

MATSA RESOURCES LIMITED

ABN 48 106 732 487

INTERIM FINANCIAL REPORT

31 December 2019

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MATSA RESOURCES LIMITED

CORPORATE DIRECTORY

Directors

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

Company Secretary

Andrew Chapman

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ASX Code: MAT

MATSA RESOURCES LIMITED

DIRECTORS REPORT

Your directors submit their report for the half year ended 31 December 2019.

DIRECTORS

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

Mr Paul Poli
Mr Frank Sibbel
Mr Andrew Chapman

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

OPERATING RESULTS

During the half year the Group made a loss of \$3,466,449 (2018: loss of \$289,388).

REVIEW OF OPERATIONS

Matsa is an ASX listed exploration and mining company based in Western Australia. The Corporate office is located in Perth with an office in Bangkok, Thailand.

COMPANY ACTIVITIES

LAKE CAREY GOLD PROJECT

Introduction

Matsa holds a ground position of 563km² at Lake Carey which is highly prospective for new gold discoveries. The Company is committed to becoming a mid-tier gold mining company with the commencement of underground production at the Red October gold mine and completion of a scoping study into the viability of a full scale open-pit gold mine at Fortitude (Figure 1).

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DIRECTORS REPORT

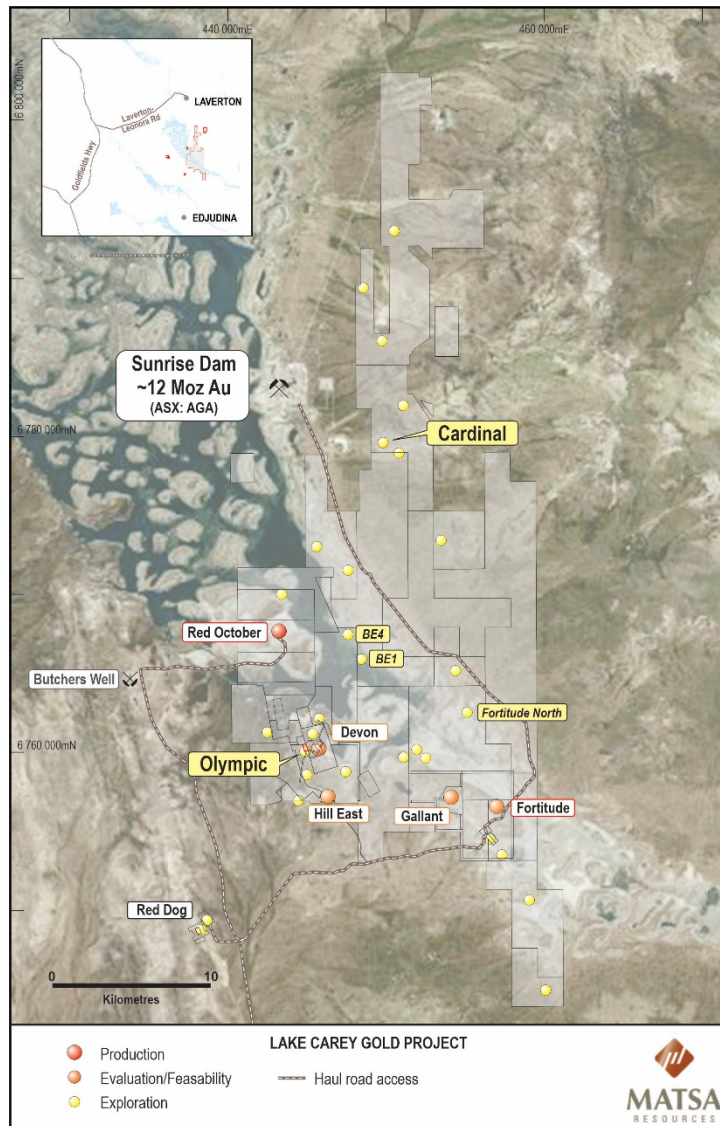


Figure 1: Lake Carey Gold Project

Activities during the period focussed on the following:

- Red October gold mine where development and production continued in conjunction with underground resource and grade control diamond drilling
- Fortitude gold mine where planning continued into the commencement of Stage 2 mining development and included geotechnical diamond drilling
- Exploration activities included near mine diamond drilling at Red October and RC drilling over three other targets including the Devon gold mine and Fortitude North target where strong potential is seen.

RED OCTOBER GOLD MINE

During the period, mining commenced at the Red October underground gold mine with mining activities focussing heavily on development with planned stoping deferred so that an increased number of faces can be opened to enable a higher rate of stoping in the near term.

A summary of the production for the period is in Table 1 below.

MATSA RESOURCES LIMITED

DIRECTORS REPORT

Production and Development Summary

With the strong drilling success in 2019 to the North of existing workings (including discovery of the Costello shoot), development of access to stoping ore was pushed forward in favour of production from higher grade stoping ore. This strong focus on development of access resulted in no stoping of ore occurring and thus less ounces being produced. The development focus was based on Matsa's view of the importance of putting access in place to enable a sustained period of ore production from stoping. Development now in place has made it possible to open multiple fronts for stoping in the short term and with a consequent improvement in efficiency. This strategy has bolstered the long-term mining plan for Red October.

Stoping commenced towards the latter part of January 2020.

Mining remained on single shift during the quarter to support Matsa's strong commitment to increased geological knowledge and understanding.

Since commencement of underground operations, Matsa has now developed the ROSZ North, Smurfette 322, Anchor 343 and HW 362 lodes (as well as several other ancillary ore targets) on 5 levels, allowing stoping to occur on all these levels in the very near term. The information gained from the development during the quarter has been critical in optimising short-term stoping tonnage in Q1 2020 but more importantly to reinforce the long-term mining plan beyond this early mining stage.

	Total YTD 6 months
Total Tonnes	15,900
Grade (g/t)	4.98
Metallurgical Recovery (%)*	85%
Production (Oz)	2,167
Average Gold Price (A\$M)	2,174
AISC (A\$ per Oz)	1,777

Table 1: Red October Production Results

**Estimate only, grade and metallurgical recovery results pending*

⁽¹⁾ Preliminary January production indicates AISC is expected to decrease as stoping of ore is continuous throughout the entire month.

Mining Activities – ROSZ Development

Development of the N-1275 and N-1290 (Figure 2) levels progressed along a high-grade shoot, which was discovered by Matsa's drilling in early 2019 within the high grade ROSZ North which was discovered during the February-March 2019 grade control drilling campaign, and is currently a high priority mining target.

The ROSZ North high-grade shoot now has strike development in place from levels N-1240 to N-1290. This has enabled Matsa to commence stope production early in the first quarter of 2020.

Stoping will commence on the N-1290 level first, and a grade control model has been created for this purpose. The N-1290 level, which is an extension of existing Saracen (SAR) development intersected the ROSZ high-grade shoot, and confirmed the tenor and strike extents of the shoot.

The high-grade shoot developed on the N-1290 level also extends up-plunge to the 1300mRL Level which presents an opportunity for further development and stoping in the ROSZ.

The results to date for the ROSZ North development are extremely encouraging for future stoping panels in the area and developing ancillary lodes to add to the mine plan.

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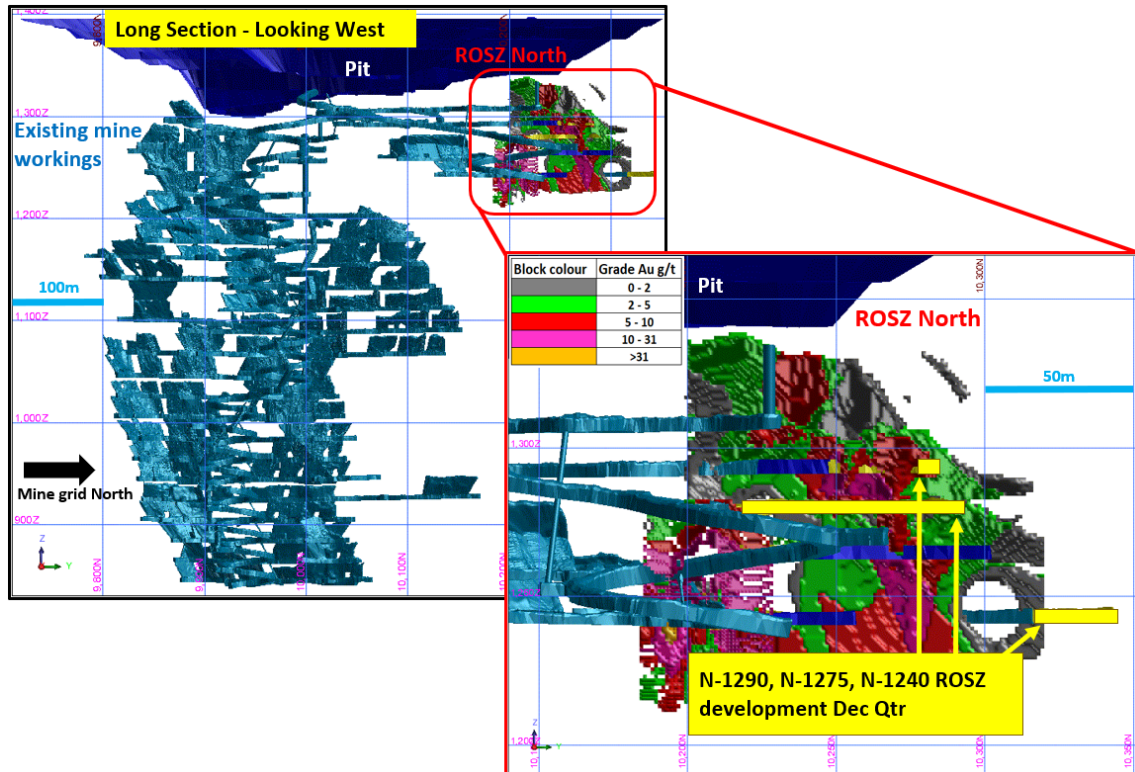


Figure 2: Long section looking West (mine grid) – ROSZ block model showing grade Au >1g/t

Red October Drilling Underground

Matsa completed 11 underground diamond drill holes in October/November 2019, for a total of 1,451 metres focussing on extensions in the main mining area (ROSZ North). Collar locations, logging and sampling procedures and assay protocols and assays have been previously announced (*MAT announcement to ASX 15th January 2020*).

Drilling has produced outstanding gold assays and confirms the high-grade potential of the Red October gold mine 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
- These new lodes will be 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 in 2020.

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) 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.

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Potential to Extend Mining Beyond Stage 1

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 the existing mine footprint. This dataset strongly supports the idea that potential exists to continue mining beyond the initial phase:

- Within the existing resource wireframes, adjacent to existing workings and further afield (Figure 3); and
- Outside the existing resource wireframes where potential is demonstrated by existing high-grade drill results (Figure 4).

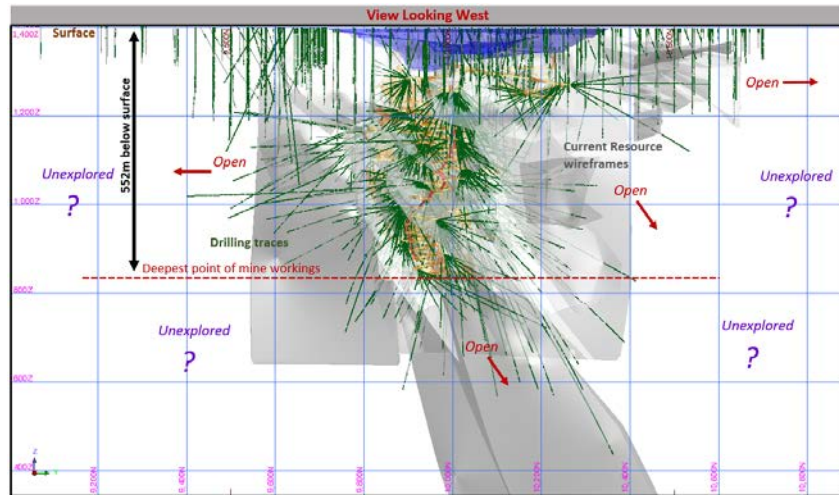


Figure 3: Red October, Longitudinal Section showing existing resource wireframes, drilling and mine workings (RO mine grid co-ordinates)

A number of new targets have already been identified for future mining as a result of studies undertaken to date. The initial mining operation represents an opportunity for Matsa to fine-tune narrow-vein mining at Red October, and gain a better understanding of geological controls on gold mineralisation.

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

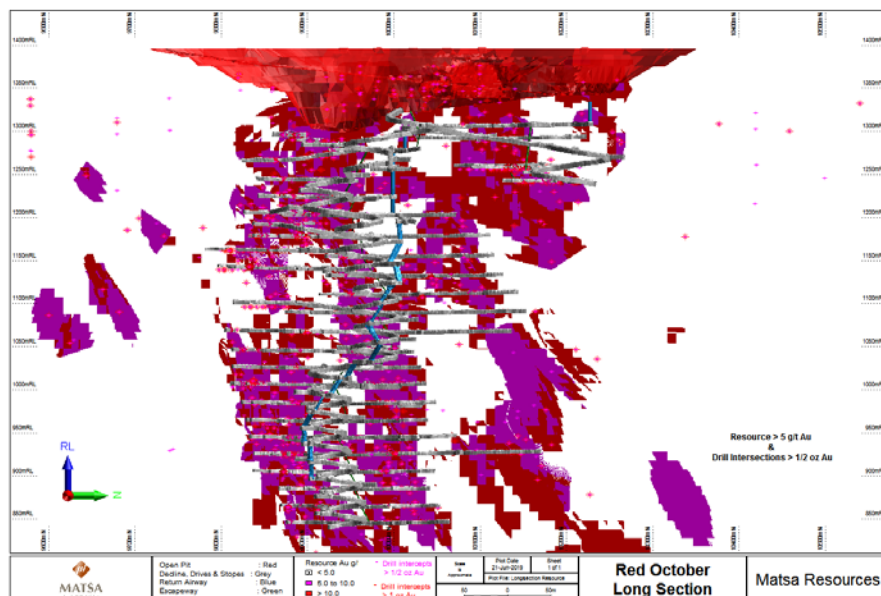


Figure 4: Red October, Longitudinal Projection with summary of high-grade gold mineralisation >5g/t Au (RO mine grid co-ordinates) (June 2016 Saracen Resource Model)

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FORTITUDE GOLD MINE STAGE 2

Activities during the period focussed on:

- 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*); and
- Key personnel appointments being made for management of the project with the new mine manager Mr Tim Wither commencing during the period.

Fortitude Stage 2 Mining Study Key Outcomes

The mining study strongly indicates potential for immediate commencement of Stage 2 mining 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.

Fortitude gold mine - Stage 2 mining, as previously announced, is a 22-month open pit project, which is expected to produce 54,000 ounces of gold. All mining permits required to commence Stage 2 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*).

Other

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

The Company is also pleased to advise that negotiations on funding and ore purchase discussions with interested parties has progressed prior to the end of December.

LAKE CAREY EXPLORATION

A major exploration programme commenced during the period with the following activities carried out:

- Diamond drilling on structural targets NW of Red October mine
- 16 RC drill holes were completed for 1924m at Cardinal/Wilga Dam, Devon and Olympic targets.

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- A total of 1275 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

Diamond Drilling - Red October Near-Mine Exploration

Diamond drilling was carried out to the NE and along strike from the mine with two 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 which is targeting strike-extensions to the high grade Red October gold lodes >400m from current underground mining development will also be equipped with fibre optic cables and provide a platform of subsurface detection of seismic signals.

Drill holes were also designed to test high priority structural targets developed from a geo-mechanical study carried out in 2018 and to be equipped with DAS fibre optic cable able to be connected to upcoming seismic experiment planned for early 2020 by Curtin university.

Drillhole ROEX048 was designed to test the Eastern Break geo-mechanical target interpreted to be at a depth of 310 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 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 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.

RC Drilling December 2019

RC drilling using a conventional truck mounted drilling rig was carried out over the Devon Mine and adjacent Olympic workings and at least one other regional exploration target at Cardinal.

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 four out of the five RC drillholes at the Devon mine returned 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 5).

Main Lode Zone Intercepts

19DVRC001 **3m @ 35.03 g/t Au** from 92m

19DVRC002 **3m @ 1.38 g/t Au** from 104m

19DVRC005 **3m @ 5.93 g/t Au** from 104m

and **3m @ 1.56 g/t Au** from 110

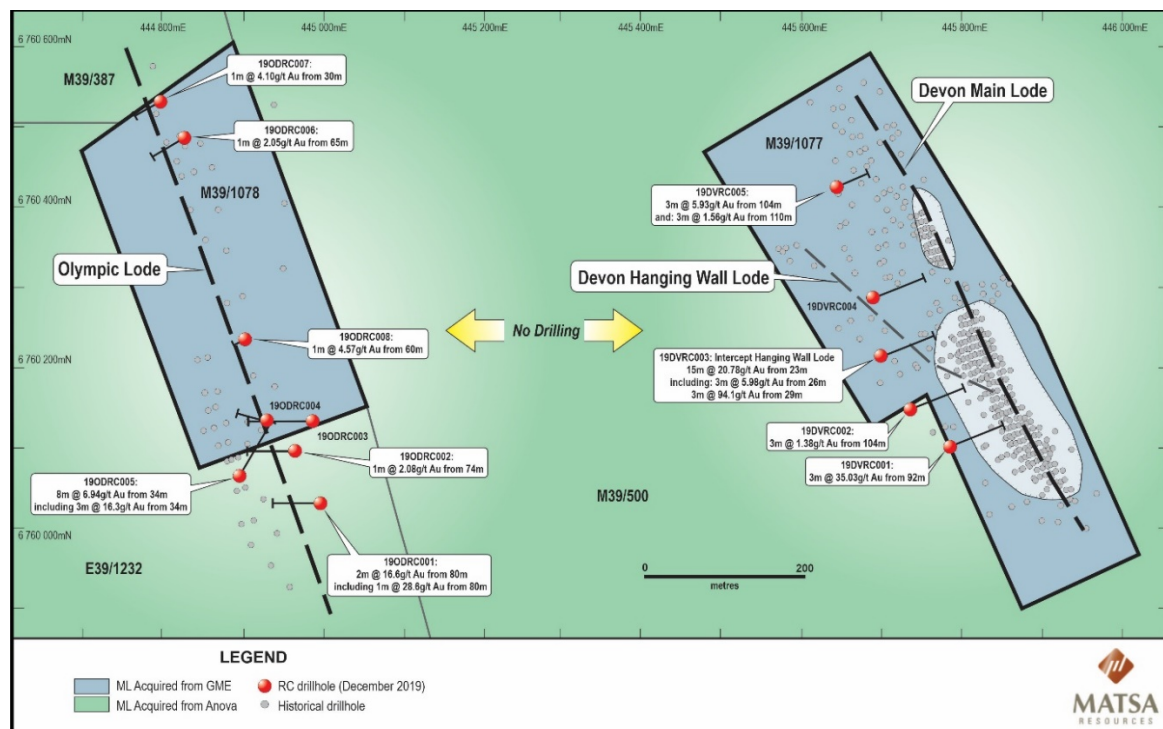
DIRECTORS REPORT

Hanging Wall Intercepts

19DVR003 **15m @ 20.78 g/t Au** from 23m
 Inc **3m @ 5.98 g/t Au** from 26m
 and **3m @ 94.1 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.



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

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 a 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.

Surface Sampling

Bottom of Hole Sampling

A total of 1,275 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. Multi-element assays and mineralogical scans can be used to more accurately discriminate 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.

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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.

SYMONS HILL (Nickel - Fraser Range)

Matsa holds the Symons Hill project (E69/3070) which is located 6kms immediately to the south of the Nova mine owned by Independence Group Limited (IGO) and is located in the Fraser Range Tectonic Zone. Regional aeromagnetic and gravity information on the Symons Hill project indicates similarities in geological setting to the Nova mine.

During the period, a new tenement, E28/2916 which covers 119 km² and is located 5 kms WNW of the Nova nickel-copper mine was acquired. Matsa now holds an impressive and strategic ground holding in the Fraser Range all of which is in close proximity to IGO's Nova nickel-copper mine.

The new tenement adds considerably to the prospectivity of Matsa's nickel-copper project which is highlighted by its proximity to Nova. Matsa remains one of only a handful of companies which hold quality and sizable tenements in the Fraser range.

CORPORATE

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 programme within the Red October underground gold mine
2. New drilling programmes 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

In late July, 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 allows the Company to focus on the Lake Carey gold project but retain a non-contributing 20% interest in an interesting gold exploration project.

During the period the Company appointed Mr Tim Wither as Mine Manager of the Fortitude open pit gold mine responsible for bringing the Fortitude Stage 2 gold mine into production and management thereafter, and Mr Don Harper was appointed as Alternate Mine Manager at the Red October underground gold mine. Subsequent to the end of the quarter, Mr Don Harper was appointed the mine manager of the Red October gold mine. Both are highly experienced and senior mining professionals.

A \$5M loan facility drawn down to \$4M is available to the Company.

Financial Review

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.

MATSA RESOURCES LIMITED

DIRECTORS REPORT

The Group has reported a working capital deficiency of \$3,043,799 (2018: \$129,934), a loss for the period of \$3,446,449 (2018: \$289,388) and a cash outflow from operating activities of \$2,373,303 (2018: \$1,669,919 inflow).

At the end of the half year, the Group had \$2,433,191 in cash and term deposit balances and investments in listed companies of \$2,030,719. The Group also had borrowings of \$4,000,000 due and payable on 31 July 2020. The Group has already had preliminary discussions and verbal agreement with the lenders that the repayment date will be extended for a further three years. Formal documentation is being prepared to reflect this. The directors also manage discretionary expenditure in line with the Group's cash flow and are confident that there are sufficient funds to meet the Group's working capital and funding requirements for a minimum of 12 months from the date of this report.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds and extension of borrowings. In the event that the Group is not successful in raising funds from the issue of new equity or extension of borrowings, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

SUBSEQUENT EVENTS

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 will be used for increasing efficiencies in mining operations at the Red October underground mine and further exploration at Red October.

Other than the above, no matter or circumstance that hasn't already been discussed above has arisen subsequent to the balance date, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

AUDITOR'S DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 13 and forms part of the directors' report for the half year ended 31 December 2019.

This report is signed in accordance with a resolution of the Board of Directors.



Paul Poli
Executive Chairman

Dated this 13th day of March 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 review of the interim financial report for the period ended 31 December 2019 there have been:

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



Nexia Perth Audit Services Pty Ltd



PTC Kloppe
Director

Perth
13 March 2020

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 31 December 2019

	Note	31 Dec 19 \$	31 Dec 18 \$
Revenue from customers		3,385,691	11,563,369
Mining operations		(4,293,499)	(5,953,789)
Amortisation and depreciation		(322,440)	(532,569)
		(1,230,248)	5,077,011
Net gain on sale of investments		57,563	-
Net gain/(loss) on sale of tenements		(8,206)	160,985
Net gain/(loss) on sale of fixed assets		2,141	61,483
Other income	4	186,884	102,665
Other expenses			
Depreciation expense		(67,485)	(192,264)
Salaries and employment benefits expenses		(632,419)	(574,241)
Exploration expenditure written off	11	(248)	(1,545)
Impairment of exploration expenditure	11	(203,373)	(654,669)
Other administration expenses		(885,276)	(1,567,965)
Share based payments expense	13, 14	(297,042)	(882,612)
Unrealised gain/(loss) on financial assets at fair value		51,740	(1,216,353)
Results from operating activities		(3,025,969)	312,495
Finance income		7,716	17,129
Finance costs		(299,329)	(246,525)
Net finance cost		(291,613)	(229,396)
Share of loss of equity-accounted investee, net of tax		(128,867)	(372,487)
Loss before income tax expense		(3,446,449)	(289,388)
Income tax expense		-	-
Net loss for the period attributable to equity holders of the company		(3,446,449)	(289,388)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive loss for the period attributable to equity holders of the company		(3,446,449)	(289,388)
Loss for the period is attributable to:			
Owners of the parent		(3,446,449)	(289,388)
Non-controlling interest		-	-
		(3,446,449)	(289,388)
Total comprehensive loss for the period is attributable to:			
Owners of the parent		(3,446,449)	(289,388)
Non-controlling interest		-	-
		(3,446,449)	(289,388)
Earnings per share:			
Basic/diluted profit/(loss) per share attributable to ordinary equity holders of the parent (cents per share)		(1.75)	(0.16)

The notes on pages 18 to 28 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

		31 Dec 19 \$	30 June 19 \$
Current Assets			
Cash and cash equivalents		2,433,191	901,148
Trade and other receivables	5	558,403	317,288
Other assets		73,237	67,825
Inventories		487,572	106,923
Total Current Assets		3,552,403	1,393,184
Non-Current Assets			
Other assets		337,886	327,662
Financial assets	7	830,719	1,110,206
Investments in associates		226,749	355,617
Exploration and evaluation assets	11	17,728,111	16,355,239
Property, plant and equipment	8	1,544,896	1,785,389
Mine properties and development	10	544,615	649,941
Right-of-use assets	9	262,973	-
Total Non-Current Assets		21,475,949	20,584,054
Total Assets		25,028,352	21,977,238
Current Liabilities			
Trade and other payables		2,165,204	1,715,618
Borrowings	12	3,978,993	102,273
Other payables		45,203	-
Lease liabilities	9	146,573	-
Provisions		260,229	258,002
Total Current Liabilities		6,596,202	2,075,893
Non-Current Liabilities			
Borrowings	12	-	4,058,952
Lease liabilities	9	83,937	-
Provisions		2,638,022	2,597,112
Total Non-Current Liabilities		2,721,959	6,656,064
Total Liabilities		9,318,161	8,731,957
Net Assets		15,710,191	13,245,281
Equity			
Issued capital	13	49,862,044	44,292,467
Reserves		9,738,744	9,396,962
Accumulated losses		(43,968,044)	(40,521,595)
Total equity attributable to equity holders of the Company		15,632,744	13,167,834
Non-controlling Interests		77,447	77,447
Total Equity		15,710,191	13,245,281

The notes on pages 18 to 28 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2019

	Issued Capital Ordinary \$	Accumulated Losses \$	Equity Settled Benefits Reserve \$	Other Reserves \$	Total \$	Non- controlling interest \$	Total \$
Balance at 1 July 2019	44,292,467	(40,521,595)	9,410,806	(13,844)	13,167,834	77,447	13,245,281
Comprehensive loss for the period	-	(3,446,449)	-	-	(3,446,449)	-	(3,446,449)
Total comprehensive loss for the period	-	(3,446,449)	-	-	(3,446,449)	-	(3,446,449)
<i>Transactions with owners in their capacity as owners</i>							
Issue of share capital	6,000,000	-	-	-	6,000,000	-	6,000,000
Share issue costs	(430,423)	-	-	-	(430,423)	-	(430,423)
Share based payment	-	-	341,782	-	341,782	-	341,782
Balance at 31 December 2019	49,862,044	43,968,044	9,752,588	(13,844)	15,632,744	77,447	15,710,191
Balance at 1 July 2018	44,292,467	(37,515,368)	8,528,195	1,927,447	17,232,741	77,289	17,310,030
Adjustments on the initial application of AASB 9	-	1,941,291	-	(1,941,291)	-	-	-
Restated balance as at 1 July 2018	44,292,467	(35,574,077)	8,528,195	(13,844)	17,232,741	77,289	17,310,030
Comprehensive loss for the period	-	(289,388)	-	-	(289,388)	-	(289,388)
Total comprehensive loss for the period	-	(289,388)	-	-	(289,388)	-	(289,388)
<i>Transactions with owners in their capacity as owners</i>							
Share Issue Costs	-	-	-	-	-	-	-
Share based payment	-	-	882,612	-	882,612	-	882,612
Balance at 31 December 2018	44,292,467	(35,863,465)	9,410,807	(13,844)	17,825,965	77,289	17,903,254

The notes on pages 18 to 28 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 December 2019

	2019 \$	2018 \$
Cash flows from operating activities		
Receipts from customers	2,920,727	7,064,388
Other income	123,577	109,225
Payments to suppliers and employees	(5,425,323)	(5,525,634)
Interest received	7,716	21,940
Net cash provided by/(used in) operating activities	<u>(2,373,303)</u>	<u>1,669,919</u>
Cash flows from investing activities		
Payments for financial assets	-	(225,000)
Proceeds from sale of financial assets	414,919	-
Purchase of plant and equipment	(151,965)	(796,545)
Exploration and evaluation expenditure	(1,571,723)	(2,102,879)
Refund of/(payments for) security deposits	(15,635)	(40,061)
Proceeds on sale of tenements	125,000	-
Payments for tenements	(177,166)	-
Payments for mine properties	-	(463,722)
Proceeds on sale of plant and equipment	-	80,000
Net cash used in investing activities	<u>(1,376,570)</u>	<u>(3,548,207)</u>
Cash flows from financing activities		
Proceeds from issue of shares	6,000,000	-
Costs of issue	(385,682)	-
Borrowings	-	-
Interest paid	(240,415)	(242,361)
Repayment of lease liabilities	(91,987)	(42,989)
Net cash provided by/(used in) financing activities	<u>5,281,916</u>	<u>(285,350)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,532,043</u>	<u>(2,163,638)</u>
Cash and cash equivalents at beginning of the period	<u>901,148</u>	<u>3,791,684</u>
Cash and cash equivalents at end of the period	<u><u>2,433,191</u></u>	<u><u>1,628,046</u></u>

The notes on pages 18 to 28 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

1. CORPORATE INFORMATION

The financial report of Matsa Resources Limited for the half-year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 13 March 2020.

Matsa Resources Limited is a for profit company incorporated in Australia and limited by shares, which 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 address of the registered office is Suite 11, 139 Newcastle Street Perth WA 6000.

2. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation of the half-year financial report

The half year financial report as at and for the six months ended is prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting, applicable accounting standards and other mandatory professional reporting requirements.

The condensed consolidated interim financial report does not include all notes of the type normally included within the consolidated annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Consolidated Entity as the consolidated annual financial report.

It is recommended that the condensed consolidated interim financial report be read in conjunction with the consolidated annual financial report of Matsa Resources Limited for the year ended 30 June 2019 and considered together with any public announcements made by Matsa Resources Limited and its controlled entities during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's annual financial report for the financial year ended 30 June 2019 except for the following:

The Group applied AASB 16 Leases for the first time from 1 July 2019. The nature and effect of the adoption of this new standard is described below. Several other new and amended Accounting Standards and Interpretations applied for the first time from 1 July 2019 but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed.

AASB 16 Leases

Change in accounting policy

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.

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 Condensed 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

2. SUMMARY OF ACCOUNTING POLICIES (cont.)

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.

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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

2. SUMMARY OF ACCOUNTING POLICIES (cont.)

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 30 June 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 financing activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of \$122,118 and lease liabilities of \$122,118 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	122,118

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 interim financial statements apart from the reclassification of right-of-use assets from property, plant and equipment to right-of-use assets.

(b) Basis of Consolidation

The condensed consolidated interim financial statements comprise the financial statements of Matsa Resources Limited and its controlled entities ('the Consolidated Entity').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

2. SUMMARY OF ACCOUNTING POLICIES (cont.)

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

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

Non-controlling interests not held by the Consolidated Entity are allocated their share of net profit after tax in the consolidated statement of profit or loss and other comprehensive income and are presented within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

(c) 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 working capital deficiency of \$3,043,799 (2018: \$129,934), a loss for the period of \$3,446,449 (2018: \$289,388) and a cash outflow from operating activities of \$2,373,303 (2018: \$1,669,919 inflow).

At the end of the half year, the Group had \$2,433,191 in cash and term deposit balances and investments in listed companies of \$2,030,719. The Group also had borrowings of \$4,000,000 due and payable on 31 July 2020. The Group has already had preliminary discussions and verbal agreement with the lenders that the repayment date will be extended for a further three years. Formal documentation is being prepared to reflect this. The directors also manage discretionary expenditure in line with the Group's cash flow and are confident that there are sufficient funds to meet the Group's working capital and funding requirements for a minimum of 12 months from the date of this report.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds and extension of borrowings. In the event that the Group is not successful in raising funds from the issue of new equity or extension of borrowings, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

3. SEGMENT INFORMATION

Identification of reportable segment

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision 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. For financial reporting purposes, the Australian and the Thai segments are presented separately.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2019

3. SEGMENT INFORMATION (continued)

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Information about reportable segments

The following table presents revenue and profit/(loss) information regarding the Consolidated Entity's operating segments for the half-years ended 31 December 2019 and 31 December 2018.

Half-year ended 31 December 2019	Reportable Segments		Total
	Australia	Thailand	
	\$	\$	\$
External revenues			
- Revenue from customers	3,385,691	-	3,385,691
- Other income	184,069	12,672	196,741
Net gain on sale of investments	49,357	-	49,357
Segment revenue	3,619,117	12,672	3,631,789
Segment profit/(loss) before tax	(3,159,954)	(306,495)	(3,446,449)
Half-year ended 31 December 2018			
External revenues			
- Revenue from customers	11,563,369	-	11,563,369
- Other income	169,346	11,931	181,277
Net gain on sale of investments	160,985	-	160,985
Segment revenue	11,893,700	11,931	11,905,631
Segment profit/(loss) before tax	601,756	(891,144)	(289,388)
Segment assets			
At 31 December 2019	24,051,827	986,143	25,028,352
Segment assets			
At 30 June 2019	20,903,675	1,073,563	21,977,238
Segment liabilities			
At 31 December 2019	9,341,678	(23,517)	9,318,161
Segment liabilities			
At 30 June 2019	8,759,905	(27,948)	8,731,957

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

4. OTHER INCOME

	31 Dec 19 \$	31 Dec 18 \$
Foreign currency exchange gain	14,046	-
Other income	186,884	102,665
	<u>200,930</u>	<u>102,665</u>

5. TRADE AND OTHER RECEIVABLES

	31 Dec 19 \$	30 Jun 19 \$
Trade debtors	216,349	192,087
Other receivables	342,054	125,201
	<u>558,403</u>	<u>317,288</u>

6. COMMITMENTS

Exploration and Expenditure Commitments

In order to maintain the mineral tenements in which the Consolidated Entity 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 requirements for the next year is \$2,040,318 (30 June 2019: \$2,176,578). These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

7. FINANCIAL ASSETS

- (i) The Company holds shares in Panoramic Resources Limited, which is involved in the mining and exploration of base metals in Australia. Panoramic is listed on the Australian Securities Exchange.

At the end of the period the fair value of the investment was \$771,750 (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 (AWV), which is involved in exploration and development of gold in Western. AWV is listed on the Australian Securities Exchange.

At the end of the period the Company's investment was \$58,950 (30 June 2019: \$58,950) which is based on AWV's quoted share price at 31 December 2019.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2019 the Group acquired items of property, plant and equipment with a cost of \$223,525 (2018: \$1,061,547).

During the six months ended 31 December 2019 the Group disposed of items of property, plant and equipment with a written down value of \$Nil (2018: \$18,517).

9. 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 2018 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.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2019

9. RIGHT-OF-USE-ASSETS & LEASE LIABILITIES (cont.)

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

Carrying Amount

	Equipment	Premises	Motor	Total
	\$	\$	Vehicles	\$
	\$	\$	\$	\$
Cost	36,772	122,118	230,309	389,199
Accumulated depreciation	(29,624)	(38,564)	(58,038)	(126,226)
As at 31 December 2019	7,148	83,554	172,271	262,973

Reconciliation

	Equipment	Premises	Motor	Total
	\$	\$	Vehicles	\$
	\$	\$	\$	\$
As at 1 July 2019	13,321	122,118	204,738	340,177
Additions	-	-	-	-
Depreciation expense	(6,173)	(38,564)	(32,467)	(77,204)
As at 31 December 2019	7,148	83,554	172,271	262,973

LEASE LIABILITIES

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

Carrying Value

	Equipment	Premises	Motor	Total
	\$	\$	Vehicles	\$
	\$	\$	\$	\$
Current liabilities	7,458	77,494	61,621	146,573
Non-current liabilities	-	6,328	77,609	83,937
As at 31 December 2019	7,458	83,822	139,230	230,510

Movement for the period

	Equipment	Premises	Motor	Total
	\$	\$	Vehicles	\$
	\$	\$	\$	\$
Recognised on 1 July 2019	17,765	122,118	182,614	322,497
New leases entered	-	-	-	-
Principal repayments	(10,307)	(38,296)	(43,384)	(91,987)
- Repayments	(10,798)	(42,454)	(49,012)	(102,264)
- Interest	491	4,158	5,628	10,277
Leases terminated	-	-	-	-
As at 31 December 2019	7,458	83,822	139,230	230,510

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2019

10. MINE PROPERTIES AND DEVELOPMENT

	31 Dec 19 \$	30 Jun 19 \$
Mine properties		
Balance at beginning of year	649,941	473,973
Transferred from/(to) exploration and evaluation assets	-	275,968
Additions	-	-
Depreciation/amortisation expense for the period	(105,326)	(100,000)
Balance at end of year	<u>544,615</u>	<u>649,941</u>
Mine capital development		
Balance at beginning of year	-	-
Additions	-	532,369
Amortisation expense for the period	-	(532,369)
Balance at end of year	<u>-</u>	<u>-</u>
Total mine properties and development	<u>544,615</u>	<u>649,941</u>

11. EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 19 \$	30 Jun 19 \$
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase	<u>17,728,111</u>	<u>16,355,239</u>

Movements in carrying amounts

Balance at beginning of period	16,355,239	14,874,547
Acquisition of tenements	177,166	823,910
Disposal of tenements (i)	(133,306)	(499,015)
Exploration and evaluation incurred	1,532,633	2,955,816
Expenditure written off/provided for	(203,621)	(991,482)
Transferred from/(to) mine properties and development	-	(808,537)
Balance at end of period	<u>17,728,111</u>	<u>16,355,239</u>

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the continuance of the Group's rights to tenure of the interest, the results of future exploration, and the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

- (i) During the period the Group sold an 80% interest in its Lake Rebecca gold project to Bulletin Resources Limited. The consideration for the disposal of the interest was \$125,000 in cash and a 1% Net Smelter Royalty ("NSR") to Matsa on all minerals recovered and produced from the Lake Rebecca gold project.
- (ii) In the prior period the Group sold its Killaloe Project to Lontown Resources Limited. The consideration for the disposal of the tenements was:
 1. The issue of 20 million fully paid ordinary shares in Lontown to Matsa in two tranches; and
 2. The grant of a 1% NSR to Matsa on all minerals recovered and produced from the Killaloe Project.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2019

12. BORROWINGS

	31 Dec 19 \$	30 Jun 19 \$
Current		
Secured liabilities		
Loan (i)	3,978,993	-
Finance lease liabilities (ii)	-	102,273
	3,978,993	102,273
Non Current		
Secured liabilities		
Loan (i)	-	3,960,846
Finance lease liabilities (ii)	-	98,106
	-	4,058,952

- (i) 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 this basis the loan has been disclosed as non-current.

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 2020
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 period the carrying value of the loan was \$3,978,993.

For the six months ended 31 December 2019, the Group has recognised \$18,147 of the above share based payment expense as an interest charge in the income statement (2018: \$30,942).

- (ii) Due to the introduction of AASB 16 Leases all finance lease liabilities are now disclosed in Note 9.

13. ISSUED CAPITAL

	31 Dec 19 \$	30 Jun 19 \$
216,917,368 (30 June 2019: 176,917,368) ordinary shares	49,862,044	44,292,467
Movement in ordinary shares on issue during the period	Number of shares on issue	\$
Opening balance at 1 July 2019	176,917,368	44,292,467
Issued capital	40,000,000	6,000,000
Share issue costs	-	(430,423)
	216,917,368	49,862,044

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2019

13. ISSUED CAPITAL (cont.)

Issue of options during the period	Number of options	\$
Opening balance at 1 July 2019	22,025,025	9,410,806
Unlisted options issued to directors	5,750,000	297,042
Options expired during the period	(13,425,025)	-
Options issued as part of a placement	10,000,000	-
Options issued forming part of the placement fee	2,000,000	44,740
Options exercised during the period	-	-
	26,350,000	9,752,588

14. SHARE BASED PAYMENTS

During the six months ended 31 December 2019 the following options were issued:

1. 5,750,000 share options were issued to directors. The options vest immediately at the date of grant. The contractual life of each option is three years and there is no cash settlement of the options.
2. 10,000,000 share options were issued to parties who participated in the share placement conducted on a basis of 1 option for every 4 shares taken up in the placement. The contractual life of each option is 18 months and there is no cash settlement of the options.
3. 1,000,000 share options were issued to Taylor Collison Limited as part of their fee for acting as Lead Managers to the share placement. The contractual life of each option is 18 months and there is no cash settlement of the options.
4. 1,000,000 share options were issued to Taylor Collison Limited as part of their fee for acting as Lead Managers to the share placement. The contractual life of each option is 3 years and there is no cash settlement of the options.

The options vest immediately at the date of grant.

The fair value of the options granted is estimated at the date of grant using a Black Scholes Option Valuation Model, taking into account the terms and conditions upon which the options were granted.

The fair value of the options granted during the six months ended 31 December 2019 was estimated at the date of grant using the following assumptions:

Grant Date	28 November 2019	28 November 2019	28 November 2019
Number of Share Options	5,750,000	1,000,000	1,000,000
Dividend Yield (%)	Nil	Nil	Nil
Expected Volatility (%)	72.67	62.71	72.67
Risk-free interest rate (%)	0.62	0.66	0.62
Expected Life (years)	3.0	1.5	3.0
Exercise Price (cents)	17.5 cents	25 cents	35 cents
Fair Value per Option (cents)	5.16	1.48	2.99
Total Value of Options (\$)	297,042	14,797	29,943

For the six months ended 31 December 2019, the Group has recognised \$341,782 of share based payment expense in the income statement (2018: \$882,612).

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2019

15. RELATED PARTIES

Please refer to the above in note 14 for share options issued to directors. Arrangements with related parties continue to be in place. For details on these arrangements refer to the 30 June 2019 consolidated annual financial report.

16. SUBSEQUENT EVENTS

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 will be used for increasing efficiencies in mining operations at the Red October underground mine and further exploration at Red October.

No matter or circumstance has arisen subsequent to the balance date, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

17. CONTINGENT LIABILITIES

In the opinion of the directors, there are no further contingent assets or liabilities as at 31 December 2019 and no changes in the interval between 31 December 2019 and the date of this report.

MATSA RESOURCES LIMITED

DIRECTORS DECLARATION

In accordance with a resolution of the directors of Matsa Resources Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the Consolidated Entity; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Paul Poli
Director

Dated this 13th day of March 2020

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

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Matsa Resources Limited and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the period ended on that date, other selected explanatory notes and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year end or from time to time during the period.

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the period ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the interim financial report, which indicates that the Group incurred a net loss of \$3,446,449 (2018: \$289,388) during the period ended 31 December 2019 and, as of that date, the Company's current liabilities exceeded its current assets by \$3,043,799 (2018: \$129,934). As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matsa Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Matsa Resources Limited, would be in the same terms if given to the directors as at the time of this Review Report.



Nexia Perth Audit Services Pty Ltd



PTC Kloppe

Director

Perth

13 March 2020