# MGT RESOURCES LIMITED

## ANNUAL REPORT

## 2011

ACN 131 715 645

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# CHAIRMAN'S REPORT

30th June 2011

Dear Shareholders

On behalf of the Board of Directors, I present the MGT Resources Annual Report for the year ending 30th June 2011.

The past year has seen considerable progress made by MGT Resources Limited ("MGT" or the "Company") in reaching its goals of being a major producer of tin in the Mount Garnet region of North Queensland through our (now) 78% subsidiary MGT Mining Limited. Our mill at Mount Veteran is now in production and our mining leases for the first stage of production are close to final grant.

Before looking in more detail at the highlights of the operations and geological activities, it is worth noting that tin continues to be fundamentally a very attractive commodity. In common with all other base metals, tin has fluctuated in price over the last year as economic uncertainty in developed economies has continued. However the tin price has very solid support due to production costs at major producers and what industry analysts expect to be an increasingly tight supply situation through the rest of 2011 and into 2012. Consumption of tin in the electronics industry and plating continues to be very strong, with very little new supply coming onto the market.

I would also like to highlight a significant appointment to our Board in Robert Vagnoni. Robert is a true veteran of the mining industry having been the founder and first Chairman of Murchison Metals Limited, as well as spending an earlier part of his career in North Queensland focused on gold projects. We are delighted to have Robert join MGT as a Non-Executive Director and be able to bring his experience to the Company.

The Company has funded itself over the last 12 months through two share placements to raise a total of over $4.9 million. Both these placements were successfully completed at higher amounts than originally planned.

The major achievement for MGT Mining this year has been the completion of the first stage upgrade of the Mount Veteran tin processing mill to process around 50kt per annum. We are confident of increasing this capacity by at least 50% at very low cost by the end of 2011 through relatively minor modifications to the process. Longer term we still plan on increasing the capacity to around 300kt per annum but we prefer to achieve this incrementally as the Company delivers cash flow from the first stage of operations.

The mill has been operating successfully at about 40% of capacity as we optimise the overall process to ensure maximum recovery of tin from feed rock. MGT is now on track to increase capacity to at least 50k tpa with a three shift operation. The final grants of the "Heads or Tails" mining lease (MLA20655) and the "Summer Hill" mining lease (MLA20547), are expected shortly and this will also allow for MGT to shift to full operation of the mill.

On the exploration side, activities were hampered over the last financial year by the early and intense wet season experienced by most of Queensland. Happily our sites did not suffer any significant damage but the ground conditions pushed our next drilling program past the current financial year. We expect to report on progress of this drilling program over the remainder of 2011. We have been able to conduct more research into, and conduct surface sampling of rock chips from the old mine workings at Smiths Creek. As well as tin, the Smiths Creek site appears highly prospective for porphyry copper/gold mineralization. MGT will intensify exploration activities at Smiths Creek as well as the Pyramid gold prospect over 2011/2012.

We are extremely confident of making further significant progress over the next year on both the operational front as the Mount Veteran Mill ramps to higher capacity, we begin full scale mining and exploration intensifies at our most prospective sites.

Finally, the Board of MGT would like to thank all our shareholders for their continuing support of the company. We also very much appreciate all the hard work of our employees for advancing the Company to where we are, and for the future contributions they will make to achieve our goals.

Jonathan Back

Executive Chairman

28th September 2011

# 2011 GEOLOGICAL AND TENEMENT REPORT

## 1. MOUNT GARNET TIN PROJECT

The Mount Garnet Project includes the following tenements (see Figure 1):
ML 4349 “Mount Veteran”
MLA 20547 “Summer Hill”
MLA 20655 “Heads or Tails”
EPM 16948 “Nymbool”

The primary focus of these tenements is tin exploration and mining; however EPM16948 is also prospective for porphyry style copper-gold mineralisation.

The Mount Garnet tin field is situated within the Hodgkinson Province of the Tasman Orogenic Zone and the area is bounded to the west by Precambrian metamorphic rocks. The Siluro-Devonian aged Hodgkinson Formation comprises a thick sequence of clastic marine greywackes, shales, slates and sandstones which contain locally minor volcanic and chert interbeds. It is intruded by, and overlain by extrusions of acid igneous rocks of Upper Palaeozoic age.

In the Mount Garnet district high-level granites of the O’Brien’s Creek Super Suite intrude the Hodgkinson Formation. They were formerly known as the Elizabeth Creek Granite - a very large batholith of leucocratic biotite adamellite-granite. Greisen and pipe formation is common at the contacts between the Hodgkinson Formation and the O’Brien’s Creek member granites.

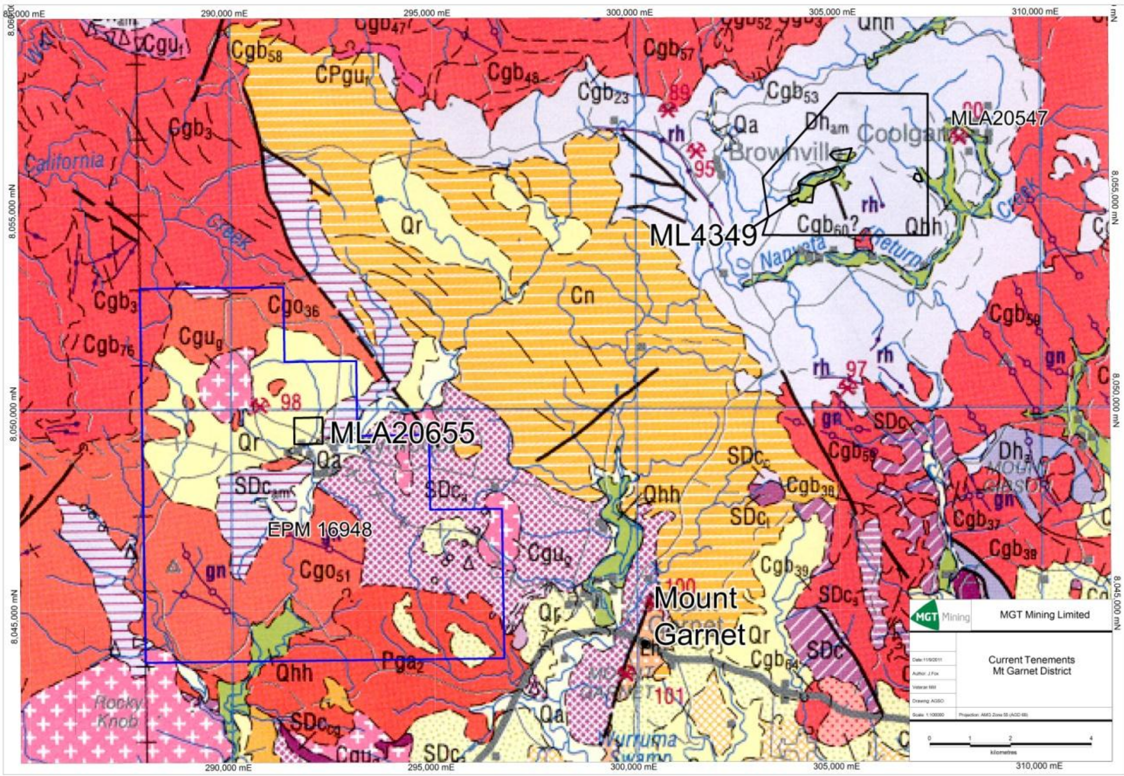


**Figure.1** Location and regional geology of the Mt Garnet Project

## 1.1 ML 4349 - MOUNT VETERAN

**The Mount Veteran Mill**

The Mount Veteran Mill ('the Mill') was constructed in 1980 to treat hard rock tin ores from deposits in the area now covered by MLA 20547. During the period 1984-2003, the tin price declined rapidly due to releases of metal from The Tin Council's stockpile and the US strategic stockpile. As a result, mining activity eventually ceased as well as the mill operation.

MGT is now leading the resurgence of tin mining around Mount Garnet, including the refurbishment of the Mt Veteran Plant. MGT Mining has completed upgrading the Mount Veteran Plant to process hard rock tin ore at a processing rate of 6~8 tons per hour, or around 50,000 tons per year. The company has been commissioning the plant and producing small amount of tin as trial production.

The Mill is currently running at 40% capacity during this commissioning and trial production stage. Once the Mining Leases (MLA20547 and MLA20655) have been granted and mining activities can be carried out, MGT will change the mill working hours from a single shift per day and employ an extra crew of 3 mill operators to enable 24/7 operation and have the mill at 100% capacity.

## 1.2 MLA 20547 – SUMMER HILL

In Mid-2010, MGT discovered several high-grade tin mineralisation in MLA 20547. Initial drilling returned some of the best tin intersections seen in the world for some time. Drilling Results confirmed outstanding potential for high grade intercepts at Summer Hill MLA 20547. Mineralisation is predominantly hosted in quartz and cassiterite veins and stockworks in the intensely chlorite altered quartz lithic greywackes and sandstones of the Hodgkinson Formation. Mineralisation is shallow (surface to <50m vertical depth).

Best high grade Tin intercepts received from initial assay results included:
4m @ 1.2% Sn (SH03) between 33 to 40m, includes 1m @ 1.7% Sn
2m @ 8% Sn (X02) between 25 to 28m, includes 1m @ 15.75% Sn
5m @ 0.8% Sn (DAL 48) from 7 to 12m, includes 1m @ 2.6% Sn
3m @ 1.6% Sn(DAL50) between 19 to 24m, includes 1m @ 3.2% Sn

The next phase of drilling focused on the Dalcouth prospect and was completed in late 2010 (see below). Further drilling at Dalcouth and Extended is planned for late 2011 in order to further define mineralisation. Drilling is also planned at the Summer Hill, Veteran and May Day prospects, all of which have been mined historically and have known tin mineralisation.

### 1.2.1 Dalcouth Prospect

The Dalcouth Prospect consists of a set of several parallel stock work tin mineralised zones with widths up to 20m in altered Hodgkinson sediments. Tin mineralisation also extends into quartz porphyry at depth.

During 2010-2011, a 38-hole infill drilling program was conducted at Dalcouth. The drilling confirmed the presence of high grade tin mineralisation at shallow depth at Dalcouth, suitable for mining and processing at the Mount Veteran Mill. Dalcouth is located approximately 500m from the plant.

**Best Tin intercepts from the 2010-2011 infill drilling program at Dalcouth:**

7m @ 2.0% Sn (DAL65) between 15 to 22m, includes 1m @ 5.95% Sn
5m @ 1.1% Sn (DAL78) between 23 to 28m, includes 1m @ 4.43% Sn
7m @ 1.08% Sn (DAL55) between 19 to 26m, includes 1m @ 3.62% Sn
4m @ 1.32% Sn (DAL70) between 3 and 7m, includes 1m @ 2.91% Sn
2m @ 2.07% Sn (DAL66) between 28 and 30m, includes 1m@ 2.5% Sn
2m @1.96% Sn (DAL74) between 28 and 30m, includes 1m @ 2.38% Sn

A JORC compliant resource estimate is currently being compiled for the Dalcouth mineralisation.

**1.2.2 Extended Prospect**

The Extended Prospect is located approximately 2.5km from the Mount Veteran Plant. The tin mineralised zone is 5m wide. Tin mineralisation is hosted in stock work vein systems in altered sediments of the Hodginkson Formation. A quartz porphyry has been intersected at depth and also hosts minor tin mineralisation.

Best Tin intercepts from the 2010-2011 infill drilling program at Extended:
7m @ 2.48% Sn (X02) between 25 and 32m, includes 1m @ 15.75% Sn
4m @ 3.72% Sn (X02) between 35 and 39m, includes 1m @ 7.59% Sn
4m @ 1.09% Sn (X11) between 24 and 29m, includes 1m @ 1.67% Sn

A follow up drilling program is planned for 2011-2012 to test further extensions to the tin mineralisation.

**1.2.3 May Day Prospect**

An adit was driven into the Mayday prospect in the 1960s and small scale mining occurred in the 1970s yielding a tin grade of 1-2% (Pyper 2010). The May Day prospect consists of an elevated ridge of silicified Hodgkinson Formation sediments hosting quartz and tin stock work veins. Outcropping quartz veins host medium to fine grained cassiterite. A costean performed in the first quarter of 2011 showed a clear indication of tin mineralisation with the best grade at 1.4% Sn. Drilling at May Day is planned for 2011-2012 and will focus on testing the lateral continuity of the quartz-cassiterite stock work.

**1.2.4 Summer Hill Prospect**

The Summer Hill prospect consists of the historic Summer Hill Mine. This mine consisted of a small open cut and an underground drive completed by Noranda Australia Pty Ltd in the 1960s.

Geologically, the Summer Hill prospect consists of a large quartz porphyry with intrudes the chlorite altered sediments of the Hodgkinson Formation. The quartz porphyry outcrops in places in the Summer Hill prospect.

Best Tin intercepts from the 2010-2011 drilling program at Summer Hill:
1m @ 1.3% Sn (SH03) @ 33m
1m @ 1.0% Sn (SH03) @ 35m
4m @ 1.7% Sn (SH03) @ 37m

A follow up drilling program is planned for 2011-2012 to test further extensions to the tin mineralisation.

## 1.3 EPM 16948 – NYMBOOL

Nymbool is located to the north east of Mount Garnet but lies within 20 road kilometers (13 kilometers direct line) of the Mount Veteran Plant (Figure 1). The tenement is dominated by the granites of the O'Briens Creek Suite which have intruded the Hodgkinson Formation. Portions of the tenement are shallowly covered by sand derived from the granites. There are numerous historical tin workings on the tenement including the Smiths Creek Mine.

### 1.3.1 SMITHS CREEK MINE PROSPECT

The Smiths Creek Mine is a historical tin mine worked in the early 1900s consisting of an open pit and extensive underground workings to a depth of approximately 167 meters. The tin mineralisation is hosted in a chloritic shear zone (6 to 12m wide) in the Nymbool Granite and was associated with copper sulphide mineralisation.

Production occurred between 1903 and 1909 with total tonnage of 60,000 tons of 4% Sn with a head grade of up to 15% Sn from the underground workings (Pyper 2010), primarily from Ore Body Number 1. The open pit produced 23,733t at 0.4 - 0.7% Sn.

It has been reported (Foord 1996) that up to 200,000 tons at 1% Sn remains in the ground at Smiths Creek and historical production reports that the Number 1 Ore Body ended in copper 30% by volume (Stacpoole 2007). Historical records also map the presence of Number 2 Ore Body (considered low grade at the time and not mined) and a 10,000t ore zone of unknown tin grade known as the Adelaide Block (Figure 2).

Smiths Creek Mine represents a potential copper-gold target. Copper Sulphide was reported in association with tin. At depth the copper proportion of the ore apparently increased. Tailings from the processing of the Smiths Creek Mine are located in the nearby MLA 20655 "Heads or Tails". Assays of these tailings indicate the presence of significant copper sulphide and possibly gold in the Smiths Creek Mine ore.

Drill holes have been designed to test tin distribution at depth and the grade of copper mineralisation below 167m where production stopped on the Number 1 Ore Body. Drill holes have also been designed to locate the Number 2 Ore Body. This drilling will be conducted during late 2011.

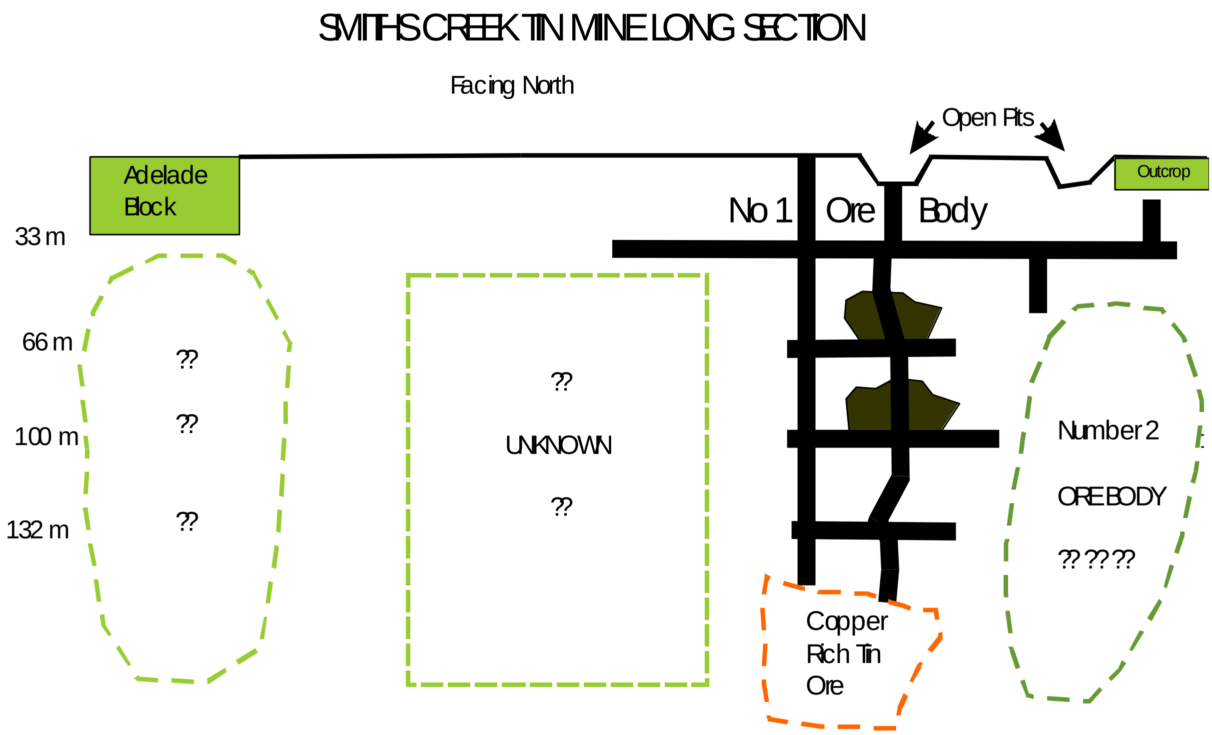


**Figure 2.** Smiths Creek Mine Long Section

### 1.3.2 MLA 20655 – HEADS OR TAILS

Heads or Tails lies within EPM16948 Nymbool. The MLA area holds approximately 10,000 tons of fine tin tailings from the historical tin processing in the Smith's Creek area. The tailings are on the surface and have assayed at 0.7%Sn. Bulk metallurgical testing has shown 70% of the tin is recoverable by the Mount Veteran Mill. This positive assay result from the tailings confirms the high potential for discovering high grade tin deposit as well as a body for an economic copper/gold deposit. Work is underway to install the appropriate floatation cells for copper and gold recovery as part of the tin ore cleaning process at the Mount Veteran mill.

The historical Queen Mine is also located within MLA 20655. A sample collected from the mullock heap at the mine assayed 0.368% Sn. A ground magnetic survey has been conducted over the mine which showed an anomaly slightly offset to the workings. This anomaly will be a target for drilling in late 2011.

## 2. THE PYRAMID GOLD PROJECT (EPM 12887)

The Pyramid project is located within EPM 12887 in the Drummond Basin, North Queensland and is located on a major north-northeast trending belt of gold mineralisation developed over a strike length of 20 km. Access is from Townsville via the Flinders Highway to Mingela, then sealed road to the Burdekin Dam Falls and then by graded council road to Pyramid Station (Figure 3).

This northern route via the Burdekin Dam is frequently closed during the wet season. Alternative access routes are by sealed road from Charters Towers to the Scartwater Homestead turn off, then by graded council road to Ukalunda Homestead which continues east to Collinsville and Bowen. Station tracks afford reasonable access to most parts of the EPM. The area is essentially open range grazing country, accessible by 4WD vehicle.

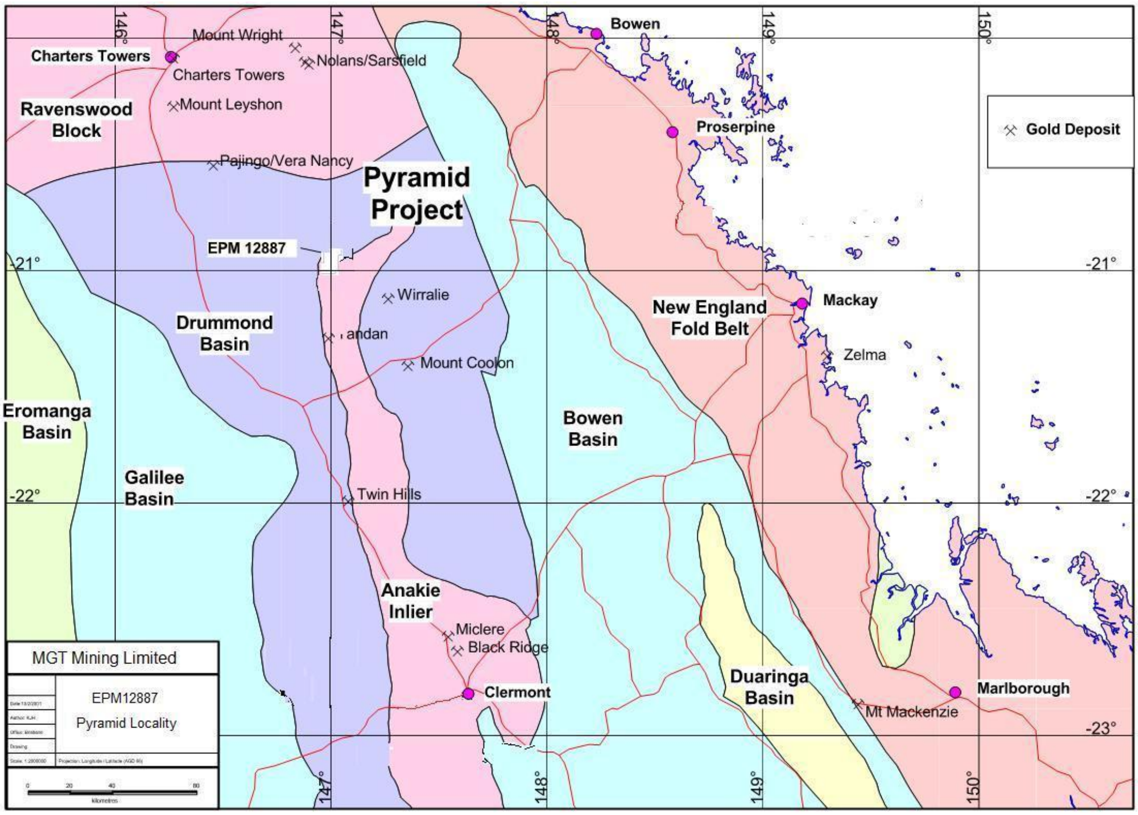


**Figure 3.** Pyramid Project Location

Pyramid is composed of low hills and ranges between 200 and 300 m in elevation, with scattered topographic highs being generally formed by igneous plutons. Within the project area the highest elevation is 408 m, corresponding with the small volcanic peak at the Sugarloaf Prospect known as Breccia Knoll. The Bulgonnunna Volcanics form an elevated volcanic range to the northeast, with elevations up to 610 m.

Within the project area, the land surface is in an advanced state of dissection, with only a few scattered remnants of a Tertiary sediment and laterite profile (at approximately 300 m elevation), having been largely stripped off to reveal scattered low hills and a small range of Anakie Metamorphics.

The Pyramid Project lies in the northeast of the Devonian to Carboniferous Drummond Basin and contains a north-northeast trending inlier of Late Ordovician Anakie Metamorphics. The inlier of Anakie Metamorphics divides this region from the main area of Drummond Basin sedimentation to the west. A thick wedge of the Late Carboniferous Bulgonunna Volcanics forms the Bulgonunna Block to the east.

The Drummond Basin is a large intracratonic basin that formed in response to east-west directed extension during the Late Devonian - Early Carboniferous. The basin has a NNW trend and is terminated at its northern boundary by a series of E-W trending faults, which define the southern margin of the Ordovician to Devonian Lolworth - Ravenswood Igneous Complex. To the east, the Drummond Basin is overlain by sediments of the Permian Bowen Basin, while Permo-Triassic sediments overlie the basin to the west.

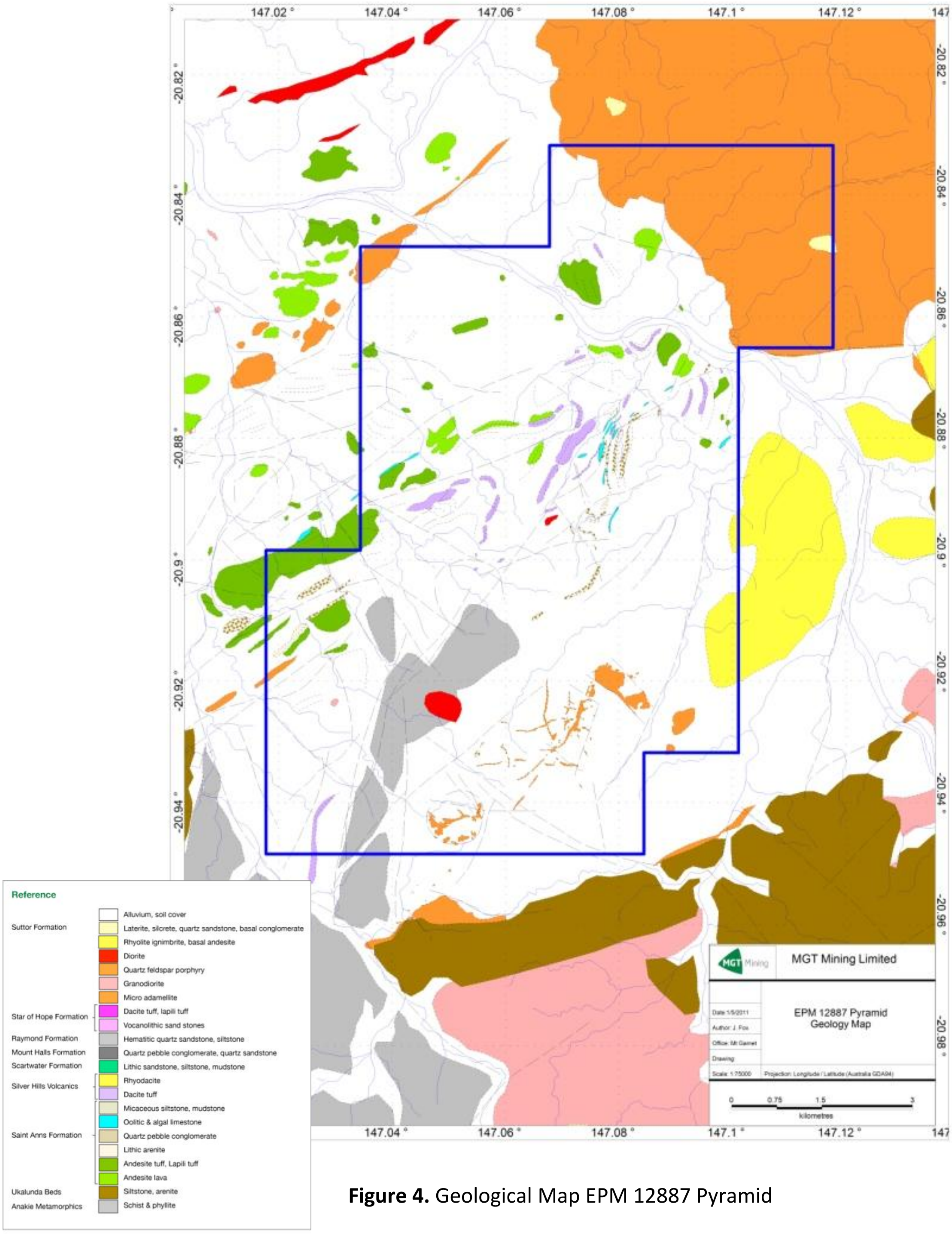


**Figure 4.** Geological Map EPM 12887 Pyramid

## GETTYSBERG PROSPECT

Gold at the Gettysberg prospect is hosted in the Saint Ann's Formation sediments (siltstones, and sandstones). The Saint Ann's Formation is dominated by a sedimentary package consisting of feldspathic quartz sandstones, micaceous siltstones, thin beds of algal limestone's and quartz pebble conglomerates. Other surrounding Saint Ann's Formations that consist of gold hosting mineralisation in the Drummond Basin are located at the Pajingo, Yandan, Wirralie and Twin Hills gold deposits.

**Figure 5.** Quartz Breccia at the Gettysberg Prospect

Structurally the area is complex and consists of a series of NNE and NNW plunging anticlines, with fault contacts near the conglomerates. An argillic altered rhyodacite dyke is present in the NW and narrow NNW trending andesite porphyry (boninite) dykes are also present.

Mineralisation at the Pyramid Project consists of Epithermal quartz veins, graphite-pyrite-sericite stylolitic veinlets and breccia matrix infills. This mineralisation is only hosted in micaceous sandstones of the Saint Anns Formation and appears to be of epithermal style. The gold mineralisation appears to plunge shallowly to the north and there has been limited drilling in this direction. Potential for extensions to the high-grade mineralisation is high.

### Previous Investigations

The Pyramid Project is located near the Sellheim River area, where numerous small silver-lead-zinc deposits were worked during the late 1880's, including the Sunbeam, Sunset, Carrington and Walhalla deposits From the late 1970's, several mining companies have explored the area around the EPM 12887 including Pajinngo Gold Mine Pty Limited, Newcrest Mining Limited and Dalrymple Resources NL. Exploration in the area has been mainly directed towards locating epithermal gold mineralisation.

### Previous Drilling and Soil Sampling Results at the Gettysberg Prospect

Gettysberg prospect was discovered from follow up of a stream sediment anomaly. Highly anomalous rock chip assays up to 2000 g/t Au were located in siliceous breccias. Soil sampling delineated a 400 x 100 m anomaly of >175 ppb Au (1500 ppb Au peak) at the Devils Den and Culps areas, trending NE. Several zones of >50 ppb Au occur outside the main anomalous zone.

Dalrymple drilled 26 RC holes (MRDC-25 to MRDC-50) and 2 diamond core holes (MDD-1 to MDD-2; MDD-3 was a diamond extension) over a strike extent of 400m, which intersected widespread significant gold mineralisation in 21 holes. The highlights of this drill program are presented in table 1. The holes intersected fine grained micaceous quartzose sandstone and interbedded fissile siltstones. Mineralisation consists of comb/cockade quartz vein stockworks and graphite-pyrite-dolomite breccia zones (Plate 1). Visible gold was noted in the core holes associated with the graphite-pyrite matrix (Plate 2). Andesite porphyry dykes (boninite) were also associated with the breccia zones.

**Table 1. Best Drilling Intersections – Gettysberg Prospect**

| Hole No. | Depth From | Depth To | Width | Grade |
|---|---:|---:|---:|---:|
| MDRC-31 | 0 | 8 | 8m | 18.10 g/t Au |
| MDRC-33 | 52 | 76 | 24m | 5.00 g/t Au |
| MDRC-34 | 28 | 44 | 16m | 2.48 g/t Au |
| MDD-01 | 40 | 80 | 40m | 1.0 g/t Au |
| MDD-02 | 21 | 51 | 26m | 2.80 g/t Au |
| MDRC-39 | 8 | 72 | 64m | 0.50 g/t Au |
| MDRC-42 | 8 | 72 | 64m | 0.40 g/t Au |
| MDRC-37 | 28 | 64 | 26m | 0.70 g/t Au |


**Plate 1.** Photograph of drill core from MDD-001. Typical chalcedony-comb quartz vein stockwork mineralised zones in sericite altered thinly bedded sandstone at the Gettysberg prospect. Note the black chlorite-graphite-pyrite stylolite margins to chalcedony-comb quartz vein breccia. (Assay 70-71m: 0.37 ppm Au).

**Plate 2.** Photograph of drill core from MDD-001. Note presence of visible gold within a low amplitude, black graphite-chlorite-pyrite stylolite seam, within sericite altered, hydrofractured sandstone. (Assay 75-76m: 12.0 g/t Au).

**Proposed Drilling Program – Gettysberg Prospect**

Twenty-one holes at up to 150m deep are proposed to test the down dip and along strike potential of the gold mineralised zone and the potential for Bulk-Low Grade Mineralisation associated with pyritic graphitic veinlets / dispersions and disseminations in sericite altered schistous zone is as important as the proposal for drill holes to test potential for gold associated with tabular quartz breccia bodies.

Preliminary work had been completed in preparation to commence drilling but an early onset and prolonged wet season prevented drilling from commencing in 2010-2011. The program has been budgeted and drilling will commence as soon as is practicable in 2011-2012.

References

Pyper, R.C.W, 2010 *Independent Geological Report for MGT Mining Limited*, Minnelex Pty Ltd
Stacpoole, J, 2007 *Smiths Creek Tin Deposit*, Xtreme Resources Limited internal report.

Summary of Previous Drilling conducted over Pyramid

| Prospect | Company | Type | Hole No's | No. of Holes | Metreage |
|---|---|---|---|---|---|
| Sellheim | | | | | |
| | BMA | RC | EBR-1 to 9 | 9 | ? |
| | BMA | RC | EBR-40 to 48 | 9 | ? |
| | Dalrymple | RC | MDRC-22 to 24 | 3 | 236 |
| | Dalrymple | RC | MDRC-60 | 1 | 80 |
| Gettysberg | | | | | |
| | Dalrymple | RC | MDRC-25, 27-54 | 24 | 2430 |
| | Dalrymple | Diamond | MDD-1 to 3 | 2 | 284 |
| | Dalrymple | RC | MDRC-59 | 1 | 150 |
| | Dalrymple | RC | MDRC-64 | 1 | ? |
| Marrakesh | Dalrymple | RC | MDRC-1 to 6 | 6 | 543 |
| Pradesh | Dalrymple | RC | MDRC-7 to 10 | 4 | 418 |
| Madras | Dalrymple | RC | MDRC-20 to 21 | 2 | 120 |
| Rutherfords | Dalrymple | RC | MDRC-17 to 19 | 3 | 192 |
| Carey Guille | Dalrymple | RC | MDRC-11 to 16 | 6 | 594 |
| Sugarloaf | | | | | |
| | Dalrymple | RC | MDRC-55 to 56 | 3 | 573 |
| | Dalrymple | Diamond | MDRC-65 to 67 | 2 | 80 |
| | Newcrest | RC | MDRC-68 to 71 | 4 | 738 |
| Dempsey's | Dalrymple | RC | MMDRC-57 to 58 | 2 | 100 |
| TM-64 | Dalrymple | RC | MDRC-61 to 63 | 3 | 100 |
| Beacazon | BMA | RC | ? | 8 | ? |
| Mt Stone | BMA | RC | ? | 11 | 1364 |
| Buried Hatchet | alrymple | RC | MSRC-1 to 2 | 2 | 100 |

The Directors of MGT Resources Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors reports as follows:

**Information about the directors and senior management**
The names of the Directors in office at any time during or since the end of the financial year are:

| Name | Particulars |
|---|---|
| **Jonathan Paul Back** | Chairman, appointed 1st February 2010 |
| **George Monemvasitis** | Director, appointed 30th June 2008, resigned as Executive Director 1st July 2011, appointed as Non-Executive Director 1st July 2011 |
| **Gary Kuo** | Director, appointed 7th January 2011 |
| **Rado Jacob Rebek** | Non-Executive Director, appointed 1st February 2010, resigned 6th January 2011 |
| **Hai Jun Li** | Non-Executive Director, appointed 14th April 2009 |
| **Robert Vagnoni** | Non-Executive Director, appointed 1st February 2011 |

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

| | |
|---|---|
| **George Monemvasitis** | Director, appointed 30th June 2008, resigned as Executive Director 1st July 2011, appointed as Non-Executive Director 1st July 2011 |
| **Gary Kuo** | Director, appointed 7th January 2011 |
| **Rado Jacob Rebek** | Resigned on 6th January 2011 |
| **Robert Vagnoni** | Non-Executive Director, appointed 1st February 2011 |

**Background of the MGT directors and senior management:**

**Mr Jonathan Paul Back (LLB, BCL) – Executive Chairman and Managing Director**
Mr Jonathan Back is a qualified solicitor in England and Wales. Prior to working as a lawyer, Jonathan graduated from Oxford University having won the Vinerian Scholarship for the best performance in the Bachelor of Civil Laws Degree. Jonathan has over 18 years of experience in law and finance internationally, having spent significant periods in Europe, Hong Kong and Australia. Jonathan first worked as a lawyer for the leading UK firm Linklaters for 4 years, specialising in large project finance transactions. This included the acquisition of the Gladstone Power Station in Queensland by a consortium expanding the Boyne Island aluminium smelter. Jonathan then worked for Schroders in the UK and in Hong Kong where he also focused on large infrastructure and energy projects including large power station projects in Portugal and the UK as well as port and energy projects across Australia and Asia. Following this Jonathan worked with Goldman Sachs in Hong Kong focusing on raising equity capital for telecoms and technology companies. Jonathan was then recruited by JPMorgan to join their equity team in Hong Kong, which he ran until 2007. During this time he worked on numerous transactions across different industries.

**Mr Gary Kuo – Executive Director and Chief Operating Officer**
Mr Kuo has more than 10 years' experience in international import & exporting, commodities trading, international business development and strategic alliance planning. Before MGT Resources, he was the vice general manager for BAAO Mining which is a Chinese raw material trading company based in Tianjin, China. Having bases in both Australia and China, Gary specialises in dealing with corporations in the mining & steel production sector. He works closely with his wide network of corporate and governmental contacts in countries such as China, Taiwan, Hong Kong, Singapore, Malaysia and Indonesia.

**Mr George Monemvasitis (OMIE Aust, MAICD) – Non-Executive Director**
Mr. George Monemvasitis is an Engineer and an investor. A graduate in Mechanical Engineering from the Institute of Technology, Sydney, Mr Monemvasitis has over 10 years experience in engineering analysis of resource sector capital raising both within Australia and China. A member of the Australian Institute of Company Directors, Mr Monemvasitis brings a wealth of technical knowledge and corporate governance.

**Mr Li Hai Jun – Non- Executive Director**
Mr Li holds a Bachelor of Mechanical Engineering degree from the Beijing Architecture Engineering University, China. He has worked as a Mechanical Engineer for the Beijing Engineering Research Institute and as a Project Manager for the China National Technical Import and Export Corporation (CTNIC). Since the 1850's, CNTIC has imported plant and equipment for more than 280 projects for the nation in the iron & steel sector, with the total contract value reaching 7.8 billion US Dollars. Large sized complete plants and equipment have been imported by CNTIC for 46 iron & steel works and 66 non-ferrous metal enterprises. CNTIC was the biggest importer at that time in charge of governmental purchasing in new production lines and know-how transfer from abroad during Mr Li's employment. Most notably he worked with the First Business division on over 30 key projects including Ma An Shan Steel. From 1990-1993 Mr Li worked as assistant to the Asia Pacific regional director for Thyssen Wagner in Germany and then moved to Inter Fx Service in Beijing. He also worked for Inter and Golden Mall in Singapore for several years as Managing Director. At present Mr Li is General Manager of Unico Development Limited in Beijing providing consulting services to clients globally. From 2006 Mr Li has represented Murchison Metals in China and he established Iron Ore off-take agreements for Murchison with Shougang International and assisted in establishing Murchison's relationship with Sinosteel.

**Mr. Robert Vagnoni – Non-Executive Director**
Mr Vagnoni is a mechanical engineer with 28 years in the global mining and construction industry and has extensive experience in corporate, project development and implementation of a diverse range of projects in Australia and overseas. He has held senior executive roles with major mining companies and engineering consultants specialising in project development and management, feasibilities, plant design and commissioning. He was a co-founder of publically listed mining companies, Murchison Metals and Extract Resources.

**Mr. Alex Moody - Company Secretary**
Alex Moody held the position of company secretary of MGT Resources Limited at the end of the financial year. Alex holds a Bachelor of International Relations from Bond University, Queensland. Upon graduating, Alex was hired in the field of mining and earthmoving equipment financing. Alex brings the experience of owning and operating his own business for several years.

**Directors' shareholdings**

The following table sets out each director's relevant interest in shares, and rights or options in shares of the company or a related body corporate as at the date of this report.

| Directors | MGT Resources Ltd Fully paid ordinary shares Number * |
|---|---|
| Jonathan Paul Back | 68,029,727 |
| George Monemvasitis | 5,415,692 |
| Gary Kuo | 39,160,000 |
| Robert Vagnoni | 4,500,000 |
| Hai Jun Li | 19,800,000 |

* Includes a 4 for 1 share split

**Remuneration of directors and senior management**

Information about the remuneration of directors and senior management is set out in Note 24 of the financial report.

**Principal activities**

The principal activities of the consolidated entity during the financial year included exploration and evaluation activities. There were no significant changes in the nature of the principal activities during the year.

**Operating and Financial Review**

**(a) Review of operations**

The consolidated net loss for the financial year after providing for income tax and before minority interest was $1,627,246 (2010: loss of $800,340).

The company has continued to invest capital in refurbishing the Mt Veteran tin mill and in successful drilling programs and it continues to pursue its objective of seeking further investment opportunities in the resource sector.

**(b) Exploration and Evaluation Activities**

The focus during this financial year for the company was completing the Mount Veteran Mill refurbishment and commencing trial tin production. All the major work was completed in May 2011 and the mill has been in commissioning stage with trial production proving successful recovery of high grade tin concentrate.

During the mill refurbishment, the exploration team focused on further ground mapping within the 3 tenements in Mount Garnet region. Drill-hole positions were designed and drilling is expected to commence in the 3rd Quarter of 2011. A drilling program is also designed and proposed for the EPM 12887 "Pyramid" Gold prospect and drilling should commence in the early part of 2012.

In respect of the two Mining Lease Applications, MLA 20655 is expected to be granted before the end of 2011, and MLA 20547 is expected to be granted in early 2012. Within these two mining leases, MGT has identified several historic dumps and tailings from old mine. These materials have accumulated to a significant tonnage and will be the initial mill feed for approximately 8 to 10 months after the mining leases are granted.

The first mining target for MGT Mining Limited will be the Dalcouth prospect within MLA 20547. A mining plan is currently being drafted for Dalcouth which is located 500 meters from the mill. Based on the milling capacity of 50K tpa, we expect 5 to7 years of mine life from the Dalcouth prospect.

**Significant changes in state of affairs**
There were no significant changes in the state of affairs of the consolidated entity during the financial year.

**Subsequent events**
MGT Resources Limited acquired a further 3% of the issued capital in MGT Mining Limited by way of a placement on 1 July 2011. The placement was for 7,304,464 new ordinary shares in MGT Mining Limited at $0.05 cents per share, for a total of $365,223.20.

This brings the total shareholding of MGT Resources Limited from 75.33% as at 30 June 2011 to 78.3% as at 28 September 2011.

On Friday 23 September 2011, MGT Mining Ltd signed a Native Title Ancillary Agreement with the Bar-Barrum People #3 and Bar-Barrum People #4 over MLA 20547 (Summer Hill) and MLA 20655 (Heads or Tails). The signing of this agreement is an important milestone and means that MGT Mining Ltd can now apply to the Department of Mines and Energy for the granting of the respective Mining Leases.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**Future developments**
Disclosure of information regarding the likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

**Environmental regulations**
The operations and proposed activities of the consolidated entity are subject to laws and regulations concerning the environment. As with most exploration projects and mining operations, the consolidated entity's activities are expected to have an impact on the environment. It is the consolidated entity's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all applicable environmental laws. Mining operations may have previously been conducted on some of the Company's project areas and old workings including tailings dumps may remain from these operations. There may be a liability to rehabilitate these areas, details in relation to the abandonment and restoration obligation are included in Note 1 of the Notes to the financial statements.

**Dividends**
There were no dividends paid or declared by the consolidated entity during the financial year.

**Indemnification of officers and auditors**

The company has insured all the Directors MGT Resources and its controlled entities against liabilities incurred while performing duties as Directors or Officers to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount the amount of the premium paid. The consolidated entity has not indemnified its auditor.

**Directors' meetings**

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director).

| | Board of directors | |
|---|---|---|
| Directors | Directors' meetings eligible to attend | Attended |
| Jonathan Paul Back | 10 | 10 |
| George Monemvasitis | 10 | 9 |
| Gary Kuo | 5 | 5 |
| Rado Jacob Rebek | 5 | 1 |
| Hai Jun Li | 10 | 6 |
| Robert Vagnoni | 4 | 2 |

**Non-audit services**

No non-audit services were performed by the auditors during the financial year ended 30 June 2011.

**Proceedings on behalf of the company**

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity or intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of these proceedings. The consolidated entity was not part to any such proceedings during the year.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 38 of the financial report.

This directors' report has been made and signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Gary Kuo
Executive Director
Dated: 28th September 2011

**CORPORATE GOVERNANCE STATEMENT**

**INTRODUCTION**

The MGT Resources Limited Board of Directors is committed to the principles underpinning good corporate governance, applied in a manner which is most suited to MGT Resources Limited, and to best addressing the directors' accountability to shareholders and other stakeholders. This is supported by a commitment to the highest standards of legislative compliance and financial and ethical behaviour.

The Company continues to address directors' accountability to stakeholders in a manner consistent with the Company's individual circumstances enhanced through the introduction of publicly available policies and procedures which are designed to foster a culture of transparency in the way MGT Resources Limited is directed and managed.

As a measure of its stated commitment to good corporate governance principles, the Board will continue to review and continually improve its governance practices and monitor developments in good corporate governance.

The Board considers that except to the extend expressly indicated in this statement, those corporate governance practices comply with the ASX Corporate Governance Council's ("ASXCGC") Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles and Recommendations) Except to the extent expressly indicated in this statement, those practices were followed throughout the year.

For the reasons expressed within this Statement, MGT Resources Limited has elected not to adopt Recommendations 2.1, 2.2, 2.3, 2.4, 4.1, 4.2, 4.3, and 8.1.

<u>Revised Corporate Governance Principles</u>

On 30 June 2010, the ASXCGC released amendments to the ASX principles of good corporate governance and best practice recommendations (Aug 2007). These amendments relate to diversity, remuneration, trading policies and briefings. The changes require disclosure in the 2012 Annual Report of MGT Resources Limited.

Adopted ✓ Not adopted X

**PRINCIPLE**

**Principle 1: Lay solid foundations for management and oversight** ✓

Companies should establish and disclose the respective roles and responsibilities of board and management.

**Recommendation 1.1:** ✓

Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

**Recommendation 1.2:** ✓

Companies should disclose the process for evaluating the performance of senior executives.

**Recommendation 1.3:** ✓
Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Board acts on behalf of and is responsible to its Shareholders. This responsibility has been instrumental in defining the responsibilities of the Board.

The Board has formalised its roles and responsibilities into a Charter. The Board Charter clearly defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the responsibilities of the MGT Resources Limited Board include:
- oversight of the company, including its control and accountability systems;
- setting the company's major goals including the strategies and financial objectives to be implemented by management;
- appointing, removing and controlling the Managing Director;
- ratifying the appointment and, where appropriate, the removal of the Company Secretary;
- input into and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring that appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting; and
- corporate governance.

The Board has delegated responsibility to the Managing Director for:
- developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- developing MGT Resources Limited's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget;
- managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board;
- approval of capital expenditure and business transactions within predetermined limits set by the Board.

<u>Senior Executive Performance Evaluation</u>
The Board is responsible for approving the performance objectives and measures for the Managing Director and assessing whether these objectives have been satisfied by the performance of the Managing Director during the relevant period and in accordance with agreed terms of engagement.

The Managing Director is responsible for approving the performance objectives and measures of other senior executives in consultation with the Board. The Board provides input into the evaluation of performance by senior executives against the established performance objectives.

The performance of senior executives is monitored by means of scrutiny by the Board of regular monthly reports provided by management regarding the group financial performance and forecasted results, presentations and operational reports, and the achievement of predetermined performance objectives.

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**PRINCIPLE**

**Principle 2: Structure the board to add value** ✓
Companies should have a board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

**Recommendation 2.1:** X
A majority of the board should be independent directors.

**Recommendation 2.2:** X
The chair should be an independent director.

**Recommendation 2.3:** X
The role of the chair and chief executive officer should not be exercised by the same individual.

**Recommendation 2.4:** X
The board should establish a nomination committee.

**Recommendation 2.5:** ✓
Companies should disclose the process for evaluating the performance of the board, its committees and individuals.

**Recommendation 2.6:** ✓
Companies should provide the information indicated in the Guide to Reporting on Principle 2.

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The Board has adopted a policy of ensuring that it is composed of a number of non executive directors with varied experience and skills such that the Board has a proper understanding of and competence to deal with emerging issues within the business, exercise independence and perform effective reviews of management.

Independence
An MGT Resources Limited director will be considered *independent* where he or she is:
- independent of management, that is, a non-executive director; and,
- free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his or her unfettered and independent judgment.

Materiality is assessed on a case by case basis by reference to the director's individual circumstances rather than general materiality thresholds.

The MGT Resources Limited Board has made its own assessment to determine the independence of each director on the Board. It is the Board's view that one current non-executive director, Robert Vagnoni, is independent.

In view of the size of the Company and the nature of its activities, the Board considers that the current mix of skills, qualifications and experience on the Board is consistent with the long-term interests of the Company. The Board will continue to monitor the requirement for independent directors in the context of the Company's communicated long term objectives.

The Board has established criteria for assessing independence of its directors.

Composition of the Board

The MGT Resources Limited Board currently comprises three (3) non-executive directors and two (2) executive directors.

The composition of the Board is set based on the following factors:

- the Company's Constitution provides for the number of directors to be not less than three (3) and not more than ten (10) as determined by the directors from time to time;
- consistent with the Company's objective that the Board should encompass a broad range of relevant expertise, the present Board consists of directors with a collective of diverse skills, qualifications and experience as more fully detailed in the Company's Annual Report.

There is no shareholding requirement imposed upon directors under the Company's Constitution, however, all of the directors of MGT Resources Limited do hold shares in the Company. Details of all holdings by directors in the Company are detailed within the Directors' Report.

Chairman

The Chairman (and Managing Director) is selected by the Board from the non-executive directors.
The current chairman is an executive director appointed by the Board, due to the small size of the Company, its specific needs, his particular skills set and experience and his history as a co-founder of the Company.

The Board has considered:

- whether it would be beneficial to appoint a lead independent director;
- other positions held by the existing chair and the other non-executive director and the available time of each director; and
- the skills, qualifications and experience of the existing non-executive directors;

and based on its overall assessment of these factors it has elected not to adopt Recommendation 2.2 to appoint:

- a lead independent director; or
- alternative chairman.

The Board will continue to assess the requirements of this recommendation in the context of the Company's individual circumstances and its communicated long term objectives.

Establishment of Nomination Committee

MGT Resources Limited has elected not to adopt Recommendation 2.4 because it considers that its existing selection and appointment practices, detailed within this Statement, are an efficient means of meeting the needs of the company, particularly having regard to the fact that MGT Resources

Limited is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, board structure and composition.

The MGT Resources Limited Board currently consists of only five (5) members. It is considered that further division of the Board for the purposes of establishing a formal committee structure would not achieve enhanced efficiency or enable the Board to add greater value to this process.

The small size of the MGT Resources Limited Board, and the nature of its business, means that MGT Resources Limited has the present capacity to consider director competencies, selection and nomination practices in the context of duly constituted meetings of the Board and as a part of its self-evaluation processes.

Board Performance Evaluation

The Board has adopted an on-going, self-evaluation process to measure its own performance and the performance of its committee during the reporting period.

The Chairman meets periodically with individual directors to discuss the performance of the Board and the director. In addition, an evaluation is undertaken by the Chairman of the contribution of directors retiring by rotation prior to the Board endorsing their candidature.

The review process involves consideration of all of the Board's key areas of responsibility and accountability and is based on an amalgamation of factors including capability, skill levels, understanding of industry complexities, risks and challenges, and value adding contribution to the overall management of the business.

A performance evaluation for the Board, its committee and directors took place during the reporting period in accordance with the process detailed within this Statement.

The outcomes of the self-assessment program are used to enhance the effectiveness of individual directors and the Board collectively.

Enhanced effectiveness of the Board and management is also addressed through:

*Board Meetings*

The frequency of Board meetings and director's attendance at those meetings is detailed within the Directors' Report. Directors are expected to prepare for meetings in a manner which will enable them to attend and participate at the meeting. Directors are also required to make on-site visits and attend workshops as required.

*Induction Program*

Procedures for induction of new directors are in place to allow new directors to participate fully and actively in board decision making at the earliest opportunity.
All directors are offered an induction program appropriate to their experience upon appointment so as to familiarise them with matters relating to the business, strategy and any current issues under consideration by the Board. This program consists of written background material on the company, its products, services and operations; scheduled meetings with the Chairman and Managing Director of the Company.

*Director education*

The Board encourages directors to continue their education by participating in applicable workshops and seminars, attending relevant site visits and undertaking relevant external education.

The Company Secretary provides directors with on-going guidance on matters such as corporate governance, the Company's constitution and the law.

*Board Papers & Agendas*
Board agendas are structured throughout the year in order to ensure that each of the significant responsibilities of the Board is addressed.
Directors receive board packs prior to each meeting which detail financial, operational and strategy reports from senior management who are available to discuss reports with the Board.

*Access to information*
All directors have access to company records and information, and receive regular detailed financial and operational reports from senior management.

The Company Secretary is available to all Directors and may be consulted on on-going issues of corporate governance, the MGT Resources Limited Constitution and the law. In addition, the non-executive directors regularly consult with the Managing Director, and may confer and request additional information from any MGT Resources Limited employee. Management are available to discuss reports, and any issue arising, with the Board as required.

The Board collectively, each Board Committee and each individual Director has the right, following appropriate consultation, to seek independent professional advice at MGT Resources Limited's expense to help them carry out their responsibilities.

*Term of office, skills, experience and expertise of each director*
The qualifications, experience and expertise of the directors, and the respective terms in the office held by individual directors, are set out in the Directors' Report contained within the MGT Resources Limited 2011 Annual Report.

*Independent Professional Advice*
MGT Resources Limited has in place a procedure whereby, after appropriate consultation, directors are entitled to seek independent professional advice, at the expense of MGT Resources Limited, to assist them to carry out their duties as directors. The policy of MGT Resources Limited provides that any such advice is made available to all directors.

*Procedure for Selection and Appointment of New Directors*
The process for appointing a director within MGT Resources Limited is that, when a vacancy exists, the Board identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed but must stand for election at the next annual general meeting following the appointment.

Consistent with the current law there is no retirement age for directors fixed by the *Corporations Act 2001 (Cth)* or ASX Listing Rules, although a person of or over the age of seventy-two (72) years of age may not be appointed, or re-appointed as a director except pursuant to a resolution of the Company in accordance with the Company's Constitution.

The process for re-election of a director is in accordance with the Company's Constitution, which requires that each year, at least one-third of the non-executive directors retire from office at the Annual General Meeting. The retiring directors may be eligible for re-election.

**Principle 3: Promote ethical and responsible decision-making** ✓

Companies should actively promote ethical and responsible decision-making.

**Recommendation 3.1:** ✓

Companies should establish a code of conduct and disclosure or a summary of the code as to:

- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices

**Recommendation 3.2:** ✓

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

**Recommendation 3.3:** ✓

Companies should provide the information indicated in the Guide to reporting on Principle 3

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Code of Conduct

MGT Resources Limited is committed to the operation of its business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of the company and the industry in which it operates.

The Board has approved a *Code of Conduct and Ethics* which applies to all directors, executives, management and employees without exception. In addition, the conduct of directors and executives is also governed by *Code of Conduct for Directors and Executives.*

Each Code of Conduct is designed to ensure that:

- high standards of corporate and individual behaviour are observed by all MGT Resources Limited directors and executives in the context of their respective roles and the performance of their duties with MGT Resources Limited;
- directors and executives are aware of their responsibilities to MGT Resources Limited under the terms of their appointment or contract of employment; and
- all of the stakeholders of the Company can be guided by the stated values and policies of MGT Resources Limited.

In summary, the Code provides that directors and senior executives must:

- act honestly, in good faith and in the best interests of the company;
- use due care, skill and diligence in the fulfilling their duties;
- use the powers of their position for a proper purpose, in the interests of the company;
- not make improper use of information acquired their position;
- not allow personal interests, or those of associates, conflict with the interests of the company;
- exercise independent judgement and actions;
- maintain the confidentiality of company information acquired by virtue of their position;
- not engage in conduct likely to bring discredit to the company; and
- comply at all times with both the spirit and the letter of the law, as well as, policies of the company.

Directors of the company may act in a professional capacity for the Company or its controlled entities, other than as auditor of the Company. These arrangements are subject to the restrictions of the *Corporations* Act *2001 (Cth)*.

Under the Constitution of the Company, and the *Corporations Act 2001 (Cth)*, where the possibility of a conflict of interest exists and involves a director, directly or indirectly, the director must declare the fact, nature, character and extent of the conflict at the first meeting of directors held after the relevant facts come to the director's knowledge.

The director concerned does not receive copies of the relevant Board papers, if any, and withdraws from the Board meeting while such matters are considered by the remainder of the Board. Accordingly, the interested director takes no part in discussions nor exercises any influence over other members of the Board if a potential conflict of interest exists.

In addition, MGT Resources Limited has developed a series of policies designed to promote ethical and responsible decision making by directors, executives, employees and contractors of the Company, including:

- Trading Policy;
- Market Disclosure Policy;
- Privacy Policy;
- Occupational Health & Safety Policy;
- Code of Conduct and Ethics (General); and
- Code of Conduct for Directors' & Executives.

Employees are actively encouraged to report activities or behaviour to senior management, the Company Secretary or the Board, which are a breach of the Code of Conduct and Ethics, other MGT Resources Limited policies or regulatory requirements or laws.
The Company will investigate any concerns raised in a manner that is fair, objective and affords natural justice to all people involved. The Company is committed to making necessary changes to its processes and taking appropriate action in relation to employees found to have behaved contrary to legal and company standard requirements.

<u>Trading Policy</u>
Directors, senior executives and employees are subject to the *Corporations Act 2001 (Cth)* relative to restrictions applying for, acquiring and disposing of securities in, or other relevant products of, the Company (or procuring another person to do so), if they are in possession of inside information.

Inside information is that information which is not generally available, and which if generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in the Company.

Under the MGT Resources Limited *Trading Policy*, directors, senior executives and employees of the Company are restricted from trading in the Company's securities during the period of one (1) month preceding the making of an announcement to the market by the Company relating to the:

- Company's Annual results;
- Company's Half Year results; and
- Chairman's Address.

The Company notifies the ASX of any change in a director's interests in securities, and in contracts relevant to securities, as required by the ASX Listing Rules.

**Principle 4: Safeguard integrity in financial reporting.** ✓

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting

**Recommendation 4.1:** X

The board should establish an audit committee.

**Recommendation 4.2:** X

The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members

**Recommendation 4.3:** X

The audit committee should have a formal charter.

**Recommendation 4.4:** ✓

Companies should provide the information indicated in the Guide to reporting on Principal 4.

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<u>Establishment of Audit Committee</u>

MGT Resources Limited does not comply with Recommendation 4.1 regarding the establishment of an audit committee. The Board will, however, continue to monitor the requirements of this recommendation in the context of the Company's prevailing position and circumstances.

Reflecting the relative small size of the company, the full Board remain responsible for:

- review of the annual and half yearly financial reporting carried out by MGT Resources Limited;
- review of the accounting policies of MGT Resources Limited;
- review the scope and audit programmes of the internal and external auditors and any material issues arising from these audits;
- oversee the independence of external auditors and determining procedures for the rotation of audit partners; and
- report to the Board on the effectiveness of MGT Resources Limited's systems of accounting and internal controls.
- the sufficiency of, and compliance with, ethical guidelines and company policies affecting corporate governance, financial reporting and corporate control together with compliance with laws and external regulations;
- identification of the full range of actual or potential risk exposures which are material to MGT Resources Limited; and
- the effectiveness of the group's risk management systems and strategies.

Engagement & Rotation of External Auditor
In the absence of an audit committee, the full Board is responsible for nominating the external auditor to the Board for re-appointment. If the Board recommends a change in external auditor, the Board's nomination of external auditor requires the approval of shareholders.

The Board meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit.

It has been determined by the Board that the external auditor will not provide services to the company where the auditor would:

- have a mutual or conflicting interest with the company;
- be in a position where they audit their own work;
- function as management of the Company; or
- have their independence impaired or perceived to be impaired in any way.

Specifically, the external auditor will not normally provide the following types of services to the Company:

- bookkeeping or other services relating to the accounting records or financial statements of the Group;
- financial information or information technology systems design and implementation;
- appraisal and valuation services, fairness opinions or contributions-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions, including temporary staff assignments or human resource services, including recruitment of senior management;
- broker or dealer services, investment advisor, corporate finance or investment banking services; and
- legal and litigation support services.

Procedures are in place governing approval of any non-audit work before the commencement of any engagement.

The Board has elected to adopt a policy which is consistent with the primary and secondary rotation obligations regarding auditors such that:

- the lead or review audit partner's responsibilities may not be performed by the same person for longer than five (5) successive years ("primary rotation obligation"); and
- the lead or review audit partner's responsibilities may not be performed by the same person for more than five (5) out of seven (7) successive years ("secondary rotation obligation").

In addition, the Board requires a minimum of two (2) consecutive years "cooling off" period before an auditor undergoing rotation can return to playing a significant role in the audit of the Company.

Ms Rosemary Megale of Duncan Dovico was the lead audit partner for MGT Resources Limited for the period ended 30 June 2011.

**Principle 5: Make timely and balanced disclosure.** ✓

Companies should promote timely and balanced disclosure of all material matters concerning the company

**Recommendation 5.1:** ✓

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

**Recommendation 5.2:** ✓

Companies should provide the information indicated in the Guide to reporting on Principle 5

Policies & procedures regarding disclosure requirements

The MGT Resources Limited Board is committed to keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Comprehensive procedures are in place to identify matters that are likely to have a material effect on the price, or value, of the MGT Resources Limited securities and to ensure those matters are notified to the NSX in accordance with NSX Listing Rule disclosure requirements.

Senior management and the Board are responsible for scrutinising events and information to determine whether the disclosure of the information is required in order to maintain the market integrity of the Company's shares listed on the NSX.

The Company Secretary is responsible for all communications with the NSX.

**Principle 6: Respect the rights of shareholders.** ✓

Companies should respect the rights of shareholders and facilitate the effective
of those rights

**Recommendation 6.1:** ✓

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

**Recommendation 6.2:** ✓

Companies should provide the information indicated in the Guide to reporting on Principle 6.

In addition to complying with continuous disclosure obligations, MGT Resources Limited is committed to ensuring that shareholders are kept informed in other ways.

Shareholder Communication Policy

MGT Resources Limited recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the Company.

MGT Resources Limited is committed to:

- dealing fairly, transparently and openly with both current and prospective shareholders;
- the use of available channels and cost effective technologies to reach shareholders who may be geographically dispersed and in order to communicate promptly with all shareholders; and
- facilitating participation in shareholders meetings and dealing promptly with shareholder enquiries.

MGT Resources Limited communicates information to shareholders through:

- the annual report;
- disclosures to the NSX and ASIC;
- notices and explanatory memoranda of annual general meetings and general meetings;
- occasional letters from the Chairman/MD to inform shareholders of key matters of interest; and
- the Company's website on the internet at www.mgt.net.au

The Board encourages active participation by shareholders at each Annual General Meeting, or other general meetings, to ensure a high level of accountability and understanding of MGT Resources Limited 's strategy, performance and goals.

Consistent with best practice, important issues are presented to shareholders as single resolutions expressed in plain, unambiguous language. Proceedings are held in a locality, and at a readily accessible venue, conducive to maximising the number of shareholders present, and able to participate, at the meeting. Shareholders are provided with opportunities of asking the Board questions regarding the management of the Company.

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**Principle 7: Recognise and manage risk** ✓

Companies should establish a sound system of risk oversight and management and internal control

**Recommendation 7.1:** ✓

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

**Recommendation 7.2:** ✓

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

**Recommendation 7.3:** ✓

The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

**Recommendation 7.4:** ✓

Companies should provide information indicated in the Guide to reporting on Principle 7.

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Oversight and Management of Material Business Risks

The Board of MGT Resources Limited:

- recognise that effective management of risk is an integral part of good management and vital to the continued growth and success of MGT Resources Limited;
- is responsible for the oversight of the group's risk management and control framework including the development of risk profiles as a part of the overall business and strategic planning process; and
- has implemented a policy framework designed to ensure that the group's risks are identified, analysed, evaluated, monitored, and communicated within the organisation on an on-going basis, and that adequate controls are in place and functioning effectively.

The MGT Resources Limited risk management and control policy framework incorporates the maintenance of appropriate policies, procedures and guidelines which address the Company's unique operating environment and is utilised by the Board as a means of identifying opportunities and avoiding or mitigating losses in the context of its businesses.

In the absence of an Audit Committee, the Board assumes its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

The Managing Director has ultimate responsibility for control and management of operational risk and the implementation of avoidance or mitigation measures within the group and may delegate control of these risks to the appropriate level of management at each site.

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key performance measures. The Board also receives and reviews advice on areas of operational and financial risk and develops strategies, in conjunction with management, to mitigate those risks.

Each month, a report is presented to the Board by the Managing Director. The reports encompass matters including actual financial performance against budgeted forecasts, workplace health and safety, legal compliance, corporate governance, strategy, quality assurance and standards, human resources, industry and market information, operational developments and environmental conformance. Reports are prepared and submitted on a monthly basis by the Chief Financial Officer in relation to the overall financial position and performance of the Company. In addition to formalised written reporting procedures, the Board is regularly briefed by the Managing Director on emerging or developed trends in market and operational conditions having the potential to impact on the performance of the group.

Management has reported to the Board on the effectiveness of the Company's management of its material business risks in respect of the year ended 30 June 2010. This report was undertaken in accordance with the process outlined in this Statement.

MD & CFO Assurance

The Managing Director and Chief Financial Officer of MGT Resources Limited report annually in writing to the Board that:

- consolidated financial statements of MGT Resources Limited and its controlled entities for each subsequent half year and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with accounting standards; and

- declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received assurance from the Managing Director and the Chief Financial Officer equivalent under Recommendation 7.3 in respect of the year ended 30 June 2011. This assurance was provided in accordance with the process outlined in this Statement.

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**Principle 8: Remunerate fairly and responsibly** ✓
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

**Recommendation 8.1:** X
The board should establish a remuneration committee.

**Recommendation 8.2:** ✓
Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

**Recommendation 8.3:** ✓
Companies should provide the information indicated in the Guide to reporting on Principle 8.

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<u>Establishment of Remuneration Committee</u>
MGT Resources Limited has elected not to adopt Recommendation 8.1 because it considers that its existing remuneration practices, detailed within this Statement, are an efficient means of meeting the needs of the company, particularly having regard to the fact that MGT Resources Limited is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, board and management structure and composition.

The MGT Resources Limited Board currently consists of only five (5) members. It is considered that further division of the Board for the purposes of establishing a formal remuneration committee structure would not achieve enhanced efficiency or enable the Board to add greater value to this process.

The small size of the MGT Resources Limited Board, the nature of its business and its management structure, means that MGT Resources Limited has the present capacity of giving due consideration to the overall remuneration policies and strategies of the company during the conduct of its regular board meetings and by appropriate recourse to relevant market data and, where applicable, to external executive remuneration consultants.

<u>Executive director & Non-executive director remuneration</u>
The aggregate remuneration of non-executive directors is approved by shareholders.

Individual directors' remuneration is determined by the board within the approved aggregate total. In determining the appropriate level of director's fees, data from surveys undertaken of other public companies similar in size or market section to MGT Resources Limited is taken into account.

Non-executive directors of MGT Resources Limited are:

- not entitled to participate in performance based remuneration practices unless approved by shareholders; and
- currently remunerated by means of the payment of cash benefits in the form of directors’ fees.

MGT Resources Limited does not currently have in place a retirement benefit scheme or allowance for its non-executive directors.

A review of the compensation arrangements for the Managing Director and Senior Executives is conducted by the full Board at a duly constituted Directors' Meeting. The review is performed annually and is based on criteria including the individual's performance, market rates paid for similar positions and the results of the Company during the relevant period.

The broad remuneration policy objective of MGT Resources Limited is to ensure that the emoluments provided properly reflect the person’s duties and responsibilities and is designed to attract, retain and motivate executives of the highest possible quality and standard to enable the organisation to succeed.

MGT Resources Limited is committed to making timely disclosure of all relevant information relating to its remuneration practices and policies in the context of its reporting obligations in the corporate governance statement, in its annual report, and pursuant to continuous disclosure requirements.

<u>Policy Disclosure</u>
The Company’s policies relating to the remuneration of Directors and Senior Executives and the level of their remuneration are detailed in the Directors’ Report contained within the MGT Resources Limited 2011 Annual Report and Notes to and forming part of the 2011 Financial Statements.

**AUDITORS' INDEPENDENCE DECLARATION**

In accordance with section 307C of the Corporations Act 2001, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit

This declaration is in respect of MGT Resources Limited and its controlled entities during the period.

DUNCAN DOVICO CHARTERED ACCOUNTANTS

R. Megale

ROSEMARY MEGALE
PARTNER
Dated in Sydney, this 28th day of September 2011

DUNCAN DOVICO PTY LIMITED
CHARTERED ACCOUNTANTS
LEVEL 12, 90 ARTHUR STREET, NORTH SYDNEY NSW 2060 • PO BOX 1994, NORTH SYDNEY NSW 2059
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| | Note | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|---|
| Revenue | 4 | 25,049 | 70,736 |
| Other income | 5a | 47,523 | 38,128 |
| Employee benefits expense | | (547,586) | (235,183) |
| Depreciation and amortisation expense | | (80,966) | (65,309) |
| Interest expense | | (54,067) | (5,402) |
| Administration expense | | (359,918) | (275,073) |
| Other expenses | 5b | (657,281) | (328,237) |
| Loss before tax | | (1,627,246) | (800,340) |
| Income tax expense/(benefit) | | - | - |
| Loss for the year | | (1,627,246) | (800,340) |
| **Other comprehensive income** | | | |
| Available-for-sale financial assets | | (40,936) | (58,751) |
| **Total comprehensive income for the year** | | (1,668,182) | (859,091) |
| Attributable to: | | | |
| Equity holders of the parent | | (1,380,606) | (769,698) |
| Non-controlling interest | | (287,576) | (89,393) |
| | | (1,668,182) | (859,091) |
| **Earnings per share** | | | |
| Basis (cents per share) | 17 | (1.26) | (1.40) |
| Diluted (cents per share) | 17 | (1.26) | (1.40) |

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

| | Note | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 20(a) | 2,644,364 | 959,126 |
| Trade and other receivables | 7 | 149,993 | 273,574 |
| Other financial assets | 8 | 144,000 | 209,936 |
| **Total current assets** | | 2,938,357 | 1,442,636 |
| **Non-current assets** | | | |
| Exploration and evaluation expenditure | 9 | 3,845,068 | 3,332,086 |
| Plant & Equipment | 10 | 3,313,471 | 1,706,656 |
| **Total non-current assets** | | 7,158,539 | 5,038,742 |
| **Total assets** | | 10,096,896 | 6,481,378 |
| **Total liabilities** | | | |
| Trade and other payables | 11 | 368,405 | 331,733 |
| Borrowings | 12 | 924,646 | 51,843 |
| Provisions | 13 | 53,687 | 41,306 |
| **Total current liabilities** | | 1,346,738 | 424,882 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 21,796 | 482,431 |
| Provisions | 13 | 4,427 | 3,171 |
| **Total non-current liabilities** | | 26,223 | 485,602 |
| **Total liabilities** | | 1,372,961 | 910,484 |
| **Net assets** | | **8,723,935** | **5,570,894** |
| **Equity** | | | |
| Issued capital | 14 | 9,076,237 | 4,252,508 |
| Reserves | 15 | (92,087) | (51,151) |
| Retained earnings | 16 | (537,152) | 802,518 |
| Non-controlling interest | | 276,937 | 567,019 |
| **Total equity** | | **8,723,935** | **5,570,894** |

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

**Consolidated**

| | Fully paid ordinary shares $ | Retained Earnings $ | Revaluation Reserve $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2010** | **4,252,508** | **802,518** | **(51,151)** | **567,019** | **5,570,894** |
| **Total comprehensive income for the year** | - | (1,339,670) | (40,936) | (287,576) | (1,668,182) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Contributions of equity, net of transaction costs and tax | 4,823,729 | - | - | - | 4,823,729 |
| Business combination | - | - | - | (2,506) | (2,506) |
| **Balance at 30 June 2011** | **9,076,237** | **(537,152)** | **(92,087)** | **276,937** | **8,723,935** |

| | Fully paid ordinary shares $ | Retained Earnings $ | Revaluation Reserve $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2009** | 3,255,092 | 1,513,465 | 7,600 | 715,784 | 5,491,941 |
| **Total comprehensive income for the year** | - | (710,947) | (58,751) | (89,393) | (859,091) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Contributions of equity, net of transaction costs and tax | 997,416 | - | - | - | 997,416 |
| Business combination | - | - | - | (59,372) | (59,372) |
| **Balance at 30 June 2010** | **4,252,508** | **802,518** | **(51,151)** | **567,019** | **5,570,894** |

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

| | Note | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (1,465,395) | (868,545) |
| Interest received | | 25,049 | 70,736 |
| Interest paid | | (54,067) | - |
| Net cash provided by/(used in) operating activities | 20(b) | (1,494,413) | (797,809) |
| **Cash flows from investing activities** | | | |
| Payment for investment in subsidiary | | (2,506) | (50,000) |
| Proceeds from sale of investment | | 92,826 | 328,602 |
| Payment for investment in shares | | (20,303) | (526,934) |
| Payment for property, plant & equipment | | (512,982) | (833,199) |
| Payments for exploration costs | | (1,687,781) | (1,221,122) |
| Net cash provided by/(used in) investing activities | | (2,130,746) | (2,302,653) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of equity securities | | 4,823,729 | 997,416 |
| Proceeds from borrowings – related parties | | 498,983 | 400,000 |
| Proceeds from borrowings | | - | 89,794 |
| Repayment of borrowings – related parties | | (3,039) | - |
| Lease payments | | (9,276) | (8,313) |
| Net cash provided by/(used in) financing activities | | 5,310,397 | 1,478,897 |
| **Net (decrease)/increase in cash and cash equivalents** | | 1,685,238 | (1,621,565) |
| **Cash at the beginning of the financial year** | | 959,126 | 2,580,691 |
| **Cash at the end of the financial year** | 20(a) | 2,644,364 | 959,126 |

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

## 1. Summary of significant accounting policies

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the group comply with international financial reporting standards.

### (a) Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

*Critical accounting estimates and judgements*
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are:

<u>Exploration and evaluation assets</u>
The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily required management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

<u>Estimated useful lives of assets</u>
The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties. In addition, the condition of assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MGT Resources Limited (''company'' or ''parent entity'') as at 30 June 2011 and entities controlled by the company for the year then ended. MGT Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

**Principles of consolidation (Continued)**

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

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

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of MGT Resources Limited.

**(c) Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minorities proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**(e) Income tax**

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**Income tax (Continued)**

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**(f) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

**(g) Financial assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**Financial assets (Continued)**

Loans and receivables
Trade receivables, loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

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

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

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

Impairment of financial assets

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

**Financial assets (Continued)**

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

**(h) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, which the effect of any changes recognised on a prospective basis.

The following useful lives are used in the calculation of depreciation:

- Office equipment 3 - 10 years
- Mine infrastructure 20 years
- Motor Vehicle 5 – 8 years

**Property, plant and equipment (Continued)**

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

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

**(i) Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**(j) Impairment of assets**

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**(k) Exploration and evaluation of assets**

Exploration and evaluation expenditure in relation to each separate area of interest are recognised as an exploration asset in the year in which they are incurred where the following conditions are satisfied:

(i) The rights to tenure of the area of interest are current; and
(ii) At least one of the following conditions is also met:
  (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

**Exploration and evaluation of assets (Continued)**

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. General and administrative costs are allocated to, and included in, the cost of an exploration and evaluation asset, but only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation asset relates.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation of asset may exceed its recoverable amount.

**(l) Trade and other payables**

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

**(m) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

**Borrowings (Continued)**

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(n) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Site Restoration

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites and restoring the affect areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date based on current legal and other requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

At financial year end, the company was in the evaluation stage, and no development had taken place. The Directors have determined that no provision for site restoration and rehabilitation is required at this time.

**(o) Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

**(p) Contributed equity**

Ordinary shares are classified as equity.

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

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

**(q) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) Where the amount of GST incurred is not recoverable from the taxation authority. It is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Or
(ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

All cash outflows in respect of GST, including payments to suppliers and employees, payments for exploration and evaluation, property, plant and equipment, and payments for exploration inventory are included in payments to suppliers and employees from operation activities.

All cash inflows in respect of GST, including receipts from customers and receipts of GST paid by the company and subsequently refunded by taxation authorities are included in receipts from customers from operating activities.

All cash flows from investing activities and from financing activities are net of GST as all associated GST cash flows are included in operating activities.

**(r) New accounting standards and interpretations but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June2011 reporting periods. The Group has assessed the impact of these new standards and interpretations on the financial report and has concluded that there will no material effect.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the company's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. However there will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011). In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. A company will have to apply the amended standard from 1 July 2011. When the amendments are applied, the company will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011) Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. A company will have to apply the amendment from 1 July 2011.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)
In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. A company will have to apply the amendment from 1 July 2012.

**(s) Going Concern**

The financial statements are prepared on a going concern basis, which contemplates the continuation of normal business activity and the realisation of assets and liabilities in the normal course of business.

As at 30 June 2011 the consolidated entity incurred a net loss after tax of $1,627,246 and cash outflows from operating and investing activities of $3,625,159. The ability of the company to continue as a going concern and to pay their debts as and when they due is dependent on the consolidated entity's ability to raise additional funds through either debt financing or capital raising arrangement. Further, the Directors have the ability to reduce discretionary expenditure such that the impact on cash outflows is minimised whilst maintaining key operational activities.

Having regard to the above, the Directors have a reasonable expectation that the entity will have adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparation of the accounts.

## 2. Financial Risk Management

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

The Group hold the following financial instruments:

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **Financial Assets** | | |
| Cash & cash equivalents | 2,644,364 | 959,126 |
| Trade & other receivables | 149,993 | 273,574 |
| Other financial assets | 144,000 | 209,936 |
| | **2,938,357** | **1,442,636** |
| **Financial Liabilities** | | |
| Trade & other payable | 368,405 | 331,733 |
| Interest bearing liabilities | 521,959 | 534,274 |
| | **890,364** | **866,007** |

**Financial Risk Management (Continued)**

**(a) Market Risk**

i. *Foreign exchange risk*

*Consolidated Group Sensitivity – foreign exchange risk*

The consolidated entity has no foreign currency exposure risk as at reporting date.

ii. *Price Risk*

The consolidated group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet either as available-for-sale or at fair value through profit or loss. The consolidated group is not exposed to commodity price risk.

The majority of the group's equity investments are publicly traded on the Australian NSX and the Canadian stock exchange.

The table below summarises the impact of increase/decrease of these two indexes on the Group's post-tax loss for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according the historical correlation with the index.

| Index | Impact on post-tax loss | | Impact on other components of equity | |
|---|---|---|---|---|
| | Consolidated | Consolidated | Consolidated | Consolidated |
| | 2011<br>$ | 2010<br>$ | 2011<br>$ | 2010<br>$ |
| Increase 10% (9%) | - | - | 14,400 | 8,741 |
| Decrease 10 % (6%) | - | - | (14,400) | (5,827) |

**Financial Risk Management (Continued)**

iii. *Interest rate risk*

The consolidated group's exposure to interest rate risk is summarised in the table below:

| | Weighted Average Effective Interest Rate | Non Interest Bearing | Floating Interest | Fixed Interest Rate | Total |
|---|---|---|---|---|---|
| | 2011<br>% | 2011<br>$ | 2011<br>$ | 2011<br>$ | 2011<br>$ |
| *Financial Assets* | | | | | |
| Bank | 0.89% | $495,128 | $2,005,512 | 142,290 | **2,642,930** |
| *Financial liabilities* | | | | | |
| Lease liabilities | 11.87% | | | 121,959 | **121,959** |
| Borrowings | 4% | 424,483 | | 400,000 | **824,483** |

| | Weighted Average Effective Interest Rate | Non Interest Bearing | Floating Interest | Fixed Interest Rate | Total |
|---|---|---|---|---|---|
| | 2010<br>% | 2010<br>$ | 2010<br>$ | 2010<br>$ | 2010<br>$ |
| *Financial Assets* | | | | | |
| Bank | 4.31% | 483,510 | 824,126 | 135,000 | **1,442,636** |
| *Financial liabilities* | | | | | |
| Lease liabilities | 10.99% | 331,733 | - | 134,274 | **466,007** |
| Borrowings | 8% | | | 400,000 | **400,000** |

*Consolidated Group Sensitivity – interest rate risk*

The following sensitivity analysis has been based on the interest rate risk exposures in existence at 30 June 2011, had the variable interest rate on cash balances increased by 100 basis points and decreased by 50 basis points. The effect is calculated on year end balances and the impact on pre tax loss is outlined below.

| | 30 June 2011 | 30 June 2010 |
|---|---|---|
| | $ | $ |
| Consolidated | | |
| + 1% (100 basis points) | 21,478 | 9,591 |
| -.5 % (50 basis points) | 10,709 | 4,796 |

**Financial Risk Management (Continued)**

**(b) Credit Risk**

Credit risk is managed on a group basis and reviewed regularly. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, including outstanding receivables and committed transactions.

As at 30 June 2011 there were no trade receivable balances.

Credit risk from balances with banks and financial institutions is regularly monitored and reviewed by The Board. No material exposure is considered to exist as the consolidated group's policy is to invest its cash and cash equivalents with financial institutions having a credit rating of at least AAA.

| | Consolidated | Consolidated |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| Cash at bank and short-term bank deposits | 2,644,364 | 959,126 |

**(c) Liquidity Risk**

Liquidity risk arises from the possibility that there will be sufficient funds available to make payment as and when required. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

*Maturities of financial liabilities*

The tables below analyses the consolidated Group's and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| 30 June 2011 | Less than 6 months | 6-12 months | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Non interest bearing* | | | | | | |
| Accounts payables | 227,767 | - | - | - | - | 227,767 |
| *Fixed rate* | | | | | | |
| Lease liabilities | 49,958 | 50,206 | 21,796 | - | - | 121,960 |
| Borrowings | 424,483 | 400,000 | - | - | - | 824,483 |

**Financial Risk Management (Continued)**

| 30 June 2010 | Less than 6 months | 6-12 months | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Non interest bearing* | | | | | | |
| Accounts payables | 331,733 | - | - | - | - | 331,733 |
| *Fixed rate* | | | | | | |
| Lease liabilities | 26,175 | 25,669 | 77,773 | 4,657 | - | 134,274 |
| Borrowings | | | 400,000 | - | - | 400,000 |

**(d) Fair value of financial instruments**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements were stated at approximate their fair values.

**3. Segment information**

The Group operates predominantly in one business segment and one geographical segment being the mining industry in Australia. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

No revenue from this activity has been earned to date as the Group is still in the exploration and evaluation stage.

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **4. Revenue** | | |
| An analysis of the Group's revenue for the year is as follows: | | |
| Interest revenue: | 25,049 | 70,736 |
| | | |
| **5. Loss for the year before tax** | | |
| **(a) Gains and losses** | | |
| Loss for the year has been arrived at after crediting the following gains and losses: | | |
| Gain on disposal of investment | 47,523 | 28,755 |
| Gain on acquisition of subsidiary | - | 9,373 |
| | 47,523 | 38,128 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|

## 6. Loss for the year before tax (Continued)

### (b) Other expenses

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Vehicle and Freight Costs | 63,091 | 36,663 |
| Repairs and Maintenance Costs | 40,261 | 58,589 |
| Travel Expense | 60,334 | 63,194 |
| Legal and Professional Expense | 231,402 | 133,264 |
| Other Expenses | 262,193 | 36,527 |
| | 657,281 | 328,237 |

## 7. Income taxes

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Tax expense/(income) comprises: | | |
| Current tax expense/(income) in respect of the current year | - | - |

(a) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Loss before income tax | (1,339,670) | (800,340) |
| Income tax expense calculated at 30% | (401,901) | (240,102) |
| Effect of expenses that are not deductible in determining taxable profit | | |
| Accounting gain on acquisition | - | (2,812) |
| Non-deductible items | 146 | 1,709 |
| Unrecognised losses and timing differences | (98,697) | (312,732) |
| | (500,452) | (553,937) |
| Net adjustment to deferred tax assets and liabilities for tax losses and temporary difference not recognised | 500,452 | 553,937 |
| | - | - |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| (b) Unused tax losses for which no deferred tax assets has been recognised | 5,266,329 | 5,612,207 |
| Temporary differences for which no deferred tax liability has been recognised: | | - |
| - Exploration expenditure | (3,845,068) | (3,332,086) |
| | 1,421,261 | 2,280,121 |
| Potential tax benefit at 30% | 426,378 | 684,036 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|

## 8. Trade and other receivables

| | | |
|---|---|---|
| Prepayments | 28,136 | 58,428 |
| Other receivables | 38,249 | - |
| Loan to related party | - | 74,500 |
| GST refund | 83,608 | 140,646 |
| | 149,993 | 273,574 |

## 9. Other financial assets

Available for sale investments carried at fair value:

| | | |
|---|---|---|
| Current | | |
| Shares | 144,000 | 209,936 |
| | 144,000 | 209,936 |

## 10. Exploration and evaluation expenditure

Costs carried forward in respect of areas of interest in the exploration and evaluation phase:

| | | |
|---|---|---|
| Balance at the beginning of the year | 3,332,086 | 2,110,964 |
| Expenditure incurred during the year | 512,982 | 1,221,122 |
| Balance at the end of the year | 3,845,068 | 3,332,086 |

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation of asset may exceed its recoverable amount. The ultimate recoverability of exploration and evaluation expenditure is dependent upon the successful development or sale.

## 11. Plant and Equipment

| | Office Equipment $ | Mine infrastructure $ | Motor Vehicle $ | Total $ |
|---|---|---|---|---|
| **At 30 June 2011** | | | | |
| Cost or fair value | 281,174 | 3,035,694 | 168,572 | 3,485,440 |
| Accumulated depreciation | (64,871) | (42,017) | (65,081) | (171,969) |
| Net book value | 216,303 | 2,993,677 | 103,491 | 3,313,471 |
| **Year ended 30 June 2011** | | | | |
| Balance at the beginning of the financial year: | 63,151 | 1,509,715 | 133,790 | 1,706,656 |
| Additions | 192,202 | 1,495,579 | - | 1,687,781 |
| Depreciation expense | (39,050) | (11,617) | (30,299) | (80,966) |
| Balance at the end of the financial year | 216,303 | 2,993,677 | 103,491 | 3,313,471 |

| | Office Equipment $ | Mine infrastructure $ | Motor Vehicle $ | Total $ |
|---|---|---|---|---|
| **At 30 June 2010** | | | | |
| Cost or fair value | 88,972 | 1,540,115 | 168,572 | 1,797,659 |
| Accumulated depreciation | (25,821) | (30,400) | (34,782) | (91,003) |
| Net book value | 63,151 | 1,509,715 | 133,790 | 1,706,656 |
| **Year ended 30 June 2010** | | | | |
| Balance at the beginning of the financial year: | 30,601 | 839,013 | 69,152 | 938,766 |
| Additions | 43,241 | 698,291 | 91,667 | 833,199 |
| Depreciation expense | (10,691) | (27,589) | (27,029) | (65,309) |
| Balance at the end of the financial year | 63,151 | 1,509,715 | 133,790 | 1,706,656 |

## 12. Trade and other payables

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Trade payables | 227,767 | 260,155 |
| Other payables | 83,355 | 36,578 |
| Accrued expenses | 57,283 | 35,000 |
| | 368,405 | 331,733 |

| | | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|---|
| **13. Borrowings** | | | |
| Current | | | |
| Related party loan | (i) | 424,483 | - |
| Convertible note | (ii) | 400,000 | - |
| Finance lease liabilities | (iii) | 35,204 | 9,275 |
| Commercial loan | (iv) | 39,335 | 42,568 |
| Other loan | (v) | 25,624 | - |
| | | 924,646 | 51,843 |
| Non-current | | | |
| Convertible note | (ii) | - | 400,000 |
| Finance lease liabilities | (iii) | - | 35,205 |
| Commercial loan | (iv) | 21,796 | 47,226 |
| | | 21,796 | 482,431 |

(i) During the year an interest free loan of $424,483 was made from the Director to the parent entity, MGT Resources Limited. The loan was fully repaid on 31 July 2011. (Refer to Note 19b).

(ii) The parent entity, MGT Resources Limited issued convertible notes with a principal amount of $400,000 and a term of 2 years at 9% interest on 29 June 2010. The notes are convertible into 6,400,000 ordinary shares in the parent entity. The convertible note holder has confirmed that it will not call upon payment of the principal sum and is expected to convert prior to 29 June 2012. (Refer to Note 19c and Note 24).

(iii) The chattel mortgage is secured by way of a fixed charge over a motor vehicle of MGT Resources Limited. The charge was registered on 3 July 2009 and is in favour of Mercedes-Benz Financial Services Australia Pty Ltd.

(iv) A commercial loan was entered into on 17 July 2009. The term of the loan prescribe a fixed repayment period of 37 months and interest of 10.99% per annum. The loan is secured by the entity's fixed assets.

(v) Insurance funding secured by way of a fixed charge over the term of the insurance taken by MGT Resources Limited. The applicable weighted average interest rate is 7.65%.

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **14. Provisions** | | |
| Current | | |
| Employee benefits | 53,687 | 41,306 |
| Non -Current | | |
| Employee benefits | 4,427 | 3,171 |
| Disclosed in the financial statements as: | | |
| Current provisions | 53,687 | 41,306 |
| Non-current provisions | 4,427 | 3,171 |
| | 58,114 | 44,477 |

**15. Issued capital**

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| (a) Share capital | | |
| 259,635,040 fully paid ordinary shares (2010: 52,750,426) | 9,248,096 | 4,333,096 |
| Capital raising costs | (171,859) | (80,588) |
| | 9,076,237 | 4,252,508 |

| | No. of shares | Issue price | No. of shares |
|---|---|---|---|
| (b) Movements in ordinary share capital | | | |
| 1 July 2010 Opening balance | 52,750,426 | | 48,750,426 |
| January 2010 Issues of shares | - | | 4,000,000 |
| October 2010 Issues of shares | 6,800,000 | $0.25 | - |
| March 2011 4 for 1 Share split | 178,651,278 | - | - |
| April 2011 Issues of shares | 1,085,332 | $0.15 | - |
| May 2011 Issues of shares | 120,000 | $0.15 | - |
| June 2011 Issues of shares | 20,228,004 | $0.15 | - |
| Total: | 259,635,040 | | 52,750,426 |

**16. Revaluation Reserves**

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of financial year | (51,151) | 7,600 |
| Revaluation decrements | (40,936) | (58,751) |
| Balance at end of financial year | (92,087) | (51,151) |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **17. Retained earnings** | | |
| Balance at beginning of financial year | 802,518 | 1,513,465 |
| Net loss attributable to members of the parent entity | (1,339,670) | (710,947) |
| Balance at end of financial year | (537,152) | 802,518 |
| **18. Earnings per share** | Cents per share | Cents per share |
| Basis earning per share | (1.26) | (1.40) |
| Diluted earnings per share | (1.26) | (1.40) |
| **Basis earning per share** | **$** | **$** |
| The earning and weighted average number of ordinary share used in the calculation of basis earning per share are as follows: | | |
| Net loss | (1,339,670) | (710,947) |
| Earning used in the calculation of basic EPS from continuing operations | (1,339,670) | (710,947) |
| | **No.** | **No.** |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 106,517,047 | 50,784,289 |
| **Diluted earnings per share** | **$** | **$** |
| The earning and weighted average number of ordinary share used in the calculation of diluted earning per share are as follows: | | |
| Net loss | (1,339,670) | (710,947) |
| Earning used in the calculation of diluted EPS from continuing operations | (1,339,670) | (710,947) |
| | **No.** | **No.** |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 106,517,047 | 50,784,289 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **19. Commitments** | | |
| (a) Chattel Mortgage | | |
| Chattel Mortgage related to motor vehicle with lease term of 3 years. | | |
| No later than 1 year | 74,540 | 13,709 |
| Later than 1 year and not later than 5 years | 21,796 | 38,566 |
| Later than five years | - | - |
| Minimum future lease payments | 96,336 | 52,275 |
| Less future finance charges | (6,750) | (7,795) |
| Present value of minimum lease payments | 89,586 | 44,480 |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Disclosed in the financial statements as borrowing: | | |
| - Current | 74,540 | 9,275 |
| - Non current | 21,796 | 35,205 |
| | 96,336 | 44,480 |
| (b) Non-cancellable operating leases | | |
| Operation leases related to office rented with an option to extend. | | |
| No later than 1 year | 38,542 | 16,560 |
| Later than 1 year and not later than 5 years | 134,579 | - |
| Later than five years | - | - |
| | 173,121 | 16,560 |
| (c) Capital commitments | | |
| Property, plant and equipment payables: | | |
| No later than 1 year | 26,780 | 63,201 |
| Later than 1 year and not later than 5 years | - | - |
| Later than five years | - | - |
| | 26,780 | 63,201 |

## 20. Related party transactions

### (a) Subsidiaries

| Name of subsidiary | Country of incorporation | Ownership interest 2011 % | Ownership interest 2010 % |
|---|---|---|---|
| MGT Mining Limited (i) | Australia | 75.33% (iii) | 75.24% |
| Garimperos Pty Limited (ii) | Australia | 100.00% | 100.00% |

(i) Xtreme Resources Limited has changed its name to MGT Mining Limited as at 20 September 2010.
(ii) Garimperos Pty Limited is 100% owned by MGT Mining Limited.
(iii) During the financial year, MGT Resources Limited acquired an additional 0.09% of the issued shares of MGT Mining Limited for a purchase consideration of $2,506.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in Note 24.

### (c) Transactions with related parties

| | | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|---|
| **Loan to directors** | | | |
| Beginning of the year | | - | - |
| Loan advanced | | 74,500 | 108,000 |
| Loan repayments received | | (74,500) | (33,500) |
| Interest charged | | - | - |
| End of the year | | - | 74,500 |
| **Loan from directors** | | | |
| Beginning of the year | | 400,000 | - |
| Loan advanced | | 424,483 | 400,000 |
| Interest charged | (i) | 36,000 | - |
| End of the year | | 860,483 | 400,000 |

(i) The interest is charged at 9% per annum with $36,000 interest charged for this financial year (Refer to Note 12).

## 21. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents included cash on hand and in bank. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Cash and cash equivalents | 2,644,364 | 959,126 |
| | 2,644,364 | 959,126 |

(b) Reconciliation of profit for the period to net cash flows from operating activities

| | | |
|---|---|---|
| Loss for the year | (1,627,246) | (800,340) |
| <u>Non-cash flow items</u> | | |
| Gain on sale of shares | (47,523) | (28,755) |
| Gain on acquisition of subsidiary | - | (9,373) |
| Depreciation expense | 80,966 | 65,309 |
| (Increase)/Decrease in current receivables | 49,082 | (225,784) |
| Increase in trade creditors | 36,673 | 245,502 |
| Decrease in other creditors | - | (80,998) |
| Increase in Provisions | 13,637 | 36,630 |
| Net cash from operating activities | (1,494,413) | (797,809) |

## 22. Parent entity disclosure

(a) Financial position

| | 2011 $ | 2010 $ |
|---|---|---|
| **Assets** | | |
| Current assets | 6,774,481 | 2,134,794 |
| Non-current assets | 2,162,000 | 2,164,741 |
| Total assets | **8,936,481** | **4,299,535** |
| **Liabilities** | | |
| Current liabilities | 957,651 | 205,372 |
| Non-current liabilities | 1,804 | 438,376 |
| Total liabilities | **959,455** | **643,748** |
| **Equity** | | |
| Issued equity | 9,076,237 | 4,252,508 |
| Retained earning | (1,007,124) | (545,570) |
| **Reserve** | | |
| Investment revaluation | (92,087) | (51,151) |
| Total equity | **7,977,026** | **3,655,787** |

**Parent entity disclosure (Continued)**

(b) Financial performance

| | 2011 $ | 2010 $ |
|---|---|---|
| Loss for the year | (461,554) | (448,677) |
| Other comprehensive income | (40,936) | (58,751) |
| Total comprehensive income | **(502,490)** | **(507,428)** |

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| **23. Auditors remuneration** | | |
| Audit services | | |
| Audit and review of financial reports | 35,000 | 35,000 |

## 24. Share-based payments

### (a) Employee share option plan

The Group has an ownership-based compensation scheme for executives and senior employees. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, executives and senior employees may be granted options to purchase ordinary shares at various exercise prices.

Each employee share option converts into one ordinary share of MGT Resources Ltd on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the current and prior reporting periods:

| **Option series** | Number | Grant date | Expiry date | Exercise price |
|---|---|---|---|---|
| (1) Granted 29 June 2010 | 11,000,000 | 29/6/2010 | 29/6/2013 | $0.0125 |
| (2) Granted 29 June 2010 | 3,000,000 | 29/6/2010 | 29/6/2013 | $0.0100 |
| (3) Granted 14 June 2011 | 250,000 | 14/6/2011 | 14/6/2014 | $0.0250 |

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 30 June 2010 and 30 June 2011, vest at the date of their issue.

**Movements in share options during the year**

The following reconciles the share options outstanding at the beginning and end of the year:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | No. of options | Weighted average exercise price $ | No. of options | Weighted average exercise price $ |
| Balance at beginning of year | 3,625,000 | 0.5666 | 3,500,000 | 0.4800 |
| Granted during the year | 250,000 | 0.2500 | 125,000 | 1.0000 |
| Granted via 4 for 1 share split | 10,875,000 | 0.1416 | - | - |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Balance at end of the year | 14,750,000 | - | 3,625,000 | 0.5666 |
| Exercisable at end of year | 14,750,000 | 0.1571 | 3,625,000 | 0.5666 |

## 25. Key management personnel disclosures

**Details of key management personnel**
The directors and other members of key management personnel of the Group during the year were:

| Name | Position | Date |
|---|---|---|
| J. Back | Chairman & Executive Director | Appointed 1 Feb 2010 |
| | Non-executive Director | Appointed 4 Sept 2008 |
| G. Monemvasitis | Managing Director & Director | Appointed 30 June 2008 |
| | Executive Director | Resigned 1 July 2011 |
| | Non-executive Director | Appointed 1 July 2011 |
| G. Kuo | Executive Director | Appointed 7 Jan 2011 |
| | Chief Operating Officer | Appointed 7 Jan 2011 |
| H. Li | Non-executive Director | Appointed 14 Apr 2009 |
| R. Vagnoni | Non-executive Director | Appointed 1 Feb 2011 |
| R. Rebek | Non-executive Director | Resigned 6 Jan 2011 |

**(a) Key management personnel compensation**

| 2011 | Short-term employee benefit | Post-employment benefit | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|
| | Cash salary and Fees | Superannuation | Long service leave | | Total |
| | $ | $ | $ | $ | $ |
| **Non-executive directors** | | | | | |
| R. Rebek | - | - | - | - | - |
| H. Li | - | - | - | - | - |
| R. Vagnoni | - | - | - | - | - |
| **Key management personal compensation (Group)** | | | | | |
| J. Back | - | - | - | - | - |
| G. Monemvasitis | 133,945 | 12,055 | - | - | 146,000 |
| G. Kuo | 99,229 | 8,931 | - | - | 108,160 |
| **Total:** | **233,174** | **20,986** | **-** | **-** | **254,160** |

### (a) Key management personnel compensation (Continued)

| 2010 | Short-term employee benefit<br>Cash salary and Fees<br>$ | Post-employment benefit<br>Superannuation<br>$ | Long-term benefits<br>Long service leave<br>$ | Share-based payments<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Non-executive directors** | | | | | |
| R. Rebek | - | - | - | - | - |
| H. Li | - | - | - | - | - |
| **Key management personal compensation (Group)** | | | | | |
| J. Back | - | - | - | - | - |
| G. Monemvasitis | 81,149 | 7,303 | 2,401 | - | 90,853 |
| G. Kuo | 78,311 | 7,048 | 770 | - | 86,129 |
| **Total:** | **159,460** | **14,351** | **3,171** | **-** | **176,982** |

### (b) Share holdings

| 2011 | Balance at the start of the year | Received during the year on exercise of options | Other changes during the year* | Balance at the end of the year |
|---|---|---|---|---|
| **Directors of Consolidated Group** | | | | |
| **Ordinary shares** | | | | |
| J. Back | 12,700,000 | - | 55,329,727 | 68,029,727 |
| G. Monemvasitis | 8,700,000 | - | (3,284,308) | 5,415,692 |
| G. Kuo | 7,540,000 | - | 31,620,000 | 39,160,000 |
| R. Rebek | - | - | - | - |
| H. Li | 200,000 | - | 19,600,000 | 19,800,000 |
| R.Vagnoni | - | - | 4,500,000 | 4,500,000 |

* Includes 4 for 1 share split

## (b) Share holdings (Continued)

**Share options**

| | | | | |
|---|---|---|---|---|
| J. Back | 1,000,000 exercisable @ 50 cents, expiry 29 June 2013 | - | Changes in accordance with the 4 for 1 share split | 4,000,000 exercisable @ 12.5 cents, expiry 29 June 2013 |
| G. Kuo | 500,000 exercisable @ 50 cents, expiry 29 June 2013 | - | Changes in accordance with the 4 for 1 share split | 2,000,000 exercisable @ 12.5 cents, expiry 29 June 2013 |
| G. Monemvasitis | 1,000,000 exercisable @ 50 cents, expiry 29 June 2013 | - | Changes in accordance with the 4 for 1 share split | 4,000,000 exercisable @12.5 cents, expiry 29 June 2013 |
| R. Vagnoni | - | - | - | - |
| H. Li | 250,000 exercisable @ 50 cents, expiry 29 June 2013 | - | Changes in accordance with the 4 for 1 share split | 1,000,000 exercisable @ 12.5 cents, expiry 29 June 2013 |
| R. Rebek | 750,000 exercisable @ 40 cents, expiry 29 June 2013 | - | Changes in accordance with the 4 for 1 share split | 3,000,000 exercisable @ 10 cents, expiry 29 June 2013 |

**CONVERTIBLE NOTES**

| 2011 | Balance at the start of the year | Received during the year on exercise of options | Other changes during the year* | Balance at the end of the year |
|---|---|---|---|---|
| J. Back | 1,600,000 convertible @ 25 cents. Conversion date 29 June 2012 | - | Changes in accordance with the 4 for 1 share split | 6,400,000 convertible @ 6.25 cents. Conversion date 29 June 2012 |
| G. Kuo | - | - | - | - |
| G. Monemvasitis | - | - | - | - |
| R. Vagnoni | - | - | - | - |
| H. Li | - | - | - | - |
| R. Rebek | - | - | - | - |

**26. Events occurring after the reporting period**

MGT Resources Limited acquired a further 3% of the issued capital in MGT Mining Limited by way of a placement on 1 July 2011. The placement was for 7,304,464 new ordinary shares in MGT Mining Limited at $0.05 cents per share, for a total of $365,223.20.

This brings the total shareholding of MGT Resources Limited from 75.33% as at 30 June 2011 to 78.3% as at 28 September 2011.

On Friday 23 September 2011, MGT Mining Ltd signed a Native Title Ancillary Agreement with the Bar-Barrum People #3 and Bar-Barrum People #4 over MLA 20547 (Summer Hill) and MLA 20655 (Heads or Tails). The signing of this agreement is an important milestone and means that MGT Mining Ltd can now apply to the Department of Mines and Energy for the granting of the respective Mining Leases.

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;

(c) In the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and

(d) The directors' have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Gary Kuo
Executive Director
Dated: 28th September 2011

DUNCAN DOVICO

**Independent Auditor's Report to the members of MGT Resources Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of MGT Resources Limited ("the Company") which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income , consolidated statement of cash flows and consolidated statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 72.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretation) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

DUNCAN DOVICO

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

***Auditor's Opinion***

In our opinion:

a) the financial report of MGT Resources Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in note 25 for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's Opinion***

In our opinion the Remuneration Report of MGT Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

***Material uncertainty regarding continuation as a going concern***

Without qualification to the opinion expressed above, we draw attention to the financial report which indicates that the Company incurred a net loss of $1,627,246 during the year ended 30 June 2011. As disclosed in note 1(s) the financial statements have been prepared on a going concern basis.

The ability of the Company to continue to adopt the going concern basis of accounting is dependent on the ability of the Company to raise additional capital. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

DUNCAN DOVICO CHARTERED ACCOUNTANTS

R. Megale

ROSEMARY MEGALE
PARTNER
Dated in Sydney, this 28th day of September 2011

DUNCAN DOVICO PTY LIMITED
CHARTERED ACCOUNTANTS
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T: (02) 9922 1166 F: (02) 9922 2044 E: email@duncandovico.com.au ABN: 15 131 988 166

The shareholder information set out below was applicable as at 22 September 2011

**A. Distribution of equity securities**

Analysis of numbers of equity security holder by size of holding:

| | Class of equity security | | | |
|---|---|---|---|---|
| | Ordinary shares | | Redeemable preference shares | Convertible notes |
| Holding | Shares | Options | | |
| 1 – 1,000 | 1 | - | - | - |
| 1,001 – 5,000 | 1 | - | - | - |
| 5,001 – 10,000 | - | - | - | - |
| 10,001 – 100,000 | 135 | - | - | - |
| 100,001 and over | 99 | 7 | - | 1 |
| | 236 | 7 | - | 1 |

**B. Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

| | Ordinary Shares | |
|---|---|---|
| Name | Number held | Percentage of issued shares |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 51,752,080 | 19.93% |
| KUOKAI PTY LTD <KUO'S GROUP FAMILY A/C> | 39,160,000 | 15.08% |
| LI HAI JUN | 19,800,000 | 7.63% |
| BAAO INTERNATIONAL TRADE CO LIMITED | 19,000,000 | 7.32% |
| JONATHAN PAUL BACK | 16,277,647 | 6.27% |
| ARMSTRONG INDUSTRIES HK LTD | 6,700,000 | 2.58% |
| MR KOKI INOMATA | 6,700,000 | 2.58% |
| IRON ORE TRADING PTY LTD <MONO A/C> | 5,415,688 | 2.09% |
| WILLIAM RICHARD PIRIE | 4,200,000 | 1.62% |
| DAYTON WAY FINANCIAL PTY LTD <CLIENT A/C> | 3,928,957 | 1.51% |
| TSUMO H.K. CO. LIMITED | 3,500,000 | 1.35% |
| JASON RALPH COX | 3,200,000 | 1.23% |
| NATIONAL NOMINEES LIMITED | 3,200,000 | 1.23% |
| CLIVE JAMES MCKERR <MCKERR SUPER FUND A/C> | 3,015,000 | 1.16% |
| ERIDITUS PTY LTD <THE ROBERT VAGNONI FAMILY A/C> | 3,000,000 | 1.16% |
| ROBERT HOWE + | 2,920,000 | 1.12% |
| PANOS LEVENDIS + ATHENA LEVENDIS <ITHACA SUPER FUND A/C> | 2,660,000 | 1.02% |
| ALAN KAI-YUAN CHENG | 2,600,000 | 1.00% |
| MRS JACQUELINE SARAH BACK | 2,400,000 | 0.92% |
| DENNIS LOWE + YVONNE LOWE <DENNIS R LOWE P/L S/F A/C> | 2,252,400 | 0.87% |

**C. Substantial holder**

Substantial holders in the company are set out below:

| Ordinary shares | Number held | Percentage |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 51,752,080 | 19.93% |
| KUOKAI PTY LTD | 39,160,000 | 15.08% |
| LI HAI JUN | 19,800,000 | 7.63% |
| BAAO INVESTMENTS PTY LTD | 19,000,000 | 7.32% |
| JONATHAN PAUL BACK | 16,277,647 | 6.27% |