

**MGT MINING LIMITED  
AND ITS CONTROLLED ENTITIES  
(Formerly known as Xtreme Resources Limited)**

**ABN 14 120 236 142**

**Annual Report for the Period Ended 18 months to 30 June 2011**

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**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED AND ITS CONTROLLED ENTITIES)  
DIRECTORS' REPORT  
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2011**

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The Directors of MGT Mining Limited (formerly known as Xtreme Resources Limited) ("the company") submit herewith the annual financial report of the consolidated entity for the 18-months ended 30 June 2011. The comparative financial information disclosed in the consolidated financial report relates to the 12-months year ended 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors' report are as follows:

Xtreme Resources Limited changed its name to MGT Mining Limited on 20 September 2010.

**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 period are:

<b><u>Name</u></b>	<b><u>Particulars</u></b>
George Monemvasitis	Director, appointed 29 <sup>th</sup> April 2009
Gary Kuo	Director, appointed 25 <sup>th</sup> May 2010
Anthony Meacham King	Director, appointed on 8 <sup>th</sup> June 2011
Damien Randy Leibel	Director, appointed on 1 <sup>st</sup> October 2010
Jonathan Paul Back	Director, appointed 29 <sup>th</sup> April 2009

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

Xiao Long Zhang	Resigned 1 <sup>st</sup> February 2010
Robert Lawrence Barraket	Resigned 8 <sup>th</sup> February 2010
Hai Jun Li	Resigned 8 <sup>th</sup> June 2011

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

**Mr George Monemvasitis (OMIE Aust, MAICD) – 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 Gary Kuo – Director**

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 Anthony King – Director**

Mr King is a professional Metallurgist and qualified geologist with over 20 years operational and technical experience within the resource industry. A graduate of the University of Cape Town, South Africa, Mr King worked for Cominco in the mid 70s as geologist in the field carrying out exploration programs and later held senior positions as Company Chemist for Ardlethan Tin, Gold Copper Exploration Pty Ltd and Great Northern Mining Corporation Ltd. During this time he completed another degree in Earth Science at Macquarie University, Sydney and in 1987 established Tableland Analytical, of which he is principal providing mill, processing design, assay and metallurgical services to the resource industry. Mr King is a former director of Allegiance Mining NL where he was General Manager – Operations. He has also been involved in design and construction of coal washing plants and has participated in a wide variety of resource projects.

**Mr Damien Leibel – Director**

Damien Leibel is a mine geologist with specialist knowledge in GIS / GPS, Grade Control, mine planning and modelling. Upon graduating from James Cook University in Townsville with a Bachelor of Science (Geosciences), Mr. Leibel gained valuable experience in mining exploration work as a field manager before becoming a mine geologist team leader at Century Zinc Mine, the world's second largest Zinc/Lead mine.

**Mr Jonathan Paul Back (LLB, BCL) – 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 Schrodgers 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 JP Morgan 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. Alex Moody - Company Secretary**

Alex Moody held the position of company secretary of MGT Mining Limited at the end of the financial period. Mr. Moody holds a Bachelor of International Relations from Bond University, Queensland. Upon graduating, Mr. Moody began his career in finance, working for a mid-tier firm that serviced the mining and construction industries. He is the founder of a company secretary business, offering company secretary services to a number of listed and unlisted resources companies. A member of the Australian Institute of Company Directors, Mr. Moody is currently completing his MBA at the Australian Graduate School of Management.

**Directors' shareholdings**

No directors own any shares, rights or options in shares of the MGT Mining Limited or its subsidiary.

**Remuneration of directors and senior management**

Information about the remuneration of directors and senior management is set out in Note 22 of the financial report.

**Principal activities**

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

**Operating and Financial Review**

**(a) Review of operations**

The consolidated net loss for the 18-months ended 30 June 2011 was \$1,092,969 (12-months ended to 31 December 2009: \$411,158).

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 period 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 the Mount Garnet region. Drill-hole positions were designed and drilling is expected to commence in the 3<sup>rd</sup> 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 the company 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 tonnes per annum, we expect 5 to 7 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 period.

#### **Events After the Reporting Period**

On 1 July 2011 the Company issued 7,304,464 new ordinary shares by way of a replacement to the ultimate parent entity, MGT Resources Limited, raising \$365,223.20.

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 period 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 periods.

#### **Future developments**

Disclosure of information regarding the likely developments in the operations of the consolidated entity in future financial periods 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 period (12-months to 31 December 2009: nil).

**Indemnification of officers and auditors**

The company has insured all the Directors MGT Mining 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 period and the number of meetings attended by each director (while they were a director).

Directors	Board of directors	
	Directors' meetings eligible to attend	Attended
George Monemvasitis	3	2
Gary Kuo	3	2
Anthony Meacham King	1	1
Damien Randy Leibel	2	2
Jonathan Paul Back	3	2
Hai Jun Li	2	2

**Non-audit services**

No non-audit services were performed by the auditors during the financial period 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 period.

**Auditor's independence declaration**

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is included on page 9 of the financial report.

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES**  
**(FORMERLY KNOWN AS XTREME RESOURCES LIMITED AND ITS CONTROLLED ENTITIES)**  
**DIRECTORS' REPORT**  
**FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2011**

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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

A handwritten signature in black ink, appearing to read 'Gary Kuo', written in a cursive style.

Gary Kuo  
Director

Dated: 28<sup>th</sup> September 2011

**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 period 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 Mining Limited and its controlled entities during the period.

DUNCAN DOVICO CHARTERED ACCOUNTANTS



ROSEMARY MEGALE  
PARTNER

Dated in Sydney, this 28<sup>th</sup> day of September 2011

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED)  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2011**

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	Note	18-months Consolidated 30 June 2011 \$	12-months Consolidated 31 December 2009 \$
Revenue	4	315,401	426,750
Employee benefits expense		(368,442)	(2,274)
Depreciation and amortisation expense		(107,092)	(346,727)
Loss on tenements abandoned		-	(150,000)
Administration expense		(932,836)	(338,907)
Loss before tax		(1,092,969)	(411,158)
Income tax expense/(benefit)		-	-
Loss for the period		(1,092,969)	(411,158)
<b>Other comprehensive income</b>			
Available-for-sale financial assets		(1,000)	1,000
<b>Total comprehensive income for the year, net of tax</b>		(1,093,969)	(410,158)
<b>Earnings per share</b>			
Basis (cents per share)	16	0.52	0.20
Diluted (cents per share)	16	0.52	0.20

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

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED)  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**

	Note	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
<b>Current assets</b>			
Cash and cash equivalents	19(a)	152,072	537,226
Other assets	7	100,804	168,230
<b>Total current assets</b>		<b>252,876</b>	<b>705,456</b>
<b>Non-current assets</b>			
Other financial assets	7	-	146,000
Exploration and evaluation expenditure	8	3,845,218	2,311,147
Plant & Equipment	9	3,279,297	1,048,221
<b>Total non-current assets</b>		<b>7,124,515</b>	<b>3,505,368</b>
<b>Total assets</b>		<b>7,377,391</b>	<b>4,210,824</b>
<b>Total liabilities</b>			
Trade and other payables	10	272,739	130,891
Borrowings	11	64,959	42,568
Provisions	12	51,388	-
<b>Total current liabilities</b>		<b>389,086</b>	<b>173,459</b>
<b>Non-current liabilities</b>			
Borrowings	11	4,110,796	68,510
Provisions	12	2,623	-
<b>Total non-current liabilities</b>		<b>4,113,419</b>	<b>68,510</b>
<b>Total liabilities</b>		<b>4,502,505</b>	<b>241,969</b>
<b>Net assets</b>		<b>2,874,886</b>	<b>3,968,855</b>
<b>Equity</b>			
Contributed equity	13	5,584,867	5,584,867
Reserves	14	-	1,000
Retained earnings	15	(2,709,981)	(1,617,012)
<b>Total equity</b>		<b>2,874,886</b>	<b>3,968,855</b>

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

MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED)  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2011

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**Consolidated**

	Fully paid ordinary shares \$	Retained Earnings \$	Asset Revaluation Reserve \$	Total \$
<b>Balance at 1 January 2010</b>	<b>5,584,867</b>	<b>(1,617,012)</b>	<b>1,000</b>	<b>3,968,855</b>
<b>Total 18-months comprehensive income for the year</b>	-	(1,092,969)	(1,000)	<b>(1,093,969)</b>
<b>Balance at 30 June 2011</b>	<b>5,584,867</b>	<b>(2,709,981)</b>	-	<b>2,874,886</b>
	Fully paid ordinary shares \$	Retained Earnings \$	Asset Revaluation Reserve \$	Total \$
<b>Balance at 1 January 2009</b>	3,624,867	(1,205,854)	-	2,419,013
<b>Total 12-months comprehensive income for the year</b>	-	(411,158)	1,000	(410,158)
<b>Transactions with owners in their capacity as owners</b>				
Contributions of equity, net of transaction costs and tax	1,960,000	-	-	1,960,000
<b>Balance at 31 December 2009</b>	<b>5,584,867</b>	<b>(1,617,012)</b>	<b>1,000</b>	<b>3,968,855</b>

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

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED)  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2011**

	Note	18-months Consolidated 30 June 2011 \$	12-months Consolidated 31 December 2009 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		-	26,622
Payments to suppliers and employees		(1,071,803)	(512,826)
Interest received		19,843	23,443
Interest paid		(17,910)	-
Net cash provided by/(used in) operating activities	19(b)	(1,069,870)	(462,761)
<b>Cash flows from investing activities</b>			
Payment for investment in shares		196,720	(135,000)
Payment for property, plant & equipment		(2,338,168)	(225,414)
Payments for exploration costs		(1,238,513)	(692,729)
Net cash provided by/(used in) investing activities		(3,379,961)	(1,053,143)
<b>Cash flows from financing activities</b>			
Proceeds from issues of equity securities		-	1,960,000
Proceeds from borrowings – related parties		4,089,000	-
Proceeds from borrowings		44,187	111,078
Repayment of borrowings		(68,510)	(50,000)
Net cash provided by/(used in) financing activities		4,064,667	2,021,078
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(385,154)</b>	<b>505,174</b>
<b>Cash at the beginning of the financial period</b>		<b>537,226</b>	<b>32,052</b>
<b>Cash at the end of the financial period</b>	19(a)	<b>152,072</b>	<b>537,226</b>

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, Australian Accounting Standards and Urgent Issues Group Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board. The consolidated financial information disclosed in this financial report relates to 18-months period ended 30 June 2011 with comparative information relating to 12-months year ended 31 December 2009.

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.

The following accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

### (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:

#### Exploration and evaluation assets

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 impaired and expenses to the statement of comprehensive income.

#### Estimated useful lives of assets

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 Mining Limited ("company" or "parent entity") as at 30 June 2011 and entities controlled by the company for the period then ended. MGT Mining Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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 Mining 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 the statement of comprehensive income 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 the statement of comprehensive income.

**Business combinations (Continued)**

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 statement of financial position. 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.

**Income tax (Continued)**

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.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, 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 and cash equivalents 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.

### **Financial assets (Continued)**

#### 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.

#### 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 the statement of comprehensive income.

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 the statement of comprehensive income 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 the statement of comprehensive income 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 statement of comprehensive income.

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.

## Financial assets (Continued)

### 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.

### 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 statement of comprehensive income. 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 statement of comprehensive income.

### 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 the statement of comprehensive income. Impairment losses on equity instruments that were recognised in the statement of comprehensive income 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 the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

## (h) Property, plant and equipment

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

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

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 statement of comprehensive income 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)**

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

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 statement of financial position 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.

**Lease (Continued)**

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). For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of cash flows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each report period.

**(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
  - (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. Any impairment is recognised as an expense in the statement of comprehensive income.

**(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period 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 the statement of comprehensive income 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 the statement of comprehensive income 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 statement of financial position 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 the statement of comprehensive income as other income or finance costs.

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 the statement of comprehensive income, 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.

### **Provision (Continued)**

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 period 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 group 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 June 2011 reporting periods. The Group has assessed the impact of these new standards and interpretations on the financial report and has concluded that there will be 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 (December 2010) (effective from 1 January 2013)

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

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 \$1,092,969 and cash outflows from operating and investing activities of \$4,449,831. 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 ultimate parent entity's, MGT Resources Limited, 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:

	<b>Consolidated 30 June 2011</b>	<b>Consolidated 31 December 2009</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>		
Cash & cash equivalents	152,072	537,226
Other financial assets	100,804	168,230
	<b>252,876</b>	<b>705,456</b>
<b>Financial Liabilities</b>		
Trade & other payable	272,739	130,891
Borrowing	86,755	111,078
	<b>359,494</b>	<b>241,969</b>

**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 not exposed to price risk as at reporting date.

The table below summarises the impact of increase/decrease of these two indexes on the Group's post-tax loss for the period 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 18-months to	Consolidated 12-months to	Consolidated 18-months to	Consolidated 12-months to
	30 June 2011	31 December 2009	30 June 2011	31 December 2009
	\$	\$	\$	\$
Increase 10% (10%)	-	-	-	100
Decrease 10 % (10%)	-	-	-	(100)

**Financial Risk Management (Continued)**

iii. *Interest rate risk*

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

	<b>Weighted Average Effective Interest Rate</b>	<b>Non Interest Bearing</b>	<b>Floating Interest</b>	<b>Fixed Interest Rate</b>	<b>Total</b>
	<b>30 June 2011 %</b>	<b>30 June 2011 \$</b>	<b>30 June 2011 \$</b>	<b>30 June 2011 \$</b>	<b>30 June 2011 \$</b>
<i>Financial Assets</i>					
Bank	5.02%	9,717	65	142,290	<b>152,072</b>
<i>Financial liabilities</i>					
Lease liabilities	11.57%	-	-	86,755	<b>86,755</b>

	<b>Weighted Average Effective Interest Rate</b>	<b>Non Interest Bearing</b>	<b>Floating Interest</b>	<b>Fixed Interest Rate</b>	<b>Total</b>
	<b>31 December 2009 %</b>	<b>31 December 2009 \$</b>	<b>31 December 2009 \$</b>	<b>31 December 2009 \$</b>	<b>31 December 2009 \$</b>
<i>Financial Assets</i>					
Bank	4%	-	537,226	-	<b>537,226</b>
Other financial assets	N/A	168,230	-	-	<b>168,230</b>
<i>Financial liabilities</i>					
Lease liabilities	N/A	130,891	-	-	<b>130,891</b>
Borrowings	10.99%	-	-	111,078	<b>111,078</b>

*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 period end balances and the impact on pre tax loss is outlined below.

	<b>18-months to 30 Jun 2011</b>	<b>12-months to 31 Dec 2009</b>
	<b>\$</b>	<b>\$</b>
Consolidated		
+ 1% (100 basis points)	1,424	4,298
-.5 % (50 basis points)	(712)	(4,298)

**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.

	<b>Consolidated 18- months to</b>	<b>Consolidated 12- months to</b>
	<b>30 June 2011</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and short-term bank deposits	152,072	537,226

**(c) Liquidity Risk**

Liquidity risk arises from the possibility that there will not 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.

<b>30 June 2011</b>	<b>Less than 6 months</b>	<b>6-12 months</b>	<b>Between 1 &amp; 2 years</b>	<b>Between 2 &amp; 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Non interest bearing</i>						
Trade payables	182,561	-	-	-	-	182,561
Borrowings	-	-	4,089,000	-	-	4,089,000
<i>Fixed rate</i>						
Lease liabilities	45,291	19,668	21,796		-	86,755

**Financial Risk Management (Continued)**

31 December 2009	Less than 6 months	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
<i>Non interest bearing</i>						
Trade payables	81,435	-	-	-	-	81,435
<i>Fixed rate</i>						
Lease liabilities	21,284	21,284	42,568	25,942	-	111,078

**(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.

**4. Revenue**

An analysis of the Group's revenue for the year is as follows:

	Consolidated 18- months to 30 June 2011 \$	Consolidated 12- months to 31 December 2009 \$
Interest revenue	19,843	23,443
Other	-	1
Reversal of impairment loss	295,558	1
Forgiveness of loan	-	403,306
	<u>315,401</u>	<u>426,750</u>

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES**  
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	Consolidated 18- months to 30 June 2011 \$	Consolidated 12- months to 31 December 2009 \$
<b>5. Loss for the year before tax</b>		
<b>(a) Gains and losses</b>		
Loss for the year has been arrived at after crediting the following gains and losses:		
Reversal of impairment loss of exploration and evaluation expenditure	(295,558)	-
<b>(b) Other expenses</b>		
Administrative expenses	240,901	190,050
Marketing expenses	3,675	90
Interest expenses	17,910	1,374
Vehicle and Freight Costs	92,807	10,576
Repairs and Maintenance Costs	76,048	28,771
Travel Expense	34,707	14,665
Legal and Professional Expense	173,479	29,448
Other Expenses	293,309	63,933
	<u>932,836</u>	<u>338,907</u>
<b>6. Income taxes</b>		
Tax expense/(income) comprises:		
Current tax expense/(income) in respect of the current year	-	-
	<u>-</u>	<u>-</u>
(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:		
Loss before income tax	(1,092,969)	(411,158)
Income tax expense calculated at 30%	(327,891)	(123,347)
Effect of expenses that are not deductible in determining taxable profit		-
Write off of capitalised exploration and evaluation	(460,221)	(207,819)
Unrecognised losses and timing differences	29,881	(13,757)
Non-deductible	185	-
Impairment loss on exploration assets	-	138,171
	<u>(758,046)</u>	<u>(206,752)</u>
Net adjustment to deferred tax assets and liabilities for tax losses and temporary difference not recognised	758,046	206,752
	<u>-</u>	<u>-</u>

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	Consolidated 18- months to 30 June 2011 \$	Consolidated 12- months to 31 December 2009 \$
<b>Income tax (Continued)</b>		
(b) Unused tax losses for which no deferred tax assets has been recognised	6,849,970	4,323,149
Temporary differences for which no deferred tax liability has been recognised:		
- Exploration expenditure	(3,845,218)	(2,311,147)
	<u>3,004,752</u>	<u>2,012,002</u>
Potential tax benefit at 30%	<u>901,426</u>	<u>603,601</u>
<b>7. Other assets</b>		
<u>Current</u>		
Prepayments	28,136	116,510
GST	72,668	-
Other assets	-	51,720
	<u>100,804</u>	<u>168,230</u>
Available for sale investments carried at fair value:		
<u>Non-current</u>		
Financial assets	-	146,000
	<u>-</u>	<u>146,000</u>

**8. 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	2,311,147	2,078,987
Expenditure capitalised	1,238,513	692,729
Written-off	-	(150,000)
Reversal of impairment loss of exploration and evaluation expenditure	295,558	-
Impairment of exploration and evaluation assets	-	(310,569)
Balance at the end of the year	<u>3,845,218</u>	<u>2,311,147</u>

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.

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9. Plant and Equipment

	Office Equipment \$	Mine infrastructure \$	Motor Vehicle \$	Total \$
<b>At 1 January 2010</b>				
Cost or fair value	199,586	791,380	109,239	1,100,205
Accumulated depreciation	(31,467)	-	(20,517)	(51,984)
Net book value	<b>168,119</b>	<b>791,380</b>	<b>88,722</b>	<b>1,048,221</b>

**Period ended 30 June 2011**

Balance at the beginning of the financial period:	<b>168,119</b>	<b>791,380</b>	<b>88,722</b>	<b>1,048,221</b>
Additions	91,413	2,229,781	16,974	2,338,168
Depreciation expense	(43,871)	(27,484)	(35,737)	(107,092)
Balance at the end of the financial period	<b>215,661</b>	<b>2,993,677</b>	<b>69,959</b>	<b>3,279,297</b>

	Office Equipment \$	Mine infrastructure \$	Motor Vehicle \$	Total \$
<b>At 1 January 2009</b>				
Cost or fair value	57,047	791,380	26,364	874,791
Accumulated depreciation	(11,360)	-	(4,466)	(15,826)
Net book value	<b>45,687</b>	<b>791,380</b>	<b>21,898</b>	<b>858,965</b>

**Year ended 31 December 2009**

Balance at the beginning of the financial year:	45,687	791,380	21,898	858,965
Additions	142,539	-	82,875	225,414
Depreciation expense	(20,107)	-	(16,051)	(36,158)
Balance at the end of the financial year	<b>168,119</b>	<b>791,380</b>	<b>88,722</b>	<b>1,048,221</b>

	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
<b>10. Trade and other payables</b>		
Trade payables	254,458	81,435
Accruals and other payables	18,281	49,456
	<b>272,739</b>	<b>130,891</b>



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	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
<b>14. Revaluation Reserves</b>		
Balance at beginning of financial period	1,000	-
Revaluation increments/(decrements)	(1,000)	1,000
Balance at end of financial period	<u>-</u>	<u>1,000</u>
<b>15. Retained earnings</b>		
Balance at beginning of financial period	(1,617,012)	(1,205,854)
Net loss attributable to members of the parent entity	(1,092,969)	(411,158)
Balance at end of financial period	<u>(2,709,981)</u>	<u>(1,617,012)</u>
<b>16. Earnings per share</b>	Cents per share	Cents per share
Basis earning per share	(0.52)	(0.20)
Diluted earnings per share	(0.52)	(0.20)
<b>Basis earning per share</b>	\$	\$
The earning and weighted average number of ordinary share used in the calculation of basis earning per share are as follows:		
Net loss	<u>(1,092,969)</u>	<u>(411,158)</u>
Earning used in the calculation of basic EPS from continuing operations		
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	211,243,707	210,486,651
<b>Diluted earnings per share</b>	\$	\$
The earning and weighted average number of ordinary share used in the calculation of diluted earning per share are as follows:		
Net loss	<u>(1,092,969)</u>	<u>(411,158)</u>
Earning used in the calculation of diluted EPS from continuing operations		
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	211,243,707	210,486,651

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
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	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
<b>17. Commitments</b>		
(a) <u>Chattel Mortgage</u>		
Chattel Mortgage related to motor vehicle with lease term of 3 years.		
No later than 1 year	39,335	42,568
Later than 1 year and not later than 5 years	21,796	82,237
Later than five years	-	-
Minimum future lease payments	61,131	124,805
Less future finance charges	(3,369)	(13,727)
Present value of minimum lease payments	<u>57,762</u>	<u>111,078</u>
Disclosed in the financial statements as borrowing:		
- Current	39,335	42,568
- Non current	18,427	68,510
	<u>57,762</u>	<u>111,078</u>
(b) <u>Capital commitments</u>		
Property, plant and equipment payables:		
No later than 1 year	-	93,980
Later than 1 year and not later than 5 years	-	-
Later than five years	-	-
	<u>-</u>	<u>93,980</u>

**18. Related party transactions**

**(a) Parent entity**

The ultimate parent entity for the consolidated entity is MGT Resources Limited (formerly known as Mono Resources Limited).

MGT Resources Limited is a public company listed on the NSX, and held 75.33% of the issued Shares (2010: 75.24%) in MGT Mining Limited as at 30 June 2011. During the 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) Subsidiary**

Name of subsidiary	Country of incorporation	Ownership interest 30 June 2011 %	Ownership interest 31 December 2009 %
Garimperos Pty Limited	Australia	100.00%	100.00%

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in Note 22.

**(d) Transactions with related parties**

	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
<b>Loan from related parties</b>		
Beginning of the year	-	403,306
Loan advanced	4,089,000	-
Loan forgiven	-	(403,306)
End of the year	4,089,000	-

**19. Notes to the statement of cash flows**

(a) Reconciliation of cash and cash equivalents

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

	Consolidated 30 June 2011 \$	Consolidated 31 December 2009 \$
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	152,072	537,226
	<u>                    </u>	<u>                    </u>

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

Loss for the period	(1,092,969)	(411,158)
<u>Non-cash flow items</u>		
Exploration expenditure written off	-	150,000
Provision for diminution in value of exploration expenditure	-	310,569
Depreciation expense	107,092	36,158
Loss on sale of exploration	-	(403,306)
Reversal of impairment loss of exploration and evaluation expenditure	(295,558)	-
(Increase)/Decrease in receivables	15,706	26,621
(Increase)/Decrease in other assets	-	(157,020)
(Increase)/Decrease in trade payables	141,848	-
Increase/(Decrease) in provision	54,011	-
	<u>                    </u>	<u>                    </u>
Net cash from operating activities	<u>(1,069,870)</u>	<u>(462,761)</u>

MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
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20. Parent entity disclosure

(a) Financial position

	30 Jun 2011	31 Dec 2009
	\$	\$
<b>Assets</b>		
Current assets	4,628,374	697,793
Non-current assets	2,816,907	3,811,126
Total assets	<b>7,445,281</b>	<b>4,508,919</b>
<b>Liabilities</b>		
Current liabilities	389,086	162,760
Non-current liabilities	4,113,419	68,510
Total liabilities	<b>4,502,505</b>	<b>231,270</b>
Net assets	<b>2,942,776</b>	<b>4,277,649</b>
<b>Equity</b>		
Contributed equity	5,584,867	5,584,867
Retained earning	(2,642,091)	(1,308,218)
<b>Reserve</b>		
Investment revaluation	-	1,000
Total equity	<b>2,942,776</b>	<b>4,277,649</b>

(b) Financial performance

	18-months to 30 June 2011	12-months to 31 Dec 2009
	\$	\$
Loss for the period	(1,333,873)	(102,264)
Other comprehensive income, net of tax	(1,000)	1,000
Total comprehensive income	<b>(1,334,873)</b>	<b>(101,264)</b>
	Consolidated 18- months to 30 June 2011	Consolidated 12- months to 31 December 2009
	\$	\$

21. Auditors' remuneration

Audit services

Audit and review of financial reports

-	5,000
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## 22. Key management personnel disclosures

### Details of key management personnel

The directors and other members of key management personnel of the Group during the period were:

<b>Name</b>	<b>Position</b>	<b>Date</b>
J. Back	Director	Appointed 29 April 2009
G. Monemvasitis	Director	Appointed 29 April 2009
G. Kuo	Director	Appointed 25 May 2010
A. King	Director	Appointed 8 June 2011
D. Leibel	Director	Appointed 1 October 2010
H. Li	Director	Resigned 8 June 2011
X. Zhang	Director	Resigned 1 February 2010
R. Barraket	Alternative Director	Resigned 8 February 2010

### (a) Key management personnel compensation

<b>2011 (18 months)</b>	Short-term employee benefit	Post-employment benefit	Long-term benefits	Share-based payments	Total
	Cash salary and Fees	Superannuation	Long service leave		
	\$	\$	\$	\$	\$
<b>Key management personal compensation (Group)</b>					
J. Back	-	-	-	-	-
G. Monemvasitis	-	-	-	-	-
G. Kuo	-	-	-	-	-
A. King	-	-	-	-	-
D. Leibel	133,296	11,996	-	-	145,292
<b>Total</b>	<b>133,296</b>	<b>11,996</b>	-	-	<b>145,292</b>

No fees have been paid to key management personnel in MGT Mining Limited for the 12 month period to 31 December 2009. All key management personnel benefits have been paid out in MGT Resources Limited who is the ultimate parent entity of MGT Mining Limited.

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**(b) Share holdings**

No directors own any shares, rights or options in shares of the MGT Mining Limited or its subsidiary. For information on other shares and options held by Directors of MGT Mining Limited in the ultimate parent entity, MGT Resources Limited, refer to the below:

**Directors of Consolidated Group**

<b>2011 (18 months)</b>	Balance at the start of the period	Received during the period on exercise of options	Other changes during the period *	Balance at the end of the period
<b>Ordinary shares</b>				
J. Back	11,500,000	-	56,529,727	68,029,727
G. Monemvasitis	8,600,001	-	(3,184,309)	5,415,692
G. Kuo	7,500,000	-	31,660,000	39,160,000
D. Leibel	-	-	-	-
A. King	-	-	-	-

\* Includes 4 for 1 share split

**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. 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
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
D. Leibel	-	250,000 exercisable @ 25 cents, expiry 14 June 2014	-	250,000 exercisable @ 25 cents, expiry 14 June 2014
A. King	-	-	-	-

**Convertible notes**

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
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**(c) Related party transactions**

Anthony King, Director of MGT Mining Ltd, provided metallurgist services to MGT Mining Ltd through his company, Tableland Analytical Pty Ltd for a total value of \$23,582 (incl GST) during the 18 month period to 30 June 2011. For the 12 month period to 31 December 2009, Tableland Analytical Pty Ltd invoiced MGT Mining Ltd \$12,787 (incl GST).

These services were provided on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with an unrelated individual at arm's length in the same circumstances.

**23. Events 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.

There has not been any other matter or circumstance occurring subsequent to the end of the financial period 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 periods.

**24. Company details**

**Principle Place of Business**  
Suite 205B Level 2  
68 York Street  
Sydney NSW 2000

**Registered Office**  
C/-Duncan Dovico  
Level 12, 90 Arthur Street  
North Sydney NSW 2060

**MGT MINING LIMITED AND ITS CONTROLLED ENTITIES  
(FORMERLY KNOWN AS XTREME RESOURCES LIMITED)  
DIRECTOR'S DECLARATION  
30 JUNE 2011**

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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, the Corporations Regulations 2001 and other mandatory professional reporting requirements and giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial period ended on that date;
- (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  
Director

Dated: 28<sup>th</sup> September 2011

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

**Report on the Financial Report**

We have audited the accompanying financial report of MGT Mining Limited and which comprises the 18-months consolidated statement of financial position as at 30 June 2011, and 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 period ended 30 June 2011.

***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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

**Auditor's Opinion**

In our opinion:

- a) the financial report of MGT Mining 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 consolidated 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 21 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 Mining Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

DUNCAN DOVICO CHARTERED ACCOUNTANTS



ROSEMARY MEGALE  
PARTNER

Dated in Sydney, this 28<sup>th</sup> day of September 2011