2010, which besides Georgetown primarily represents the carried forward exploration expenditure of ERO's other mineral projects.

In determining the value of an ERO share we have considered the application of a control premium, consistent with the requirements of RG 111.

In regard to the valuation of SEZ, we have applied the net asset backing approach having regard to SRK's assessment of the Company's lithium and uranium projects.

We have also given consideration to the pro forma value of ERO subsequent to the Proposed Transaction.

7.4 RELIANCE ON TECHNICAL EXPERT

In determining the value of SEZ, we have relied on the assessment and valuation undertaken by SRK. In relying on the valuation, we are satisfied that SRK and the individuals involved have the required qualifications for the preparation of the assessment and valuation report, and have no pecuniary interest in ERO or SEZ.

We have obtained written consent from SRK to refer to this assessment and valuation in this independent expert's report.

A copy of SRK's report is attached in full at Appendix D of this report.

8. Valuation of ERO

8.1 APPROACH

We have adopted a net asset backing approach to value ERO. Our approach also considers the market prices at which the Company's shares traded on the ASX in the past 12 months.

8.2 NET ASSET VALUE

At 30 June 2010, the date of ERO's last audited accounts, the Company had net assets of \$13.964 million. As presented in section 3.2.2 of this report, the major assets of ERO represent the mine properties for Georgetown of \$2.3 million and exploration and evaluation of \$10.3 million which includes the carried forward exploration expenditure at Georgetown of approximately \$1.4 million and ERO's other exploration projects of \$8.9 million.

In considering the net asset backing of ERO's assets, we had regard to the status of Georgetown as well as the balance of the remaining exploration expenditure of ERO's other exploration projects.

8.2.1 Sale of Georgetown

ERO acquired Georgetown in June 2009 for \$2.65 million. In April 2010, the Company commissioned a small scale gold production. In the 30 June 2010 Quarterly Report, ERO announced that the Directors were reviewing the following two options in respect of the future direction of Georgetown:

- Staged expansion
A two staged expansion, initially involving the introduction of night shift operations followed in 2011 by the commissioning of a new 100 lcm/hr processing plant. The impact of this expansion option was forecast to result in a fourfold increase in gold production with a substantial reduction in operating costs.
- Sale of the operations
The Company had received a number of expressions of interest from parties considering the purchase of Georgetown. The Board, at that time, was in discussion with potential purchasers to better quantify the value to the Company of the outright sale of the Georgetown assets.

In an ASX announcement on 26 August 2010, the Directors confirmed that following a review of operations they considered the sale of the Georgetown operations would be in the best interests of shareholders as this would allow the Company to focus its exploration efforts and consider other projects.

Management advised that the option to expand Georgetown was not considered economical due to the small size and remoteness of the operations. Management have advised that the possible sale outcomes include:

- ERO selling the company that holds all Georgetown assets (ERO Georgetown Gold Operations Pty Ltd). This is the most straight forward and most likely option;
- ERO selling the assets underpinning the Georgetown operations including the mine and most of the MLs. This option is considered complex and onerous; and
- ERO could retain those tenements with hardrock potential. This option is not considered to have significant upside value.

While site visits to Georgetown by potential purchasers have been completed, no formal offers have been received.

We note that the book value of Georgetown amounts to \$3.8 million, which reflects the \$2.65 million paid by ERO in June 2009 plus the capital expenditure incurred in getting the project into production in April 2010, less depreciation of approximately \$125,000.

Based on the above and with specific regard to:

- The relatively recent acquisition of Georgetown in June 2009 under a competitive bid process;
- The commissioning of the project as a small scale gold production operation in April 2010 (having produced 250 ounces of gold in the six months to 30 September 2010); and
- The expressions of interest received in relation to the project and the ongoing attention by potential purchasers. We note that we have requested a copy of the expressions of interest, however we have not received these at the date of this report.

We consider the book value of the Georgetown assets of \$3.8 million to be a reasonable basis for determining the net asset backing of these assets.

8.2.2 ERO's Exploration Expenditure

ERO's portfolio of exploration assets represent early stage, greenfield projects which given their nature are high risk and speculative. The capitalised exploration and evaluation expenditure have been carried forward in ERO's financial statements on a basis consistent with accounting standards based on the Directors' view that 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 through its sale; or
- Exploration activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest continuing.

The nature of such early stage exploration typically results in capitalised exploration expenditure which while meeting accounting requirements remains highly provisional. In some circumstances where early exploration has not identified any indicators of prospectivity, the exploration spend can represent varying degrees of meaningful expenditure and as such, the book value of capitalised expenditure may not adequately reflect net realisable value.

Given the above limitations, in considering the net realisable value of ERO's exploration tenements we have adopted the Multiple of Exploration Expenditure ("MEE") method. This method is based on the premise that past expenditure or the amount spent on exploration of a tenement is commonly used as a guide in determining value. The assumption is that meaningful exploration adds value to a property. This is not always the case as exploration can also downgrade a tenements value when there is lack of success. Emphasis must be on the significance of the exploration. That is, only those past expenditures that are considered reasonable and productive are retained as value contributors. Therefore the MEE approach assumes that the amount of exploration expenditure justified on a mineral property is related to that property's value.

Under the MEE approach, a prospectivity enhancement multiplier ("PEM") is applied to the exploration expenditure to recognise that exploration expenditure does not always enhance or is indicative of the market value of a property. Valuation literature and industry practice generally suggest that PEMs fall into the following ranges:

- 0.2x to 0.5x – where exploration (past and present) has downgraded the tenement prospectivity and there is no mineralisation identified;
- 0.5x to 1x – where work to date or historical data supports the next stage of exploration;
- 1x to 2x – where there is a strong indication of potential for economic mineralisation; and
- 2x to 3x – where drill results or exposures are indicative of economic mineralisation being present.

As part of the cost approach we have discussed ERO's exploration history and the effectiveness of previous expenditure with management in determining the level of meaningful exploration expenditure incurred.

Based on the information available in respect to each of the exploration projects, we have considered the balance of capitalised exploration expenditure as at 30 June 2010 as being representative of the historical past expenditure for each tenement.

The following table summarises the range of PEMs used in determining the indicated value of ERO's exploration tenements.

Currency: A\$000		Jun10A	PEM multiple	Indicated value	
Project	Total capitalised expenditure	Low	High	Mid	Mid
Georgetown	1,364	1.0	1.0	1.0	1,364
Abminga Gold	4,154	0.0	0.2	0.1	415
Billa Kalina Uranium	1,430	0.0	0.5	0.3	358
Tanami Exploration Initiative	64	1.0	1.0	1.0	64
Marree Project	265	1.0	1.0	1.0	265
Nackara Project	427	1.0	1.0	1.0	427
Eromanga Uranium Resources Ltd	2,604	0.0	0.0	0.0	-
Other	-	0.0	0.0	0.0	-
Total	10,308				2,893

Source: EY analysis

We note the following in relation to our determination of the PEM multiple and indicated value of ERO's exploration assets:

- As noted in section 8.2.1 above, the book value of capitalised exploration expenditure in relation to the Georgetown project is considered to be reasonably reflective of net realisable value reflecting a PEM of 1.0x and an indicated value equal to the stated book value of \$1.4 million;
- The PEM range of 0x to 0.2x for the Abminga Gold project reflects that the majority of capitalised exploration expenditure for the project being undertaken prior to 30 June 2008, the exploration expenditure write-down in FY09 of \$1.241 million and the perceived downgrading of the tenement's prospectivity due to unsatisfactory results and the requirement for high cost deep drilling to target potential anomalies;
- The PEM range of 0x to 0.5x for the Billa Kalina Uranium project reflects our understanding that while the area is considered highly prospective given the identification of a potentially significant single point of gravity anomaly at Peeweena Dam, on the basis that the area of interest falls within the recently defined Restricted Zone of the larger Woomera Prohibited Area, there is significant uncertainty in regards to the Company receiving a positive response to its exploration submission, which was lodged with the Australian Defence Department on 5 May 2010 given the time that has elapsed in comparison to the guideline requirements for the Defence Department to respond within a maximum 120 days;
- The PEM of 1.0x for the Tanami Exploration Initiative reflects that while the area is considered prospective, the region is sparsely explored and limited geological knowledge exists with respect to the tenements;
- The PEM of 1.0x for each of Marree and Nackara projects reflects that while the projects are not considered as high a priority as the Tanami project, the capitalised expenditure represents near term exploration activity in these areas over the last two financial years which is considered meaningful; and
- The Eromanga Uranium Resources balance of capitalised exploration expenditure reflects historical expenditure booked at the time of listing in October 2006 which has incurred write-downs of \$5.097 million and \$1.932 million in FY09A and FY10A respectively. Given the historical nature of the exploration, the recent write-downs and the low prospectivity of the investment, we have adopted a nil realisable net asset value.

8.2.3 Net Asset Valuation

Our valuation of ERO under the net asset backing approach is summarised in the table below.

ERO		Valuation		
Currency: A\$000	Low	Mid	High	
Current assets				
Cash and cash equivalents	361	361	361	
Trade and other receivables	411	411	411	
Inventories	41	41	41	
Total current assets	813	813	813	
Non-current assets				
Property, plant & equipment	822	822	822	
Exploration and evaluation	2,120	2,893	3,666	
Mine properties	2,326	2,326	2,326	
Other non-current assets	18	18	18	
Total non-current assets	5,287	6,060	6,832	
Current liabilities				
Trade and other payables	267	267	267	
Provisions	28	28	28	
Total current liabilities	296	296	296	
Non-current liabilities				
Provisions	28	28	28	
Total non-current liabilities	28	28	28	
Net assets value	5,776	6,549	7,322	
Number of shares on issue	160,176	160,176	160,176	
Net asset value per share	0.036	0.041	0.046	

Source: ERO 30 June 2010 Financial Statements, EY Analysis

Based on the above analysis of it is our view that a value range of \$0.036 to \$0.046 with a midpoint of \$0.041 is a reasonable indicator of ERO's net asset backing per share. On this basis the total value of ERO is in the range of \$5.776 million to \$7.322 million with a midpoint of \$6.549 million.

8.3 RECENT SHARE ISSUES

We note that the last shares ERO issued were under a Share Purchase Plan offer announced on 8 September 2009. As a result of this offer 34,469,896 shares were issued at \$0.06 each on 24 September 2009. There have been no shares issued by ERO since that time.

8.4 MARKET PRICE ANALYSIS

A summary of the trading prices of ERO's shares on the ASX for the period between 1 September 2009 and 11 October 2010 is detailed in section 3.5 of this report.

The analysis showed that ERO's share price traded at levels of around \$0.06 between September 2009 and December 2009 and subsequent to December 2009 traded down progressively to a low of \$0.015 in June 2010, before trading up to \$0.028 in September 2010, closing at \$0.025 on 11 October 2010, the day prior to the announcement of the Proposed Transaction. The \$0.015 represented the lowest trading price of an ERO share since the Company listed in October 2006.

The market prices at which ERO's shares traded on the ASX usually reflect the prices paid for small parcels of shares representing minority interests and as such do not include a control premium relevant to a significant parcel of shares. It is generally accepted that in order to acquire a 100% controlling interest in a company, the acquirer must pay a premium over and above the prices at which the shares in the target are trading prior to the announcement of the takeover bid. Takeover transactions in Australia are typically completed with an implied premium to the pre-bid trading price in the order of 20% to 40%. Given the nature of ERO's operations and its lack of exploration success, it is likely that any control premium, if any, would be at the lower end of that range. We note that in our valuation we have applied a control premium of 20%.

The closing share price of ERO as at 11 October 2010 was \$0.025.

The table below summarised the volume weighted average price ("VWAP") over the 5, 10, 20, 30, 60 and 90 days preceding 11 October 2010, the VWAP including a 20% control premium, ERO's market capitalisation based on that price and the average volumes traded.

	VWAP	VWAP including 20% control premium	Market Capitalisation including premium \$m's	Average Daily Volume
	\$'s	\$'s		000's
5 days	0.0250	0.0300	4.805	51.3
10 days	0.0244	0.0293	4.693	33.3
20 days	0.0247	0.0297	4.757	101.7
30 days	0.0233	0.0280	4.485	103.3
60 days	0.0229	0.0275	4.405	81.3
90 days	0.0217	0.0260	4.165	112.3

Source: Bloomberg

Based on the above analysis of ERO's recent share trading price it is our view that a price of \$0.028 is a reasonable indicator of the market value per share of ERO. This price includes a control premium of 20%. Based on the number of ERO shares currently outstanding and a share price of \$0.028, the total value of ERO amounts to \$4.485 million.

8.5 VALUATION CONCLUSION

Based on our approach it is our view that a share price range of \$0.028 and \$0.041 is the best indicator of the market value per share of ERO. This share price range gives a total value of ERO between \$4.485 million and \$6.549 million. The low end of our range reflects the value of ERO based on the market based approach with reference to the trading price of ERO's shares on the ASX in the period prior to the announcement of the Proposed Transaction. The high end of the range reflects the value of ERO based on the net asset backing approach.

In respect of our valuation range we note the following:

- The midpoint value of an ERO share under the net asset backing approach of \$0.041 reflects a 64% premium over the closing price as at 11 October 2010 of \$0.025;
- The range of values for an ERO share under the net asset backing approach and the implied discount to the book value of net assets reflects the uncertainty of the level of prospectivity of ERO's exploration tenements given the lack of exploration success. The valuation of exploration assets is inherently subjective. If an economic resource is subsequently identified the valuation will be substantially higher and alternatively, if exploration expenditure is unsuccessful, the value of the tenements will decrease;
- The value of the Company is highly susceptible to the value of its underlying projects and the success of its exploration activities; and
- The discount of ERO's recent trading price to the ERO's net asset backing suggests that the market is subscribing little value to ERO's exploration assets.

8.6 VALUATION OF CONSIDERATION OPTIONS

We have valued the Consideration Options to be issued by ERO using a Binomial Option Pricing methodology. The valuation and parameters applied to value the Consideration Options are detailed in the table below.

	Exercise price \$	Share price \$	Volatility	Risk free rate	Expiry date	Dividend yield	Valuation \$
Consideration Options	0.05	0.028	97.6%	4.9%	31 Oct 2011	- %	0.006

Source: EY Analysis, Bloomberg, Draft Notice of Meeting

The volatility of ERO was derived from weekly observations of ERO shares for the last 12 months.

On this basis we are valuing the Consideration Options at \$0.006 per option.

9. Valuation of SEZ

9.1 APPROACH

We have adopted a net asset backing approach to value SEZ.

9.2 VALUATION OF SEZ'S ASSETS

Our valuation of SEZ is summarised in the table below.

SEZ		Valuation		
Currency: A\$000	Notes	Low	Mid	High
Assets				
Cash and cash equivalents	1	87	87	87
Trade and other receivables	1	1	1	1
Exploration assets	2	4,740	6,420	9,400
Other assets	3	-	-	-
Total assets		4,828	6,508	9,488
Liabilities				
Trade and other payables	1	(101)	(101)	(101)
Total liabilities		(101)	(101)	(101)
Net assets value		4,727	6,407	9,387
Number of shares on issue (000's)		33,850	33,850	33,850
Net asset value per share (\$)		0.140	0.189	0.277

Source: SEZ Financial Report for year ended 30 June 2010, SRK Valuation of South East Energy Exploration Assets October 2010, EY Analysis

1. The value of these assets is based on their book value as at 30 June 2010.
2. The exploration assets' low, mid and high range values are based on SRK's estimated values. Refer to section 9.2.1 of this report for a description of the valuation methodology adopted by SRK.
3. Other assets at 30 June 2010 of \$97,000 have been excluded on the basis this amount relates to IPO costs.

On this basis the value of a SEZ share is assessed to be in the range of \$0.140 to \$0.277, with a midpoint value of \$0.189.

9.2.1 SRK's Valuation of SEZ's Assets

In their report attached as Appendix D, SRK selected the most appropriate valuation technique for each SEZ asset based on the development stage of the project and the amount of available information. SRK note that there are two major methods of valuation using recent market transactions that are reasonable to apply when valuing exploration projects being:

- A value per unit area applied to the whole (or prospective area) of the project to arrive at a value. The value per unit area is normally derived from comparable transactions; and
- For projects where conceptual targets have been determined, but no confirmatory work has been completed and no specific targets identified, the project can be valued against transactions on a project basis rather than an area basis.

In respect of SEZ's uranium tenements, SRK applied:

- The total project value method to the Padthaway project due to a lack of defined uranium mineralisation; and
- The area based approach was applied to the Lake Frome and Lake Torrens areas as there is mineralisation defined in the same or equivalent horizons in these areas.

Given the nature and early stage of SEZ's lithium tenements, SRK has undertaken analyses of the probability of exploration success in well-mineralised areas of Australia on tenements where no current drill targets are known (greenfield areas). The probability of generating a site suitable for successful resource definition is considered to be relatively stable at about 5-10%, with most analyses closer to the 5% success level. Using 5% as the likelihood of successful exploration factor, SRK provided a valuation based on the cost to acquire an exploration permit over areas of known mineralisation based on South American and North American transactions.

The summary valuation of SEZ's lithium and uranium tenements as determined by SRK is set out in the table below:

	Area km ²	Low (\$'million)	Preferred (\$'million)	High (\$'million)
Uranium				
Padthaway	n/a	0.77	1.31	1.54
Lake Frome	1,757	0.91	1.30	1.95
Lake Torrens	823	0.43	0.61	0.91
Total Uranium		2.11	3.22	4.40
Lithium				
Lake Frome	1,757	1.80	2.20	3.40
Lake Torrens	823	0.83	1.00	1.60
Total Lithium		2.63	3.20	5.00
Total		4.74	6.42	9.40

Source: SRK Valuation of South East Energy Exploration Assets October 2010

9.3 VALUATION CONCLUSION

We have undertaken the valuation of SEZ using the net asset backing approach as discussed in Section 7 of this report. On this basis the value of a SEZ shares is assessed to be in the range of \$0.140 to \$0.277, with a midpoint value of \$0.189. This share price range gives a total value of SEZ between \$4.727 million and \$9.387 million.

9.4 VALUATION OF SEZ OPTIONS

We have valued the SEZ options using a Binomial Option Pricing methodology. The valuation and parameters applied to value SEZ's options are detailed in the table below.

SEZ options	Exercise price \$	Share price \$	Volatility	Risk free rate	Expiry date	Dividend yield	Valuation \$
Low price	0.30	0.140	87.0%	4.9%	30 Dec 2010	- %	0.001
High price	0.30	0.280	87.0%	4.9%	30 Dec 2010	- %	0.039

Source: EY Analysis, Bloomberg, Letter from ERO to SEZ regarding Proposed Transaction dated 17 September 2010

The volatility was derived from the volatilities of comparable companies listed on the ASX.

On this basis we are valuing the SEZ Options in the range of \$0.001 to \$0.039 per option.

10. Evaluation of the Proposed Transaction

In forming our opinion on the merits of the Proposed Transaction to the Non-Associated Shareholders, we have considered:

- How the Proposed Transaction will alter the existing business of ERO;
- Whether the value of a SEZ share is higher or lower than the value of 4.5 ERO shares, representing those securities the subject of the Proposed Transaction;
- A comparison of the likely market value of the Non-Associated Shareholders' shareholdings if the Proposed Transaction is successful to the likely market value of the Non-Associated Shareholders' shareholdings if the Proposed Transaction does not complete;
- The level of control to be achieved by SEZ shareholders as a whole in ERO;
- The implications for ERO and the Non-Associated Shareholders if the Proposed Transaction is not approved;
- Other qualitative factors which we believe represent either advantages or disadvantages to the Non-Associated Shareholders; and
- The alternatives available to Non-Associated Shareholders.

10.1 VALUATION CONCLUSION

In determining whether the Proposed Transaction is fair, we compared the value of a SEZ share with the value of 4.5 ERO shares. Our assessment of the fair value of ERO reflects the fact that through the Proposed Transaction, SEZ will obtain a controlling interest in the Company. Consequently, in assessing the value of 4.5 ERO shares and comparing it with the consideration being offered (being the SEZ shares), we valued the shares of ERO on a controlling interest basis.

As described above, under the Proposed Transaction the consideration for the acquisition of SEZ by ERO will be satisfied by the issue of 152,325,014 Consideration Shares and 191,250,000 Consideration Options. The Consideration Options are American style options to acquire ordinary ERO shares at an exercise price of \$0.05 and expiry date of 31 October 2011.

Sections 8 and 9 include our respective assessment of the fair value of ERO and SEZ. The following table summarises our valuation conclusions.

	Low	High
On a Share for Share Basis:		
Assessed value of SEZ (\$000's)	4,727	9,387
Value per SEZ share (\$)	0.140	0.277
Value per SEZ option (\$)	0.001	0.039
Total value per SEZ share and options (\$)	0.141	0.316
Assessed value of an ERO share (\$)	0.028	0.041
Assessed value of a Consideration Option (\$)	0.006	0.006
Value of 4.5 Consideration Shares per 1 SEZ share (\$)	0.126	0.185
Value of 4.5 Consideration Options per 1 SEZ option (\$)	0.027	0.027
Total Value of Consideration Shares and Options	0.153	0.212
Premium/(discount) of SEZ share to ERO share (\$)	(0.012)	0.104
Premium/(discount) as a percentage (%)	(7.8)%	49.1%

Source: EY analysis

We note that the shares and options have been assessed on a combined basis to reflect the nature of the Proposed Transaction, in that if the Proposed Transaction is approved the Consideration Shares and the Consideration Options will be issued together.

As outlined in the table above, the low end of our assessed SEZ valuation range is marginally lower than the low end of our assessed ERO Consideration Shares and Options, the high end of our assessed SEZ valuation range is higher than the high end of the Consideration Shares and Options valuation range. Reference to 'premium' means that what the Non-Associated Shareholders of ERO are receiving under the Proposed Transaction is more than what they are paying (i.e. the Consideration Shares and Options). The existence of a premium is to the advantage of the Non-Associated Shareholders.

Included in the following table is consideration of the pro forma value of an ERO share before and after the Proposed Transaction. In deriving the pro forma value we have simply aggregated the assessed value of ERO with the assessed value of SEZ without regard to any potential synergies and/or transaction costs.

ERO - Pro Forma Valuation of ERO After the Proposed Transaction	Low	High
Assessed value of ERO share (\$)	0.028	0.041
Number of shares currently on issue (000's)	160,176	160,176
Assessed value of ERO (\$000's)	4,485	6,549
Assessed value of SEZ (\$000's)	4,727	9,387
Pro forma value of ERO after the Proposed Transaction (\$000's)	9,212	15,936
Number of Shares on Issue plus the Consideration Shares (000's)	312,501	312,501
Pro forma value of ERO share after the Proposed Transaction (\$)	0.029	0.051
Increase/(decrease) in value of ERO share (\$)	0.001	0.010
Increase/(decrease) as a percentage (%)	3.6%	24.4%

Source: EY analysis

At the low and high end of our range the pro forma value per share increases. Any increase is to the advantage of the Non-Associated Shareholders. The pro forma valuation presented in the table above is on an undiluted basis. At the low end of the range, the 942,000 existing ERO options exercisable at \$0.028 are in the money. If we took these into account, the pro forma value per share would be \$0.029. At the high end of the range, both the 942,000 existing ERO options and the Consideration Options are in the money. If we took these into account the pro forma value per share would be \$0.051.

Based on this analysis, in our opinion, the Proposed Transaction is fair to the Non-Associated Shareholders of ERO.

10.2 COMMERCIAL AND QUALITATIVE FACTORS

In accordance with RG 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Transaction is reasonable. However, in assessing the reasonableness of the Proposed Transaction, we have in addition considered the potential advantages and disadvantages to the Non-Associated Shareholders and considered whether the advantages outweigh the disadvantages only in the overall context of the Proposed Transaction and ERO's position going forward.

We consider that the advantages and disadvantages of rejecting the Proposed Transaction are the inverse of the advantages and disadvantages of accepting the Proposed Transaction.

In assessing the Proposed Transaction, we have considered other commercial and qualitative factors relating to the Proposed Transaction. These factors are summarised below. We note that individual Non-Associated Shareholders may interpret these factors differently depending on their own individual circumstances.

10.2.1 Business Mix and Future Growth

Following the Proposed Transaction ERO, will be the parent company of a company with a portfolio of lithium, uranium and gold licences.

ERO considers that there has been a strong growth in demand for lithium in recent years and this growth will continue in the future. The acquisition of SEZ presents an opportunity to acquire tenements which house a number of projects which are prospective for this increasingly demanded mineral.

10.2.2 Effective Ownership of ERO

Under the Proposed Transaction, ERO is set to acquire SEZ for a consideration to be satisfied by the issue of 152,325,014 Consideration Shares and 191,250,000 Consideration Options. As a consequence of the issue of the Consideration Shares, on an undiluted basis, the shareholders of SEZ, as a collective group and including the ERO shares Mr Kennedy has a relevant interest in, will have shareholding interest in ERO of 50%. The Non-Associated Shareholders' collective interest in ERO will reduce from 97.5% to 50%. No single SEZ shareholder after the Proposed Transaction will have a greater than 10% interest in ERO. Maximus, which is currently ERO's largest shareholder with a 27.8% interest, will remain the Company's largest single shareholder with a 14.3% interest. Mr Kennedy is the Chairman of Maximus.

A summary of the shareholder structure following the Proposed Transaction is set out below:

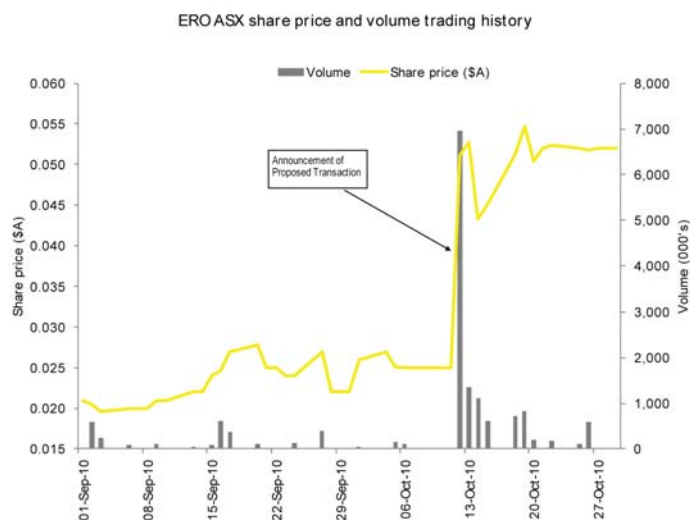
	After the Proposed Transaction							
	Current		Immediately After		Partially Diluted		Fully Diluted	
	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest	No. of Shares (000's)	% Interest
ERO shares on issue	160,176		312,501		504,692		532,484	
ERO shareholders								
Maximus Resources Ltd	44,607	27.8%	44,607	14.3%	44,607	8.8%	52,642	9.9%
Other Non-Associated Shareholders	111,546	69.6%	111,546	35.7%	112,488	22.3%	128,744	24.2%
Total Non-Associated Shareholders	156,153	97.5%	156,153	50.0%	157,095	31.1%	181,387	34.1%
SEZ shareholders								
ERO related parties and their relevant interests								
Robert Kennedy	3,956	2.5%	23,756	7.5%	50,756	10.1%	54,256	10.2%
Neville Foster Alley	-	-%	20,025	6.4%	47,025	9.3%	47,025	8.8%
Hector Gordon	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
Shane Gale	66	0.0%	18,066	5.8%	45,066	8.9%	45,066	8.5%
Other SEZ shareholders								
Aloren (No. 148) Pty Ltd	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
Reginald George Nelson	-	-%	19,800	6.3%	46,800	9.3%	46,800	8.8%
South Australian Resource Investments Pty Ltd	-	-%	18,045	5.8%	36,045	7.1%	36,045	6.8%
Smart Family Super Fund	-	-%	4,500	1.4%	9,000	1.8%	9,000	1.7%
Smart Holding Pty Ltd <Smart Family Ac>	-	-%	4,500	1.4%	9,000	1.8%	9,000	1.7%
Other SEZ shareholders	-	-%	8,055	2.6%	10,305	2.0%	10,305	1.9%
Total SEZ shareholders	4,022	2.5%	156,347	50.0%	347,597	68.9%	351,097	65.9%

Source: EY Analysis,

With a collective 50% interest in ERO, if any ERO shareholder does not vote then SEZ shareholders as a whole would be in a position to control the Company in a general meeting. If less than 50% of ERO shareholders (by number of shares) vote, then SEZ shareholders as a whole would be in a position to control a special resolution put before shareholders.

10.2.3 Market Reaction to the Proposed Transaction

The Proposed Transaction was announced on 12 October 2010. The announcement resulted in an increase in the ERO share price on that day from \$0.025 to \$0.051. Since then ERO's share price has traded in the range between \$0.043 and \$0.052. The impact of the Proposed Transaction can be seen in the following chart which sets out ERO's share price from 1 September 2010 to 29 October 2010.



Source: Bloomberg

The significant increase in the share price following the announcement of the Proposed Transaction highlights the markets positive response in respect of the transaction.

We note that in our valuation analysis throughout this report we have not taken into consideration the share price following this announcement.

10.2.4 Change of Board Members

If the Proposed Transaction is successful, Mr Shane Gale will be ERO's new Chief Executive Officer. Mr Gale joined SEZ in March 2010 and is experienced in the formation, development and team leadership of start-up ventures that have achieved organisational growth. Mr Gale has an extensive understanding of management of supply chain, logistics and transportation industries. Most recently Mr Gale was the logistics manager with Cheetham Salt Limited where he was involved with exploration and mining in the Northern Territory (North Flinders Mines).

Management of both ERO and SEZ believe that Mr Gale brings to the Company a great deal of experience in the development and team leadership of start-up ventures and his appointment to the Board of ERO will further enhance the Company's ability to accelerate growth.

10.2.5 Liquidity in ERO Shares

Although the number of listed ERO shares will increase significantly as a result of the Proposed Transaction, the size of the free float in these shares will effectively remain consistent with the current position. On this basis we do not see any reason to suggest there will be any significant impact on the liquidity of ERO shares as a consequence of the Proposed Transaction.

10.2.6 Board View

We note that the Independent Directors of ERO have unanimously recommended the Proposed Transaction to shareholders in the absence of a superior proposal. The support of the Independent Directors of ERO should provide additional comfort to shareholders.

10.3 ALTERNATIVES

10.3.1 Alternative Offer

We are not aware of any alternative offers that may be forthcoming.

10.3.2 If the Proposed Transaction does not Proceed

In the event the Proposed Transaction does not proceed and in the absence of an alternate transaction emerging, ERO would continue to operate as an independently listed entity in the ASX. We note that:

- In the context of further developing its own exploration assets, ERO's existing cash will not meet the minimum expenditure requirements to maintain the current tenement portfolio. ERO would need to complete the sale of Georgetown or raise additional capital. In the event that the minimum capital expenditure requirements are not met, ERO will need to relinquish land and reduce the size of their tenement portfolio.
- ERO has an established Board and experienced senior management team however we note that Mr Lines, the Managing Director, will resign from this position regardless of the outcome of the Proposed Transaction. Accordingly, ERO would be required to employ a new Managing Director to drive the exploration activity and growth of the Company.

10.4 OTHER CONSIDERATIONS

This independent expert's report only provides general information. It does not take into account a shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by ERO shareholders. Non-Associated Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. Shareholders should seek their own professional advice.

This report has been prepared to assist ERO shareholders in assessing the merits of the Proposed Transaction.

Whether or not individual shareholders should vote to accept or not accept the Proposed Transaction depends upon their individual situation, objectives and needs, as well as each shareholder's views as to the reasonableness factors associated with either accepting or not accepting the Proposed Transaction.

10.5 CONCLUSION ON THE PROPOSED TRANSACTION

Ernst & Young Transaction Advisory Services considers the issue of the Consideration Shares and the Consideration Options in exchange for all of the issued shares and options in SEZ under the Proposed Transaction to be fair and reasonable to the Non-Associated Shareholders.

Ernst & Young Transaction Advisory Services notes that the majority of the key benefits are not easily quantifiable and, accordingly, evaluation of the Proposed Transaction is subjective. Having regard to the nature of the Proposed Transaction it is the opinion of Ernst & Young Transaction Advisory Services that, on balance, Non-Associated Shareholders as a whole are likely to be better off if the Proposed Transaction proceeds.

As a part of assessing whether or not the Proposed Transaction is fair and reasonable, Ernst & Young Transaction Advisory Services has assessed the value of the equity in SEZ and compared it to the value of the Consideration Shares and Consideration Options being issued under the Proposed Transaction.

The alternative to the Proposed Transaction is for the ERO shareholders to vote against the proposal, in the hope of either realising greater value through maintaining the standalone business of ERO or a superior offer emerging.

Appendix A

Statement of Qualifications and Declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to ERO.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to ERO and SEZ with reference to Regulatory Guide 112, Independence of Experts.

This report has been prepared specifically for the Non-Associated Shareholders of ERO in relation to the Proposed Transaction. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by ERO, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix D to this report.

ERO has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of ERO for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report. Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young and Mr Ishwar Madhyastha representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Notice of Meeting and Explanatory Notes to be sent to ERO shareholders with respect to the Proposed Transaction. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

The financial forecasts used in the preparation of this report reflect the judgement of directors and management of ERO and SEZ based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Notes.

Appendix B

Sources of Information

In preparing this report, we had regard to the following sources of information:

- » ERO's IPO prospectus dated 4 August 2006;
- » SEZ's draft IPO prospectus dated 9 September 2010;
- » ERO's audited financial statements for FY09 and FY10;
- » ERO's quarterly result for the period ending 30 June 2010 and 30 September 2010;
- » SEZ's audited financial statements for FY09 and FY10;
- » the report by SRK, dated October 2010, included in full as Appendix D;
- » ERO shareholder register as at 29 September 2010;
- » SEZ shareholder register as at 2 September 2010;
- » ASIC Regulatory Guides 110, 111 and 112;
- » ERO Tenements Summary schedule spreadsheet as at June 2010 and June 2009;
- » ERO Tenement Status spreadsheet dated 6 October 2010;
- » Letter from PIRSA to SEZ regarding the Renewal of Governments Licences dated 13 April 2010;
- » Letter from ERO to SEZ regarding Proposed Transaction dated 17 September 2010;
- » Bloomberg;
- » DataMonitor Industry Profile Report for Metals and Mining in Australia date August 2010;
- » IBISWorld Industry Report for Mineral Exploration in Australia dated June 2010;
- » IBISWorld Industry Report for Uranium Mining in Australia dated July 2010;
- » IBISWorld Industry Report for Manganese and Other Mineral Mining in Australia dated October 2009;
- » Byron Capital Markets Industry Report "Lithium: The Next Strategic Material" dated 4 September 2009;
- » Final draft Notice of Meeting and Explanatory Notes prepared by ERO for the Meeting;
- » Proposed Acquisition of SEZ Broker's presentation dated 14 October 2010;
- » Various public disclosure documents lodged by ERO with the ASX;
- » Discussions with ERO and SEZ management; and
- » Other publicly available information.

Appendix C

Glossary

Abbreviation	Full Title / Description
AEM	Airborne electromagnetic – Method used to explore mineral deposits which respond to the conductivity of material in the earth
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUD or A\$	Australian dollar
CEO	Chief Executive Officer
the Company	ERO Mining Ltd
Consideration Shares	4.5 new ERO shares for every existing SEZ share, amounting to 152,325,014 shares
Consideration Options	4.5 new ERO options for every existing SEZ option, amounting to 191,250,000 options
CPA	Chartered Professional Accountant
EL	Exploration Licence
ELA	Exploration Licence Applications
EM Survey	Electromagnetic Survey – A geophysical survey method which measures the electromagnetic properties of rocks
EPM	Exploration Permit for Minerals
ERA	Energy Resources of Australia Ltd
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
ERO	ERO Mining Limited
ESOP	Employee share option plan
FME	FME Exploration Services Pty Ltd
FYXXA	Actual financial results for year ending
GDP	Gross Domestic Product
Georgetown	The Georgetown Alluvial Gold project
Inc	Incorporated
Independent Directors	The Directors of ERO excluding Mr Kennedy
IOCGU	Iron Oxide Copper Gold Uranium – A class of mineral deposits characterised by extensive hydrothermal alteration and mineralisation associated with certain granites and other intrusive rocks. These deposits have highly valuable concentrations of copper, gold and uranium ores hosted within iron oxide dominant gangue assemblages which share a common genetic origin.
IPO	Initial public offering
JV	Joint venture
k	Thousand
Km ²	Kilometres squared
LCE	Lithium Carbonate Equivalent The product produced when extracting lithium from minerals and brine.
Li	Lithium
Ltd	Limited
m	Million
Maximus	Maximus Resources Limited
MEE	Multiple of Exploration Expenditure
the Meeting	The Company's General Meeting to be held as soon as practicable
ML	Mining Lease
Nackara	Nackara Arc Gold Project
Non-Associated Shareholders	ERO shareholders not associated with SEZ or the Proposed Transaction
NT	Northern Territory
No.	Number
NRV	Net Realisable Value
NT	Northern Territory
PEM	Prospectivity enhancement multiplier
PIRSA	Primary Industry and Resources of South Australia
the Proposed Transaction	ERO intends to acquire all of the issued shares and options of SEZ for a consideration to be satisfied by the issue of the Consideration Shares and the Consideration Options
Pty	Proprietary
RG	Regulatory Guide
RG 111	Regulatory Guide 111: Content of expert reports
SA	South Australia
SEZ	South East Energy Limited
SRK	SKR Consulting Australasia Pty Ltd
SPP	Share Purchase Plan
USA	United States of America
VWAP	Volume Weighted Average Price
WA	Western Australia

Appendix D

Report by SRK Consulting Australasia Pty Ltd



Valuation of South East Energy Exploration Assets

Report prepared by SRK Consulting



October 2010

Project Code: ERO001

Valuation of South East Energy Exploration Assets

ERO001

Document Reference:

ERO001_South East Energy_Valuation Report_Rev3

ERO Mining Limited
62 Beulah Road, Norwood SA 5067

SRK Consulting (Australasia) Pty Ltd
Level 1, 10 Richardson Street, West Perth WA 6005

Compiled by:



Peter Williams
Corporate Consultant (Geology)
Email: pwilliams@srk.com.au

Peer Reviewed by:



Andre Wulfse
Principal Consultant (Resource Evaluation)
Email: pwilliams@srk.com.au

Authors:

Peter Williams; Deborah Lord; Damien Lepleux

SRK Report Distribution Record

Project Number:

ERO001

Date Issued:

1 November 2010

Name/Title:

Michael Piffi

Company:

Ernst & Young

This document is protected by copyright vested in SRK. It may not be reproduced or transmitted in any form or by any means whatsoever to any person without the written permission of the copyright holder, SRK.

Rev No.	Date	Revised By	Revision Details
0	11/10/2010	Peter Williams	First Draft prior to QA/QC
1	12/10/2010	Peter Williams	First Draft
2	26/10/2010	Peter Williams	Final Report issued to client
3	01/11/2020	Deb Lord	Final Report issued to client with minor change

Executive Summary

Ernst & Young contacted SRK Consulting Australasia Pty Ltd (SRK) to provide a review and valuation of the exploration assets of South East Energy Limited (South East Energy). South East Energy is an unlisted company with exploration tenements and applications in the Lake Frome, Lake Torrens and Padthaway Project areas of South Australia. South East Energy is considering a transaction to sell the company to ERO Mining Ltd, an ASX listed company. Ernst & Young is preparing a valuation report on the company to support this transaction.

Ernst & Young commissioned an assignment and facilitated a contract between ERO Mining and SRK. The report is deliverable to Ernst & Young, and all client communications during the course of the review were copied to Ernst & Young. SRK has not provided this report to South East Energy or ERO Mining except through Ernst & Young.

OUTLINE OF WORK PROGRAMME

SRK undertook the study on a desktop basis in early October 2010. A visit to the company in Adelaide or the assets in South Australia was not included in the work programme.

Specific deliverables include:

- A final VALMIN-compliant report delivered after one round of edits by the companies or their representatives.
- A letter of consent for Ernst & Young to use SRK's Report in a public document that they are preparing to support a transaction between ERO Mining and South East Energy.

RESULTS

South East Energy has exploration access to nine granted exploration licences in the Padthaway area, located about 160 km southeast of Adelaide, two exploration licence applications in the southern part of Lake Frome, and one exploration licence application covering two separate areas of the southern section of Lake Torrens. The total lease area covers 7,012 km². The Padthaway project forms 60% of the area.

Project	Area (km ²)
Padthaway	4432
Lake Frome	1757
Lake Torrens	823

The Lake Frome and Lake Torrens Projects are exploration licence applications principally targeting lithium mineralisation, but also focussed on assessment of the uranium potential. The Padthaway Project is focussed on targeting sandstone-hosted uranium mineralisation.

Uranium mineralisation in the Frome Embayment is well established - the Beverley Project (Heathgate Resources Pty Ltd) and the Four Mile Project (joint venture between Quasar Resources Pty Ltd and Alliance Resources Pty Ltd) located west of Lake Frome occur in the same sedimentary units that underlie the tenement area, and Honeymoon Well located to the south occurs in a younger stratigraphic unit also extending to Lake Frome.

Anomalous uranium in lake sediments at Lake Torrens has been identified by analysis of public domain radiometric images by South East Energy. Uranium-enriched source areas which drain into the lake have also been identified.

At Padthaway, sedimentary units with anomalous uranium have been identified from past exploration, and uranium-enriched granites of the Padthaway Ridge may prove to be the source for this anomalism. South East Energy will explore areas around Frances and Bordertown, where surface uranium anomalism is identified in public domain radiometric images.

The Lake Frome and Lake Torrens projects are at a similar stage of exploration (target definition stage), but in prospective areas. SRK has valued these by direct comparison with other uranium project transactions in Australia on an area basis. The Padthaway project is at a conceptual stage with no well-defined targets and there is no confirmatory analytical information to suggest uranium mineralisation may be present. SRK has therefore valued this on a project valuation basis.

The main commercial use for lithium is in glass, ceramics and battery manufacturing. The current interest in lithium battery technology for the transport industry is driving the expansion of exploration for lithium, both as "hard-rock" sources and as lithium brines. Lithium brines occur in hypersaline salt lake systems fed by suitable source rocks, generally granitic and volcanic rocks with elevated lithium content. These lithium brines have the potential to be the dominant source of lithium for batteries, because of the potentially very large volumes and the ease of extraction and processing.

There are currently no lithium brine resources identified in Australia. Previous exploration for other saline lake products have identified low levels of lithium in Lake Frome, and higher, potentially economic levels in two of the historic drill sample sites. No analyses of Lake Torrens brines are available.

Because of the very early stage of exploration, SRK has considered these to be "greenfields" exploration targets, and valued them with a 5% probability of success compared to transactions in areas with known, high-grade lithium carbonate brines.

VALUATION RESULTS

Executive Summary Table 1: South East Energy Project valuation

	Low (A\$M)	Preferred (A\$M)	High (A\$M)
URANIUM PROJECTS			
Padthaway	0.77	1.31	1.54
Lake Frome	0.91	1.30	1.95
Lake Torrens	0.43	0.61	0.91
Sub-Total	2.11	3.22	4.4
LITHIUM PROJECTS			
Lake Frome	1.8	2.2	3.4
Lake Torrens	0.83	1.0	1.6
Sub-Total	2.63	3.2	5.0
Total	4.74	6.42	9.4

Table of Contents

Executive Summary	35
Outline of Work Programme.	35
Results	35
Valuation Results	35
Disclaimer	36
1. Introduction and Scope of Report	37
2. Background and Brief	37
2.1 Background of the Project	37
2.2 Nature of the Brief	37
3. Programme Objectives and Work Programme	37
3.1 Programme Objectives.	37
3.2 Purpose of the Report	37
3.3 Reporting Standard	37
3.4 Work Programme.	37
3.5 Project Team	37
3.6 Statement of SRK Independence.	38
3.7 Warranties	38
3.8 Indemnities.	38
3.9 Consents	38
4. South East Energy Projects	38
4.1 Lithium Carbonate Brines.	39
4.2 Lake Frome Project	40
4.3 Lake Torrens Project.	42
4.4 Padthaway Project.	42
4.5 Past Exploration.	43
4.6 Valuation Methodology.	43
4.7 Uranium.	46
4.8 Lithium.	47
5. Conclusions	50
5.1 Valuation Results	50
6. References	51

List of Tables

Table 4-1:	Padthaway tenements included in this valuation.	38
Table 4-2:	Tenement applications included in this valuation.	38
Table 4-3:	Exploration history and previous work on project areas	45
Table 4-4:	Generic probabilities used in assessing the value of JV agreements	46
Table 4-5:	Uranium transactions, Australia	48
Table 4-6:	Transaction details, recent uranium properties in Australia	48
Table 4-7:	Results for \$/km ² valuation of South East properties.	48
Table 4-8:	Results for project-based valuation of South East properties.	48
Table 4-9:	Summary valuation of the South East Energy uranium tenements	48
Table 4-10:	Lithium Carbonate transactions, mainly for brines.	49
Table 4-11:	Analysis of the transactions to determine a price by tenement area.	49
Table 4-12:	Results for valuation of South East properties.	49
Table 4-13:	Summary valuation of the South East Energy lithium tenements	49
Table 5-1:	Project Valuation, South East Energy projects	50

List of Figures

Figure 4-1:	Location of the South East Energy projects in Australia, with proximal uranium deposits	39
Figure 4-2:	Major basement terranes in South Australia with project areas.	39
Figure 4-3:	Tenements Lake Frome area	40
Figure 4-4:	Distribution of the Arrowie Basin.	41
Figure 4-5:	Distribution of the Eromanga Basin sequences in the project areas.	41
Figure 4-6:	Distribution of the Lake Eyre Basin sequences and the project areas	42
Figure 4-7:	Tenement location, Lake Torrens	43
Figure 4-8:	Cenozoic stratigraphy of the Lake Eyre Basin.	44
Figure 4-9:	Paleogeography of the Lake Eyre Basin in the Palaeocene	46
Figure 4-10:	Padthaway tenements (overlain orange)	47

Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by ERO Mining Limited (ERO Mining). The opinions in this Report are provided in response to a specific request from ERO Mining to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1. Introduction and Scope of Report

ERO Mining Limited (ERO Mining) contracted SRK to provide a review and valuation of the South Australian exploration assets of South East Energy Limited (South East Energy) to Ernst & Young as part of an Ernst & Young valuation of South East Energy. South East Energy is an unlisted company with exploration tenements and applications in the Lake Frome, Lake Torrens and Padthaway Project areas.

The Lake Frome and Lake Torrens Projects are targeting lithium accumulations in continental brines settings leached from the Flinders and Olary Ranges respectively and deposited in adjacent basins. These projects and the Padthaway Project are also targeting uranium mineralisation in sandstone-hosted settings.

South East Energy has only recently been granted nine of twelve exploration licence applications; as such it is unlikely that a site visit would result in the addition of any material information. An Independent Geologist's Report has recently been prepared and was reviewed by SRK; this was the main source of data relating to these properties.

SRK selected the most appropriate valuation technique for each of the assets based on the development stage of the project and the amount of available information. SRK used a market-based valuation method, based on comparable transactions and discounted these for the developmental stage of the projects. The assets are essentially exploration areas, and no Mineral Resources have been defined.

The Valuation is current as at 12 October 2010. All monetary values are reported in Australian dollars unless otherwise stated and results are rounded to three significant figures. Intermediate results used for further calculations are not rounded.

2. Background and Brief

2.1 BACKGROUND OF THE PROJECT

Ernst & Young through Michael Piffl and Ken Pendergast commissioned SRK to undertake the valuation. SRK prepared a contract for ERO Mining via negotiations through Ernst & Young.

2.2 NATURE OF THE BRIEF

SRK was commissioned to provide a report detailing the estimated technical value and market value of the exploration assets held by South East Energy over the named projects. This report is compliant with the VALMIN Code standard and SRK grants permission for this document to be released publicly.

The report will be deliverable to Ernst & Young, and all client communications during the course of the review were copied to Ernst & Young. SRK understands that the report will be provided to the client only through Ernst & Young.

3. Programme Objectives and Work Programme

3.1 PROGRAMME OBJECTIVES

SRK's primary objective is to provide a review and valuation of the South Australian exploration assets of South East Energy including the Lake Frome, Lake Torrens and Padthaway Project areas.

3.2 PURPOSE OF THE REPORT

The purpose of this Report is to provide a review and valuation of these exploration areas targeting lithium and uranium mineralisation.

3.3 REPORTING STANDARD

This Report has been prepared to the standard of, and is considered by SRK to be a Valuation Report under the guidelines of the VALMIN Code. The VALMIN Code is the code adopted by the Australasian Institute of Mining and Metallurgy and the standard is binding upon all AusIMM members. The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

This Report expresses an opinion as to the value of mineral assets, but does not comment on the 'fairness and reasonableness' of any transactions.

The VALMIN Code recommends that the expert undertake a site visit as part of the valuation process, if this will provide meaningful information. Because the properties under consideration are newly acquired (Padthaway) or under application (Lake Frome and Lake Torrens), and no exploration has been carried out, a site visit will not provide additional information or any verification of data, so the expert has elected not to undertake a site visit.

3.4 WORK PROGRAMME

SRK undertook the study on a desktop basis in early October 2010. A visit to the company in Adelaide or the assets in South Australia was not included in the work programme.

Specific deliverables include:

- A first draft VALMIN-compliant report detailing the results of the Valuation.
- A final VALMIN-compliant report delivered after one round of edits by the companies or their representatives.
- A letter of consent for Ernst & Young to use SRK's Report in a public document.

3.5 PROJECT TEAM

The Project Manager was Peter Williams, who undertook the collation of the valuation as overall expert. His experience covers uranium, gold and copper-gold as well as base metal, iron ore, bauxite, nickel and other precious metal projects.

Deborah Lord is a Principal Consultant with expertise in exploration and valuations, who coordinated the project and assisted with comparable transaction research and reporting.

Damien Lepleux assisted in collation and review of exploration information as required.

Andre Wulfse undertook the peer review of the project. His experience covers Mineral Resource evaluation of several types of deposits and commodities including sandstone-hosted uranium deposits. He has formal training in the valuation of mineral projects and has been involved in valuation of mineral deposits as a consultant for seven years.

3.6 STATEMENT OF SRK INDEPENDENCE

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with ERO Mining in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

3.7 WARRANTIES

ERO Mining has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

3.8 INDEMNITIES

As recommended by the VALMIN Code, ERO Mining has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- Which results from SRK's reliance on information provided by ERO Mining or to ERO Mining not providing material information; or
- Which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

3.9 CONSENTS

SRK consents to this Report being included, in full, in the ERO Mining information to shareholders, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

4. South East Energy Projects

South East Energy holds 12 exploration licences. Three of these licences are applications and nine of these have been granted at the time of writing. The total lease area covers 7,012 km² targeting lithium brines and uranium within South Australia. The Padthaway project forms 60% of the area.

The Lake Frome and Lake Torrens Projects are exploration licence applications principally targeting lithium mineralisation, but also focussed on assessment of the uranium potential. The Padthaway Project, made up of nine granted exploration licences, is focussed on targeting sandstone-hosted uranium potential.

Table 4-1: Padthaway tenements included in this valuation

Tenement number	Tenement type	Granted	Expiry	Area km ²
4045	EL	30/01/2008	29/01/2011	286
4046	EL	30/01/2008	29/01/2011	263
4418	EL	21/01/2010	20/01/2011	627
4054	EL	25/02/2008	24/02/2011	669
4044	EL	30/01/2008	29/01/2011	411
4041	EL	30/01/2008	29/01/2011	973
4043	EL	30/01/2008	29/01/2011	497
4040	EL	30/01/2008	29/01/2011	461
4042	EL	30/01/2008	29/01/2011	245
			Subtotal	4432

Source: South Australia Government (SARIG)

Table 4-2: Tenement applications included in this valuation

Area	Tenement type	Application date	Locality	Area km ²
Lake Frome South	ELA	23/11/2009	Approximately 130 km southeast of Leigh Creek	782
Lake Frome North	ELA	23/11/2009	Approximately 130 km ESE of Leigh Creek	975
Lake Torrens	ELA	22/11/2009	Approximately 90 km north of Port Augusta	823

Source: South Australia Government (SARIG)

The location of the project areas is shown in Figure 4-1. No previous exploration at Lake Frome and at Lake Torrens has been carried out specifically for lithium brines, and no current lithium brines projects are active in Australia.

Major basement terranes in South Australia are shown in Figure 4-2, showing the Lake Frome and Lake Torrens projects to the east and west of the Adelaide Geosyncline respectively, and the Padthaway project located in the Murray Basin.

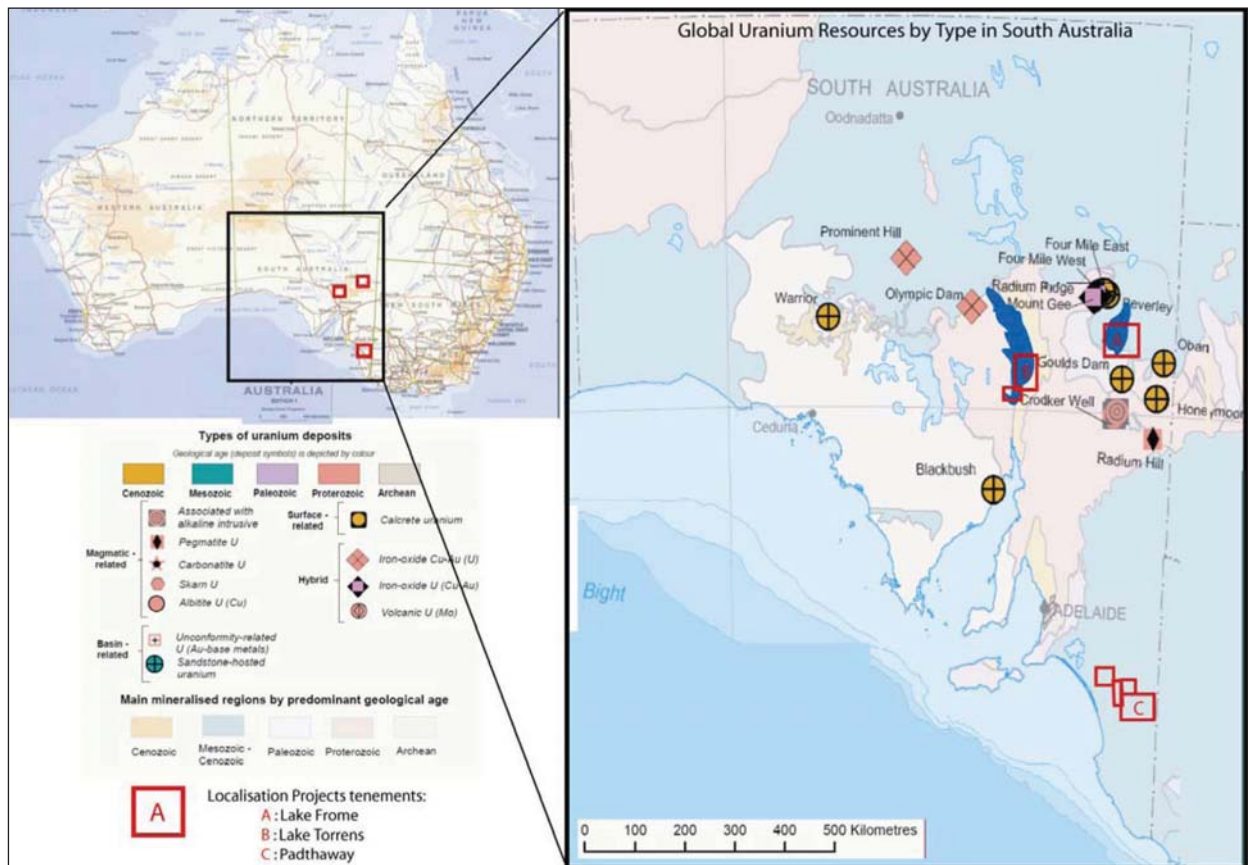


Figure 4-1: Location of the South East Energy projects in Australia, with proximal uranium deposits

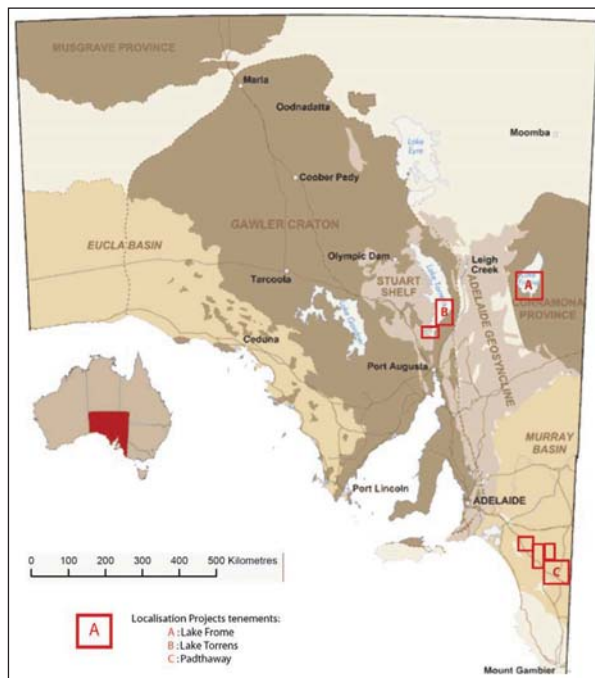


Figure 4-2: Major basement terranes in South Australia with project areas. Source: PIRSA

4.1 LITHIUM CARBONATE BRINES

Similar deposits to those being considered by South East Energy are located in high, arid lakes in northern Chile, northern Argentina and Bolivia. Other major producers of lithium brines are the USA and China.

Chilean deposits are in brines beneath a dry lake bed of Salar de Atacama, 700 km north of Santiago, which contains about 27% of world reserves of lithium (Source: USGS). Currently, nearly a half of the world's lithium carbonate is from Chilean Atacama salt lakes.

According to a Forbes report (2008), lithium brines are pumped to evaporation ponds, and these are left until lithium concentration reaches about 6%, and this is then processed offsite to lithium carbonate. Total operating costs for Chilean lithium carbonate (2008) are about \$1,260 per tonne.

A number of major companies are involved in the lithium brine industry. Sociedad Quimica y Minera (SQM), a major producer of nitrates and iodine, as well as lithium, is based in Chile. Chemetall Foote produces lithium in USA and Chile; FMC Corp and Rincon are producers in Argentina – Rincon currently has a pilot plant. There are few reports on details of the lithium brine operations. At Salar de Atacama, the initial Ore Reserves were never published, and none have been verified. Evans (2008) reported that pre-production Reserve for the SQM project area was 26.0 million tonnes of potassium and 1.8 million tonnes of lithium at an average grade of 0.18% Li over 790 km².

These were in respect of the uppermost 40 m of the aquifer. The current production head grade of brines to the evaporation ponds is about 0.11% Li. Orocobre Ltd is an Australian company with a project in Argentina at the pre-feasibility stage. They report brine grades in Salar de Olaroz of 800 g/kl (approximately 0.08%). The average lithium grade is similar to the Hombre Muerto (FMC Corp) operation of 0.06 – 0.065% Li, and approximately double the grade of the Silver Peak (Nevada) operation and the Salar de Rincon in Argentina.

In general, a brine concentration in excess of 0.02% Li can be concentrated to 6% by solar evaporation. The processing route utilizes solar evaporation and precipitation of waste products with the addition of locally available lime, followed by potash recovery via differential flotation and production of lithium carbonate with soda ash. For the Orocobre study, total capital requirements are estimated to be up to US\$100M for the proposed 15,000 tpa production of lithium carbonate and 36,000 tpa of potash (website accessed 7/10/2010).

According to USGS figures (2008 Minerals Yearbook), prices for lithium carbonate in 2008 were \$US5.2 per kg, or \$5200 per tonne.

4.2 LAKE FROME PROJECT

The Lake Frome Project comprises two tenement applications covering 1,757 km², located 450 km NNE of Adelaide. The leases are situated within the Lake Frome Conservation Park, within which exploration and mining is restricted, according to the SARIG database.

Geological Setting of the Lake Frome area

Older basement rocks underlying the cover sequences in the Lake Frome area are part of the Curnamona geological province (Archean to Early Mesoproterozoic). The Neoproterozoic Curnamona province platform cover, the Arrowie Basin (Cambrian to late Carboniferous), the Eromanga Basin (Jurassic to Cretaceous) and the Lake Eyre Basin (Cenozoic), overlie the basement rocks.

The Cenozoic Lake Eyre Basin in South Australia contains most of Australia's known sandstone-hosted U mineralisation resources. Major deposits in the Basin are Beverley, Honeymoon and Four Mile East and discoveries continue to be made, for example Pepegooona (Heathgate Resources September 2009).

The principal known uranium deposits in the Lake Frome Region (Beverley, Honeymoon, Four Mile, Oban and Goulds Dam) are conventionally classified as Sandstone-Hosted U deposits. The 'Palaeochannel' variation on this style occurs at Beverley and Honeymoon, and Four Mile falls into the 'roll-front' style.

Cambrian to Cenozoic Basins in the Lake Frome Area overlie a U-rich Proterozoic Basement. Characteristics of this area relevant to uranium exploration are:

- The area is bounded to the south by Paleoproterozoic meta-sedimentary and igneous rocks of Willyama Supergroup (deposited up to 1640 Ma & metamorphosed at 1600 Ma), which forms a major part of the Curnamona Province. Granitoids in this province emplaced between 1730-1580 Ma have elevated U contents (e.g. alkaline I-type granites).

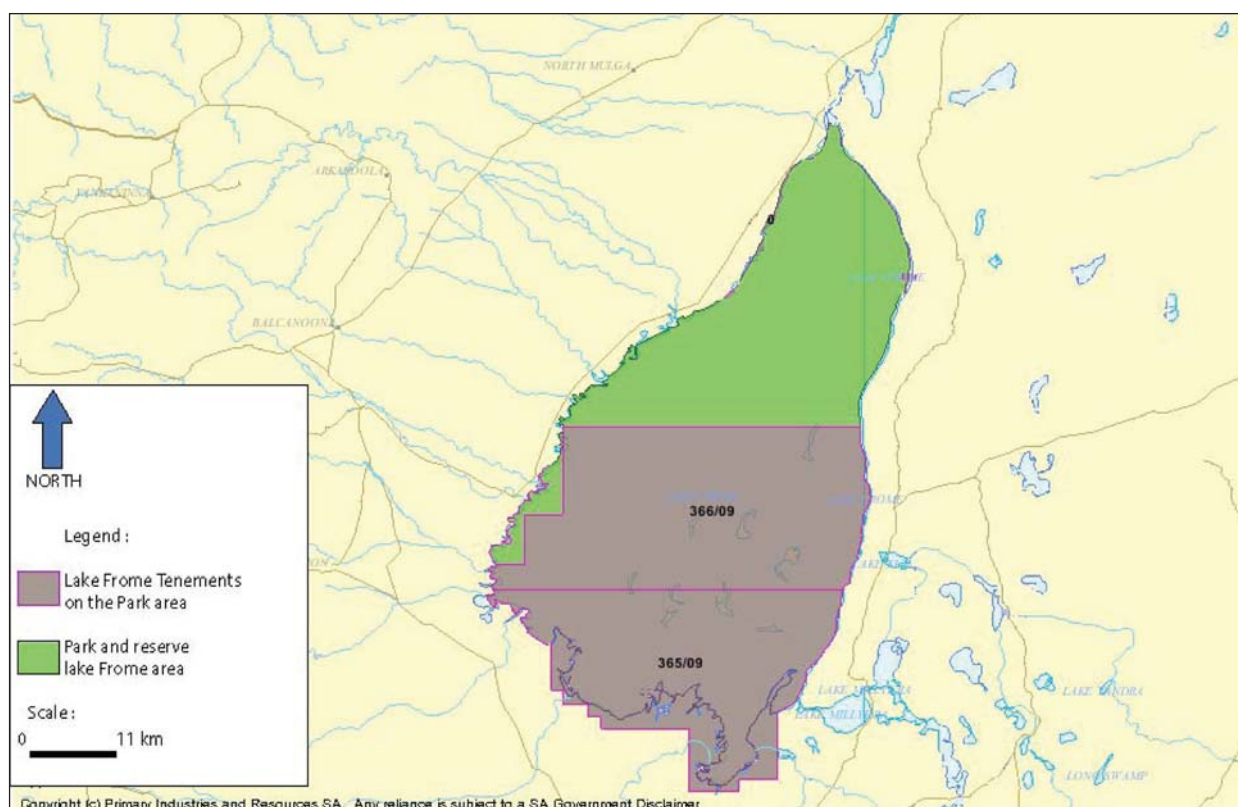


Figure 4-3: Tenements Lake Frome area. Source: South Australia Resource Information GeoServer (SARIG)

- The central part of Curnamona Province includes the Benagerie Ridge comprising the Mesoproterozoic Benagerie Volcanics, which is concealed by Cambrian & younger sedimentary basins. A number of small iron-oxide copper gold uranium deposits (IOCGU) are associated with these volcanics.
- The northeastern margin of the area includes the Mt Painter & Mt Babbage Inliers, which both include granite with the highest U contents of any igneous rocks in Australia. (Mesoproterozoic Yerila Granite contains an average of 116 ppm U, Neumann et al., 2000). Numerous U prospects are also present in the Mt Painter Inlier. At the Mt Gee prospect breccia hosted U mineralisation with anomalous REE contents has been identified.

The Curnamona Province crustal rocks are highly uranium enriched. This enrichment is by both magmatic and hydrothermal processes. These enriched areas are potential source rocks for the U mineral systems caused by migration of U into basin-related aquifers and depositional sites. However, these processes are also controlled by the history of leaching, erosion of U-rich sources, the mineralogy of the U-bearing phases and the chemical stability of these minerals.

Abundance of related primary U mineralisation may be one key factor in determining the fertility of the Frome region secondary basin-related U systems.

Phanerozoic Basins

The Paleozoic Arrowie Basin is preserved in the Lake Frome area. The distribution of the Basin is shown in Figure 4-4. It comprises shallow marine sedimentary siliclastic and carbonate deposits with some evaporite facies. Petroleum exploration undertaken made no significant discoveries in the area, but identified some hydrocarbon shows. The presence of organic matter is a good indication of the reducing potential of the sequences for controlling uranium deposition.

The Mesozoic Eromanga Basin overlies the Arrowie basin unconformably. This is an intracratonic sag basin covering a very large area of east central Australia. A detailed stratigraphic framework is available in Radke, et al., (2000). The Eromanga Basin has been subdivided into three major stratigraphic sequences, a lower non-marine sequence (early Jurassic to earliest Cretaceous), a middle marine sequence (early Cretaceous) and an upper non-marine sequence (late Cretaceous). The distribution of the Eromanga Basin in the project areas is shown in Figure 4-5.

The lower non-marine sequence consists of sands deposited in a fluvial environment, followed by lacustrine sands, silts and shales. This is overlain by the middle marine sequence comprising basal sands of which the Cadna-owie Formation occurs in the Frome Embayment. The Cadna-owie Formation is equivalent to the Mt Anna Sandstone Formation in the western Lake Torrens area. Both the Cadna-owie and the Mt Anna Formations contain U-rich felsic volcanic detritus.

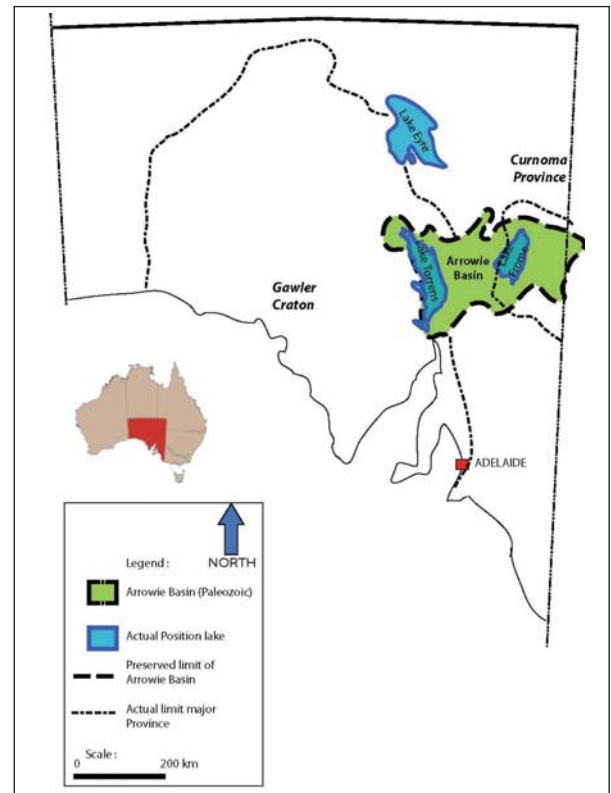


Figure 4-4: Distribution of the Arrowie Basin. Source: SRK

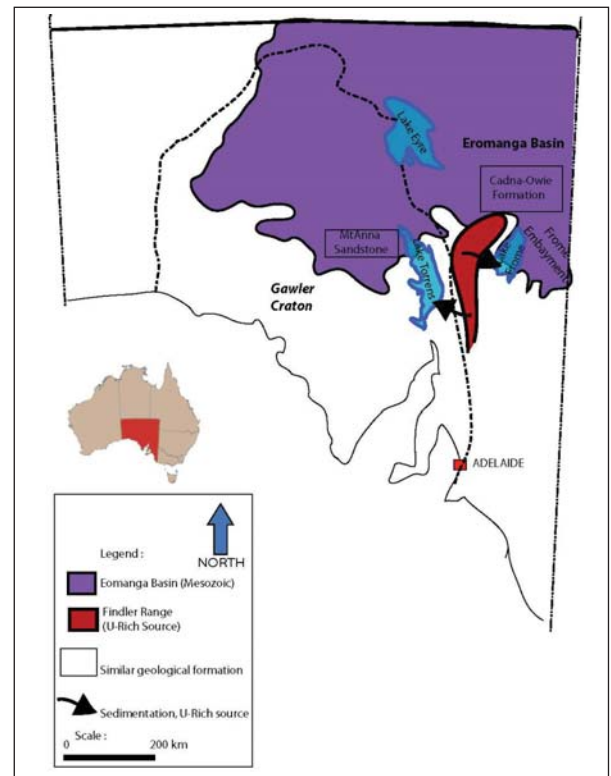


Figure 4-5: Distribution of the Eromanga Basin sequences in the project areas. Source: SRK

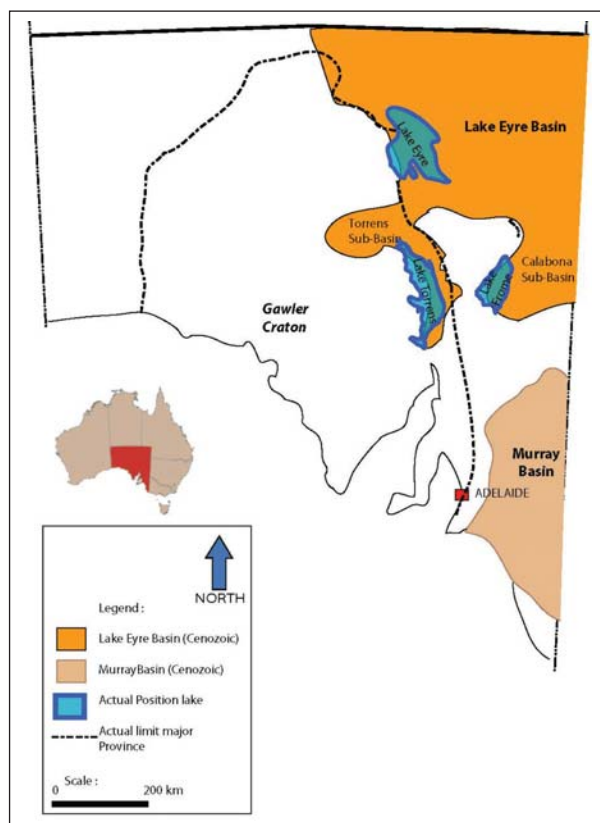


Figure 4-6: Distribution of the Lake Eyre Basin sequences and the project areas. Source: SRK

The U-rich detritus in the Mt Anna Formation was derived from the U-rich Gawler Ranger Volcanics (Skirrow & others, 2009). The upper non-marine sequence does not occur in the Frome Embayment.

Organic matter is abundant in several units of the Eromanga Basin, especially in the lower part of the marine sequence (Krieg et al., 1995).

Cenozoic-Lake Eyre Basin

The Lake Eyre Basin formed by tectonic subsidence commencing in the late Paleocene with fluvial and lacustrine sedimentation taking place from that time until the present day (Callen, et al., 1995). The stratigraphy of the Lake Eyre Basin is shown in Figure 4-8. The Lake Frome area is part of the Callabonna sub-basin. The paleogeography of the early stage of development of the Lake Eyre Basin is shown in Figure 4-9.

The Eyre Formation is the basal unit, comprising pyritic, carbonaceous mature sand, silt and gravels layers. The gravel layers are seen as a good host unit for palaeochannel uranium systems, with reduction and immobilisation of the U by the oxidation of organic matter and pyritic sediments.

The distribution of the Lake Eyre Basin is shown in Figure 4-6.

4.3 LAKE TORRENS PROJECT

The Lake Torrens Project consists of a single tenement application in two blocks covering 823 km², situated approximately 350 km north of Adelaide. The lease is located predominantly within the Lake Torrens National Park, and is shown in Figure 4-7.

The basement rocks underlying the Lake Torrens tenement are part of the Gawler Craton on the Torrens Hinge Zone (the tectonic zone between Stuart Shelf Neoproterozoic sequences to the west and the Adelaide Geosyncline to the east, see Figure 4-2). These basement rocks are overlain by a series of sedimentary basin successions in the Lake Torrens area.

The oldest of these basins is the Arrowie Basin (Cambrian to late Carboniferous), which is overlain by Eromanga Basin sequences, including the Mt Anna Formation which crops out north west of Lake Torrens, and Cenozoic rocks of the Torrens Sub-basin of the Lake Eyre Basin. The Torrens Sub-basin sequences are similar to those of the Lake Eyre Basin sequences in the Lake Frome area. Detritus of the Torrens

Sub-basin is largely derived from erosion of the northern Flinders Ranges and the Gawler Craton.

The geological target in this area is the Torrens Sub-basin sequences. Less geological study has been done in this area but it seems to be very similar to the sedimentation in the Frome embayment to the east side of the Flinders Ranges.

However, the U primary sources may be different, with additional input from Gawler Craton rather than the Curnamona in the Frome embayment.

4.4 PADTHAWAY PROJECT

The Padthaway Project is made up on nine granted exploration licences covering 4,433 km², located 160 km southeast of Adelaide. The licences include a number of small park areas, some of which allow exploration and some of which do not allow for exploration. The location of the tenements are shown in Figure 4-10, which also shows the park areas.

The tenements lie primarily within the Murray Basin, which comprises shallow marine and continental sediments ranging in age from Tertiary to Holocene. Discussion of the detailed evolution of the Murray Basin is beyond the scope of this report, but in the tenement area, the Padthaway tectonic ridge separates the Murray Basin in the north from the Gambier Basin in the south. The Padthaway Ridge is a basement high comprising Neoproterozoic to Ordovician rock, including Ordovician uranium enriched granites. These rocks are potential source rocks for uranium-rich fluids that could be remobilised into sedimentary uranium deposits in adjacent basin sequences.

Uranium exploration in the Murray Basin is focussed on the Murray Group, which comprises Late Oligocene to Miocene lagoonal and marginal marine mudstone rock interbedded with marl and limestone (uranium on lignite and carbonaceous clay), and in channel sands in other parts of the stratigraphy (roll-front deposit model).

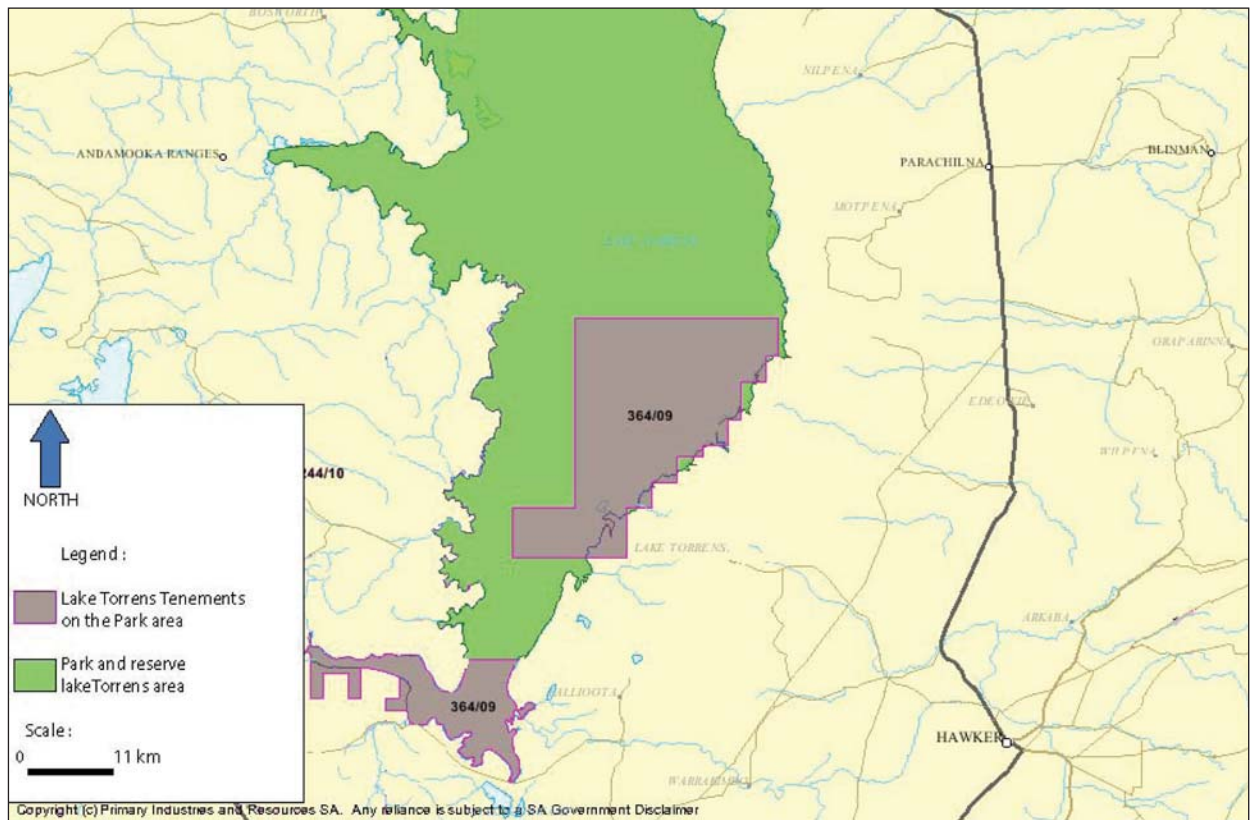


Figure 4-7: Tenement location, Lake Torrens.

4.5 PAST EXPLORATION

Past exploration history was collated by South East Energy in their draft prospectus, and information in this valuation review is based on that draft document. A summary is provided in this report as Table 4-3.

From the past exploration, relevant data on lithium concentration is available only from the Comalco drilling carried out in 1978-1980 at Lake Frome. Two drillholes of a total of nine holes in the lake returned Li levels of 100-250 ppm. These would fall at the lower end of the economic brine concentrations reviewed by SRK ($>0.02\%$ or 200 ppm seems to be a lower limit). The other holes returned values of 50-70 ppm, which would be well below the level of the Northern Argentina brines, and potentially not economic. However, SRK notes that evaporation rates in South Australia may be more favourable than those in the Atacama, and therefore predictions of economic outcomes on any processing options are premature.

The BMR results also showed no significant Li (6.6 to 24 ppm) in broad spaced sampling of subsurface brines, but did show the lithium concentrated in the brines.

4.6 VALUATION METHODOLOGY

In the case of exploration projects, two major methods of valuation based on recent market transactions are reasonable to apply. Firstly, a value per unit area can be applied to the whole (or prospective) area of the project to arrive at a value. The value per unit area is normally derived from comparable transactions. The majority of exploration transactions involve earn-in type arrangements; their assessment is described in the following section. For projects where conceptual targets have been determined, but no confirmatory work has been completed and no specific targets identified, the project can be valued against transactions on a project basis rather than an area basis.

Most transactions relating to tenements at an early stage of exploration are of a "farm-in" or "earn-in" nature, where a certain percentage of ownership across multiple parties is achieved through the exploration expenditure. In this type of transaction, there is a shared risk, in that if early expenditure does not generate useful information, the "optionee" can opt out of further expenditure, thus limiting risk. Typically, these agreements run over several years (3-5), and expenditure commitments usually exceed the minimum statutory expenditure requirement to retain the properties.

SRK's method for the determination of a value for the joint ventures is based on the following calculations:

Generic probabilities of the success of joint ventures at different stages are set as shown in Table 4-4. The basis for these probabilities is the transactional data and SRK's experience within the exploration industry. The proportion of



Table 4-3: Exploration history and previous work on project areas

Project	Target /Model	Other exploration potential commodities	Previous Work for Li and U	Other exploration potential - Uranium
Padthaway	Sandstone Hosted Uranium		Pacminex 1970 regional scale U exploration (geophysical radiometric; anomalous 30ppm)	Cambro-Ordovician intrusive & volcanic source rocks of U, overlapped by sedimentary basin
				Murray basin suitable sediments carbonaceous and Py, permeable/ impermeable layer
				3 widespread Tertiary sedimentary units have been identified by SEE considers the best potential for sandstone-hosted U is in Olney; Buccleuch; Ettrick Formations
Lake Frome	Lithium accumulation + Sandstone Uranium Hosted	Halite	Geochemistry Study from Bureau of Mineral Resources (1976) (Li absolute values 6,6 to 24 mg/L; Li is concentrating in brine)	Seismic lines across Lake Frome (3 cross the tenements) (Skirrow & al. 2009)
			Comalco (1978-80) drilling for brines in exploration for trona & other evaporites => data not accurately located within the stratigraphy, analyses on 10 m composites.	Surrounded by region with U-enriched sedimentary formation. Comalco's drilling shows brine charged sandstones under Lake Frome contain U with level up to 38ppm Uranium Channel (radiometric image)
			Mg/Li ratio in brine (economic below 15/1) brine: 8.5; 17, 7.7 when Mg 1700ppm; 1700ppm; 1550ppm	Cretaceous formation is highly prospective because they contain the necessary reductants to precipitate U
				Petromin NL(1968-70), BP mining development Australia Pty LTD (1982) Aberfoyle Resources (1988_89) Mines Administration Pty Ltd (1971) EA Rudd Pty Ltd (1971) & Teton Exploration Drilling Co Pty Ltd (1981), and Tricentrol Australia (1973-1975),CRA Exploration Pty Ltd (1970) Western Nuclear (1979-80)
Lake Torrens	Lithium accumulation + Sandstone Uranium Hosted	Halite	Previous exploration for brines(chemical), Olympic Dam style IOCG & Tertiary brown coal by Delhi, Urangesellschaft & CSR (1970-80) Comalco (1979) & PeterB.Lane & Associates Pty Ltd (1981) exploration for trona & hydrocarbons	Radiometric image show U-bearing sediments being transported into the lake, & fans along western side of the range
			Delhi identified high-density brines in southern lake Torrens throughout upper 4-5 m lake sediments	3 boreholes intersected formations potentially prospective for U at 175 m; 90 m; 84 m
			Discrete sand horizons comprise more than half of sediment. The sand is capable of significant brine storage and transmissivity	
			Company considers these brine may contain Li economical comparable to Lake Frome – no analytical data	

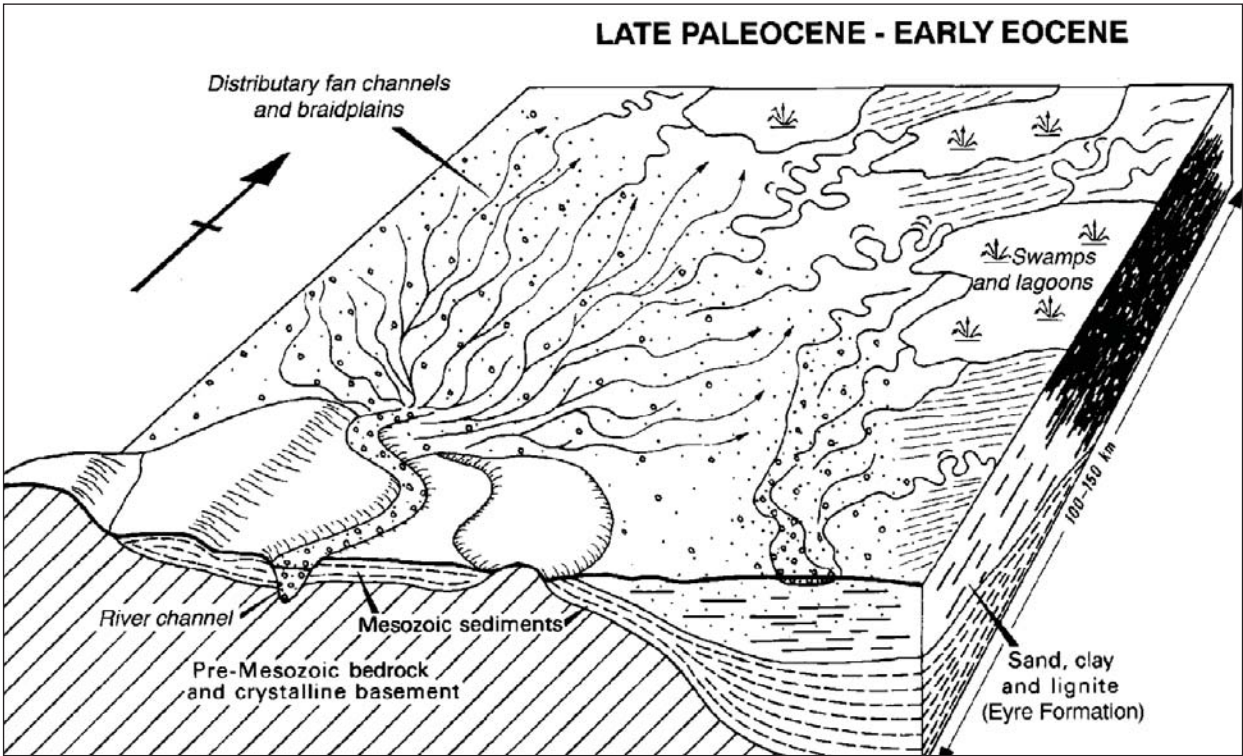


Figure 4-9: Paleogeography of the Lake Eyre Basin in the Palaeocene. Source: N.F Alley 1996

joint ventures that proceed to completion is low, and SRK considers the cumulative probability of about 5% to be a reasonable measure of successful completion industry-wide. As an “optionee” begins the venture with an intent to test the area, there is a high probability that the first year expenditure will be met. However, there is a much lower probability that the second year expenditure will be met, because there is commonly a priority target generated in year 1 which can be rapidly tested in year 2, at which time the “optionee” decides this is either not economic, and withdraws, or continues. The probability of exploration success at this time is low, reflecting overall industry experience of converting Exploration Targets to Mineral Resources. If this second year exploration is successful, there is an increasing probability that successive years will improve the exploration outcome.

Where JVs operate for less than 5 years, the probabilities are multiplied over the number of years of the JV. This probability is then used to factor the monetary terms of the JV.

Table 4-4: Generic probabilities used in assessing the value of JV agreements

Y1	Y2	Y3	Y4	Y5	Cumulative %
85%	30%	50%	60%	70%	5.4

- 1 Future expenditure is discounted at an interest rate of 5%, representing current cash interest rates.
- 2 Cash considerations and binding expenditure commitments are added to the JV value and are not discounted for probability.

After applying these factors, the total implied value at the time of setting up the agreement can be determined by multiplying the probability of completion of the JV by the present value of the JV terms, plus any immediate cash consideration. If the project is to be valued on a “project” basis, this figure can be used as the basis for comparison. This figure is also used to determine the unit area value for the JV, as input to the valuation. As with any market based method, it is important to assess the comparability of the JVs to the project being assessed, and make a judgement as to the appropriate figures to apply in each specific example.

4.7 URANIUM

The primary target area for uranium is the Padthaway project, where exploration is at an early stage. SRK has compiled other early stage transactions in Australia. These are shown in Table 4-5.

The joint ventures have been analysed using the methods discussed in the previous section, and the outcomes compared on a \$/km² basis and on a project basis. As all projects are relatively early stage projects with poorly defined targets, the geological information on these areas in the public domain is not always suitable to define the target geometry effectively, a geological risk-based method is not appropriate. Table 4-6 presents the results.

From this data, the overall average for the \$/km² method is shown in Table 4-7. The outliers of this data are the Mundong Well, the Lake Way and the Headwaters transactions. The

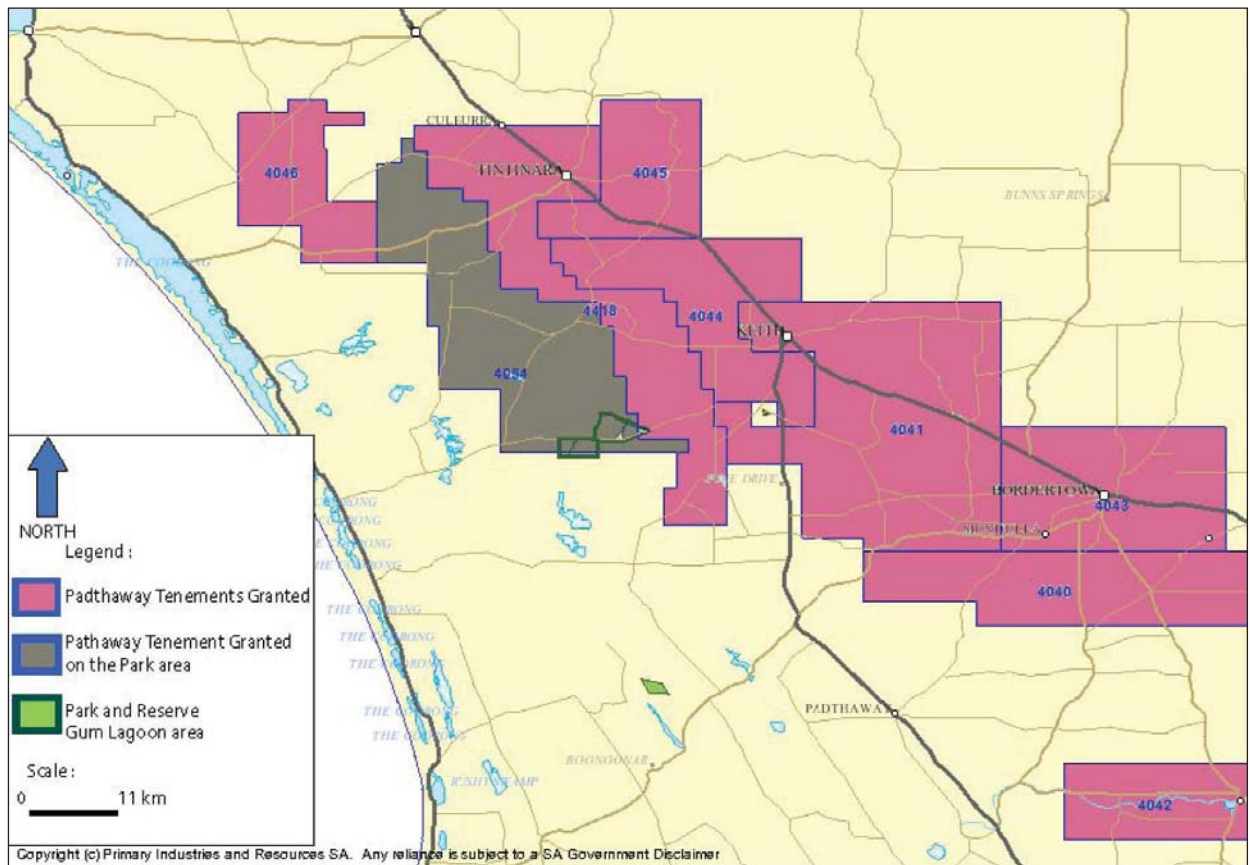


Figure 4-10: Padthaway tenements (overlain orange). Source: South Australian Resources Information Geoserver (SARIG)

Lake Way and Mundong Well areas are further advanced than the remainder, and in the case of Lake Way adjacent to known mineralisation. These are discarded from the analysis as not being sufficiently comparable. The low value for Headwaters project is left in the average, as there is no geological reason to exclude this value.

The intermediate value excludes the Junction Dam JV, and the low value excludes the Junction Dam and Calvert Hills JVs. Junction Dam has a premium relative to other projects due to its proximity to and similarity with Honeymoon Well.

Applying the total project value method, the equivalent results are shown in Table 4-9.

Because of the lack of defined uranium mineralisation in the Murray Basin sequences being explored, SRK has chosen to apply the project-based method to the Padthaway project. Because there is mineralisation defined in the same or equivalent horizons in the Lake Frome and Lake Torrens areas, SRK has applied the area-based approach to valuing those areas.

Applied to the South East Energy portfolio, these figures result in a summary valuation as shown in Table 4-9.

4.8 LITHIUM

There are no similar transactions in Australia for lithium tenements, and Australia does not have any lithium carbonate JORC resources or any lithium carbonate resources recognised as economically demonstrated resources by the Australian government (through Geoscience Australia).

SRK has identified a number of transactions on South American and North American properties. All of these transactions relate to well-known lithium-bearing salt lakes or equivalent, such as the Silver Lake area in the USA or the “lithium triangle” of northern Argentina, Chile and Bolivia. As such, all of these properties have known (and high) lithium grades in the brines, or are adjacent to permit areas where Li-bearing brines are either known or being extracted. Accordingly, SRK does not consider these transactions comparable to the South East Energy properties. SRK considers the South East Energy brine exploration targets to be highly speculative, and undemonstrated, a view in accord with the Geoscience Australia view.

SRK has undertaken analyses of the probability of exploration success in well-mineralised areas of Australia on tenements where no current drill targets are known (greenfields areas). The probability of generating a target suitable for successful resource definition is relatively stable at about 5-10%, with most analyses closer to the 5% success level. This is very close to the cumulative probability that joint ventures go to conclusion, because a typical 5-year exploration JV agreement will have successful resource definition as a success factor.

Table 4-5: Uranium transactions, Australia

Project Name		Source Date	Optionee	Percent Ownership	Optionor	Percent Ownership	State/Province	Area (km ²)
Bigryli South	Joint Venture	5/2010	Thundelarra Exploration Ltd	70.00	Alara Resources Ltd	30	Northern Territory	325.25 998.7
Birindudu	Earn In	2/2010	Toro Energy Ltd	50.10	Cameco Corp	49	Western Australia	1,760
Calvert Hills	Joint Venture	1/2010	Southern Uranium Ltd	50.00	Uranium West Pty Ltd (Crescent Gold)	50	Northern Territory	800
Frome	Joint Venture	1/2010	Red Metal Ltd	70.00	PlatSearch NL	30	South Australia	
Headwaters		3/2010	Vale SA	80.00	Uranium Equities Ltd	20	Northern Territory	
Junction Dam	Joint Venture	8/2010	Marmota Energy Ltd	75.50	Teck Resources Ltd	0	South Australia	341
Lake Way	Purchased	11/2009	Toro Energy Ltd	100.00			Western Australia	150
Marree	Joint Venture	4/2010	Cauldron Energy Ltd	50.00	Korea Resources Corp (Government of South Korea)		South Australia	2,794

Table 4-6: Transaction details, recent uranium properties in Australia

Project Name	Transaction type	Period (years)	Commitment (A\$)	% purchased	Cumulative probability	JV Value based on Y1 spend commitment (adjusted)	\$/km ²
Bigryli South	Joint Venture	5	1,500,000	70%	5.4%	\$364,285	\$277
Birindudu	Earn in	2	850,000	50.10%	25.5%	\$721,057	\$410
Calvert Hills	Joint Venture	1	400,000	25%	85%	\$1,360,000	\$1,654
Headwaters	Earn in	2	1,000,000	80%	25.5%	\$531,250	\$173
Junction Dam	Joint venture	1	600,000	51%	85%	\$1,000,000	\$2,932
Lake Way	Purchased	1	1,000,000	100%	85%	\$850,000	\$5,666
Marree	Joint venture	3	6,000,000	50%	12.75%	\$3,400,000	\$1,216
Mundong Well	Purchased	1	2,060,000	80%	85%	\$2,252,500	\$5,005

Table 4-7: Results for \$/km² valuation of South East properties

	\$/km ²	Valuation applied
Average	2,167	
Average less outliers	1,110	
Average exploration transactions	746	High

Table 4-8: Results for project-based valuation of South East properties

	Project value	Valuation applied
Average	1,309,886	Preferred
Average less outliers	1,544,135	High
Average exploration transactions	765,318	Low

Table 4-9: Summary valuation of the South East Energy uranium tenements

	Area (km ²)	Low (A\$M)	Preferred (A\$M)	High (A\$M)
Padthaway	n/a	0.77	1.31	1.54
Lake Frome	1757	0.91	1.30	1.95
Lake Torrens	823	0.43	0.61	0.91

Using this figure for the South East Energy lithium brine exploration program, SRK has provided a valuation of the properties based on the cost to acquire an exploration permit over areas of known mineralisation (the South and North America transactions) factored by the likelihood of successful exploration.

This factor takes into account that the current lithium distribution on the Lake Frome and Lake Torrens tenement areas are either completely unknown or negative in terms of the required grades at the time of the valuation.

The transactions are shown in Table 4-10. Table 4-11 shows the analysis of the transactions and the final estimate of the per area value for properties with known lithium carbonate brine potential.

From this data, the overall average is shown in Table 4-12. The outliers of this data are the Salar de Cenenario and Sal de Vida properties. Salar Centenario in Argentina is unusual because it has very high Li grades comparable to the Chile Atacama values. Sal de Vida is immediately adjacent to Salar del Hombre Muerto with a grade of 650 ppm and a very low Mg/Li ratio of 1.77. These factors provide a significant market premium to the Sal de Vida project.

Table 4-10: Lithium Carbonate transactions, mainly for brines

Project Name	Optionee	Date	Percent	Optionor	Country	Area (km ²)	Transaction type
Alkali Lake	Lomiko Metals Inc	Feb-10	49.00	JOGMEC	United States	46.15	Earn in
Case	FielDEX Exploration Inc	Mar-10	60.00	Mantis Mineral Corp	Canada	4.8	Earn in
Cerro Prieto	CPI Internacional S A de C V		66.00	Escondidas Internacional S A de C V	Mexico		
Fox Creek	Channel Resources Ltd		100.00	Property Vendor	Canada	369	Acquisition
Grants Gully	Artemis Resources Ltd		100.00		Australia	100	
James Bay	Lithium One Inc		100.00	d'Arianne Resources Inc	Canada	12.99	Acquisition
Karibib	Black Fire Minerals Ltd		100.00		Namibia		
Laguna Verde Salar	Pan American Lithium Corp		99.00	Sociedad Gareste Limitada	Chile	132	Purchase
Mariana	International Lithium Corp (TNR Gold)	Dec-09	100.00	Unnamed company	Argentina	120	Purchase
Sal de Vida	Lithium One Inc	May-09	70.00	Korea Resources Corp (Government of South Korea)	Argentina	368.6	Joint venture
Salar de Centenario	Rodinia Lithium Inc		100.00	Rio Tinto plc	Argentina	6.82	Purchase option
Salar de Diablillos	Rodinia Lithium Inc	Jan-10	100.00	Rio Tinto plc	Argentina	27	Acquisition
Salar de Salinas Grandes	Rodinia Lithium Inc		100.00	Private Interest	Argentina	45	Acquisition
Teels Marsh	First Lithium Resources Inc	Dec-10	80.00	Ashburton Ventures Inc	United States	9.712	Option agreement
Zigzag	Canadian Orebodies Inc	Feb-10	80.00	Ultra Lithium Inc	Canada	20.64	

Table 4-11: Analysis of the transactions to determine a price by tenement area

Project Name	Period (yrs)	Commitment (US)	% option	Cumulative probability	Minimum expenditure	JV Value based on Y1 spend commitment (adjusted)	\$/km ²
Alkali Lake	3	2,500,000	51%	12.75%	187,322.00	1,652,119	143,183
Salar de Centenario	1	774,000	100%	85%	774,000.00	774,000	133,517
Salar de Salinas Grandes	2	900,000	100%	25.5%	150,000.00	468,750	40,850
Teels Marsh	3	585,490	80%	12.75%	140,000.00	332,778	214,983
Sal de Vida	1.25	15,000,000	30%	85%		34,000,000	32,877
Laguna Verde Salar	1	2,954,580	99%	85%	450,000.00	2,604,947	22,985
Fox Creek	5	1,550,000	100%	5.4%	60,000.00	313,300	15,855

Consequently, SRK has chosen to provide a high value range by excluding the highest and lowest values from the mean, an intermediate value range by excluding both the exceptional projects and the low-value project, and the low value by excluding only the two exceptional high value projects from the mean (Table 4-12).

The South East Energy project values are calculated to be 5% of the transactional data on an area basis, on the premise that the South East Energy tenements are in an appropriate environment to permit mineralisation but the areas are greenfields with respect to the chances of success.

Table 4-12: Results for valuation of South East properties

	A\$/km ²	Valuation Applied
Average	43,957	
Average less outliers	38,672	High
Average exploration transactions	25,052	Preferred
Average exploration no targets	20,212	Low

Table 4-13: Summary valuation of the South East Energy lithium tenements

	Area (km ²)	Low (A\$M)	Preferred (A\$M)	High (A\$M)
Lake Frome	1757	1.8	2.2	3.4
Lake Torrens	823	0.83	1.0	1.6

5. Conclusions

South East Energy has exploration access to nine granted exploration licences in the Padthaway area, located about 160 km southeast of Adelaide, two exploration licence applications in over the southern part of Lake Frome, and one exploration licence application covering two separate areas of the southern section of Lake Torrens. The total lease area covers 7,012 km². The Padthaway project forms 60% of the area.

The Lake Frome and Lake Torrens Projects are exploration licence applications principally targeting lithium mineralisation, but also focussed on assessment of the uranium potential. The Padthaway Project is focussed on targeting sandstone-hosted uranium mineralisation.

Uranium mineralisation in the Frome Embayment is well established, with the Beverley Project (Heathgate Resources) and Four Mile resources located west of Lake Frome in the same sedimentary units that underlie the tenement area, and Honeymoon Well located to the south in a younger stratigraphic unit also extending to Lake Frome.

Anomalous uranium in Lake sediments at Lake Torrens has been identified by analysis of public domain radiometric images by South East Energy. Uranium-enriched source areas have also been identified, which drain into the Lake.

At Padthaway, sedimentary units with anomalous uranium have been identified from past exploration, and uranium enriched granites of the Padthaway Ridge may prove to be the source for this anomalism. South East Energy will explore areas around Frances and Bordertown, where surface uranium anomalism is identified in public domain radiometric images.

The Lake Frome and Lake Torrens projects are at a similar stage of exploration (target definition stage), but in prospective areas. SRK has valued these by direct comparison with other uranium project transactions in Australia on an area basis. The Padthaway project is at a conceptual stage with no well-defined targets and there is no confirmatory analytical information to suggest uranium mineralisation may be present. SRK has therefore valued this on a project valuation basis.

The main commercial use for lithium is in glass, ceramics and battery manufacturing. The current interest in lithium battery technology for the transport industry is driving the expansion of exploration for lithium, both as “hard-rock” sources and as lithium brines. Lithium brines occur in hypersaline salt lake systems fed by suitable source rocks, generally granitic and volcanic rocks with elevated lithium content. These lithium brines have the potential to be the dominant source of lithium for batteries, because of the potentially very large volumes and the ease of extraction and processing.

There are currently no lithium brine resources identified in Australia. Previous exploration for other saline lake products, have identified low levels of lithium in Lake Frome, and higher, potentially economic levels in two of the historic drill sample sites. No analyses are available of Lake Torrens brines.

Because of the very early stage of exploration, SRK has considered these to be “greenfields” exploration targets, and valued them with a 5% probability of success compared to transactions in areas with known, high-grade lithium carbonate brines.

5.1 VALUATION RESULTS

Table 5-1: Project Valuation, South East Energy projects

	Low (A\$M)	Preferred (A\$M)	High (A\$M)
URANIUM PROJECTS			
Padthaway	0.77	1.31	1.54
Lake Frome	0.91	1.30	1.95
Lake Torrens	0.43	0.61	0.91
Sub-Total	2.11	3.22	4.4
LITHIUM PROJECTS			
Lake Frome	1.8	2.2	3.4
Lake Torrens	0.83	1.0	1.6
Sub-Total	2.63	3.2	5.0
Total	4.74	6.42	9.4

6. References

- Alley NF, 1996. Cainozoic stratigraphy, palaeoenvironments and geological evolution of the Lake Eyre Basin. *Paleogeography, Paleoclimatology, Paleoecology* 144(1998) 239-263.
- Brown CM, Tucker DH, Anfilov V, 1988. An interpretation of the tectonostratigraphic framework of the Murray basin region of Southeast Australia based on an examination of airborne magnetic patterns. *tectonophysics*, 154:309-333.
- Callen RA, et al., 1995. Lake Eyre Basin In: *The geology of South Australia, vol.2, The Phanerozoic. The Phanerozoic. South Australia. Geological Survey Bulletin*, 54:188-194.
- Evans, RK 2008. Lithium Abundance – World Lithium Reserves. Chile, Continental brines. <http://lithiumabundance.blogspot.com/2008/03/chile.html>.
- Heathgate Resources, 2009. Beverley Four Mile project: public environment report and mining lease proposal Adelaide, Heathgate Resources Pty Ltd.
- Hill SM, Hore SB, June 2009. Northern Flinder Ranges-Lake Frome plains Uranium exploration under cover- new geological insights through collaboration; *MESA journal* 53 June 2009.
- Koerner, BI. 2008. The Saudi Arabia of Lithium Forbes, 24 November 2008, <http://www.forbes.com/forbes/2008/1124/034.html>.
- Krieg GW, 1995. The Mesozoic. *The Geology of South Australia, the Phanerozoic*. Drexel JF and Preiss WV (eds). South Australia, Geological Survey. Bulletin 54, Volume 2, 92-149 pp.
- Neumann N, Sandiford, M and Foden, J. 2000. Regional geochemistry and continental heat flow: implications for the origin of the South Australian heat flow anomaly. *Earth and Planetary Sciences Letters*, 183, (1-2), 107-120 pp.
- Radke BM, Ferguson J, Creswell RG, Ransley TR and Habermehl MA, 2000. Hydrochemistry and implied hydrodynamics of the Cadna-Owie-Hooray aquifer. 248 p.
- Skirrow GR & al. 2009. Uranium Ore-forming systems of the Lake Frome region, South Australia, Geoscience Australia, 2009/40, GeoCat#69697.

Ernst & Young Transaction Advisory Services Limited

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1701
www.ey.com/au

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

18 November 2010

PART 2 FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- Financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- Arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$33,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional

services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services

AFS Compliance Manager

Ernst & Young

680 George Street

Sydney NSW 2000

Telephone: (02) 9248 5555

Contacting the Independent Dispute Resolution Scheme:

Financial Ombudsman Service Limited

PO Box 3

Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

Lodge your vote:



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 652 385
(outside Australia) +61 3 9415 4359

000001 000 ERO
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form

 For your vote to be effective it must be received by 10:00am (Adelaide time) Saturday 22 January 2011

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form ➔



View your securityholder information, 24 hours a day, 7 days a week:

www.investorcentre.com

- ☒ Review your securityholding
- ☒ Update your securityholding

Your secure access information is:

SRN/HIN: I999999999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1

Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of ERO Mining Limited hereby appoint

☐

the Chairman
of the Meeting OR



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of ERO Mining Limited to be held at Enterprise House, 136 Greenhill Road, Unley, SA, on Monday 24 January 2011 at 10:00am (Adelaide time) and at any adjournment of that meeting.

Important for Item/s 1: If the Chairman of the Meeting is your proxy and you have not directed him/her how to vote on Item/s 1 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item/s 1 and your votes will not be counted in computing the required majority if a poll is called on this Item. The Chairman of the Meeting intends to vote undirected proxies in favour of item/s 1 of business.

☐

I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of that Item and that votes cast by him/her, other than as proxy holder, would be disregarded because of that interest.

STEP 2

Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

1 Issues of shares and options to acquire South East Energy Limited

For

Against

Abstain

☐☐☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

Date ____/____/____

ERO

1 4 1 2 1 0 A

Computershare +