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MATSA RESOURCES LIMITED
ABN 48 106 732 487

ANNUAL REPORT
For the Year Ended
30 June 2020

MATSA RESOURCES LIMITED

CORPORATE DIRECTORY

Directors

| | |
|---------------------------|--------------------|
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| Franciscus (Frank) Sibbel | Director |
| Andrew Chapman | Director |

Company Secretary

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MATSA RESOURCES LIMITED

CONTENTS

| Page | |
|------|--|
| | CORPORATE DIRECTORY 1 |
| | CHAIRMAN'S REPORT 3 |
| | OPERATIONS REVIEW 4 |
| | DIRECTORS' REPORT 31 |
| | AUDITOR'S INDEPENDENCE DECLARATION 44 |
| | FINANCIAL STATEMENTS |
| | - Consolidated Statement of Profit or Loss and Other Comprehensive Income 45 |
| | - Consolidated Statement of Financial Position 46 |
| | - Consolidated Statement of Changes in Equity 47 |
| | - Consolidated Statement of Cash Flows 48 |
| | - Notes to and Forming Part of the Consolidated Financial Statements 49 |
| | DIRECTORS' DECLARATION 92 |
| | INDEPENDENT AUDIT REPORT 93 |
| | ADDITIONAL ASX INFORMATION 96 |
| | SCHEDULE OF MINING TENEMENTS 101 |

MATSA RESOURCES LIMITED

CHAIRMAN'S REPORT

Dear Shareholder,

In writing this year's report, I thought I would reflect on what I wrote last year, and what really appealed to me was my comment regarding the "The Team", in that how reliant our whole company is on each individual person that makes up the Matsa team.

I, nor anyone, could foresee how important this team attribute, the group made up of individuals working together to achieve a goal, would matter to us as shareholders this year. I proudly observed how our team, the whole Matsa team, took on the Covid-19 planning offensive. How proudly I watched them put their other team members and the company first. How we adhered to our new protection mechanisms and rules which we instigated together to protect all team members and our ambitious plans going forward.

For me, this is our greatest achievement this year, we coped with whatever nature threw at us, we in fact excelled at it, and I am sure that we can continue to grow with whatever challenges are thrust upon us.

It is important to recognise the twin boom drillers, the underground truck and plant operators, the chargers, the cleaners/caterers, the geologists, engineers and all the admin people and safety officers. Our surface exploration geologists and of course the team in the Perth office, as well the great job the Thailand team have done in managing all the geological data for our operations in Australia.

These are the real people that we need to thank this year, and I am sure all shareholders join me in appreciating their efforts.

We look forward this year to growing the Red October operations, and developing Devon and also finding a pathway forwards for our valuable Fortitude gold mine. Whilst we work diligently towards our strategy of becoming a mid-tier gold producer, we will also strongly focus on our exploration activities which will grow and build our company. We have an exceptional tenement package.

We can and we will achieve all in a safe, environmentally friendly and community minded manner.

The board looks forward to the next year and what it will bring.



PAUL POLI
EXECUTIVE CHAIRMAN

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MATSA RESOURCES LIMITED

OPERATIONS REVIEW

INTRODUCTION

Matsa Resources Limited (“Matsa” or “the Company”) is an ASX listed exploration and gold mining company operating in the north eastern goldfields of Western Australia. The corporate office is located in Perth, Western Australia with also an office in Bangkok, Thailand.

Matsa is pleased to present its report on its activities during FY2020.

The Company’s activities during the year under review were principally focused within its 563km² Lake Carey project which includes the Red October gold mine, Devon gold mine and the Fortitude gold mine as well as several highly prospective exploration targets. Underground mining commenced at Red October during April 2019, and has been continuous since that date with the production profile increasing over time.

The Company is committed to progressing towards becoming a mid-tier gold mining company. Mining studies into the viability of commencing the Stage 2 mine at Fortitude were finalised during the year with production options being evaluated.

REVIEW OF OPERATIONS

LAKE CAREY GOLD PROJECT

Activities during the year were focused on:

- Development and increased ore production at the Company’s high grade underground Red October gold mine while continuing to explore for new resources within the mine.
- Studies into the viability of the Fortitude Stage 2 open pit mining operation with a view to bringing this mine into production as soon as an ore treatment option has been determined.
- Drilling high priority exploration targets notably Fortitude North, Devon, Olympic, Hill East, New Year’s Gift and FF1.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

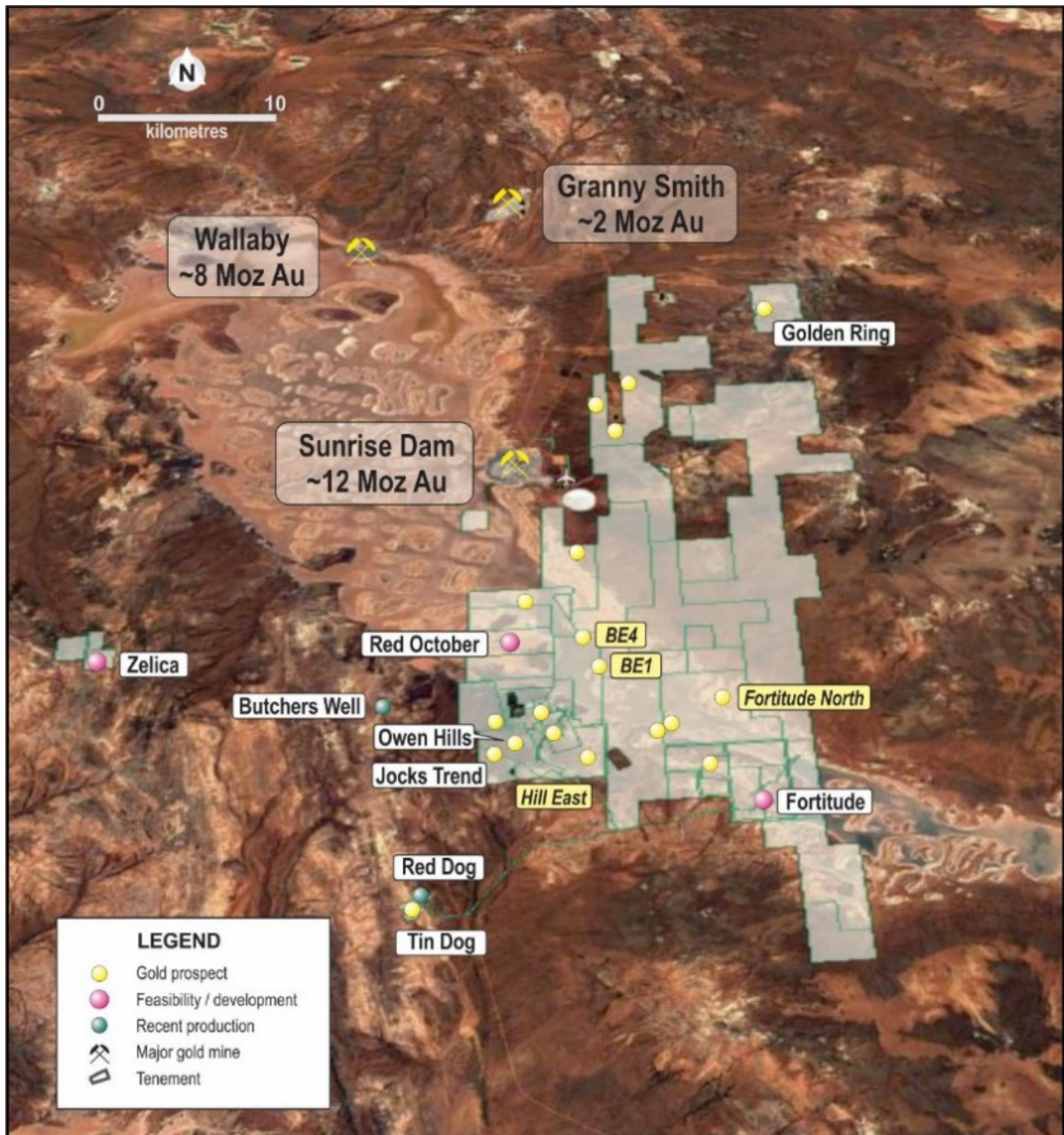


Figure 1: Lake Carey Gold Project

RED OCTOBER GOLD MINE

Mining commenced at the 100% Matsa owned and operated Red October underground gold mine.

Production and Development Summary

Mining and development continued during the year with a summary of production shown in Table 1. During the earlier part of the year, ore production was sourced from development drives. The component of ore from stoping panels has increased progressively with a general increase in production evident with the exception of the December 2019 quarter where mining was focused primarily on development.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

| | September 2019 Quarter Actuals | December 2019 Quarter Actuals | March 2020 Quarter Actuals | June 2020 Quarter Actuals | Total YTD 12 months |
|--------------------------|--------------------------------|-------------------------------|----------------------------|---------------------------|---------------------|
| Mine Production | | | | | |
| Total Tonnes | 11,142 | 4,579 | 16,036 | 23,320 | 55,076 |
| Grade (g/t) | 5.40 | 4.07 | 3.36 | 4.22 | 4.2 |
| Production (oz) | 1,936 | 599 | 1,734 | 3,162 | 7,431 |
| | | | | | |
| Ore Sales | | | | | |
| Tonnes | 3,868 | 10,841 | 8,124 | 25,993 | 48,826 |
| Grade (g/t) | 6.59 | 4.46 | 2.86 | 3.97 | 4.11 |
| Ore Sales (oz) | 820 | 1,556 | 748 | 3,322 | 6,445 |
| Met Recovery (%) | 85% | 86% | 85% | 87% | 86% |
| Recovered (oz) | 697 | 1,338 | 636 | 2,890 | 5,560 |
| Stockpiled Ore (oz) | - | - | - | 877 | - |
| Avg Gold Price (A\$/oz) | 2,183 | 2,149 | 2,578 | 2,621 | 2,375 |
| Cash (C1) Costs (A\$/oz) | N/A | N/A | 1,969 | 1,458 | N/A |
| AISC (A\$/oz) | 1,277 | 3,122 | 2,372 | 2,145 | 2,051 |

Table 1: Red October Gold Production Summary for 12 Months to June 30th 2020

* Previous published quarter results have been adjusted for subsequent receipt of updated tonnages, grades and/or metallurgical recoveries. Figures may not be precise due to rounding. Differences between production and sales represents ore mined and on the ROM pad at the end of each quarter.

Mining activities at Red October during the year can be summarised as follows:

September Quarter 2019

- Production was sourced from development drives designed to access high grade ore. Waste and ore development were undertaken on the N1260 Red October Shear Zone (ROSZ) the N-1290 ROSZ and other ancillary ore development drives, eg. Smurfette. The N-1277 access to the ROSZ was also commenced to enable South and North development and delineation of the current planned mining block. The development confirmed the presence of narrow, high grade lodes in the hangingwall of the ROSZ (Pegleg, Jaunty, HW 362). Several cuts yielded grades within the ROSZ greater than 30g/t which contributed to an average production gold grade for the quarter of 5.39 g/t Au.
- The Smurfette 322 lode was developed on the N-1290 and N-1255 levels, with both drives intersecting high-grade ore containing >30g/t Au.

December Quarter 2019

- Mining during the December 2019 quarter was focused on development with production from drives designed to expedite access to high grade stoping ore. This strategy has bolstered the long-term mining plan for Red October. There was no stoping during the quarter which resulted in fewer ounces being produced compared to the previous quarter.
- Development was completed on the N-1240 level, with the drive providing exploratory development for another grade shoot to the north. The drive also defined the bottom edge of the ROSZ North shoot (Figure 2).
- Development of the N-1275 and N-1290 ROSZ levels progressed along a high-grade shoot, which was discovered by Matsa's drilling in the previous year within the high grade ROSZ North. Several areas were identified for stoping.

OPERATIONS REVIEW

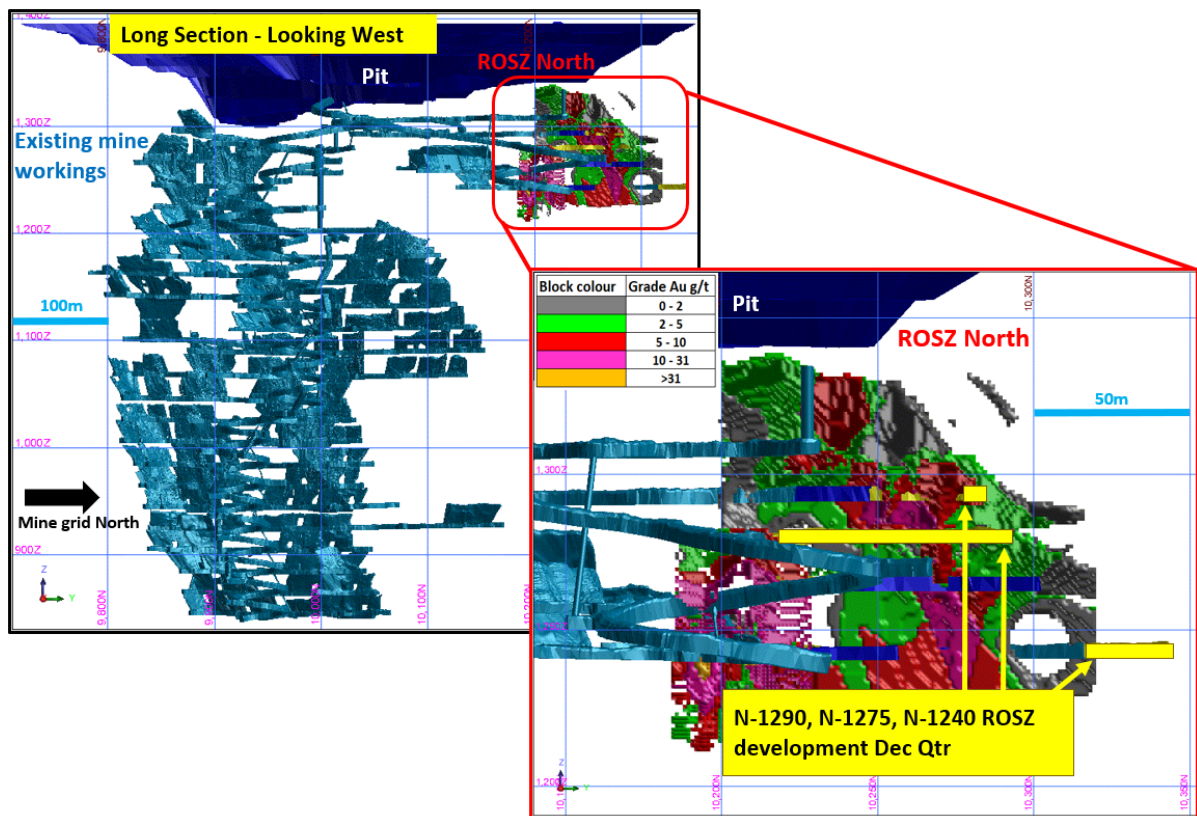


Figure 2: Long section looking West (mine grid) – ROSZ block model showing grade Au >1g/t

March Quarter 2020

- There was a focus during the quarter on achieving sustained stope production which commenced in earnest in mid-February 2020. The N-1290N was the primary stope delivering a large proportion of stope production during February and March 2020.
- A stope drilling campaign by Perseverance Drilling at the N-1290N and the N-1275N stoping blocks opened multiple stope horizons for mining.
- Operations moved to double shift with mining on a 24hr cycle, which achieved a significant increase in production while significantly improving equipment utilisation.
- Lateral development during the quarter focussed on ore zone extensions directly beneath areas previously mined by Saracen Mineral Holdings Limited (“Saracen”) (ASX: SAR). Mining continued through the Red October Shear Zone (ROSZ) in both the north and central zones (Figure 3).
- Production (stoping) of the ROSZ lodes on the N-1290 level continued, and stoping on the N-1275 level commenced. The ROSZ North stoping front is a key part of the mining plan.
- The ROSZ Central area became a key part of the mine plan to continue providing development and production areas. Most activity during the quarter took place on the N-1240 level, with some development also of the N-1225 and N-1255 levels (Figure 3).

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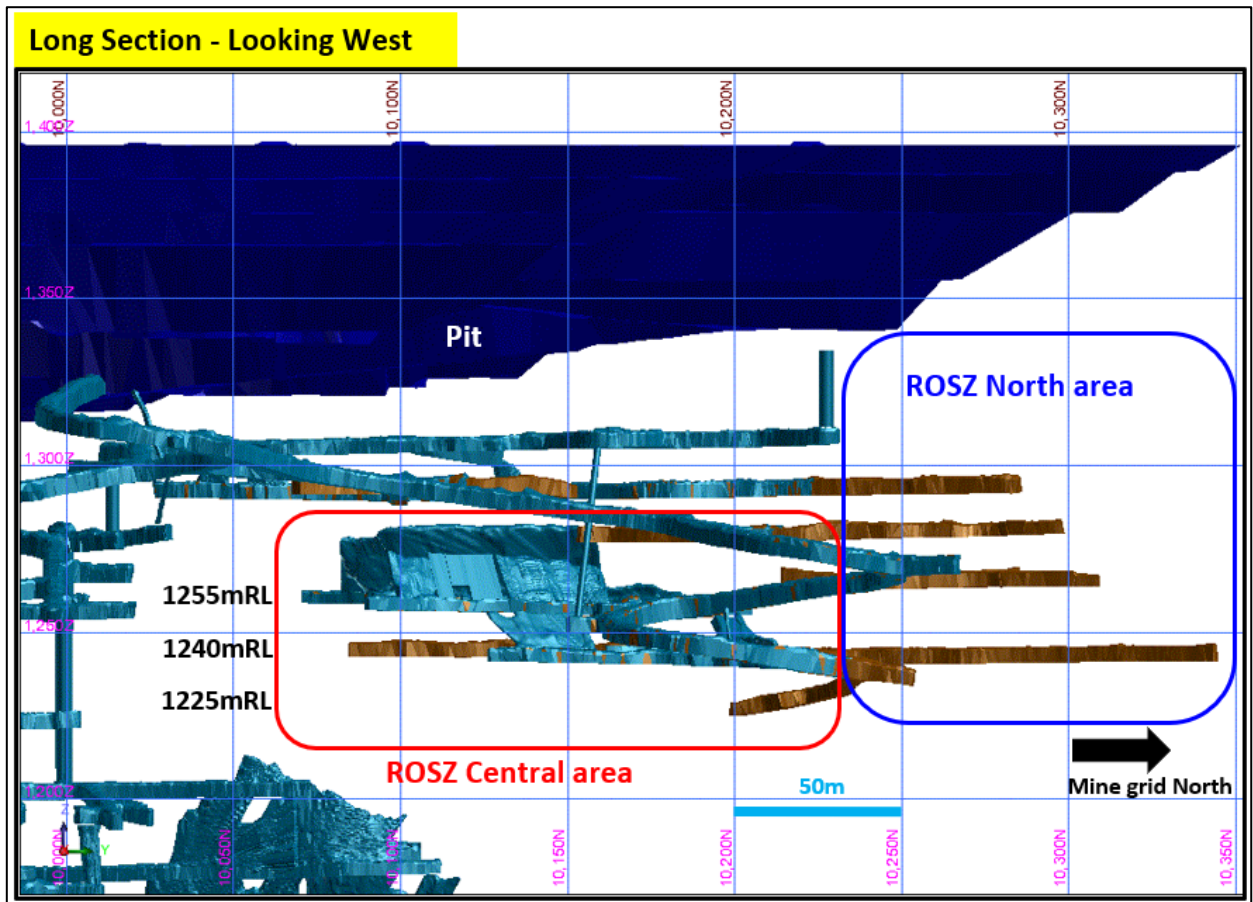


Figure 3: Longitudinal Projection showing ROSZ Central and ROSZ North (Au >1g/t)

June Quarter 2020

- The Red October underground operations continued to increase and stabilise production, and important mining faces were established on both the north and south declines.
- Stoping during the quarter focused on established stoping panels with gold grades generally meeting or exceeding expectations. The majority of stope production came from the northern decline (ROSZ North, ROSZ Central) where drilling and development was completed during the March 2020 quarter.
- Production (stoping) of the ROSZ lodes on the N-1290 level continued. The ROSZ North stoping front is a key part of the mining plan and continued delivering tonnes next quarter.
- The ROSZ Central area is a key part of the mine plan and continued providing development and production areas. Most activity during the quarter took place on the N-1240 and N-1225 levels (Figure 3).
- Development on the N-1240 level, with a strike drive developed along the ROSZ lode is directly underneath the Saracen-mined N-1255 level, with a potential stope panel between them. Importantly, the development also enables access to mine towards the narrow, high grade HW-363 lode.
- The Smurfette-322 and ROSZ Central lodes were accessed on the N-1225 level during the quarter. Development of these lodes to establish more stoping panels for future mining will be a focus for Matsa.
- Future stoping plans include the Smurfette-322 which was accessed on the N-1255 level. A stope void on the level below has been back-filled to allow further development and stoping of this high-grade lode.

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OPERATIONS REVIEW

- Accessing the South Decline side of the mine is an opportunity for Matsa to mine a number of lodes and open up new areas which included Smurfette and Dory.
- Matsa has accessed the Smurfette-320 on the S-1042 level, with the aim of extending both levels towards some significant drilling intercepts and assess potential for stoping (Figure 4). Nearby lodes will also be assessed for development potential.

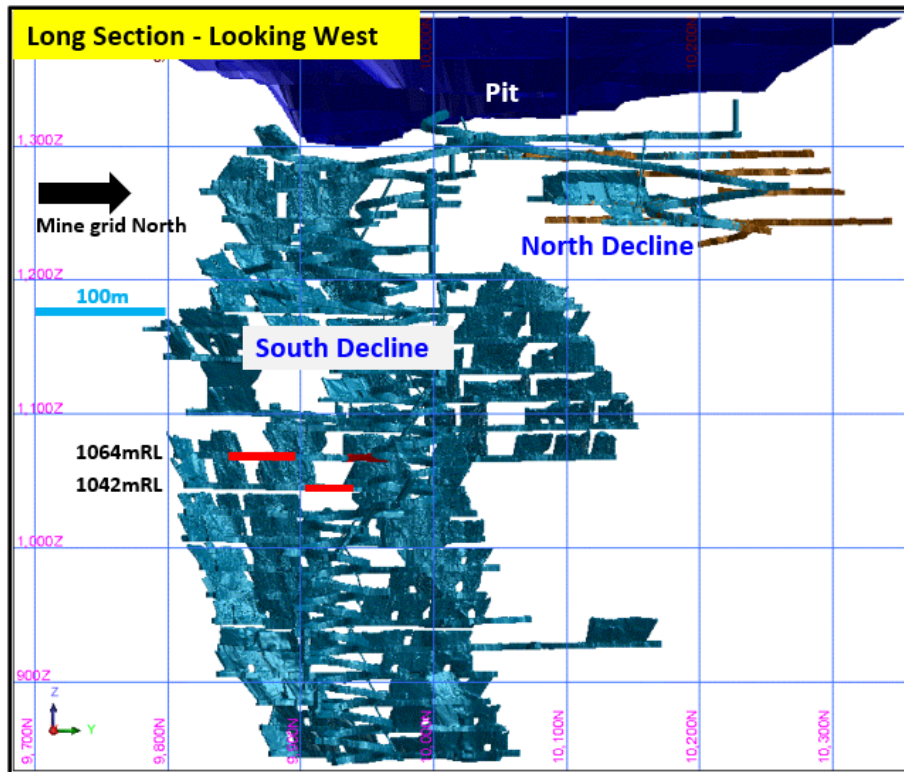


Figure 4: S-1064 and S-1042 levels Smurfette 320 development to date

- Development to access the narrow, high grade Dory lode progressed during the quarter. By quarter's end, the ore drives are ready to commence, aiming to replicate the high grades mined by Saracen on the S-1095 level above.
- All mining areas performed above expectations as reflected in Table 1.
- With operations stabilised, the focus for the Red October team will be to progress identified opportunities in the 922 and 823 mining levels in the September 2020 quarter.

Red October Near Mine Exploration

Underground Diamond Drilling

Matsa completed 11 underground diamond drill holes during the year, for a total of 1,451m focussing on extensions in the main mining area (ROSZ North).

Drill holes are located in plan and section views in Figures 5 and 6 below.

Drilling has produced outstanding gold assays and confirms the high-grade potential of the Red October gold mine with results summarised as follows:

- The discovery of new high-grade lodes which are not reflected in the June 2016 Resource model is significant. The high-grade lodes indicate the strong potential for more ore-bearing structures to be discovered to the north by further drilling.

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OPERATIONS REVIEW

- These new lodes were prioritised for further evaluation as new opportunities outside of the known lode system.
- Confirmation that another high-grade shoot exists within the ROSZ, further to the north. This new high-grade domain (ROSZ Costello) is a compelling mining area which warrants further follow-up.

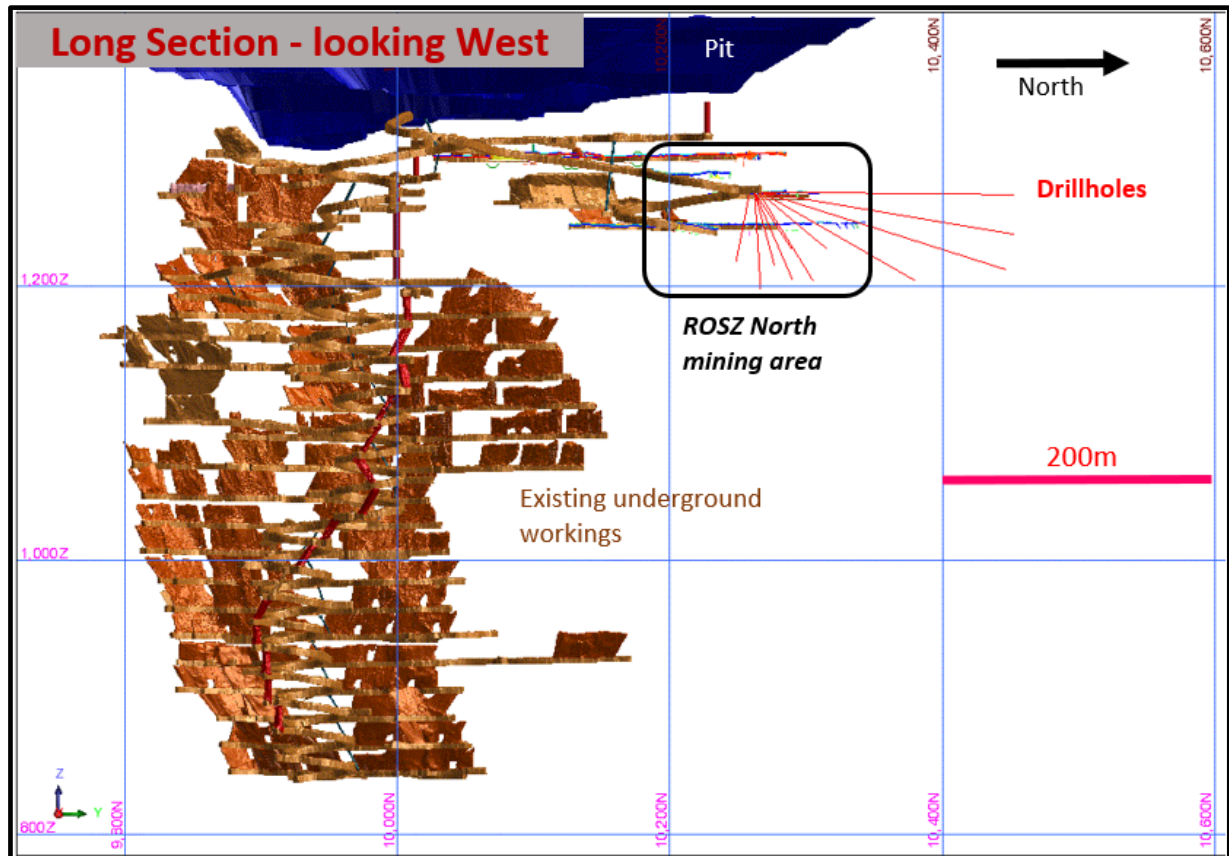


Figure 5: Long Section View - Grade Control drill holes as red traces (RO Local Grid)

The drilling programme was carried out as the first part of a longer-term campaign aimed at significantly increasing the gold resource at the Red October underground gold mine.

Drilling was carried out on the Red October Shear Zone (ROSZ) North with the following objectives:

- A total of 8 holes (ROGC724 - ROGC731) were drilled to better understand the potential for high-grade shoots below the current workings and to test for additional high-grade shoots to the north.
- A total of 3 follow-up holes (ROGC732 - ROGC734) were drilled selectively based on assays and visually interesting geology.

The drilling programme was successful in better defining the ROSZ which is typically associated with a number of footwall and hanging wall lodes as described below.

OPERATIONS REVIEW

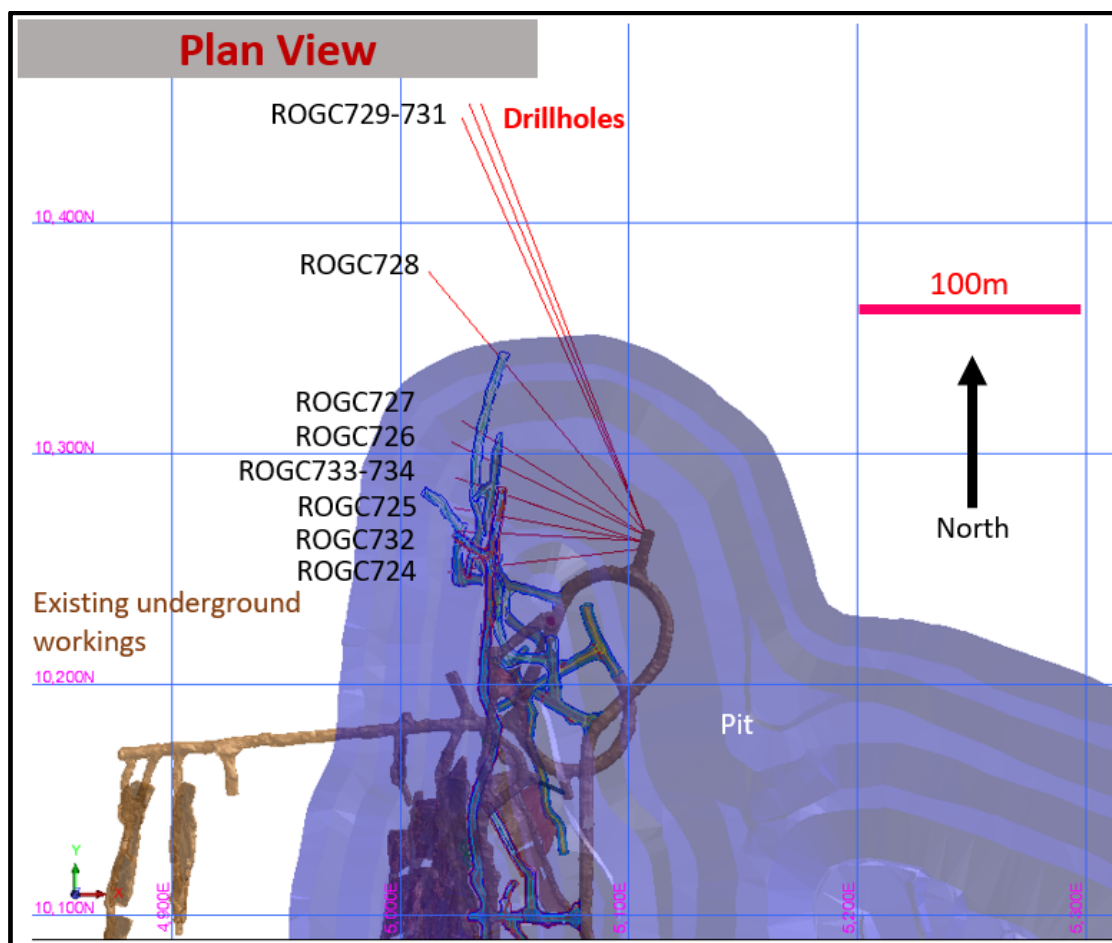


Figure 6: Plan view of Grade Control holes drilled - red traces (RO Local Grid)

Drilling Results Foot-wall lodes

Mineralised lodes in the footwall of the ROSZ were intersected, and exhibited carbonate alteration with pyrite and quartz-calcite veinlets. The host rock (tholeiitic pillow basalts) in this area is highly prospective as this brittle unit sits adjacent to more ductile high-magnesian basalts and ultramafic units, forming a rheology contrast.

2.50m @ 48.70g/t Au from 78m – new lode (ROGC725)

Incl 1.10m @ 105.5g/t Au from 78m

1.00m @ 14.60g/t Au from 69m – new lode (ROGC732)

Drilling Results Hanging-wall lodes

A suite of narrow mineralised lodes was also intersected in the hanging wall of the ROSZ. The lodes are situated in high-magnesium basalts, with carbonate alteration, pyrite and quartz-calcite veinlets.

These intersections are significant, as mining has occurred on similar lodes in the current ROSZ North mining area.

0.98m @ 14.88g/t Au from 88.72m – new lode (ROGC733)

2.55m @ 4.89g/t Au from 93.2m – new lode (ROGC734)

Incl 0.20m @ 37.80g/t Au from 94.1m

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OPERATIONS REVIEW

Red October Shear Zone - Costello

Costello is one of several zones or swarms of grade shoots along the ROSZ throughout the mine which include, from south to north, the 120 South, 130 Central, 110 Flo, ROSZ North, and Costello grade shoots. Costello sits within the ROSZ and is located ~150m north of the ROSZ North mining area.

High grades evident in historic RC holes to the north of the ROSZ North mining area were tested with 3 drillholes (ROGC729 to ROGC731 inclusive).

The drillholes confirmed the presence of the ROSZ and also intersected the edge of the suspected Costello high-grade shoot.

Drilling was targeted just south of the historic RC holes position, yielding:

2.10m @ 4.24g/t from 144.5m – ROSZ (ROGC729)

4.40m @ 3.30g/t Au from 135.14m – ROSZ (ROGC730)

6.00m @ 2.21g/t Au from 121.5m – ROSZ (ROGC731)

Incl 1.70m @ 4.07g/t Au from 122m

Typically, the ROSZ is associated with mineralised hangingwall and footwall lodes, which are currently unquantified and offer further opportunities for the Costello area.

The ROSZ is made up of a sheared mafic package with a quartz breccia, pervasive pyrite and narrow intercalated sedimentary units. Typical alteration seen was biotite, carbonate, silica and +/-sericite.

Surface Diamond Drilling

Diamond drilling was carried out to the NE and along strike from the Red October mine with 2 drill holes completed for 714.6m of drilling.

Drilling was designed in support of an R&D project and will play a part in a number of experiments focused on applicability seismic surveys in a near mine situation. Drilling targeted strike-extensions to the high-grade Red October gold lodes >400m from current underground mining development which will also be equipped with fibre optic cables and provide a platform of subsurface detection of seismic signals.

Drilling was also designed to test high priority structural targets developed from a geo-mechanical study carried out in 2018.

They were also to support further seismic research activities under Matsa's membership of the Minex CRC where further experimentation is proposed to test cost effective alternatives to the technology currently in use. See Nautilus 3D seismic survey by Curtin University outlined below.

Drillhole ROEX048 was designed to test the Eastern Break geo-mechanical target interpreted to be at a depth of 310m to 330m. The drill hole intersected transported lake clays to 47.8m, saprolite to 86.3m before entering variably weathered basaltic volcanics which persisted to end of hole. A number of zones of biotite, epidote and K feldspar alteration and quartz veining were recognised with trace sulphides mostly pyrite observed to be associated with quartz veins. No obvious Red October style mineralised zones were observed. This hole was successfully cemented with fibre-optic seismic cable.

Drillhole ROEX049 was designed to test the IFH geo-mechanical target and encountered transported lake clays and a basal sandy palaeo-channel unit to 65.8m. Saprolite, below the transported cover persisted to a depth of 97.4m before passing into variably weathered mafic volcanics. Narrow zones of strongly sheared mafic/ultramafic volcanics with minor quartz veining and sulphides were observed

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OPERATIONS REVIEW

between 117.1m and 117.5m and between 151m and 153m. Several paler coloured zones of carbonate alteration associated with moderate shearing. No obvious Red October style mineralised zones were observed.

Fibre optic cable was grouted in place in both drill holes as part of upcoming Seismic R&D under Minex CRC "Seismic in the Drilling Workflow" project of which Matsa is an associate member.

Red October Mine Supergene Target Surface RC Drilling

A total of 31 drill holes for 886m were completed on a near surface supergene target located within the existing Red October mine. Drilling was designed to test remnant high grade supergene mineralisation interpreted from previous drilling.

Results revealed no significant assays.

Stage 1 2D Seismic Survey Red October

Seismic surveys have been deployed extensively as a near mine exploration tool to map concealed structures. Conventional seismic surveys are prohibitively expensive and Matsa's support for ongoing research is to develop technologies which have potential to be an order of magnitude lower in cost compared to conventional surveys.

A 2D seismic survey was carried out in March 2020 which incorporated data recorded by distributed acoustic sensing (DAS) cables, in 2 diamond drill holes. Surface geophones were also recorded for comparison with data sensed by DAS cables.

Results were highly encouraging for mapping the geology of the Archaean basement at Red October where both structural and stratigraphic elements were interpreted from the single 2D line completed. The innovative use of DAS cabling achieved very high data densities compared with conventional geophones. Matsa remains committed to this research project as holding potential to map structurally and stratigraphically favourable targets for gold mineralisation, at greatly reduced costs compared with conventional seismic surveys.

An innovative imaging approach utilising borehole DAS data and seismic interferometry is currently undergoing tests. Main benefits of this approach are an improved resolution and substantially extended image in lateral sense, when compared to conventional borehole imaging which has previously never been tested in hard rock (igneous/metamorphic) environment.

Potential for mining to continue at Red October

Matsa considers that the Red October resource remains open and under-explored along strike and down-dip. There is evidence of high-grade gold intersections within the existing drilling dataset, both within and outside of the existing mine footprint.

Existing drill data strongly supports the idea that potential exists to continue mining:

- Within the existing resource wireframes, adjacent to existing workings and further afield (Figure 7); and
- Outside the existing resource wireframes where potential is demonstrated by existing high-grade drill results >10 g/t.

OPERATIONS REVIEW

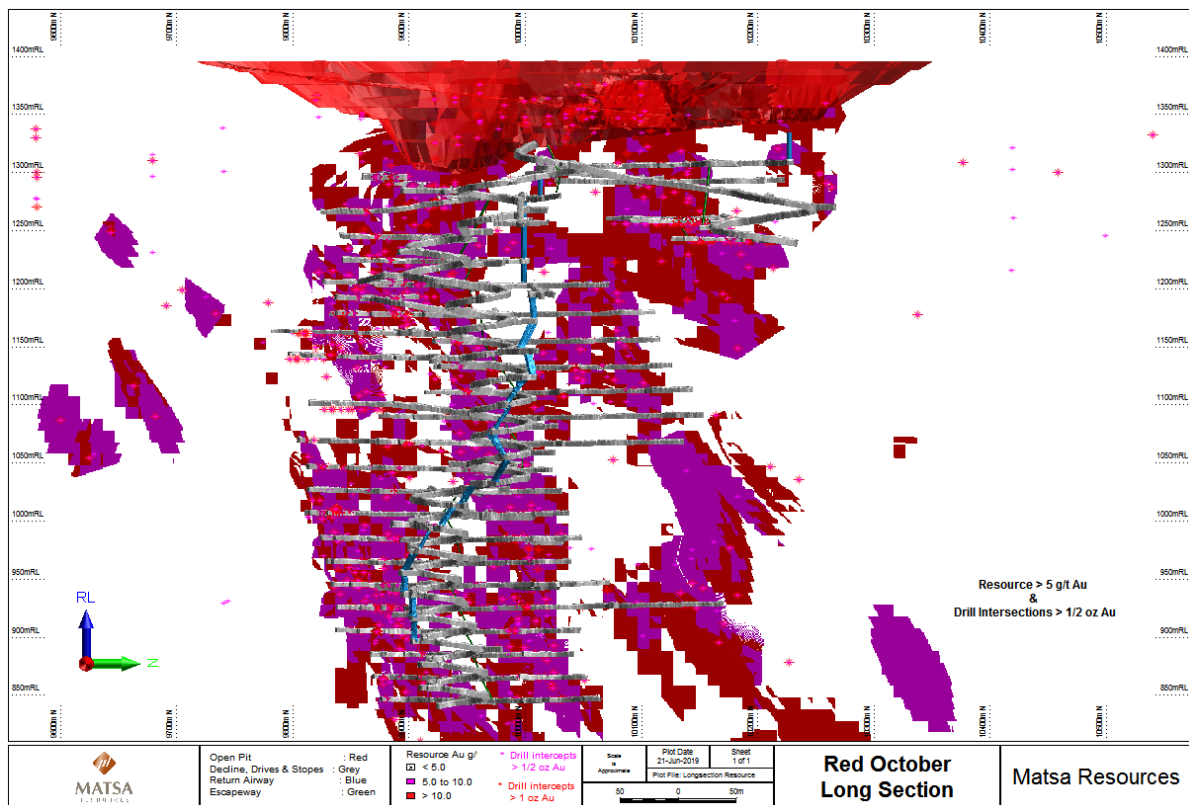


Figure 7: Red October, Longitudinal Projection with summary of high-grade gold mineralisation >5g/t Au (RO mine grid co-ordinates) (June 2016 Saracen Resource Model)

New targets continue to be identified and prioritised for continuation of mining as mining progresses.

Exploration drilling both underground and from surface, will target new mineralisation and continue to build the resource base.

FORTITUDE GOLD MINE

Fortitude Stage 2, as previously announced, is a 22-month open pit project, expected to produce 54,000 ounces of gold. All permits required to commence Stage 2 mining are in place. Matsa is currently assessing processing options for the treatment of ore from Fortitude, and is in discussions with a number of parties including AngloGold Ashanti Australia Ltd “AGAA”, which is currently treating gold ore from Matsa’s nearby Red October underground gold mine under a five-year Ore Purchase Agreement. (MAT Announcement to ASX 21st August 2019).

Activities at Fortitude during the year focussed on:

- Mineral Resource Estimate revised to 5,449,000 tonnes @ 2.0g/t Au (342,600 oz Au).
- Maiden ore reserve declared of 1,029,000 tonnes at 1.8 g/t for 58,100 oz gold.
- Completion of a comprehensive mining study which delivered highly encouraging results for recommencement of open pit mining at Fortitude (MAT announcement to ASX 21st August 2019).
- Completion of a geotechnical drill hole.
- Metallurgical test work on stored diamond drill core samples from drilling completed in 2016.

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OPERATIONS REVIEW

Fortitude Mineral Resource Update

CSA Global consultants were contracted to carry out grade estimation for the Fortitude Mineral Resource estimate. The Mineral Resource estimate has been updated to allow for depletion due to the Stage 1 trial mining which was carried out in 2017 (Table 2).

| Fortitude Deposit 2019 Mineral Resource Estimate (1 g/t Au cut off) | | | | | | | |
|---|--------------|-----------|--------------|-----------|----------------|-----------|----------|
| Type | Indicated | | Inferred | | Total Resource | | |
| | Tonnes kt | Au g/t | Tonnes kt | Au g/t | Tonnes kt | Au g/t | Au Oz |
| Oxide | 222 | 1.9 | 51 | 2.1 | 273 | 1.9 | 16,900 |
| Transition | 377 | 1.8 | 125 | 2.0 | 502 | 1.8 | 29,700 |
| Saprock | 227 | 1.9 | 1 | 2.1 | 228 | 1.9 | 14,100 |
| Fresh | 2,119 | 1.8 | 2,326 | 2.1 | 4,445 | 2.0 | 282,000 |
| Total | 2,945 | 1.8 | 2,503 | 2.1 | 5,449 | 2.0 | 342,600 |

Table 2: Fortitude Gold Project Mineral Resource Estimate

Figures have been rounded in compliance with the JORC code. Rounding errors may cause the column not to add up
 Mineral Resources are reported in situ (undiluted).
 Mineral Resources are reported to a cut-off grade of 1g/t Au.

Sections 1, 2 and 3 JORC tables for the Mineral Resource estimate have been announced in full (**MAT announcement to ASX 21st August 2019**)

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OPERATIONS REVIEW

Competent Persons Statement

The information in this report that relates to Mineral Resources has been compiled by Matthew Cobb, who is a full-time employee of CSA Global Pty Ltd, and Richard Breyley who is a fulltime employee of Matsa Resources Limited. Dr Cobb is a Member of both the Australian Institute of Geoscientists and the Australian Institute of Mining and Metallurgy. Mr Breyley is a member of the Australian Institute of Mining and Metallurgy. Both Dr Cobb and Mr Breyley have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activities which they are undertaking to qualify as a Competent Persons as defined in the JORC Code (2012). Dr Cobb and Mr Breyley consent to the disclosure of this information in this report in the form and context in which it appears.

Cautionary Statement

This belief is expressed in good faith and believed to have a reasonable basis.

The material in this announcement is intended to be a summary of current and proposed activities, selected geological data, as well as Mineral Resource estimates and Ore Reserves. This data is based on information available at the time.

It does not include all available information and should not be used in isolation as a basis to invest in the Company.

This announcement includes information and graphics relating to a conceptual mining study, completed Mineral Resource estimate and a scoping study and includes "forward looking statements" which include, without limitation, estimates of gold production based on mineral resources that are currently being evaluated.

While the Company has a reasonable basis on which to express these estimates, any forward looking statement is subject to risks, uncertainties, assumptions and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements.

Risks include, without limitation, gold metal prices, foreign exchange rate movements, project funding capacity and estimates of future capital and operating costs.

The Company does not undertake to release publicly any revisions to forward looking statements included in this report to reflect events or results after the date of this presentation, except as may be required under applicable securities regulations.

Any potential investor should refer to publicly available reports on the ASX website and seek independent advice before considering investing in the Company.

Fortitude Gold Mine Stage 2 Ore Reserves

The total Ore Reserve for the Fortitude Stage 2 mining study is 1,029,000t @ 1.8g/t (58,100 oz Au). The entire Ore Reserve is classified as Probable under the JORC 2012 code (Table 3).

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OPERATIONS REVIEW

| Fortitude Deposit 2019 Ore Reserve Stage 2 Mining Operation (1 g/t Au cut-off) | | | | | | | |
|--|-------------|-----------|------------------|------------|------------------|------------|---------------|
| Type | Proven | | Probable | | Total | | |
| | Tonnes t | Au g/t | Tonnes t | Au g/t | Tonnes t | Au g/t | Au Oz |
| Oxide | - | - | 141,000 | 1.8 | 141,000 | 1.8 | 8,000 |
| Fresh | - | - | 611,000 | 1.8 | 611,000 | 1.8 | 36,200 |
| Total | - | - | 1,029,000 | 1.8 | 1,029,000 | 1.8 | 58,100 |

Table 3: Fortitude Stage 2 Gold Mine Ore Reserve Statement

- * Figures have been rounded in compliance with the JORC code. Rounding errors may cause the column not to add up precisely.
- ** Ore Reserves are reported inclusive of marginally economic material and diluting material delivered for treatment (diluted).
- *** Ore Reserves are reported to a cut-off grade of 1g/t Au.

Dilution parameters applied to the Mineral Resource estimate as modifying factors for Reserve calculation include a mining loss of 5% and dilution of 10% at zero grade. This is considered appropriate for the open pit operation.

The reported Ore Reserve estimations are considered representative on a global scale.

Competent Persons Statement

The information in this report that relates to Ore Reserves has been compiled by Franciscus Sibbel who is a non-executive director of Matsa Resources Limited. Mr Sibbel is a Fellow Member of the Australian Institute of Mining and Metallurgy. Mr Sibbel has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activities which they are undertaking to qualify as a Competent Persons as defined in the JORC Code (2012). Mr Sibbel consents to the disclosure of this information in this report in the form and context in which it appears.

Mine Design and Scheduling

The study demonstrates that under the current market conditions, Fortitude can be economically mined. Individual aspects of the study included:

- A geotechnical assessment was completed by Peter O'Bryan and Associates; and
- An optimisation study was completed by Orelogy using a gold price of A\$1,700 per ounce and industry based costs.

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OPERATIONS REVIEW

Fortitude Stage 2 Mining Study Key Outcomes

The mining study strongly indicates potential for immediate commencement of Stage 2 mining (Figure 8) with the following key outcomes:

- Total Indicated and Inferred Mineral Resources at Fortitude stand at **5,449,000 tonnes @ 2.0g/t Au (342,600 oz Au)**.
- A maiden ore reserve of **1,029,000 tonnes at 1.8 g/t for 58,100 oz gold** was declared with excellent potential for a substantial increase in the near term.
- Total cash surplus **A\$21.8M over 22 months**.
- Total production of **54,400 oz gold at 93% recovery**.
- Capital outlay **A\$6.6M** which includes pre-stripping.
- Operating **cash cost of A\$1,628/oz gold**.
- Assumed average gold price of **A\$2,150**.
- Total material movement **5.85M bank cubic metres (bcm's)** at a waste to ore ratio of 14.4.
- All statutory and regulatory approvals are in place for the immediate commencement of mining.
- A sensitivity analysis indicates that the Fortitude Gold Mine Stage 2 project is robust with potential for improvement to the financial model as new optimisations come to hand. Finalisation of discussions with key parties and completion of the tender process may deliver further improvements.
- Metallurgical test work indicates that Fortitude ore is amenable for treatment at any of the nearby processing facilities, and will deliver very good-to-excellent gold recoveries with no deleterious elements.

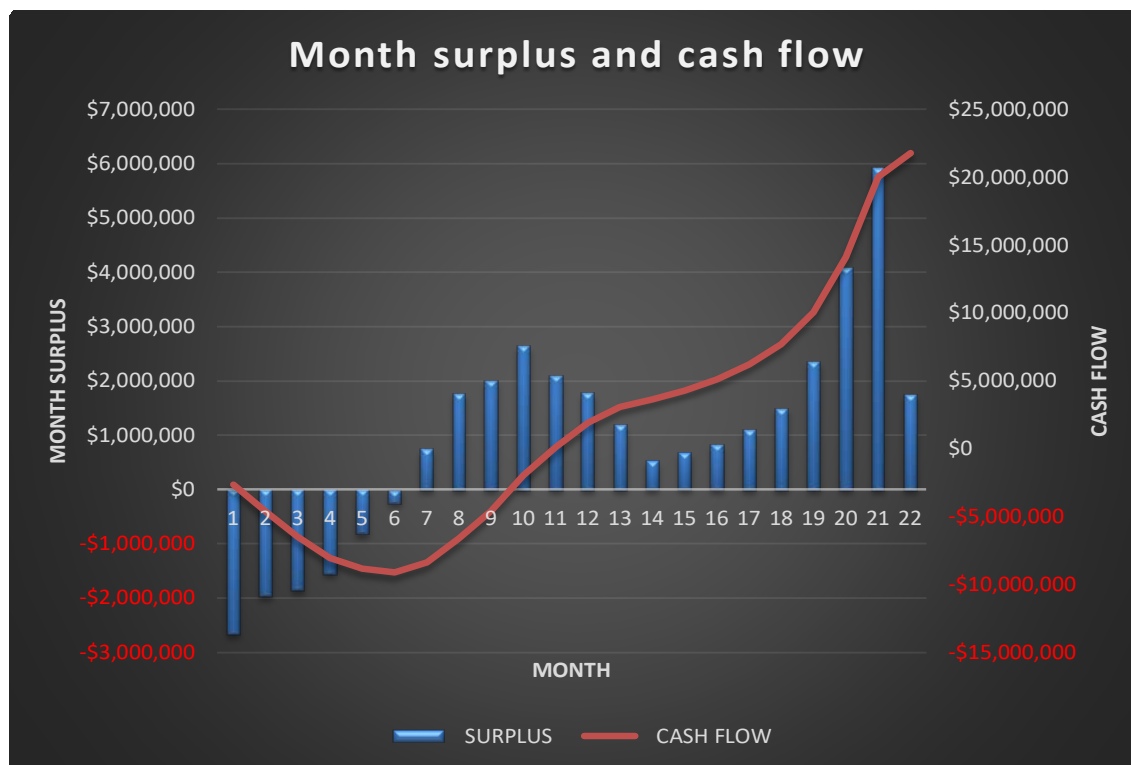


Figure 8: Fortitude Stage 2 Mining Project Summary

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OPERATIONS REVIEW

Metallurgical Test-work Results

The Fortitude Stage 2 metallurgical test-work programme was developed using representative processing protocols for transitional sulphide/oxide and primary sulphide ore types. Composite samples were obtained from approximately 130kg of HQ diamond drill core. Results of the metallurgical test work are summarised as follows:

- Comminution characterisation test-work confirmed a low Bond Ball Mill Work Index demonstrating no grinding issues with Fortitude transitional and fresh ore types.
- Gravity Au recovery demonstrated gold extraction between 23% and 51%.
- Flotation tests were conducted with consistent gold recoveries between 39% and 56% to the flotation concentrates.
- Gravity-cyanidation tests showed material responded well to low cyanide levels.
- Combined gravity and flotation concentrate recoveries are seen to be between 81% and 94%, which is an excellent result and in agreement with feasibility study assumptions.

Geotechnical Diamond Drilling

During the year an additional geotechnical diamond drill hole 19FGT01, was completed to test the design of northern wall of the Stage 2 open pit at Fortitude mine (Table 4).

| Prospect | Hole_ID | Peg-ID | Lease ID | North | East | Dip | Azimuth | M-Total |
|-----------|---------|--------|----------|--------|---------|-----|---------|---------|
| Fortitude | 19FGT01 | | M39/1065 | 456950 | 6757175 | -60 | 270 | 102 |

Table 4: Fortitude Geotechnical Drill Hole Collar and Setup Information

Because of the highly weathered nature of basement, a down-hole tele-viewer survey was carried out to provide structural information. The structural interpretation led to a minor change to the pit design parameters in the scoping study to minimise the likelihood and extent of block sliding. Slight modifications on pit design had minimal effect on the overall scoping study mining parameters.

Fortitude Gold Mine Other

A final review of hydrology data from the Stage 1 trial mine was completed in preparation for the mining tender.

Matsa continued to assess processing options for the treatment of ore from Fortitude.

LAKE CAREY EXPLORATION

Exploration at Lake Carey during the year under review comprised a major exploration programme was carried out during the year with the following activities carried out:

- 16 RC drill holes were completed for 1,924m at Cardinal/Wilga Dam, Devon and Olympic targets.
- 39 RC drill holes for 1,416m were completed at the Hill East.
- 7 RC Drill holes for 352m were completed at New Years Gift.
- 1 RC drillhole for 84m was completed at Gallant, with no significant results and programme stopped because access to the prospect was prevented by flooding.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

- 14 aircore drill-holes for 1,520 m and discovery of FF 1 Gold prospect 2km north of Fortitude North.
- 7 diamond drill holes were completed for a total of 1,837m at Fortitude North.
- A total of 1,275 bottom of hole samples from historic aircore drilling were submitted for multi-element assay.
- 244 ultrafine soil samples collected over three target areas.
- Botanical survey over planned drill sites at two targets.
- Stage 2 3D Distributed Acoustic Sensor (DAS) Seismic Survey Nautilus Project.
- Resource Potential Review of Devon gold mine by CSA Global.

RC Drilling Devon Mine

A total of 5 diamond holes for 733m to evaluate resource potential beneath the existing open pit and extensions to historic gold workings occurred during the quarter.

Highly encouraging results were received during January 2020 with 4 out of the 5 RC drillholes at the Devon mine returning excellent gold intercepts of which 3 are located at depth on the moderately dipping Devon Main Lode, and one intercept in a steeply dipping hangingwall lode as follows (Figure 9):

Main Lode

2m @ 21 g/t Au from 93m 19DVRC001

1m @ 6.24 g/t Au from 106m 19DVRC002

2m @ 19.1 g/t Au from 105m 19DVRC005

and 1m @ 3.01 g/t Au from 110m

Hanging Wall Lode

8m @ 27 g/t Au from 25m 19DVRC003

incl. 3m @ 8.32 g/t Au from 25m

and 2m @ 94 g/t Au from 29m

These results are highly encouraging because:

- Main lode intersections confirm the continuation of high-grade gold mineralisation below previously mined high-grade open pit. Previous drilling at Devon was mostly above 300m RL.
- Mineralisation at Devon occurs as high-grade sulphide rich shears and quartz veins within a moderately dipping zone (Main lode zone) which remains highly prospective at depth. The complex structural setting at Devon, holds excellent potential for structural repetitions of the main lode zone and associated mineralised structures.
- Devon is an active mine site on care and maintenance and the approvals process to recommence mining is expected to be straightforward.
- Previous open pit mining was carried out to the limits of the mining lease boundary. A third party owned the area surrounding the mining lease. Matsa acquired all leases which removes this restriction.
- The Hangingwall lode was not previously mined and these new results illustrate potential for new resources at Devon.

OPERATIONS REVIEW

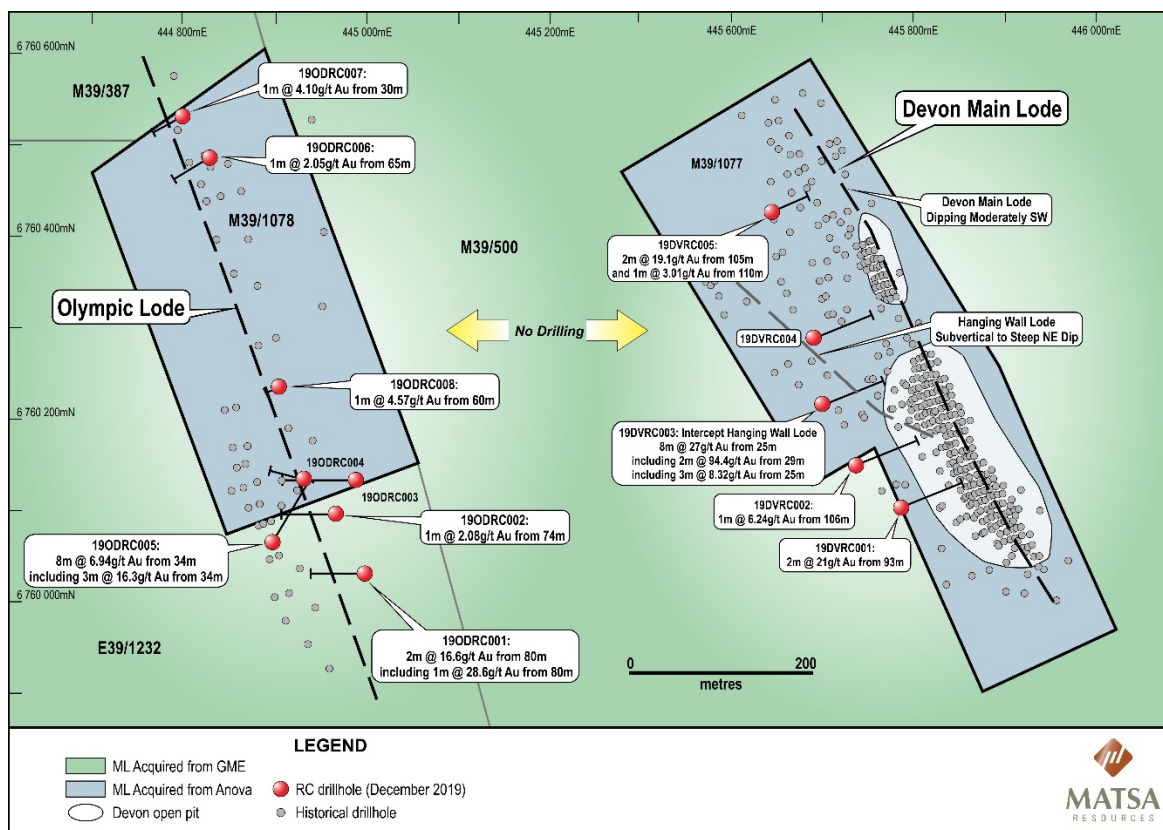


Figure 9: High Grade Gold Intersections Devon Mine and Olympic Prospects

Olympic Workings

The Olympic project is a new exploration target previously unexplored by Matsa and only 800m west of Devon gold mine. A total of 8 drill holes for 833m were completed under and adjacent to historic gold workings which are located 800m west of the Devon gold mine (Figure 9).

The Olympic prospect is located 8km south of Red October and 800m west of Devon and is centred on a variable thickness (average 1m) quartz-sulphide bearing shear zone striking NNW and dipping 75° east over a current strike length of 500m. The shear is proximal and sub-parallel to the western contact of a felsic porphyry dyke within a sequence of meta-sediments and carbonated intermediate to mafic volcanics.

Previous drilling has included very high-grade intersections including **4m @ 24.5g/t Au** and **4m @ 285 g/t Au**.

The drilling programme was designed to test depth extension from previous high-grade drill intercepts from the 1980s. The trend is largely untested at depths below 50m and between the major historical workings. The Olympic and Danube mines were worked discontinuously from 1897 to 1920's. Available historical production reports total 1,436 tonnes @ 39 g/t for 1,805 ounces of gold.

Drilling along the Olympic lode trend returned excellent gold intercepts including:

| | |
|----------------------------------|-----------|
| 8m @ 6.94 g/t Au from 80m | 19ODRC005 |
| Incl. 3m @ 16.3 g/t Au | |
| 2m @ 16.6 g/t Au from 74m | 19ODRC001 |
| Incl. 1m @ 28.6 g/t Au | |
| 1m @ 4.57 g/t Au from 60m | 19ODRC008 |
| 1m @ 4.10 g/t Au from 30m | 19ODRC007 |

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Olympic and Devon Exploration Potential

Previous tenement boundary limitations have resulted in the prospectivity of the area between Olympic and Devon not being tested by drilling.

Matsa's acquisition of the entire area provides an opportunity to efficiently and effectively explore the between and along strike of these two mineralised systems. The recent high-grade results from drilling the hanging wall lode at Devon supports the potential for further high-grade lodes to exist between Devon and Olympic areas and provides encouragement to carry out further exploration including drilling.

RC Drilling Cardinal

Drilling was carried out in the central part of a regional gold anomaly defined by WMC and later Exodus Minerals. The anomaly which is located 2km east of Sunrise Dam gold mine has been defined by soil geochemistry and RAB aircore drilling over an NNW trending strike extent of >8km. Previous drilling results have included a number of highly anomalous gold values in basement >1 g/t.

Three shallow RC drill holes for 358m were completed to test a structural/stratigraphic target which is interpreted to be favourable for gold mineralisation.

Drilling encountered variably sheared metabasalt with a number of weakly sulphidic quartz veins.

Best results include 6m @ 0.34 g/t Au from 98m in 19MTWRC08, which do not coincide with significant alteration or quartz vein development.

Despite extensive past drilling, this target remains of interest to Matsa. Next steps include an IP survey to address key structural targets associated with anomalous gold values.

Fortitude North Diamond Drilling

A total of 7 diamond drill holes (20FNDD02 – 20FNDD08) were completed during the quarter for a total of 1,837m of drilling. Final assay results were received during the quarter for all drilling carried out to date. Descriptions of drilling, logging, sampling procedures and key assay results were included in 2 announcements during the year (*MAT Announcements to ASX 19th February 2020 and 30th March 2020*).

Assay results confirmed the presence and continuity of primary gold mineralisation over a distance of 800m within the 1,500m long basement (aircore) gold anomaly, with the remainder to be tested. The basement gold anomaly remains open to the south (Figure 10).

Key results include the following summary intercepts:

| | | |
|----------------------------|--------------------|-----------------|
| 10.3m @ 3.48 g/t Au | <i>from 124.6m</i> | <i>20FNDD04</i> |
| 4m @ 13.63 g/t Au | <i>from 79m</i> | <i>20FNDD02</i> |
| 3.4m @ 12.3 g/t Au | <i>from 64m</i> | <i>20FNDD03</i> |
| 17.2m @ 3.4g/t Au | <i>from 73m</i> | <i>20FNDD03</i> |
| 4.6m @ 5.15 g/t Au | <i>from 183.4m</i> | <i>20FNDD05</i> |
| 7.9m @ 1.89 g/t Au | <i>from 212.6m</i> | <i>20FNDD06</i> |
| 4.7m @ 1.31 g/t Au | <i>from 137m</i> | <i>20FNDD08</i> |
| 2m @ 8.11g/t Au | <i>from 223.5m</i> | <i>20FNDD08</i> |
| 10.3m @ 3.48 g/t Au | <i>from 124.6m</i> | <i>20FNDD04</i> |
| 4m @ 13.63 g/t Au | <i>from 79m</i> | <i>20FNDD02</i> |

OPERATIONS REVIEW

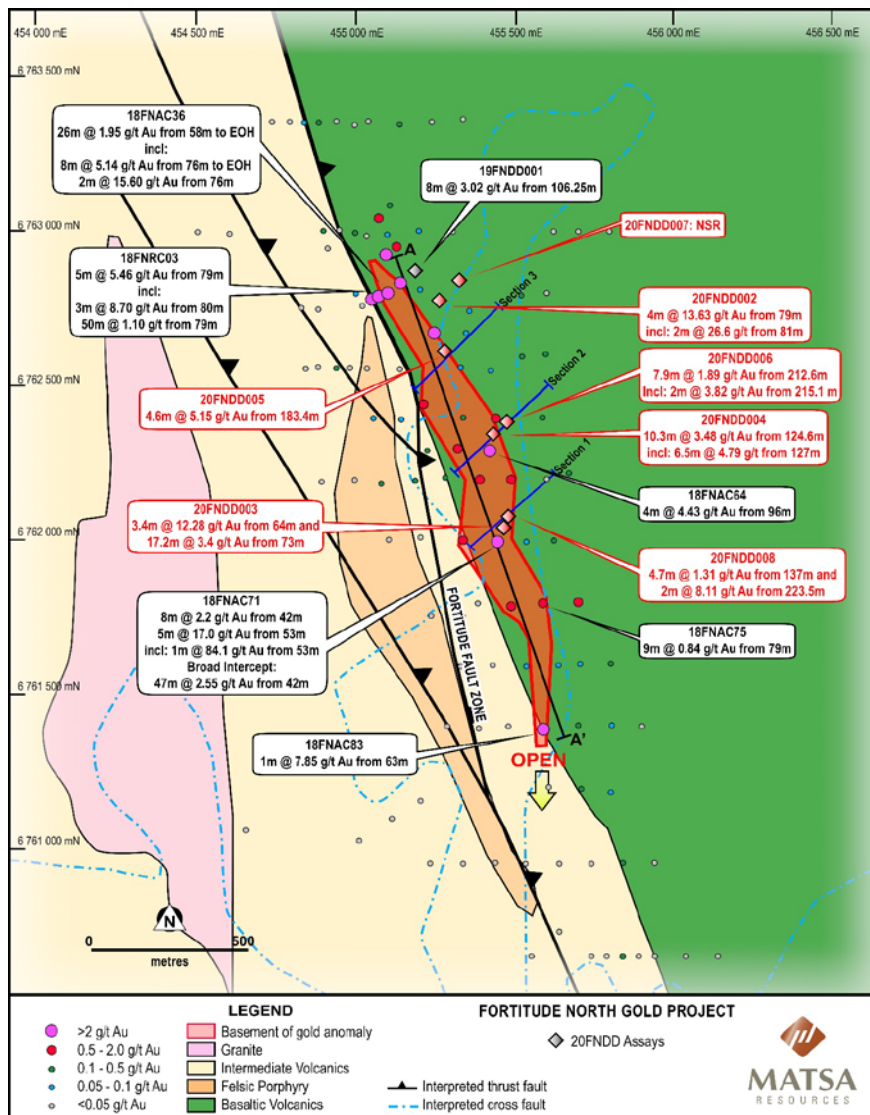


Figure 10: Fortitude North drill hole location and summary results (new results in red)

The drill results confirmed continuity of a zone of basement mineralisation 800m in length, which represents just over half of the 1,500m strike extent of basement gold mineralisation defined by aircore drilling. This gold mineralisation is interpreted to occur in a broad continuous moderately to steeply dipping zone of albite-carbonate altered basalt and associated mostly steeply dipping quartz veins.

At shallower depth, within the saprolite profile, gold mineralisation has undergone deep weathering resulting in a number of very high-grade intercepts through mobilisation and enrichment by supergene processes. Mineralised intercepts in aircore drilling and in the upper parts of drill holes 20FNDD02, 20FNDD03 and 20FNDD04 include supergene mineralisation which has been modified by weathering processes. These shallow intercepts together with high grade intercepts in unweathered basement such as **4.6m @ 5.15 g/t Au** in 20FNDD05 provide strong encouragement for the presence of further high-grade mineralisation at Fortitude North.

Mineralisation at Fortitude North occurs in a mafic sequence made up of basalts and dolerites containing thin lenses of laminated shale, located immediately east of the Fortitude Fault zone (Figure 10). The Fortitude Fault represents a major tectono-stratigraphic boundary between dominantly basaltic volcanics which host the mineralisation at Fortitude North to the east and dominantly intermediate volcanics to the west.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Deeply weathered basement rocks are overlain by approximately 40m of Tertiary lake sediments.

There appear to be 2 styles/end-members of gold mineralisation at Fortitude North, namely:

- Auriferous quartz veins and pyritic crackle veins within a distinctive broad zone of bleached albite-carbonate altered basalt up to 30m wide.
- Individual anastomosing auriferous quartz vein sets outside the main altered zone.

Quartz veining and pyritic crackle veining over downhole widths of up to 10m in altered basalt account for most of the mineralised intercepts. The albite-carbonate alteration “envelope” is distinguished by its cream to pale brown colour in contrast to the dark olive-green colours of the enclosing basalts and dolerites. Narrow shale bands have been observed within and adjacent alteration and mineralised quartz veins. Higher grade gold assays within the altered zone are associated with an increase in quartz veins and intensity of irregular pyritic crackle veinlets and disseminations.

All diamond drill holes completed to date intersected this distinctive zone of albite-carbonate alteration.

Hill East RC Drilling

RC drilling was focused on 6 targets designated HE 1 – HE 6 (Figure 11). Each of these targets is typically ~200m long and drilling was carried out at comparatively close spacing, with the objective of determining continuity and extent of shallow mineralisation and to evaluate the potential for near-term development as satellite deposits to Matsa’s Red October Mine. As previously announced, this drilling achieved significant mineralised intercepts at shallow depth in 5 of the 6 targets tested with key intercepts as follows:

| | | |
|------------|----------------------------------|-------------|
| Target HE4 | 5m @ 4.01 g/t Au from 6m | (20HERC001) |
| | 9m @ 3.04 g/t Au from 0m | (20HERC002) |
| | 12m @ 1.96 g/t Au from 2m | (20HERC003) |
| | 6m @ 3.43 g/t Au from 15m | (20HERC005) |
| | 2m @ 7.14 g/t Au from 7m | (20HERC007) |
| | 3m @ 6.82 g/t Au from 15m | (20HERC007) |
| | 1m @ 13.3 g/t Au from 21m | (20HERC008) |
| Target HE2 | 4m @ 3.29 g/t Au from 4m | (20HERC027) |
| | 7m @ 1.53 g/t Au from 20m | (20HERC028) |
| Target HE1 | 27m @ 2.04 g/t Au from 2m | (20HERC032) |
| | 3m @ 2.23 g/t Au from 28m | (20HERC033) |
| Target HE3 | 2m @ 2.68 g/t Au from 0m | (20HERC015) |
| | 1m @ 4.06 g/t Au from 39m | (20HERC018) |
| | 6m @ 1.33 g/t Au from 0m | (20HERC026) |
| Target HE5 | 4m @ 6.3 g/t Au from 13m | (20LBRC003) |
| | 13m @ 1.86 g/t Au from 0m | (20LBRC004) |

OPERATIONS REVIEW

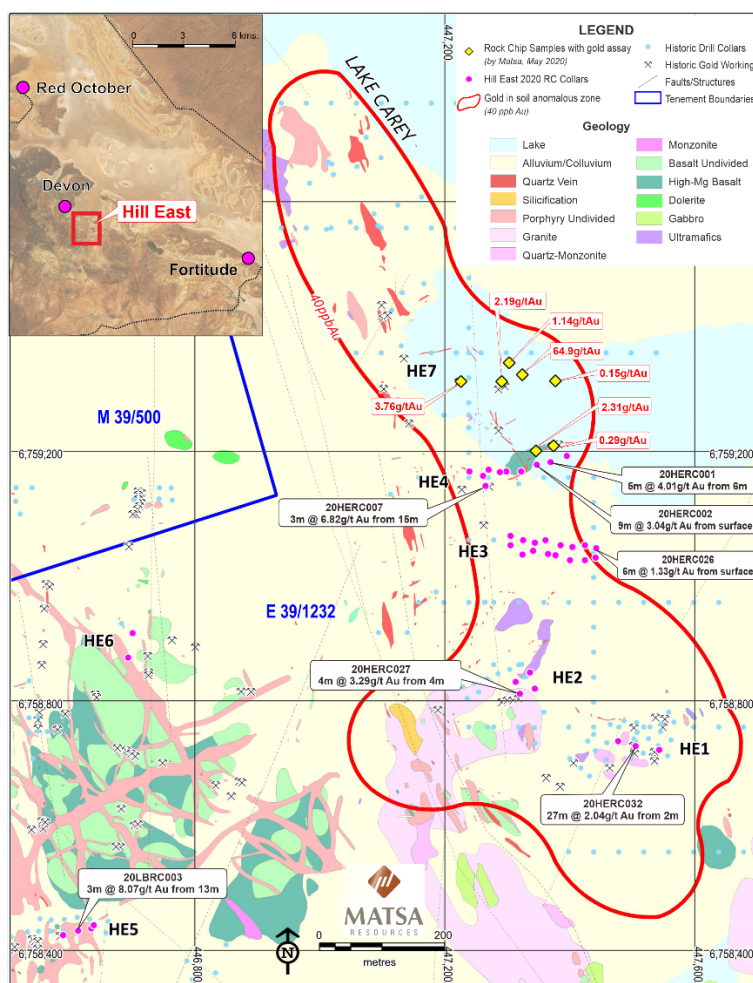


Figure 11: Hill East geology and drill hole summary

The Hill East group of exploration targets are a subset of the extensive historic Linden gold workings and include small scale historic workings which have been the focus of mostly shallow drilling by previous explorers. The Hill East targets are located 2km SE of the Devon gold mine, 6km west of Fortitude gold mine, 9km SW of Fortitude North and 10km S of Red October gold mine. Gold mineralisation is associated with auriferous quartz veins in a background of complexly deformed basalts, dolerites, ultramafics and minor sediments, which have been extensively intruded by felsic porphyry sills and dykes. Basement rocks at Hill East are variably weathered with a thin veneer of unconsolidated, mostly residual cover.

The 4 eastern targets (HE 1 - HE 4), are the focus of a very strong NS oriented 1.5km long gold geochemical anomaly. Further exploration including ground geophysical surveys is planned to explore this target for a much larger, deeper body of gold mineralisation associated with the small near surface deposits currently under investigation.

New Years Gift RC Drilling

New Years Gift comprises historic gold workings located between Hill East and Devon Mine on a small lake along the edge of Lake Carey (Figure 1). Historic workings are developed over about 150m along a NS oriented mineralized zone comprising quartz veins up to 1.5m thick, in moderately weathered dolerite and minor felsic porphyry bodies.

A total of 7 close spaced angled RC drill holes were completed for a total of 352m and were designed to test a target dipping moderately towards the east as a potential shallow near-term development opportunity similar to the targets at Hill East.

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OPERATIONS REVIEW

Drilling, sampling, logging and assay protocols are described in the recent announcement on Hill East (MAT announcement to ASX 27th April 2020).

First pass assays were carried out on 3m composite samples. Stage 2 assays were carried out on cone split 1m samples.

Two narrow high-grade intercepts were achieved as follows:

20NYGRC06 **1m @ 19.4 g/t Au** from 44m

20NYGRC07 **1m @ 10.4 g/t Au** from 35m

While drilling has downgraded the near term development potential at New Years Gift, the project lies within an area which has been prioritised for ground geophysical surveys targeting deeper mineralisation.

FF 1 Aircore Drilling and Discovery of New Gold Mineralisation

During the year, Matsa carried out an aircore programme comprising 14 drill-holes for 1,570m of drilling designed to test a target along the Fortitude Fault, approximately 2.5km north of Fortitude North, where drilling by previous explorers had been mostly unable to reach basement because of difficulty penetrating loose sands and gravel at the base of the transported cover sequence.

Anomalous gold values were returned in 7 drill holes and include intercepts in basement and in the overlying transported cover. Drilling, logging, and sampling procedures together with a summary of drilling results was previously announced (*Matsa Announcement to ASX 27th February 2020*).

Significant results were returned in a number of drill holes including 2 drill holes located 300m apart, which intersected anomalous gold values >0.1 g/t Au in basement rocks, with one intercept of **3m @ 1.49 g/t Au** from 108m to end of hole (EOH) in drill hole 20FFAC04 (Figure 12).

Highly anomalous gold values between 0.2 g/t Au and 0.24 g/t Au were also intersected in sandy transported cover between the two basement intersections, which probably represent the products of erosion of primary gold mineralisation in basement.

Two other anomalous basement gold intercepts with values >0.1 g/t Au at EOH were achieved in drill holes 20FF1AC09 and 20FF1AC12.

The litho-structural setting of FF1 along the faulted boundary between basaltic volcanics to the east and intermediate and felsic volcanoclastics and intrusives to the west, is very similar to the setting for both the recent Fortitude North gold discovery and Matsa's Fortitude gold mine to the south. Matsa believes that this similarity is very significant and highlights the Fortitude Fault zone, which extends over the full extent of the Lake Carey gold project from north to south, as an important "gold trend" in this highly prospective district.

OPERATIONS REVIEW

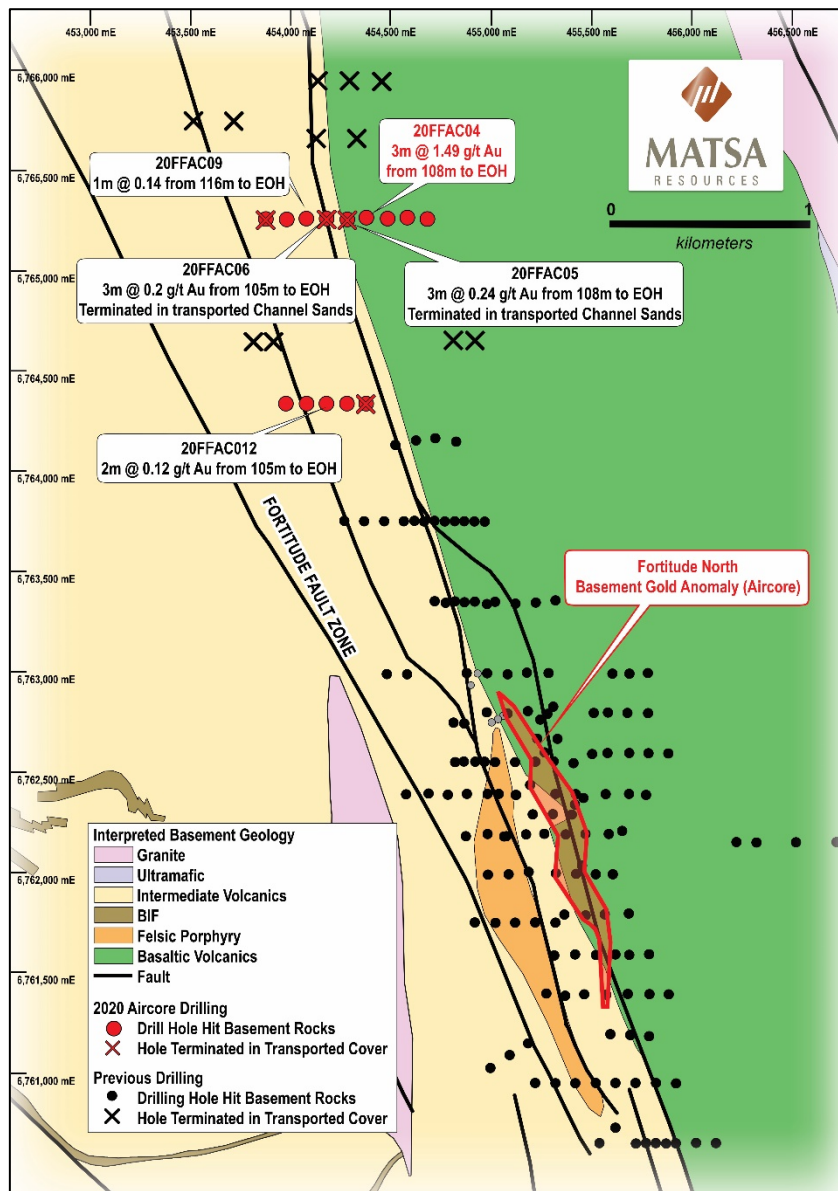


Figure 12: FF 1 summary, location and interpreted basement geology

Surface Sampling

Bottom of Hole Sampling

A total of 1,383 bottom of hole (BOH) samples from historic aircore drill holes over a number of exploration target areas were submitted for multi-element analysis from different targets in the Lake Carey and Red October project areas. These samples were selected as being representative of the deepest and consequently least weathered part of each drill hole. Discovery of gold mineralisation at FF 1 has underlined that a significant number of historic drill holes did not penetrate to basement due to drilling difficulties in transported cover

Multi-element assays and mineralogical scans are being interrogated to provide accurate and accurate picture of bedrock geology as well as highlighting areas of hydrothermal alteration and potentially, associated gold mineralisation. In conjunction with historic gold assays, this is expected to highlight targets for further drilling.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

Rock Chip Sampling Hill East

A total of 7 rock chip samples were collected from a series of old workings at the northern end of the Hill East target which remain untested by drilling. Five of the 7 samples returned gold values > 1 g/t with a best result of 64.9 g/t Au near a historic shaft. Importantly, the workings are located within a prominent 2km long regolith geochemical anomaly (Hill East Target) defined by previous explorers. While near surface gold mineralisation associated with individual discordant EW quartz lodes (HE 1-HE 4) has potential for near-term development of supergene mineralisation (*MAT Announcement to ASX 28th April 2020*), the regional anomaly represents a potential stand-alone target for deeper mineralisation.

Ultrafine Soil Sampling

Ultrafine soils is the name given to a new sample preparation and assay technique invented by CSIRO. This technique has been commercialised and Matsa submitted 244 samples from 3 targets to investigate the effectiveness of this technique in areas of interpreted shallow, patchy and mostly windblown transported cover. Geochemistry in such areas using traditional sampling and assay methods typically gave rise to highly variable and unreliable results.

Results from these 3 small surveys, will be assessed to determine whether this represents an effective exploration technique over areas with shallow cover.

3D Distributed Acoustic Sensor (DAS) Seismic Survey Nautilus Project

This experimental survey commenced in early July 2020 and was designed to test the applicability of low cost “fishing line” DAS cable technology over the NE trending Nautilus structure, which is located about 2km north of and parallel to the Red October shear zone. Survey objectives are to:

- Overcome limitations related to electronic equipment; and
- Reduce the cost of seismic reflection method by an order of magnitude.

These “fishing line” DAS cables are to be laid out over lines approximately 1km long and 100m apart and will act as acoustic sensors over approximately 1km². Shooting from an acoustic energy source will be carried out at 10m intervals along the survey lines achieving an extremely high data density for interpretation.

Devon Review CSA Global

A desktop review of the Devon gold project was carried out by CSA Global during the year. The review was focused on data quality, given multiple phases of drilling, and a re-examination of existing geological and resource estimates and reports.

Recommendations arising from this review include:

- Carry out a revised mineral resource model including a number of historic drill holes which had previously been excluded in earlier estimates.
- Conduct a preliminary optimisation using the updated mineral resource and current gold price forecasts.
- Undertake drilling focused on parts of the resource with best potential to drive the economics for near-term project development.

SYMONS HILL (Nickel Fraser Range)

Matsa’s Symons Hill project (E69/3070) is located 6kms immediately to the south of the Nova mine owned by Independence Group Limited (IGO) and is within the Fraser Range Tectonic Zone. Regional

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

aeromagnetic and gravity information on the Symons Hill project indicates similarities in geological setting to the Nova mine.

In June 2020, Matsa executed a \$7M agreement with IGO Newsearch Pty Ltd (IGO), who can earn a 70% interest in the Symons Hill nickel project in the Fraser Range (MAT announcement to ASX 17th June 2020). Matsa has received a first payment of \$625,000 from IGO.

The following activities were carried out by IGO on behalf of the joint venture during the year:

- Ground checking to inspect condition of existing cut lines for upcoming ground EM surveys and aircore drilling.
- Consultations with Ngadju Native Title Aboriginal Corporation (NNTAC) concerning planned ground geophysics and aircore drilling.

Exploration is expected to commence towards the end of 2020 with access preparation during the September 2020 quarter.

THAILAND EXPLORATION

As a result of the COVID-19 and the uncertain political and permitting environment in Thailand, exploration activities were suspended and will resume when more certainty evolves in the country.

The office and staff were retained and were successfully utilised in assisting the Australian geologists with data entry and data management of the Australian projects. Substantial savings and efficiencies have been realised utilising the expertise of available staff in Thailand. This was a welcomed occurrence and further growth in the utilisation of the Thailand office is expected.

CORPORATE ACTIVITIES

In late July 2019, the Company sold an 80% interest in the Lake Rebecca gold project in the eastern goldfields, 150km ENE of Kalgoorlie, Western Australia to Bulletin Resources Limited for consideration of \$125,000 with a following 1% NSR royalty. This allowed the Company to focus on the Lake Carey gold project whilst retaining a non-contributing 20% interest in a highly prospective gold exploration project.

In September 2019, the Company completed a \$6 million placement via the issue of 40 million shares at \$0.15 per share (incl. a free 1 for 4 unlisted option exercisable at 25c within 18 months). The capital raising was heavily oversubscribed and highly successful and has brought a number of new institutional and sophisticated investors to Matsa's share register.

The funds from the capital raising were used to conduct:

1. An extensive and immediate new underground exploration diamond drill program within the Red October underground gold mine.
2. New drilling programs at Fortitude North, Red October near mine surface and Devon gold mine and surrounds.
3. Increased regional exploration where numerous targets are being developed.
4. Commence works on Fortitude Stage 2 gold mine.

On 2 March 2020, Matsa announced it had conducted a capital raising via the issue of 10 million shares at an issue price of \$0.155 each to a single institutional investor. The funds raised were used for increasing efficiencies in mining operations at the Red October underground mine and further exploration at Red October.

MATSA RESOURCES LIMITED

OPERATIONS REVIEW

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 2020.

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 for 19 years from 1989 to 2008. 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.

He has been chairman of Matsa Resources Limited for over 10 years and 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.

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

Bulletin Resources Limited (Appointed 24 June 2014)

Mr Franciscus (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 30 June 2008, and 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 a director and former 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. Since 1993 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 Chartered Accountants Australia and New Zealand (CAANZ) and a Fellow of the Financial Services Institute of Australasia (Finsia).

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

Carnavale Resources Limited (Appointed 31 March 2015; resigned 28 April 2017)

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 \$5,235,103 (2019: \$4,947,360).

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

- Revenue from the sale of gold ore tonnes of \$10,680,968 (2019: \$11,563,369).
- A loss of \$517,538 (2019: loss of \$194,649) on the sale of shares held in listed investments.
- A provision for diminution in investments of \$Nil (2019: \$1,248,296).
- Impairment losses of \$740,954 (2019: \$156,500) attributable to the Group's exploration projects.
- Care and maintenance costs on the Red October gold project of \$Nil (2019: \$1,232,675).
- The write-off of exploration expenditure of \$248 (2019: \$834,982).
- Share based payments expense of \$297,042 (2019: \$882,611).
- Income of \$237,630 (2019: \$100,570) relating to a tax refund for eligible research and development expenditure and a cash flow boost from the Australian government.
- Share of loss from the investment in associate Bulletin Resources Limited of \$199,882 (2019: \$487,915).

Review of Financial Position

The net assets attributable to the shareholders of the parent have increased by \$2,162,673 from 30 June 2019 to \$15,330,507 at 30 June 2020.

During the financial year:

1. \$6,000,000 (before costs) was raised via the issue of 40,000,000 fully paid ordinary shares at an issue price of \$0.15 each with one free unlisted option for every four shares subscribed for with an exercise price of \$0.25 each and expiring 31 May 2021; and
2. \$1,550,000 (before costs) was raised via the issue of 10,000,000 fully paid ordinary shares at an issue price of \$0.155 each.

Cash reserves at 30 June 2020 were \$1.80 million compared to \$0.9 million in the previous financial year and the Group had investments in listed shares, inclusive of Bulletin Resources Limited, of \$4,047,600.

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.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

CORPORATE STRUCTURE

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

EMPLOYEES

The Group had 37 employees of which 27 were full-time as at 30 June 2020 (2019: 23 full-time equivalent employees).

Review of Operations

A full review of the operations of the Group during the year ended 30 June 2020 is included on pages 4 to 30.

IMPACT OF COVID-19

While the onset of the COVID-19 pandemic was rapid and dramatic, the Company took immediate action to protect the integrity of the Company's business interests and the safety and wellbeing of its employees and stakeholders. Prompt implementation and affirmative compliance with government and health bodies forced quick change to operating processes.

Matsa operates a remote mining operation and fortunately with the positive protection measures and support of governments and employees our operation continued to function close to normal levels though travel restrictions, social distancing and isolation practices had some impacts on the Group. The closure of borders required immediate action to manage these impacts on our labour force.

Roster changes, changed travel and commuting schedules, changed camp operations including dining and enhanced hygiene practices created potential social and mental health impacts. The Company has taken a considerate approach to the hidden consequences of such changes and continues to work with its employees to lessen the impact. The over-arching objective of the Group has been to keep all its employees and stakeholders safe and free from infection and/or spread, and importantly to keep people employed during these uncertain times.

Given the exploration nature of the Company's operations the net impact of the pandemic was estimated to be minor on the Group's operations. The over-arching objective of the Group is to keep its employees and stakeholders safe and free from infection and/or spread.

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 3 September 2020, Matsa announced that that it had raised \$6.6 million by way of a placement of 44 million ordinary fully paid shares at \$0.15 each with one free attaching option for every share issued with an exercise price of \$0.30 each and expiring two years from the time of issue.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that the Group will continue its exploration, development and mining activities in Australia and Thailand. These are described in more detail in the Review of Operations on page 4.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

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.

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 | 9 | 9 |
| Frank Sibbel | 9 | 9 |
| Andrew Chapman | 9 | 9 |

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 \$0.175 Options | Number of \$0.17 Options |
|----------------|---------------------------|---------------------------|--------------------------|
| Paul Poli | 11,955,000 | 2,750,000 | 2,500,000 |
| Frank Sibbel | 594,852 | 1,500,000 | 1,250,000 |
| Andrew Chapman | 69,000 | 1,500,000 | 1,250,000 |

Options granted to directors and officers of the Company

During the financial year, the Company granted 5,750,000 options over unissued ordinary shares for no consideration in the Company to directors or officers of the Company as part of their remuneration.

SHARE OPTIONS

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

| Date of Expiry | Exercise Price | Number under Option |
|------------------|----------------|---------------------|
| 31 May 2021 | \$0.25 | 11,000,000 |
| 30 November 2021 | \$0.17 | 7,850,000 |
| 30 November 2022 | \$0.175 | 5,750,000 |
| 30 November 2022 | \$0.35 | 1,000,000 |
| | | <u>25,600,000</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

There were no options exercised during the financial year.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT - Audited

Principles of Compensation

This remuneration report for the year ended 30 June 2020 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 four 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

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 | Group 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.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

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.

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.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

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. No external advice was received during the year. 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 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 ended 30 June 2020 and 30 June 2019 is detailed in this report.

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 ended 30 June 2020 and 30 June 2019 is detailed in this report.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

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 ended 30 June 2020 and 30 June 2019 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.

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 no 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.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

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.

Mr Paul Poli, Executive Chairman, has a contract of employment with the Company. Mr Poli is entitled to receive a salary of \$375,000 plus statutory superannuation. 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, Group Exploration Manager, 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, Non-Executive Director, has a consultancy contract with the Company. Mr Sibbel is paid an hourly rate for the provision of consultancy services outside those provided as a director as required. 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, Director and Company Secretary, has a contract of employment with the Company receives a salary of \$200,000 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.

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

| As at 30 June | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-------------|-------------|-------------|-----------|-------------|
| Closing share price | \$0.155 | \$0.145 | \$0.155 | \$0.25 | \$0.17 |
| Net comprehensive (loss) per year ended | (5,235,103) | (4,947,360) | (3,886,427) | 2,517,038 | (2,231,886) |

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

| 2020 Key Management Person | Short Term Benefits | | Post-employment Benefits | Share-based payments | Total \$ | % Performance Related | % of Remuneration that consists of securities |
|--|---------------------|------------|--------------------------|----------------------|----------------|-----------------------|---|
| | Salary & Fees \$ | Other \$ | Superannuation \$ | Securities \$ | | | |
| Directors | | | | | | | |
| Paul Poli ¹ | 331,045 | 500 | 21,002 | 142,064 | 494,611 | 28.72 | 28.72 |
| Frank Sibbel ² | 79,758 | - | - | 77,489 | 157,247 | 49.28 | 49.28 |
| Andrew Chapman ³ | 190,770 | - | 18,123 | 77,489 | 286,382 | 27.06 | 27.06 |
| Total | 601,573 | 500 | 39,125 | 297,042 | 938,240 | - | - |
| ¹ Mr Poli is a director and shareholder of Strategic Siam Co Ltd which received payments totalling \$45,035 during the year. Strategic Siam provides administration services to Thai entities. Mr Poli receives an internet allowance as part of his terms of employment. | | | | | | | |
| ² Mr Sibbel provided consultancy services to the Company totalling \$37,758 during the year. | | | | | | | |
| ³ Mr Chapman provided company secretarial services to the Company totalling \$190,770 during the year. | | | | | | | |
| Executives | | | | | | | |
| David Fielding | 221,000 | - | 20,995 | - | 241,995 | - | - |
| Total | 221,000 | - | 20,995 | - | 241,995 | - | - |

| 2019 Key Management Person | Short Term Benefits | | Post-employment Benefits | Share-based payments | Total \$ | % Performance Related | % of Remuneration that consists of securities |
|--|---------------------|------------|--------------------------|----------------------|------------------|-----------------------|---|
| | Salary & Fees \$ | Other \$ | Superannuation \$ | Securities \$ | | | |
| Directors | | | | | | | |
| Paul Poli ¹ | 342,336 | 500 | 20,531 | 244,876 | 608,243 | 40.26 | 40.26 |
| Frank Sibbel ² | 64,990 | - | - | 122,438 | 187,428 | 65.33 | 65.33 |
| Andrew Chapman ³ | 235,066 | - | 22,322 | 122,438 | 379,826 | 32.24 | 32.24 |
| Total | 642,392 | 500 | 42,853 | 489,752 | 1,175,497 | - | - |
| ¹ Mr Poli is a director and shareholder of Strategic Siam Co Ltd which received payments totalling \$56,441 during the year. Strategic Siam provides administration services to Thai entities. Mr Poli receives an internet allowance as part of his terms of employment. | | | | | | | |
| ² Mr Sibbel provided consultancy services to the Company totalling \$22,990 during the year. | | | | | | | |
| ³ Mr Chapman provided company secretarial services to the Company totalling \$193,066 during the year. | | | | | | | |
| Executives | | | | | | | |
| David Fielding | 221,000 | - | 20,531 | 79,634 | 321,165 | 24.80 | 24.80 |
| Total | 221,000 | - | 20,531 | 79,634 | 321,165 | - | - |

Compensation Options Granted and Vested during the year

The table below sets out options granted during the year to Directors and Executives. There were 5,750,000 options issued to Directors and Executives during the year. There were no options that were granted in previous years that vested during the year. The options were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company. Due to the nature of the Company's activities it does not believe it is appropriate to set vesting conditions at this time.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

| 2020 | Vested | Granted | Grant Date | Value per Security at Grant Date | Exercise Price | First Exercise Date | Expiry Date |
|------------|-----------|-----------|------------|---|-------------------|---------------------------|----------------|
| | No. | No. | | Cents | Cents | | |
| P Poli | 2,750,000 | 2,750,000 | 28.11.19 | 5.17 | 17.5 | 28.11.19 | 30.11.22 |
| F Sibbel | 1,500,000 | 1,500,000 | 28.11.19 | 5.17 | 17.5 | 28.11.19 | 30.11.22 |
| A Chapman | 1,500,000 | 1,500,000 | 28.11.19 | 5.17 | 17.5 | 28.11.19 | 30.11.22 |
| D Fielding | - | - | - | - | - | - | - |

For details on the valuation of the options, including models and assumptions used, please refer to Note 28.

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

The maximum value of the award is equal to the number of options 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 during the year.

Value of Options granted as part of remuneration

| 2020 | 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 | 142,064 | - | - | 28.72 |
| Frank Sibbel | 77,489 | - | - | 49.28 |
| Andrew Chapman | 77,489 | - | - | 27.06 |
| David Fielding | - | - | - | - |

Option holdings of key management personnel

| 2020 | Balance 1 July | Granted as remune- ration | Exercised | Net change other* | Balance on Resignation | Balance 30 June | Vested & Exercisable | Not Exercisable |
|------------|-------------------|---------------------------------|-----------|----------------------|---------------------------|--------------------|-------------------------|--------------------|
| | No. | No. | No. | No. | No. | No. | No. | No. |
| P Poli | 5,250,000 | 2,750,000 | - | (2,750,000) | - | 5,250,000 | 5,250,000 | - |
| A Chapman | 2,750,000 | 1,500,000 | - | (1,500,000) | - | 2,750,000 | 2,750,000 | - |
| F Sibbel | 2,750,000 | 1,500,000 | - | (1,500,000) | - | 2,750,000 | 2,750,000 | - |
| D Fielding | 1,250,000 | - | - | (500,000) | - | 750,000 | 750,000 | - |
| | 12,000,000 | 5,750,000 | - | (6,250,000) | - | 11,500,000 | 11,500,000 | - |

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

Option holdings of key management personnel (continued)

| 2019 | 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. |
| P Poli | 2,750,000 | 2,500,000 | - | - | - | 5,250,000 | 5,250,000 | - |
| A Chapman | 1,500,000 | 1,250,000 | - | - | - | 2,750,000 | 2,750,000 | - |
| F Sibbel | 1,500,000 | 1,250,000 | - | - | - | 2,750,000 | 2,750,000 | - |
| D Fielding | 500,000 | 750,000 | - | - | - | 1,250,000 | 1,250,000 | - |
| | 6,250,000 | 5,750,000 | - | - | - | 12,000,000 | 12,000,000 | - |

*Net change other refers to expiry of options during the year.

Shareholdings of key management personnel

| 2020 | Balance 1 July | Granted as remuneration | Options exercised | Net change other** | Balance on resignation | Balance 30 June |
|------------|----------------|-------------------------|-------------------|--------------------|------------------------|-----------------|
| | No. | No. | No. | No. | No. | No. |
| P Poli | 11,855,000 | - | - | 100,000 | - | 11,955,000 |
| A Chapman | 69,000 | - | - | - | - | 69,000 |
| F Sibbel | 494,852 | - | - | 100,000 | - | 594,852 |
| D Fielding | 755,929 | - | - | - | - | 755,929 |
| | 13,174,781 | - | - | 200,000 | - | 13,374,781 |

| 2019 | Balance 1 July | Granted as remuneration | Options exercised | Net change other** | Balance on resignation | Balance 30 June |
|------------|----------------|-------------------------|-------------------|--------------------|------------------------|-----------------|
| | No. | No. | No. | No. | No. | No. |
| P Poli | 11,825,000 | - | - | 30,000 | - | 11,855,000 |
| A Chapman | 44,000 | - | - | 25,000 | - | 69,000 |
| F Sibbel | 294,852 | - | - | 200,000 | - | 494,852 |
| D Fielding | 715,929 | - | - | 40,000 | - | 755,929 |
| | 12,879,781 | - | - | 295,000 | - | 13,174,781 |

**Net change other refers to on market purchases and sale and any other corporate action taken by the Company during the year.

End of Audited Remuneration Report

MATSA RESOURCES LIMITED

DIRECTORS' 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.

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.

CORPORATE GOVERNANCE

In recognising the needs for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is available on the Company's website at:

<http://www.matsa.com.au/company/corporate-governance/>

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 2020:

| | |
|-------------------|---------|
| Taxation services | \$6,000 |
|-------------------|---------|

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 44.

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



Paul Poli

Executive Chairman

Dated this 30th day of September 2020

Lead 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 2020 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.



Nexia Perth Audit Services Pty Ltd



PTC Klopper

Director

Perth
30 September 2020

For personal use only

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 30 JUNE 2020**

| | Note | 2020 \$ | 2019 \$ |
|--|------|-------------|-------------|
| Revenue | | 10,680,968 | 11,563,369 |
| Mining operations | | (8,874,916) | (8,192,646) |
| Amortisation and depreciation | 5(c) | (2,692,144) | (695,718) |
| | | (886,092) | 2,675,005 |
| Other income | 5(a) | 619,220 | 658,587 |
| Depreciation expense | 5(c) | (202,009) | (318,615) |
| Other expenses | 5(d) | (2,933,163) | (5,874,769) |
| Loss on sale of investments | | (343,906) | (194,649) |
| Loss on sale of tenements | | (8,306) | (59,314) |
| Exploration and evaluation expenditure written off/provided for | 12 | (741,202) | (932,168) |
| Results from operating activities | | (4,495,458) | (4,045,923) |
| Finance income | 5(b) | 18,888 | 32,749 |
| Finance costs | | (558,651) | (446,271) |
| Net finance income | | (539,763) | (413,522) |
| Share of loss of equity-accounted investee, net of tax | 11 | (199,882) | (487,915) |
| Loss before income tax expense | | (5,235,103) | (4,947,360) |
| Income tax expense | 6 | - | - |
| Net loss for the year attributable to equity holders of the company | | (5,235,103) | (4,947,360) |
| Other comprehensive income to be reclassified subsequently through profit or loss | | | |
| Other comprehensive income/(loss) for the year, net of tax | | - | - |
| Total comprehensive loss for the year attributable to equity holders of the company | | (5,235,103) | (4,947,360) |
| Loss for the year is attributable to: | | | |
| Owners of the parent | | (5,235,383) | (4,947,518) |
| Non-controlling interest | | 280 | 158 |
| | | (5,235,103) | (4,947,360) |
| Total comprehensive loss for the year is attributable to: | | | |
| Owners of the parent | | (5,235,383) | (4,947,518) |
| Non-controlling interest | | 280 | 158 |
| | | (5,235,103) | (4,947,360) |
| Basic loss per share attributable to ordinary equity holders of the parent | 22 | (2.49) | (2.80) |
| Diluted loss per share attributable to ordinary equity holders of the parent | 22 | (2.49) | (2.80) |

The accompanying notes form part of these financial statements.

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MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | Note | 2020 \$ | 2019 \$ |
|---|------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 25 | 1,797,098 | 901,148 |
| Trade and other receivables | 7 | 1,532,009 | 317,288 |
| Other assets | 8 | 82,084 | 67,825 |
| Inventories | 9 | 573,871 | 106,923 |
| Total current assets | | 3,985,062 | 1,393,184 |
| Non-current assets | | | |
| Other assets | 8 | 324,895 | 327,662 |
| Financial assets | 10 | 351,600 | 1,110,206 |
| Investments in associates | 11 | 155,735 | 355,617 |
| Exploration and evaluation assets | 12 | 18,537,147 | 16,355,239 |
| Property, plant and equipment | 14 | 1,901,017 | 1,785,389 |
| Mine properties and development | 13 | 1,669,003 | 649,941 |
| Right-of-use assets | 15 | 186,813 | - |
| Total non-current assets | | 23,126,210 | 20,584,054 |
| Total assets | | 27,111,272 | 21,977,238 |
| Current liabilities | | | |
| Trade and other payables | 16 | 4,621,880 | 1,715,618 |
| Lease liabilities | 15 | 92,009 | 102,273 |
| Provisions | 18 | 304,552 | 258,002 |
| Total current liabilities | | 5,018,441 | 2,075,893 |
| Non-current liabilities | | | |
| Borrowings | 17 | 3,973,264 | 3,960,846 |
| Lease liabilities | 15 | 60,514 | 98,106 |
| Provisions | 18 | 2,650,819 | 2,597,112 |
| Total non-current liabilities | | 6,684,597 | 6,656,064 |
| Total liabilities | | 11,703,038 | 8,731,957 |
| Net assets | | 15,408,234 | 13,245,281 |
| Equity | | | |
| Issued capital | 19 | 51,348,741 | 44,292,467 |
| Reserves | 20 | 9,752,588 | 9,396,962 |
| Accumulated losses | 21 | (45,770,822) | (40,521,595) |
| Total equity attributable to equity holders of the Company | | 15,330,507 | 13,167,834 |
| Non-controlling interests | | 77,727 | 77,447 |
| Total equity | | 15,408,234 | 13,245,281 |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

| | Issued Capital Ordinary \$ | Accumulated Losses \$ | Other Reserves \$ | Equity Settled Benefits Reserve \$ | Total \$ | Non- controlling interest \$ | Total \$ |
|---|-------------------------------------|-----------------------------|-------------------------|--|-------------|---------------------------------------|-------------|
| Balance at 1 July 2018 | 44,292,467 | (37,515,368) | 1,927,447 | 8,528,195 | 17,232,741 | 77,289 | 17,310,030 |
| Adjustments on the initial application of AASB 9 | - | 1,941,291 | (1,941,291) | - | - | - | - |
| Comprehensive gain/(loss) for the year | - | (4,947,518) | - | - | (4,947,518) | 158 | (4,947,360) |
| Total comprehensive gain/(loss) for the year | - | (3,006,227) | (1,941,291) | - | (4,947,518) | 158 | (4,947,360) |
| <i>Transactions with owners recorded directly in equity</i> | | | | | | | |
| Share based payment | - | - | - | 882,611 | 882,611 | - | 882,611 |
| Balance at 30 June 2019 | 44,292,467 | (40,521,595) | (13,844) | 9,410,806 | 13,167,834 | 77,447 | 13,245,281 |
| Balance at 1 July 2019 | 44,292,467 | (40,521,595) | (13,844) | 9,410,806 | 13,167,834 | 77,447 | 13,245,281 |
| Comprehensive gain/(loss) for the year | - | (5,235,383) | - | - | (5,235,383) | 280 | (5,235,103) |
| Total comprehensive gain/(loss) for the year | - | (5,235,383) | - | - | (5,235,383) | 280 | (5,235,103) |
| <i>Transactions with owners recorded directly in equity</i> | | | | | | | |
| Issue of share capital | 7,569,050 | - | - | - | 7,569,050 | - | 7,569,050 |
| Share issue costs | (512,776) | - | - | - | (512,776) | - | (512,776) |
| Reserve transferred to accumulated losses | - | (13,844) | 13,844 | - | - | - | - |
| Share based payment | - | - | - | 341,782 | 341,782 | - | 341,782 |
| Balance at 30 June 2020 | 51,348,741 | (45,770,822) | - | 9,752,588 | 15,330,507 | 77,727 | 15,408,234 |

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 \$ | 2019 \$ |
|---|------|--------------------|--------------------|
| Receipts from customers | | 9,270,824 | 12,221,038 |
| Other income | | 507,460 | 442,679 |
| Payments to suppliers and employees | | (8,321,338) | (11,388,710) |
| Interest received | | 18,888 | 37,560 |
| Interest paid | | (53,815) | - |
| Net cash provided by/(used in) operating activities | 25 | <u>1,422,019</u> | <u>1,312,567</u> |
| Cash flows from investing activities | | | |
| Payments for financial assets | | (185,400) | (225,000) |
| Proceeds from sale of financial assets | | 600,100 | 838,968 |
| Purchase of plant and equipment | | (860,990) | (1,382,217) |
| Exploration and evaluation expenditure (capitalised) | | (3,967,159) | (3,514,253) |
| Payments for acquisition of mining tenements | | (177,166) | - |
| Proceeds on sale of plant and equipment | | 5,859 | 80,000 |
| Proceeds on sale of tenements | | 750,000 | 150,000 |
| Payments for mine properties | | (3,235,276) | (739,690) |
| Refund of security deposits | | 105,930 | 149,630 |
| Net cash used in investing activities | | <u>(6,964,102)</u> | <u>(4,642,562)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 7,569,050 | - |
| Costs of issue | | (468,036) | - |
| Repayment of lease liabilities | 25 | (170,563) | (110,817) |
| Proceeds from borrowings | 25 | - | 1,000,000 |
| Interest paid | | (492,418) | (449,724) |
| Net cash provided by financing activities | | <u>6,438,033</u> | <u>439,459</u> |
| Net increase/(decrease) in cash and cash equivalents | | 895,950 | (2,890,536) |
| Cash and cash equivalents at beginning of financial year | | 901,148 | 3,791,684 |
| Cash and cash equivalents at end of financial year | 25 | <u>1,797,098</u> | <u>901,148</u> |

The accompanying notes form part of these financial statements.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The consolidated financial statements of Matsa Resources Limited for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 30 September 2020.

Matsa Resources Limited (the "Company") is a for profit 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 2020 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 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 Australian Accounting Standards as issued by the Australian Accounting Standards Board and also International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Changes in Accounting Policies and Disclosures

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 2019. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

New and amended accounting standards adopted by the Group

AASB 16 supersedes AASB 117 Leases. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes relate to where the Group is the lessee and impact the Statement of Financial Position by removing the former distinction between "operating" and "finance" leases. The new standard requires the recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in Accounting Policies and Disclosures (continued)

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Consolidated Statement of Financial Position on 1 July 2019. Under this approach, there is no initial impact on retained earnings and comparatives have not been restated.

The Group has lease contracts for various items of mining equipment, motor vehicles and office premises. It does not have any sub-leases. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

The Group leases office premises. Prior to 1 July 2019, the lease was classed as an operating lease. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Group recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group (ie. Commencement date). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the rate implied in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate.

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives available;
- Variable lease payments that depend on any index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of purchase options, if the group is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in the property lease in the Group. In determining the lease term management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options) lease payments due to changes in an index or rate, or expected payments under guaranteed residual values.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in Accounting Policies and Disclosures (continued)

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Group has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

Impact on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The incremental borrowing rate applied to lease liabilities on 1 July 2019 was 8%.

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 1 July 2019.

In the Condensed Statement of Cash Flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities and cash payments for the interest portion of the lease liability as interest paid within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of \$122,707 and lease liabilities of \$122,707 in respect of all operating leases.

The net impact on accumulated losses at 1 July 2019 was nil.

Reconciliation of operating lease commitments previously disclosed as lease liabilities on 1 July 2019

Below is a reconciliation of total operating lease commitments as at 30 June 2019 as disclosed in the annual financial statements for the year ended 30 June 2019, and the lease liabilities on 1 July 2019.

| | 2019 |
|---|---------|
| | \$ |
| <i>Reconciliation</i> | |
| Operating lease commitments disclosed as at 30 June 2019 | 116,873 |
| Add - Adjustment as a result of change in the index rate | 13,945 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 8% |
| Lease liabilities as at 1 July 2019 | 122,707 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in Accounting Policies and Disclosures (continued)

Impact on finance leases

Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the directors have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's financial statements apart from the reclassification of right-of-use assets from property, plant and equipment to right-of-use assets.

AASB Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The interpretation did not have an impact on the consolidated financial statements of the Group.

Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020

The directors have also reviewed all Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

(d) 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.

Control is achieved where the company has exposure to variable returns from the entity and the power to affect those returns. 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation (continued)

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.

(e) 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.

(f) 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 9 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 9, it is measured in accordance with the appropriate IFRS.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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.

Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Trade and other receivables are recognised at amortised cost using the effective interest rate method, less any allowance for expected credit losses.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables, the Group applies the simplified approach permitted by AASB 9 to determine any allowances for expected credit losses, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience. The amounts held in trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these trade and other receivables, it is expected that the amounts will be received when due.

The Group's financial risk management objectives and policies are set out in Note 27.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

Due to the short-term nature of these receivables their carrying value is assumed to approximate their fair value.

Financial assets are recognised and derecognised on settlement date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time-frame established by the market concerned. They are initially measured at fair value, net of transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Group classifies its financial assets as either financial assets at fair value through profit or loss ("FVPL"), fair value through other comprehensive income ("FVOCI") or at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments, the classification depends on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVPL or FVOCI.

Financial assets at FVPL

For assets measured at FVPL, gains and losses will be recorded in profit or loss. The Group's derivative financial instruments are recognised at FVPL. Assets in this category are subsequently measured at fair value. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. Refer to Note 27 for additional details. The Group has elected to measure its listed equities at FVPL.

Financial assets at OCI

For assets measured at FVOCI, gains and losses will be recorded in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Assets in this category are subsequently measured at fair value. The fair values of quoted investments are based on current bid prices in an active market.

Other

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

(i) Investments in associates

The Consolidated Entity's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements. The associates are entities over which the Consolidated Entity has significant influence and that are neither subsidiaries nor joint ventures.

The Consolidated Entity generally deems it has significant influence if it has over 20% of the voting rights.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investments in associates (continued)

Under the equity method, investments in the associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the associates.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Consolidated Entity determines whether it is necessary to recognise any impairment loss with respect to the Consolidated Entity's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate. The Consolidated Entity's share of its associates' post-acquisition profits or losses is recognised in the profit and loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associate are prepared for the same reporting period as the Consolidated Entity. When necessary, adjustments are made to bring the accounting policies in line with those of the Consolidated Entity.

(j) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is considered to contain a lease if it allows the Group the right to control the use of an identified asset over a period of time in return for consideration. Where a contract or arrangement contains a lease, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

A right-of-use asset is initially measured at cost, which is the present value of future lease payments adjusted for any lease payments made at or before the commencement date, plus any make-good obligations and initial direct costs incurred. Lease assets are depreciated using the straight-line method over the shorter of their useful life and the lease term. Periodic adjustments are made for any re-measurements of the lease liabilities and for impairment losses.

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using the effective interest rate. Minimum lease payments include fixed payments, amounts expected to be paid under a residual value guarantee, the exercise price of purchase options for which the Group is reasonably certain to exercise and incorporate the Group's expectations of lease extension options.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets.

Short term leases (lease term of 12 months or less) and leases of low value assets (\$5,000 or less) are recognised as incurred as an expense in the consolidated income statement. Low value assets comprise computers and items of IT equipment.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of non-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.

(l) 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.

(m) 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.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring and bringing the inventories to their existing condition and location and is determined using the weighted average cost method.

(o) 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) Exploration, evaluation and development expenditure

Expenditure on acquisition, exploration and evaluation relating to an area of interest is capitalised and 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.

(r) Mine properties and development

Expenditure on the acquisition and development of mine properties within an area of interest are carried forward at cost separately for each area of interest. Accumulated expenditure is amortised over the life of the area of interest to which such costs relate on a production output basis.

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.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Mine properties and development (continued)

Impairment

The carrying value of capitalised mine properties and development expenditure is assessed for impairment whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(s) 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.

(t) Rehabilitation costs

The Consolidated Entity is required to decommission and rehabilitate mines and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities.

The expected cost of any approved decommissioning or rehabilitation programme, discounted to its net present value, is provided when the related environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financing expenses. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related asset are adjusted and the effect is recognised in profit or loss on a prospective basis over the remaining life of the operation.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets or from plant clean up at closure.

(u) 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Borrowing costs

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

(w) 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.

(x) 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.

(y) 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 28.

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).

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Share-based payment transactions (continued)

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.

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.

(z) Revenue

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expected to be entitled. If the consideration promised includes a variable amount, the Group estimates the amount of consideration to which it will be entitled. The following specific recognition criteria must be met before revenue is recognised:

Sale of goods

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer which occurs when control of goods or services have been transferred to the buyer and the associated costs can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from ore sales is brought to account when the control of goods or services is transferred have transferred to the buyer and selling prices are known or can be reasonably estimated.

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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Revenue (continued)

Dividend Income

Revenue is recognised on receipt of dividends from listed investments.

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.

COVID-19 Government Grant

Cash flow boost incentive from the government is recognised when it is received or when the right to receive payment is established.

(aa) 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.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Income tax (continued)

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.

(ab) 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.

(ac) 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.

(ad) 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.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ad) Earnings per share (continued)

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

(ae) Financial Position

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

The Group has reported a loss for the year of \$5,235,103 (2019: \$4,947,360), a cash inflow from operating activities of \$1,422,019 (2019: inflow \$1,312,567) and a working capital deficit of \$1,033,379 (2019: \$682,709).

At year end, the Group had \$1,797,908 (2019: \$901,148) in cash and term deposit balances and \$4,047,600 (2019: \$1,830,206) of investments in listed securities. In addition, subsequent to 30 June 2020, the Group completed a capital raise of \$6,600,000 before costs.

Management has prepared a cash flow forecast and have the ability to manage at their discretionary the forecast expenditure to be in line with the Group's actual cash flow.

Based on the above facts, the Directors consider the going basis of preparation to be appropriate.

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 28. 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

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.

Impairment of financial assets

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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

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.

Mine rehabilitation provision

The Consolidated Entity assesses its mine rehabilitation provision on an annual basis in accordance with the accounting policy stated in Note 2(r). In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of those future costs (largely dependent on the life of mine) and the estimated level of inflation. The ultimate rehabilitation costs are uncertain, and cost estimates can vary in response to many factors, including estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Therefore, significant estimates and assumptions are made in determining the provision for mine rehabilitation. As a result, there could be significant adjustments to the provisions established which would affect future financial result. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

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 and Thailand. The Group was awarded Special Prospecting Licences (SPL's) in Thailand in March 2015 for the first time.

Accordingly the Group now considers that it operates in two geographical segments but within the same operating segment, mineral exploration. 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 2020**

4. SEGMENT REPORTING (Continued)

Information about reportable segments

Information relating to each reportable segment is shown below.

| 2020 | Reportable Segments | | Total |
|--|----------------------------|-----------------|-------------------|
| | Australia | Thailand | |
| | \$ | \$ | \$ |
| External revenues | 11,179,466 | 120,722 | 11,300,188 |
| Inter-segment revenue | - | - | - |
| Segment revenue | 11,179,466 | 120,722 | 11,300,188 |
| Segment profit/(loss) before tax | (4,410,510) | (824,593) | (5,235,103) |
| Interest income | 18,282 | 606 | 18,888 |
| Interest expense | (558,651) | - | (558,651) |
| Depreciation and amortisation | (2,894,059) | (94) | (2,894,153) |
| Share of profit/(loss) of equity accounted investees | (199,882) | - | (199,882) |
| Other material non-cash items | | | |
| - Impairment of losses of non-financial assets | - | - | - |
| Segment assets | 26,458,786 | 652,486 | 27,111,272 |
| Equity accounted investees | 155,735 | - | 155,735 |
| Capital expenditure | 860,990 | - | 860,990 |
| Segment liabilities | 11,700,985 | 2,053 | 11,703,038 |

| 2019 | Reportable Segments | | Total |
|--|----------------------------|------------------|-------------------|
| | Australia | Thailand | |
| | \$ | \$ | \$ |
| External revenues | 12,210,506 | 11,450 | 12,221,956 |
| Inter-segment revenue | - | - | - |
| Segment revenue | 12,210,506 | 11,450 | 12,221,956 |
| Segment profit/(loss) before tax | (3,713,548) | (1,233,812) | (4,947,360) |
| Interest income | 30,566 | 2,183 | 32,749 |
| Interest expense | (446,271) | - | (446,271) |
| Depreciation and amortisation | (1,011,655) | (2,678) | (1,014,333) |
| Share of profit/(loss) of equity accounted investees | (487,915) | - | (487,915) |
| Other material non-cash items | | | |
| - Impairment of losses of non-financial assets | - | - | - |
| Segment assets | 20,903,675 | 1,073,563 | 21,977,238 |
| Equity accounted investees | 355,617 | - | 355,617 |
| Capital expenditure | 1,437,218 | - | 1,437,218 |
| Segment liabilities | 8,759,905 | (27,948) | 8,731,957 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020

| | 2020 \$ | 2019 \$ |
|--|------------------|------------------|
| 5. Income and Expenses | | |
| 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 | 137,630 | 100,570 |
| Net gain on sale of plant and equipment | 2,141 | 61,483 |
| Net gain on sale of tenements | - | 160,985 |
| Other income | 479,449 | 335,549 |
| | <u>619,220</u> | <u>658,587</u> |
| (b) Finance income | | |
| Interest earned | <u>18,888</u> | <u>32,749</u> |
| (c) Expenses included in the statement of comprehensive income | | |
| Depreciation and amortisation expenses | | |
| Mine property depreciation | 272,373 | 163,149 |
| Mine capital development amortisation | 1,943,841 | 532,569 |
| Property plant and equipment depreciation | 542,639 | 318,615 |
| Right-of-use assets depreciation | 135,300 | - |
| | <u>2,894,153</u> | <u>1,014,333</u> |
| Disclosure in Statement of Profit and Loss | | |
| Amortisation and depreciation | 2,692,144 | 695,718 |
| Depreciation expense | 202,009 | 318,615 |
| | <u>2,894,153</u> | <u>1,014,333</u> |
| (d) Other expenses | | |
| (i) Employee benefits expense | | |
| Salaries and wages | 1,179,383 | 1,185,747 |
| Superannuation expenses | 65,387 | 62,799 |
| Share based payments | 297,042 | 882,611 |
| Total employee benefits expense | <u>1,541,812</u> | <u>2,131,157</u> |
| (ii) Administration and other expenses | | |
| Operating lease rentals | 72,802 | 166,552 |
| Care and maintenance | - | 1,232,675 |
| Administration expenses | 1,318,549 | 2,344,385 |
| | <u>1,391,351</u> | <u>3,743,612</u> |
| | <u>2,933,163</u> | <u>5,874,769</u> |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| 6. Income taxes | | |
| Tax expense/(income) comprises: | | |
| Current tax expense/(income) | - | - |
| Deferred tax expense/(income) | - | - |
| | - | - |

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:

| | | |
|---|-------------|-------------|
| Loss from continuing operations | (5,235,103) | (4,947,360) |
| Income tax expense calculated at 27.5% (2019: 27.5%) | (1,439,653) | (1,360,524) |
| Non-deductible expenses | 177,949 | 244,280 |
| Non-assessable income | (40,203) | (18,399) |
| Effect of temporary differences not recognised in current year | 787,072 | 1,473,124 |
| Effect of change in income tax rate | 549,341 | 280,118 |
| Effect of temporary differences that would be recognised directly in equity | (128,194) | (530,047) |
| Adjustments recognised in the current year in relation to the current tax of previous years | 93,688 | (88,552) |
| Income tax expense | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% (2019: 27.5%) payable by Australian corporate entities on taxable profits under Australian tax law.

| | 2020 \$ | 2019 \$ |
|---|-------------|-------------|
| Unrecognised deferred tax assets/(liabilities) | | |
| The following deferred tax assets have not been brought to account: | | |
| Tax losses - revenue | 7,737,412 | 6,704,156 |
| Investments | 115,679 | 343,281 |
| Temporary differences - exploration | (2,148,716) | (2,362,128) |
| Section 40-880 expenses | 159,686 | 42,839 |
| Other temporary differences | (242,445) | 106,396 |
| | 5,621,616 | 4,834,544 |

The ability of the Group to utilise unrecognised tax losses will depend on whether the Group meets the statutory requirements for utilising tax losses as and when it generates taxable profit.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

| | 2020 \$ | 2019 \$ |
|---|------------|------------|
| 7. Trade and other receivables | | |
| Current | | |
| Trade debtors | 1,423,669 | 192,087 |
| Amounts receivable from Australian Taxation Authorities | 9,363 | 7,700 |
| Other receivables | 98,977 | 117,501 |
| | 1,532,009 | 317,288 |
| | 2020 \$ | 2019 \$ |
| 8. Other assets | | |
| Current | | |
| Prepayments | 49,469 | 35,953 |
| Cash backed performance bond (i) | 32,615 | 31,872 |
| | 82,084 | 67,825 |
| Non-current | | |
| Deposits held (ii) | 324,895 | 327,662 |
| | 324,895 | 327,662 |
| <p>(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 performance bonds with fixed term deposits with the bank.</p> <p>(ii) The Company has cash deposits held with the Thailand government with respect to a number of tenement applications in Thailand. Prior to changes in the Thailand Mineral Act (2017), should the applications not be successful 75% of the deposits will be returned to the Company. This has now been changed such that deposits will be refunded in full and any impairments previously recognised have been written back. In the prior financial year, a cumulative impairment (representing the non-recoverable 25%) of \$109,221 has been made against the deposits held of \$436,883.</p> | | |
| | 2020 \$ | 2019 \$ |
| 9. Inventories | | |
| Current | | |
| Ore stocks | 354,385 | - |
| Stores and spares at cost | 219,486 | 106,923 |
| Total inventories at lower of cost and net realisable value | 573,871 | 106,923 |
| | 2020 \$ | 2019 \$ |
| 10. Other | | |
| Other financial assets | 351,600 | 1,110,206 |
| | 351,600 | 1,110,206 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

10. Other (continued)

| | 2020 \$ | 2019 \$ |
|---------------------------------------|-------------|-------------|
| Movements in financial assets: | | |
| At 1 July | 1,110,206 | 2,683,246 |
| Additions | 185,400 | 735,000 |
| Disposals | (1,117,638) | (1,059,744) |
| Net change in investments | 173,632 | (1,248,296) |
| At 30 June | 351,600 | 1,110,206 |

Other financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares

- (i) The Company holds shares in Panoramic Resources Limited (ASX: PAN), 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 year the fair value of the investment was \$194,400 (30 June 2019: \$1,051,238) which is based on Panoramic Resources Limited's quoted share price.

- (ii) The Company holds shares in Anova Minerals Limited (ASX: AWW), which is involved in exploration and development of gold in Western. AWW is listed on the Australian Securities Exchange.

At the end of the year the Company's investment was \$157,200 (30 June 2019: \$58,750) which is based on AWW's quoted share price.

11. Equity Accounted Investments

The Company has a 26.77% (2019: 26.77%) interest in Bulletin Resources Limited (ASX: BNR), which is involved in the exploration of precious and base metals in Australia. Bulletin is listed on the Australian Securities Exchange.

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| Movements in carrying value of the Company's investment in associate: | | |
| At 1 July | 355,617 | 843,532 |
| Share of loss after income tax | (199,882) | (487,915) |
| Share of change in reserves | - | - |
| At 30 June | 155,735 | 355,617 |

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MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

11. Equity Accounted Investments (continued)

The following table illustrates the summarised financial information of the Company's investment in Bulletin:

| | 2020 | 2019 |
|--------------------------------------|------------------|------------------|
| | \$ | \$ |
| Current assets | 1,830,416 | 2,277,397 |
| Non-current assets | 239,027 | 85,484 |
| Current liabilities | (513,432) | (224,172) |
| Non-current liabilities | - | - |
| Equity | <u>1,556,011</u> | <u>2,138,709</u> |
| Company's share of loss for the year | <u>(199,882)</u> | <u>(487,915)</u> |

The associate had no contingent liabilities or capital commitments as at 30 June 2020.

| | 2020 | 2019 |
|--|-------------------|-------------------|
| | \$ | \$ |
| 12. Exploration and evaluation assets | | |
| Exploration expenditure capitalised at cost -exploration and evaluation phase | <u>18,537,147</u> | <u>16,355,239</u> |
| | <u>18,537,147</u> | <u>16,355,239</u> |

Movements in carrying amounts

Exploration and evaluation phase

| | | |
|---|-------------------|-------------------|
| Balance at beginning of year | 16,355,239 | 14,874,547 |
| Acquisition of tenements | 177,166 | 823,910 |
| Disposal of tenements | (758,306) | (499,015) |
| Exploration and evaluation expenditure incurred | 3,504,250 | 2,955,816 |
| Expenditure written off/impaired | (741,202) | (991,482) |
| Transferred from/(to) mine property and development | - | (808,537) |
| Balance at end of year | <u>18,537,147</u> | <u>16,355,239</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.

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MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

| | 2020 | 2019 |
|---|--------------------------------|------------------|
| | \$ | \$ |
| 13. Mine Property and Development | | |
| Mine properties | | |
| Balance at beginning of year | 649,941 | 473,973 |
| Transferred from/(to) exploration and evaluation assets | - | 275,968 |
| Additions | - | - |
| Depreciation expense for the period | (272,373) | (100,000) |
| Balance at end of year | <u>377,568</u> | <u>649,941</u> |
| Mine capital development | | |
| Balance at beginning of year | - | - |
| Additions | 3,235,276 | 532,569 |
| Amortisation expense for the period | (1,943,841) | (532,569) |
| Balance at end of year | <u>1,291,435</u> | <u>-</u> |
| Total mine properties and development | <u>1,669,003</u> | <u>649,941</u> |
| | 2020 | 2019 |
| | \$ | \$ |
| 14. Property, plant and equipment | | |
| Plant and equipment at cost | 3,816,356 | 3,239,946 |
| Accumulated depreciation | (1,915,339) | (1,454,557) |
| | <u>1,901,017</u> | <u>1,785,389</u> |
| Total property, plant and equipment | <u>1,901,017</u> | <u>1,785,389</u> |
| Movements in carrying amounts | | |
| | Plant and Equipment | Total |
| | \$ | \$ |
| Consolidated | | |
| Balance 30 June 2018 | 748,454 | 748,454 |
| Additions | 1,437,217 | 1,437,217 |
| Disposals | (18,518) | (18,518) |
| Depreciation transferred to mine properties | (63,149) | - |
| Depreciation expense | (318,615) | (381,764) |
| Balance 30 June 2019 | <u>1,785,389</u> | <u>1,785,389</u> |
| Additions | 860,990 | 694,553 |
| Disposals | (3,318) | (78,318) |
| Assets transferred to Right of use assets | (199,405) | - |
| Depreciation expense | (542,639) | (500,607) |
| Balance 30 June 2020 | <u>1,901,017</u> | <u>1,901,017</u> |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

15. Right-of-use-assets & lease liabilities

The Group has adopted AASB 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

The Group has lease contracts for various items of equipment, motor vehicles and office premises used in its operations. Leases generally have lease terms between two and four years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use-assets

Carrying Amount

| | Equipment | Premises | Motor | Total |
|--------------------------|------------------|-----------------|-----------------|--------------|
| | \$ | \$ | Vehicles | \$ |
| | \$ | | \$ | |
| Cost | 36,772 | 122,707 | 230,308 | 389,787 |
| Accumulated depreciation | (35,695) | (77,302) | (89,977) | (202,974) |
| As at 30 June 2020 | 1,077 | 45,405 | 140,331 | 186,813 |

Reconciliation

| | Equipment | Premises | Motor | Total |
|-----------------------|------------------|-----------------|-----------------|--------------|
| | \$ | \$ | Vehicles | \$ |
| | \$ | | \$ | |
| As at 1 July 2019 | 13,321 | 122,707 | 204,737 | 340,765 |
| Additions | - | - | - | - |
| Depreciation expense* | (12,244) | (77,302) | (64,406) | (153,952) |
| As at 30 June 2020 | 1,077 | 45,405 | 140,331 | 186,813 |

*Amount of \$18,652 has been capitalised to mine capital development. During the year \$135,300 was expensed.

Lease liabilities

Set out below are the carrying amounts of lease liabilities.

Carrying Value 2020

| | Equipment | Premises | Motor | Total |
|-------------------------|------------------|-----------------|-----------------|--------------|
| | \$ | \$ | Vehicles | \$ |
| | \$ | | \$ | |
| Current liabilities | 1,902 | 47,845 | 42,262 | 92,009 |
| Non-current liabilities | - | - | 60,514 | 60,514 |
| As at 30 June 2020 | 1,902 | 47,845 | 102,776 | 152,523 |

Carrying Value 2019

| | Equipment | Premises | Motor | Total |
|-------------------------|------------------|-----------------|-----------------|--------------|
| | \$ | \$ | Vehicles | \$ |
| | \$ | | \$ | |
| Current liabilities | 15,862 | - | 86,411 | 102,273 |
| Non-current liabilities | 1,902 | - | 96,204 | 98,106 |
| As at 30 June 2019 | 17,764 | - | 182,615 | 200,379 |

A maturity analysis of future minimum lease payments is presented in Note 27.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

15. Right-of-use-assets & lease liabilities (continued)

| Movement for the period | Equipment \$ | Premises \$ | Motor Vehicles \$ | Total \$ |
|---------------------------|-----------------|----------------|-------------------------|----------------|
| Recognised on 1 July 2019 | 17,764 | 122,707 | 182,615 | 323,086 |
| New leases entered | - | - | - | - |
| Principal repayments | (15,862) | (74,862) | (79,839) | (170,563) |
| - Repayments | (16,561) | (81,477) | (89,434) | (187,472) |
| - Interest | 699 | 6,615 | 9,595 | 16,909 |
| Leases terminated | - | - | - | - |
| As at 30 June 2020 | <u>1,902</u> | <u>47,845</u> | <u>102,776</u> | <u>152,523</u> |

| | <u>2020</u> \$ | <u>2019</u> \$ |
|---------------------------------------|-------------------|-------------------|
| 16. Trade and other payables | | |
| Unsecured liabilities | | |
| Trade payables | 3,262,672 | 1,177,144 |
| Sundry creditors and accrued expenses | 1,359,208 | 538,474 |
| | <u>4,621,880</u> | <u>1,715,618</u> |

| | <u>2020</u> \$ | <u>2019</u> \$ |
|-----------------------|-------------------|-------------------|
| 17. Borrowings | | |
| Non Current | | |
| Secured liabilities | | |
| Loan (ii) | 3,973,264 | 3,960,846 |
| | <u>3,973,264</u> | <u>3,960,846</u> |

(i) Due to the introduction of AASB 16 Leases all finance lease liabilities are now disclosed in Note 15.

| (ii) Reconciliation of loan | <u>2020</u> \$ | <u>2019</u> \$ |
|------------------------------|-------------------|-------------------|
| Balance at beginning of year | 3,960,846 | 2,937,521 |
| Amount borrowed | - | 1,000,000 |
| Share based payment | - | - |
| Interest capitalised | 12,418 | 23,325 |
| Balance at end of year | <u>3,973,264</u> | <u>3,960,846</u> |

On 8 August 2017 Matsa entered into loan agreements with two separate parties for a \$4M facility with the funds being predominantly used as a working capital facility to ensure smooth operations of the trial mine at the Fortitude Gold Project and to conduct further exploration at Lake Carey. The repayment date was initially 31 July 2018 but was extended by mutual consent on 12 April 2018 to 31 July 2019. On 5 May 2019 a further \$1M was borrowed and the repayment date extended to 31 July 2020. On 29 May 2020 the repayment date was extended to 31 July 2022. On this basis the loan has been disclosed as non-current.

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

17. Borrowings (Continued)

The key terms of the finance facility are as follows:

| | |
|-------------------|--|
| Principal Amount: | \$5,000,000 (\$4M drawn down and \$1M any time if required) |
| Interest Rate: | 12% per annum paid monthly in arrears (penalty rate of 18% if Matsa is in default) |
| Term: | Repayable by 31 July 2022 |
| Security: | The loan facility is secured by a mortgage over the Fortitude gold project, the Symons Hill project and a Deed of Charge over the Company's shareholdings in Bulletin Resources Limited and Panoramic Resources Limited. |

At the time of the original loan Matsa agreed to issue a total of 1 million options in the Company, split equally amongst the parties, with an exercise price of \$0.20 each with a two year life from the date of issue. The principal loan balance of \$4M has been offset by the value of the options issued. At the end of the year the carrying value of the loan was \$3,973,264. In return for the loan extension, Matsa agreed to pay each of the lenders an annual Facility Fee of 150,000 fully paid ordinary shares for every year or part year that the loans remain outstanding. There is one Facility Fee of 150,000 shares to be issued on or about 1st June 2021.

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| 18. Provisions | | |
| Current | | |
| Provision for annual leave | 304,552 | 258,002 |
| | <u>304,552</u> | <u>258,002</u> |
| Non-current | | |
| Provision for long service leave | 223,737 | 176,136 |
| Provision for mine restoration | 2,427,082 | 2,420,976 |
| | <u>2,650,819</u> | <u>2,597,112</u> |
| | | |
| | 2020 | 2019 |
| | \$ | \$ |
| Movement in long service leave provision | | |
| Opening balance 1 July | 176,136 | 154,548 |
| Increase in provision | 47,601 | 21,588 |
| Closing balance 30 June | <u>223,737</u> | <u>176,136</u> |
| Movement in provision for mine restoration | | |
| Opening balance 1 July | 2,420,976 | 2,404,058 |
| Increase/(decrease) in provision | 6,106 | 16,918 |
| Closing balance 30 June | <u>2,427,082</u> | <u>2,420,976</u> |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020

| | 2020 | 2019 | 2020 | 2019 |
|--|--------------------|--------------------|-------------------|-------------------|
| 19. Issued capital | No. | No. | \$ | \$ |
| 227,067,368 (2019: 176,917,368) fully paid ordinary shares | | | 51,348,741 | 44,292,467 |
| Ordinary shares | | | | |
| At the beginning of reporting period | 176,917,368 | 176,917,368 | 44,292,467 | 44,292,467 |
| Share placements | 50,000,000 | - | 7,550,000 | - |
| Shares issued as a facility fee | 150,000 | - | 19,050 | - |
| Transaction costs | - | - | (512,776) | - |
| At reporting date | <u>227,067,368</u> | <u>176,917,368</u> | <u>51,348,741</u> | <u>44,292,467</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 |
|----------------|------------------|------------------------------|-------------------|-----------|---------------------|------------------------|
| \$0.25 | 30 November 2019 | 3,900,000 | - | - | (3,900,000) | - |
| \$0.25 | 30 November 2019 | 5,750,000 | - | - | (5,750,000) | - |
| \$0.30 | 30 November 2019 | 3,775,025 | - | - | (3,775,025) | - |
| \$0.17 | 30 November 2021 | 5,000,000 | - | - | - | 5,000,000 |
| \$0.17 | 30 November 2021 | 3,600,000 | - | - | - | 3,600,000 |
| \$0.25 | 31 May 2021 | - | 11,000,000 | - | - | 11,000,000 |
| \$0.35 | 30 November 2022 | - | 1,000,000 | - | - | 1,000,000 |
| \$0.175 | 30 November 2022 | - | 5,750,000 | - | - | 5,750,000 |
| | | <u>22,025,025</u> | <u>17,750,000</u> | <u>-</u> | <u>(13,425,025)</u> | <u>26,350,000</u> |

20. Reserves

| | 2020 | 2019 |
|----------------------------|------------------|------------------|
| | \$ | \$ |
| Equity settled transaction | 9,752,588 | 9,410,806 |
| Other reserves | - | (13,844) |
| | <u>9,752,588</u> | <u>9,396,962</u> |

Equity settled transaction reserve

| | | |
|--|------------------|------------------|
| Balance at beginning of financial year | 9,410,806 | 8,528,195 |
| Share based payment | 341,782 | 882,611 |
| Balance at end of financial year | <u>9,752,588</u> | <u>9,410,806</u> |

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

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

20. Reserves (continued)

| | 2020 | 2019 |
|--|-------------|-------------|
| | \$ | \$ |
| Other reserve | | |
| Balance at beginning of financial year | (13,844) | 1,927,447 |
| Adjustments on the initial application of AASB 9 | - | (1,941,291) |
| Amount transferred to accumulated losses (i) | 13,844 | |
| Balance at end of financial year | - | (13,844) |

- (i) This amount relates to prior years recognition of share of reserves from its associate Bulletin Resources Limited reversed to accumulated losses in the current year.

| | 2020 | 2019 |
|---|-------------|-------------|
| | \$ | \$ |
| 21. Accumulated losses | | |
| Accumulated losses at beginning of financial year | 40,521,595 | 37,515,368 |
| Adjustments on the initial application of AASB 9 | - | (1,941,291) |
| Amount transferred from other reserves (note 20) | 13,844 | - |
| Loss for the year | 5,235,383 | 4,947,518 |
| Accumulated losses at end of financial year | 45,770,822 | 40,521,595 |

22. Loss per share

| | 2020 | 2019 |
|---|-------------|-------------|
| | \$ | \$ |
| The loss and weighted average number of ordinary shares used in the calculation of loss per share are as follows: | | |
| Loss | 5,235,383 | 4,947,518 |
| | No. | No. |
| Weighted average number of ordinary shares | 210,042,368 | 176,917,368 |

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.

23. 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 \$2,128,754 (2019: \$2,176,578). 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.

Mine Development and Operating Commitments

The mine development and operating costs are determined on a time and cost basis.

Contingencies

There are no contingent assets or contingent liabilities as at 30 June 2020.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

24. Subsidiaries

| | Country of Incorporation | Percentage Owned (%) | |
|---|--------------------------|----------------------|------|
| | | 2020 | 2019 |
| Parent Entity | | | |
| Matsa Resources Limited | Australia | | |
| Subsidiary | | | |
| Matsa Gold Pty Ltd | Australia | 100 | 100 |
| Killaloe Minerals Pty Ltd | Australia | 100 | 100 |
| Lennard Shelf Exploration Pty Ltd | Australia | 100 | 100 |
| Red October Gold Pty Ltd | Australia | 100 | 100 |
| Australian Strategic and Precious Metals Investment 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 Tabæk 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 |
| Azure Circle Co Ltd | Thailand | 100 | 100 |

25. 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:

| | 2020 | 2019 |
|---------------------------|-----------|---------|
| | \$ | \$ |
| Cash and cash equivalents | 1,797,098 | 901,148 |

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020**

25. Cash flow information (Continued)

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

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| Profit/(loss) for year | (5,235,103) | (4,947,360) |
| Non-cash flows in loss from ordinary activities: | | |
| Share-based payments | 297,042 | 882,611 |
| Depreciation | 202,009 | 318,615 |
| Exploration expenditure written off | 741,202 | 932,168 |
| Share of investee loss | 199,882 | 487,915 |
| Net (gain)/(loss) on sale of financial assets | 517,538 | 194,649 |
| Net (gain)/loss on disposal of plant and equipment | (2,541) | (61,483) |
| Net loss on tenements | 8,306 | 59,314 |
| Net change in investments | (173,632) | 1,248,296 |
| Interest expense classified as financing cash flow | 492,418 | 449,724 |
| Amortisation | 2,692,144 | 695,718 |
| Reversal of provision for tenement application money | (111,761) | - |
| Changes in assets and liabilities: | | |
| Decrease/(increase) in receivables | (1,214,721) | 583,118 |
| Decrease/(increase) in inventories | (466,948) | - |
| Increase/(decrease) in trade creditors and accruals | 3,375,926 | 390,341 |
| Increase/(decrease) in provisions | 100,258 | 78,941 |
| Cash provided by operating activities | <u>1,422,019</u> | <u>1,312,567</u> |

Reconciliation of liabilities arising from financing activities

| 2020 | Lease Liabilities | Long Term Borrowings | Total |
|---------------------------------------|------------------------------|---------------------------------|------------------|
| | \$ | \$ | \$ |
| Opening balance | 200,379 | 3,960,846 | 4,161,225 |
| Cash flows | (170,563) | - | (170,563) |
| Non cash charges | - | 12,418 | 12,418 |
| Adoption of AASB 16 on lease premises | 122,707 | - | 122,707 |
| Closing balance | <u>152,523</u> | <u>3,973,264</u> | <u>4,125,787</u> |
| 2019 | Lease Liabilities | Long Term Borrowings | Total |
| | \$ | \$ | \$ |
| Opening balance | 89,355 | 2,937,521 | 3,026,876 |
| Cash flows | (110,817) | 1,000,000 | 889,183 |
| Non-cash changes | 221,841 | 23,325 | 245,166 |
| Closing balance | <u>200,379</u> | <u>3,960,846</u> | <u>4,161,225</u> |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

26. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2020, the parent company of the Group was Matsa Resources Limited.

| | Company | |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Result of the parent Entity | | |
| Profit/(loss) for the year | (4,360,533) | (10,655,157) |
| Other comprehensive gain/(loss) | - | - |
| Total comprehensive profit/(loss) for the year | (4,360,533) | (10,655,157) |
| Financial position of parent entity at year end | | |
| Current assets | 975,470 | 880,196 |
| Total assets | 15,938,597 | 12,076,598 |
| Current liabilities | 2,169,690 | 1,307,129 |
| Total liabilities | 6,366,691 | 5,542,217 |
| Total equity of the parent entity comprising of: | | |
| Share capital | 51,348,741 | 44,292,467 |
| Reserves | 9,752,590 | 9,393,601 |
| Accumulated losses | (51,529,425) | (47,151,686) |
| Total equity | 9,571,906 | 6,534,382 |

27. 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.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

27. 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 with the exception of its cash balances at bank.

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

The Group manages its exposure to credit risk by extensive due diligence on the party processing its gold sales.

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 | |
|--|---|-------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Trade and other receivables | 1,522,646 | 309,588 |
| Cash and cash equivalents | 1,797,098 | 901,148 |
| Deposits held | 324,895 | 436,883 |
| Impairment of deposits (refer Note 8 (ii)) | - | (109,221) |

The Group has \$183,910 in other receivables that are past due (2019: \$183,910).

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 Group also has investments in listed shares that could be sold to raise cash.

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

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

30 June 2020

| | 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 | | 4,621,880 | 4,621,880 | 4,621,880 | - | - | - |
| Lease liabilities | 6.77 | 152,523 | 152,523 | 65,978 | 26,031 | 33,806 | 26,708 |
| Loan | 12 | 3,973,264 | 3,973,264 | - | - | - | 3,973,264 |
| | | 8,747,667 | 8,747,667 | 4,687,858 | 26,031 | 33,806 | 3,999,972 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

27. Financial instruments (Continued)

30 June 2019

| | 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 | | 1,715,618 | 1,715,618 | 1,715,618 | - | - | - |
| Lease liabilities | 7.58 | 200,379 | 200,379 | 57,379 | 44,894 | 41,391 | 56,715 |
| Loan | 12 | 3,960,846 | 3,960,846 | - | - | 3,960,846 | - |
| | | <u>5,876,843</u> | <u>5,876,543</u> | <u>1,772,997</u> | <u>44,894</u> | <u>4,002,237</u> | <u>56,715</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 | |
|---------------------------|-----------------|---------|
| | 2020 | 2019 |
| | \$ | \$ |
| Other current assets | 117,830 | 77,035 |
| Cash and cash equivalents | 202,266 | 285,298 |

Sensitivity analysis

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. A change of 10% in the foreign currency exchange rate at 30 June 2020 would have increased equity by \$32,009 (2019: \$36,233), an equal change in the opposite direction would have decreased equity by an equal but opposite amount.

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.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2020

27. Financial instruments (Continued)

Profile

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

| | Carrying amount | |
|----------------------------------|------------------|------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Fixed rate instruments | | |
| Cash and cash equivalents | 50,000 | 50,000 |
| Lease liabilities | 152,523 | 200,379 |
| Loan | 3,973,264 | 3,960,846 |
| | <u>4,175,787</u> | <u>4,211,225</u> |
| Variable rate instruments | | |
| Cash and cash equivalents | 1,747,098 | 851,148 |
| Cash backed performance bonds | 32,615 | 31,872 |
| | <u>1,779,713</u> | <u>883,020</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 2019.

| | Profit or loss | | Equity | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| | \$ | \$ | \$ | \$ |
| 30 June 2020 | | | | |
| Variable rate instruments | 17,797 | (17,797) | 17,797 | (17,797) |
| 30 June 2019 | | | | |
| Variable rate instruments | 8,830 | (8,830) | 8,830 | (8,830) |

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 fully recoverable (previously 75% of their value) should the applications not be granted. As a result the carrying amount is considered to approximate its fair value.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

27. Financial instruments (Continued)

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 financial investments and carried at fair value with fair value changes recognised directly in the profit and loss account.

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

| | Note | 30 June 2020 \$ | 30 June 2019 \$ |
|--|------|--------------------|--------------------|
| Listed equities (Level 1 fair value hierarchy) | 10 | 351,600 | 1,110,206 |

Sensitivity analysis

The Group's equity investments are listed on the Australian Securities Exchange. A 3% increase in stock prices at 30 June 2020 would have increased equity by \$10,548 (2019: \$33,306), 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 and mine development. The Group monitors also has a debt facility which is not repayable until 31 July 2022.

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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

28. Share-based payments

Shared based payments expense

| | 2020 | 2019 |
|----------------------------|----------------|----------------|
| | \$ | \$ |
| Directors and Executives | 297,042 | 569,386 |
| Employee Share Option Plan | - | 313,225 |
| Consultants | 44,740 | - |
| | <u>341,782</u> | <u>882,611</u> |

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 28 November 2019 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.
- (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 2020**

28. 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 the Remuneration Report.

| | 2020 No. | 2020 WAEP \$ | 2019 No. | 2019 WAEP \$ |
|--|---------------------|-----------------------------|---------------------|-----------------------------|
| Outstanding at the beginning of the year | 5,750,000 | 0.22 | 3,675,000 | 0.25 |
| Granted | - | - | 2,450,000 | 0.17 |
| Exercised | - | - | - | - |
| Expired | (2,900,000) | 0.25 | (375,000) | 0.23 |
| Outstanding at year-end | <u>2,850,000</u> | <u>0.17</u> | <u>5,750,000</u> | <u>0.22</u> |
| Exercisable at year-end | <u>2,850,000</u> | <u>0.17</u> | <u>5,750,000</u> | <u>0.22</u> |

The outstanding balance as at 30 June 2020 is represented by the following options over ordinary shares, exercisable upon meeting the above terms and conditions:

- 2,850,000 options with an exercise price of \$0.17 each and with an expiry date of 30 November 2021. All have vested and are exercisable at balance date.

Directors and Executives Options

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 vary between option holders. There were 5,750,000 (2019: 5,750,000) options issued to Directors or Executives during the financial year.

Options issued to the Executive Chairman and the Executive Director and Executives vested immediately.

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

- any Directors or Executives vested options 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 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 2020**

28. Share-based payments (Continued)

(b) Summary of options issued to Directors and Executives

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

| | 2020 No. | 2020 WAEP \$ | 2019 No. | 2019 WAEP \$ |
|-------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Outstanding at 1 July | 12,000,000 | 0.21 | 6,250,000 | 0.25 |
| Granted during the year | 5,750,000 | 0.175 | 5,750,000 | 0.17 |
| Expired during the year | (6,250,000) | 0.25 | - | - |
| Outstanding at 30 June | 11,500,000 | 0.172 | 12,000,000 | 0.21 |
| Exercisable at 30 June | 11,500,000 | 0.172 | 12,000,000 | 0.21 |

There were 5,750,000 options issued during the year.

Directors

- 5,000,000 options over ordinary shares with an exercise price of \$0.17 each, exercisable upon meeting the relevant conditions and until 30 November 2021.
- 5,750,000 options over ordinary shares with an exercise price of \$0.175 each, exercisable upon meeting the relevant conditions and until 30 November 2022.

Executives

- 750,000 options over ordinary shares with an exercise price of \$0.17 each exercisable upon meeting the relevant conditions and until 30 November 2021.

(c) 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.

| | 2020 | | 2019 | |
|----------------------------------|------------------|-------------------|------------------|-------------------|
| | Directors | Executives | Directors | Executives |
| Dividend yield (%) | - | - | - | - |
| Expected volatility (%) | 72.67 | - | 140.56 | 140.56 |
| Risk-free interest rate (%) | 0.62 | - | 2.09 | 1.95 |
| Expected life of options (years) | 3.0 | - | 3.01 | 2.97 |
| Option exercise price (\$) | 0.175 | - | 0.17 | 0.17 |
| Share price at grant date (\$) | 0.13 | - | 0.13 | 0.14 |
| Fair value at grant date (c) | 5.16 | - | 9.79 | 10.62 |

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

28. Share-based payments (Continued)

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

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.

| | Consolidated | |
|--|--------------|-----------|
| | 2020 | 2019 |
| Employee Expenses | \$ | \$ |
| Share options granted in 2019 | | |
| - equity settled | - | 882,612 |
| Share options granted in 2020 | | |
| - equity settled | 297,042 | - |
| | 297,042 | - |
| Total expense recognised as employee costs | 297,042 | 882,612 |

29. 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 | Group Exploration Manager |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report on pages 35 to 42. These transferred disclosures have been audited.

Compensation of Key Management Personnel

| | 2020 | 2019 |
|--------------------------------|-----------|-----------|
| | \$ | \$ |
| Short-term employment benefits | 823,073 | 863,892 |
| Post-employment benefits | 60,120 | 63,384 |
| Termination benefits | - | - |
| Share-based payments | 297,042 | 569,386 |
| | 1,180,235 | 1,496,662 |

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.

Loans to Key Management Personnel

There were no loans to key management personnel during the current or previous financial year.

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MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

29. Key management personnel (Continued)

Other transactions and balances with Key Management Personnel

- (a) P Poli and F Sibbel are Directors of Bulletin Resources Limited. The Consolidated Entity has an agreement with Bulletin to provide accounting, technical and administrative services on an arms-length basis. In the current year \$297,612 has been charged to Bulletin for these services (2019: \$318,153).

At 30 June 2020 there was an outstanding balance of \$12,553 (2019: \$192,087) for Bulletin.

- (b) In July 2019, Matsa announced that it entered into a Sale and Purchase Agreement (SPA) with its associate Bulletin Resources Limited ("Bulletin", "BNR"), to dispose of an 80% interest in the Lake Rebecca gold project, 150km east north-east of Kalgoorlie, Western Australia on the following basis:

1. A cash payment of \$125,000 to Matsa Resources Limited; and
2. A 1% net smelter royalty (NSR) on all minerals.

Bulletin and Matsa entered into a joint venture agreement (80% BNR; 20% MAT) whereby Bulletin will be responsible for all expenditure on the project and Matsa will be free carried up to a feasibility study. A formal royalty agreement has also been entered into.

- (c) P Poli is a director and controlling shareholder of West-Sure Group Pty Ltd which provides alarm monitoring services to the Consolidated Entity. In the current year nil has been charged to the Consolidated Entity for this service (2019: \$625).
- (d) P Poli is a director and controlling shareholder of West-Sure Group Pty Ltd which the Consolidated Entity sub-lets storage space from. In the current year \$8,195 has been charged to the Consolidated Entity for this service (2019: \$6,372).

At 30 June 2020 there was an outstanding balance of \$2,006 (2019: nil) payable to West-Sure.

- (e) P Poli is a director and controlling shareholder of WA Fleet Systems Pty Ltd which provided the Consolidated Entity with hire car services from time to time. In the current year \$22,723 has been charged to the Consolidated Entity for this service (2019: \$600).

At 30 June 2020 there was an outstanding balance of \$5,500 (2019: nil) payable to WA Fleet Systems.

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 2020

30. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in Note 24.

Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report and Note 29.

31. Remuneration of auditors

The auditor of Matsa Resources Limited is Nexia Perth Audit Services Pty Ltd (Nexia Perth).

| | Consolidated | |
|---|---------------|---------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Amounts received or due and receivable by Nexia Perth Audit Services Pty Ltd for an audit or review of the entity and any other entity in the consolidated group. | 60,500 | 64,000 |
| Amounts received or due and receivable by related practices of Nexia Perth Pty Ltd for: | | |
| - tax compliance | 6,000 | 6,000 |
| | <u>66,500</u> | <u>70,000</u> |

32. Events Subsequent to Balance Date

On 3 September 2020, Matsa announced that that it had raised \$6.6 million via way of a placement of 44 million ordinary fully paid shares at \$0.15 each with one free attaching option for every share issued with an exercise price of \$0.30 each and expiring two years from the time of issue.

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the possible impact, positive or negative, after the reporting date. Outcomes can change rapidly and is dependent on measures imposed by the Australian Government and other countries, such as social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above, there has been no matter or circumstance that has arisen that has significantly affected, or may significantly affect:

- the group's operations in future financial years, or
- the results of those operations in future financial years, or
- the group's state of affairs in future financial years.

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 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 2020 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b);
 - (c) the remuneration disclosures that are contained in page 35 to 42 of the Remuneration Report in the Directors' Report comply with the Corporations Act and Australian Accounting Standard AASB 124 Related Party Disclosures and
 - (d) 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 2020.

Signed in accordance with a resolution of the directors;



Paul Poli
Executive Chairman

Perth, 30 September 2020

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Independent Auditor's Report to the Members of Matsa Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Matsa Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial report" section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Funding and Liquidity</p> <p><i>Refer to Note 2ae (Financial Position)</i></p> <p>Matsa Resources Limited and its subsidiaries are gold and base metals exploration companies focusing on opportunities in Western Australia and Thailand.</p> <p>The exploration and development activities of the Group have not yet advanced to a stage where it is able to generate sufficient revenue to fund its operational costs, accordingly the Group is reliant on funding from external sources such as capital raisings and borrowings to support its operations. We focussed on whether the Group had sufficient cash resources and access to funding to allow the Group to continue as a going concern.</p> <p>The adequacy of funding and liquidity as well as the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the future development of the Group's projects and the level of funding required to support that development.</p> | <p>We evaluated the Group's funding and liquidity position at 30 June 2020 and its ability to fund its existing liabilities and future expenditure for a minimum of 12 months from the date of signing the financial report. In doing so, we performed the following:</p> <ul style="list-style-type: none"> ▪ obtained management's cash flow forecast for the 15 months for the period July 2020 to September 2021 and checked the mathematical accuracy of the forecast; ▪ assessed the reliability and completeness of management's assumptions by comparing the forecast cash flows to those of the current year and as well as our understanding of future events and conditions; and ▪ considered events subsequent to year end to determine whether any additional facts or information have become available since the date on which management made its assessment. |

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the consolidated financial report that gives a true and fair view in accordance with 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 preparing the consolidated financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 42 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Matsa Resources Limited., for the year ended 30 June 2020, complies with Section 300A of the *Corporations Act 2001*.

Responsibilities

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.

NPAS

Nexia Perth Audit Services Pty Ltd



PTC Kloppe
Director

Perth
30 September 2020

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 18 September 2020

| <u>Category (size of holding)</u> | <u>Number of Shareholders</u> |
|-----------------------------------|-------------------------------|
| 1 – 1,000 | 94 |
| 1,001 – 5,000 | 202 |
| 5,001 – 10,000 | 252 |
| 10,001 – 100,000 | 749 |
| 100,001 – and over | 323 |
| | <u>1,620</u> |

The number of shareholdings held in less than marketable parcels is 161.

Twenty Largest Shareholders as at 18 September 2020

| <u>Name</u> | <u>No.</u> | <u>%</u> |
|---|--------------------|--------------|
| JP Morgan Nominees Australia Pty Limited | 37,609,518 | 13.87 |
| BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP> | 32,301,620 | 11.91 |
| Sparta AG | 19,120,656 | 7.05 |
| HF Resources Pty Ltd | 12,947,000 | 4.78 |
| Mr Paul Poli <P Poli Family A/C> | 9,369,000 | 3.46 |
| RASL AU LLC | 4,620,000 | 1.70 |
| HSBC Custody Nominees (Australia) Limited | 4,023,778 | 1.48 |
| CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C> | 3,916,667 | 1.44 |
| Mr Paul Poli & Mrs Sonya Kathleen Poli <P Poli Super Fund A/C> | 2,586,000 | 0.95 |
| L & S Davies Pty Ltd <Davies International A/C> | 2,255,887 | 0.83 |
| Mr Oliver Nikolovski & Mrs Suzanne Karine Nikolovski <The Nikolovski S/Fund A/C> | 2,250,000 | 0.83 |
| Mr Oliver Nikolovski <The Nikolovski Family A/C> | 2,050,000 | 0.76 |
| Highlands Investments Holdings Pty Ltd | 2,000,000 | 0.74 |
| First Trustee Company (NZ) Limited <Ian Roger Moore A/C> | 1,750,000 | 0.64 |
| Mr Robert Paul Martin & Mrs Susan Pamela Martin <Nitro Super Fund A/C> | 1,675,000 | 0.62 |
| Citicorp Nominees Pty Ltd | 1,601,986 | 0.59 |
| Delphi Unternehmensberatung Aktiengesellschaft | 1,530,000 | 0.56 |
| Dinwoodie Investments Pty Ltd <Dinwoodie Investments A/C> | 1,511,008 | 0.56 |
| Mr Kimberley Alan Harris <KA & TL Harris Family Account> | 1,472,572 | 0.54 |
| Mr John Francis Young & Mr Christopher John Young & Mr Brett William Young <J F Young Super Fund A/C> | 1,389,000 | 0.51 |
| | <u>145,979,692</u> | <u>53.82</u> |

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

Substantial Shareholders

| Ordinary shareholder | Fully paid | |
|----------------------|------------|------------|
| | Number | Percentage |
| Sparta AG | 21,700,146 | 8.00% |

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 |
|-------------------|-------------------|----------------|------------------|
| 2,850,000 | 12 | \$0.17 | 30 November 2021 |
| 5,000,000 | 3 | \$0.17 | 30 November 2021 |
| 11,000,000 | 110 | \$0.25 | 31 May 2021 |
| 1,000,000 | 1 | \$0.35 | 30 November 2022 |
| 5,750,000 | 3 | \$0.175 | 30 November 2022 |

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

TABLE OF MINERAL RESOURCES AND MINERAL RESERVES AT 30 JUNE 2020

Mineral Resource Estimates – Consolidated Summary & Annual Comparison

| Project | Resource Category | Tonnes | Au (g/t) | Metal (Au oz) |
|-----------------------------|-------------------|------------------|----------|-----------------|
| 30 June 2019 | | | | |
| Fortitude | Indicated | 2,945,000 | 1.8 | 173,300 |
| | Inferred | 2,503,000 | 2.1 | 169,300 |
| Red October | Indicated | 340,000 | 4.5 | 49,000 |
| | Inferred | 106,000 | 14.7 | 50,000 |
| | | 5,894,000 | | 441,600 |
| Mining Depletion | | | | |
| Fortitude | N/A | - | - | - |
| Red October | Indicated | (16,094) | 2.3 | (1,199) |
| | Inferred | (7,146) | 5.78 | (1,327) |
| | | (23,240) | | (2,526) |
| Resource Adjustments | | | | |
| Fortitude | Indicated | - | - | - |
| | Inferred | - | - | - |
| Red October | Indicated | - | - | - |
| | Inferred | - | - | - |
| | | (182,270) | | (12,566) |
| 30 June 2020 | | | | |
| Fortitude | Indicated | 2,945,000 | 1.8 | 173,300 |
| | Inferred | 2,503,000 | 2.1 | 169,300 |
| Red October | Indicated | 323,906 | 4.6 | 47,801 |
| | Inferred | 98,854 | 15.3 | 48,673 |
| Total | | 5,870,760 | | 439,074 |

Resource Statement Notes

- The geographic region for Gold Mineral Resources is Australia.
- Figures have been rounded in compliance with the JORC Code (2012). Rounding errors may cause a column to not add up precisely. Resources exclude recoveries.

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MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

TABLE OF MINERAL RESOURCES AND MINERAL RESERVES AT 30 JUNE 2020 (continued)

Ore Reserve Estimates – Consolidated Summary & Annual Comparison

(The Ore Reserve estimates are a subset of the Mineral Resource estimates)

| Project | Reserve Category | Tonnes | Au (g/t) | Metal (Au oz) |
|----------------------------|------------------|------------------|----------|---------------|
| 30 June 2019 | | | | |
| Fortitude | Probable | - | - | - |
| | | - | - | - |
| Mining Depletion | | | | |
| | N/A | - | - | - |
| Reserve Adjustments | | | | |
| Fortitude | Probable | 1,029,000 | 1.8 | 58,100 |
| | | 1,029,000 | | 58,100 |
| 30 June 2020 | | | | |
| Fortitude | Probable | 1,029,000 | 1.8 | 58,100 |
| Total | | 1,029,000 | | 58,100 |

Reserve Statement Notes

- Figures are rounded to reflect appropriate levels of confidence. Apparent differences may occur due to rounding.
- Fortitude probable reserve determined upon results of mining studies conducted
- The geographic region for Gold Mineral Resources is Australia.

Summary of Governance Arrangements and Internal Controls

The Mineral Resource and Reserve estimates are carried out in accordance with the JORC 2012 Code, using industry standard techniques and internal guidelines for the estimation and reporting of Ore Reserves and Mineral Resources. The Mineral Resource and Reserve are estimated by suitably qualified employees of Matsa Resources Limited, and verified by external consultants (CSA Global Pty Ltd). The consultants have also carried out reviews of the quality and suitability of the data underlying the estimate.

Competent Persons Statement

Red October

The information in the report to which this statement is attached that relates to Exploration Results and Mineral Resources related to the Red October Resource Estimate is based upon information compiled by Mr Daniel Howe, a Competent Person who is a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Daniel Howe is a full-time employee of Saracen Mineral Holdings Limited. Daniel Howe has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Daniel Howe consents to the inclusion in the report of matters based on his information in the form and context in which it appears.

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MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

Fortitude

The information in this report that relates to Mineral Resources has been compiled by Matthew Cobb, who is a full-time employee of CSA Global Pty Ltd, and Richard Breyley who is a full time employee of Matsa Resources Limited. Dr Cobb is a Member of both the Australian Institute of Geoscientists and the Australian Institute of Mining and Metallurgy. Mr Breyley is a member of the Australian Institute of Mining and Metallurgy. Both Dr Cobb and Mr Breyley have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activities which they are undertaking to qualify as a Competent Persons as defined in the JORC Code (2012). Dr Cobb and Mr Breyley consent to the disclosure of this information in this report in the form and context in which it appears.

The information in this report that relates to Ore Reserve results is based on information compiled by Mr Frank Sibbel, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Sibbel is a non-executive director of Matsa Resources Limited. Mr Sibbel 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'. Mr Sibbel 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
SCHEDULE OF MINING TENEMENTS

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|----------------|-------------------------|---------------|-------------------|
| E 69/3070 | Symons Hill | Matsa Resources Limited | Live | 100% |
| E 28/2916 | Symons Hill | Matsa Resources Limited | Live | 100% |
| E 38/2945 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1752 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1770 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1796 ¹ | Lake Carey | Matsa Gold Pty Ltd | Live | 90% |
| E 39/1803 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1812 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1819 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1834 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1837 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1840 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1863 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1864 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1889 ² | Lake Carey | Matsa Gold Pty Ltd | Live | 90% |
| E 39/1957 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1958 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1980 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1981 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 39/2015 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| L 39/247 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| L 39/260 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| L 39/267 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| L 39/291 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1065 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1089 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/286 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/709 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| M 39/710 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| P 39/5293 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| P 39/5652 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| P 39/5694 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINING TENEMENTS

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|----------------|--------------------------|---------------|-------------------|
| P 39/5669 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| P 39/5670 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| P 39/5841 | Lake Carey | Matsa Gold Pty Ltd | Live | 100% |
| E 28/2600 ² | Lake Rebecca | Matsa Gold Pty Ltd | Live | 20% |
| E 28/2635 ² | Lake Rebecca | Matsa Gold Pty Ltd | Live | 20% |
| E 39/1760 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| E 39/1232 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| L 39/222 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| L 39/235 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| L 39/237 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/386 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/387 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/500 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/629 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1077 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1078 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| P 39/6116 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| P 39/6117 | Devon | Matsa Gold Pty Ltd | Live | 100% |
| E 47/3518 | Paraburdoo | Matsa Resources Limited | Live | 100% |
| E 09/2162 | Glenburg | Cundeelee Pty Ltd | Live | 100% |
| E 52/3339 | Glenburg | Cundeelee Pty Ltd | Live | 100% |
| L 39/268 | Red Dog | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1099 | Red Dog | Matsa Gold Pty Ltd | Live | 100% |
| M 39/1100 | Red Dog | Matsa Gold Pty Ltd | Live | 100% |
| M 39/38 | Red Dog | Matsa Gold Pty Ltd | Live | 100% |
| L 39/273 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/411 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/412 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/413 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/599 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/600 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/609 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/610 | Red October | Red October Gold Pty Ltd | Live | 100% |

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MATSA RESOURCES LIMITED
SCHEDULE OF MINING TENEMENTS

| Tenement Type and No. | Project | Holder | Status | Share Held |
|------------------------------|---------------------------|--------------------------------|---------------|-------------------|
| M 39/611 | Red October | Red October Gold Pty Ltd | Live | 100% |
| M 39/721 | Red October | Red October Gold Pty Ltd | Live | 100% |
| SPL 80/2558 | Siam Project ³ | Siam Copper Resources Co., Ltd | Live | 100% |

¹= 90% held by Matsa

²= 20% held by Matsa

³= Located in Thailand

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