

MATSA RESOURCES LIMITED

ABN 48 106 732 487

INTERIM FINANCIAL REPORT

31 December 2015

CONTENTS

	Page No
Company Directory	1
Directors' Report	2
Auditor's Independence Declaration	12
Consolidated Statement of Profit or Loss and Other Comprehensive Income	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Changes in Equity	15
Consolidated Statement of Cash Flows	16
Notes to the Consolidated Financial Statements	17
Directors' Declaration	23
Independent Auditor's Review Report	24

MATSA RESOURCES LIMITED

COMPANY DIRECTORY

Directors

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

Company Secretary

Andrew Chapman

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MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2015

DIRECTORS

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

Mr Paul Poli
Mr Frank Sibbel
Mr Andrew Chapman

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

OPERATING RESULTS

During the half year the Group made a profit of \$636,800 (2014: loss of \$1,438,636).

REVIEW OF OPERATIONS

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

Symons Hill

E69/3070 of 96km² is located within the Fraser Range Tectonic zone, 6kms SSW of Independence Group Ltd's (ASX:IGO) Nova nickel mine.

High Power Fixed Loop EM Survey Continues

The regional, high powered (150-200A) EM survey commenced in December 2014 was virtually complete at the end of the period with only one loop in the SW corner of the project remaining to be surveyed (Figure 1). The survey has been carried out as part of a research and development project, designed to develop and improve state of the art EM equipment to explore for massive sulphide deposits of Nova-Bollinger type, to a depth of >700m below surface.

During the period a moderate strength bedrock conductor C11 was detected, which is located adjacent to bedrock Ni anomaly SHG10 in the SW part of the project (Figure 1).

Preliminary modelling indicates the newly discovered conductor C11 to have low-moderate conductance and to be a sub-vertical to steep E/NE dipping body. Extents of C11 are interpreted to be 500m x 500m at a depth of ~150-200m to the top of the conductor.

Conductors C11 and VA15 were prioritised for diamond drilling. Further moving loop EM (MLEM) surveys were carried out over 4 conductive targets where HPFLEM results are not conclusive as to whether they are bedrock conductors. Three of these targets, (CT93, CT47 and CT54) were previous discoveries. MLEM surveys can potentially resolve whether these conductive targets are the product of "current channelling" in the conductive near – surface environment or whether they are genuine bedrock conductors with potential for Nova-Bollinger style Ni-Cu mineralisation.

Matsa now has a total of 2 untested conductors (C11 & VA15) and 3 untested conductive targets at Symons Hill, (CT47, CT54 and CT93) (Figure 1).

DIRECTORS' REPORT

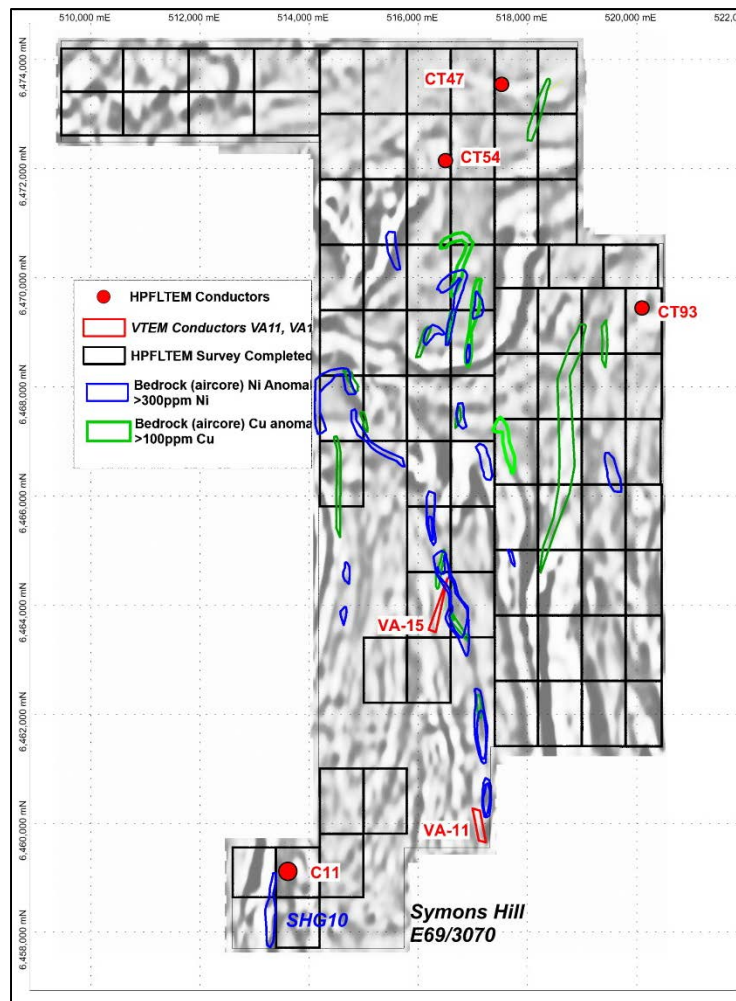


Figure 1: Symons Hill, Location of completed HPFLEM, high priority conductive targets and bedrock geochemical anomalies

Diamond drilling commenced to test interpreted bedrock conductors VA15 and C11 as described above. These are in addition to 3 remaining EM conductor targets, CT47, CT54 and CT93 as shown in Figure 1. Further moving loop EM (MLTEM) surveys are planned over the conductive targets in order to obtain better resolution and to determine whether these are bedrock conductors, or features produced by current channelling in weathered rocks in the near surface environment. Additional MLTEM will also serve to define interpreted bedrock conductors for drill testing as possible Nova Bollinger style massive Ni-Cu sulphides.

Two diamond drillholes were commenced with drillhole 15SHDD09 on target C11 which was stopped at 399.3m because of poor ground conditions and drillhole 16SHDD10 on target VA15 which at the time of writing, was in progress at a depth of 186m (Table 1).

Downhole EM surveys will be carried out on each hole completed in order to confirm any in-hole conductors and to detect off-hole conductors.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Target	Drillhole	East (m)	North (m)	Dip (o)	Azimuth (o)	Depth (m)	Remarks
C11	15SHDD09	513639	6459073	-60	270	399.3	Stopped due to ground conditions
VA15a	16SHDD10	516875	6464450	-70	240	186	In Progress, planned depth 600m

Table 1: Symons Hill Diamond Drilling Summary

Diamond Drillhole 15SHDD09 (Target C11)

The drill target C11 is a moderate strength (~250-500S) bedrock conductor located under anomalous bedrock Ni values >300ppm Ni in weathered bedrock with nickel values of up to 0.2% Ni in an RC drillhole which intersected mafic/ultramafic gabbro (Target SHG10).

Diamond drilling encountered mostly mafic granulites where coarse primary gabbro textures have mostly been overprinted by a pervasive medium grained weakly banded metamorphic fabric. Importantly, in places, the primary mafic gabbro textures can be seen including olivine bearing sections (e.g. 225m to 233m downhole) and the mafic granulites are interpreted to be similar to the host rocks reported from Nova. The drillhole was stopped at 399.3m because of highly unfavourable ground conditions. The hole has been cased to the bottom with 50mm PVC and it is planned to carry out a downhole EM survey to refine the location of the C11 conductor before designing a second drillhole to test this target (Figure 2).

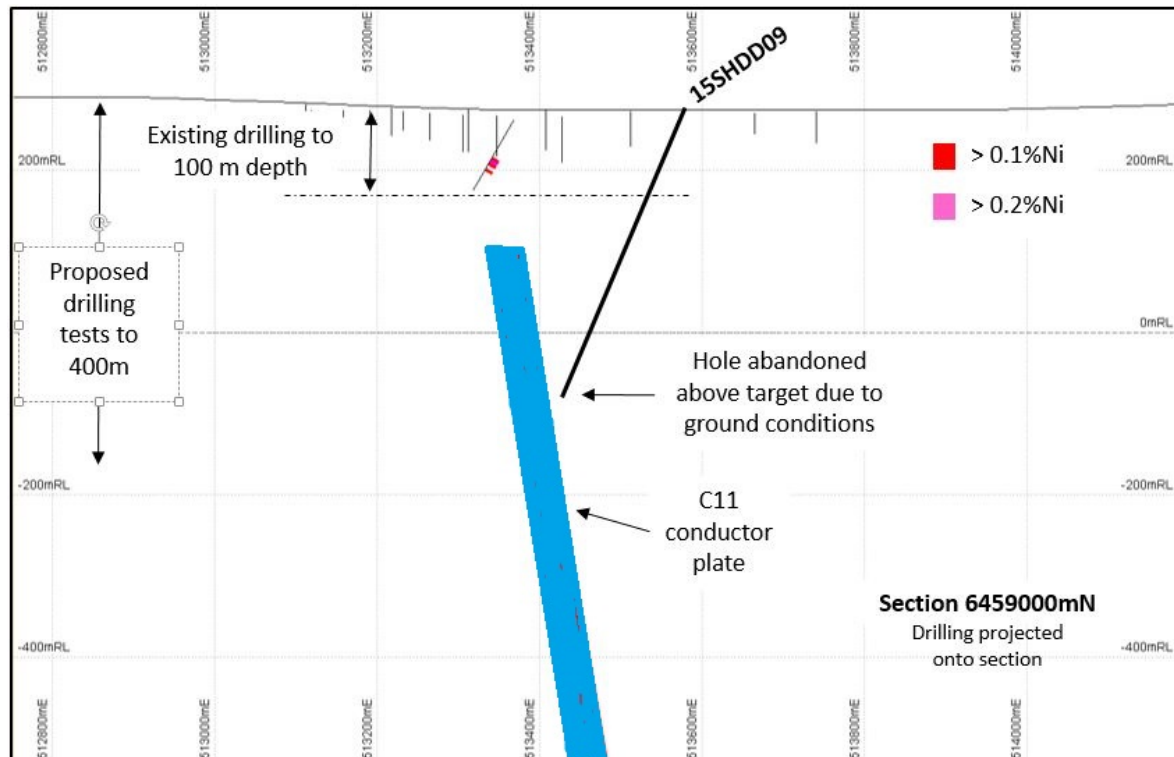


Figure 2: Conductor C11, Interpretive cross section showing planned diamond drillhole trace

DIRECTORS' REPORT

Diamond Drillhole 16SHDD10 (Target VA15)

The more recent HPFLEM survey carried out over the VA15 VTEM target was able to better define the target for drilling than earlier EM surveys in 2012 and 2013. Results of the new HPFLEM survey were modeled and the final interpretation now confirms 2 NNW trending moderate strength (conductance 250-500S) conductors, VA15a and VA15b both dipping steeply towards the NE (Figure 1). It can also be seen that both conductors underlie strongly enriched nickel values in weathered olivine gabbros making up the SHG02 geochemical target.

Both conductors are essentially similar, but modelling of the northern anomaly VA15a produced a more robust interpretation and drilling has commenced on a planned 650m deep angled diamond drillhole to test VA15a at a vertical depth of 500m below surface.

Drillhole 16SHDD10 has intersected mafic granulites to its current depth of 186m. Rocks intersected display strong metamorphic overprint which tends to obscure primary fabrics. The primary rock type is interpreted to be metamorphosed gabbro but current drillhole depth is still well above the expected position of strongly Ni enriched mafic/ultramafic gabbros intersected by earlier drilling as shown in cross section in Figure 3.

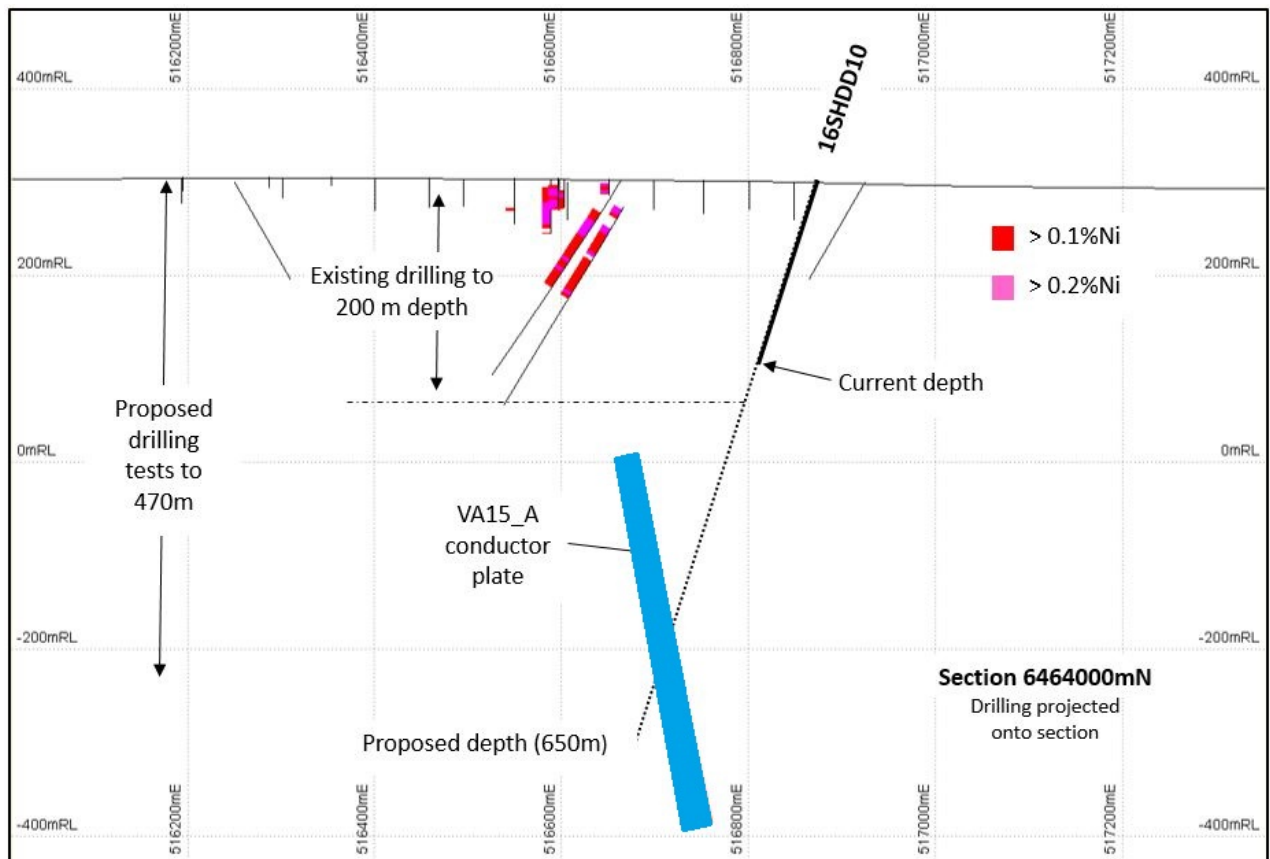


Figure 3: Conductor Plate VA15a on interpretive cross section showing planned drillhole VA15a

THAILAND

Matsa's Thailand projects cover 909km² within the Loei–Ko Chang fold belt which contains important mineral deposits including the Phu Kham copper mine in Laos and the >5MOz Chatree gold mine operated by Kingsgate Consolidated. The Loei-Ko Chang arc is an arcuate palaeo – island arc terrane which is more than 600km long and oriented approximately north–south. This terrane extends from Ko Chang Island in the south to Loei in the north of Thailand and beyond into Laos (Figure 4).

Current tenement holdings include:

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

20 granted SPL's and 25 SPL applications (SPLA's) for 635km² in Matsa's Siam Copper Project in Central Thailand;

14 SPLA's for 174km² over its Paisali Base Metal project;

- 6 SPLA's for 68km² over its KT Gold Project; and
- 4 SPLA's for 32km² over its Loei Gold Project.

During the period, Matsa relinquished 17 of the 37 SPL's granted in March 2015 in order to focus exploration on the most prospective parts of the Siam Copper Project within the 20 remaining SPL's.

The location of the Loei-Ko Chang arc and Matsa's current tenement holdings are summarised in Figure 4.

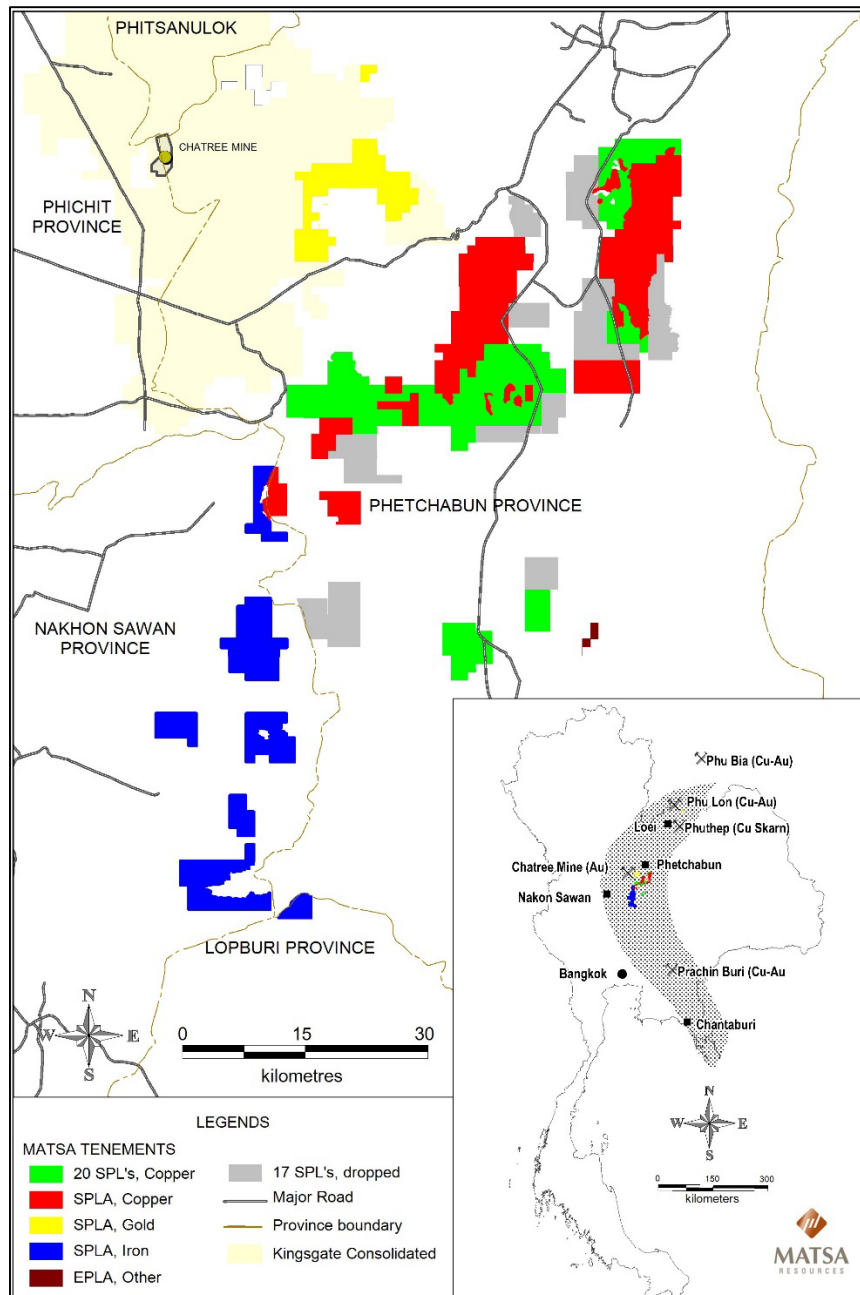


Figure 4: Matsa Tenement Status Thailand (Inset Loei-Ko Chang Arc)

DIRECTORS' REPORT

SIAM COPPER PROJECT

IP (Induced Polarisation) Survey

An induced polarisation (IP) ground electrical survey at Siam 1, for a total of 13 lines covering 22.8 line km was completed during the period. The survey comprised 6 lines for 14.1 line km read at Siam 1 West and 7 lines for 8.7 line km at Siam 1 East. Line locations are presented in Figure 5. The survey was carried along NW, and NE oriented lines employing 75m dipole-dipole array electrode spacings.

The IP method is designed to specifically target disseminated sulphides, which in a copper mineralised hydrothermal system, would typically have a much larger footprint and be easier to detect than any associated bodies of massive sulphides.

The Siam 1 prospect was prioritised for IP surveys because of Matsa's discovery there of widespread boulders containing visible native copper and the previously announced discovery of supergene chalcocite containing very high copper and silver grades of up to 54.6% Cu and 148 g/t Ag.

The survey was designed to test the hypothesis that surface copper mineralisation represents more extensive copper sulphide mineralisation at depth.

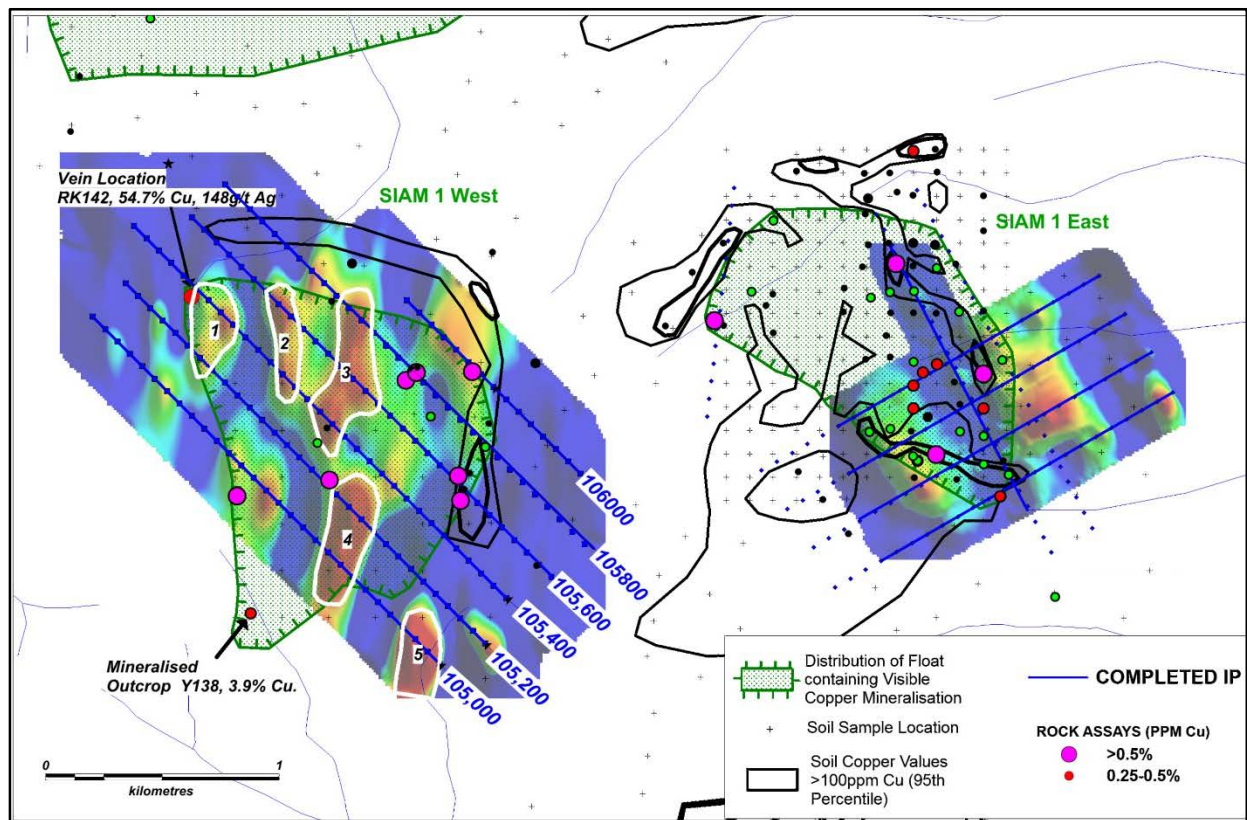


Figure 5: Siam 1 West and East prospects and IP depth slice at 0m RL showing high priority IP Anomalies 1-5

IP Results Siam 1 West

Five high priority NS trending Induced Polarisation (IP) anomalies (Anomalies 1-5) up to 500m long were defined at Siam 1W as shown in Table 2, Figure 5.

Resistivity data across Siam 1 West has defined a more conductive zone in the SW and a more resistive zone to the NE indicating a major change in bedrock geology which was confirmed by diamond drilling completed to date. There is shallow conductive surficial cover response on all lines.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Target	Interpretation		Chargeability mV/V		Resistivity ohmm.m	
	Length	Width	Min	Max	Max	Average
Anomaly 1	425	150	5.5	7.5	1200	1150
Anomaly 2	500	125	6.5	8.0	1050	1025
Anomaly 3	675	150	6.5	8.5	1025	1000
Anomaly 4	450+	175	6.5	9.5	475	450
Anomaly 5	200+	175	6.5	10.0	65	50

Table 2: High Priority IP Target Summary

Matsa's in-house geophysical consultant noted, "The IP responses are complex and most likely to have multiple sources. The 5 high priority IP anomalies are considered to be targets for disseminated copper sulphide mineralization and warrant drill testing".

IP anomalies 1-4 (Table 2) are located in a significantly more resistive unit and interpreted to be basaltic andesite lavas. IP anomaly 5 was detected in the comparatively conductive unit in the SE part of the grid. Drilling has shown this more conductive unit to be rhythmically banded sediments.

The previously announced high grade chalcocite vein is located immediately adjacent to IP Anomaly 1. The presence of this moderate IP anomaly at shallow depth strongly supports the hypothesis that the chalcocite vein represents "leakage" over more extensive copper sulphide mineralisation at depth.

IP Results Siam 1 East

IP responses have been observed on all lines and IP responses remain open to the south with one strong open response to the east. These responses are interpreted to be sourced by steeply dipping bodies.

Resistivity results define a similar pattern to Siam 1 West, namely a more conductive zone, probably reflecting sediments, in the east and a more resistive zone reflecting volcanic lavas to the west. There is shallow conductive surficial cover response on all lines.

Anomalous IP readings observed at Siam 1 East are weaker than at Siam 1 West and are generally associated with the more resistive volcanic lavas.

Diamond Drilling

A total of 9 diamond drillholes for an estimated total of between 1,500 and 2,300 metres of HQ and NQ were designed to test IP anomalies 3, 4 and 5 at Siam 1W. The IP anomalies were interpreted as sub-vertical chargeable zones of disseminated sulphides which are oriented approximately N-S. Consequently, planned drillholes have been oriented in an E-W direction.

Diamond drilling commenced at Siam 1W during the quarter for a total of 310.1m of drilling in 2 drill holes as summarised in Table 3.

Prospect	Drillhole	Target	East	North	Dip	Azimuth	Depth
Siam1W	15SCDD001	5	7695	74196	-60	140	227.1
Siam1W	16SCDD002	3	7387	75243	-60	90	83

Table 3: Siam 1W, diamond drillhole progress

DIRECTORS' REPORT

Drillhole 15SCDD001 was designed to test IP target 5. Poor ground conditions led to the hole being stopped at 227.1m which coincides approximately with the depth at which the IP target was expected to be intersected. Pyrite (iron sulphide) rich sediments were intersected below 53m to the end of the drillhole and are interpreted to be the likely source of IP anomaly 5.

Drillhole 16SCDD002 was located to test IP target 3. This drillhole intersected basaltic andesite lavas to its current depth of 83m, which is well above the depth of 200m at which the IP target is expected to be intersected. Visible finely disseminated native copper mineralisation with grain size generally <0.5mm, was observed intermittently throughout the section drilled to date, but in particular from 50m to end of drillhole.

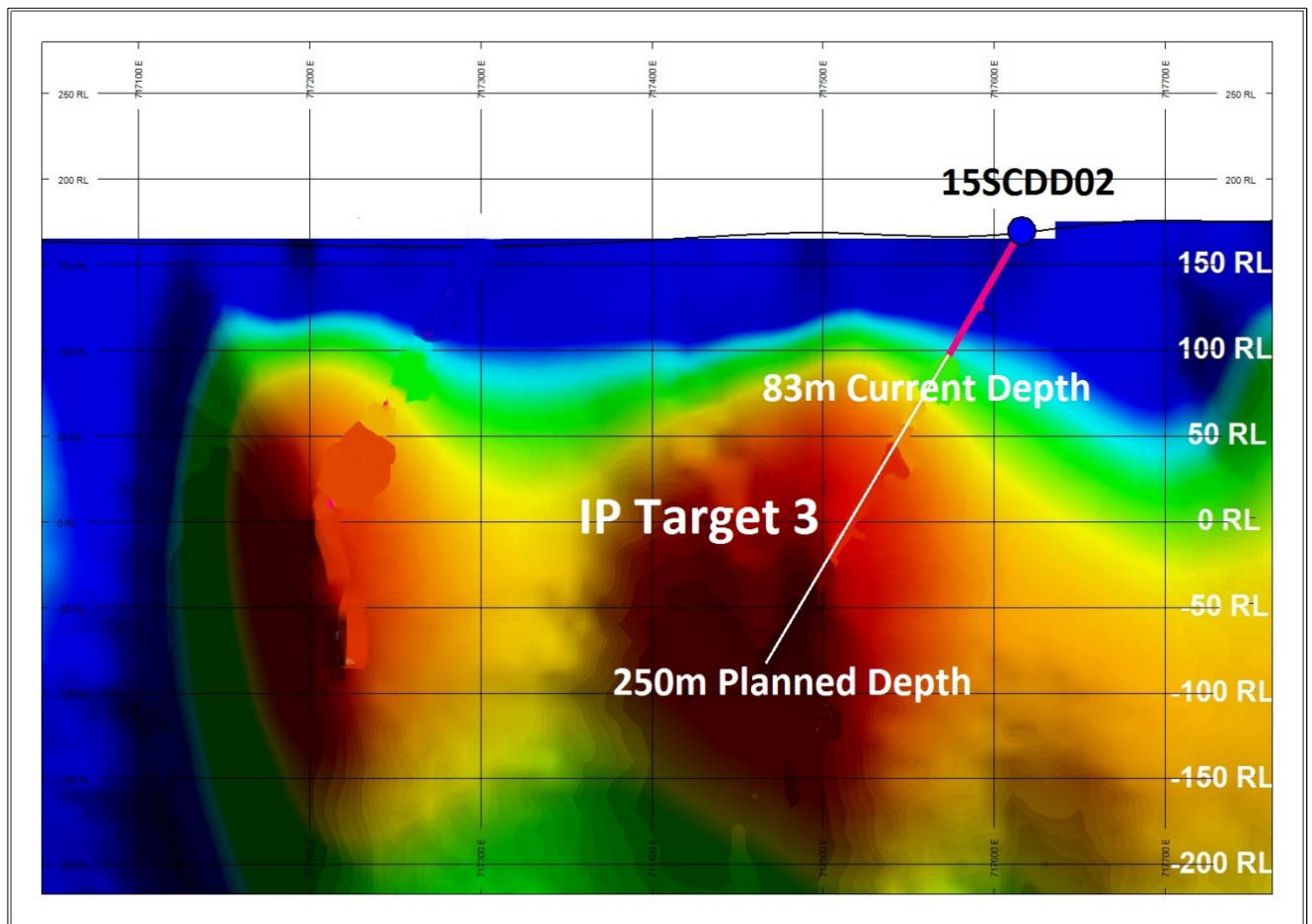


Figure 6: EW Cross Section Anomalies 2 and 3 with Diamond Drillhole 15SCDD02

Due to a local issue concerning land ownership (between provincial government departments) over parts of the Matsa tenements within the current area of drilling, Matsa has temporarily suspended drilling at Siam 1W. Matsa is continuing to liaise with all parties in order to resolve this issue and resume drilling at the earliest possible time.

A total of 230 auger soil samples were collected from the Siam 1 project area and assay results are awaited.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Killaloe Project Exploration – Matsa 80%, Cullen 20%

Hanging Wall Gossan (HWG)

Matsa confirmed in 2014-15, the presence of Kambalda style Ni sulphide mineralisation at HWG in association with highly prospective channel facies komatiite lavas. The host ultramafic sequence at HWG prospect is interpreted to be a strike extension of the sequence which hosts S2's Taipan Ni sulphide mineralisation to the northwest. Diamond drilling to date has shown the sequence to be structurally complex and disrupted by several late stage faults. In addition, a number EM conductors to test massive Ni sulphide targets were drilled and found to be sourced by sulphidic and graphitic shales.

Detailed geological mapping at HWG by consultant Dr Jim Thornett was carried out during the period. Compilation and integration of the new mapping with detailed aeromagnetics, EM data and diamond drilling is underway in order to refine the geological interpretation and to develop and prioritise targets for drilling. The programme is being carried out under an R&D project targeted on developing innovative EM technologies including downhole survey techniques, in order to discriminate between massive Ni sulphides and sulphide rich graphitic shales, both of which give rise to EM anomalies.

Minigwal Gold and Nickel Project

A total of 37 RAB aircore drillholes for 2,378m was completed over target MLG01 at Minigwal. Drilling confirmed that the target is located in a background of transported sediments up to 55m thick. No significantly anomalous gold values were intersected and no further work is planned on this target.

Matsa plans to carry out a ground EM survey on a komatiite Ni sulphide target at Minigwal in 2016.

Point Kidman (MAT Earning 80%)

Matsa became interested in the project following the discovery by prospectors of numerous gold nuggets at Point Kidman over an irregular 2.5km x 0.5km area in an area of extensive transported sand cover.

A RAB drilling programme comprising 109 holes for 2,506m was completed during the period. No significantly anomalous assays were received from the 109 hole RAB drilling programme completed during the quarter and Matsa accordingly withdrew from the farm in.

Dunnsville Project

An auger soil sampling program was carried out during the period at Dunnsville project area. A total of 450 samples were collected, along west-central part of the project area. Grid sampling pattern used were 400 m x 100m and 200 m x 100 m. The samples were analysed for gold using aqua regia digest and measured with ICP-MS by ALS Laboratories in Malaga, WA.

Assay results from this sampling program has yielded 3 targets, Yarmany North, DUN16 and DUN18, based on a threshold of + 6 ppb Au anomalies, with peak gold value of 16 ppb (Figure 1). A review of the Dunnsville project is ongoing with a view to further exploration.

CORPORATE ACTIVITIES

During the period Matsa and Panoramic Resources Limited (Panoramic) entered into an Asset Sale and Purchase agreement to dispose of their respective interests in the Mt Henry Gold Project to Metals X Limited (MLX). Matsa held a 30% interest and Panoramic a 70% interest in the project.

MLX approached Panoramic and Matsa with a view to acquiring the Mt Henry Gold Project and an Asset Sale and Purchase agreement has been executed to that effect. The consideration for the disposal (100%) is the issue of 22 million fully paid ordinary shares in MLX, freely tradeable with no restriction provisions.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Matsa received 6.6 million fully paid ordinary shares in MLX on settlement. Subsequent to the settlement of the transaction Matsa has disposed of 2.6 million shares.

During the period Matsa increased its holding in Bulletin Resources (ASX: BNR) to 27.37% interest which holds a 20% interest in the Nicolson's Gold Project which is projected to produce 30,000oz of gold per annum with robust positive cashflows. Production from the project commenced in September 2015.

SUBSEQUENT EVENTS

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.

AUDITOR'S DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 12 and forms part of the directors' report for the six months ended 31 December 2015.

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



Paul Poli
Executive Chairman

Dated this 15th day of March 2016

Competent Persons Statement

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.

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 for the half year ended 31 December 2015, 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.

NPAS

Nexia Perth Audit Services Pty Ltd

PTC Kloppe

PTC Kloppe
Director

Perth
15 March 2016

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 31 December 2015

	Note	2015 \$	2014 \$
Net gain on sale of investments		132,577	812,366
Dividend income		-	220,000
Other income	4	4,858,314	158,447
Other expenses			
Depreciation expense		(39,742)	(56,353)
Salaries and employment benefits expenses		(557,310)	(504,652)
Exploration expenditure written off		(367,185)	(940,512)
Impairment of exploration expenditure		(1,102,108)	-
Other administration expenses		(530,021)	(513,560)
Share based payments expense		(22,650)	(549,862)
Provision for doubtful debts		(183,910)	-
Impairment loss on available-for-sale investments		(1,440,756)	-
Results from operating activities		747,209	(1,374,126)
Finance income		9,513	8,122
Finance costs		(2,942)	(3,772)
Net finance income		6,571	4,350
Share of loss of equity-accounted investee, net of tax		(116,980)	(68,860)
Gain/(loss) before income tax expense		636,800	(1,438,636)
Income tax expense		-	-
Net gain/(loss) for the period attributable to equity holders of the company		636,800	(1,438,636)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Equity-accounted investees – share of other comprehensive income		89,633	(98,009)
Foreign currency translation reserve - reclassified to profit or loss		-	(37,154)
Net change in fair value of available-for-sale financial assets		(1,020,563)	(4,330,956)
Available-for-sale financial assets – reclassified to profit or loss		(152,375)	(882,239)
Other comprehensive income for the period, net of income tax		(1,083,305)	(5,348,358)
Total comprehensive loss for the period attributable to equity holders of the company		(446,505)	(6,786,994)
Loss for the period is attributable to:			
Owners of the parent		636,789	(1,438,892)
Non-controlling interest		11	256
		636,800	(1,438,636)
Total comprehensive loss for the period is attributable to:			
Owners of the parent		(446,516)	(6,787,250)
Non-controlling interest		11	256
		(446,505)	(6,786,994)
Earnings per share:			
Basic/diluted profit/(loss) per share attributable to ordinary equity holders of the parent (cents per share)		0.44	(1.00)

The notes on pages 17 to 22 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

		31 Dec 15 \$	30 June 15 \$
Current Assets			
Cash and cash equivalents		1,246,194	739,096
Trade and other receivables		68,438	94,603
Other current assets		744,661	1,146,470
Total Current Assets		2,059,293	1,980,169
Non-Current Assets			
Available-for-sale financial assets	6	5,536,500	3,022,500
Investments in associates		458,885	344,010
Exploration and evaluation assets	8	8,029,562	11,513,690
Property, plant and equipment	7	83,298	96,467
Total Non-Current Assets		14,108,245	14,976,667
Total Assets		16,167,538	16,956,836
Current Liabilities			
Trade and other payables		250,939	593,104
Borrowings		30,685	59,238
Provisions		411,755	159,885
Total Current Liabilities		693,379	812,227
Non-Current Liabilities			
Borrowings		12,693	21,821
Provisions		26,796	264,263
Total Non-Current Liabilities		39,489	286,084
Total Liabilities		732,868	1,098,311
Net Assets		15,434,670	15,858,525
Equity			
Issued capital	9	40,536,876	40,536,876
Reserves		7,272,780	8,495,535
Accumulated losses		(32,452,388)	(33,251,277)
Total equity attributable to equity holders of the Company		15,357,268	15,781,134
Non-controlling Interests		77,402	77,391
Total Equity		15,434,670	15,858,525

The notes on pages 17 to 22 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 2015

	Issued Capital Ordinary \$	Accumulated Losses \$	Equity Settled Benefits Reserve \$	Other Reserves \$	Total \$	Non- controlling interest \$	Total \$
Balance at 1 July 2015	40,536,876	(33,251,277)	7,393,106	1,102,429	15,781,134	77,391	15,858,525
Comprehensive profit/(loss) for the period	-	636,789	-	(1,083,305)	(446,516)	11	(446,505)
Total comprehensive profit/(loss) for the period	-	636,789	-	(1,083,305)	(446,516)	11	15,412,020
<i>Transactions with owners in their capacity as owners</i>							
Performance rights not vested		162,100	(162,100)	-	-	-	-
Share based payment	-	-	22,650	-	22,650	-	22,650
Balance at 31 December 2015	40,536,876	(32,452,388)	7,253,656	19,124	15,357,268	77,402	15,434,670
Balance at 1 July 2014	40,536,876	(31,768,535)	6,738,113	7,044,414	22,550,868	78,082	22,628,950
Comprehensive loss for the period	-	(1,438,892)	-	(5,348,358)	(6,787,250)	256	(6,786,994)
Total comprehensive loss for the period	-	(1,438,892)	-	(5,348,358)	(6,787,250)	256	(6,786,994)
<i>Transactions with owners in their capacity as owners</i>							
Share based payment	-	-	549,862	-	549,862	-	549,862
Balance at 31 December 2014	40,536,876	(33,207,427)	7,287,975	1,696,056	16,313,480	78,338	16,391,818

The notes on pages 17 to 22 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 2015

	2015	2014
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(1,201,687)	(1,107,195)
Interest received	12,427	13,931
Other income	18,846	9,933
Dividend income	-	220,000
Interest paid	(3,395)	(3,772)
	<hr/>	<hr/>
Net cash used in operating activities	(1,173,809)	(867,103)
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Cash flows from investing activities		
Purchase of plant and equipment	(26,574)	(21,278)
Exploration and evaluation expenditure	(1,536,828)	(2,130,353)
Refund of security deposits	401,810	129,198
Payments for available-for-sale financial assets	(484,848)	(566,907)
Proceeds from sale of investments	3,340,702	1,288,477
Proceeds from sale of property, plant and equipment	-	7,284
	<hr/>	<hr/>
Net cash provided by/(used in) investing activities	1,694,262	(1,293,579)
	<hr/>	<hr/>
Cash flows from financing activities		
Repayment of lease liabilities	(13,355)	(30,648)
	<hr/>	<hr/>
Net cash provided by/(used in) financing activities	(13,355)	(30,648)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	507,098	(2,191,330)
Cash and cash equivalents at beginning of the period	739,096	2,625,853
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	1,246,194	434,523
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The notes on pages 17 to 22 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 2015

1. REPORTING ENTITY

Matsa Resources Limited (the "Company") is a company domiciled in Australia. The condensed consolidated financial report of the Company as at and for the six months ended 31 December 2015 comprises the Company and its subsidiaries (together referred to as the "Group" or "Consolidated Entity").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2015 is available upon request from the Company's registered office at Suite 11, 139 Newcastle Street, Perth WA 6000 or at www.matsa.com.au.

This condensed consolidated interim financial report was authorised for issue in accordance with a resolution of the Board of Directors on 15 March 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

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

This general purpose condensed consolidated financial report for the half-year ended 31 December 2015 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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 2015 and considered together with any public announcements made by Matsa Resources Limited and its controlled entities during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies and methods of computation are the same as those adopted in the most recent consolidated annual financial report.

(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.

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(b) Basis of Consolidation (cont.)

within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

(c) New and amended accounting standards and interpretations

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

(d) Impact of standards issued but not yet applied by the entity

From 1 July 2016, the Group is required to adopt Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2016. The Group has reviewed the impact of these Standards and Interpretations and is continuing to assess whether they will have a significant effect on the financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

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 proposed separately.

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 information regarding the Consolidated Entity's operating segments for the half-years ended 31 December 2015 and 31 December 2014.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2015

3. SEGMENT INFORMATION (cont.)

Half-year ended 31 December 2015	Reportable Segments		Total
	Australia	Thailand	
	\$	\$	\$
External revenues	4,990,891	-	4,990,891
Inter-segment revenue	-	-	-
Segment revenue	4,990,891	-	4,990,891
Segment profit/(loss) before tax	1,091,706	(454,906)	636,800
Half-year ended 31 December 2014			
External revenues	1,190,813	-	1,190,813
Inter-segment revenue	-	-	-
Segment revenue	1,190,813	-	1,190,813
Segment profit/(loss) before tax	(1,400,570)	(38,066)	(1,438,636)
Segment assets			
At 31 December 2015	14,781,832	1,385,716	16,167,548
Segment assets			
At 30 June 2015	15,155,034	1,801,802	16,956,836
Segment liabilities			
At 31 December 2015	727,104	5,764	732,868
Segment liabilities			
At 30 June 2015	1,098,311	-	1,098,311

	31 Dec 15	31 Dec 14
	\$	\$
4. OTHER INCOME		
Foreign currency exchange gain *	2,711	147,380
Net gain on sale of plant and equipment	-	1,134
Net gain on sale of exploration assets	4,829,721	-
Other income	25,882	9,933
	4,858,314	158,447

*This includes an amount of \$37,154 relating to the reclassification of the foreign currency translation reserve on deconsolidation of Kal Energy USA in the period ended 31 December 2014.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2015

5. 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 \$2,242,915 (30 June 2015: \$2,504,571). These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

Finance Lease Commitments

The Company has finance lease commitments of \$43,378 outstanding at 31 December 2015 (30 June 2015: \$81,059).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

- (a) The Company has a 1.87% (2014: 3.27%) interest in Panoramic Resources Limited, which is involved in the mining and exploration of base metals in Australia and Canada. Panoramic is listed on the Australian Securities Exchange.

At the end of the period the fair value of the investment was \$1,110,000 (30 June 2015: \$3,022,500) which is based on Panoramic Resources Limited's quoted share price.

- (b) The Company has a 1.08% (2014: Nil) interest in Pantoro Limited, which is involved in the mining and exploration of base metals in Australia and Papua New Guinea. Pantoro is listed on the Australian Securities Exchange.

At the end of the period the fair value of the investment was \$346,500 (30 June 2015: \$Nil) which is based on Pantoro Limited's quoted share price.

- (c) The Company has a 0.87% (2014: Nil) interest in Metals X Limited, which is involved in the mining and exploration of base metals in Australia. Metals X is listed on the Australian Securities Exchange.

At the end of the period the fair value of the investment was \$4,080,000 (30 June 2015: \$Nil) which is based on Metals X Limited's quoted share price.

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2015 the Group acquired items of property, plant and equipment with a cost of \$26,574 (2014: \$21,278).

During the six months ended 31 December 2015 the Group disposed of items of property, plant and equipment with a written down value of \$Nil (2014: 6,150).

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2015

8. EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 15 \$	30 Jun 15 \$
Costs carried forward in respect of areas of interest in: Exploration and evaluation phase	<u>8,029,562</u>	<u>11,513,690</u>
Movements in carrying amounts		
Balance at beginning of period	11,513,690	10,146,013
Purchase of tenements	-	-
Disposal of tenements	(3,346,761)	-
Exploration and evaluation incurred	1,331,926	3,884,354
Expenditure written off	(367,185)	(2,213,862)
Provision for impairment	(1,102,108)	(302,815)
Balance at end of period	<u>8,029,562</u>	<u>11,513,690</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.

	31 Dec 15 \$	30 Jun 15 \$
9. ISSUED CAPITAL		
144,156,779 (30 June 2015: 144,156,779) ordinary shares	<u>40,536,876</u>	<u>40,536,876</u>

Issue of options during the period	Number of options	\$
Opening balance at 1 July 2015	15,465,000	7,253,656
Unlisted options under the ESOP issued during this period	-	-
Unlisted options issued to directors	-	-
Options expired during the period	(7,025,000)	-
Options exercised during the period	-	-
	<u>8,440,000</u>	<u>7,253,656</u>

During the period 1,000,000 performance rights expired without vesting as the performance hurdles were not met prior to expiry.

10. SHARE BASED PAYMENTS

There were no issues of share options or performance rights under the Company's Long Term Incentive Plan (LTIP) during the six months ended 31 December 2015 (2014: 2,650,000 share options were issued to employees and 4,250,000 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.

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.

For the six months ended 31 December 2015, the Group has recognised \$22,650 of share based payment expense in the income statement (2014: \$549,862).

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the six months ended 31 December 2015**

11. RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 30 June 2015 consolidated annual financial report.

12. SUBSEQUENT EVENTS

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.

13. CONTINGENT LIABILITIES

On 6 August 2015 the Company entered into a Deed of Guarantee and Indemnity with Auro Pty Ltd (Auro). Auro has provided a loan of \$600,000 to Bulletin Resources Limited (Bulletin) which is an associate of the Company. The Company has provided a guarantee to Auro that should Bulletin not meet the repayment terms of the loan under their loan agreement, it will make a payment to Auro of a maximum of \$350,000.

As at the end of the period the Company does not believe that it is probable Matsa will be required to meet that guarantee and has classified the guarantee as a contingent liability only.

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 2015 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.



Paul Poli
Director

Dated this 15th day of March 2016

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 (the "Company") and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year 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.

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*. This responsibility includes: establishing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matsa Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our audit, 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 Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Matsa Resources Limited and its controlled entities 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 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A handwritten signature in black ink that reads "NPAS".

Nexia Perth Audit Services Pty Ltd

A handwritten signature in black ink that reads "PTC Kloppe".

PTC Kloppe
Director

Perth
15 March 2016