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MATSA RESOURCES LIMITED
ABN 48 106 732 487

ANNUAL REPORT
For the Year Ended
30 June 2013

MATSA RESOURCES LIMITED

DIRECTORY

Directors

| | |
|----------------|--------------------|
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| Frank Sibbel | Director |
| Andrew Chapman | Director |

Company Secretary

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MATSA RESOURCES LIMITED

CHAIRMAN'S REPORT

Dear Shareholder,

During the year the Company followed its path of strategic growth by adding valuable exploration tenements to its portfolio, whilst advancing its existing Western Australian projects.

The Mt Henry Gold JV Project which is very competently managed by Panoramic Resources saw completion of an updated scoping study which confirms both companies interest in the project. More recently, an upgrade to the resource has been carried out as part of an ongoing BFS, which is on track for completion in the short term and could potentially see the project advance to the next level.

Matsa's Symons Hill tenement was granted in March 2013 and received a lot of the Company's attention and resources because of its proximity to Sirius' Nova/Bollinger world class discovery. Matsa is proud to say we have fast tracked exploration, and Symons Hill is continuing to tick the right boxes on the path to a potential discovery.

Recently, Matsa was able to secure \$2.86M in a placement to institutions and sophisticated investors. The strong level of interest received in this placement during a continually difficult financial market demonstrates the level of interest in the Company, its people and its projects.

Matsa is fortunate to have a loyal and dedicated team that continually pursue the Company's growth strategies by developing, defining and seizing opportunities both in Australia and overseas. For this I extend my thanks to all staff that work at Matsa in Australia and Thailand for their tireless dedication and focus.

All in all, this year has continued to be an excellent building block year for Matsa and the entire team is proud of their achievements so far.

I further extend that gratitude to our loyal shareholder base. The continued support provided to the Company and the Company's board of directors has been nothing short of fantastic. This support assists the Company to grow and flourish, and together, we will realise the Company's aspirations and grow shareholder wealth.



PAUL POLI
EXECUTIVE CHAIRMAN

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INTRODUCTION

During the 2013 financial year, Matsa solidified its position in the ranks of junior explorers and is increasingly becoming recognised as a capably managed resource company, which has excelled during another turbulent year in financial markets.

The year saw Matsa settle on the Joint Venture agreement with Panoramic Resources Limited ("Panoramic") whereby Panoramic acquired a 70% interest in the Mt Henry Gold Project for a cash consideration of \$5M and 14M shares in Panoramic.

Panoramic is advancing the BFS on the Mt Henry Gold JV and expects to have it finalised in the fourth quarter of 2013. The Joint Venture transaction provided Matsa with a significant cash injection, a substantial investment in Panoramic and a quality joint venture partner to progress the Mt Henry Gold Project.

Through its growth strategies, during the 2012 and 2013 years, Matsa applied for strategic land that was available in the Fraser Range. The timing proved impeccable due to Sirius's discovery of the Nova deposit shortly after Matsa's Symons Hill application. During the year Matsa has focused its efforts and resources on exploring the 96km² Symons Hill tenement south of the Nova/Bollinger discoveries, and at the time of writing had received very encouraging results from a wide spaced reconnaissance aircore drilling programme with strong nickel results up to **4m @ 0.68% Ni**.

In addition to this exploration, Matsa had undertaken further drilling at Mt Henry/Abbotshall, Killaloe and Fraser Range North targeting gold, silver, nickel and copper. Assay results of this drilling are pending at the time of writing.

Matsa applied for additional tenements in the Fraser Range adjacent to the Yilgarn Craton and in the South East Kimberley regions of WA as part of its strategic growth plans. Since applying for these tenements, interesting developments have occurred, for example announcements by St. George Minerals (ASX:SGQ) and Impact Minerals (ASX:IPT) of interesting nickel intercepts adjacent to Matsa's Minigwal project. Matsa plans to commence exploration at Minigwal in the near future.

During the year, Matsa accumulated a 23% interest in the ASX listed company Bulletin Resources Limited (ASX:BNR) with gold assets in the East Kimberley region of WA. Matsa is of the opinion that the assets of the company are undervalued, and it has been able to accumulate a strategic holding at a relatively low entry price.

Matsa is a unique Australian junior explorer in the resources sector because it has accumulated a quality pipeline of assets and projects in Western Australia and Thailand. Further, Matsa continues to be very well funded.

A combination of strategic partnerships on favourable terms to shareholders and its strong level of funding will enable Matsa to continue to develop projects in Australia and Thailand with the potential to deliver significant value for shareholders and greater strategic outcomes for the Company.

A snapshot of Matsa's projects in the southern part of Western Australia is provided in Figure 1.

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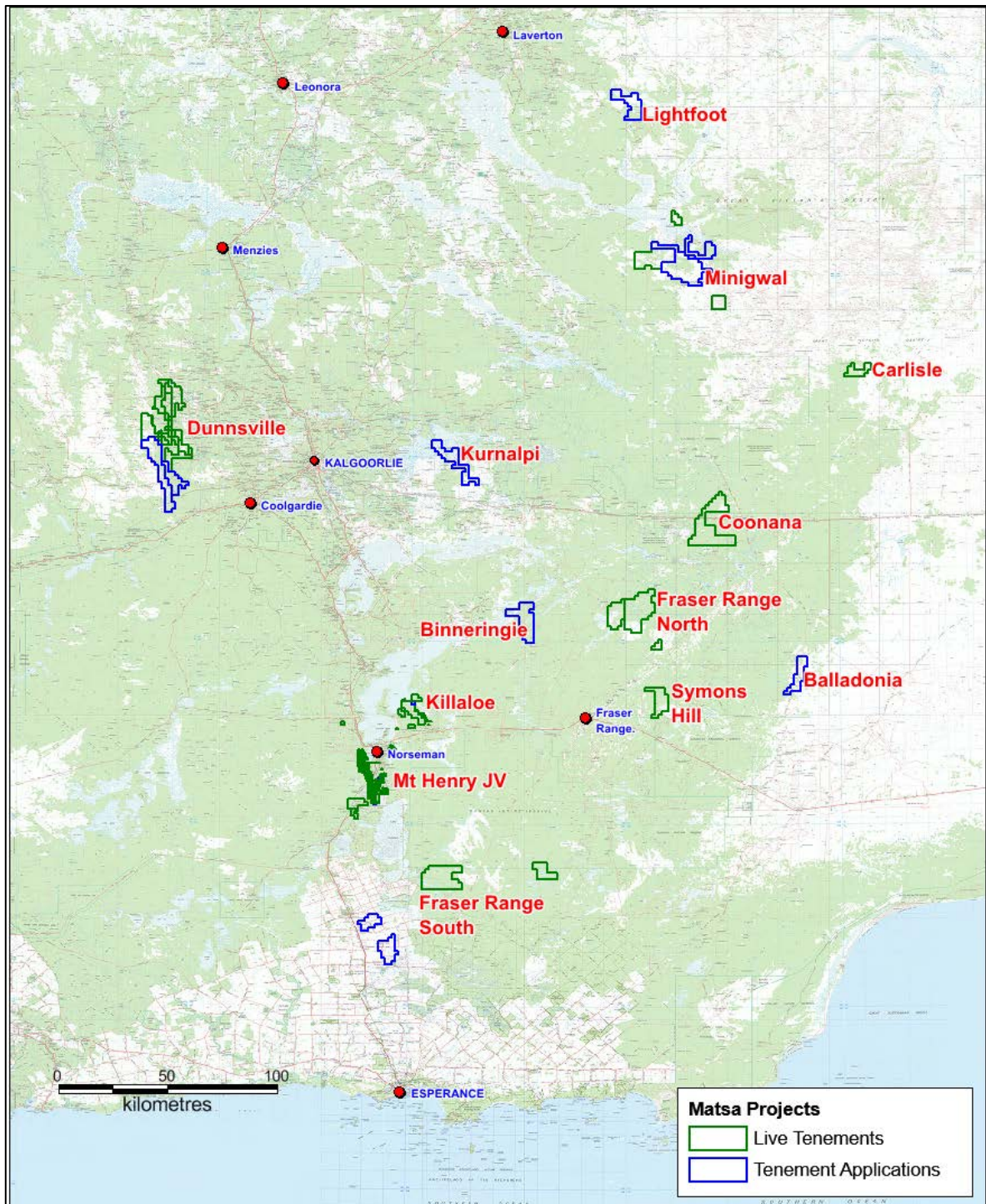


Figure 1: Matsa Yilgarn and Fraser Range Projects

COMPANY ACTIVITIES

The primary focus of activities in Matsa is:

- To progress the Bankable Feasibility Study for the Mt Henry Gold Project via its joint venture partner, Panoramic;
- Develop, explore and drill the tenement package at Fraser Range particularly unlocking the nickel potential at Symons Hill;

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- Expedite drill testing of exciting exploration targets at the Mt Henry Regional/Abbotshall, Killaloe and Fraser Range North Projects;
- Develop new regional exploration programmes;
- Review new tenement and project opportunities as they arise; and
- Continue to pursue the granting of Special Prospecting License Applications in Thailand to enable commencement of exploration within the Paisali Iron Ore, Siam Copper and KT Gold Projects.

MT HENRY GOLD JOINT VENTURE (PANORAMIC RESOURCES 70% MATSA 30%)

The Mt Henry tenement package is located in the southern part of the Norseman-Wiluna Greenstone belt in Western Australia. Upon completion of the agreement with Panoramic, they commenced work on the updated scoping study and Bank Feasibility Study (BFS).

Details have previously been announced to the ASX by PAN on the 18/12/2012 and 13/9/2013, and announced by MAT to the ASX on 30/4/2013 and 31/7/2013.

The revised scoping study carried out by PAN achieved positive results with key outcomes including:

- Indicated total average Annual production 116,000oz Au pa;
- Initial Project Life of 7.25 years with aggregate production of 840,000oz Au;
- Average operating costs to be approximately AUD\$930/oz;
- Capital costs of AUD\$195M (including contingency); and
- Excellent project economics were achieved for a range of gold prices with cumulative pre-tax cash flow of:
 - AUD\$215M for Base case AUD\$1,500/oz Au;
 - AUD\$425M for Spot Case AUD\$1,750/oz Au;
 - AUD\$635M for Alternative Case AUD\$2,000/oz Au.

The Bankable Feasibility Study commenced with the completion of 74 drill holes for a total of 9,458m of RC and diamond drilling on the three main deposits, Mt Henry, Selene and Scotia North, which was completed in March 2013.

All assay results from this drilling programme have been received during the year and selected key intercepts are shown below (*All intercepts are downhole lengths, not true widths*):

Mt Henry (open Pit)

8.0m @ 3.35 g/t Au and 15.0m @ 1.24 g/t Au (MtH_01)
7.3m @ 1.68 g/t Au and 11.0m @ 1.18 g/t Au (MtH_04)
20.0m @ 1.06 g/t Au (MtH_15)
3.0m @ 11.78 g/t Au and 12.5m @ 1.38 g/t Au (MtH_26)
20.9m @ 2.29 g/t Au (MtH_34)
14.0m @ 2.12 g/t Au (MtH_36)
4.8m @ 1.74 g/t Au and 10.0m @ 1.19 g/t Au (MtH_37)
11.00m @ 2.65 g/t Au (MtH_43)

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22.00m @ 2.18 g/t Au (MtH_46)
 7.40m @ 2.02 g/t Au (MtH_47)
 7.00m @ 2.21 g/t Au (MtH_52)
 12.85m @ 1.49 g/t Au (MtH_57)
 16.40m @ 1.62 g/t Au and 5.50m @ 0.61 g/t Au (MtH_28)
 12.55m @ 2.48 g/t Au (MtH_30)
 15.50m @ 2.20 g/t Au and 7.00m @ 2.04 g/t Au (MtH_32)
 10.00m @ 1.65 g/t Au (MtH_48)
 11.00m @ 1.15 g/t Au (MtH_51)
 8.05m @ 1.61 g/t Au (MtH_56)
 14.40m @ 1.63 g/t Au and 3.00m @ 2.15 g/t Au (MtH_61)
 20.00m @ 2.18 g/t Au and 1.00m @ 30.80 g/t Au (MtH_62)

Selene (open Pit)

16.9m @ 1.49 g/t Au and 8.35m @ 1.61 g/t Au (SEL11)
 10.6m @ 3.15 g/t Au, 3.90m @ 2.80 g/t Au, 4.25m @ 2.32 g/t Au and 11.0m @ 1.63 g/t Au (SEL12)
 9.25m @ 2.54 g/t Au and 7.95m @ 1.42 g/t Au (SEL15)
 28.45m @ 1.69 g/t Au and 5.00m @ 1.99 g/t Au (SEL21)
 18.00m @ 2.81 g/t Au and 23.40m @ 1.98 g/t Au (SEL08)
 17.80m @ 1.56 g/t Au and 13.75m @ 2.18 g/t (SEL14)
 7.70m @ 2.06 g/t Au, 6.70m @ 1.56 g/t Au and 20.80m @ 1.45 g/t Au (SEL18)
 26.30m @ 1.15 g/t Au (SEL19)

North Scotia (open pit)

8.00m @ 2.55 g/t Au and 3.0m @ 13.28 g/t Au (SCO09)
 1.00m @ 15.0 g/t Au (SCO10)
 3.00m @ 5.29 g/t Au (SCO12)
 12.00m @ 2.15 g/t Au (SCO08)
 2.00m @ 3.30 g/t Au (SCO14)
 4.00m @ 1.93 g/t Au (SCO18)

Bankable Feasibility Study (BFS) Status

The proposed BFS timeline is presented in Figure 2.



Figure 2: Mt Henry JV Gold Project BFS Timeline

A number of work streams are running concurrently, and the focus of the BFS will be maintained on the activities highlighted below.

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Resource Modelling

Resource models for Mt Henry, Selene and North Scotia completed during the year which led to an upgrade to the Gold Resource to 45.09Mt at 1.18g/t Au for 1.71Moz of Au (*Announcement to ASX by PAN 13/9/2013*).

In September 2013 Panoramic advised that the Mineral Resource at the Mt Henry Gold JV Project has been increased by 248,000oz to 1.71 million oz of gold (Matsa's share 510,000 Oz). Importantly 77% of the resource is now in the Indicated Resource category (Table 1).

| Resource | Date of Resource | Indicated | | Inferred | | Total | | Metal (Au oz) |
|---------------------|------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|------------------|
| | | Tonnes | Au (g/t) | Tonnes | Au (g/t) | Tonnes | Au (g/t) | |
| Selene | July 2013 | 17,512,000 | 1.17 | 5,163,000 | 0.92 | 22,675,000 | 1.11 | 811,400 |
| Mt Henry | July 2013 | 15,527,000 | 1.24 | 6,394,000 | 1.13 | 21,921,000 | 1.21 | 851,300 |
| North Scotia | | 358,000 | 3.11 | 138,000 | 1.95 | 496,000 | 2.79 | 44,442 |
| Total (100%) | | 33,396,000 | 1.22 | 11,695,000 | 1.05 | 45,091,000 | 1.18 | 1,707,200 |

*Table 1: Mt Henry Gold JV Project revised Resource 13 September 2013
Resource table is shown on a 100% basis - Matsa 30% Panoramic 70%
Cut-off grade 0.4g/t (previously reported at 1g/t)*

Competent Persons Statement

The information in this report that relates to the Mt Henry Project Mineral Resources is based on information compiled by or reviewed by Andrew Bewsher (MAIG). Mr Bewsher is a full time employee of BM Geological Services and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Bewsher consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Environmental Baseline Studies

Baseline work on flora and terrestrial, aquatic and subterranean fauna to be presented to WA governmental departments in preparation for staged approvals.

Plant Design and Flow Sheet optimization

Ore samples taken from the BFS drill programme are now undergoing metallurgical characteristics evaluation to maximize gold recovery and allow estimates of the optimal plant capital and operating costs.

Mine Planning and Design

Pit optimization work to commence once the Resource Models are complete. Panoramic Resources is targeting the completion of the Mt Henry BFS in the December 2013 quarter.

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Mt Henry JV Regional Exploration

During the year, exploration activities have included prospecting and soil sampling in order to advance targets to drill stage as previously announced to the ASX by MAT on 18/6/2013. Key activities have been as follows:

- Shear hosted gold target developed at Abbotshall South to be tested by 12 RC Drill holes along 3 traverses;
- Field inspection of large coincident soil Ni and Cu anomaly over the Mt Thirsty Sill in order to prioritise targets for ground EM surveys;
- Field inspection in preparation for aircore drill testing of Lake Cowan conceptual palaeochannel gold target; and
- Two RC drill holes designed to test strong Induced Polarisation (IP) target for 'Norseman style' high grade gold veins at the Lake Kirk prospect.

Abbotshall South

Drilling is proposed to test a well-defined soil gold anomaly extending over a distance of >7km and interpreted to reflect gold mineralisation along the Abbotshall Shear Zone which contains the Abbotshall gold deposit. Broader discrete zones of high soil gold values (up to 0.18g/t Au) along the shear have been targeted for gold mineralisation developed as shoots in structurally favourable sites which is the case at the Abbotshall Mine. Recent grab samples of iron stained quartzite scree have returned up to 0.4g/t Au.

Lake Kirk

Matsa believes that there is potential at Lake Kirk for a 'Norseman style' high grade quartz vein gold system at depth, which has not been identified by the relatively shallow (30m – 125m) drill holes completed by WMC in 1986.

An exploration model was developed whereby thicker, economically viable auriferous veins could be detected by the Induced Polarisation (IP) ground geophysical method as electrically resistive but chargeable bodies. Accordingly, an evaluation IP survey designed to test the concept has been completed for a total of 3 lines of dipole-dipole IP.

A strong IP response was obtained along the central line of the three IP lines carried out. Two RC holes have been designed to test for veins or highly silicified and altered volcanics containing disseminated sulphides.

Lake Cowan Palaeochannel Target

A 4km long sinuous linear magnetic feature interpreted to represent a palaeo drainage channel was interpreted within Lake Cowan. The magnetic character of this channel system is thought to reflect magnetite/maghemite bearing channel fill.

POW approval has been received for an aircore drilling programme to test the interpreted palaeochannel for significant gold mineralisation potentially sourced from the nearby high grade Norseman gold deposits.

Mt Thirsty Nickel Target

A 4km long structurally thickened zone in ultramafics at the base of the Mt Thirsty sill was interpreted in the aeromagnetic data. This zone is associated with elevated Ni, Cu, Co and PGE values in soil, and has been targeted for nickel sulphides.

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Newexco have been commissioned to carry out a ground moving loop electromagnetic (MLEM) survey.

KILLALOE (MATSA 80% CULLEN RESOURCES 20%)

The Killaloe project comprising 94km² is located 35km NE of Norseman in Western Australia. A partial surrender was carried out on E63/1018 to comply with 40% tenement reduction after 4 years. The most prospective 26 blocks have been retained.

Matsa has been operating the project under a farm in agreement with Cullen Resources Limited (ASX:CUL) since 2010. Matsa fulfilled the farm in requirements and notified Cullen of its entitlement to a 70% interest in the project. Cullen has exercised its option to be free carried to a decision to mine, and Matsa, as a result of Cullen's decision, has now earned 80% of the project.

Until recently, exploration activities by Matsa at Killaloe were primarily focused on the discovery of gold mineralisation as potential trucking feed for any future mill at the Mt Henry Gold JV project.

Matsa's recent work at Killaloe has revealed significant untested potential for nickel sulphide mineralisation as well as gold. Details are included in the Announcement to the ASX by MAT on 18/6/2013.

Killaloe Gold Exploration

Exploration activities during the year comprised:

- Soil MMI gold and silver anomaly KLGTO1 was identified and a 20 hole aircore drilling programme has been proposed to test this anomaly;
- Soil MMI gold and silver anomaly (with supporting zinc values) at KLGTO2 was identified and will be tested by a 35 hole aircore drilling programme using a specially designed lake rig;
- Rock chip sampling returned assay values up to 3.3g/t Au and 3.2% Zn at the Gossan E prospect which is associated with a 2.5km long gold in soil anomaly. Three RC drill holes have been proposed to test this target; and
- A total of 222 infill soil samples were collected in areas of relatively sparse regional sampling. Results are awaited.

KLGT01

Soil mobile metal ion (MMI) gold results defined a gold and silver anomaly measuring 1km long and up to 0.5km wide. This soil anomaly was interpreted to be located in a structurally favourable location where metasediments or felsic volcanics have been disrupted by faulting. Aircore drilling is proposed to test this target.

KLGT02

This target is located in Lake Cowan adjacent to Sirius Resources' Polar Bear prospect. Soil mobile metal ion (MMI) gold results defined a gold and silver anomaly measuring over an area approximately 0.8km long and up to 0.6km wide.

Anomalous gold and silver values can be seen to be supported by copper and zinc values and appear to be located over the same metasediments which underlie the Polar Bear Humphrey prospect immediately to the NW.

Aircore drilling will be carried out with a specially adapted rig to cope with working on a lake bed surface and water up to half of a meter deep in Lake Cowan.

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Gossan E Gold and Zinc in Rock Samples

Recent rock chip sampling of a massive ironstone float at Anaconda's "Gossan E" nickel target returned values of up to 3.3g/t Au, 5.5g/t Ag and 3.2% Zn.

The gossanous ironstone is located adjacent to a strike extensive felsic porphyry sill which outcrops intermittently over a strike extent of 2.5km from Gossan E towards the SE. This sill can be seen to coincide with a well defined soil gold anomaly with values up to 0.4 g/t Au.

Three RC drill holes are proposed to test gold mineralisation at depth at Gossan E and along the extensive soil anomaly.

Killaloe Nickel Exploration

Past nickel exploration at Killaloe has been focused on two belts of ultramafic rocks, the Eastern Ultramafic Belt (EUB) and Western Ultramafic Belts (WUB) respectively.

Similarities between the ultramafic packages at Killaloe and the host sequence at Kambalda located 60km to the north have led to the interpretation that Killaloe is located on the same belt.

Significantly, it was drilling at the northern end of the WUB by Sipa Resources in 2003 which intersected nickel sulphide mineralisation at the Hanging Wall Gossan prospect (3m @ 0.49% Ni drillhole KLC21) thereby supporting the prospectivity for a significant nickel sulphide deposit at Killaloe.

Past exploration has consisted of soil geochemistry, detailed aeromagnetics, geological mapping and ground electromagnetic surveys, but with only limited drill testing of conductors identified by these surveys. The following work programme is proposed:

- RC drill testing of 3 high priority conductors identified by past work by Sipa Resources; and
- Additional ground EM surveys over 8 target areas in order to define further drill targets.

Symons Hill Project (Matsa 100%)

This project comprises one exploration licence E69/3070 which is 96km² in extent, located within the Fraser Range Tectonic zone and within 6kms SSW of Sirius Resources' Nova and Bollinger Nickel Copper deposits. The project is located in a soil covered area with only minimal outcrop. A comparison between regional aeromagnetic and gravity information at Symons Hill Project and the Nova/Bollinger discoveries indicates marked similarities in geological setting.

Matsa is highly encouraged in the potential for Ni sulphide mineralisation of Nova/Bollinger type at Symons Hill and exploration results have previously been reported by the company to the ASX.

The Symons Hill Fault which Matsa believes to have been an important control on mineralisation at Nova extends to the SW onto Matsa's Symons Hill Project. In addition, Matsa believes there are similarities between the aeromagnetic expression of the SHG01 coincident Ni and Cu soil anomaly, and the "Eye" which encloses Sirius' Nova and Bollinger nickel discoveries.

Matsa carried out exploration programmes at Symons Hill over the course of the year which embraced the following:

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- Regional and infill soil sampling;
- Heli-borne VTEM;
- Ground EM surveys; and
- Aircore drilling.

Regional and Infill Soil Sampling

Wide spaced regional and infill soil sampling over the Symons Hill project area identified 6 high priority soil geochemical targets (SHG01 – SHG06). Three of these targets SHG01, SHG04 and SHG06 are coincident anomalous Ni and Cu anomalies, while targets SHG02 and SHG03 are anomalous in Ni only and SHG05 is anomalous in Cu only.

Furthermore, these targets were further highlighted by their proximity to the Symons Hill fault which is thought to be an important control on the location of the Nova/Bollinger nickel discoveries.

Heli-borne VTEM

A helicopter borne Versatile Time Domain Electromagnetic (VTEM) survey was carried out over the entire Symons Hill project area. This survey successfully identified 6 high priority VTEM conductors (SH_VA1 – SH_VA6) two of which were located close to high priority soil geochemical targets. These VTEM conductors were announced to the market in December 2012 as an initial focus for ground EM surveys.

The airborne electromagnetic data was heavily affected by highly conductive near surface materials which significantly reduced the surveys' effectiveness in detecting 'Nova type' conductors at depth.

Ground EM surveys

Matsa appointed Newexco Services as its geophysical consultants in the second quarter of 2013 to take advantage of their track record in guiding successful Nickel sulphide exploration for, amongst others, Sirius Resources (ASX:SIR) and Western Areas (ASX:WSA).

In a review carried out of exploration to date at Symons Hill, it was recommended that ground EM would be a more effective tool to explore for deep nickel massive sulphide deposits.

Consequently, a large Moving Loop ground Electromagnetic Survey (MLEM) was carried out. This survey focused primarily on the area adjacent to the Symons Hill fault and included coverage of 5 of the 6 geochemical soil anomalies.

The MLEM survey plus some selected fixed loop (FLEM) surveys identified 5 conductors (Plates 1 – 5). Importantly, it can be seen that PLATES 3, 4 and 5 are supported by high priority soil nickel and copper anomalies.

Aircore Drilling

A programme consisting of 71 first-pass aircore drill holes commenced on the 12th August 2013.

The objective of the programme was to:

- Determine the source of soil geochemical anomalies SHG01, SHG02, SHG04 and SHG06; and
- Determine basement geology which is concealed by overburden.

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Geological logging of drill holes identified a suite of variably weathered mafic intrusive rocks ranging in composition from anorthosite (plagioclase feldspar-rich gabbro) and troctolite (olivine-rich gabbro) which form part of the Fraser Range Intrusive Complex. This range of rock types is interpreted to form part of a large fractionated mafic intrusion with potential for associated Nickel sulphide deposits based on the Voisey’s Bay and Nova/Bollinger models. Weathering of basement lithologies has produced a clay rich saprolite profile to depths of up to 63m grading into progressively less weathered rock at depth.

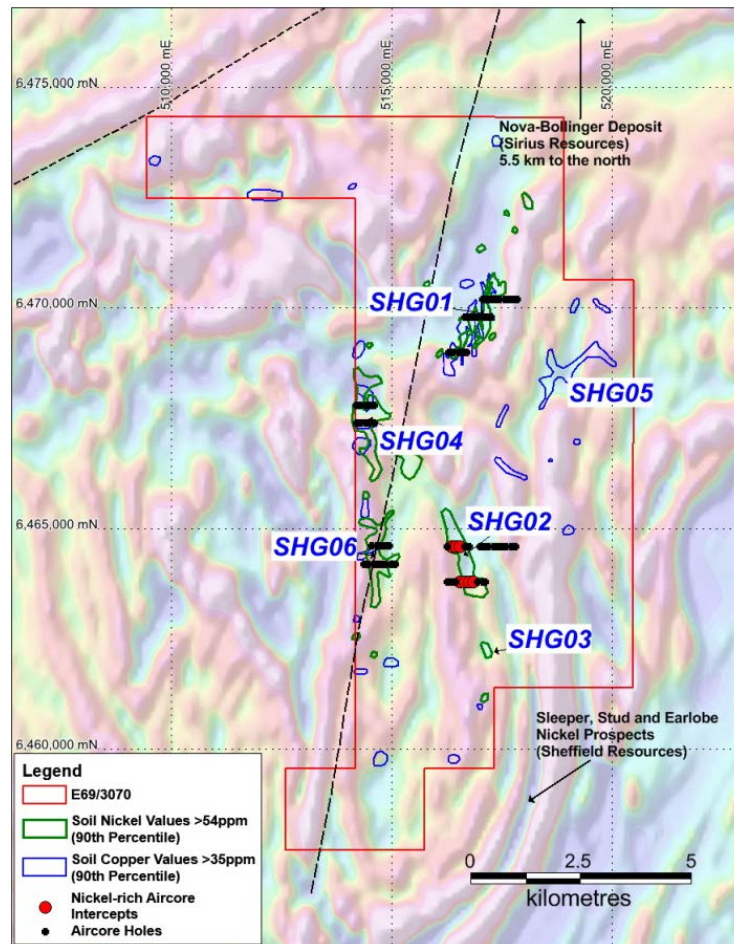


Figure 3: Symons Hill Project, Location of Aircore Drillholes

The key outcome of this first pass drilling programme was the discovery of strongly enriched Ni values in weathered rocks over target SHG02 (Figure 3).

Strongly anomalous nickel values up to **0.68% Ni** were returned in 7 holes along two traverses spaced 800m apart. This nickel rich zone can also be seen to partly overlie ground EM conductor Plate3.

Key Assay Results target SHG02

Nickel rich intercepts in Target SHG02 with supporting elevated Cu and Co values are listed below:

| Drillhole | Intercept |
|-----------|--|
| SHAC068 | 20m of 0.31% Ni , 0.007% Cu, 0.028% Co from 12m; Including 4m @ 0.39% Ni , 0.013% Cu, 0.042% Co; and 4m @ 0.41% Ni , 0.004% Cu, 0.046% Co |

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| | |
|---------|--|
| SHAC040 | 25m of 0.26% Ni , 0.002% Cu, 0.022% Co from 8m; Including 4m of 0.68% Ni , 0.004% Cu, 0.084% Co from 20m |
| SHAC067 | 35m of 0.24% Ni , 0.010% Cu, 0.011% Co from 12m; Including 8m @ 0.38% Ni , 0.015% Cu, 0.005% Co; and 4m @ 0.41% Ni , 0.008% Cu, 0.025% Co |
| SHAC065 | 8m of 0.24% Ni , 0.040% Cu, 0.020% Co from 44m |
| SHAC066 | 7m of 0.15% Ni , 0.011% Cu, 0.011% Co from 36m |
| SHAC038 | 8m of 0.10% Ni , 0.025% Cu, 0.030% Co from 24m |
| SHAC038 | 1m of 0.14% Ni , 0.044% Cu, 0.031% Co from 44m |
| SHAC039 | 4m of 0.09% Ni , 0.021% Cu, 0.011% Co from 12m |

Elevated Ni values >0.1% Ni in aircore correspond closely with the SHG02 soil Ni anomaly (Figures 4 and 5). The soil anomaly and underlying nickel rich zone intersected by drilling, is 200 – 300+ metres wide and oriented in a NNW direction. This zone can also be seen to coincide with an elongated SE trending magnetic low and remains open to the north and south, and at depth. Nickel values in particular are comparable with early exploration results in weathered rocks at Nova/Bollinger.

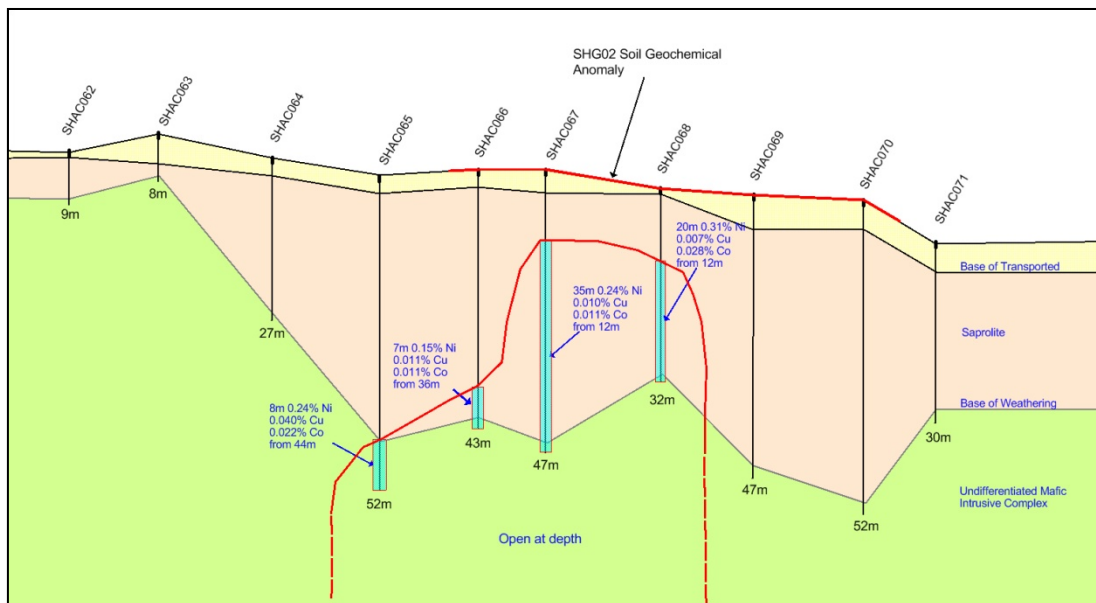


Figure 4: Target SHG02, Summary Aircore Drill Section 6463800mN (Vertical Exaggeration 5:1)

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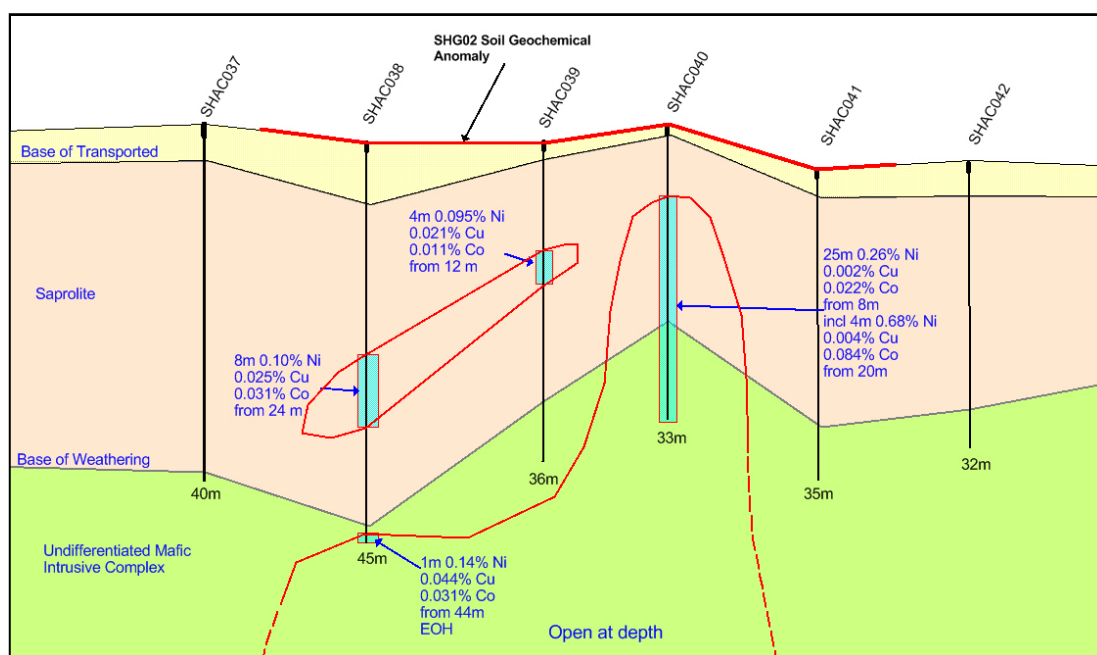


Figure 5: Target SHG02, Summary Aircore Drill Section 6464600mN (Vertical Exaggeration 4:1)

Results Targets SHG01, SHG04 and SHG06

Aircore drilling intersected a suite of weathered gabbroic intrusive rocks which are visually similar to those in Target SHG02. Assay results did not identify a basement source for these three high priority coincident Ni and Cu anomalies and additional exploration is required.

Future Exploration

An exploration programme comprising Induced Polarisation (IP) surveys, additional aircore drilling, and subsequent RC and diamond drilling is currently being designed to follow up the encouraging results from target SHG02 and continue to evaluate the other targets.

Fraser Range North JV (Matsa 90% Triton 10%)

This project comprises 2 exploration licences for a total of 354km² which are located within the Proterozoic Fraser Range Tectonic zone close to the south eastern margin of the Archaean Yilgarn Craton.

Exploration by Matsa has been directed towards bringing targets to drilling stage. RC drilling is proposed on two prospects namely, Similkameen (gold) and Fraser North Bullseye (FNB) (gold base metals).

Similkameen

This target comprises a discrete 2.5km long soil gold anomaly (>5ppb Au) which is interpreted to be in a similar geological setting to AngloGold Ashanti / Independence Group's Tropicana gold deposit 300km to the NNE.

Anomalous gold values have previously been intersected in basement rocks underlying the soil gold anomaly in 2 shallow drillholes completed by Triton Gold as follows:

- FRA211, 4m @ 1.71g/t Au (48-52m); and
- FRA233, 4m @ 0.3g/t Au (52-56m).

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

9 RC drill holes are proposed to test this anomaly.

Fraser North Bullseye (FNB) Magnetic Target

The target is defined as a moderate amplitude dipolar magnetic anomaly along 4 aeromagnetic flight lines and is interpreted to have dimensions of 1km EW by 450m NS. The peak amplitude of the magnetic anomaly is 350nT.

The discrete nature of this anomaly and its location close to a major fault in an area of very subdued background magnetics are thought to reflect a magnetite bearing intrusion into the basement gneiss complex.

The FNB target is located in an area with no significant past exploration because basement lithologies are obscured by regolith cover which includes a veneer up to 40m thick of Tertiary sediments of the Eucla Basin (Eundynie Formation).

Modelling of aeromagnetic data indicates a depth to the top of the magnetic source body of between 50m and 150m.

Matsa proposes 2 RC drill holes to test the concept that this magnetic anomaly reflects the presence of a Magnetite rich Iron Oxide Copper Gold system.

Alternatives include intrusives of carbonatite or kimberlite affinity or intrusive related magnetite bearing skarns all of which have the potential to have associated economic mineralisation.

The direct drilling costs associated with this programme will be 50% funded under the DMP's Exploration Incentive Scheme (EIS).

DUNNSVILLE GOLD PROJECT

The Dunnsville Gold Project comprises a group of Exploration Licences covering 304km² located only 65km WNW of Kalgoorlie and 50km NW of Coolgardie.

During the year Matsa carried out exploration as follows:

- Infill soil sampling to better define soil gold targets at Yarmany, Heines Dam and Great Kangaroo;
- Four diamond drillholes at the Big Red prospect to test the source of high grade gold intercepts in aircore drilling; and
- 78 aircore holes to test for the source of soil geochemical anomalies at Great Kangaroo and Heines Dam.

Big Red

The Big Red prospect, which is part of the Dunnsville Gold Project, has had no previous gold workings and represents a greenfields discovery by Matsa. The prospect is defined by a NW/SE trending gold-in-soil anomaly extending over a distance of 3 kilometres.

A RAB drilling programme carried out early in 2011 returned significant exploration drilling results from the drilling campaign at the Dunnsville Project with intercepts >1.0 g/t Au in 14 RAB holes including values up to 7.85g/t Au at or close to the base of weathering beneath 40-60m of un-mineralised cover (Table 2).

Four diamond holes were completed during the year to test for gold in unweathered basement rocks beneath the most significant RAB intercepts (Table 2).

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OPERATIONS REVIEW

Drill holes were designed to test potential for a vein stockwork in sheared and silicified gabbro/dolerite between the Bullabulling and Reptile Faults.

| Hole ID | From | To | Interval | Au g/t |
|------------|------|----|----------|--------|
| 10BRRAB134 | 32 | 33 | 1 | 1.43 |
| 10BRRAB147 | 59 | 60 | 1 | 6.33 |
| 10BRRAB148 | 46 | 47 | 1 | 1.09 |
| 10BRRAB155 | 51 | 52 | 1 | 7.85 |
| 10BRRAB169 | 43 | 44 | 1 | 1.63 |
| 10BRRAB187 | 47 | 48 | 1 | 4.84 |
| 10BRRAB189 | 53 | 54 | 1 | 1.4 |
| 10BRRAB190 | 58 | 62 | 4 | 1.06 |
| 10BRRAB190 | 61 | 62 | 1 | 1.36 |
| 10BRRAB191 | 56 | 57 | 1 | 2.99 |
| 10BRRAB197 | 52 | 55 | 3 | 1.67 |
| 10BRRAB205 | 14 | 15 | 1 | 1.34 |
| 10BRRAB206 | 58 | 59 | 1 | 2.15 |
| 10BRRAB217 | 50 | 51 | 1 | 1.22 |
| 10BRRAB220 | 49 | 50 | 1 | 1.83 |

Table 2: Big Red Prospect Key RAB intercepts >1g/t Au

Drilling showed the presence of quartz veins in variably sheared and altered course to medium grained gabbro/dolerite. Significant gold bearing intersections include:

- 0.7m @ 2.44g/t from 80.4m (12BRDDH002);
- 2m @ 1.06g/t from 98m (12BRDDH002); and
- 1.1m @ 2.56g/t from 56.9m (12BRDDH004).

While individual vein intersections are clearly sub-economic, it was determined that mineralised quartz veins are located within a broader zone up to 40m wide characterised by anomalous gold values in the range of 0.05-1 g/t Au. Deeper drilling is being considered to test the concept that these lower grade envelopes may extend into higher grade gold at depth.

Heines Dam, Great Kangaroo

Matsa completed a 78 hole 3,357 metre RAB drilling programme during the quarter to test regionally extensive soil gold anomalies at the Great Kangaroo and Heines Dam prospects. Two RAB holes at Heines Dam returned values > 0.1 g/t Au as follows:

- **Hole 12HDRB068** - 2 consecutive intercepts were achieved for an aggregate of 8m @ 0.67g/t Au at EOH. This intercept is located in deeply weathered dolerite and coincides with an increase in quartz veining with iron oxide staining (probably after pyrite) in weathered dolerite.
- **Hole 12HDRB066** - a mineralised intercept of 0.25g/t Au in the last 3m of this hole appears to coincide with a contact between dolerites and metabasalt possibly located in a fold closure.

A four hole RC drilling programme has been designed to test for mineralisation in unweathered basement beneath these intersections.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

New Projects – Matsa 100%

Matsa continues to conduct detailed reviews of available strategic projects which are highly prospective for gold and base metals. To this end, tenements have been acquired based on appraisals of past exploration in a number of areas. These include the Coonana, and Carlisle projects in the Northern Fraser Range Belt and the Minigwal and Lightfoot Projects in the NE Yilgarn Craton (Figure 1).

Coonana and Carlisle Projects

The target is gold mineralisation within high grade metamorphics of the Fraser Range tectonic zone. There are a number of reported gold prospects in the district e.g. Beachcomber and Plumridge.

Structural/stratigraphic targets have been highlighted within the project based on comparison with other gold prospects in the district using aeromagnetic and regional gravity data and results from existing geochemical sampling and drilling obtained from open file and GSWA reports.

Minigwal and Lightfoot Projects

There are a number of current Nickel sulphide prospects under investigation in the district e.g. Cambridge (St. George Minerals ASX:SGQ), and White Cliffs (White Cliffs Minerals ASX:WCN).

A very large exploration database is available on open file from past work. This data has been used to develop a number of targets for both gold and Nickel sulphides on the project. It is proposed to carry out field inspections on these in conjunction with detailed infill and rock chip sampling.

One high priority Ni-Cu soil geochemical anomaly with minimal reported follow-up, has been identified from past work at Lightfoot.

DUNDAS IRON ORE PROJECT

The Dundas Iron Ore Project covers 11.3km² of the southern Norseman-Wiluna Greenstone belt in Western Australia. It is covered by a Mining Lease Application 63/653 covering 8 granted Prospecting Licenses and part of granted Mining Lease 63/515.

All leases are approved for iron ore and are held by ASPMI Pty Ltd (100% Subsidiary of Matsa). The leases are north of and abut The Mt Henry Gold Joint Venture area containing some 1.5 Million ounces of gold in resources.

The project contains an exploration target of magnetite contained in a Banded Iron Formation (BIF) that has a strike length of over 7 kilometres. The project site is particularly well serviced by roads, railway, gas pipeline and the Port of Esperance 190 kilometres to the south.

Project Description

Exploration carried out by Matsa on The Dundas Iron Ore Project has identified significant magnetite iron mineralisation over a strike length of more than 4.7 kilometres within the tenement area. Mineralisation is in the form of magnetite rich BIF, of the Noganyer Formation which is inter-layered with medium to coarse grained dolerite and amphibolite. Based on geological mapping and interpretation of detailed airborne magnetic data there are at least three distinct zones rich in magnetite which are Matsa's principal iron ore targets.

The host banded iron formation unit forms a ridgeline along most of the mineralised strike length within an undulating area of low to moderate relief.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Infrastructure

It is important to note that the most significant attribute of this project apart from the resource is the exceptional location relative to available infrastructure. Put simply the project has:

- Railway facilities 3 km to the west of the Iron Ore deposit which has confirmed excess capacity, once a spur is built to facilitate loading, all production will be easily catered for;
- Esperance Port which is capable of Cape class ship of 90,000 tonne capacity is 190 km to the south of the project. Recent government and Port Authority statements have stated that up to a further 30 million tonne capacity will be provided within the project time frame being 4 years. Currently some 11 million tonnes of iron ore is currently shipped through this facility;
- Major vehicle highway runs mostly parallel with the railway ensuring a viable alternative and vehicle access through all weather conditions; and
- Gas pipeline with connection points runs through the tenements thus ensuring necessary, environmental friendly and vital power supply is available.

The first phase in a three phase \$6 million preliminary exploration/evaluation programme has been completed. This phase comprised a drilling programme for a total of 1,901 metres of Reverse Circulation (RC) drilling and 197.5 metres of diamond drilling, and was completed in mid - December 2010.

This programme achieved the following outcomes which have been reported in detail to the ASX:

- Established the Grade and Continuity of the target magnetite BIF Bands;
- Confirmed the presence of an exploration Target of 350-750Mt^{*1} (magnetite BIF);
- Confirmed Davis Tube weight recoveries in the range 25 to 40%^{*1}; and
- Confirmed magnetite concentrate specs in terms of low content of SiO₂, Al₂O₃, P and S.

Results from this programme established that the Dundas BIF is made up of two magnetite BIF lithotypes with contrasting magnetic concentrate parameters:

- Type 1 BIF contains coarse-grained recrystallised magnetite, and produces low silica (<8% SiO₂) DTR concentrate;
- Type 2 BIF has ultrafine-grained magnetite and produces a high silica (>8% SiO₂) DTR concentrate.

Highest DTR magnetite recoveries with lowest impurities e.g. SiO₂ (characteristics of Type 1 BIF) have been achieved in finely banded quartz/ magnetite/amphibole BIF in the two eastern bands within the BIF package. Typical Type 1 BIF results are listed below:

10DURC002: 56m @ 31.78% DTR, 67.81% Fe and 4.95% SiO₂ (From 40m)
10DURC007: 31m @ 29.33% DTR, 68.78% Fe and 3.66% SiO₂ (From 46m)
10DURC006: 26m @ 37.04% DTR, 66.49% Fe and 7.37% SiO₂ (From 53m)
10DURC007: 20m @ 30.67% DTR, 68.32% Fe and 4.12% SiO₂ (From 126m)
10DURC006: 19m @ 36.20% DTR, 69.79% Fe and 3.24% SiO₂ (From 53m)
10DURC003: 15m @ 41.41% DTR, 67.23% Fe and 6.02% SiO₂ (From 35m)
10DURC005: 15m @ 34.97% DTR, 68.18% Fe and 4.40% SiO₂ (From 45m) open at depth
10DURC022: 59m @ 37.66% DTR, 65.30% Fe and 7.57% SiO₂ (From 49m) open at depth
10DURC011: 11m @ 33.42% DTR, 68.01% Fe and 4.89% SiO₂ (From 41m)
10DNDH001: 21.4m @ 30.36% DTR, 65.80% Fe and 3.01% SiO₂ (From 102.5m)

MATSA RESOURCES LIMITED

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These results confirm that there are significant zones within the Dundas BIF where excellent DTR recoveries and concentrate grades can be achieved using industry standard grinding and recovery processes. A weighted average of DTR recovery for Type 1 low silica intercepts is 33.67%.

The desirable low silica group of intercepts are all located on the eastern side of the Dundas BIF package. Follow up drilling is proposed along the Eastern BIF to confirm continuity of low silica BIF and to confirm Matsa's Exploration Target parameters of 350 – 750Mt^{*1} of magnetite BIF containing >25% recoverable magnetite.

Thailand

Matsa Resources have applied for 124 special prospecting licenses prospective for gold, iron ore and copper in Thailand for a total of 1,766km² (Figure 6).

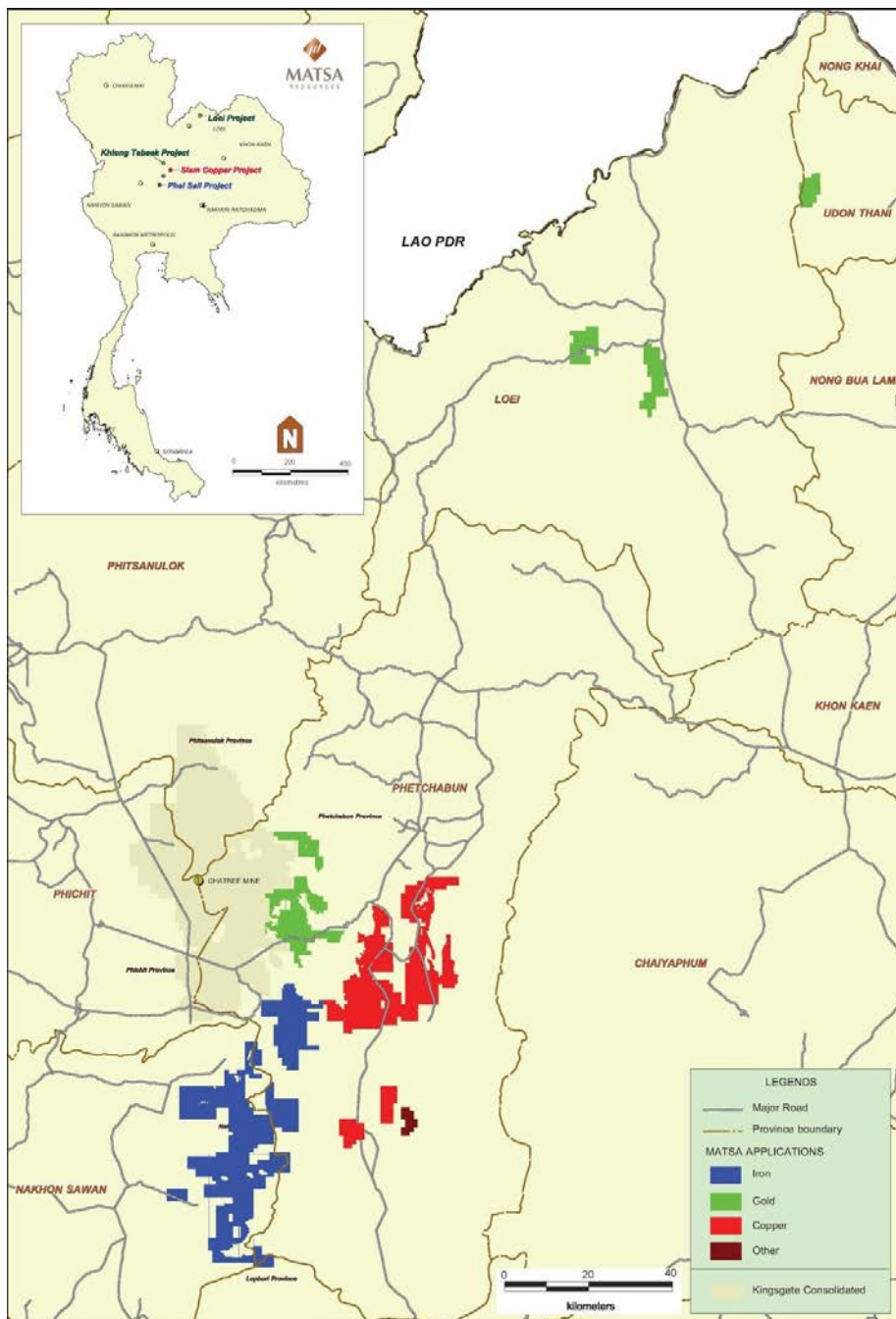


Figure 6: Matsa Special Prospecting Licence Applications Thailand

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Once granted, this will be a significant landholding for a foreign company in Thailand, representing a unique competitive advantage for Matsa (Table 3).

| Matsa Subsidiary Company | No | AREA Km2 |
|------------------------------|----|-----------------|
| PVK Mining Co., Ltd. | 67 | 952.166 |
| Phaisali Mining Co., Ltd. | 2 | 17.92 |
| Klong Tabae mining Co., Ltd. | 2 | 31.05 |
| Siam Copper | 49 | 732.4 |
| Loei Mining Co., Ltd. | 4 | 32.06 |
| Total | | 1765.596 |

Table 3: Matsa Current Special Prospecting Licence Applications Thailand

PAISALI IRON ORE PROJECT

The Paisali Iron Ore Project comprises 56 Special Prospecting License Applications covering an area of 789km², close to the town of Paisali in Central Thailand.

High amplitude magnetic anomalies in the project are being explored as a source of magnetite iron ore, with significant potential to establish a profitable iron ore business supplying steel mills in Thailand and elsewhere in Asia (Figure 7).

These exploration targets are located on flat lying agricultural land and are concealed by regolith, including transported alluvium in low lying areas and are based on an exploration model which links hydrothermal “skarn” mineralisation with high level igneous intrusions into sediments and volcanics. Historic small scale mining has been carried out on at least two magnetite skarn deposits in the district which supports the exploration model.

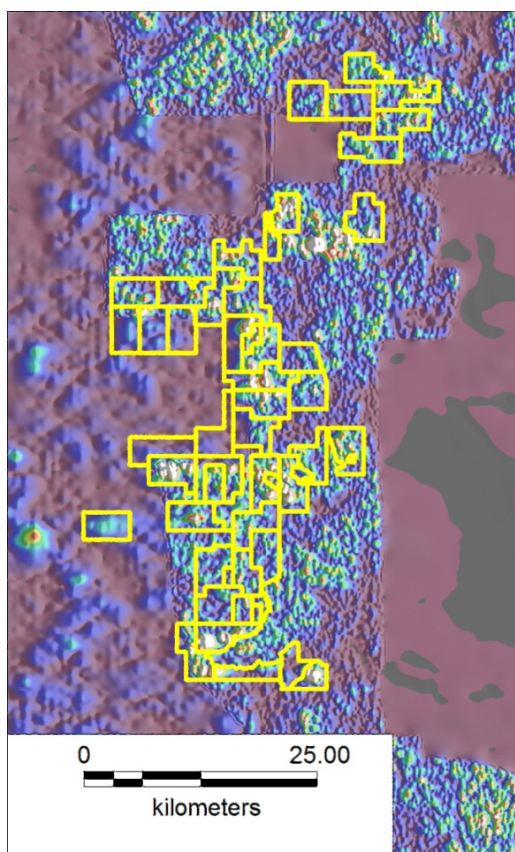


Figure 7: Paisali Project outline on Aeromagnetic Image

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Matsa has carried out a total of 700 line kilometres of ground magnetic surveys on line spaced 25m apart and focused primarily on 10 prospects. Targets have been interpreted as sub-vertical to steeply dipping tabular bodies of magnetite skarn ranging in length up to 1.3 kilometres and up to 75 metres wide.

Siam Copper Project

The Siam Copper Project in Petchabun Province Thailand is held under 49 Special Prospecting Licence (SPL) Applications by Siam Copper Co., Ltd a wholly owned subsidiary of Matsa Resources Ltd.

The project is located in a settled agricultural area approximately 300 kilometres north of Bangkok. It was initially established to explore for the source of widespread anomalous copper values in stream sediment samples collected by the DMR in 2003.

The project is located over mostly privately owned farmland but includes areas of forest as well as leasehold land administered by the Department of Agriculture.

The project is located in a geological domain referred to as the Loei KO Chang Island arc, a generally north south belt of volcanics and minor sediments of Triassic to Tertiary age over a basement of Permian Limestone. No previously reported mineralisation is located within the project area.

All previous exploration was carried out by the DMR and includes airborne geophysical surveys, geological mapping and stream sediment sampling. Copper anomalous catchments over 100 km² in extent are defined by assays >70ppm Cu from DMR survey work. Follow up stream sampling by Matsa confirmed and better defined these anomalies (Figure 16).

Exploration by Matsa during 2012 included the following:

- Infill Stream Sediment Sampling;
- Rock chip sampling including 120 samples analysed by 23 elements by ICP MS;
- Soil sampling of the Siam 1 catchment anomaly comprising 509 samples spaced at 100m x 100m and 200m x 200m intervals through the catchment;
- Detailed logging of rock float samples as the basis for a geological / alteration map of the project. Work on this is ongoing;
- Petrographic analysis of 4 rock samples has been undertaken.

Follow up activities also led to discovery of rock float containing visible copper mineralisation dominated by native copper with lesser malachite, azurite and chalcocite (Figure 8).

Results of exploration have included recognition of widespread float samples within the Siam 1 catchment containing visible copper mineralisation. Assay results of rock chip samples have returned 25 float samples containing more than 0.1% Cu and a number of these contain copper values > 1% Cu.

Soil sampling has identified a number of discrete copper geochemical targets defined by values in excess of 100ppm Cu. These are located in areas of soil cover and trenching and drilling will be necessary to locate and evaluate the source of these anomalies.

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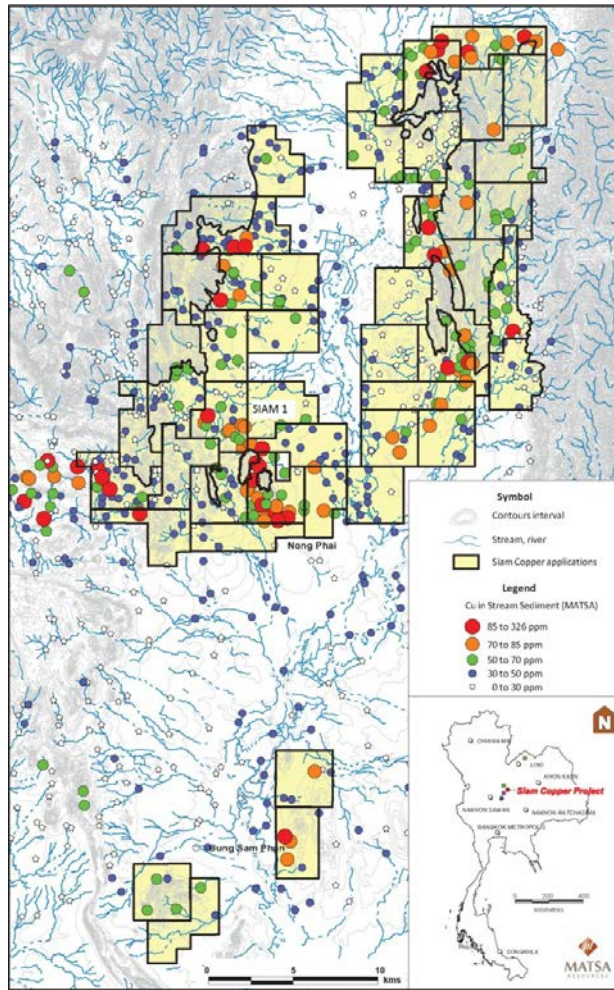


Figure 3: Siam Copper Project Regional Stream Sediment Sampling Results

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OPERATIONS REVIEW



Figure 4: Altered and silicified andesite with native copper mineralisation

KT GOLD PROJECT

Matsa's KT Gold Project is located only 18km East of Kingsgate Consolidated Limited's 5 million ounce Chatree Gold Mine. The project is hosted within the same highly prospective Loei – Ko Chang Volcanic Belt which was an active island arc from Permian to Tertiary times.

The project area is recognised as highly prospective for gold mineralisation of 'Chatree' style. Matsa has already identified two large gold in soil anomalies (the NW and SE anomalies), each approximately 2.5km x 0.5km in extent, based on extensive first pass exploration comprising geological mapping, and stream sediment and soil sampling. These two anomalies are defined by gold anomalous stream sediment and soil samples containing up to 73ppb Au.

The exploration model is for gold mineralisation introduced by fluids originating in a shallow subvolcanic intrusive, into overlying volcanic and sediments. Control of fluid movement is envisaged along active faults with mineralisation accumulating in a variety of structural and chemical traps controlled by the enclosing country rocks. A vertical diamond drill hole completed previously by the DMR is located along strike from the SE anomaly but outside of Matsa's project area. This drillhole intersected 4m @ 3.3g/t Au from 60m in altered veined and silicified conglomerate. This setting appears to be subhorizontal and stratabound within the conglomerate unit and the overall NNE direction of the anomaly probably reflects the direction of the subvertical feeder system. A discrete magnetic feature closely related to the SE anomaly may reflect the position of the underlying subvolcanic intrusive.

Matsa proposes to test both targets with a combination of infill soil sampling and ground electrical surveys to better define the targets for drilling. Ground electrical surveys (e.g. Induced Polarisation) have the potential to detect subsurface pyritic mineralisation.

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OPERATIONS REVIEW

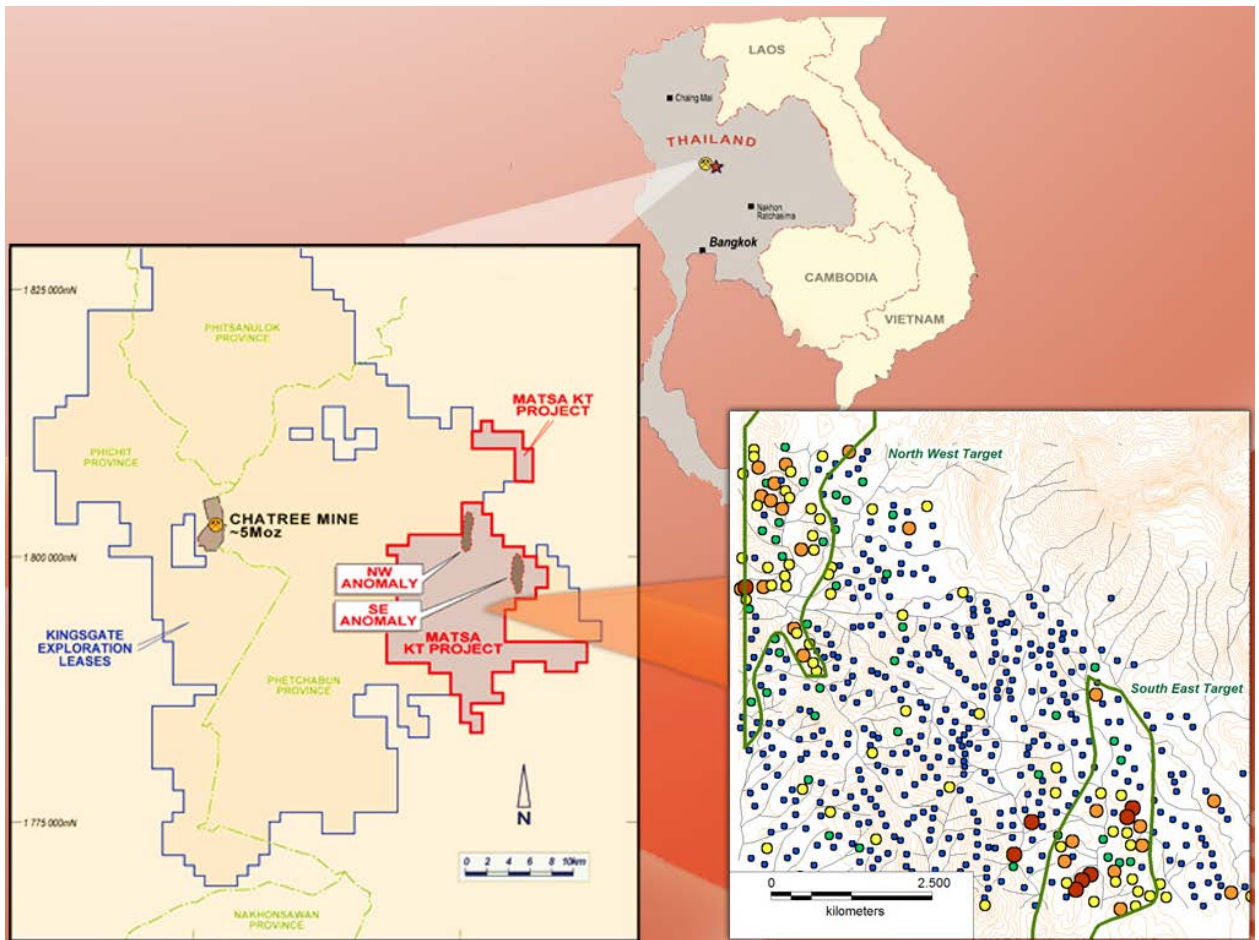


Figure 5: KT Project Location and position of NW and SE anomalies and soil samples

Exploration results

The information in this report that relates to Exploration Results, is based on information compiled by David Fielding, who is a Fellow of the Australasian Institute of Mining and Metallurgy. David Fielding is a full time employee of Matsa Resources Limited. David Fielding 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. David Fielding consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Your directors present their report for the year ended 30 June 2013.

DIRECTORS

The names and details of the Company's directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr Paul Poli Bachelor of Commerce, FCPA (Executive Chairman)

Mr Poli is a fellow of the Australian Society of Certified Practising Accountants and was the founder and managing partner of an accounting firm since 1989. He is well versed in all aspects of accounting and taxation and has considerable experience in business through his role as a consultant to many varied clients and through his own involvement in ownership of businesses in Western Australia, the Northern Territory and South East Asia.

As a former registered Securities Trader and a significant investor in the Mining Industry, Mr Poli is particularly well qualified to drive the creation of a significant new Mining and Exploration Company.

Mr Poli has not served as a Director of any other public listed company in the past three years.

Mr Frank Sibbel B.E.(Hons) Mining, F.Aus.IMM

Mr Sibbel is a Mining Engineer who has over 40 years of extensive operational and management experience in overseeing large and small scale mining projects from development through to successful production. He was formerly the Operations Director of Tanami Gold NL until his resignation on 30 June 2008, and has worked as the Principal in his own established mining consultancy firm where he has undertaken numerous projects for both large and small mining companies. Mr Sibbel is currently the Chairman of Bulletin Resources Limited.

During the past three years, Mr Sibbel has also served as a Director of the following publicly listed companies:

Bulletin Resources Limited (Appointed 13 August 2013)

Mr Andrew Chapman CA F Fin

Mr Chapman is a chartered accountant with over 20 years' experience with publicly listed companies where he has held positions as Company Secretary and Chief Financial Officer and has experience in the areas of corporate acquisitions, divestments and capital raisings. He has worked for a number of public companies in the mineral resources, oil and gas and technology sectors.

Mr Chapman is an associate member of the Institute of Chartered Accountants (ICAA) and a Fellow of the Financial Services Institute of Australasia (Finsia).

Mr Chapman has not served as a Director of any other public listed company in the past three years.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

COMPANY SECRETARY

Mr Chapman is also the Company Secretary and Chief Financial Officer of Matsa. Refer to the directors' particulars as noted above.

PRINCIPAL ACTIVITIES

During the year the principal activities of entities within the consolidated entity were gold and other base metal exploration in Australia and Thailand.

There were no significant changes in the nature of these activities during the year.

Operating Results for the Year

The Group's net loss for the year after income tax is \$4,942,159 (2012: \$1,623,697 loss).

The Group's net profit for the year includes the following items:

- A gain of \$4,171,253 on the sale of a 70% interest in the Group's Mt Henry Gold Project to Panoramic Resources Limited.
- Impairment losses of \$136,295 (2012: \$14,598) attributable to the Group's exploration projects.
- Impairment losses of \$nil (2012: \$223,994) on cash deposits for Thai exploration licence applications.
- Impairment losses of \$5,639,580 (2012: nil) on available-for-sale investments
- The write-off of exploration expenditure of \$642,429 (2012: \$242,235).
- Share based payments expense of \$1,289,414 (2012: \$ 36,575)
- Income of \$672,609 (2012: \$823,409) relating to a tax refund for eligible research and development expenditure.
- Dividend income of \$140,000 received during the year (2012: nil).

Review of Financial Condition

The net assets attributable to the shareholders of the parent have decreased by \$2,723,151 from 30 June 2012 to \$14,009,736 at 30 June 2013.

The Company raised \$933,100 (2012: \$1,810,000) before costs from the issue of shares during the financial year.

Cash reserves at 30 June 2013 were \$2.56 million compared to \$2.12 million in the previous financial year.

DIVIDENDS

No dividend was paid or declared by Matsa in the period since the end of the previous financial year, and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend.

CORPORATE STRUCTURE

Matsa is a company limited by shares, which is incorporated and domiciled in Australia.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

EMPLOYEES

The Group had 13 employees of which 9 were full-time as at 30 June 2013 (2012: 15 full-time equivalent employees).

Review of Operations

A full review of the operations of the Group during the year ended 30 June 2013 is included on pages 3 to 25.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year other than as disclosed in this report or the consolidated financial statements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 5 August 2013 Matsa increased its interest in Bulletin Resources Limited (Bulletin) to 23.03% by participating in Bulletin's 1 for 3 non-renounceable rights issue at a cost of \$280,350.

On 17 September 2013 Matsa announced that it had raised approximately \$2.86 million, before costs, via a placement of ordinary issued shares to sophisticated and institutional investors via the issue of 9.5 million shares at an issue price of \$0.30 each.

On 20 September 2013 Matsa issued 1,050,000 unlisted options with an exercise price of \$0.40 each expiring on 30 September 2016 to employees under its Long Term Incentive Plan and 500,000 unlisted options with an exercise price of \$0.40 each expiring on 30 September 2015 to brokers as part consideration for the above placement.

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

FUTURE DEVELOPMENTS

As described above there are no further likely developments.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The group's exploration activities are subject to various environmental laws and regulations under Australian and Thai Legislation. The Group has adequate systems in place for the management of its environmental obligations. The directors are not aware of any breaches of the legislation during the financial year which are material in nature.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

| | Directors' Meetings | |
|----------------|---------------------------|-----------------|
| | Number eligible to attend | Number attended |
| Paul Poli | 8 | 8 |
| Frank Sibbel | 8 | 8 |
| Andrew Chapman | 8 | 8 |

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of Matsa Resources Limited were:

| | Number of Ordinary Shares | Number of \$0.43 Options | Number of \$0.45 Options | Number of Performance Rights |
|----------------|---------------------------|--------------------------|--------------------------|------------------------------|
| Paul Poli | 10,600,000 | 2,750,000 | 2,750,000 | 1,000,000 |
| Frank Sibbel | 268,048 | 1,500,000 | 750,000 | - |
| Andrew Chapman | - | 1,250,000 | 750,000 | - |

Options granted to directors and officers of the Company

During or since the end of the financial year, the Company granted the following options over unissued ordinary shares for no consideration in the Company to the following directors and officers of the Company as part of their remuneration:

| Key Management Personnel | Number of Options Granted | Exercise Price | Expiry Date |
|--------------------------|---------------------------|----------------|-------------------|
| David Fielding | 250,000 | \$0.40 | 12 September 2015 |
| David Fielding | 200,000 | \$0.40 | 30 September 2016 |
| Paul Poli | 2,750,000 | \$0.43 | 30 November 2015 |
| Frank Sibbel | 1,500,000 | \$0.43 | 30 November 2015 |
| Andrew Chapman | 1,250,000 | \$0.43 | 30 November 2015 |

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

SHARE OPTIONS

As at the date of this report the unissued ordinary shares of Matsa Resources Limited under option are as follows:

| <u>Date of Expiry</u> | <u>Exercise Price</u> | <u>Number under Option</u> |
|-----------------------|-----------------------|----------------------------|
| 30 November 2013 | \$0.45 | 4,250,000 |
| 12 August 2014 | \$0.31 | 350,000 |
| 12 September 2015 | \$0.40 | 900,000 |
| 30 November 2015 | \$0.43 | 5,500,000 |
| 30 September 2015 | \$0.40 | 625,000 |
| 30 September 2016 | \$0.40 | 925,000 |
| | | <u>12,550,000</u> |

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares Issued on Exercise of Options

During or since the end of the financial year, the Company has issued no ordinary shares as a result of the exercise of options.

REMUNERATION REPORT - Audited

Principles of Compensation

This remuneration report for the year ended 30 June 2013 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and the Group receiving the highest remuneration.

For the purposes of this remuneration report, the term 'executive' includes the Executive Directors, Senior Executives and Secretary of the Parent and the Group.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Board oversight of remuneration
3. Non-executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Company performance and the link to remuneration
6. Executive contractual arrangements
7. Equity instruments disclosures

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Individual Key Management Personnel Disclosures

Details of KMP of the Parent and Group are set out below:

Key Management Personnel

| Name | Position | Date of Appointment | Date of Resignation |
|-------------------|--------------------------------|---------------------|---------------------|
| Directors | | | |
| P Poli | Executive Chairman | 23 December 2008 | - |
| F Sibbel | Director | 25 October 2010 | - |
| A Chapman | Director and Company Secretary | 17 December 2009* | - |
| Executives | | | |
| D Fielding | Exploration Manager | 12 April 2010 | - |

*A Chapman was appointed Company Secretary on 6 November 2007.

There were no other changes to key management personnel after reporting date and before the date the financial report was authorised for issue.

Board Oversight of Remuneration

Remuneration Committee

In the opinion of the directors the Company is not of sufficient size to warrant the formation of a remuneration committee. It is the board of directors' responsibility for determining and reviewing compensation arrangements for the directors and the senior executives.

The Board assesses the appropriateness of the nature and amount of remuneration of Non-Executive Directors and Executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing Director and executive team.

Remuneration Approval Process

The Board approves the remuneration arrangements of the Executive Directors and Executives and all awards made under the long-term incentive plan. The Board also sets the aggregate remuneration of non-executive directors which is then subject to shareholder approval.

Remuneration Strategy

The Company's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, the Company embodies the following principles in its remuneration framework:

- retention and motivation of key executives;
- attraction of quality management to the Company; and
- performance incentives which allow executives to share the rewards of the success of the Company.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Senior Management remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Remuneration Policy

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The current aggregate remuneration is \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process. Each Director receives a fee for being a Director of the Company.

Non-Executive Directors are encouraged by the Board to hold shares in the Company (purchased by the Director on market). It is considered good governance for Directors to have a stake in the Company on whose Board he or she sits.

Structure

The remuneration of Non-Executive Directors consists of directors' fees. Non-Executives are entitled to receive retirement benefits and to participate in any incentive programs. There are currently no specific incentive programs.

The Executive Chairman receives no additional directors' fee in addition to his executive remuneration. The other non-executive directors received a base fee of \$42,000 per annum during the financial year (\$36,000 up to 31 August 2012) for being a director of the Group.

There are no additional fees for serving on any board committees. Non-executive directors can receive additional fees for work conducted for the Company outside the scope of their normal duties subject to being authorised by the Board.

The remuneration report for the Non-Executive Directors for the year ending 30 June 2013 and 30 June 2012 is detailed in this report.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Managing Director and Executive Remuneration Structure

Remuneration Policy

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The current remuneration policy adopted is that no element of any executive package be directly related to the Company's financial performance. Indeed there are no elements of any executive remuneration that are dependent upon the satisfaction of any specific condition. Remuneration is not linked to the performance of the Company but rather to the ability to attract and retain executives of the highest calibre. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth.

Structure

In determining the level and make-up of executive remuneration, the Board engages external consultants as needed to provide independent advice.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary and superannuation); and
- Variable remuneration (short and long term incentives).

The proportion of fixed remuneration and variable remuneration for each executive for the period ending 30 June 2013 and 30 June 2012 is detailed in this report.

Fixed Remuneration

Executive contracts of employment do not include any guaranteed base pay increase. Fixed remuneration is reviewed annually by the Board. The process consists of a review of the Company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component for executives for the period ending 30 June 2013 and 30 June 2012 is detailed in this report.

Variable Remuneration – Short Term Incentive (STI)

The objective of the STI is to link the increase in shareholder value over the year with the remuneration received by the Executives charged with achieving that increase. The total potential STI available is set at a level so as to provide sufficient incentive to the Executives to achieve the performance goals and such that the cost to the Group is reasonable in the circumstances.

Annual STI payments granted to each Executive depend on their performance over the preceding year and are based on recommendations from the Executive Chairman following collaboration with the Board. Typically included are measures such as contribution to strategic initiatives, risk management and leadership/team contribution.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

The aggregate of annual STI payments available for Executives across the Group is subject to the approval of the Board. Payments are usually delivered as a cash bonus. During the year there were \$300,000 paid as STI payments.

Variable Remuneration – Long Term Incentive (LTI)

The objective of the LTI plan is to reward Executives in a manner which aligns the element of remuneration with the creation of shareholder wealth. As such LTI's are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance.

The level of LTI granted is, in turn, dependent on the Company's recent share price performance, the seniority of the Executive and the responsibilities the Executive assumes in the Group.

LTI grants to Executives are delivered in the form of employee share options. These options are issued at an exercise price determined by the Board at the time of issue. The employee share options are issued in accordance with the Company's Share Option Plan.

Typically, the grant of LTI's occurs at the commencement of employment or in the event that the individual receives a promotion and, as such, is not subsequently affected by the individual's performance over time. However, under certain circumstances, including breach of employment conditions, the Directors may cause the options to expire prior to their vesting date.

The Group does have a policy to prohibit executives or directors from entering into arrangements to protect the value of unvested LTI awards.

Other Benefits

Key management personnel can receive additional benefits as non-cash benefits as part of the terms and conditions of their appointment. Non-cash benefits typically include car parking and expenses where the Company pays fringe benefits tax on these benefits.

Company Performance and the Link to Remuneration

Remuneration is not linked to the performance of the Company, but based on the ability to attract and retain executives of the highest calibre. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth.

The Matsa Resources Limited Long Term Incentive Plan has no direct performance requirements but has specified time restrictions on the exercise of options and performance rights. The granting of options and performance rights is in substance a performance incentive which allows executives to share the rewards of the success of the Company.

Service Agreements

It is the Board's policy that service contracts are entered into with all key management personnel and that these contracts have no termination date.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Mr Paul Poli, Executive Chairman, has a contract of employment with the Company. Mr Poli receives a salary of \$375,000 plus statutory superannuation. This fixed remuneration amount is effective from 13 August 2012 onwards with his previous fixed remuneration being \$360,000 (excluding superannuation) per annum. This contract is for an unlimited term and is capable of termination by Mr Poli on one month's notice. The Group has the right to terminate the employment contract by giving Mr Poli six months' notice or making payment equal to six months' pay in lieu of notice.

Mr David Fielding, Iron Ore Executive, has a contract of employment with the Company. Mr Fielding receives a salary of \$221,000 plus statutory superannuation. This contract is for an unlimited term and is capable of termination on one month's notice. The Group retains the right to terminate the contract immediately, by making payment equal to one month's pay in lieu of notice.

Mr Frank Sibbel, Project Manager, has a consultancy contract with the Company. Mr Sibbel is paid \$1,760 per day based on a minimum 2 days per week with effect from 1 September 2012. This contract is capable of termination on one month's notice. The Group retains the right to terminate the contract immediately, by making payment equal to one month's pay in lieu of notice.

Mr Andrew Chapman is employed on a consultancy basis and has no formal service agreement with the Company.

The table below shows the performance of the Group as measured by share price.

| As at 30 June | 2013 | 2012 | 2011 | 2010 | 2009 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Closing share price | \$0.33 | \$0.115 | \$0.20 | \$0.26 | \$0.19 |
| Net loss per year ended | 4,937,321 | 1,628,494 | 2,803,065 | 4,452,360 | 7,221,369 |

2013

| Key Management Person | Short Term Benefits | | | Post-employment Benefits | Share-based payments | Total \$ | % Performance Related | % of Remuneration that consists of securities |
|-----------------------------|---------------------|----------------|--------------------------|--------------------------|----------------------|------------------|-----------------------|---|
| | Salary & Fees \$ | Bonus \$ | Non-monetary benefits \$ | Superannuation \$ | Securities \$ | | | |
| Directors | | | | | | | | |
| Paul Poli | 383,544 | 250,000 | - | 17,623 | 576,159 | 1,227,326 | 46.95 | 46.95 |
| Frank Sibbel ² | 174,625 | 50,000 | - | - | 297,150 | 521,775 | 56.95 | 56.95 |
| Andrew Chapman ¹ | 115,750 | - | - | - | 247,625 | 363,375 | 68.15 | 68.15 |
| Total | 673,919 | 300,000 | - | 17,623 | 1,120,934 | 2,112,476 | - | - |
| Executives | | | | | | | | |
| David Fielding | 212,923 | - | - | 24,596 | 46,800 | 284,319 | 16.46 | 16.46 |
| Total | 212,923 | - | - | 24,596 | 46,800 | 284,319 | - | - |

¹ Mr Chapman provided company secretarial services to the Company totalling \$74,750 during the year.

² Mr Sibbel provided consultancy services to the Company totalling \$133,625 during the year.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

2012

| Key Management Person | Short Term Benefits | | | Post-employment Benefits | Share-based payments | Total \$ | % Performance Related | % of Remuneration that consists of securities |
|---|---------------------|----------|--------------------------|--------------------------|----------------------|----------------|-----------------------|---|
| | Salary & Fees \$ | Bonus \$ | Non-monetary benefits \$ | Superannuation \$ | Securities \$ | | | |
| Directors | | | | | | | | |
| Paul Poli | 391,267 | - | - | 25,775 | - | 417,042 | - | - |
| Frank Sibbel ² | 88,770 | - | - | - | - | 88,770 | - | - |
| Andrew Chapman ¹ | 78,952 | - | - | - | - | 78,952 | - | - |
| Total | 558,989 | - | - | 25,775 | - | 584,764 | - | - |
| ¹ Mr Chapman provided company secretarial services to the Company totalling \$48,952 during the year. ² Mr Sibbel provided consultancy services to the Company totalling \$58,770 during the year. | | | | | | | | |
| Executives | | | | | | | | |
| David Fielding | 211,646 | - | 36,775 | - | - | 248,421 | - | - |
| Total | 211,646 | - | 36,775 | - | - | 248,421 | - | - |

Compensation Options and Performance Rights Granted and Vested during the year

The table below sets out options and performance rights granted during the year to Directors and Executives. There were no options or performance rights that were granted in previous years that vested during the year. The options and performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

| 2013 | Vested | Granted | Grant Date | Value per Security at Grant Date | Exercise Price | First Exercise Date | Expiry Date |
|--------------------------------|-----------|-----------|------------|----------------------------------|----------------|---------------------|-------------|
| | No. | No. | | Cents | Cents | | |
| Paul Poli - Options | 2,750,000 | 2,750,000 | 30.11.12 | 19.81 | 43 | 30.11.12 | 30.11.15 |
| Paul Poli – Performance Rights | - | 500,000 | 30.11.12 | 16.99 | - | - | 30.11.15 |
| Frank Sibbel | 1,500,000 | 1,500,000 | 30.11.12 | 19.81 | 43 | 30.11.12 | 30.11.15 |
| Andrew Chapman | 1,250,000 | 1,250,000 | 30.11.12 | 19.81 | 43 | 30.11.12 | 30.11.15 |
| David Fielding | 250,000 | 250,000 | 12.09.12 | 18.72 | 40 | 12.09.12 | 12.09.15 |

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

For details on the valuation of the options and performance rights, including models and assumptions used, please refer to Note 26.

There were no alterations to the terms and conditions of options and performance rights granted as remuneration since their grant date.

The maximum value of the award is equal to the number of options and performance rights granted multiplied by the fair value at the grant date. The minimum value of the award in the event of forfeiture is zero.

There were no shares issued on exercise of compensation options or performance rights during the year.

Value of Options and Performance Rights granted as part of remuneration

| 2013 | Value of performance rights granted during the year | Value of performance rights exercised during the year | Value of performance rights lapsed during the year | Remuneration consisting of performance rights during the year | Value of options granted during the year | Value of options exercised during the year | Value of options lapsed during the year | Remuneration consisting of options during the year |
|----------------|---|---|--|---|--|--|---|--|
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Paul Poli | 31,384 | - | - | 2.56 | 544,775 | - | - | 44.38 |
| Frank Sibbel | - | - | - | - | 297,150 | - | - | 56.95 |
| Andrew Chapman | - | - | - | - | 247,625 | - | - | 68.15 |
| David Fielding | - | - | - | - | 46,800 | - | - | 16.46 |

There were no options or performance rights granted as part of remuneration to Directors or Executives in the financial year ended 30 June 2012.

End of Audited Remuneration Report

INDEMNIFYING OFFICERS

The Company's Constitution provides that, subject to and so far as permitted by the Corporations Act 2001, the Company must, to the extent the person is not otherwise indemnified, indemnify every officer of the Company out of the assets of the Company to the relevant extent against any liability incurred by the officer in or arising out of the conduct of the business of the Company or in or arising out of the discharge of the duties of the officer.

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors' and Officers' liability. The policy indemnifies all Directors and Officers of the Company and its controlled entities against certain liabilities. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium. The Directors have not included details of the nature of the premium paid in respect of Directors' and Officers' liability as such disclosure is prohibited under the terms of the contract.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence as the nature of the services provided did not compromise the general principles relating to auditor independence.

The following fees for non-audit services were paid/payable to the external auditors, or by related practices of the external auditors, during the year ended 30 June 2013:

| | |
|-------------------|---------|
| Taxation services | \$8,722 |
|-------------------|---------|

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 39.

Signed in accordance with a resolution of the Board of Directors.



Paul Poli
Executive Chairman
Dated this 27th day of September 2013.

Auditor's independence 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 audit for the financial year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor's 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.

NPAS

Nexia Perth Audit Services Pty Ltd

PTC Kloppe

PTC Kloppe
Director

27 September 2013
Perth

For personal use only

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
30 JUNE 2013

| | Note | 2013 \$ | 2012 \$ |
|--|------|--------------|--------------|
| Other income | 5(a) | 5,255,308 | 916,500 |
| Depreciation expense | 5(c) | (158,168) | (193,409) |
| Other expenses | 5(d) | (3,887,215) | (2,128,841) |
| Exploration and evaluation expenditure written off | 10 | (642,429) | (242,235) |
| Impairment loss on available-for-sale assets | | (5,639,580) | - |
| Results from operating activities | | (5,072,084) | (1,647,985) |
| Finance income | 5(b) | 138,294 | 51,286 |
| Finance costs | | (8,369) | (26,998) |
| Net finance income | | 129,925 | 24,288 |
| Loss before income tax expense | | (4,942,159) | (1,623,697) |
| Income tax expense | 6 | - | - |
| Net loss for the year attributable to equity holders of the company | | (4,942,159) | (1,623,697) |
| Other comprehensive income to be reclassified subsequently through profit or loss | | | |
| Net change in foreign currency translation reserve | | (43) | 84 |
| Net change in fair value of available-for-sale financial assets | | 4,881 | (4,881) |
| Other comprehensive income for the year, net of tax | | 4,838 | (4,797) |
| Total comprehensive loss for the year attributable to equity holders of the company | | (4,937,321) | (1,628,494) |
| Loss for the year is attributable to: | | | |
| Owners of the parent | | (4,942,057) | (1,615,153) |
| Non-controlling interest | | (102) | (8,544) |
| | | (4,942,159) | (1,623,697) |
| Total comprehensive loss for the year is attributable to: | | | |
| Owners of the parent | | (4,937,219) | (1,619,950) |
| Non-controlling interest | | (102) | (8,544) |
| | | (4,937,321) | (1,628,494) |
| | | Cents | Cents |
| Basic loss per share attributable to ordinary equity holders of the parent | 19 | (3.7) | (1.3) |
| Diluted loss per share attributable to ordinary equity holders of the parent | 19 | (3.7) | (1.3) |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

| | Note | 2013 \$ | 2012 \$ |
|---|------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 23 | 2,555,122 | 2,119,711 |
| Trade and other receivables | 7 | 131,715 | 17,450 |
| Other current assets | 8 | 1,107,701 | 842,899 |
| Total current assets | | <u>3,794,538</u> | <u>2,980,060</u> |
| Non-current assets | | | |
| Available-for-sale financial assets | 9 | 3,152,083 | 6,466 |
| Exploration and evaluation assets | 10 | 7,740,645 | 15,555,003 |
| Property, plant and equipment | 11 | 216,830 | 219,682 |
| Total non-current assets | | <u>11,109,558</u> | <u>15,781,151</u> |
| Total assets | | <u>14,904,096</u> | <u>18,761,211</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | 519,406 | 302,121 |
| Borrowings | 13 | 59,664 | 46,655 |
| Refundable deposit | 14 | - | 1,500,000 |
| Provisions | 15 | 100,214 | 62,571 |
| Total current liabilities | | <u>679,284</u> | <u>1,911,347</u> |
| Non-current liabilities | | | |
| Borrowings | 13 | 45,910 | 20,749 |
| Provisions | 15 | 91,040 | 18,000 |
| Total non-current liabilities | | <u>136,950</u> | <u>38,749</u> |
| Total liabilities | | <u>816,234</u> | <u>1,950,096</u> |
| Net assets | | <u>14,087,862</u> | <u>16,811,115</u> |
| Equity | | | |
| Issued capital | 16 | 37,810,962 | 36,886,308 |
| Reserves | 17 | 6,476,498 | 5,182,246 |
| Accumulated losses | 18 | (30,277,724) | (25,335,667) |
| Total equity attributable to equity holders of the Company | | <u>14,009,736</u> | <u>16,732,887</u> |
| Non-controlling interests | | <u>78,126</u> | <u>78,228</u> |
| Total equity | | <u>14,087,862</u> | <u>16,811,115</u> |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

| | Issued Capital Ordinary \$ | Accumulated Losses \$ | Other Reserves \$ | Equity Settled Benefits Reserve \$ | Total \$ | Non- controlling interest \$ | Total \$ |
|---|-------------------------------------|-----------------------------|-------------------------|--|-------------|---------------------------------------|-------------|
| Balance at 1 July 2011 | 35,255,459 | (23,720,514) | 37,113 | 5,113,355 | 16,685,413 | - | 16,685,413 |
| Comprehensive loss for the period | - | (1,615,153) | (4,797) | - | (1,619,950) | (8,544) | (1,628,494) |
| Total comprehensive loss for the period | - | (1,615,153) | (4,797) | - | (1,619,950) | (8,544) | (1,628,494) |
| <i>Transactions with owners recorded directly in equity</i> | | | | | | | |
| Shares issued during the period | 1,810,000 | - | - | - | 1,810,000 | 86,772 | 1,896,772 |
| Capital raising costs during the period | (179,151) | - | - | - | (179,151) | - | (179,151) |
| Equity settled transaction | - | - | - | - | - | - | - |
| Share based payment | - | - | - | 36,575 | 36,575 | - | 36,575 |
| Balance at 30 June 2012 | 36,886,308 | (25,335,667) | 32,316 | 5,149,930 | 16,732,887 | 78,228 | 16,811,115 |
| Balance at 1 July 2012 | 36,886,308 | (25,335,667) | 32,316 | 5,149,930 | 16,732,887 | 78,228 | 16,811,115 |
| Comprehensive gain/(loss) for the period | - | (4,942,057) | 4,838 | - | (4,937,219) | (102) | (4,937,321) |
| Total comprehensive gain/(loss) for the period | - | (4,942,057) | 4,838 | - | (4,937,219) | (102) | (4,937,321) |
| <i>Transactions with owners recorded directly in equity</i> | | | | | | | |
| Shares issued during the period | 933,100 | - | - | - | 933,100 | - | 933,100 |
| Capital raising costs during the period | (8,446) | - | - | - | (8,446) | - | (8,446) |
| Share based payment | - | - | - | 1,289,414 | 1,289,414 | - | 1,289,414 |
| Balance at 30 June 2013 | 37,810,962 | (30,277,724) | 37,154 | 6,439,344 | 14,009,736 | 78,126 | 14,087,862 |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 \$ | 2012 \$ |
|---|------|-------------|-------------|
| Cash flows from operating activities | | | |
| Other income | | 941,227 | 823,409 |
| Dividend income | | 140,000 | - |
| Payments to suppliers and employees | | (2,424,146) | (1,899,197) |
| Interest received | | 99,556 | 50,750 |
| Net cash used in operating activities | 23 | (1,243,363) | (1,025,038) |
| Cash flows from investing activities | | | |
| Proceeds from sale of exploration and evaluation assets | | 3,500,000 | 110,000 |
| Deposits for application licences | | - | (270,261) |
| Payments for available-for-sale financial assets | | (815,711) | (11,348) |
| Proceeds from sale of available-for-sale financial assets | | 18,222 | - |
| Purchase of plant and equipment | | (122,587) | (16,798) |
| Refundable deposit received | | - | 1,500,000 |
| Exploration and evaluation expenditure (capitalised) | | (1,504,754) | (1,266,570) |
| Proceeds on sale of plant and equipment | | - | 45,455 |
| Payments for security deposits | | (264,802) | - |
| Net cash provided by investing activities | | 810,368 | 90,478 |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 933,100 | 1,810,000 |
| Capital raising costs | | (8,446) | (179,151) |
| Repayment of lease liabilities | | (47,879) | (71,369) |
| Interest paid | | (8,369) | (26,998) |
| Net cash provided by financing activities | | 868,406 | 1,532,482 |
| Net increase/(decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of financial year | | 2,119,711 | 1,521,789 |
| Cash and cash equivalents at end of financial year | 23 | 2,555,122 | 2,119,711 |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. CORPORATE INFORMATION

The consolidated financial statements of Matsa Resources Limited for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 27 September 2013.

Matsa Resources Limited (the "Company") is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

The consolidated financial statements of the Company as at and for the year ended 30 June 2013 comprise the Company, its subsidiaries (together referred to as the "Group" or "Consolidated Entity") and the Group's interest in associates.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets which have been measured at fair value.

The financial report is presented in Australian dollars.

(b) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Adoption of new accounting standards

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2012. The adoption of these new and revised Standards and Interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

The Australian Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2012, adopted include the following. The Directors do not expect these Standards and Interpretations to have a material impact.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

| Reference | Summary | Application Date of Standard | Application Date for Consolidated Entity |
|-------------|--|------------------------------|--|
| AASB 2011-9 | <p>Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income</p> <p>[AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]</p> <p>This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.</p> | 1 July 2012 | 1 July 2012 |

The following standards and interpretations have been issued by the AASB, but are not yet effective for the period ending 30 June 2013.

| Reference | Title | Summary | Application Date of Standard * | Application Date for Consolidated Entity * |
|-----------|-----------------------------------|--|--------------------------------|--|
| AASB 10 | Consolidated Financial Statements | <p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation - Special Purpose Entities.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.</p> | 1 January 2013 | 1 July 2013 |
| AASB 11 | Joint Arrangements | <p>AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities - Non-monetary Contributions by Ventures.</p> <p>AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7, AASB 2010-10 and amendments to AASB 128.</p> | 1 January 2013 | 1 July 2013 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

| Reference | Title | Summary | Application Date of Standard * | Application Date for Consolidated Entity * |
|-----------|---|---|--------------------------------|--|
| AASB 12 | Disclosure of Interests in Other Entities | AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. | 1 January 2013 | 1 July 2013 |
| AASB 13 | Fair Value Measurement | <p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p> | 1 January 2013 | 1 July 2013 |
| AASB 119 | Employee Benefits | <p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p> | 1 January 2013 | 1 July 2013 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

| Reference | Title | Summary | Application Date of Standard * | Application Date for Consolidated Entity * |
|-------------------|--|--|--------------------------------|--|
| Interpretation 20 | Stripping Costs in the Production Phase of a Surface Mine | <p>This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset".</p> <p>The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.</p> <p>Consequential amendments were also made to other standards via AASB 2011-12.</p> | 1 January 2013 | 1 July 2013 |
| AASB 2011-4 | Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] | This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. | 1 July 2013** | 1 July 2013 |
| AASB 2012-3 | Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities | AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. | 1 January 2014 | 1 July 2015 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

| Reference | Title | Summary | Application Date of Standard * | Application Date for Consolidated Entity * |
|-----------|-----------------------|--|--------------------------------|--|
| AASB 9 | Financial Instruments | <p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p> | 1 January 2015 | 1 July 2015 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

** This standard cannot be early adopted. Revisions are currently being made to the Corporations Law to bring this disclosure into the Directors' Report.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries ('the Group') as at 30 June each year.

Subsidiaries are all those entities over which the Consolidated Entity has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a consolidated entity controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Changes in ownership interest of a subsidiary (without a change in control) are accounted for as a transaction with owners in their capacity as owners.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Segment Reporting

Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(e) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of AASB 139, it is measured in accordance with the appropriate IFRS.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign currency transactions and balances

(i) Functional and presentation currency

The functional currency of each entity within the Consolidated Entity is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian Dollars which is the parent entity's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non monetary items are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. All exchange differences in the consolidated financial report are recorded in profit and loss.

(iii) Transactions of subsidiary Companies' functional currency to presentation currency

The results of the subsidiaries are translated into Australian Dollars (presentation currency). Income and expenses are translated at the exchange rates at the date of the transactions. Assets and liabilities are translated at the closing exchange rate for each balance date. Share capital, reserves and accumulated losses are converted at applicable historical rates.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity. On consolidation, exchange differences arising from the translation of the net investment in subsidiaries are taken to the foreign currency translation reserve. If a subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(g) Financial instruments

Non derivative financial instruments

Non derivative financial instruments comprise investments in equity securities, other receivables, cash and cash equivalents and trade and other payables.

Investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When non-derivative financial instruments are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A financial instrument is recognised if the Group becomes a party to the contracted provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from that financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Available-for-sale financial assets

All available-for-sale investments are initially recognised at fair value plus directly attributable transaction costs.

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale. Investments are designated as available-for-sale if they do not have fixed maturities and fixed and determinable payments and management intends to hold them for the medium to long term.

After initial recognition, available-for-sale investments are measured at fair value. Gains or losses are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method.

(h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Consolidated Entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the statement of comprehensive income.

(i) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in the current liabilities on the statement of financial position.

(k) Trade and other receivables

Trade and other receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Consolidated Entity will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Interests in Joint Ventures

The Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the Group's interest are shown at Note 21.

(m) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment.

Capital work-in-progress is stated at cost and comprises all costs directly attributable to bringing the assets under construction ready to their intended use. Capital work-in-progress is transferred to property, plant and equipment at cost on completion.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which ranges between 3 and 5 years except for buildings which are depreciated over 20 years.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(n) Exploration, evaluation and development expenditure

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward at cost where rights to tenure of the area of interest are current and:

- i) it is expected that expenditure will be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
- ii) exploration and evaluation activities are continuing in an area of interest, but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the statement of comprehensive income or provided against.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the statement of comprehensive income.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obligated to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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 balance date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they relate to qualifying assets in which case they are capitalised.

(q) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(r) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Consolidated Entity has one plan in place that provides these benefits. It is the Employee Share Option Plan ("ESOP") which provides benefits to all employees including Directors. The scheme has no direct performance requirements. The terms of the share options are as determined by the Board. Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited. Where a participant ceases employment after the vesting of their share options, the share options automatically lapse after one month of ceasing employment unless the Board decides otherwise at its discretion.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black & Scholes model. Further details of which are given in note 26.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period. The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Consolidated Entity, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Consolidated Entity, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Share-based payment transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification. If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

R&D Refund

Revenue is recognised on receipt of refunds from the Australian Taxation Office for research and development expenditure incurred during the previous financial year.

Finance income

Income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised income taxes are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(w) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of amounts of GST recoverable from, or payable to, the taxation authority.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares.

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting estimates and assumptions

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black & Scholes model, using the assumptions as discussed in note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities in the next annual reporting period but may impact expenses and equity.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Consolidated Entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of available-for-sale investments

In determining the amount of impairment of financial assets, the Consolidated Entity has made judgements in identifying financial assets whose decline in fair value below cost is considered "significant" or "prolonged". A significant decline is assessed based on the historical volatility of the share price.

The higher the historical volatility, the greater the decline in fair value required before it is likely to be regarded as significant. A prolonged decline is based on the length of time over which the share price has been depressed below cost. A sudden decline followed by immediate recovery is less likely to be considered prolonged compared to a sustained fall of the same magnitude over a longer period.

The Consolidated Entity considers a less than a 10% decline in fair value is unlikely to be considered significant for investments actively traded in a liquid market, whereas a decline in fair value of greater than 20% will often be considered significant. For less liquid investments that have historically been volatile (standard deviation greater than 25%), a decline of greater than 30% is usually considered significant.

Generally, the Consolidated Entity does not consider a decline over a period of less than three months to be prolonged. However, where the decline in fair value is greater than six months for liquid investments and 12 months for illiquid investments, it is usually considered prolonged.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being net present value of expected future cash flows of the relevant cash generating unit) and "fair value less costs to sell."

In determining the value in use, future cash flows are based on:

- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which in turn could impact future financial results.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

4. SEGMENT REPORTING

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 maker) 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 total assets relating to the Thailand operations are approximately 5% of the Group's total assets. 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. The financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to the 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 operating 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013

| | 2013 \$ | 2012 \$ |
|--|------------------|------------------|
| 5. Revenue | | |
| The loss before income tax includes the following revenues whose disclosure is relevant in explaining the performance of the entity: | | |
| (a) Other income | | |
| R&D tax incentive refund | 672,609 | 823,409 |
| Net gain on sale of exploration assets | 4,171,253 | - |
| Net gain on sale of plant and equipment | - | 43,091 |
| Net gain on sale of investments | 2,828 | - |
| Dividend income | 140,000 | - |
| Other income | 268,618 | 50,000 |
| Total sales revenue | <u>5,255,308</u> | <u>916,500</u> |
| (b) Finance income | | |
| Interest earned from other persons | 138,294 | 51,286 |
| | <u>138,294</u> | <u>51,286</u> |
| (c) Expenses included in the statement of comprehensive income | | |
| Depreciation of plant and equipment | 158,168 | 193,409 |
| (d) Other expenses | | |
| (i) Employee benefits expense | | |
| Salaries and wages | 1,402,826 | 1,041,592 |
| Superannuation expenses | 43,300 | 45,502 |
| Share based payments | 1,289,414 | 36,575 |
| Total employee benefits expense | <u>2,735,540</u> | <u>1,123,669</u> |
| (ii) Administration and other expenses | | |
| Operating lease rentals – minimum lease payments | 151,501 | 154,163 |
| Administration expenses | 863,879 | 612,417 |
| Provision for impairment on exploration projects | 136,295 | 14,598 |
| Impairment on deposits (refer Note 8) | - | 223,994 |
| | <u>1,151,675</u> | <u>1,005,172</u> |
| | <u>3,887,215</u> | <u>2,128,841</u> |

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MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| 6. Income taxes | | |
| Tax expense/(income) comprises: | | |
| Current tax expense/(income) | - | - |
| Deferred tax expense/(income) | - | - |
| Net deferred tax liability | - | - |

Income tax recognised in profit or loss

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

| | | |
|---|-------------|-------------|
| Profit/(loss) from continuing operations | (4,942,159) | (1,623,697) |
| Income tax expense calculated at 30% | (1,482,648) | (487,109) |
| Section 40-880 expenses | (52,131) | (59,125) |
| Exploration expenses | (338,895) | (285,421) |
| Effect of expenses that are not deductible in determining taxable profit | 4,945,531 | 202,772 |
| Effect of revenues that are not assessable in determining taxable profit | (201,783) | (244,010) |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | - | 872,893 |
| Recognition of tax losses not previously recognised | (2,870,074) | - |
| | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| Unrecognised deferred tax assets/(liabilities) | | |
| The following deferred tax assets have not been brought to account: | | |
| Tax losses - revenue | 6,045,585 | 9,035,240 |
| Temporary differences - exploration | (2,321,883) | (4,666,500) |
| Temporary differences | 60,607 | 413,895 |
| Section 40-880 expenses | 1,783,482 | 110,206 |
| | 5,567,791 | 4,892,841 |

The ability of the Group to utilise unrecognised tax losses will depend on whether the Group meets the statutory requirements for utilising tax losses.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| 7. Trade and other receivables | | |
| Current | | |
| Amounts receivable from Australian Taxation Authorities | 62,600 | 14,009 |
| Other receivables | 69,115 | 3,441 |
| | 131,715 | 17,450 |

| | 2013 | 2012 |
|----------------------------------|-------------|-------------|
| | \$ | \$ |
| 8. Other current assets | | |
| Prepayments | 20,913 | 20,813 |
| Cash backed performance bond (i) | 314,702 | 50,000 |
| Deposits held (ii) | 772,086 | 772,086 |
| | 1,107,701 | 842,899 |

(i) The Company's bankers have provided performance bonds as security for the due and proper performance of leases in accordance with the tenement conditions associated with certain Group tenements. The Company has cash-backed these performance bonds with fixed term deposits with the bank.

(ii) The Company has cash deposits held with the Thailand government with respect to a number of tenement applications in Thailand. Should the applications not be successful 75% of the deposits will be returned to the Company. A cumulative impairment of \$424,932 (2012: \$424,932) has been made against the deposits held of \$1,197,018 (2012: \$1,197,018).

| | 2013 | 2012 |
|-------------------------------------|-------------|-------------|
| | \$ | \$ |
| 9. Other investments | | |
| Available-for-sale financial assets | 3,152,083 | 6,466 |
| | 3,152,083 | 6,466 |

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares

The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

9. Other investments (continued)

- (a) During the period the Company sold its interest in Echo Resources Limited, which is involved in the exploration of precious base metals in Australia. Echo is listed on the Australian Securities Exchange. The Company recognised a profit of \$2,828 on the sale of the investment in the current year.

The fair value of the Company's investment at 30 June 2012 was \$2,066 which was based on Echo's quoted share price.

- (b) The Company has a minor interest in Norseman Gold plc, which is involved in the mining and exploration of precious base metals in Australia. Norseman is listed on the Australian Securities Exchange.

At the end of the period the market value of the investment was lower than the carrying value, the Company has recognised an impairment of \$9,283 (2012: \$nil).

- (c) The Company has a 5.48% (2012: nil) interest in Panoramic Resources Limited, which is involved in the mining and exploration of base metals in Australia and Canada. Panoramic is listed on the Australian Securities Exchange.

At the end of the period the market value of the investment was lower than the carrying value, the Company has recognised an impairment of \$5,180,000 (2012: \$nil).

- (d) The Company has a 17.65% (2012: nil) interest in Bulletin Resources Limited, which is involved in the mining and exploration of precious and base metals in Australia. Bulletin is listed on the Australian Securities Exchange.

At the end of the period the market value of the investment was lower than the carrying value, the Company has recognised an impairment of \$450,297 (2012: \$nil).

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013

| | 2013 \$ | 2012 \$ |
|--|------------------|-------------------|
| 10. Exploration and evaluation assets | | |
| Exploration expenditure capitalised at cost -exploration and evaluation phase | 7,740,645 | 15,555,003 |
| | <u>7,740,645</u> | <u>15,555,003</u> |

Movements in carrying amounts

Exploration and evaluation phase

| | | |
|-------------------------------------|------------------|-------------------|
| Balance at beginning of year | 15,555,003 | 14,678,600 |
| Purchase of tenements | - | 28,200 |
| Disposal of tenements | (8,808,747) | (75,000) |
| Exploration and evaluation incurred | 1,773,113 | 1,180,036 |
| Expenditure written off | (642,429) | (242,235) |
| Provision for impairment | (136,295) | (14,598) |
| Balance at end of year | <u>7,740,645</u> | <u>15,555,003</u> |

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas. Upon a review of the exploration projects the board elected to provide for impairment of \$136,295 (2012: \$14,598) in the financial year.

11. Property, plant and equipment

| | | |
|-------------------------------------|----------------|----------------|
| Buildings at cost | 11,000 | 11,000 |
| Accumulated depreciation | (3,300) | (2,750) |
| | <u>7,700</u> | <u>8,250</u> |
| Plant and equipment at cost | 906,466 | 751,150 |
| Accumulated depreciation | (697,336) | (539,718) |
| | <u>209,130</u> | <u>211,432</u> |
| Total property, plant and equipment | <u>216,830</u> | <u>219,682</u> |

Movements in carrying amounts

| | Buildings \$ | Plant and Equipment \$ | Total \$ |
|-------------------------|-----------------|------------------------------|----------------|
| Consolidated | | | |
| Balance 1 July 2011 | 8,800 | 379,858 | 388,658 |
| Additions | - | 26,797 | 26,797 |
| Disposals | - | (2,364) | (2,364) |
| Depreciation expense | (550) | (192,859) | (193,409) |
| Balance at 30 June 2012 | <u>8,250</u> | <u>211,432</u> | <u>219,682</u> |
| Additions | - | 155,316 | 155,316 |
| Disposals | - | - | - |
| Depreciation expense | (550) | (157,618) | (158,168) |
| Balance 30 June 2013 | <u>7,700</u> | <u>209,130</u> | <u>216,830</u> |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

11. Property, plant and equipment (continued)

The Group leases motor vehicles and plant and equipment under a number of finance lease agreements. The leased equipment secures the lease obligations. At 30 June 2013 the net carrying amount of leased plant and equipment was \$43,586 (2012:\$ 19,055). During the year, the Group acquired leased assets of \$42,728 (2012: \$nil).

| | 2013 | 2012 |
|---------------------------------------|-------------|-------------|
| | \$ | \$ |
| 12. Trade and other payables | | |
| Unsecured liabilities | | |
| Trade payables | 336,190 | 132,840 |
| Sundry creditors and accrued expenses | 183,216 | 169,281 |
| | 519,406 | 302,121 |

13. Borrowings

Current

| | | |
|-------------------------------|--------|--------|
| Secured liabilities | | |
| Finance lease liabilities (i) | 59,664 | 46,655 |
| | 59,664 | 46,655 |

Non Current

| | | |
|-------------------------------|--------|--------|
| Secured liabilities | | |
| Finance lease liabilities (i) | 45,910 | 20,749 |
| | 45,910 | 20,749 |

(i) The finance lease liabilities are secured over the Company's motor vehicles and computer equipment.

14. Refundable Deposit

| | | |
|-------------------------------------|---|-----------|
| Unsecured liabilities | | |
| Deposit received from Panoramic (i) | - | 1,500,000 |
| | - | 1,500,000 |

(i) Matsa received \$1.5 million from Panoramic Resources Limited under a Sale and Purchase Agreement as a refundable deposit for the acquisition by Panoramic of a 70% interest in the Mt Henry Gold Project. The Agreement was settled on 17 August 2012 and the liability extinguished by it being treated as part of the cash consideration for the sale of the interest.

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| 15. Provisions | | |
| Provision for employee benefits (current) | 100,214 | 62,571 |
| Provision for mine restoration (non-current) | 91,040 | 18,000 |
| | 191,254 | 80,571 |

Movement in provision

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013

| | 2013 \$ | 2012 \$ |
|-----------------------------------|---------------|---------------|
| 15. Provisions (continued) | | |
| Movement in provision | | |
| Opening balance 1 July | 18,000 | 15,000 |
| Disposal of tenements | - | - |
| Increase in provision | 73,040 | 3,000 |
| Closing balance 30 June | <u>91,040</u> | <u>18,000</u> |

A provision has been recognised for the costs associated with the Dundas Iron Project.

| | 2013 \$ | 2012 \$ | 2013 \$ | 2012 \$ |
|--|--------------------|--------------------|-------------------|-------------------|
| 16. Issued capital | | | | |
| 134,621,781 (2012: 131,171,781) fully paid ordinary shares | 37,810,962 | 36,886,308 | 37,810,962 | 36,886,308 |
| | No. | No. | \$ | \$ |
| Ordinary shares | | | | |
| At the beginning of reporting period | 131,171,781 | 122,351,215 | 36,886,308 | 35,255,459 |
| Placement of shares | - | 8,820,566 | - | 1,810,000 |
| Exercise of options | 3,450,000 | - | 933,100 | - |
| Transaction costs | - | - | (8,446) | (179,151) |
| At reporting date | <u>134,621,781</u> | <u>131,171,781</u> | <u>37,810,962</u> | <u>36,886,308</u> |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

The movement of the options on issue during the financial year is set out below:

| Exercise Price | Expiry Date | Balance at beginning of year | Issued | Exercised | Lapsed | Balance at end of year |
|----------------|-------------------|------------------------------|-----------|-------------|-------------|------------------------|
| \$0.50 | 1 July 2012 | 9,000,000 | - | - | (9,000,000) | - |
| | 26 November 2012 | | | | | |
| \$0.273 | 31 December 2012 | 1,000,000 | - | (1,000,000) | - | - |
| \$0.273 | 2012 | 1,200,000 | - | (1,200,000) | - | - |
| \$0.40 | 31 August 2013 | 2,050,000 | - | - | - | 2,050,000 |
| | 30 November 2013 | | | | | |
| \$0.45 | 2013 | 4,250,000 | - | - | - | 4,250,000 |
| \$0.266 | 13 July 2014 | 1,250,000 | - | (1,250,000) | - | - |
| \$0.31 | 12 August 2014 | 350,000 | - | - | - | 350,000 |
| | 12 September 2015 | | | | | |
| \$0.40 | 2015 | - | 900,000 | - | - | 900,000 |
| | 30 November 2015 | | | | | |
| \$0.43 | 2015 | - | 5,500,000 | - | - | 5,500,000 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| | \$ | \$ |
| 17. Reserves | | |
| Equity settled transaction | 6,439,344 | 5,149,930 |
| Net unrealised gains reserve | - | (4,881) |
| Foreign currency translation | 37,154 | 37,197 |
| | 6,476,498 | 5,182,246 |

Equity settled transaction reserve

| | | |
|--|-----------|-----------|
| Balance at beginning of financial year | 5,149,930 | 5,113,355 |
| Share based payment | 1,289,414 | 36,575 |
| Balance at end of financial year | 6,439,344 | 5,149,930 |

The equity settled transaction reserve records share-based payment transactions.

Foreign currency translation reserve

| | | |
|--|--------|--------|
| Balance at beginning of financial year | 37,197 | 37,113 |
| Translation of foreign operations | (43) | 84 |
| Balance at end of financial year | 37,154 | 37,197 |

Exchange differences relating to the translation from the functional currency of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

Net unrealised gains reserve

| | | |
|---|---------|---------|
| Balance at beginning of financial year | (4,881) | - |
| Net change in fair value of available-for-sale financial assets | 4,881 | (4,881) |
| Balance at end of financial year | - | (4,881) |

18. Accumulated losses

| | | |
|---|------------|------------|
| Accumulated losses at beginning of financial year | 25,335,667 | 23,720,514 |
| Loss for the year | 4,942,057 | 1,615,153 |
| Accumulated losses at end of financial year | 30,277,724 | 25,335,667 |

19. Loss per share

The loss and weighted average number of ordinary shares used in the calculation of loss per share are as follows:

| | | |
|--|-------------|-------------|
| Loss | (4,942,159) | (1,623,697) |
| | No. | No. |
| Weighted average number of ordinary shares | 133,315,736 | 128,564,243 |

Diluted loss per share

Diluted loss per share has not been calculated as the Company's potential ordinary shares are not considered dilutive and do not increase loss per share.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

20. Commitments and Contingencies

Exploration and expenditure commitments

In order to maintain the mineral tenements in which the Company and other parties are involved, the consolidated entity is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure commitment requirement for granted tenements for the next year is \$1,393,256 (2012: \$1,284,880). This amount has not been provided for in the financial report. These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

Finance lease commitments

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| Commitments in relation to finance leases are payable as follows: | | |
| Within one year | 66,636 | 51,868 |
| Later than one year but not later than five years | 50,817 | 22,907 |
| Minimum lease payments | 117,453 | 74,775 |
| Less: Future finance charges | (11,879) | (7,371) |
| | 105,574 | 67,404 |
| Recognised as a liability | | |
| Representing lease liabilities: | | |
| Current (note 13) | 59,664 | 46,655 |
| Non-current (note 13) | 45,910 | 20,749 |
| | 105,574 | 67,404 |
| Operating lease commitments | | |
| Future operating lease rentals of office space provided for in the financial statements and payable: | | |
| - Not later than one year | 111,062 | 64,560 |
| - Later than one year but not later than five years | 183,353 | - |
| | 294,415 | 64,560 |

Contingencies

There are no contingent assets or contingent liabilities as at 30 June 2013.

21. Interest in joint venture

The consolidated entity had the following interests in joint venture operations at year end:

| Joint Venture Party | Activities | Percentage Interest (%) | |
|----------------------------|-------------------------|--------------------------------|-------------|
| | | 2013 | 2012 |
| Metro Energy | Oil and Gas Exploration | 75 | 75 |

The joint venture is by way of jointly controlled assets. They are structured by way of contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit. The consolidated entity wrote off its interest in the joint venture during the 2007 financial year and accordingly has no joint venture assets or liabilities at balance date.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

22. Subsidiaries

| | Country of Incorporation | Percentage Owned (%) | |
|--|--------------------------|----------------------|------|
| | | 2013 | 2012 |
| Parent Entity | | | |
| Matsa Resources Limited | Australia | | |
| Subsidiary | | | |
| KAL Energy Pty Ltd | Australia | 100 | 100 |
| USA KAL Energy Inc | United States of America | 100 | 100 |
| Australian Strategic and Precious Metals Investments Pty Ltd | Australia | 100 | 100 |
| Matsa Resources (Aust) Pty Ltd | Australia | 100 | 100 |
| Matsa Iron Pty Ltd | Australia | 100 | 100 |
| Cundeelee Pty Ltd | Australia | 100 | 100 |
| Matsa (Thailand) Co Ltd | Thailand | 100 | 100 |
| PVK Mining Loei Co Ltd | Thailand | 100 | 100 |
| Khlong Tabae Co Ltd | Thailand | 95 | 95 |
| Paisali Mining Co Ltd | Thailand | 95 | 95 |
| Wichan Buri Resources Co Ltd | Thailand | 100 | 100 |
| Siam Copper Resources Co Ltd | Thailand | 100 | 100 |
| Loei Mining Co Ltd | Thailand | 100 | 100 |

23. Cash flow information

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | 2013 | 2012 |
|---------------------------|-------------|-------------|
| | \$ | \$ |
| Cash and cash equivalents | 2,555,122 | 2,119,711 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

23. Cash flow information (Continued)

Reconciliation of loss for year to net cash flows from operating activities

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| | | |
| Loss for year | (4,942,159) | (1,623,697) |
| Non-cash flows in loss from ordinary activities: | | |
| Share-based payments | 1,289,414 | 36,575 |
| Depreciation | 158,168 | 193,409 |
| Exploration expenditure written off | 642,429 | 242,235 |
| Provision for impairment | 136,295 | 238,592 |
| Net (gain)/loss on disposal of tenements | (4,171,253) | (35,000) |
| Net (gain) on sale of available-for-sale investments | (2,828) | - |
| Net (gain)/loss on disposal of plant and equipment | - | (43,091) |
| Impairment loss on available-for-sale assets | 5,639,580 | - |
| Interest expense classified as financing cash flow | 8,369 | - |
| Insurance | 43,321 | - |
| Interest accrued | (38,738) | - |
| Changes in assets and liabilities: | | |
| Decrease (increase) in receivables | (75,430) | 35,754 |
| Decrease (increase) in prepayments | (100) | (1,421) |
| Increase (decrease) in trade creditors and accruals | 41,114 | (61,901) |
| Increase (decrease) in provisions | 110,683 | (6,493) |
| Cash flow from operations | (1,243,363) | (1,025,038) |

Non-cash financing and investing activities

During the financial year nil (2012: nil) shares were issued as consideration for the acquisition of exploration tenements.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

24. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2013 the parent company of the Group was Matsa Resources Limited.

| | Company | |
|---|-------------------|-------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Result of the parent Entity | | |
| Profit/(loss) for the year | 768,683 | (1,292,739) |
| Other comprehensive loss | 4,881 | (4,881) |
| Total comprehensive loss for the year | 773,564 | (1,287,858) |
| Financial position of parent entity at year end | | |
| Current assets | 2,663,716 | 4,825,546 |
| Total assets | 14,478,043 | 16,383,107 |
| Current liabilities | 707,000 | 1,928,709 |
| Total liabilities | 762,911 | 1,949,458 |
| Total equity of the parent entity comprising of: | | |
| Share capital | 37,810,962 | 36,886,309 |
| Reserves | 6,439,345 | 5,145,049 |
| Accumulated losses | (30,525,174) | (27,597,709) |
| Total equity | 13,715,132 | 14,433,649 |

25. Financial instruments

Financial risk management

Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash balances at bank, deposits with statutory authorities.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

25. Financial instruments (Continued)

Presently, the Group undertakes exploration and evaluation activities exclusively in Australia and South-East Asia. At the balance date there were no significant concentrations of credit risk.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating of no less than AA rating.

Trade and other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of other inter-company receivables and investments. Although management believes that the exploration activities of subsidiaries will be successful, the projects have not reached a stage to make such an assessment. Accordingly, the intercompany loans were impaired in line with the write-off of capitalised exploration expenditure.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| | Consolidated Carrying amount | |
|--|---------------------------------|-----------|
| | 2013 | 2012 |
| | \$ | \$ |
| Trade and other receivables | 69,115 | 3,437 |
| Cash and cash equivalents | 2,555,122 | 2,119,711 |
| Deposits held | 1,197,018 | 1,197,018 |
| Impairment of deposits (refer Note 8 (ii)) | (424,932) | (424,932) |

None of the Group's other receivables are past due (2012: nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The Company has leased assets financed by way of finance leases and has taken out a premium funding facility over their insurance requirements.

Subsequent to the capital raising the Company does not anticipate a need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. (Refer Note 30)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

25. Financial instruments (Continued)

30 June 2013

| | Weighted average interest rate | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years |
|---------------------------|--------------------------------|-----------------|------------------------|----------------|---------------|---------------|---------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and other payables | N/A | 510,915 | 510,915 | 510,915 | - | - | - |
| Finance lease liabilities | 7.4% | 105,574 | 105,574 | 29,680 | 29,984 | 17,606 | 28,304 |
| Panoramic deposit | N/A | - | - | - | - | - | - |
| | | <u>616,489</u> | <u>616,489</u> | <u>540,595</u> | <u>29,984</u> | <u>17,606</u> | <u>28,304</u> |

30 June 2012

| | Weighted average interest rate | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years |
|---------------------------|--------------------------------|------------------|------------------------|------------------|---------------|--------------|---------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and other payables | N/A | 302,121 | 302,121 | 302,121 | - | - | - |
| Finance lease liabilities | 9.8% | 67,404 | 67,404 | 21,226 | 25,429 | 8,728 | 12,021 |
| Panoramic deposit | N/A | 1,500,000 | 1,500,000 | 1,500,000 | - | - | - |
| | | <u>1,869,525</u> | <u>1,869,525</u> | <u>1,823,347</u> | <u>25,429</u> | <u>8,728</u> | <u>12,021</u> |

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on investments and purchases that are denominated in a currency (Thai baht) other than the respective functional currencies of Group entities, which is primarily the Australian dollar.

As at the statement of financial position date the Group holds the following financial assets or liabilities which are exposed to foreign currency risk.

| | Carrying amount | |
|-----------------------------|-----------------|-----------|
| | 2013 | 2012 |
| | \$ | \$ |
| Trade and other receivables | 1,113,518 | 1,133,323 |
| Cash and cash equivalents | 269,852 | 81,629 |

The Group is exposed to fluctuations in foreign currencies arising from the acquisition of services from time to time in currencies other than the Group's functional currency.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013

25. Financial instruments (Continued)

Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not use derivatives to mitigate these exposures. The Group is not exposed to cash flow volatility from interest rate changes on borrowings as the finance leases carry fixed rates of interest.

The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short terms deposit at interest rates maturing over 90 day rolling periods or less.

Profile

At the reporting date the interest rate profile of the Group's and the Company's interest-bearing financial instruments was:

| | Carrying amount | |
|----------------------------------|------------------|------------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Fixed rate instruments | | |
| Cash and cash equivalents | - | - |
| Cash backed performance bonds | 314,702 | 50,000 |
| | <u>314,702</u> | <u>50,000</u> |
| Variable rate instruments | | |
| Cash and cash equivalents | 2,555,122 | 2,119,711 |
| Cash backed performance bonds | - | - |
| | <u>2,555,122</u> | <u>2,119,711</u> |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as 2012.

| | Profit or loss | | Equity | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| | \$ | \$ | \$ | \$ |
| 30 June 2013 | | | | |
| Variable rate instruments | 25,551 | (25,551) | 25,551 | (25,551) |
| 30 June 2012 | | | | |
| Variable rate instruments | 21,197 | (21,197) | 21,197 | (21,197) |

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

25. Financial instruments (Continued)

Fair values

Fair values versus carrying amounts

The carrying amounts of financial assets and liabilities approximate fair value. The basis for determining fair values versus carrying value of financial instruments not carried at fair value is described below.

- (i) Other receivables, trade and other payables:
Other receivables, trade and other payables are short term in nature. As a result, the carrying amount of these instruments is considered to approximate its fair value.
- (ii) Deposits held on tenement applications :
The deposits held with Thai authorities are recoverable at 75% of their value should the applications not be granted. As a result the carrying amount is considered to approximate its fair value.

Equity Price Risk

Other Equity price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

Investments are managed on an individual basis and material buy and sell decisions are approved by the Board of Directors. The primary goal of the Group's investment strategy is to maximise investment returns.

The Group's investments are solely in equity instruments. These instruments are classified as available-for-sale and carried at fair value with fair value changes recognised directly in other comprehensive income.

The following table details the breakdown of the investment assets and liabilities held by the Group:

| | Note | 30 June 2013 \$ | 30 June 2012 \$ |
|--|------|--------------------|--------------------|
| Listed equities (Level 1 fair value hierarchy) | 9 | 3,152,083 | 6,466 |

Sensitivity analysis

The Group's equity investments are listed on the Australian Securities Exchange. A 3% increase in stock prices at 30 June 2013 would have increased equity by \$94,562 (2012: \$194), an equal change in the opposite direction would have decreased equity by an equal but opposite amount.

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio; however there are no external borrowings as at balance date.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

25. Financial instruments (Continued)

The Group encourages employees to be shareholders through the Long Term Incentive Plan and the Executive Share Option Plan.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Share-based payments

Employee Share Option Plan

The Group has an Employee Share Option Plan (ESOP) for the granting of options to staff members, directors and consultants. A new ESOP was approved by shareholders on 30 November 2010 and adopted. Options issued under the ESOP vest on the grant date.

Other relevant terms and conditions applicable to options granted under the ESOP include:

- (a) Options issued pursuant to the plan will generally be issued free of charge. During the 2010 financial year a number of options were issued for a small consideration.
- (b) The exercise price of the options shall be as the Directors in their absolute discretion determine, provided the exercise price shall not be less than the weighted average of the last sale price of the Company's shares on ASX at the close of business on each of the 5 business days immediately preceding the date on which the Directors resolve to grant the options.
- (c) Subject to the above, the options may be exercised at any time prior to the expiration date from the issue date.
- (d) The Directors may limit the total number of options which may be exercised under the plan in any year.
- (e) Options with a common expiry date may have a different exercise price and exercise date.
- (f) Options shall lapse upon the earlier of:
 - (i) The expiry of the exercise period; and
 - (ii) The expiry of three months after the option holder ceases to be an employee by reason of dismissal, resignation or termination of employment, office or services for any reason, except the Directors may resolve that the options shall lapse on other terms they consider appropriate.
- (g) Upon exercise the options will be settled in ordinary shares of Matsa Resources Limited.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

• **Share-based payments (Continued)**

(a) Summary of options issued under the Employee Share Option Plan

The following table summarises the number (No.) and the weighted average exercise price (WAEP) of, and movements in, share options issued during the year to employees other than to key management personnel which have been disclosed in Note 27.

| | 2013 Number of Options | 2013 Weighted Average Exercise Price \$ | 2012 Number of Options | 2012 Weighted Average Exercise Price \$ |
|--|---------------------------------------|--|---------------------------------------|--|
| Outstanding at the beginning of the year | 3,100,000 | 0.35 | 2,775,000 | 0.35 |
| Granted | 650,000 | 0.40 | 350,000 | 0.31 |
| Exercised | (1,200,000) | 0.273 | - | - |
| Expired | - | - | (25,000) | 0.40 |
| Outstanding at year-end | <u>2,550,000</u> | <u>0.39</u> | <u>3,100,000</u> | <u>0.35</u> |
| Exercisable at year-end | <u>2,550,000</u> | <u>0.39</u> | <u>3,100,000</u> | <u>0.35</u> |

The outstanding balance as at 30 June 2013 is represented by the following options over ordinary shares, exercisable upon meeting the above terms and conditions:

- 1,550,000 options with an exercise price of \$0.40 each and with an expiry date of 31 August 2013. All have vested and are exercisable at balance date.
- 350,000 options with an exercise price of \$0.31 each and with an expiry date of 12 August 2014. All have vested and are exercisable at balance date.
- 650,000 options with an exercise price of \$0.40 each and with an expiry date of 12 September 2015. All have vested and are exercisable at balance date.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

26. Share-based payments (Continued)

Directors and Executives Options and Performance Rights

In addition to the ESOP, the Company has issued options to Directors and Executives from time to time. The terms and conditions of those options and performance rights vary between option holders and performance right holders. There were 5,750,000 options and 1,000,000 performance rights issued to Directors or Executives during the financial year.

Options issued to the Executive Chairman and the Executive Director and Executives vest immediately. Performance rights vest in accordance with their terms and conditions.

Other relevant terms and conditions applicable to options granted as above include:

- any Directors or Executives vested options and performance rights that are unexercised by the anniversary of their grant date will expire or, if they resigned, in accordance with their specific terms and conditions; and
- upon exercise, these options and performance rights will be settled in ordinary shares of Matsa Resources Limited.

(a) Summary of options and performance rights issued to Directors and Executives

- (i) The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued.

| | 2013 No. | 2013 WAEP \$ | 2012 No. | 2012 WAEP \$ |
|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Outstanding at 1 July | 9,750,000 | 0.45 | 11,883,333 | 0.42 |
| Granted during the year | 5,750,000 | 0.43 | - | - |
| Exercised during the year | - | - | - | - |
| Disposed of during the year | (1,000,000) | 0.273 | - | - |
| Expired during the year | (4,000,000) | 0.50 | (2,133,333) | 0.35 |
| Outstanding at 30 June | 10,500,000 | 0.44 | 9,750,000 | 0.45 |
| Exercisable at 30 June | 10,500,000 | 0.44 | 9,750,000 | 0.45 |

- (ii) The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of performance rights issued.

| | 2013 No. | 2012 No. |
|---------------------------|---------------------|---------------------|
| Outstanding at 1 July | - | - |
| Granted during the year | 1,000,000 | - |
| Exercised during the year | - | - |
| Expired during the year | - | - |
| Outstanding at 30 June | 1,000,000 | - |
| Exercisable at 30 June | - | - |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

26. Share-based payments (Continued)

The following options and performance rights were issued during the year. There were no options and performance rights issued to directors or executives during the year ended 30 June 2012.

Directors

2013

- 5,500,000 options over ordinary shares with an exercise price of \$0.43 each, exercisable upon meeting the relevant conditions and until 30 November 2015.
- Issued on 10 December 2012 were 1,000,000 performance rights with no exercise price, and an expiry date of 30 November 2015. Vesting of the performance rights is subject to achieving specific milestones.

Executives

2013

- 250,000 options over ordinary shares with an exercise price of \$0.40 each exercisable upon meeting the relevant conditions and until 12 September 2015.

(b) Valuation models of options and performance rights issued to Directors and Executives

The fair value of the options is estimated at the date of grant using a Black & Scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year.

| | 2013 | | 2012 | |
|----------------------------------|-----------|------------|-----------|------------|
| | Directors | Executives | Directors | Executives |
| Dividend yield (%) | Nil | Nil | - | - |
| Expected volatility (%) | 100.00 | 100.00 | - | - |
| Risk-free interest rate (%) | 2.62 | 2.60 | - | - |
| Expected life of options (years) | 3.00 | 3.00 | - | - |
| Option exercise price (\$) | 0.43 | 0.40 | - | - |
| Share price at grant date (\$) | 0.345 | 0.32 | - | - |
| Fair value at grant date (c) | 0.1981 | 18.72 | - | - |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The fair value of the performance rights is estimated at the date of grant using a Black & Scholes model. The following table gives the assumptions made in determining the fair value of the performance rights granted in the year.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013

26. Share-based payments (Continued)

(b) Valuation models of options and performance rights issued to Directors and Executives
(continued)

| | 2013 | | 2012 | |
|---|-----------|------------|-----------|------------|
| | Directors | Executives | Directors | Executives |
| Dividend yield (%) | Nil | - | - | - |
| Expected volatility (%) | 100.00 | - | - | - |
| Risk-free interest rate (%) | 2.62 | - | - | - |
| Expected life of performance rights (years) | 3.00 | - | - | - |
| Share price at grant date (\$) | 0.335 | - | - | - |
| Fair value at grant date (c) | 0.16 | - | - | - |

The risk free rate is the yield on Australian Government Bonds with a 3 year life which is the effective life of the performance rights at the assumed grant date.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The performance rights have a market capitalisation performance hurdle before they vest and this has been taken into account in determining the fair value.

There is no dividend yield included in the calculation of the fair value as the holders are not entitled to any dividends until the performance rights have vested.

| | Consolidated | |
|--|------------------|---------------|
| | 2013 \$ | 2012 \$ |
| Employee Expenses | | |
| Share options granted in 2012 | | |
| - equity settled | - | 36,575 |
| Share options granted in 2013 | | |
| - equity settled | 1,289,414 | - |
| Total expense recognised as employee costs | <u>1,289,414</u> | <u>36,575</u> |

Conditions of vesting of the performance rights

- (a) 500,000 performance rights vest when the volume weighted average price of the Company's shares as traded on ASX over 5 consecutive days is equal to or exceeds \$0.60; and
- (b) 500,000 performance rights vest when the volume weighted average price of the Company's shares as traded on ASX over 5 consecutive days is equal to or exceeds \$0.75.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

27. Key management personnel

Details of key management personnel

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

| Name | Position |
|-------------------|---|
| Directors | |
| Paul Poli | Executive Chairman |
| Frank Sibbel | Non-Executive Director |
| Andrew Chapman | Director, Company Secretary and Chief Financial Officer |
| Executives | |
| David Fielding | Iron Ore Executive |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report on pages 30 to 37. These transferred disclosures have been audited.

| | 2013 | 2012 |
|---|------------------|----------------|
| | \$ | \$ |
| Compensation of Key Management Personnel | | |
| Short-term employment benefits | 1,186,842 | 770,635 |
| Post-employment benefits | 42,219 | 62,550 |
| Termination benefits | - | - |
| Share-based payment | 1,167,734 | - |
| | <u>2,396,795</u> | <u>833,185</u> |

The Key management personnel receive no compensation in relation to the management of the Company. The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the Group in relation to their services rendered to the Company.

Individual directors and executives compensation disclosure

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' report.

No director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

27. Key management personnel (Continued)

Option holdings of key management personnel

| | Balance 1 July | Granted as remuneration | Exercised | Net change other | Balance on Resignation | Balance 30 June | Vested & Exercisable | Not Exercisable |
|-------------|----------------|-------------------------|-----------|------------------|------------------------|-----------------|----------------------|-----------------|
| | No. | No. | No. | No. | No. | No. | No. | No. |
| 2013 | | | | | | | | |
| P Poli | 7,750,000 | 2,750,000 | - | (5,000,000)* | - | 5,500,000 | 5,500,000 | - |
| A Chapman | 750,000 | 1,250,000 | - | - | - | 2,000,000 | 2,000,000 | - |
| F Sibbel | 1,000,000 | 1,500,000 | - | - | - | 2,500,000 | 2,500,000 | - |
| D Fielding | 250,000 | 250,000 | - | - | - | 500,000 | 500,000 | - |
| | 9,750,000 | 5,750,000 | - | (5,000,000) | - | 10,500,000 | 10,500,000 | - |

*1 million options were transferred to an unrelated third party who exercised the options during the year.

| | Balance 1 July | Granted as remuneration | Exercised | Net change other | Balance on Resignation | Balance 30 June | Vested & Exercisable | Not Exercisable |
|-------------|----------------|-------------------------|-----------|------------------|------------------------|-----------------|----------------------|-----------------|
| | No. | No. | No. | No. | No. | No. | No. | No. |
| 2012 | | | | | | | | |
| P Poli | 11,497,733 | - | - | (3,747,733) | - | 7,750,000 | 7,750,000 | - |
| A Chapman | 750,000 | - | - | - | - | 750,000 | 750,000 | - |
| F Sibbel | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 | - |
| D Fielding | 250,000 | - | - | - | - | 250,000 | 250,000 | - |
| | 13,497,733 | - | - | (3,747,733) | - | 9,750,000 | 9,750,000 | - |

Shareholdings of key management personnel

| | Balance 1 July | Granted as remuneration | Options exercised | Net change other | Balance on resignation | Balance 30 June |
|-------------|----------------|-------------------------|-------------------|------------------|------------------------|-----------------|
| | No. | No. | No. | No. | No. | No. |
| 2013 | | | | | | |
| P Poli | 10,550,000 | - | - | 50,000 | - | 10,600,000 |
| A Chapman | - | - | - | - | - | - |
| F Sibbel | 200,000 | - | - | 68,048 | - | 268,048 |
| D Fielding | 50,000 | - | - | 41,176 | - | 91,176 |
| | 10,800,000 | - | - | 159,224 | - | 10,959,224 |

| | Balance 1 July | Granted as remuneration | Options exercised | Net change other | Balance on resignation | Balance 30 June |
|-------------|----------------|-------------------------|-------------------|------------------|------------------------|-----------------|
| | No. | No. | No. | No. | No. | No. |
| 2012 | | | | | | |
| P Poli | 10,550,000 | - | - | - | - | 10,550,000 |
| A Chapman | - | - | - | - | - | - |
| F Sibbel | 200,000 | - | - | - | - | 200,000 |
| D Fielding | - | - | - | 50,000 | - | 50,000 |
| | 10,750,000 | - | - | 50,000 | - | 10,800,000 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

27. Key management personnel (Continued)

Performance rights of key management personnel

| | Balance 1 July | Granted as remuneration | Net change other | Balance 30 June | Vested and exercisable | Not vested and not exercisable |
|-------------|----------------|----------------------------|---------------------|--------------------|---------------------------|--------------------------------------|
| | No. | No. | No. | No. | No. | No. |
| 2013 | | | | | | |
| P Poli | - | 1,000,000 | - | 1,000,000 | - | 1,000,000 |
| A Chapman | - | - | - | - | - | - |
| F Sibbel | - | - | - | - | - | - |
| D Fielding | - | - | - | - | - | - |
| | - | 1,000,000 | - | 1,000,000 | - | 1,000,000 |

28. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 22.

Key management personnel

Disclosures relating to key management personnel are set out in note 27.

29. Remuneration of auditors

The auditor of Matsa Resources Limited is Nexia Perth Audit Services Pty Ltd (Nexia Perth), (formerly known as MGI Perth).

| | Consolidated | |
|--|---------------------|---------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Amounts received or due and receivable by Nexia Perth for an audit or review of the entity and any other entity in the consolidated group. | 54,645 | 28,153 |
| Amounts received or due and receivable by related practices of Nexia Perth for: | | |
| - tax compliance | 8,722 | 7,475 |
| | <u>63,367</u> | <u>35,628</u> |

30. Events Subsequent to Balance Date

On 5 August 2013 Matsa increased its interest in Bulletin Resources Limited (Bulletin) to 23.03% by participating in Bulletin's 1 for 3 non-renounceable rights issue at a cost of \$280,350.

On 17 September 2013 Matsa announced that it had raised approximately \$2.86 million, before costs, via a placement of ordinary issued shares to sophisticated and institutional investors via the issue of 9.5 million shares at an issue price of \$0.30 each.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30. Events Subsequent to Balance Date (continued)

On 20 September 2013 Matsa issued 1,050,000 unlisted options with an exercise price of \$0.40 each expiring on 30 September 2016 to employees under its Long Term Incentive Plan and 500,000 unlisted options to with an exercise price of \$0.40 each expiring on 30 September 2015 to brokers as part consideration for the above placement.

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

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MATSA RESOURCES LIMITED

DIRECTORS DECLARATION

1. In the opinion of the directors of Matsa Resources Limited (the "Company"):
 - (a) the consolidated financial statements and notes and the Remuneration report in the Directors' report, set out on pages 30 to 37, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2013 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b);
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the directors;



Paul Poli
Executive Chairman

Perth, 27 September 2013

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Independent auditor's report to the members of Matsa Resources Limited

Report on the financial report

We have audited the accompanying financial report of Matsa Resources Limited which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

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. Those 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, we consider internal controls 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 controls. 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.

Independence

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

Nexia Perth Audit Services Pty Ltd

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Independent member of Nexia International



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Opinion

In our opinion:

- (a) the financial report of Matsa Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 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 2(b).

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the remuneration report of Matsa Resources Limited for the year ended 30 June 2013 complies with Section 300A of the *Corporations Act 2001*.

NPAS

Nexia Perth Audit Services Pty Ltd

PTC Klopper

PTC Klopper
Director

27 September 2013
Perth

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

The following additional information is required by the Australian Securities Exchange Ltd in respect of listed public companies only.

SHAREHOLDING

Distribution of Shareholders as at 17 September 2013

| <u>Category (size of holding)</u> | <u>Number of Shareholders</u> |
|-----------------------------------|-------------------------------|
| 1 – 1,000 | 226 |
| 1,001 – 5,000 | 508 |
| 5,001 – 10,000 | 328 |
| 10,001 – 100,000 | 734 |
| 100,001 – and over | 160 |
| | <u>1,956</u> |

The number of shareholdings held in less than marketable parcels is 285.

Twenty Largest Shareholders as at 17 September 2013

| <u>Name</u> | <u>No.</u> | <u>%</u> |
|---|-------------------|--------------|
| JP Morgan Nominees Australia Limited <Cash Income A/C> | 14,657,229 | 10.89 |
| HF Resources Pty Ltd | 11,770,000 | 8.74 |
| Mr Paul Poli (P Poli Family A/C) | 8,550,000 | 6.35 |
| RASL AU LLC | 8,482,241 | 6.30 |
| Mr William Robert Maunder & Mrs Jeanette Margaret Maunder <Superannuation Fund A/C> | 2,760,000 | 2.05 |
| L & S Davies Pty Ltd <Davies International A/C> | 2,374,409 | 1.76 |
| Mr Mark John Allison & Mrs Lorraine Frances Allison <The M&L Allison S/F A/C> | 2,194,000 | 1.63 |
| Mr Steven James Brown (Family A/C) | 2,101,100 | 1.56 |
| Mr Paul Poli & Mrs Sonya Kathleen Poli <P Poli Super Fund A/C> | 2,050,000 | 1.52 |
| Citicorp Nominees Pty Ltd | 1,829,476 | 1.36 |
| Mr Oliver Nikolovski & Mrs Suzanne Karine Nikolovski <The Nikolovski S/Fund A/C> | 1,660,000 | 1.23 |
| ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C> | 1,624,909 | 1.21 |
| Mr Kimberley Alan Harris (Family Account) | 1,338,702 | 0.99 |
| Mr Robert Genovesi & Mrs Magalay Genovesi & Mr Frank Giannasi & Mrs Maria Giannasi (The Bld Workshop No1 S/F) | 1,250,000 | 0.93 |
| Australian Global Capital Pty Ltd | 1,200,000 | 0.89 |
| Mr Adam Georgiu <The A Georgiu Family A/C> | 1,100,000 | 0.82 |
| Mr John Francis Young & Mr Christopher John Young & Mr Brett William Young <J F Young Super Fund A/C> | 1,090,000 | 0.81 |
| Ms Suzanne Karine Van Der Werf | 1,000,000 | 0.74 |
| Mr Carmelo Poli & Mrs Eileen Poli <Carmelo Poli Super Fund A/C> | 990,500 | 0.74 |
| Burgundy Triangle Pty Ltd | 900,000 | 0.67 |
| | <u>68,926,606</u> | <u>51.19</u> |

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

Substantial Shareholders

| Ordinary shareholder | Fully paid | |
|----------------------|------------|------------|
| | Number | Percentage |
| HF Resources Pty Ltd | 11,770,000 | 8.74% |
| Paul Poli | 10,600,000 | 7.88% |
| RASL AU LLC | 8,822,241 | 6.55% |

RESTRICTED SECURITIES

The Company has no restricted securities on issue.

STATEMENT OF UNQUOTED SECURITIES

| Number of Options | Number of Holders | Exercise Price | Date of Expiry |
|-------------------|-------------------|----------------|-------------------|
| 4,250,000 | 3 | \$0.45 | 30 November 2013 |
| 350,000 | 1 | \$0.31 | 12 August 2014 |
| 900,000 | 7 | \$0.40 | 12 September 2015 |
| 5,500,000 | 3 | \$0.43 | 30 November 2015 |

There is 1 holder of 1,000,000 performance rights with specific performance hurdles which expire 30 November 2015.

MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|-----------------|---|---------------|-------------------|
| M 63/177 | Buldanian Rocks | Matsa Resources Limited | Live | -% |
| P 63/1503 | Buldanian Rocks | Matsa Resources Limited | Live | -% |
| P 63/1636 | Dundas | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1637 | Dundas | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1638 | Dundas | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1639 | Dundas | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| E 15/1380 | Dunnsville | Matsa Resources Limited | Pending | 100% |
| E 15/1381 | Dunnsville | Matsa Resources Limited | Pending | 100% |
| E 16/294 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/297 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/296 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/362 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/399 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/389 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/390 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/405 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/406 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/407 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/408 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/427 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/428 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/429 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/430 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/431 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/403 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/404 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/439 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 16/443 | Dunnsville | Matsa Resources Limited | Live | 100% |
| E 28/1663 ¹ | Fraser Range | Matsa Resources Limited | Live | 90% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|----------------|--------------------------|---------------|-------------------|
| E 28/1664 ¹ | Fraser Range | Matsa Resources Limited | Live | 90% |
| E 28/2260 | Fraser Ranger | Matsa Resources Limited | Live | 100% |
| E 28/2261 | Fraser Range | Matsa Resources Limited | Live | 100% |
| E 28/2295 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 28/2339 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1092 ² | Fraser Range | Matsa Resources Limited | Live | 55% |
| E 63/1093 ² | Fraser Range | Matsa Resources Limited | Live | 55% |
| E 63/1094 ² | Fraser Range | Matsa Resources Limited | Live | 55% |
| E 63/1095 ² | Fraser Range | Matsa Resources Limited | Live | 55% |
| E 63/1576 | Fraser Range | Matsa Resources Limited | Live | 100% |
| E 63/1577 | Fraser Range | Matsa Resources Limited | Live | 100% |
| E 63/1578 | Fraser Range | Matsa Resources Limited | Live | 100% |
| E 63/1618 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1619 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1638 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1639 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1646 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1659 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1660 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 63/1661 | Fraser Range | Matsa Resources Limited | Pending | 100% |
| E 69/3070 | Fraser Range | Matsa Resources Limited | Live | 100% |
| E 80/4807 | Halls Creek | Matsa Resources Limited | Pending | |
| E 80/4809 | Halls Creek | Matsa Resources Limited | Pending | |
| E 63/1018 | Killaloe | Cullen Resources Limited | Live | -% |
| E 63/1199 | Killaloe | Cullen Resources Limited | Live | -% |
| E 63/1662 | Killaloe | Matsa Resources Limited | Pending | 100% |
| P 63/1331 | Killaloe | Cullen Resources Limited | Live | -% |
| P 63/1332 | Killaloe | Cullen Resources Limited | Live | -% |
| P 63/1333 | Killaloe | Cullen Resources Limited | Live | -% |
| P 63/1672 | Killaloe | Cullen Resources Limited | Live | -% |
| E 28/2293 | Minigwal | Matsa Resources Limited | Pending | 100% |
| E 38/2823 | Minigwal | Matsa Resources Limited | Pending | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|----------------|---|---------------|-------------------|
| E 39/1707 | Minigwal | Matsa Resources Limited | Live | 100% |
| E 39/1708 | Minigwal | Matsa Resources Limited | Live | 100% |
| E 39/1716 | Minigwal | Matsa Resources Limited | Pending | 100% |
| E 39/1728 | Minigwal | Matsa Resources Limited | Live | 100% |
| E 39/1735 | Minigwal | Matsa Resources Limited | Pending | 100% |
| E 16/409 | Mt Burges | DRM | Live | -% |
| P 63/1830 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Pending | 100% |
| P 63/1454 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1455 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1456 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1457 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1458 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1459 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1460 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1394 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1395 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1396 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1397 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1398 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1399 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1400 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1401 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------|----------|--|---------|------------|
| | Norseman | Precious Metals Investment Pty Ltd | | |
| P 63/1402 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1403 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1404 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1405 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1406 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1407 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1409 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| M 63/653 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Pending | 100% |
| P 63/1426 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1427 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1428 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1393 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1391 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1392 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1424 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1425 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1675 ³ | Norseman | Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1640 ³ | Norseman | Matsa Resources Limited Australian Strategic and Precious Metals | Live | 100% |
| P 63/1807 ³ | Norseman | Precious Metals Investment Pty Ltd | Pending | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------|----------|---|---------|------------|
| P 63/1805 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Pending | 100% |
| P 63/1806 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Pending | 100% |
| E 63/1215 | Norseman | Matsa Resources Limited | Live | 100% |
| E 63/1362 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1421 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1389 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1582 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1583 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| M 63/516 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1330 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1570 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1571 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1572 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1573 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1574 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1581 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1752 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1753 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1754 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1755 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------|----------|--|---------|------------|
| | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | | |
| P 63/1751 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Pending | 100% |
| P 63/1422 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1423 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1564 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1565 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1566 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1567 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1568 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1569 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| L 63/64 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| M 63/236 ³ | Norseman | Investment Pty Ltd | Live | 100% |
| P 63/1673 ³ | Norseman | Matsa Resources Limited Australian Strategic and Precious Metals | Live | 100% |
| P 63/1408 ³ | Norseman | Investment Pty Ltd | Live | 100% |
| P 63/1674 ³ | Norseman | Matsa Resources Limited Australian Strategic and Precious Metals | Live | 100% |
| E 63/1348 | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| M 63/515 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1562 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| P 63/1563 ³ | Norseman | Investment Pty Ltd Australian Strategic and Precious Metals | Live | 100% |
| L 63/58 ³ | Norseman | Investment Pty Ltd | Live | 100% |
| P 63/1576 | Norseman | Australian Strategic and Precious Metals | Live | 100% |

MATSA RESOURCES LIMITED
SCHEDULE OF MINERAL PROPERTIES

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------|----------|---|---------|------------|
| | Norseman | Precious Metals Investment Pty Ltd | | |
| P 63/1461 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1462 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1463 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1464 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1661 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1575 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1577 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1578 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1579 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1580 | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| P 63/1465 ³ | Norseman | Australian Strategic and Precious Metals Investment Pty Ltd | Live | 100% |
| M 63/366 ³ | Norseman | Precious Metals Investment Pty Ltd | Pending | 100% |

¹= 90% held by Matsa

²= 55% held by Matsa

³= 30% controlled by Matsa

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MATSA RESOURCES LIMITED

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Since the introduction of the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Principles and Recommendations), and the revised second edition of the ASX Principles and Recommendations, Matsu Resources Limited has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. The Company's corporate governance practices for the year ending 30 June 2013 and as at the date of this report are outlined in this corporate governance statement.

The Company has considered each recommendation provided in the ASX Principles and Recommendations, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

For further information on corporate governance policies adopted by the Company, refer to the corporate governance section of our website: www.matsa.com.au

1. Compliance with Best Practice Recommendations

The table below summaries the Company's compliance with the Corporate Governance Council's Recommendations:

| Principle # | ASX Corporate Governance Council Recommendations | Reference | Comply |
|--------------------|--|---|--------|
| Principle 1 | Lay solid foundations for management and oversight | | |
| 1.1 | Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions. | 2(a) | Yes |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | 2(h), 3(b), Remuneration Report | Yes |
| 1.3 | Provide the information indicated in the Guide to reporting on principle 1. | 2(a), 2(h), 3(b), Remuneration Report | Yes |
| | | | |
| Principle 2 | Structure the Board to add value | | |
| 2.1 | A majority of the Board should be independent directors. | 2(e) | No |
| 2.2 | The chair should be an independent director. | 2(c), 2(e) | No |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | 2(b), 2(c) | No |
| 2.4 | The Board should establish a nomination committee. | 2(d) | No |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual directors. | 2(h) | Yes |
| 2.6 | Provide the information indicated in the Guide to reporting on principle 2. | 2(b), 2(c), 2(d), 2(e), 2(h) | Yes |
| | | | |

MATSA RESOURCES LIMITED
CORPORATE GOVERNANCE

| Principle # | ASX Corporate Governance Council Recommendations | Reference | Comply |
|--------------------|---|------------------|---------------|
| Principle 3 | Promote ethical and responsible decision-making | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary as to: | 4(a) | Yes |
| | <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; | | |
| | <ul style="list-style-type: none"> • the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and | | |
| | <ul style="list-style-type: none"> • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | | |
| 3.2 | Establish a policy concerning diversity and disclose the policy or a summary. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them. | 4(c) | Yes |
| 3.3 | Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | 4(c) | Yes |
| 3.4 | Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | 4(c) | Yes |
| 3.5 | Provide the information indicated in the Guide to reporting on principle 3. | 4(a), 4(c) | Yes |
| Principle 4 | Safeguard integrity in financial reporting | | |
| 4.1 | The Board should establish an audit committee. | 3(a) | Yes |
| 4.2 | The audit committee should be structured so that it: | 3(a) | No |
| | <ul style="list-style-type: none"> • consists only of non-executive directors; | | |
| | <ul style="list-style-type: none"> • consists of a majority of independent directors; | | |
| | <ul style="list-style-type: none"> • is chaired by an independent chair, who is not chair of the Board; and | | |
| | <ul style="list-style-type: none"> • has at least three members. | | |
| 4.3 | The audit committee should have a formal charter | 3(a) | Yes |
| 4.4 | Provide the information indicated in the Guide to reporting on principle 4. | 3(a) | Yes |
| Principle 5 | Make timely and balanced disclosure | | |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies. | 5(a), 5(b) | Yes |

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| Principle # | ASX Corporate Governance Council Recommendations | Reference | Comply |
|---|---|---------------------------|---------------|
| 5.2 | Provide the information indicated in the Guide to reporting on principle 5. | 5(a), 5(b) | Yes |
| Principle 6 | | | |
| Respect the rights of shareholders | | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | 5(a), 5(b) | Yes |
| 6.2 | Provide the information indicated in the Guide to reporting on principle 6. | 5(a), 5(b) | Yes |
| Principle 7 | | | |
| Recognise and manage risk | | | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | 6(a) | Yes |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | 6(a), 6(b), 6(d) | Yes |
| 7.3 | The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | 6(c) | Yes |
| 7.4 | Provide the information indicated in the Guide to reporting on principle 7. | 6(a), 6(b), 6(c), 6(d) | Yes |
| Principle 8 | | | |
| Remunerate fairly and responsibly | | | |
| 8.1 | The Board should establish a remuneration committee. | 3(b) | No |
| 8.2 | The Remuneration Committee should be structured so that it is: <ul style="list-style-type: none"> • consists of a majority of independent directors; • is chaired by an independent chair; and • has at least 3 members. | 3(b) | No |
| 8.3 | Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives. | 3(b), Remuneration Report | Yes |
| 8.4 | Provide the information indicated in the Guide to reporting on principle 8. | 3(b), | Yes |

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2. THE BOARD OF DIRECTORS

2(a) Roles and Responsibilities of the Board

The role of the Board is to be accountable to the shareholders and investors for the overall performance of the Company and takes responsibility for monitoring the Company's business and affairs and setting its strategic direction, establishing and overseeing the Company's financial position provide leadership for and the supervision of the Company's senior management.

The Board is responsible for:

- Appointing, evaluating, rewarding and if necessary the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of the health of the Company;
- Assessing the effectiveness of senior management's implementation of systems and the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control process are in place and functioning appropriately.
- Approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;
- Ensuring that the Company acts legally and responsibly on all matters and approving the Company's policies on risk oversight and management, internal compliance and control, Code of Conduct, and legal compliance and assuring itself that the Company practice is consistent with that Code; and other policies; and
- Reporting to and advising shareholders.

Other than as specifically reserved to the Board, responsibility for the day-to-day management of the Company's business activities is delegated to the Chief Executive Officer and Executive Management.

2(b) Board Composition

The Directors determine the composition of the Board employing the following principles:

- the Board, in accordance with the Company's constitution must comprise a minimum of three Directors;
- the roles of the Chairman of the Board and of the Chief Executive Officer should be exercised by different individuals;
- the majority of the Board should comprise Directors who are non-executive;
- the Board should represent a broad range of qualifications, experience and expertise considered of benefit to the Company; and

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2. THE BOARD OF DIRECTORS (continued)

2(b) Board Composition (continued)

- the Board must be structured in such a way that it has a proper understanding of, and competency in, the current and emerging issues facing the Company, and can effectively review management's decisions.

The Board is currently comprised of an Executive Chairman, an Executive Director and a non-executive Director. Details of the members of the Board, their experience, expertise, qualifications, terms of office and independent status are set out in the Directors' Report of the Annual Report under the heading "Directors". The Board composition is such that the Company does not comply with Recommendation 2.1 as there are no independent non-executive directors. There have been no changes to the Board since 1 July 2012.

The Company's constitution requires one-third of the Directors (or the next lowest whole number) to retire by rotation at each Annual General Meeting (AGM). The Directors to retire at each AGM are those who have been longest in office since their last election. Where Directors have served for equal periods, they may agree amongst themselves or determine by lot who will retire. A Director must retire in any event at the third AGM since he or she was last elected or re-elected. Retiring Directors may offer themselves for re-election.

A Director appointed as an additional or casual Director by the Board will hold office until the next AGM when they may be re-elected.

The Chief Executive Officer is not subject to retirement by rotation and, along with any Director appointed as an additional or casual Director, is not to be taken into account in determining the number of Directors required to retire by rotation.

2(c) Chairman and Chief Executive Officer

The Chairman is responsible for:

- leadership of the Board;
- the efficient organisation and conduct of the Board's functions;
- the promotion of constructive and respectful relations between Board members and between the Board and management;
- contributing to the briefing of Directors in relation to issues arising at Board meetings;
- facilitating the effective contribution of all Board members; and
- committing the time necessary to effectively discharge the role of the Chairman.

The Board does not comply with the ASX Recommendations 2.2 and 2.3 in that the Chairman has an executive capacity and therefore is not an independent Director (refer to 2(e) Independent Directors). The Board has considered this matter and decided that the non-compliance does not effect the operation of the Company.

The Chief Executive Officer is responsible for:

- implementing the Company's strategies and policies; and
- running the affairs of the Company under the delegated authority from the Board.

The roles of the Chairman and the Chief Executive Officer are not separate with the role being undertaken by an Executive Chairman.

2(d) Nomination Committee

The Company does not comply with ASX Recommendation 2.4. The Company is not of a relevant size to consider formation of a nomination committee to deal with the selection and appointment of new Directors and as such a nomination committee has not been formed.

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2. THE BOARD OF DIRECTORS (continued)

2(d) Board Composition (continued)

Nominations of new Directors are considered by the full Board in accordance with the Company's "Selection of New Directors Policy".

2(e) Independent Directors

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgment.

Directors of Matsa Resources Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into consideration when assessing independence are whether a Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company or another Company member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Company member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other Company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or another Company member other than as a Director.

The Company does not comply with ASX Recommendation 2.1. The Company has two executive Directors and one non-executive Director. In accordance with the definition of independence above the Company is considered to have no independent directors.

The Board believes that the Company is not of sufficient size to warrant the appointment of more independent non-executive Directors in order to meet the ASX recommendation of maintaining a majority of independent non-executive Directors. The Company maintains a mix of Directors from different backgrounds with complementary skills and experience.

2(f) Avoidance of conflicts of interest by a Director

In order to ensure that any interests of a Director in a particular matter to be considered by the Board are known by each Director, each Director is required by the Company to disclose any relationships, duties or interests held that may give rise to a potential conflict. Directors are required to adhere strictly to constraints on their participation and voting in relation to any matters in which they may have an interest.

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2. THE BOARD OF DIRECTORS (continued)

2(g) Board access to information and independent advice

Directors are able to access members of the management team at any time to request relevant information.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

2(h) Review of Board performance

The performance of the Board is reviewed regularly by the Chairman. The Chairman conducts performance evaluations which involve an assessment of each Board member's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Matsa Resources Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

3. BOARD COMMITTEES

3(a) Audit Committee

Given the size and scale of the Company's operations the full Board undertakes the role of the Audit Committee. The Audit Committee does not comply with ASX Recommendation 4.2 as two are executive directors and none are considered to be independent Directors (refer 2(e)). The role and responsibilities of the Audit Committee are summarised below.

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Board sets aside time to deal with issues and responsibilities usually delegated to the Audit Committee to ensure the integrity of the financial statements of the Consolidated Entity and the independence of the auditor.

The Board reviews the audited annual and half-year financial statements and any reports which accompany published financial statements and recommends their approval to the members. The Board also reviews annually the appointment of the external auditor, their independence and their fees.

The Board is also responsible for establishing policies on risk oversight and management. The Company has not formed a separate Risk Management Committee due to the size and scale of its operations.

External Auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is Nexia Perth's policy to rotate engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the notes to the financial statements in the Annual Report.

There is no indemnity provided by the Company to the auditor in respect of any potential liability to third parties.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the audit report.

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3. BOARD COMMITTEES

3(a) Audit Committee

The directors are satisfied that the provision of any non-audit services during the year by the auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are satisfied that the provision of any non-audit services does not compromise the auditor's independence requirements of the Corporations Act because the services were provided by persons who were not involved in the audit.

3(b) Remuneration Committee

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

The Board has not established a separate Remuneration Committee due to the size and scale of its operations. This does not comply with Recommendation 8.1 however the Board as a whole takes responsibility for such issues.

The responsibilities include setting policies for senior officers remuneration, setting the terms and conditions for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both executive and non-executive directors and undertaking reviews of the CEO's performance.

The Company has structured the remuneration of its senior executives such that it comprises a fixed salary and statutory superannuation. From time to time senior executives are issued options. The Company believes that by remunerating senior executives in this manner it rewards them for performance and aligns their interests with those of shareholders and increases the Company's performance.

Non-executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for non-executive director remuneration.

The remuneration received by directors and executives in the current period is contained in the "Remuneration Report" within the Directors' Report of the Annual Report.

4. ETHICAL AND RESPONSIBLE DECISION MAKING

4(a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. The "Code of Conduct" sets out the principles, practices, and standards of personal behaviour the Company expects people to adopt in their daily business activities.

All Directors, officers and employees are required to comply with the Code of Conduct. Senior managers are expected to ensure that employees, contractors, consultants, agents and partners under their supervision are aware of the Company's expectations as set out in the Code of Conduct.

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4. ETHICAL AND RESPONSIBLE DECISION MAKING

4(a) Code of Ethics and Conduct

All Directors, officers and employees are expected to:

- (i) Comply with the law;
- (ii) Act in the best interests of the Company;
- (iii) Be responsible and accountable for their actions; and
- (iv) Observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of positional conflicts.

4(b) Policy concerning trading in Company securities

The Company's "Securities Trading Policy" applies to all directors, officers and employees and was last updated in December 2010. This policy sets out the restrictions on dealing in securities by people who work for, or are associated with the Company and is intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities. The policy stipulates that the only appropriate time for a Director, officer or employee to deal in the Company's securities is when they are not in possession of price sensitive information that is not generally available to the market.

As a matter of practice, Company shares may only be dealt with by Directors and officers of the Company under the following guidelines:

- No trading is permitted in the period of two weeks prior to the announcement to the ASX of the Company's full year, half year and quarterly results or any other designated blackout period;
- Guidelines are to be considered complementary to and not replace the various sections of the Corporations Act 2001 dealing with insider trading; and
- Obtain the prior written consent of the Chairman (or two of the other Directors/Board if you are the Chairman).

4(c) Policy concerning diversity

The Company encourages diversity in employment throughout the Company and in the composition of the Board, as a mechanism to ensure that the Company is able to draw on a variety of skill, talent and previous experiences in order to maximise the Company's performance.

The Company's "Diversity Policy" has been implemented to ensure the Company has the benefit of a diverse range of employees with different skills, experience, age, gender, race and cultural backgrounds, and that the Company reports its results on an annual basis in achieving measurable targets which are set by the Board as part of implementation of the Diversity Policy. The Diversity Policy is available on the Corporate Governance section of the Company's website.

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4. Ethical and responsible decision making (Continued)

The table below outlines the diversity objectives established by the Board, the steps taken during the year to achieve these objectives, and the outcomes.

| Objectives | Position |
|--|---|
| Increase the number of women in the workforce, including management and at board level. | There were no key senior female appointments made during the year. As at 30 June 2013, women represented 25% in the Consolidated Entity's workforce (2012: 30%), nil in key management positions (2012: nil) and Nil at board level (2012: Nil). |
| Review gender pay gaps on an annual basis and implement actions to address any variances. | As a part of the annual remuneration review, the Board assesses the performance and salaries of all key management personnel and executive directors. Any gender pay disparities are addressed. |
| Provide flexible workplace arrangements. | During the year Matsa employed 1 employee on flexible work arrangements (2012: 1). |
| Provide career development opportunities for every employee, irrespective of any cultural, gender and other differences. | Whilst Matsa places special focus on gender diversity, career development opportunities are equal for all employees. Employees are encouraged to attend professional development courses/workshops throughout the year. |
| Promote an inclusive culture that treats the workforce with fairness and respect. | Matsa has set a zero tolerance policy against discrimination of employees at all levels. The Company provides avenues to employees to voice their concerns or report any discrimination. No cases of discrimination were reported during the year (2012: Nil). |

5. TIMELY AND BALANCED DISCLOSURE

5(a) Shareholder communication

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's "ASX Disclosure Policy" encourages effective communication with its shareholders by requiring that Company announcements:

- be factual and subject to internal vetting and authorisation before issue;
- be made in a timely manner;
- not omit material information;
- be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions;
- be in compliance with ASX Listing Rules continuous disclosure requirements; and
- be placed on the Company's website promptly following release.

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5. TIMELY AND BALANCED DISCLOSURE (continued)

5(a) Shareholder communication (continued)

Shareholders are encouraged to participate in general meetings. Copies of addresses by the Chairman or Chief Executive Officer are disclosed to the market and posted on the Company's website. The Company's external auditor attends the Company's annual general meeting to answer shareholder questions about the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

5(b) Continuous disclosure policy

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company. The Company's "ASX Disclosure Policy" described in 5(a) reinforces the Company's commitment to continuous disclosure and outline management's accountabilities and the processes to be followed for ensuring compliance.

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

6. RECOGNISING AND MANAGING RISK

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives. A written policy in relation to risk oversight and management has been established ("Risk Management Policy"). Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn responsibilities.

6(a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

Annually, the Board is responsible for identifying the risks facing the Company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level.

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6. RECOGNISING AND MANAGING RISK (continued)

6(a) Board oversight of the risk management system (continued)

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- a. regular reporting to the Board in respect of operations and the Company's financial position; and
- b. regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

The Company's risk management system is evolving. It is an on-going process and it is recognised that the level and extent of the risk management system will evolve commensurate with the development and growth of the Company's activities.

6(b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

The Board is responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control.

6(c) Chief Executive Officer and Chief Financial Officer Certification

The Chief Executive Officer and Chief Financial Officer provide to the Board written certification that in all material respects:

- (a) The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- (b) The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- (c) The Company's risk management an internal compliance and control system is operating efficiently and effectively in all material respects.

6(d) Internal review and risk evaluation

Assurance is provided to the Board by executive management on the adequacy and effectiveness of management controls for risk on a regular basis.