

MATSA RESOURCES LIMITED

ABN 48 106 732 487

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INTERIM FINANCIAL REPORT

31 December 2010

CONTENTS

| | Page No |
|--|----------------|
| Company Directory | 1 |
| Directors' Report | 2 |
| Auditor's Independence Declaration | 7 |
| Consolidated Statement of Comprehensive Income | 8 |
| Consolidated Statement of Financial Position | 9 |
| Consolidated Statement of Changes in Equity | 10 |
| Consolidated Statement of Cash Flows | 11 |
| Condensed Notes to the Consolidated Financial Statements | 12 |
| Directors' Declaration | 16 |
| Independent Auditor's Report | 17 |

MATSA RESOURCES LIMITED

COMPANY DIRECTORY

Directors

Paul Poli (Executive Chairman)
Frank Sibbel (Executive Director)
Andrew Chapman (Non-Executive Director)

Company Secretary

Andrew Chapman

Registered Office

Suite 11
139 Newcastle Street
PERTH WA 6000
Tel: (08) 9230 3555
Fax: (08) 9227 0370
Email: reception@matsa.com.au

Postal Address

PO Box 376
Northbridge W.A 6865

Kalgoorlie Office

Suite 1, Vosper House
31-33 Dugan Street
KALGOORLIE WA 6430
Tel: (08) 9021 7200
Fax: (08) 9021 7277
Email: reception@matsa.com.au

Postal Address

PO Box 376
Northbridge W.A 6865

Website www.matsa.com.au

Auditors

MGI Perth Audit Services Pty Ltd
Level 7, The Quadrant
1 William Street,
Perth W.A 6000

Share Registry

Advanced Share Registry Services
150 Stirling Highway
NEDLANDS WA 6909
Tel: (08) 9389 8033
Fax: (08) 9389 7871

Home Stock Exchange

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
PERTH WA 6000
ASX Code: MAT

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the six months ended 31 December 2010 and the review report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the interim period to the date of this report are:

Mr Paul Poli
Mr Frank Sibbel (appointed 25 October 2010)
Mr Andrew Chapman
Mr Andrew Viner (resigned 25 October 2010)

Directors were in office for this entire period unless otherwise stated.

REVIEW AND RESULTS OF OPERATIONS

During the half year the Group made a loss of \$2,064,643 (2009: \$2,652,998).

EXPLORATION ACTIVITIES

Matsa is a mineral exploration and development Group based in Western Australia. The Group's primary assets are extensive mineral leases that contain defined gold resources and various mineral prospects. The principal project is located in the Norseman region within the southern part of Western Australia's Eastern Goldfields.

STRATEGY

The Group is focussed on maximising value from development of the Norseman Project which contains JORC defined Resources of 1.47 million ounces of gold tabulated below, and developing the Dundas Iron Ore Project, whilst building a substantial and impressive land holding in Thailand with a diverse range of minerals.

The Group strategy is to seek world-class exploration and mining opportunities in Australia and South East Asia where a number of Australian companies have been highly successful in the past decade. This strategy of working in Thailand is showing potential with Matsa applying for approximately 1,349 sqkm² of exploration land, some of which is adjacent or near to Kingsgate Consolidated Limited's 5 million ounce Chatree Gold Mine. The Group believes there is high potential for discovery of high-grade magnetite Iron Ore, Copper and Gold within the Group's landholding applied for.

COMPANY ACTIVITIES

NORSEMAN PROJECT

As previously reported the current Mineral Resource for the Norseman Gold Project totals 26.5 million tonnes @ 1.7g/t for 1.47 million indicated and inferred ounces as tabulated below.

Small Scale Mining Development

A detailed study was conducted into Small Scale Mining Operations (SSM) which concluded that positive cash flows were achievable if either a suitable toll milling arrangement or a suitable sale of ore agreement could be achieved. These studies have confirmed the potential for high grade gold mining operations on the North Scotia and Mount Henry resources and treatment at nearby milling facilities. Approval for mining has been received from the Department of Mines and Petroleum.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Discussions were held with several nearby producing companies with regard to either toll milling of ore or an ore sale agreement. While these discussions demonstrated a degree of interest in the Norseman Gold Small Scale Mining activities Matsa was not able to conclude an agreement for Small Scale Mining which was considered to provide an attractive outcome for the Company and as a result has decided to continue its investigations and develop other options for the project.

| Norseman Gold Project Resources | | | |
|--|---------------------|----------------|------------------|
| (>1g/t Au) | | | |
| | Tonnes (Million) | Grade (g/t) | Ounces |
| Indicated | | | |
| Mt Henry | 5.6 | 1.9 | 350,000 |
| Selene | 11.8 | 1.6 | 600,000 |
| North Scotia | 0.2 | 5.2 | 36,000 |
| Total | 17.6 | 1.8 | 990,000 |
| Inferred | | | |
| Mt Henry | 4.9 | 1.8 | 280,000 |
| Selene | 3.1 | 1.4 | 140,000 |
| North Scotia | 0.3 | 2.2 | 24,000 |
| Abbotshall | 0.5 | 2.0 | 30,000 |
| Total | 8.9 | 1.7 | 480,000 |
| Grand Total | | | |
| Grand Total | 26.5 | 1.7 | 1,470,000 |

- 1) All resources are reported to a lower cut-off grade of 1.0 g/t
- 2) Rounding, conforming to the JORC code may cause computational errors.

Letter of Intent to Develop the Norseman Gold Project

Matsa Resources received a letter of intent from China Kinwa Technology Co. Ltd confirming China Kinwa's intention to enter into a binding memorandum of understanding to jointly develop Matsa Resources' Norseman Gold Project with substantial benefits to Matsa if the joint venture proceeds.

Kinwa has completed a site visit and has significantly progressed its technical and legal due diligence. Matsa is expecting that the results of the due diligence will be known in the first quarter of 2011. The agreement provides for:

- China Kinwa will acquire a 50% interest in the Norseman Gold Project which will include the Mt Henry, Selene and North Scotia gold deposits as well as any associated magnetite concentrate by-product associated with those deposits on commercial terms already discussed. Matsa will manage and operate the project and enter into a co-operation agreement with China Kinwa.
- China Kinwa and Matsa will undertake a feasibility study on the project as soon as possible on equal terms to establish a gold mining operation and/or combined gold/magnetite mining operation.
- China Kinwa is to secure commercial loan financing for the development and construction of a gold or gold/magnetite operation.
- China Kinwa will assist in the procurement of an off take agreement for any magnetite iron ore concentrate produced from the Norseman Gold Project on normal terms and conditions.
- China Kinwa to assist Matsa in the development and marketing of other projects to Chinese interests.
- China Kinwa and Matsa to form a joint venture to assess other resource sector opportunities in both Australia and Thailand.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Whilst discussions are held in earnest with China Kinwa, Matsa has received a significant number of other enquiries and held discussions with these interested parties concerning the Norseman Gold Project. These discussions are continuing, but are being held at bay by Matsa and are considered an alternative option, whilst Matsa awaits the completion of the due diligence by China Kinwa.

DUNDAS IRON PROJECT EXPLORATION

A drilling programme commenced on 26th October 2010. Objectives of the programme were:

- Confirming that magnetite mineralisation has potential to achieve Exploration Target*¹ size and thereby form the basis of a viable magnetite project.
- Obtaining samples for assay and metallurgical testing to confirm that magnetite can be economically recovered.
- Obtaining assays through zones of iron enrichment to establish whether there is a viable DSO grade iron ore deposit at Dundas.

The programme comprising a total of 1,901 metres of Reverse Circulation (RC) drilling and 197.5 metres of diamond drilling was completed in mid - December 2010. RC drillhole samples were combined at the assay laboratory into composites mostly 5m in length. Composites were submitted for the following determinations:

- Magnetic Susceptibility
- Analysis for usual suite of iron ore oxides and major elements by X-Ray Fluorescence spectroscopy (XRF) on a fused bead
- Gold determination by Atomic Absorption Spectroscopy (AAS) on an acid digest.

Preliminary results have been received although in the case of gold assays these are currently subject to further check assays. Magnetite recovery based on the Davis Tube Recovery (DTR) method is planned on all composites where magnetic susceptibility indicates >15% magnetite.

DTR determinations await completion of metallurgical testwork currently underway on a bulk sample of diamond drill core. Results of this testwork will be used to design a standardised DTR flow sheet which will be used on RC drill samples. Sampling of diamond core has commenced with the submission of a 30m section from drillhole 10DNDH001 currently undergoing grind establishment testwork as noted above.

Results

Drilling has confirmed that target Banded Iron Formation Units dip steeply towards the west separated by interbands of dolerite. In detail the BIF units can be seen to be dominated by strongly banded quartz magnetite BIF and subordinate massive zones of coarse amphibole, quartz and lesser magnetite containing variable iron sulphide (pyrrhotite).

The base of complete oxidation is variable between vertical depths of 25m to 40m below surface. Above this depth, strongly banded BIF is typically oxidised to a quartz, martite/goethite assemblage with variable clay content attributable to weathering of iron rich amphiboles.

Preliminary gold results have been received for the RC composite samples. A total of 14 samples reporting values >0.1 g/t and 3. samples reporting values > 1 g/t. Check assays are currently in progress and results are awaited.

Preliminary whole rock XRF and magnetic susceptibility results have been received for all RC drillholes. Results are summarised as value ranges for Key elements for all samples and for samples within target magnetite BIF bands. The following comments can be made on the basis of preliminary results received to date.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

- Magnetic susceptibility results include values up to 58%. Results are reported as "% magnetite" on the basis of comparing results with magnetite standards. These values are a convenient way to define target magnetite mineralisation and to select samples for DTR determination.
- Maximum Fe values to 46% Fe were achieved by surface enrichment processes compared to maximum values in primary quartz magnetite BIF of 36.44% Fe. Enriched values do not meet the Company's target for Hematite direct shipping grade mineralisation. No additional work is planned on the targets tested for Hematite direct shipping ore.
- Maximum values of penalty elements (0.12% P, 5.0% S) occur outside target quartz magnetite bands. Using a magnetic susceptibility value of 20% as an arbitrary boundary, average values in quartz magnetite BIF are 0.35% S and 0.04% P.
- The average magnetic susceptibility value for the target quartz magnetite BIF is 34% using the same magnetic susceptibility boundary of 20%.

It is appropriate to note that the significant information awaited for are the DTR results and these results will be reported in due course as they come to hand.

DUNNSVILLE

In June 2010 Matsa Resources completed a sub-audio magnetic survey over the Big Red Prospect. Matsa Resources completed 6,900 metres of RAB drilling on the Big Red Prospect in December 2010 targeting the numerous primary structures identified in the SAM survey and coincident gold and arsenic anomalies.

THAILAND

Matsa Resources have now applied for a total of 1,349km² of prospecting licenses prospective for gold, iron ore and copper in Thailand. Matsa has made significant progress on the application process of non-gold applications and is confident that these non-gold tenements should start being granted shortly. The Company's Thailand office is ready to commence exploration immediately on the granting of these tenements.

Whilst it is difficult to obtain licenses for exploration and mining in Thailand, it seems that Matsa has the capacity to overcome these barriers to entry due to its highly qualified and experienced Thai office staff. It is furthermore considered that these difficulties pose a significant deterrent for other companies to enter this highly prospective and potentially highly rewarding mining area and as such any granted exploration licenses are considered highly valuable.

KT Project

The KT Project totals 170km² of land under 11 SPLA's located 18 kilometres east of Kingsgate Consolidated's very low cost 5 million ounce Chatree gold mine.

The Company is awaiting the granting of all tenements applied for in Thailand.

CORPORATE ACTIVITIES

On 1 November 2010 Matsa announced it had raised \$1.2 million via the issue of 3 million shares at an issue price of \$0.40 each to Rock Resource Ltd ("Rock"). Rock is a Hong Kong based Iron and Steel and Investment Company with strong relationships with a number of Chinese Steel Mills. The funds raised will be used to assess and progress the hematite and magnetite potential of the Dundas Iron Project.

On 25 October 2010 Mr Frank Sibbel was appointed as a director of the Company. Mr Sibbel is a mining engineer with 40 years experience in the Australian mining industry which includes experience across operations, project management and consultancy. He has successfully managed projects from development through to successful operations including open pit and underground mining and related processing facilities. Andrew Viner resigned as a director of Matsa to pursue other interests.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

SUBSEQUENT EVENTS

There have been no matters or circumstances which have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 7 and forms part of the directors' report for the six months ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to Section 306(3) of the Corporations Act 2001.



Paul Poli
Executive Chairman

Dated this 16th day of March 2011

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Richard Breyley, who is a member of the Australasian Institute of Mining and Metallurgy. Richard Breyley is a full time employee of Matsa Resources. Richard Breyley has sufficient experience which is relevant to the style of mineralisation and the type of ore deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Mineral Resources and Ore Reserves. Richard Breyley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Exploration Target *¹

Under Clause 18 of the JORC Code the exploration targets outlined in this report are conceptual in nature as there has been insufficient exploration by the Company at this stage to define a Mineral Resource and that there is no certainty that further exploration will result in the determination of a Mineral Resource or a Mineral Reserve. Estimates of tonnages and grade have been made by geologists who are familiar with the style and type of magnetite mineralisation and who have conducted field mapping and limited sampling, including the drilling contained in this announcement, of the mineralisation and completed aeromagnetic interpretation of the units hosting the mineralisation.

Lead auditor's independent declaration under section 307C of the Corporations Act 2001

To the directors of Matsa Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the period ended 31 December 2010 there have been:

- (i) no contraventions of the auditors independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

MG IPAS

MGI Perth Audit Services Pty Ltd



**TJ Spooner CA FCA(UK) ACIS
Director**

Perth

16 March 2011

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MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2010

| | 2010 | 2009 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Other income | 3,656 | 250 |
| Other expenses | | |
| Consultants' expense | (9,500) | (55,665) |
| Travel and accommodation expense | (103,850) | (54,662) |
| Depreciation expense | (80,572) | (45,428) |
| Salaries and employment benefits expenses | (491,327) | (272,657) |
| Exploration expenditure written off | (145,431) | (1,137,407) |
| Occupancy expense | (36,646) | (58,092) |
| Other administration expenses | (297,057) | (186,392) |
| Share based payments expense | (939,255) | (830,653) |
| Legal expenses | (42,313) | (15,154) |
| Provision for doubtful debts | - | (8,524) |
| Results from operating activities | (2,142,295) | (2,664,384) |
| Finance income | | |
| Interest income | 84,953 | 19,952 |
| Interest expense | (7,301) | (8,566) |
| Net finance income | 77,652 | 11,386 |
| Profit/(loss) before income tax | (2,064,643) | (2,652,998) |
| Income tax benefit | - | - |
| Loss for the period | (2,064,643) | (2,652,998) |
| Other comprehensive income | | |
| Foreign currency translation reserve | (394) | - |
| Other comprehensive income for the period, net of income tax | (394) | - |
| Total comprehensive loss for the period | (2,065,037) | (2,652,998) |
| Earnings per share: | | |
| Basic loss per share (cents per share) | (1.72) | (2.68) |
| Diluted loss per share (cents per share) | (1.72) | (2.68) |

The condensed notes on pages 12 to 15 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

| | 31 Dec 10 \$ | 30 June 10 \$ |
|--------------------------------------|-----------------|------------------|
| Current Assets | | |
| Cash and cash equivalents | 2,141,228 | 3,671,437 |
| Trade and other receivables | 119,199 | 437,580 |
| Other current assets | 1,045,777 | 677,778 |
| | 3,306,204 | 4,786,795 |
| Total Current Assets | | |
| Non-Current Assets | | |
| Plant and equipment | 429,449 | 333,655 |
| Exploration and evaluation asset | 14,128,703 | 12,891,349 |
| | 14,558,152 | 13,225,004 |
| Total Non-Current Assets | | |
| Total Assets | 17,864,356 | 18,011,799 |
| Current Liabilities | | |
| Trade and other payables | 341,370 | 511,945 |
| Borrowings | 70,023 | 85,941 |
| Provisions | 58,005 | 71,739 |
| | 469,398 | 669,625 |
| Total Current Liabilities | | |
| Non-Current Liabilities | | |
| Borrowings | 70,017 | 60,892 |
| | 70,017 | 60,892 |
| Total Non-Current Liabilities | | |
| Total Liabilities | 539,415 | 730,517 |
| Net Assets | 17,324,941 | 17,281,282 |
| Equity | | |
| Issued capital | 7 35,156,959 | 33,987,518 |
| Reserves | 5,151,782 | 4,212,921 |
| Accumulated losses | (22,983,800) | (20,919,157) |
| | 17,324,941 | 17,281,282 |
| Total Equity | 17,324,941 | 17,281,282 |

The condensed notes on pages 12 to 15 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2010**

| | Issued Capital Ordinary \$ | Accumulated Losses \$ | Equity Settled Benefits Reserve \$ | Foreign Currency Translation Reserve \$ | Total \$ |
|---|-------------------------------------|-----------------------------|--|---|-------------------|
| Balance at 1 July 2010 | 33,987,518 | (20,919,157) | 4,174,100 | 38,821 | 17,281,282 |
| Comprehensive loss for the period | - | (2,064,643) | - | (394) | (2,065,037) |
| Total comprehensive loss for the period | - | (2,064,643) | - | (394) | (2,065,037) |
| Shares issued during the period | 1,200,000 | - | - | - | 1,200,000 |
| Options issued during the period | - | - | - | - | - |
| Capital raising costs during the period | (30,559) | - | - | - | (30,559) |
| Share based payment | - | - | 939,255 | - | 939,255 |
| Balance at 31 December 2010 | <u>35,156,959</u> | <u>(22,983,800)</u> | <u>5,113,355</u> | <u>38,427</u> | <u>17,324,941</u> |
| Balance at 1 July 2009 | 26,314,908 | (16,466,962) | 3,276,587 | 38,986 | 13,163,519 |
| Comprehensive loss for the period | - | (2,652,998) | - | - | (2,652,998) |
| Total comprehensive loss for the period | - | (2,652,998) | - | - | (2,652,998) |
| Shares issued during the period | 3,257,417 | - | - | - | 3,257,417 |
| Options issued during the period | - | - | 38,759 | - | 38,759 |
| Capital raising costs during the period | (117,524) | - | - | - | (117,524) |
| Share based payment | - | - | 830,653 | - | 830,653 |
| Balance at 31 December 2009 | <u>29,454,801</u> | <u>(19,119,960)</u> | <u>4,145,999</u> | <u>38,986</u> | <u>14,519,826</u> |

The condensed notes on pages 12 to 15 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 December 2010**

| | 2010 | 2009 |
|---|-------------|-------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (1,095,421) | (684,917) |
| Interest received | 106,562 | 18,668 |
| Other income | 319,153 | 250 |
| Interest paid | (7,301) | (8,566) |
| | (677,007) | (674,565) |
| Net cash used in operating activities | | |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (132,580) | (46,918) |
| Exploration and evaluation expenditure | (1,402,147) | (1,811,985) |
| Deposits for fixed term guarantees | (112,000) | 4,375 |
| Deposits for application licences | (331,561) | - |
| Proceeds from sale of exploration and evaluation assets | 8,000 | - |
| | (1,970,558) | (1,854,528) |
| Net cash used in investing activities | | |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 1,200,000 | 2,977,161 |
| Proceeds from issue of options | - | 38,759 |
| Capital raising costs | (30,559) | (117,524) |
| Repayment of borrowings | (52,085) | (50,151) |
| | 1,117,356 | 2,848,245 |
| Net cash provided by financing activities | | |
| Net increase/(decrease) in cash and cash equivalents | (1,530,209) | 319,152 |
| Cash and cash equivalents at beginning of the period | 3,671,437 | 806,351 |
| | 2,141,228 | 1,125,503 |
| Cash and cash equivalents at end of the period | | |

The condensed notes on pages 12 to 15 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2010

1. Reporting Entity

Matsa Resources Limited ('Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the 'Group').

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at Suite 11, 139 Newcastle Street, Perth, Western Australia, 6000 or at www.matsa.com.au.

2. Statement of Compliance

The consolidated half-year financial report is a general purpose financial report which has been prepared in accordance with AASB 134: "Interim Financial Reporting", Accounting Interpretations, other authoritative announcements issued by the Australian Accounting Standards Board and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34: "Interim Financial Reporting".

The consolidated half-year financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010, and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

3. Significant Accounting Policies

Apart from the adoption of new or revised standards noted below the accounting policies applied by the Group in this consolidated half year financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010.

Adoption of New or Revised Standards

From 1 July 2010, the Group has adopted the Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

The Group has not elected to early adopt any new standards or amendments.

4. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2010.

5. Financial Position

The 31 December 2010 condensed interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the half year ended 31 December

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2010

2010 the Company recorded a loss of \$2,064,643 (2009: \$ 2,652,998) and had a net working capital surplus of \$2,836,806 (June 2010: surplus of \$4,117,170).

The Company will require further funding during the 2011 and 2012 financial years in order to meet day to day obligations as they fall due and progress on its exploration projects. Based on the Company's cash flow forecast the Board of Directors is aware of the Company's need to access additional working capital funds in the next 12 months to enable the Company to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

Directors are aware that the Company has the option, if necessary to relinquish tenements in order to maintain its cash funds at appropriate levels. Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report.

6. Segment information

Identification of reportable segment

The Group identifies its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates primarily in mineral exploration in Western Australia. The Group has also applied for exploration licences in Thailand but at this stage they have not been granted. The decision to allocate resources to individual projects is predominantly based on available cash reserves, technical data and the expectation of future metal prices. Accordingly, the Group effectively operates as one segment, being mineral exploration in Western Australia. The financial information presented in the income statements and balance sheet is the same as that presented to chief operating decision maker.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2010

| | 31 Dec 10 | 30 Jun 10 |
|---|--------------------------|------------------|
| | \$ | \$ |
| 7. Issued Capital | | |
| 122,010,963 (30 June 2010: 119,010,963) ordinary shares | 35,156,959 | 33,987,518 |
| Issue of Ordinary Shares – during the period | Number of shares | \$ |
| At 1 July 2010 | 119,010,963 | 33,987,518 |
| Issued during the year | | |
| Issued on placement of 40 cents each | 3,000,000 | 1,200,000 |
| Transaction costs relating to issue | - | (30,559) |
| | 122,010,963 | 35,156,959 |
| Issue of options during the period | Number of options | \$ |
| Opening balance at 1 July 2010 | 22,270,000 | 4,174,100 |
| Unlisted options issued during this period | 6,325,000 | 939,255 |
| Options expired during the period | 1,520,000 | - |
| | 27,075,000 | 5,113,355 |

8. Commitments

Exploration and Expenditure Commitments

In order to maintain the mineral tenements in which the Company and other parties are involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure commitment requirements for the next year is \$1,194,540 (30 June 2010: \$1,346,582). These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

9. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 30 June 2010 annual financial report.

MATSA RESOURCES LIMITED

**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2010**

10. Share Based Payments

In September 2010 2,075,000 options were issued to employees under the Company's Employee Share Option Plan (ESOP) and in December 2010, 4,250,000 options were granted to directors. All of these options vest immediately. The fair value of the options granted is estimated using a Black & Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2010.

| | Exercise Price 45 Cents | Exercise Price 40 cents |
|-------------------------------|------------------------------------|------------------------------------|
| Grant Date | 1 December 2010 | 3 September 2010 |
| Expected Volatility | 78% | 78% |
| Risk-free Interest Rate | 4.89% | 4.89% |
| Expected Life of Options | 1.5 years | 1.5 years |
| Consideration paid per option | - | - |
| Share Price at Grant Date | 34 cents | 28 cents |
| Fair Value at Grant Date | 15.88 cents | 12.74 cents |
| Number of Options Issued | 4,250,000 | 2,075,000 |

11. Subsequent Events

There have been no matters or circumstances which have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

MATSA RESOURCES LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of Matsa Resources Limited ("the Company"):

1. The financial statements and notes set out on pages 8 to 15 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the six month period on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors, made pursuant to Section 303 (5) of the Corporations Act 2001.



Paul Poli
Executive Chairman

Dated this 16th day of March 2011

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Independent Auditor's Review Report to the members of Matsa Resources Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Matsa Resources Limited and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2010, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the period ended on that date, notes comprising a summary of accounting policies, other explanatory notes 1 to 11, and the directors' declaration of the Group comprising of the Company and the entities it controlled at the half-year end or from time to time during the interim period.

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Matsa Resources Limited is not in accordance with the *Corporations Act 2001* including:

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

MG IPAS

MGI Perth Audit Services Pty Ltd



**TJ Spooner CA, FCA (UK) ACIS
Director**

Perth

16 March 2011

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