



MATSA
RESOURCES



Annual Report **2018**

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Dear Shareholder,

It's with immense delight that I present the chairman's report for the 2018 year.

Last year, I referred to the commencement of mining at the Fortitude gold mine, and celebrated the fact that we achieved the commencement of operations at Lake Carey in a very short lead time from acquisition. As we all know, the mine progressed and was completed by April of 2018.

The trial mine achieved several important results, keeping in mind, as a trial mine, a positive monetary result is not necessarily the most important result that needed to be achieved, but it is part of a list of results that are crucial for a successful stage 2 mining operation. I am delighted to say that the most important result that needed to be achieved was the formation of a long term strong relationship with our prestigious neighbour AngloGold Ashanti Australia Limited. The relationship formed was defined by the execution of a detailed MOU during the year. We at Matsa believe that this relationship will provide significant benefits to Matsa for many years, and is evidenced by the new ore purchase agreement executed for the Red Dog gold mine which went into production during September of this year. On this basis, I again thank and commend all the staff at AngloGold Ashanti for their honest and professional approach to our relationship.

We furthermore continue to be excited about the prospects for the entire Lake Carey project including the recently acquired Red October gold mine, with its extensive development and infrastructure which we believe will be a high quality asset for us in the future. We will of course focus on targets already delineated and continue to search for new gold targets in what we believe is an exciting area at Lake Carey.

Matsa is a company that I remain very proud of and in complete amazement at the calibre of the team that we have amassed. Their dedication, strength of character and wisdom which they display each day, really ought to be appreciated by all shareholders.

Whilst the stock market remains tough and upticks are difficult to achieve, your board remains committed to enhancing shareholder value and improving returns to all shareholders however possible. I thank my fellow board members Frank Sibbel and Andrew Chapman, who share the same vision and have the same selfless attitude to the company.

I remain indebted to our team both in Australia and Thailand and I am keen to reiterate my comment of last year, the Matsa team makes our Company what it is, a well-respected, dedicated and focussed company with strong prospects for success.

As always, the board thanks all shareholders who continue to display enormous patience and perseverance in a hard economic climate, but together we feel that success will eventuate.



PAUL POLI
EXECUTIVE CHAIRMAN

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.

LAKE CAREY GOLD PROJECT

INTRODUCTION

The ~101km² Fortitude/Lake Carey gold project area was acquired by Matsa on 4th October 2016 and amalgamated with Matsa's existing ~183km² tenements and was renamed the Lake Carey Gold Project. The acquisition included the Fortitude gold deposit with JORC 2012-compliant indicated and inferred resources of 354,600 ounces of gold (MAT announcement to ASX 1st September 2016). The project footprint was further expanded through the acquisition of additional tenements as well as tenement applications to its current area of 587.76km² (Figure 1). Acquisitions during the period (Red October, Red Dog and Hacks Well), are described below and shown in Figure 1.

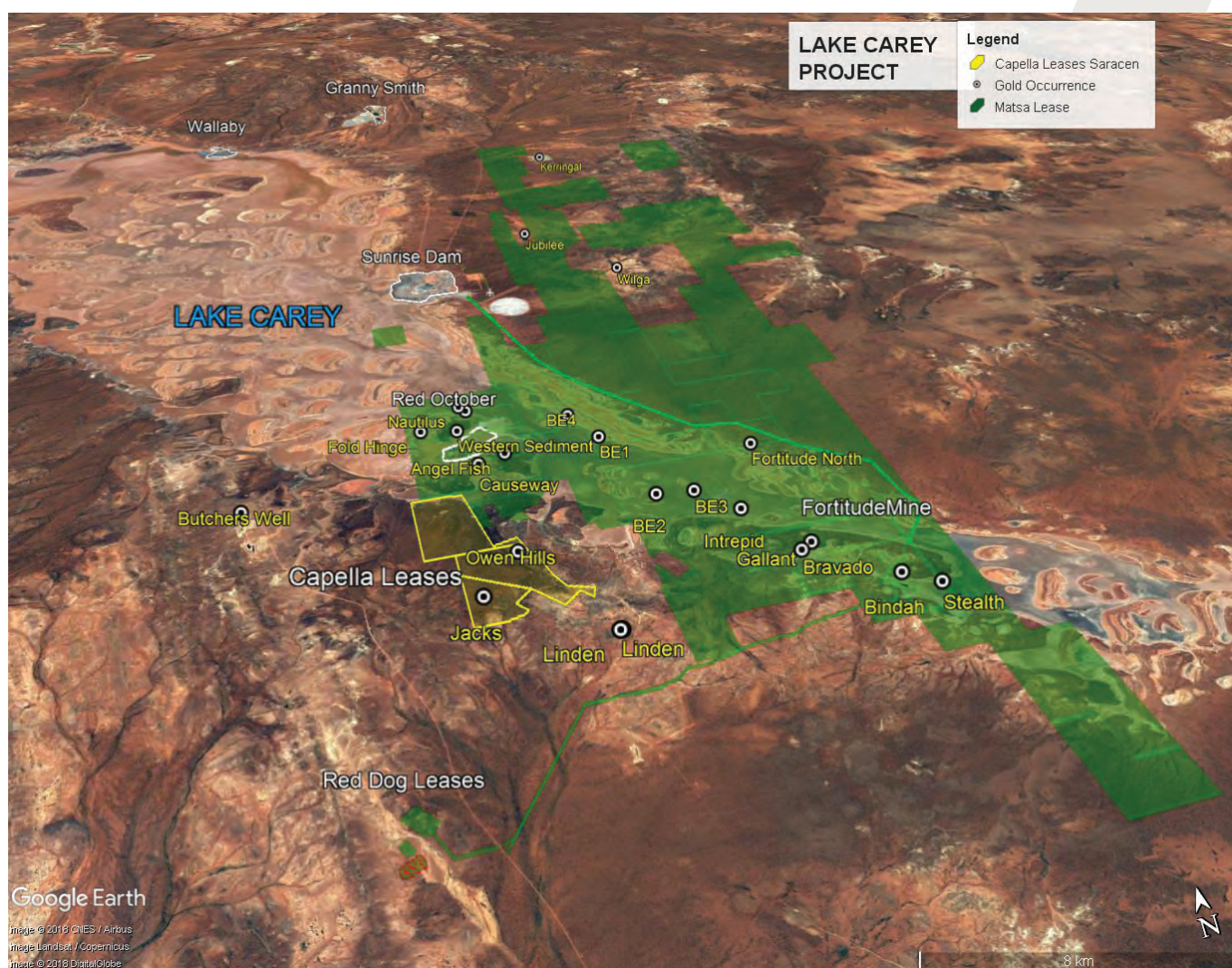


FIGURE 1: Fortitude Mine Lake Carey Gold Project (587.6km²) – oblique view highlighting Red October and Red Dog acquisitions

FORTITUDE GOLD MINE

The trial mining operation at the Fortitude gold mine commenced production in July 2017 and was completed at the end of April 2018 with last ore delivered to the Sunrise Dam Gold Mine (SDGM) under the ore purchase agreement with AngloGold Ashanti Australia Limited (AGAA) in early May 2018. A stockpile of approximately 10,000 tonnes of gold ore remained at completion of the trial mine and was subsequently processed at SDGM in late May and June with proceeds received after 30th June 2018. Mining was carried out in three open pit developments, namely North, Central and South pits (Figure 2).

Mining was delayed at times during the period to December 2017 due to:

- availability of contract mining and haulage fleet during start-up and first few months of production. These equipment issues were resolved by the contractor; and
- unexpected requirement for blasting rather than free digging in the central pit due to the presence of a hard cap horizon which was not previously identified.

Overall results illustrate that the project returned a positive operating cash flow of approximately A\$700,000 from mining operations despite the mining of lower tonnes at a lower overall grade than anticipated from the supergene-enriched zone. While the gold recovery from this zone was lower than anticipated the recovery from the underlying transitional ore was better than expected. This provides significant encouragement for the proposed Stage 2 mine which targets transitional and fresh ore at depth.

The key outcomes from the Trial Mine are shown in Table 1 below.

	Budget (as per Trial Mining Study Feb 2017)	Actual	% Achieved
Total Tonnes	185,000	162,003	87.57
Waste BCM	999,773	944,483	94.47
Total BCM	1,093,176	1,023,997	93.67
Strip Ratio	10.7	11.9	111.21
Grade (g/t)	2.16	1.83	84.72
Production (Oz)	12,100	9,522	78.69
AISC (AUD\$)	1,140	1,486	346*

*Actual numerical variance, not a percentage variance

TABLE 1: Fortitude Trial Mine Key outcomes

As previously announced, there was a shortfall in ore tonnes mined, because a wall failure in the east wall of the North Pit on 26th April led to early termination of mining. As a result a total of 7,914 tonnes of ore at 1.93 g/t was left in the floor of the North Pit valued at approximately \$500,000. A decision was taken to suspend mining and to leave the unmined ore for extraction by the proposed Stage 2 mining operations.

PROPOSED TRANSITION FROM TRIAL MINE TO FULL SCALE STAGE 2 MINE

Studies into the economic viability of a Stage 2 open pit mine continued during the year. Matsa remains confident that even a modest increase in gold price and the knowledge and experience gained from the trial mine, will have a positive impact on the economic viability of the Stage 2 mining operation at Fortitude. A strong relationship was established with AGAA through the ore purchase agreement which underpinned the trial mining project which also provides an excellent foundation for future mining operations at Fortitude. All mining permits applicable to the Stage 2 mining operation are already in hand as part of the licencing for the trial mine.



FIGURE 2: Fortitude Trial Mine

RED OCTOBER GOLD MINE

On 26th September 2017 Matsa announced it had entered into an Asset Sale and Purchase Agreement (“ASPA”) with Saracen Mineral Holdings Ltd (Saracen) to acquire the Red October Gold Project for a combination of cash and shares to the deemed value of \$2 million (*MAT announcement to ASX 26th September 2017*).

On 27th March 2018 Matsa settled the acquisition of the Red October Gold Mine and associated infrastructure with Saracen (*MAT announcement to ASX 28th March 2018*).

The acquisition was subject to a number of conditions which have now been met and Matsa has issued 4,545,000 fully paid ordinary shares at a deemed price of \$0.22 to Saracen as part consideration of the acquisition. A deferred and final consideration amount of A\$850,000 was due and payable to Saracen on 25th June 2018.

Three tenements (Capella Tenements) comprising ~20km² that were part of the original ASPA have not been able to be transferred at this time and as a result Matsa withheld A\$450,000 until this matter is resolved. Accordingly, a payment of A\$400,000 was made to Saracen in July 2018. The Capella tenements, at the southern end of the Red October project area, will have no impact on Matsa's operation however they remain valuable exploration assets. Matsa is confident the matter will be resolved and the Capella tenements will be added to the Lake Carey project in due course.

The project area (excluding the Capella tenements) covers 44 km² and consists of six granted Mining Leases (ML's), an extensive well maintained underground mine, a 68-person camp, offices, workshops and exploration base, wet and dry messes, underground mine equipment and a JORC 2012 compliant Mineral Resource of ~99,000 oz of gold, which importantly includes 85,000 oz. @ 13.6g/t Au (Table 2). The camp was formerly a 128 person camp, and as such remains easily upgradeable to its former capacity.

The Red October mine is a structurally controlled gold deposit located in the Laverton Greenstone Belt (LGB) which hosts a number of world class gold mines with resources >25M oz of gold which include Sunrise Dam, Granny Smith and Wallaby. Red October is located only 18km west of Matsa's Fortitude Gold Mine.

RED OCTOBER FORWARD WORK STRATEGY

The Red October mine is under care and maintenance and remains in excellent, dry condition. A number of areas are available for immediate mining and the interpretation and planning for recommencement of mining has already begun. To this end, a Memorandum of Understanding (MOU) has been signed with Pit N Portal, who were the previous mining contractors at Red October for Saracen. Exploration for additional gold-ounces, both within and near the mine as well as over the tenement package is being planned in order to increase potential mine life longevity.

The exploration potential for extensions of known lodes and discovery of new lodes is considered to be excellent with a number of high quality exploration targets previously highlighted by Saracen.

Historically, the Red October gold mine produced a total of 1.7Mt at 6.1g/t Au for 342,000 oz gold. The Open Pit operation contributed 113,000 oz gold at 6.5g/t Au between 1999 and 2002 and the underground operation has produced 1.2Mt at 5.9g/t Au for 229,000 oz gold to a depth of 550m vertical metres between 2012 and 2017.

The current resource estimate is shown in Table 2.

Type	Indicated			Inferred			Total		
	Tonnes T	Grade g/t Au	Gold oz	Tonnes T	Grade g/t Au	Gold oz	Tonnes T	Grade g/t Au	Gold oz
Red October OP	251,000	1.7	14,000				251,000	1.7	14,000
Red October UG	89,000	12.1	35,000	106,000	14.6	50,000	195,000	13.6	85,000
Total	340,000	4.5	49,000	106,000	14.7	50,000	446,000	6.9	99,000

TABLE 2: 30 June 2017 Red October Resource Estimate (ref SAR report to ASX 02/08/2017)*

**The Company confirms that it is not aware of any new information or data that materially affects the information included in the above resource estimate and that all material assumptions and technical parameters underpinning the above resource estimate continue to apply and have not materially changed.*

The Red October gold mine remains under care and maintenance for the time being, to ensure all areas of the underground mine are dewatered and accessible for exploration and mining.

ACTIVITIES UNDER MOU WITH PIT N PORTAL

On 6th April 2018 Matsa entered into a Memorandum of Understanding (“MOU”) with Pit N Portal Mining Services Pty Ltd (“PNP”) whereby PNP were to undertake a two-staged approach to conducting underground studies and development of mineral resources at the Red October gold project.

Stage 1 of the MOU was an initial mining design and high level financial model, and was expected to be completed by the end of April 2018. However, preliminary results were encouraging, with a significant number of opportunities identified. Accordingly, it was decided to increase the scope of Stage 1 to investigate these opportunities in more detail. Matsa is currently evaluating the preliminary results of this study with a view of commencing small scale mining towards the end of 2018.

An initial 15 areas with potential for near term mining were identified within the existing 85,000 oz @ 13.6 g/t underground resource (Table 2). These have been ranked according to resource confidence (inferred, indicated), distance from existing infrastructure and ease of exploration. Mine planning and financial analysis is currently being applied to these areas. Results of these studies are expected in Q4 of 2018.

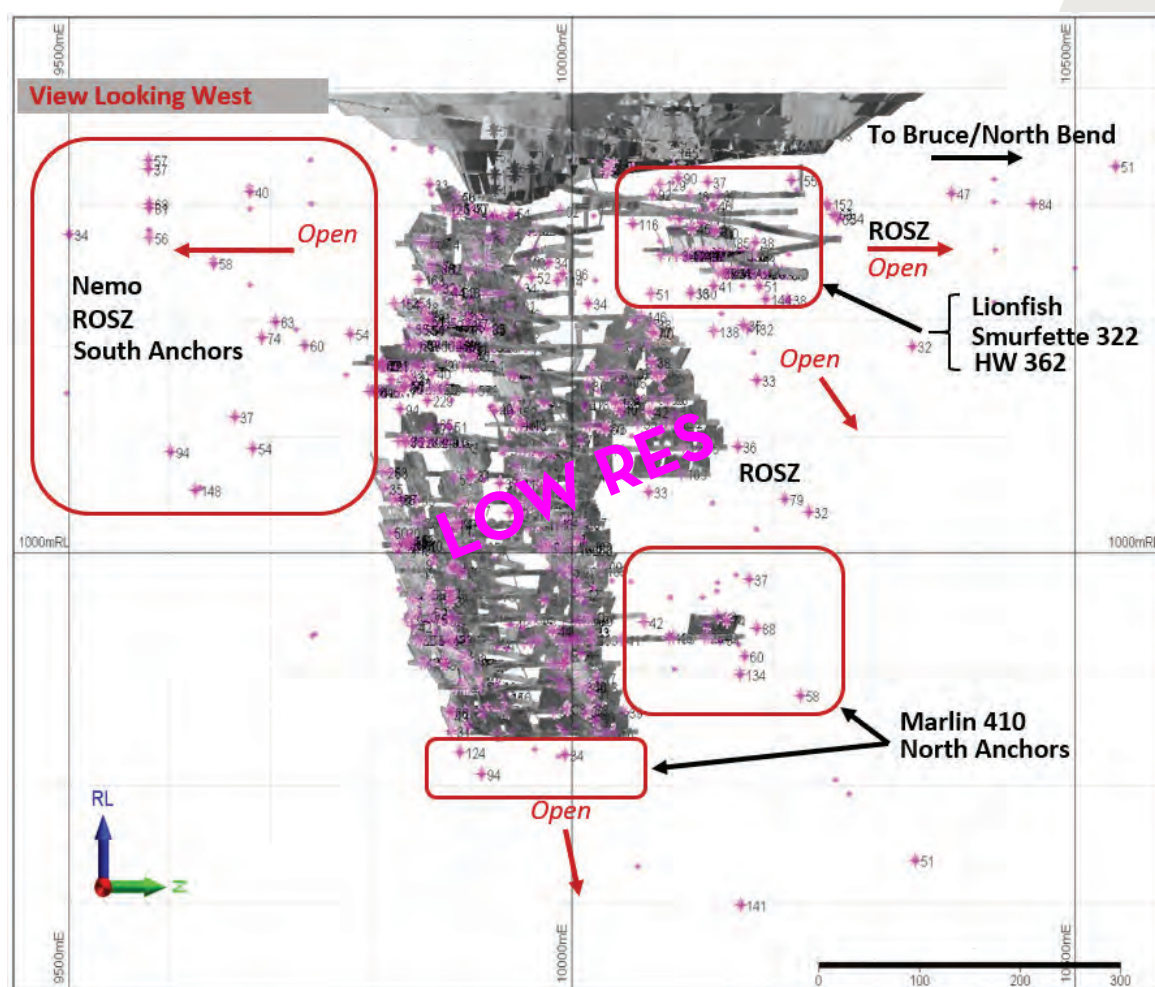


FIGURE 3: Long Section (looking west) showing existing development and selected targets for near term mining

Subject to further positive Stage 1 results, Matsa intends to move into Stage 2 which is planned to include the following:

- obtaining all necessary permits and approvals
- attending to tenders and contracts
- establishment of a mining reserve
- mining plans and schedules

In addition to areas within the resource model, 12 other areas have also been identified as having near mine potential and require further exploration and evaluation work.

RED DOG GOLD PROJECT

In November 2017 Matsa acquired a 100% interest in the Red Dog gold project (previously known as the Tin Dog gold project) from a local prospector for \$125,000. The project comprising 3 granted mining leases covering an area of 0.9km² is located some 25km west of Fortitude and a similar distance south of Red October (Figure 1).

Upon commencement of mining the agreed royalty to be paid to the vendors as shown below:

1. up to 10,000 oz gold - 2.25% gross smelter royalty;
2. 10,000 oz to 50,000 oz gold - 1.5% gross smelter royalty;
3. > 50,000 oz gold - 1% gross smelter royalty; and
4. 0.5% Net Smelter Royalty on all other minerals and elements other than gold.

Matsa completed an RC drilling programme for a total of 103 drillholes and 2,163m to test the continuity of mineralisation at Red Dog and potential for economically viable gold mineralisation.

RC Drilling

The drilling programme consisted of 103 vertical RC drill holes on a 20m x 20m drill program over a gold target extending over ~250 metres NS and ~150m EW defined by previous drilling. RC drilling was designed to test continuity, thickness and grade of shallow mineralisation intersected by previous drilling and evaluate the economic potential of the project.

Results include excellent individual assays including (*MAT announcement to ASX 18th January 2018*):

- 6m at 155 g/t Au from 6m (17RDRC077)
incl. 1m at 921 g/t Au from 7m
- 11m at 2.59 g/t Au from 5m (17RDRC073)
- 14m at 1.97 g/t Au from 3m (17RDRC082)
- 6m at 4.57 g/t Au from 13m (17RDRC029)
- 8m at 3.23 g/t Au from 22m (17RDRC087)
- 8m at 3.11 g/t Au from 4m (17RDRC032)
- 10m at 2.31 g/t Au from 8m (17RDRC081)
- 8m at 2.56 g/t Au from 11m (17RDRC072)

The results define a shallow (2m to 20m below surface), relatively flat lying and continuous zone of mineralisation between 1m and 14m thick extending over an area ~250m NS and ~150m EW.

Mineralisation is associated with an increase in the abundance of quartz-carbonate veining. The highest grades are found in zones of intense crackle veining and brecciation. Gold mineralisation is hosted in intensely micro-fractured silicified basalt and is accompanied by hematite and pyrite. A carbonate alteration halo has been recognised on the margins of the main mineralised zone. Typically, mineralisation is lighter coloured than enclosing basalt and remains open in several directions.

Mineral Resource Estimate

The Red Dog Mineral Resource estimate totals 368,000 tonnes at 2.2g/t Au for 26,300 oz gold (MAT announcement to ASX 18th January 2018). The majority of gold-ounces (94%) report into the Indicated Category (Table 3).

	Indicated			Inferred			Total		
Material	Tonnes T	Grade g/t Au	Gold oz	Tonnes T	Grade g/t Au	Gold oz	Tonnes T	Grade g/t Au	Gold oz
Oxide	2,000	1.3	100	2,000	0.9	100	5,000	1.1	200
Transitional/ Fresh	330,000	2.3	24,700	33,000	1.4	1,500	363,000	2.2	26,200
Total	333,000	2.3	24,800	35,000	1.4	1,500	368,000	2.2	26,300

TABLE 3: Red Dog Mineral Resource as at January 2018 – reported above an Au cut-off grade of 0.5g/t Au

A mining study commenced into development of the Red Dog deposit which was announced subsequent to the period under review (MAT announcement to the ASX 18th July 2018).

Mining Study Parameters

The Red Dog Mining Study was based on the following parameters:

- The JORC 2012 Red Dog Mineral Resource Estimate of 368,000t at 2.2g/t for 26,300oz Au (Table 3).
- Open pit and haulage operation conducted by contractors
- Purchase of ore by AGAA and processed at AGAA's SDGM processing facility
- Matsa will manage all mining activities

Key outcomes for the Mining Study are provided in Table 4.

The Ore Reserve, classified in accordance with the JORC Code (2012), constitutes almost 100% of the Mine Plan, with only 100t for 10 oz Au within the pit design deriving from Inferred Resources. As this Inferred Resource material is less than the rounding error, it has not been reported in the key statistics.

Key Project Statistics	
Mineral Resources	
Indicated Resources: 333,000t at 2.3 g/t Au	24,800 oz gold
Inferred Resources: 35,000t at 1.4 g/t Au	1,500 oz gold
Total Resources: 368,000t at 2.2 g/t Au	26,300 oz gold
Ore Reserves	
Probable: 182,000t at 2.5 g/t Au	13,400 oz gold recovered
Production Summary	
Mine Plan: 182,000t at 2.5 g/t Au	14,500 oz
Life of Mine, mining (months)	2
Life of Mine, incl. haulage & rehab (months)	4
Strip Ratio (Waste:Ore)	2.4 : 1

Key Project Statistics	
Metallurgical Recovery	92.5%
Gold Mined (oz)	14,500 oz
Gold Produced (oz)	13,400 oz
Project Economics	
Gold Price (A\$/oz)	1,700
Revenue (A\$M)	22.7
Costs (A\$M)	17.3
Cash Surplus (A\$M)	5.4
AISC (A\$/oz)	1,294

TABLE 4: Key Project Statistics

Ore Reserves and Mine Plan

The Ore Reserves are reported according to the JORC Code 2012 Edition. The Indicated category portion of the Mineral Resource estimate (Table 4) was converted to Probable Ore Reserves after material modifying factors were considered. Those modifying factors include mining method, geotechnical considerations, metallurgy and ore processing, infrastructure, transport and services and costs. Confidence in these factors is considered consistent with a Probable Ore Reserve classification. Mineral Resource estimates are reported inclusive of those Mineral Resources converted to Ore Reserves. The Probable Ore Reserve estimate is provided in Table 5.

Ore Reserves are based on a gold price of A\$1,700/oz Au. Ore dilution of 15% and ore loss of 5% has been assumed. A mill recovery of 92.5% has been used in metal estimations.

Materials	Tonnes	Gold (g/t)	Ounces Au
Oxide			
Transitional	127,000	2.5	9,300
Fresh	55,000	2.4	3,900
Total	182,000	2.5	13,300

TABLE 5: Red Dog Probable Ore Reserve

Figures are rounded to reflect appropriate levels of confidence. Apparent differences may occur due to rounding

The Mine Plan is presented in Table 6. A minor amount of inferred material totalling 110t for 10 oz Au is included in the mine plan. This amount is within the rounding errors of the Ore Reserve and Mine Plan estimates.

Materials	Tonnes	Gold (g/t)	Ounces Au
Oxide			
Transitional	127,000	2.5	9,300
Fresh	55,000	2.4	3,900
Total	182,000	2.5	13,300

TABLE 6: Red Dog Mine Plan (includes Inferred Resource Material)

Figures are rounded to reflect appropriate levels of confidence. Apparent differences may occur due to rounding

Approvals and Pre-development Activities

In June 2018, Matsa received approval from the Department of Mines Industry, Regulation and Safety (DMIRS) for its Mining Proposal, Mine Closure Plan and Project Management Plan for its Red Dog Gold project.

Matsa completed the tendering for mining and haulage works, as well as executing an ore purchase agreement with AGAA.

Mining commenced at the Red Dog gold mine during August 2018 with all mining operations funded out of the Company's existing cash reserves.

LAKE CAREY EXPLORATION

Exploration during the year to 30th June 2018 comprised:

- Diamond drilling as part of R&D programme at Fortitude and BE 1 Targets
- Hyperspectral and geochemical study of fresh basement rocks from Matsa's recent 2017 aircore programme
- Targeting and prospectivity review of Matsa's entire ~600km² Lake Carey project
- Aircore Drilling over two targets, namely Fortitude North and BE 4
- Acquisition of new tenement E39/2945 Hacks Well from Australian Potash Ltd

Fortitude Mine Diamond Drilling

Diamond drillhole 17LCDD018 was completed at Fortitude for a depth of 549.3m (MAT announcement to ASX 31st October 2017).

The objectives of the drill hole included:

- Exploration of the Fortitude gold deposit at depth and thereby progress the project towards eventual underground development.
- Provide a platform to enable Matsa to carry out a research and development project to test the applicability of passive seismic technology as a direct guide to deeper mineralisation at Fortitude.

This drilling marks the first step in a programme to determine the underground mining potential at Fortitude, where a significant proportion of the current resource is located below current open pit designs.

Drilling of 17LCDD018 encountered transported cover (lacustrine clays) to a depth of 24.4m underlain by intermediate volcanics to a depth of 208.17m where they passed into a suite of strongly sheared ultramafic rocks, (probably komatiite lavas). Depth of weathering in the upper part of the drill hole persisted to a downhole depth of ~93m. Quartz veins on a scale of millimetres up to ~1.5m downhole width, were observed throughout the drill hole to be associated with strongly anomalous gold assays.

Better gold mineralised intercepts are as follows:

- **2.95m @ 2.16g/t Au** from 429.5m
(incl. 0.5m @ 7g/t Au from 431.5m)
- **3.20m @ 0.97g/t Au** from 454.4m
- **4.55m @ 1.08g/t Au** from 465.3
- **3.85m @ 1.68g/t Au** from 483.4m
(incl. 1.40m @ 3.82g/t Au from 483.4m)
- **8.50m @ 1.32g/t Au** from 506.65m

These intercepts are a selection from a large number of gold anomalous intervals >0.1 g/t Au over a downhole interval of 314.5m (201m -515.5m). Matsa believes the presence of mineralised quartz veins over this broad interval is highly encouraging and further drilling is planned.

Diamond drill hole 17LCDD018 at Fortitude commenced after 5 diamond drill holes (17BEDD001-17BEDD005 at the BE1 gold target) which were completed during the 30 June 2017 financial year. These drillholes also are planned to be used in support of research and development into the use of passive seismic surveys in the search for structurally controlled gold mineralisation. The research has potential to focus drilling for mineralisation under deeply weathered basement and transported cover.

Drill holes have been cased with 40mm PVC and will be used as platforms to place acoustic sensors and enable a 3 dimensional interpretation of passive seismic data.

Exploration was largely suspended during trial mining period at the Fortitude gold deposit for capital preservation purposes during this high-risk period. With trial mining completed, exploration at Lake Carey recommenced with drilling in May 2018.

Hyperspectral / Geochemistry Study

This study undertaken by CSA Global collected hyperspectral data from 412 bottom of hole rock chip samples. These results were integrated with Matsa's existing high quality litho-geochemistry assays over the same intervals with the following objectives:

- to detect hydrothermal alteration signatures based on published data from major gold deposits eg. Sunrise Dam. Alteration associated with major gold deposits typically has a much larger footprint than the associated gold orebody and is therefore more readily detectable in wide spaced drilling similar to Matsa's 400 x 100m 2017 lake aircore coverage
- to refine the geological interpretation of basement rocks and likely controls on mineralisation
- to determine whether Matsa's previously reported targets BE1, BE2, BE3 and BE4 have a hydrothermal alteration footprint as a guide to further drilling

Results identified five alteration areas where moderate to strong sericite alteration is associated with anomalous gold assays and highlights potential for significant gold mineralisation. The two highest priority areas of alteration are associated with Matsa's BE1 prospect, where Matsa previously announced the presence of visible gold in diamond drill core.

Matsa is currently planning a follow up drilling programme to further test these targets.

Exploration Review and Targeting Study

A review of past exploration within Matsa's ~600km² tenement area was carried out to:

- assess the extent and effectiveness of past exploration
- develop new exploration targets for gold including near mine
- rank exploration targets as a focus for near term drilling

The project is located in an area which has been the focus of past exploration by both major companies and junior explorers particularly since the discovery of the Granny Smith deposit in 1979,

Sunrise Dam deposits in late 1988 and the Wallaby deposit in 1998. The favourable litho-structural geological setting of these deposits extends into Matsa's Lake Carey project, which consequently remains highly prospective for major new gold discoveries.

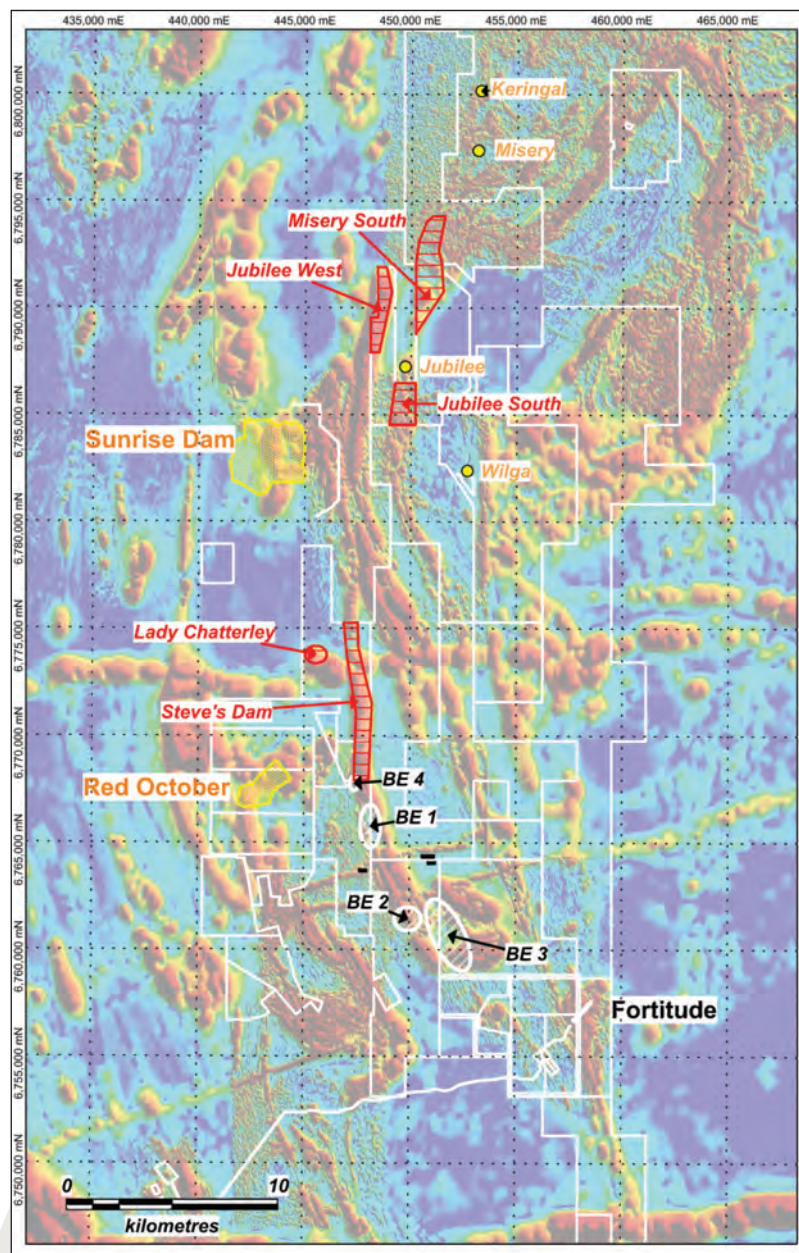


FIGURE 4: Lake Carey Project Exploration Targets

Exploration in the district has been hampered by a complex history of deep weathering of prospective rocks followed by burial of parts of the area by 20m - 60m of younger alluvial and lacustrine cover. Previous exploration has tended to be much less effective in areas of younger cover. In particular, the salt lakes in the project area remain mostly untested by drilling, due to difficulties at the time that previous work was carried out.

Matsa's initial exploration programme in 2017 was focused on a 9km long previously untested section of the Bindah Fault corridor in Lake Carey and led to discovery of 4 new gold occurrences BE1 - 4 under 20 - 60m of mostly lacustrine clay.

A significant number of targets have recently been identified with an initial five targets highlighted by a first pass review of historical exploration data over the entire project area. These new targets are now named Steve's Dam, Lady Chatterley, Jubilee South, Jubilee West and Misery South (Figure 4). This review process is continuing and further prospective targets are expected to be identified.

Three of the Targets (Steve's Dam, Misery South and Lady Chatterley) are under moderate (30-50m) to deep (+80m) transported cover. Two targets Jubilee West and Jubilee South are in a background of deeply weathered basement cut by narrow alluvium filled palaeo-channels feeding west into Lake Carey.

Aircore Drilling

Exploration at Lake Carey during the quarter comprised an aircore drilling programme on the BE 4 and Fortitude North targets (Figure 5).

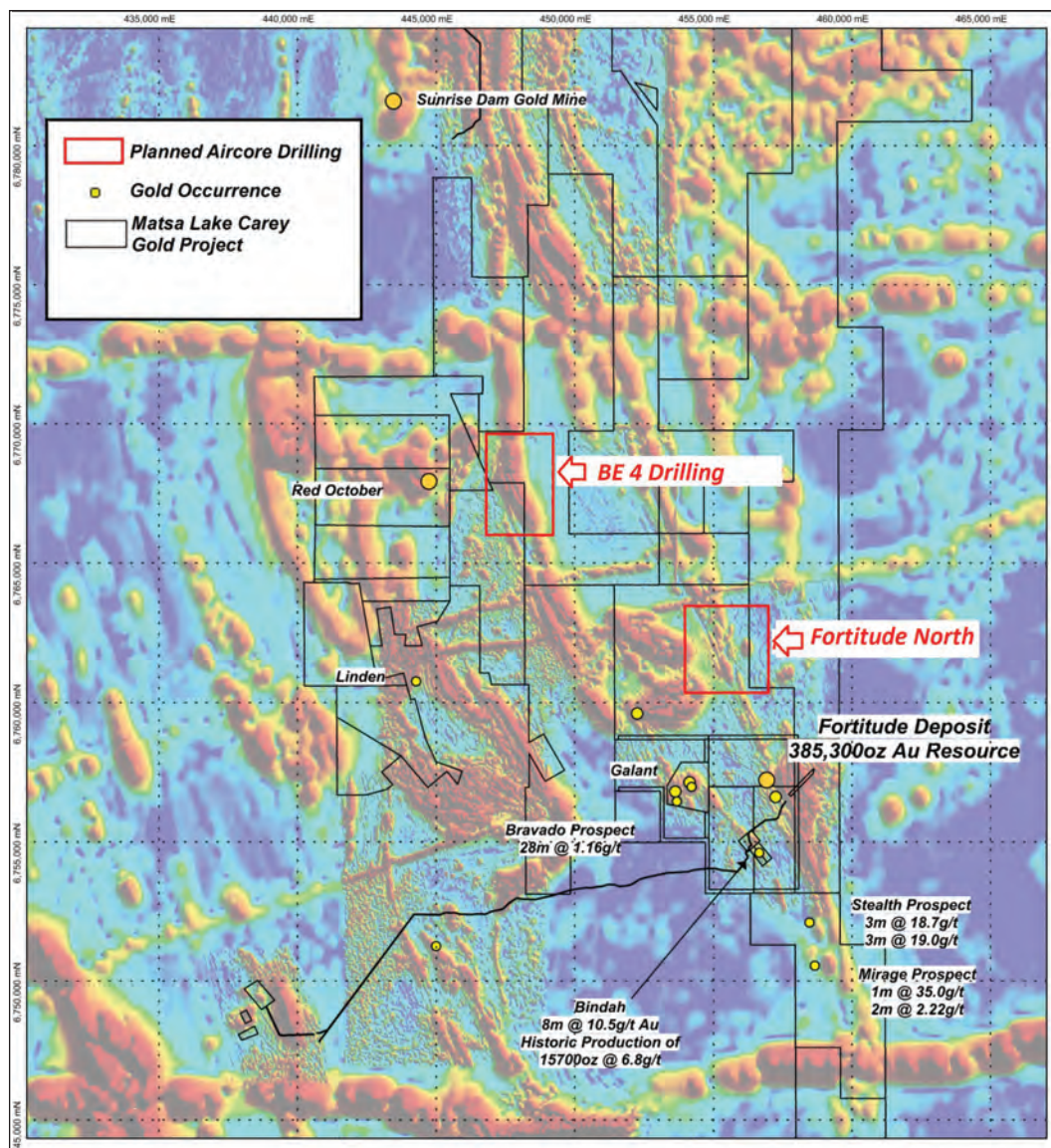


FIGURE 5: Lake Carey Project Aircore Drilling Programme Location on aeromagnetic image

The programme was designed to explore the parts of the two targets outside of adjacent salt lakes. This programme was the first stage in a planned two-staged programme with the second stage to be undertaken over extensions of the same targets which are located under salt lake cover and which will require a specialised lake drilling rig (MAT announcement to ASX 9th May 2018).

Drilling comprised 97 drill holes for a total of 9,720m using a track mounted aircore rig designed to operate in sandy/boggy areas along the margins of salt lakes.

Aircore Results Fortitude North

This target was selected to test a structurally complex zone approximately 5km north of Matsa's Fortitude gold mine in the Fortitude Fault which also contains the Fortitude gold deposit. Due to access difficulties this target has only undergone limited previous drilling along incomplete drill lines spaced 800m apart in an area comprising a mix of sand dunes and areas of salt lake (Figure 6). Past drilling identified anomalous gold values in aircore drilling with a best historic result of 3m @ 1.8g/t Au.

Significant gold assays in variably weathered mafic and ultramafic basement rocks have been received (Figures 6 and 7).

Highly anomalous results in first pass three metre composite samples were subsequently assayed on individual metre "splits" making up the composite intervals to verify the earlier results as well as provide more accurate intercepts (*MAT announcements to ASX 11th July 2018 and 20th July 2018*).

Based on 1m splits at Fortitude North, the following best intercept was announced:

- **8m @ 5.41g/t Au** from 76m to end of hole
incl. 2m @ 15 g/t Au from 76m,
all within a broader intercept of:
- **26m @ 1.95 g/t Au** from 57m to end of hole*

A comparison between anomalous composite and 1m split intercepts from Fortitude North is shown in Table 7.

Drill Hole	Prospect	Intercepts >0.1 g/t Au in Weathered Basement Rocks	
		Composite Intercept	New 1m Assay Intercept
18FNAC31	Fortitude N	3m @ 0.2 from 78-EOH	3m @ 0.16 from 78-EOH
	Fortitude N	27m @ 1.37 g/t Au from 57-EOH	26m @ 1.95 g/t Au from 58m to EOH including*
18FNAC36	Fortitude N	9m @ 3.16 g/t Au from 75m - EOH	8m @ 5.41g/t Au from 76m to EOH including
	Fortitude N	3m @ 5.71 g/t Au From 75m	2m @ 15 g/t Au from 76m
18FNAC38	Fortitude N	3m @ 0.7 g/t Au from 69m	3m @ 0.49 from 69

TABLE 7: Results of 1 metre sampling in newly discovered gold zone at Fortitude North

Moderately elevated gold values in lake sediments to the east of the newly discovered zone of bedrock gold mineralisation represent a dispersion halo which supports the significance of the bedrock mineralisation.

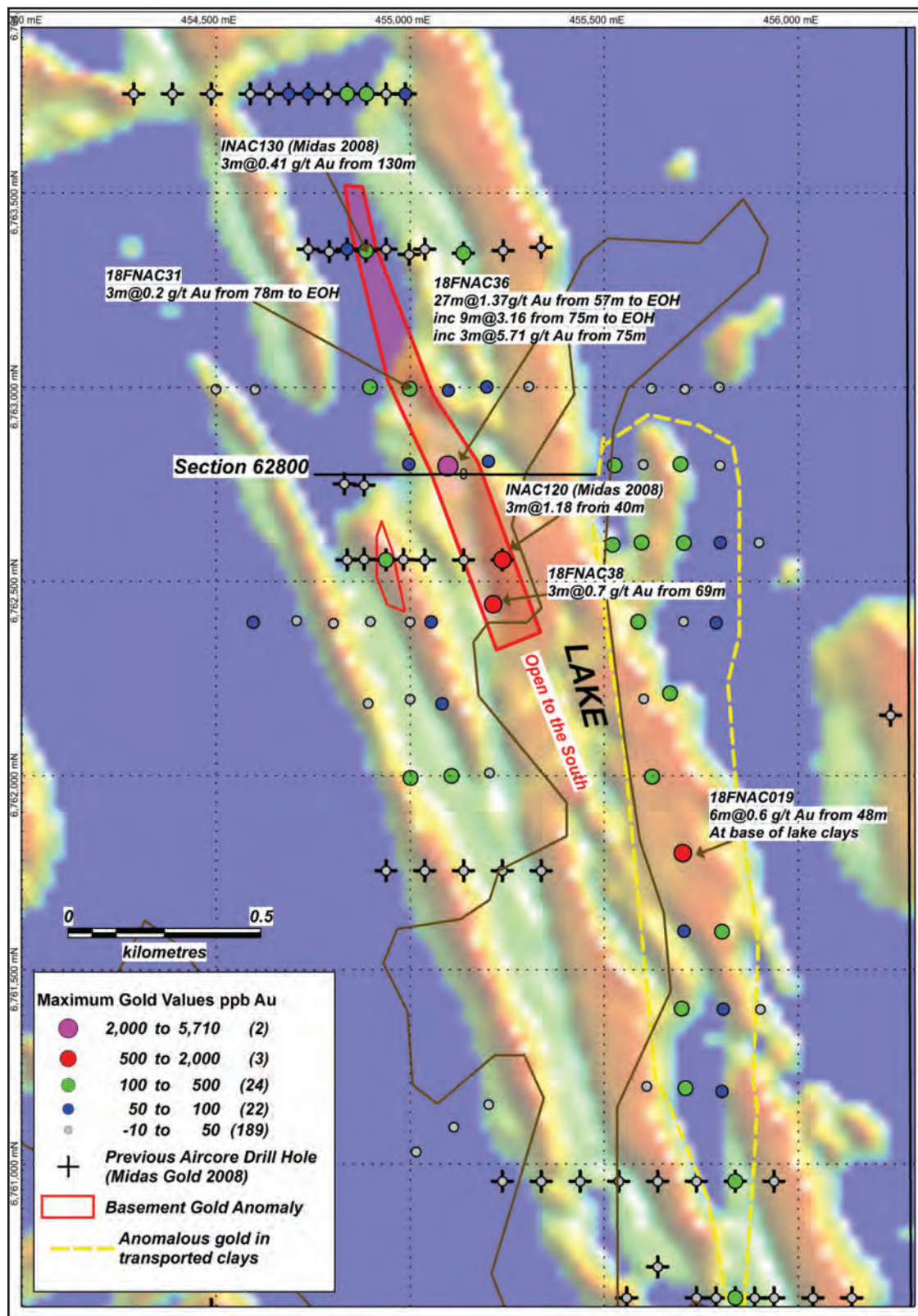


FIGURE 6: Fortitude North Aircore Summary Composite Sample Results on Aeromagnetic image

Matsa is very encouraged by these early stage results because gold mineralisation is associated with highly deformed mafic/ultramafic lavas along the Fortitude Fault and appears to be very similar to mineralisation at Matsa's Fortitude gold deposit 5km further south on the same structure.

Significantly, the Fortitude Fault is interpreted to form part of the regional scale Barnicoat East Fault system which separates the prolifically gold mineralised Kurnalpi Terrane (which hosts the major Sunrise Dam, Granny Smith and Wallaby gold deposits) to the West from the Burtville Terrane to the east.

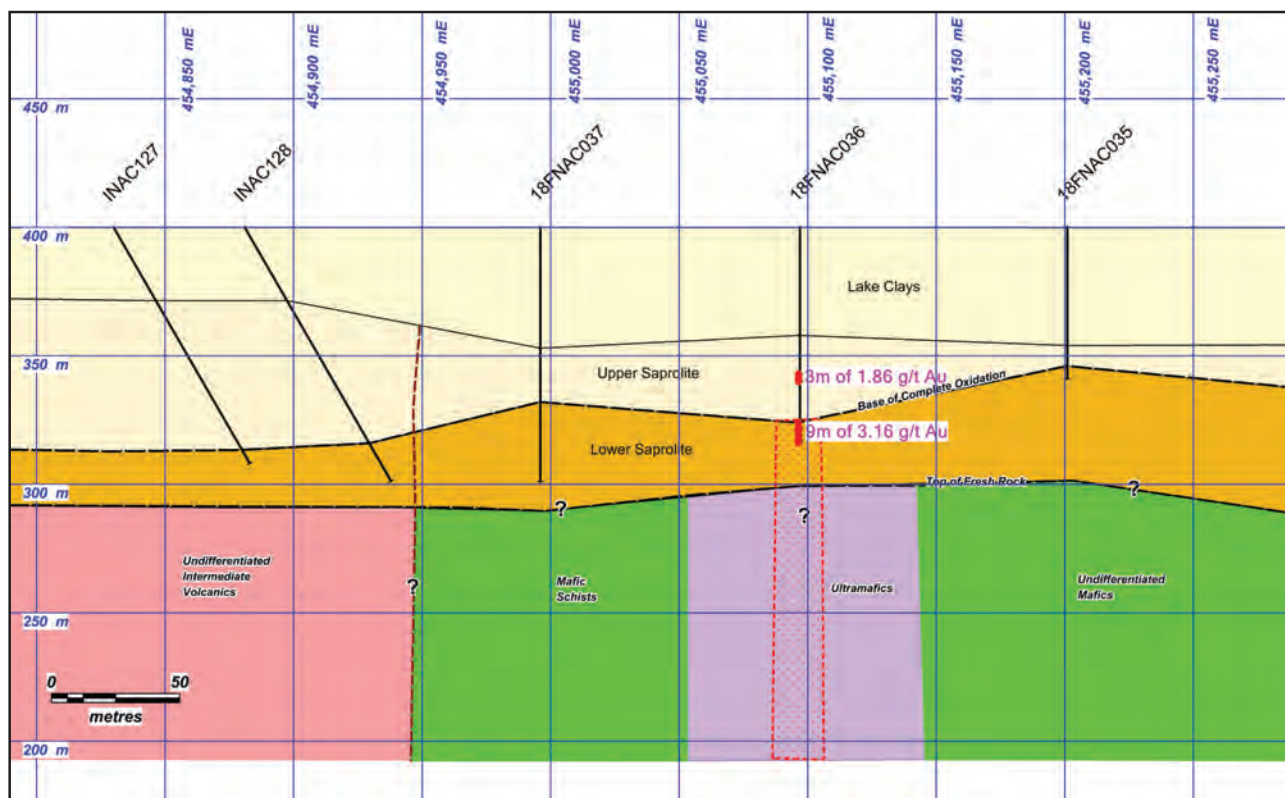


FIGURE 7: Fortitude North Cross Section 62800 (Intercepts based on composite Assays)

Aircore Results BE 4

The BE 4 drilling programme was designed to extend coverage of the highly prospective Bindah Extended Target Corridor where drilling during 2016 and 2017 defined significant gold anomalies at the BE1, BE2, BE3 and BE4 targets (MAT announcement to the ASX 30th July 2017).

The programme was designed to test a 3km section of the Bindah Fault corridor immediately north of the BE 4 prospect, where aircore drilling during 2017 intersected anomalous gold values with a best result of 3m @2.62 g/t Au. The drilling was planned to test a section where the fault swings from a NNW to a N trend. This location is interpreted to be a favourable structural position for gold mineralisation.

Moreover the Bindah Fault is associated with strongly anomalous gold values at a number of locations including Matsa's BE 1 target where gold mineralisation is associated with a dacite porphyry intrusion. Drilling was designed to test a previously untested section of the Bindah Fault north of anomalous gold values in weathered basement at BE 4. (MAT announcement to the ASX 27th July 2017)

A number of significantly anomalous gold values >0.1 g/t Au were received as listed (MAT announcement to ASX 20th July 2018) a maximum of **1m of 0.74 g/t Au** in weathered basaltic volcanics. Drilling was carried out on very wide spaced lines (vertical drill holes 400m x 100m apart) and follow up aircore drilling is proposed to better define this target for RC drilling.

Acquisition of E38/2945 Hacks Well

Matsa acquired a 100% interest in the ~72km² Hacks Well EL from Australian Potash Ltd for a consideration of \$50,000 (Figure 1). Matsa believes that this licence which is strategically located immediately NE of the Sunrise Dam gold mine is highly prospective for gold and represents a significant addition to the Lake Carey project. A preliminary inspection of previous work is very encouraging and a more comprehensive data review and targeting study planned for early 2018 is expected to be followed up by drilling during the first half of 2018.

Next Steps

Given the highly encouraging results of the aircore drilling, follow up drilling is proposed as a priority in 2018/19:

- Reverse circulation (RC) drilling at Fortitude North as soon as permitting has been obtained
- Aircore drilling in the lake at Fortitude North Prospect to determine the extent of the bedrock mineralisation to the south of the recently completed drilling
- Infill aircore drilling at BE 4, to better define targets for RC drilling

PARABURDOO PROJECT

A brief field programme was conducted to follow up highly anomalous gold values in stream sediment samples as previously reported (MAT report to ASX 5th October 2017).

The field programme focused on the gold anomalous stream sediment catchment defined during the period. A total of 18 stream sediment samples, 13 soil samples and 4 rock chip samples were collected.

Only four stream sediment samples returned anomalous assay values > 3ppb Au with a maximum gold value of 64 ppb Au. Overall, these results are significantly lower than the highly anomalous gold values (up to 0.38 g/t Au) returned from samples collected during the previous quarter. The reason for this discrepancy is not known at this stage, but importantly a review of laboratory procedures did not identify potential for contamination in the laboratory. The presence or absence of a one or more fine particles of free gold would account for the disparity between the samples. While unintentional, it is possible that field sampling procedures in the earlier programme were more appropriate for recovery of free gold, than the follow up programme.

Soil and rock chip assays did not return any anomalous results. Matsa proposes to carry out further follow up sampling including excavation and panning of material from heavy mineral trap sites to confirm the presence of anomalous gold values.

A field programme was carried out during June 2018 and was focused over the area of reported gold nugget discoveries, and gold anomalous drainages. A total of 9 stream sediment samples, 63 soil samples and 7 rock chip samples were collected and results are awaited.

PARABURDOO PROJECT BACKGROUND

In 2016, Matsa was made aware of the reported discovery of a large amount (">\$1M worth") of coarse free gold by local prospectors using metal detectors in a location close to Paraburdoo and in a potentially favourable geological setting. The reported discovery site is held under P47/1687 a 9.8 Ha prospecting permit held by Paul Spencer and Steven Foers.

Matsa currently holds one exploration licence (E47/1318) of 103km² in extent, over the northern rim of the Bellary Dome which had undergone minimal previous exploration for gold and Matsa retained that portion under EL 47/3518 and withdrew the remaining licences.

KILLALOE PROJECT

In March 2018 the following work was conducted:

- Collection of 281 Soil samples in an area of minimal previous exploration
- Collection of 165 auger samples to follow up anomalous soil gold values by previous explorers

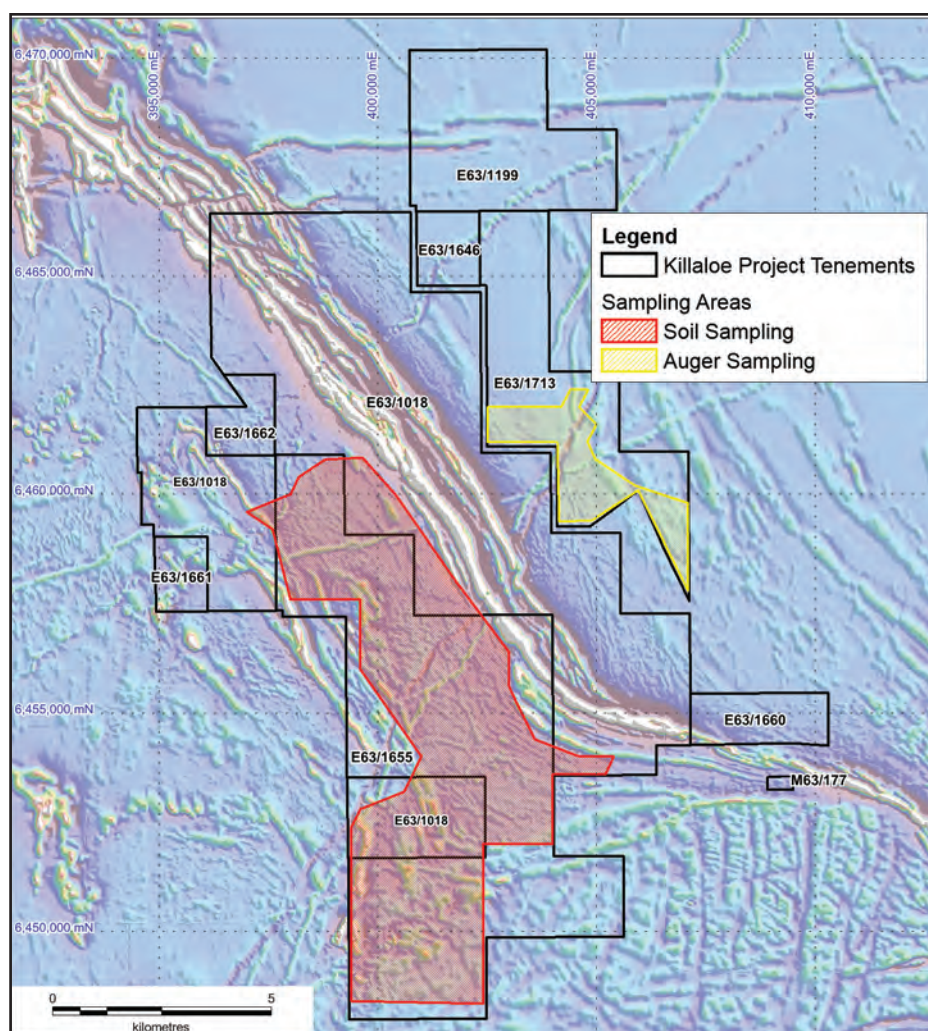


FIGURE 8: Killaloe Project Soil and Auger Sampling

Soil Sampling

A total of 281 soil samples on a 400m x 400m staggered grid were collected in the southern part of the Killaloe project area. The sampling was carried out north of and along the margins of the Buldania granite which has had minimal previous exploration due to its generally bland aeromagnetic signature and sparse outcrop. The area is interpreted to be underlain by Archaean greenstones, mostly gabbro, dolerite and basalt. Potential was seen for gold mineralisation in underlying greenstones as well as lithium bearing pegmatites in greenstone roof pendants above the Buldania granite. (*Discovery of lithium-bearing pegmatites associated with Buldania granite ~ 10km to east was recently announced by Lontown Resources (LTR) announcement to ASX 18th March 2018*).

No significantly anomalous gold or Li assays were returned.

Auger Sampling

An auger sampling program over the southern half of E63/1713 was carried out in the first quarter of 2018 to follow up anomalous gold values up to 20ppb Au in soils as reported by Avoca Resources in 2010 (Figure 9).

Matsa undertook follow up auger sampling targeting a reasonably well-developed calcrete layer in mixed residual and transported soils along the margin of Lake Cowan.

A total of 165 auger soils samples were collected on a 200m x 200m staggered grid pattern using a vehicle mounted auger drill rig. Drill depth is between 0.2 to 2.5 m with ~ 90% of samples being consistently calcareous. The samples were submitted to ALS Laboratory in Perth and analysed for gold only using Au-TL43 method (trace level gold, aqua regia digest and measured with ICP-MS).

The results of the auger sampling validated earlier soil sampling with peak values up to 14 ppb Au. Auger and soil sampling data were combined with 5 anomalies highlighted over a NS distance of ~3km (Figure 9). Anomalous values appear to be associated with a distinctive magnetic feature which has been disrupted by faulting. This magnetic feature may reflect a magnetic dolerite unit in a background of mafic volcanics or sediments and thereby potentially represents a favourable litho-structural setting for gold mineralisation.

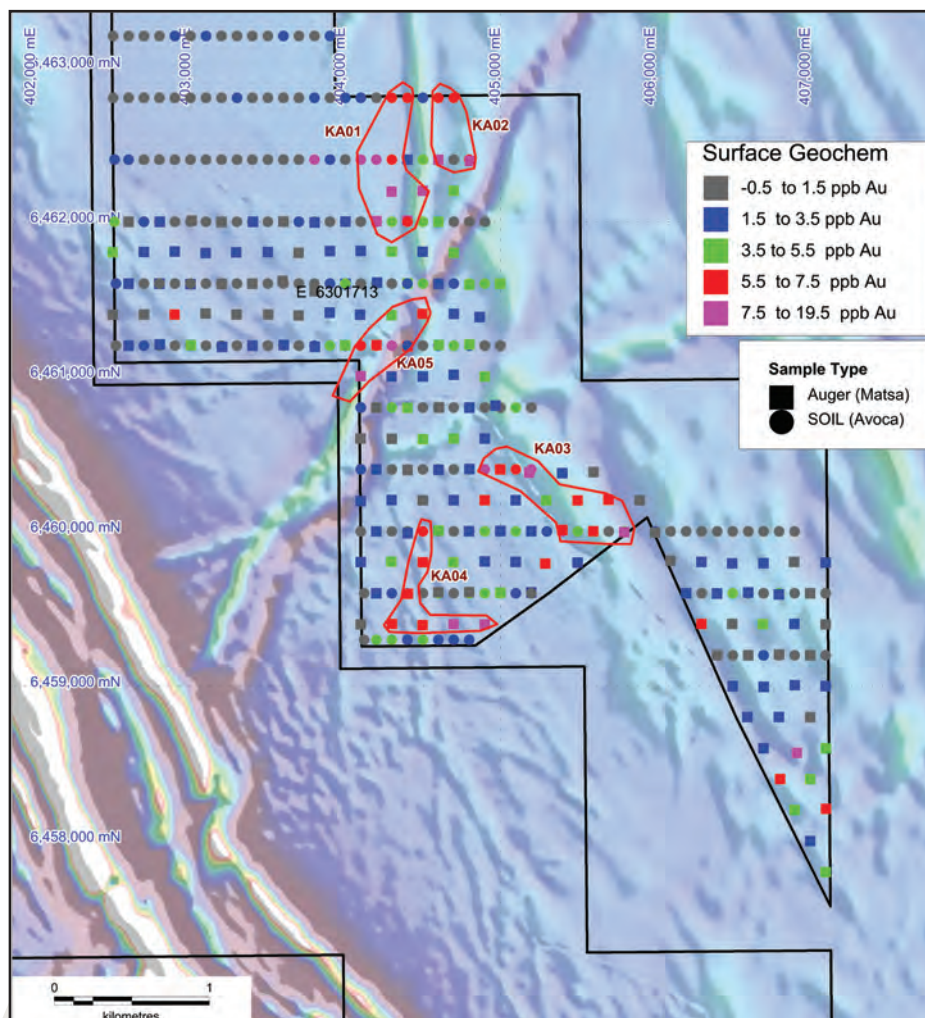


FIGURE 9: Killaloe summary auger and soil results

THAILAND EXPLORATION

Matsa continues to work with the Agricultural Land Reform office (ALRO) to finalise land access agreements and allow more intensive exploration and mining activities. Matsa is in final approval stages with the Forestry Department to access Forestry Land for exploration and potential mining at the Siam 1, Siam 2 and Siam 5 projects. Access to Forestry held land in the Siam 2 and Siam 5 project areas was granted during the year and access to Forestry Land in the Siam 1 project areas is anticipated early in the 2018/19 financial year.

On-ground work during the year comprised:

- 16.2 line km ground magnetic survey and mapping at Siam 7
- 17.5 line km ground magnetic survey at Siam 6
- 33 line km ground magnetic survey at Siam 3
- Rock chip and channel sampling of cupriferous outcrop at Siam 5
- 47 soil auger samples at Siam 5

Ground magnetics and mapping at Siam 7 have highlighted two mineralised areas associated with NW striking faults. The southern anomaly is immediately adjacent to the contact of limestone and volcanics, where potential higher grade skarns may develop.

Ground magnetic surveys at Siam 6 and Siam 3 have not highlighted significant structural features or magnetic highs worthy of follow up to date. A review of the geology and potential cause of copper mineralisation noted at surface at these two areas is underway.

At Siam 5, rock chipping and costeaning of outcropping metamorphosed volcanics containing malachite, azurite and native copper within quartz veining produced results up to 0.8% Cu using ICP analysis. The 10m outcrop lies on an isolated magnetic high, interpreted as an intrusive body at depth.

Matsa completed a review of tenement holdings and rationalised granted tenure to areas of higher prospectivity including the Siam 1, Siam 2, Siam 5 and Chang prospects, thereby reducing tenement expenditure obligations. New exploration licence applications have been lodged to cover areas of interest which Matsa believes to be prospective. The tenement package now totals 687km² in area.

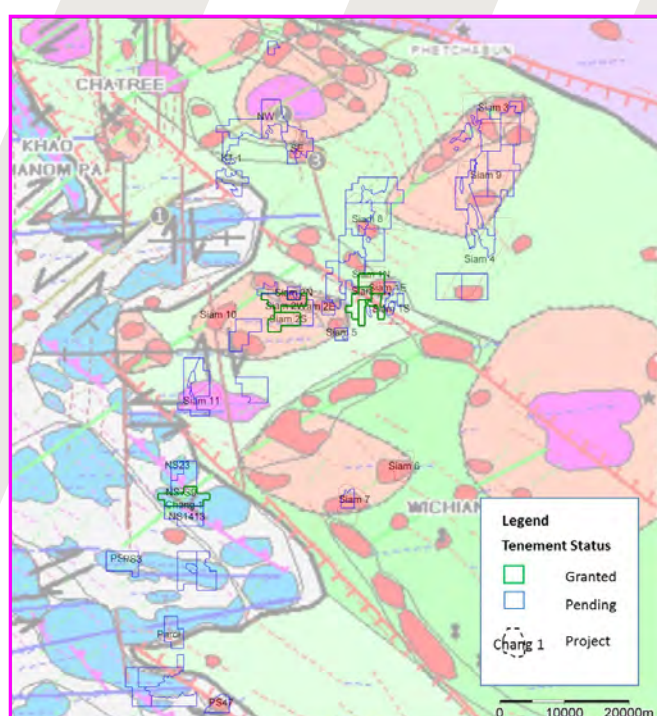


FIGURE 10: Thailand current Tenements over tectonic domains (Sangsomphong et al, 2015)

Field work during the year comprised 72 line kms of ground magnetic work to the west of Siam 1. The work highlighted regional NW trending structures which will be the focus of further activity as they present potential fault systems and fluid pathways.

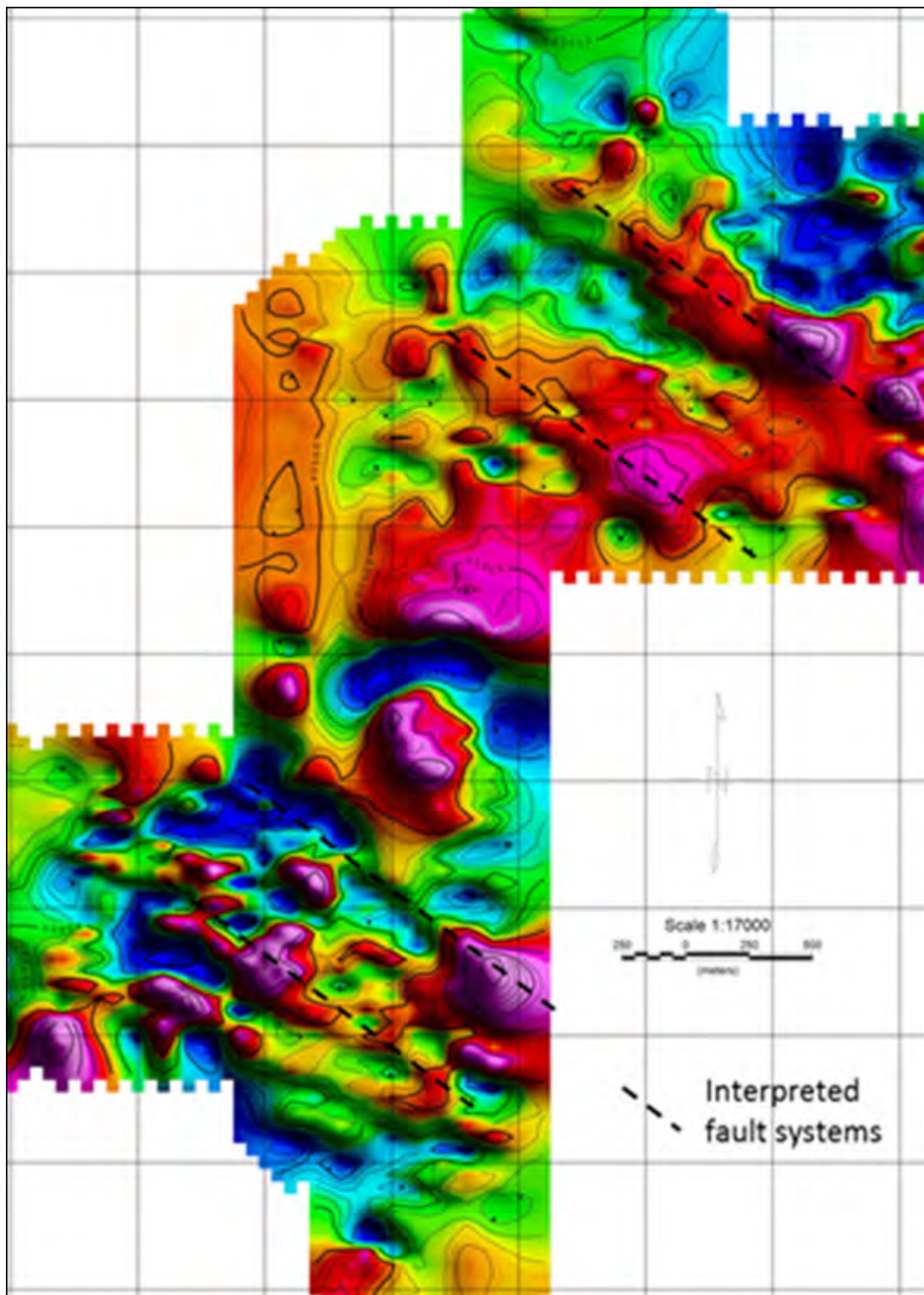


FIGURE 11: Total field magnetic data processing image map of tenement SPL44/2558.

CORPORATE ACTIVITIES

In August 2017 Matsa entered into loan agreements with two separate parties for a \$4M loan facility of which \$3M was drawn down immediately, with the balance of \$1M available at call but remained undrawn. The loan attracts an interest rate of 12%, is repayable by 31 July 2019 and 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.

Matsa also issued 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 total finance facility of \$4M has been equally provided by the two separate parties.

In November 2017, Matsa conducted a bonus issue of shares to all shareholders on a 1 for 10 basis. This entitled all shareholders at the Record Date to receive 1 free fully paid ordinary share in Matsa for every 10 shares held at no cost to shareholders.

The bonus share issue coincided with receipt of first revenue from mining at the Fortitude Trial mine that forms part of the Company's Lake Carey project.

In December 2017, Matsa conducted a placement to sophisticated and professional investors to raise approximately \$2.55M (before costs) via the issue of 11.3M fully paid ordinary shares at an issue price of \$0.225 each with one free unlisted option for every three shares subscribed for with an exercise price of \$0.30 each and expiring 30 November 2019, with funds raised to be used for the Red Dog gold project, the Red October gold project and working capital.

During the year the Company received \$375,000 as a result of the exercise of 1.7 million unlisted options.

Matsa has executed a Memorandum of Understanding (MOU) with AngloGold Ashanti Australia Limited (AGAA) which applies to a defined area of interest in the Laverton Tectonic Zone (Figure 12).

The MOU will greatly benefit Matsa's gold mining and exploration activities throughout the extensive Lake Carey gold project which includes the Fortitude, Red Dog and Red October gold mines.

Key aspects of the MOU include:

- AGAA to receive first option, and endeavour to treat all gold ore produced by Matsa within the MOU area subject to ore complying with technical requirements
- Both parties to enter a separate technical data sharing agreement under which exploration and other technical information is to be shared and discussed, subject to confidentiality provisions
- Sharing of infrastructure including airport, roads, medical and other facilities where mutually beneficial
- A model access agreement to be used in all instances of overlapping tenements, in particular miscellaneous licences for haul roads etc. which will streamline the grant process within the MOU area
- A commitment to work together openly, fairly and in a mutually beneficial way

This non-binding MOU is the outcome of the excellent working relationship established between Matsa and AGAA over the last 2 years and in particular during the Fortitude gold trial mine which ultimately underpinned the economic viability of that recently completed operation.

The MOU covers a very large area including Matsa's Lake Carey and Red October gold projects and AGAA's Lake Carey and Sunrise Dam operations in the Lake Carey district as shown in Figure 12.

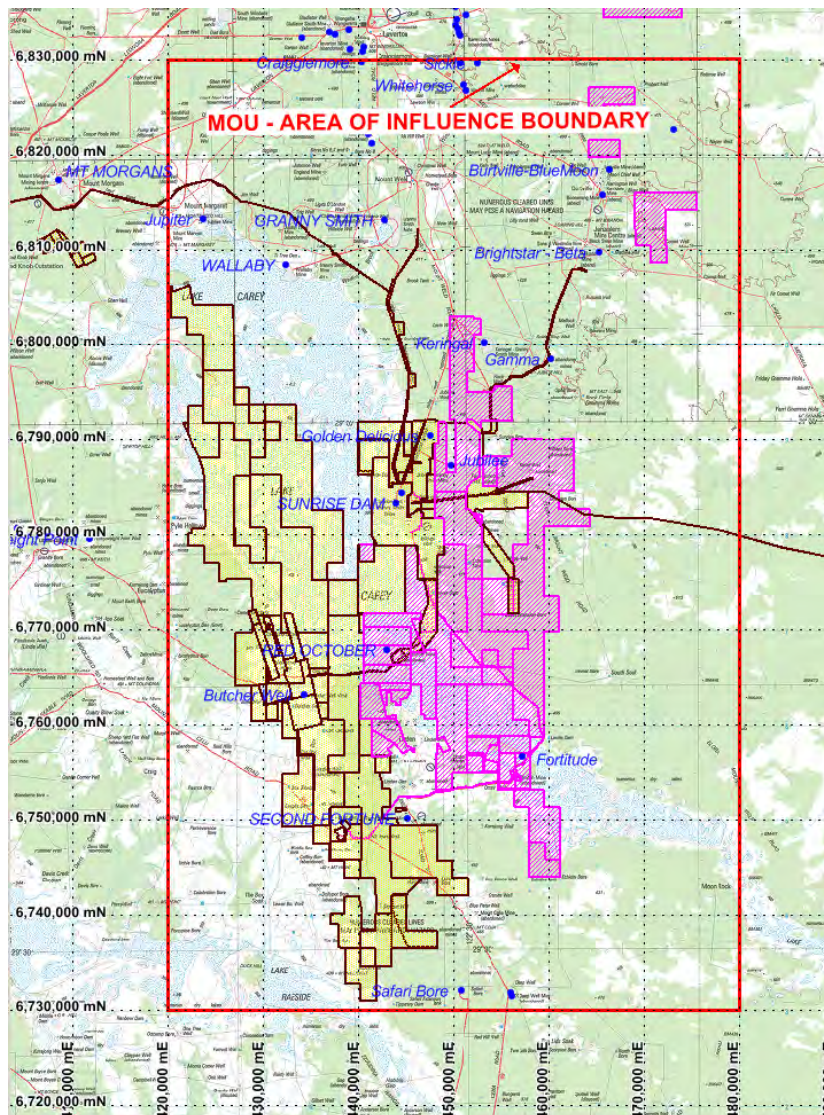


FIGURE 12: Matsa AGAA MOU Area of Interest

Exploration results

The information in this report that relates to Exploration results is based on information compiled by David Fielding, who is a Fellow of the Australasian Institute of Mining and Metallurgy. David Fielding is a full time employee of Matsa Resources Limited. David Fielding has sufficient experience which is relevant to the style of mineralisation and the type of ore deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. David Fielding consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

Your directors present their report for the year ended 30 June 2018.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

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

Mr Poli is a fellow of the Australian Society of Certified Practicing Accountants and was the founder and managing partner of an accounting firm for 19 years from 1989 to 2008. He is well versed in all aspects of accounting and taxation and has considerable experience in business through his role as a consultant to many varied clients and through his own involvement in ownership of businesses in Western Australia, the Northern Territory and South East Asia.

He has been chairman of Matsa Resources Limited for 9 years and as a former registered Securities Trader and a significant investor in the mining industry, Mr Poli is particularly well qualified to drive the creation of a significant new mining and exploration company.

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

Bulletin Resources Limited (Appointed 24 June 2014)

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

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

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

Bulletin Resources Limited (Appointed 13 August 2013)

Mr Andrew Chapman CA F Fin

Mr Chapman is a chartered accountant with over 20 years' experience with publicly listed companies where he has held positions as Company Secretary and Chief Financial Officer and has experience in the areas of corporate acquisitions, divestments and capital raisings. Since 1993 he has worked for a number of public companies in the mineral resources, oil and gas and technology sectors.

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

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

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

COMPANY SECRETARY

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

PRINCIPAL ACTIVITIES

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

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

Operating Results for the Year

The Group's net loss for the year after income tax is \$5,117,800 (2017: \$2,289,075).

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

- A gain of \$1,263,661 (2017: \$2,138,590) on the sale of shares held in listed investments.
- Impairment losses of Nil (2017: \$1,278,272) attributable to the Group's exploration projects.
- Care and maintenance costs on the Red October gold project of \$406,598 (2017: Nil) on available-for-sale investments.
- The write-off of exploration expenditure of \$755,335 (2017: \$298,733).
- Share based payments expense of \$Nil (2017: \$1,167,432).
- Income of \$276,475 (2017: \$852,560) relating to a tax refund for eligible research and development expenditure.
- Share of loss from the investment in associate Bulletin Resources Limited of \$157,106 (2017: \$4,305,782 gain).

Review of Financial Position

The net assets attributable to the shareholders of the parent have decreased by \$174,979 from 30 June 2017 to \$17,310,030 at 30 June 2018.

During the financial year \$2,548,143 (before costs) was raised via the issue of 11,325,079 fully paid ordinary shares at an issue price of \$0.225 each with one free unlisted option for every three shares subscribed for with an exercise price of \$0.30 each and expiring 30 November 2019.

\$375,000 was raised during the financial year from the exercise of unlisted options that resulted in the issue of 1,700,000 fully paid ordinary shares.

Cash reserves at 30 June 2018 were \$3.79 million compared to \$2.06 million in the previous financial year and the Group had investments in listed shares of \$4,315,246.

DIVIDENDS

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

CORPORATE STRUCTURE

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

EMPLOYEES

The Group had 24 employees of which 20 were full-time as at 30 June 2018 (2017: 23 full-time equivalent employees).

Review of Operations

A full review of the operations of the Group during the year ended 30 June 2018 is included on pages 4 to 25.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 20 August 2018, Matsa announced that it has executed a binding agreement with Liontown Resources Limited ("Liontown" ASX: LTR) for the sale of the Company's Killaloe Project. The agreement covers the sale of all tenements held 100% by the Company and its 80% interest in two other tenements held in joint venture with Cullen Resources Limited ("Cullen").

The consideration for the sale of the project is:

1. The issue of 20 million fully paid ordinary shares in Liontown to Matsa in two tranches as follows:
 - (i) Tranche 1 - 10 million fully paid ordinary shares for all the Killaloe tenements other than in respect of the tenements held in joint venture with Cullen; and
 - (ii) Tranche 2 - 10 million paid ordinary shares for those tenements held in joint venture with Cullen.
2. The grant of a 1% Net Smelter Royalty ("NSR") in favour of Matsa on all minerals recovered and produced from the Killaloe Project.

Settlement of Tranche 1 occurred on 6 September 2018.

On 11 September 2018 Matsa announced that it had commenced mining at the Red Dog gold mine.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

DIRECTORS' MEETINGS

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

	Directors' Meetings	
	Number eligible to attend	Number attended
Paul Poli	5	5
Frank Sibbel	5	5
Andrew Chapman	5	5

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

	Number of Ordinary Shares	Number of \$0.25 Options
Paul Poli	11,855,000	2,750,000
Frank Sibbel	294,852	1,500,000
Andrew Chapman	69,000	1,500,000

Options granted to directors and officers of the Company

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

SHARE OPTIONS

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

Date of Expiry	Exercise Price	Number under Option
30 November 2019	\$0.25	4,175,000
30 November 2019	\$0.25	5,750,000
30 November 2019	\$0.30	3,775,025
		<u>13,700,025</u>

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

Shares Issued on Exercise of Options

During or since the end of the financial year, the Company has issued 1,700,000 ordinary shares as a result of the exercise of options of which 1,000,000 options had an exercise price of \$0.20 each and 700,000 options had an exercise price of \$0.25 each.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT - Audited

Principles of Compensation

This remuneration report for the year ended 30 June 2018 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

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

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

The remuneration report is presented under the following sections:

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

Individual Key Management Personnel Disclosures

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

Key Management Personnel

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

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

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Board Oversight of Remuneration

Remuneration Committee

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

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

Remuneration Approval Process

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

Remuneration Strategy

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

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

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

Remuneration Structure

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

Non-Executive Director Remuneration

Objective

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

Remuneration Policy

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process. No external advice was received during the year. Each Director receives a fee for being a Director of the Company.

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

Structure

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

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

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

The remuneration report for the Non-Executive Directors for the year ending 30 June 2018 and 30 June 2017 is detailed in this report.

Managing Director and Executive Remuneration Structure

Remuneration Policy

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

Structure

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

Remuneration consists of the following key elements:

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

The proportion of fixed remuneration and variable remuneration for each executive for the period ending 30 June 2018 and 30 June 2017 is detailed in this report.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Fixed Remuneration

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

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

The fixed remuneration component for executives for the period ending 30 June 2018 and 30 June 2017 is detailed in this report.

Variable Remuneration – Short Term Incentive (STI)

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

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

The aggregate of annual STI payments available for Executives across the Group is subject to the approval of the Board. Payments are usually delivered as a cash bonus. During the year there were no STI payments.

Variable Remuneration – Long Term Incentive (LTI)

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

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

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

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

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Other Benefits

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

Company Performance and the Link to Remuneration

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

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

Service Agreements

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

Mr Paul Poli, Executive Chairman, has a contract of employment with the Company. Mr Poli is entitled to receive a salary of \$375,000 plus statutory superannuation. This contract is for an unlimited term and is capable of termination by Mr Poli on one month's notice. The Group has the right to terminate the employment contract by giving Mr Poli six months' notice or making payment equal to six months' pay in lieu of notice.

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

Mr Frank Sibbel, Non-Executive Director, has a consultancy contract with the Company. Mr Sibbel is paid an hourly rate for the provision of consultancy services outside those provided as a director as required. This contract is capable of termination on one month's notice. The Group retains the right to terminate the contract immediately, by making payment equal to one month's pay in lieu of notice.

Mr Andrew Chapman, Director and Company Secretary, has a contract of employment with the Company and is remunerated on an hourly basis for the provision of company secretarial services and acting as Chief Financial Officer.

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

As at 30 June	2018	2017	2016	2015	2014
Closing share price	\$0.155	\$0.25	\$0.17	\$0.145	\$0.375
Net comprehensive income/(loss) per year ended	(3,886,427)	2,517,038	(2,231,886)	(7,425,418)	5,516,405

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

2018	Short Term Benefits		Post-employment Benefits	Share-based payments	Total \$	% Performance Related	% of Remuneration that consists of securities
	Salary & Fees \$	Other \$	Superannuation \$	Securities \$			
Directors							
Paul Poli ¹	341,860	500	20,049	-	362,409	-	-
Frank Sibbel ²	71,642	-	-	-	71,642	-	-
Andrew Chapman ³	221,451	-	19,640	-	241,091	-	-
Total	634,953	500	39,689	-	675,142	-	-

¹ Mr Poli is a director and shareholder of Strategic Siam Co Ltd which received payments totalling \$61,508 during the year. Strategic Siam provides administration services to Thai entities. Mr Poli receives an internet allowance as part of his terms of employment.

² Mr Sibbel provided consultancy services to the Company totalling \$29,642 during the year.

³ Mr Chapman provided company secretarial services to the Company totalling \$179,451 during the year.

Executives

David Fielding	221,000	-	20,049	-	241,049	-	-
Total	221,000	-	20,049	-	241,049	-	-

2017	Short Term Benefits		Post-employment Benefits	Share-based payments	Total \$	% Performance Related	% of Remuneration that consists of securities
	Salary & Fees \$	Other \$	Superannuation \$	Securities \$			
Directors							
Paul Poli ¹	333,171	4,265	18,886	317,075	673,397	47.09	47.09
Frank Sibbel ²	105,162	-	-	172,950	278,112	62.19	62.19
Andrew Chapman ³	199,917	-	16,736	172,950	389,603	44.39	44.39
Total	638,250	4,265	35,622	662,975	1,341,112	-	-

¹ Mr Poli is a director and shareholder of Strategic Siam Co Ltd which received payments totalling \$51,007 during the year. Strategic Siam provides administration services to Thai entities. Mr Poli receives travel and internet allowances as part of his terms of employment.

² Mr Sibbel provided consultancy services to the Company totalling \$56,208 during the year.

³ Mr Chapman provided company secretarial services to the Company totalling \$113,365 during the year.

Executives

David Fielding	224,967	-	17,883	57,650	300,500	19.18	19.18
Total	224,967	-	17,883	57,650	300,500	19.18	19.18

Compensation Options Granted and Vested during the year

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

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

2017	Vested	Granted	Grant Date	Value per Security at Grant Date	Exercise Price	First Exercise Date	Expiry Date
	No.	No.		Cents	Cents		
P Poli	2,750,000	2,750,000	24.11.16	11.53	25	24.11.16	30.11.19
F Sibbel	1,500,000	1,500,000	24.11.16	11.53	25	24.11.16	30.11.19
A Chapman	1,500,000	1,500,000	24.11.16	11.53	25	24.11.16	30.11.19
D Fielding	500,000	500,000	24.11.16	11.53	25	24.11.16	30.11.19

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

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

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

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

Value of Options granted as part of remuneration

2017	Value of options granted during the prior year	Value of options exercised during the year	Value of options lapsed during the prior year	Remuneration consisting of options during the prior year
	\$	\$	\$	%
Paul Poli	317,075	-	-	43.77
Frank Sibbel	172,950	-	-	62.19
Andrew Chapman	172,950	-	-	44.39
David Fielding	57,650	-	34,466	19.18

Option holdings of key management personnel

2018	Balance 1 July	Granted as remuneration	Exercised	Net change other*	Balance on Resignation	Balance 30 June	Vested & Exercisable	Not Exercisable
	No.	No.	No.	No.	No.	No.	No.	No.
P Poli	5,500,000	-	-	(2,750,000)	-	2,750,000	2,750,000	-
A Chapman	2,250,000	-	-	(750,000)	-	1,500,000	1,500,000	-
F Sibbel	2,250,000	-	-	(750,000)	-	1,500,000	1,500,000	-
D Fielding	900,000	-	-	(400,000)	-	500,000	500,000	-
	10,900,000	-	-	(4,650,000)	-	6,250,000	6,250,000	-

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT (Continued)

Option holdings of key management personnel (continued)

2017	Balance 1 July	Granted as remuneration	Exercised	Net change other*	Balance on Resignation	Balance 30 June	Vested & Exercisable	Not Exercisable
	No.	No.	No.	No.	No.	No.	No.	No.
P Poli	2,750,000	2,750,000	-	-	-	5,500,000	5,500,000	-
A Chapman	750,000	1,500,000	-	-	-	2,250,000	2,250,000	-
F Sibbel	750,000	1,500,000	-	-	-	2,250,000	2,250,000	-
D Fielding	600,000	500,000	-	(200,000)	-	900,000	900,000	-
	4,850,000	6,250,000	-	(200,000)	-	10,900,000	10,900,000	-

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

Shareholdings of key management personnel

2018	Balance 1 July	Granted as remuneration	Options exercised	Net change other*	Balance on resignation	Balance 30 June
	No.	No.	No.	No.	No.	No.
P Poli	10,600,000	-	-	1,225,000	-	11,825,000
A Chapman	40,000	-	-	4,000	-	44,000
F Sibbel	268,048	-	-	26,804	-	294,852
D Fielding	454,176	-	-	261,753	-	715,929
	11,362,224	-	-	1,517,557	-	12,879,781

2017	Balance 1 July	Granted as remuneration	Options exercised	Net change other*	Balance on resignation	Balance 30 June
	No.	No.	No.	No.	No.	No.
P Poli	10,600,000	-	-	-	-	10,600,000
A Chapman	40,000	-	-	-	-	40,000
F Sibbel	268,048	-	-	-	-	268,048
D Fielding	91,176	-	-	363,000	-	454,176
	10,999,224	-	-	363,000	-	11,362,224

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

End of Audited Remuneration Report

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

INDEMNIFYING OFFICERS

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

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

PROCEEDINGS ON BEHALF OF COMPANY

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

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

NON-AUDIT SERVICES

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

The following fees for non-audit services were paid/payable to the external auditors, or by related practices of the external auditors, during the year ended 30 June 2018:

Taxation services	\$7,700
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AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 39.

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



Paul Poli
Executive Chairman

Dated this 28th day of September 2018

Auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Matsa Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been:

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

NPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani
Director

Perth
28 September 2018

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 \$	2017 \$
Revenue		10,049,231	-
Mining operations		(9,813,882)	-
Amortisation and depreciation		(3,168,815)	-
		<u>(2,933,466)</u>	<u>-</u>
Other income	5(a)	1,627,149	3,126,741
Depreciation expense	5(c)	(157,078)	(59,358)
Other expenses	5(d)	(2,406,655)	(3,531,326)
Exploration and evaluation expenditure written off/provided for	11	(755,335)	(1,577,005)
Results from operating activities		(4,625,385)	(2,040,948)
Finance income	5(b)	38,181	26,625
Finance costs		(373,490)	(2,384)
Net finance income		<u>(335,309)</u>	<u>24,241</u>
Share of profit/(loss) of equity-accounted investee, net of tax	10	(157,106)	4,305,782
Profit/(loss) before income tax expense		<u>(5,117,800)</u>	<u>2,289,075</u>
Income tax expense	6	-	-
Net profit/(loss) for the year attributable to equity holders of the company		(5,117,800)	2,289,075
Other comprehensive income to be reclassified subsequently through profit or loss			
Equity-accounted investees – share of other comprehensive income	10	12,652	(26,497)
Net change in fair value of available-for-sale financial assets		1,638,141	654,543
Available-for-sale financial assets – reclassified to profit or loss		(419,420)	(400,083)
Other comprehensive income/(loss) for the year, net of tax		<u>1,231,373</u>	<u>227,963</u>
Total comprehensive profit/(loss) for the year attributable to equity holders of the company		<u>(3,886,427)</u>	<u>2,517,038</u>
Profit/(loss) for the year is attributable to:			
Owners of the parent		(5,117,742)	2,289,081
Non-controlling interest		(58)	(6)
		<u>(5,117,800)</u>	<u>2,289,075</u>
Total comprehensive profit/(loss) for the year is attributable to:			
Owners of the parent		(3,886,369)	2,517,044
Non-controlling interest		(58)	(6)
		<u>(3,886,427)</u>	<u>2,517,038</u>
Basic profit/(loss) per share attributable to ordinary equity holders of the parent	20	(3.18)	1.58
Diluted Profit/(loss) per share attributable to ordinary equity holders of the parent	20	(3.18)	1.58

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 \$	2017 \$
Current assets			
Cash and cash equivalents	23	3,791,684	2,067,018
Trade and other receivables	7	900,405	68,522
Other assets	8	222,304	510,913
Total current assets		4,914,393	2,646,453
Non-current assets			
Other assets	8	288,943	277,952
Available-for-sale financial assets	9	2,683,246	2,109,065
Investments in associates	10	843,533	987,987
Exploration and evaluation assets	11	14,874,547	8,488,310
Property, plant and equipment	13	748,454	179,204
Mine properties and development	12	473,973	4,953,967
Total non-current assets		19,912,696	16,996,485
Total assets		24,827,089	19,642,938
Current liabilities			
Trade and other payables	14	1,714,010	1,684,304
Borrowings	15	71,590	49,611
Provisions	16	217,567	218,881
Total current liabilities		2,003,167	1,952,796
Non-current liabilities			
Borrowings	15	2,955,286	42,707
Provisions	16	2,558,606	162,426
Total non-current liabilities		5,513,892	205,133
Total liabilities		7,517,059	2,157,929
Net assets		17,310,030	17,485,009
Equity			
Issued capital	17	44,292,467	40,688,126
Reserves	18	10,455,642	9,117,162
Accumulated losses	19	(37,515,368)	(32,397,626)
Total equity attributable to equity holders of the Company		17,232,741	17,407,662
Non-controlling interests		77,289	77,347
Total equity		17,310,030	17,485,009

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Issued Capital Ordinary \$	Accumulated Losses \$	Other Reserves \$	Equity Settled Benefits Reserve \$	Total \$	Non- controlling interest \$	Total \$
Balance at 1 July 2016	40,536,876	(34,686,707)	468,111	7,253,656	13,571,936	77,353	13,649,289
Comprehensive gain/(loss) for the period	-	2,289,081	227,963	-	2,517,044	(6)	2,517,038
Total comprehensive gain/(loss) for the period	-	2,289,081	227,963	-	2,517,044	(6)	2,517,038
<i>Transactions with owners recorded directly in equity</i>							
Issue of shares	151,250	-	-	-	151,250	-	151,250
Share based payment	-	-	-	1,167,432	1,167,432	-	1,167,432
Balance at 30 June 2017	40,688,126	(32,397,626)	696,074	8,421,088	17,407,662	77,347	17,485,009
Balance at 1 July 2017	40,688,126	(32,397,626)	696,074	8,421,088	17,407,662	77,347	17,485,009
Comprehensive gain/(loss) for the period	-	(5,117,742)	1,231,373	-	(3,886,369)	(58)	(3,886,427)
Total comprehensive gain/(loss) for the period	-	(5,117,742)	1,231,373	-	(3,886,369)	(58)	(3,886,427)
<i>Transactions with owners recorded directly in equity</i>							
Issue of shares	3,786,793	-	-	-	3,786,793	-	3,786,793
Share issue costs	(182,452)	-	-	-	(182,452)	-	(182,452)
Share based payment	-	-	-	107,107	107,107	-	107,107
Balance at 30 June 2018	44,292,467	(37,515,368)	1,927,447	8,528,195	17,232,741	77,289	17,310,030

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		9,391,562	-
Other income		367,266	1,026,347
Payments to suppliers and employees		(11,814,450)	(2,047,526)
Interest received		33,370	26,625
Net cash used in operating activities	23	(2,022,252)	(994,554)
Cash flows from investing activities			
Payments for available-for-sale financial assets		(257,903)	(12,737)
Payments for investment in associate		-	(8,564)
Proceeds from sale of available-for-sale financial assets		2,166,104	9,586,369
Purchase of plant and equipment		(141,750)	(104,006)
Exploration and evaluation expenditure (capitalised)		(3,211,242)	(3,680,346)
Proceeds on sale of plant and equipment		-	91
Payments for mine properties		(518,903)	(4,399,912)
(Payments for)/refund of security deposits		333,517	(16,042)
Net cash provided by investing activities		(1,630,177)	1,364,853
Cash flows from financing activities			
Proceeds from issue of shares		2,923,143	151,250
Costs of issue		(182,452)	-
Repayment of lease liabilities		(61,512)	(15,312)
Proceeds from borrowings		3,000,000	-
Interest paid		(302,084)	(2,384)
Net cash provided by/(used in) financing activities		5,377,095	133,554
Net increase in cash and cash equivalents		1,724,666	503,853
Cash and cash equivalents at beginning of financial year		2,067,018	1,563,165
Cash and cash equivalents at end of financial year	23	3,791,684	2,067,018

The accompanying notes form part of these financial statements.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The consolidated financial statements of Matsa Resources Limited for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 28 September 2018.

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

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

The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company, its subsidiaries (together referred to as the "Group" or "Consolidated Entity") and the Group's interest in associates.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

The financial report is presented in Australian dollars.

(b) Compliance with IFRS

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

Adoption of new accounting standards

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2017. The adoption of these new and revised Standards and Interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

New and amended standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the AASB, but are not yet effective and have not been adopted by the Group for the period ending 30 June 2018.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application Date of Standard *	Likely Impact on Initial Application
AASB 9	Financial Instruments	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are: (a) Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. (d) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (e) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: – the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI) – the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9: – classification and measurement of financial liabilities; and – derecognition requirements for financial assets and liabilities. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward looking information and applies to all financial instruments that are subject to impairment accounting.	1 January 2018	The standard would not have effect on trade receivables at 30 June 2018. The directors are assessing whether to elect to report its investments in equity instruments at fair value through profit or loss or other comprehensive income. If the latter basis is adopted future gains and losses will not be recycled to profit and loss.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application Date of Standard *	Likely Impact on Initial Application
AASB 15	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue - Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2018	The new standard is not expected to significantly impact the recognition and measurement of revenue from contracts as the Group does not have significant revenue from contracts at this time.
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on- balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	AASB 16 Leases eliminates the distinction between operating and finance leases, and brings all leases (other than short term leases) onto the balance sheet. The standard does not apply mandatorily before 1 January 2019. The Group has yet to fully assess the impact on the Group's financial results when it is first adopted for the year ending 30 June 2020.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application Date of Standard *	Likely Impact on Initial Application
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share based Payment Transactions	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	1 January 2018	There will be no material impact.
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: • AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration • AASB 12 Disclosure of Interests in Other Entities – clarification of scope • AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value • AASB 140 Investment Property – change in use.	1 January 2018	There will be no material impact.
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.	1 January 2018	There will be no material impact.
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long- term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019	There will be no material impact.
AASB 2018-1	Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: • AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity • AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.	1 January 2019	The Company is still assessing whether there will any material impact.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application Date of Standard *	Likely Impact on Initial Application
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	Australian Accounting Standards – Plan Amendment, Curtailment or Settlement This Standards amends AASB 119 Employee Benefits to specific how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments: - Require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event occurs - Clarify that when such an event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.	1 January 2019	The Company does not have any defined benefit plans.
AASB Interpretation 23, and relevant amending standards	Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: - Whether an entity considers uncertain tax treatments separately - The assumptions an entity makes about the examination of tax treatments by taxation authorities - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates - How an entity considers changes in facts and circumstances.	1 January 2019	The Company is still assessing whether there will any material impact.
AASB 17	Insurance Contracts Conceptual Framework for Financial Reporting ‡, and relevant amending standards	- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period - The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.	1 January 2021	N/A
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.*	1 January 2022	N/A at the reporting date.

‡ The IASB issued the revised conceptual framework on 29 March 2018. As at the date of this publication, the AASB are yet to issue the equivalent pronouncement.

* In December 2015, the IASB postponed the effective date of the amendments indefinitely pending the outcome of its research project on the equity method of accounting.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Consolidation

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

Control is achieved where the company has exposure to variable returns from the entity and the power to affect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a consolidated entity controls another entity.

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

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

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

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

(d) Segment Reporting

Determination and presentation of operating segments

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

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

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

(e) Business combinations

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Business combinations (continued)

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

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

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

(f) Foreign currency transactions and balances

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments

Non derivative financial instruments

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

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

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

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Available-for-sale financial assets

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

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

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

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

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

Other

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investments in associates

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

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

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

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

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

(i) Leases

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

Operating Leases

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

Finance Leases

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of financial assets

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

(k) Cash and cash equivalents

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

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

(l) Trade and other receivables

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

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

(m) Inventories

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

(n) Interests in Joint Ventures

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Property, plant and equipment

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

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

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

Derecognition

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

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

(p) Exploration, evaluation and development expenditure

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

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

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

Impairment

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

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

(q) Mine properties and development

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

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Mine properties and development

Impairment

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

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

(r) Trade and other payables

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

(s) Rehabilitation costs

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

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

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

(t) Interest-bearing loans and borrowings

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

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

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowing costs

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

(v) Employee benefits

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

(w) Provisions

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

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

(x) Share-based payment transactions

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

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

share options automatically lapse after one month of ceasing employment unless the Board decides otherwise at its discretion.

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based payment transactions (continued)

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

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

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

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

(y) Revenue

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

Sale of goods

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

R&D Refund

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

Dividend Income

Revenue is recognised on receipt of dividends from listed investments.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Revenue (continued)

Finance income

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

(z) Income tax

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

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

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

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

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

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Income tax

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

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

(aa) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

(ab) Other taxes

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

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

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

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

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

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

(ac) Earnings per share

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ad) Financial Position

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

The Group has reported a loss for the year of \$5,117,800 (2017: profit \$2,289,075) and a cash outflow from operating activities of \$2,022,252 (2017: \$994,554).

At year end, the Group had \$3,791,684 in cash and term deposit balances, \$4,315,246 of investments in listed securities and \$1,000,000 of unused loan facilities.

Management have prepared a cash flow forecast and based on the cash flow forecast and have the ability to manage discretionary expenditure in line with the Group's actual cash flow.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Significant accounting estimates and assumptions

Share-based payment transactions

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

Impairment of capitalised exploration and evaluation expenditure

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

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

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

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

Impairment of available-for-sale investments

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

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

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

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

Impairment of property, plant and equipment

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

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

Mine rehabilitation provision

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

4. SEGMENT REPORTING

Identification of reportable segment

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

The Group operates primarily in mineral exploration in Western Australia and Thailand. The Group was awarded Special Prospecting Licences (SPL's) in Thailand in March 2015 for the first time. Accordingly the Group now considers that it operates in two geographical segments but within the same operating segment, mineral exploration. The decision to allocate resources to individual projects is predominantly based on available cash reserves, technical data and the expectation of future metal prices.

Accordingly, the Group effectively operates as one segment, being mineral exploration. The financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to the chief operating decision maker.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

4. SEGMENT REPORTING (Continued)

Information about reportable segments

Information relating to each reportable segment is shown below.

2018	Reportable Segments		Total
	Australia	Thailand	
	\$	\$	\$
External revenues	11,676,380	-	11,676,380
Inter-segment revenue	-	-	-
Segment revenue	11,676,380	-	11,676,380
Segment profit/(loss) before tax	(4,291,001)	(826,799)	(5,117,800)
Interest income	33,242	4,939	38,181
Interest expense	(373,490)	-	(373,490)
Depreciation and amortisation	(3,316,398)	(9,495)	(3,325,893)
Share of profit/(loss) of equity accounted investees	(157,106)	-	(157,106)
Other material non-cash items			
- Impairment of losses of non-financial assets	-	-	-
Segment assets	23,014,060	1,813,029	24,827,089
Equity accounted investees	843,532	-	843,532
Capital expenditure	700,300	-	700,300
Segment liabilities	7,513,564	3,495	7,517,059

2017	Reportable Segments		Total
	Australia	Thailand	
	\$	\$	\$
External revenues	3,126,741	-	3,126,741
Inter-segment revenue	-	-	-
Segment revenue	3,126,741	-	3,126,741
Segment profit/(loss) before tax	3,363,442	(1,074,367)	2,289,075
Interest income	21,310	5,315	26,625
Interest expense	(2,384)	-	(2,384)
Depreciation and amortisation	(49,958)	(9,400)	(59,358)
Share of profit/(loss) of equity accounted investees	4,305,782	-	4,305,782
Other material non-cash items			
- Impairment of losses of non-financial assets	-	-	-
Segment assets	17,535,218	2,107,720	19,642,938
Equity accounted investees	987,987	-	987,987
Capital expenditure	183,270	843	184,113
Segment liabilities	2,157,929	-	2,157,929

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
5. Revenue		
The loss before income tax includes the following revenues whose disclosure is relevant in explaining the performance of the entity:		
(a) Other income		
R&D tax incentive refund	276,475	852,560
Net gain on sale of plant and equipment	-	91
Net gain on sale of investments	1,263,661	2,138,590
Other income	87,013	135,500
	<u>1,627,149</u>	<u>3,126,741</u>
(b) Finance income		
Interest earned	38,181	26,625
	<u>38,181</u>	<u>26,625</u>
(c) Expenses included in the statement of comprehensive income		
Depreciation of plant and equipment	<u>157,078</u>	<u>59,358</u>
(d) Other expenses		
(i) Employee benefits expense		
Salaries and wages	760,006	1,066,957
Superannuation expenses	51,264	60,814
Share based payments	-	1,167,432
Total employee benefits expense	<u>811,270</u>	<u>2,295,203</u>
(ii) Administration and other expenses		
Operating lease rentals	171,393	142,110
Administration expenses	1,423,992	1,094,013
	<u>1,595,385</u>	<u>1,236,123</u>
	<u>2,406,655</u>	<u>3,531,326</u>

MATSA RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2018**

	2018	2017
	\$	\$
6. Income taxes		
Tax expense/(income) comprises:		
Current tax expense/(income)	-	-
Deferred tax expense/(income)	-	-
	-	-

Income tax recognised in profit or loss

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

Profit/(loss) from continuing operations	(5,117,800)	2,289,075
Income tax expense/(benefit) calculated at 30% (2017: 27.5%)	(1,535,340)	629,496
Effect of temporary differences not recognised in prior periods	1,121,942	186,303
Non-deductible expenses	2,066	921,080
Non-assessable income	(296,118)	(253,299)
Effect of temporary differences not recognised in current year	92,180	(1,902,112)
Effect of change in income tax rate	(297,204)	447,776
Effect of temporary differences that would be recognised directly in equity	912,474	(21,377)
Section 40-880 expenses	-	(7,867)
	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% (2017: 27.5%) payable by Australian corporate entities on taxable profits under Australian tax law.

	2018	2017
	\$	\$
Unrecognised deferred tax assets/(liabilities)		
The following deferred tax assets have not been brought to account:		
Tax losses - revenue	5,937,681	5,677,540
Investments	(831,294)	475,755
Temporary differences - exploration	(2,084,305)	(3,128,149)
Section 40-880 expenses	62,310	7,402
Other temporary differences	277,028	236,693
	3,361,420	3,269,241

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
7. Trade and other receivables		
Current		
Trade debtors	723,436	-
Amounts receivable from Australian Taxation Authorities	86,557	45,137
Other receivables	90,412	23,385
	<u>900,405</u>	<u>68,522</u>

	2018 \$	2017 \$
8. Other current assets		
Current		
Prepayments	40,802	36,296
Cash backed performance bond (i)	181,502	474,617
	<u>222,304</u>	<u>510,913</u>
Non-current		
Deposits held (ii)	288,943	277,952
	<u>288,943</u>	<u>277,952</u>

- (i) The Company's bankers have provided performance bonds as security for the due and proper performance of leases in accordance with the tenement conditions associated with certain Group tenements. The Company has cash-backed these performance bonds with fixed term deposits with the bank.
- (ii) The Company has cash deposits held with the Thailand government with respect to a number of tenement applications in Thailand. Should the applications not be successful 75% of the deposits will be returned to the Company. A cumulative impairment (representing the non-recoverable 25%) of \$96,314 (2017: \$92,651) has been made against the deposits held of \$385,258 (2017: \$370,603). An amount of Nil (2017: \$7,311) was expensed on granting of Thailand applications.

	2018 \$	2017 \$
9. Other investments		
Available-for-sale financial assets	2,683,246	2,109,065
	<u>2,683,246</u>	<u>2,109,065</u>

Movements in available-for-sale financial assets:

At 1 July	2,109,065	5,580,750
Additions	259,649	4,244,324
Disposals	(1,323,609)	(8,370,552)
Net change in fair value of available-for-sale financial assets	1,638,141	654,543
Impairment loss	-	-
At 30 June	<u>2,683,246</u>	<u>2,109,065</u>

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

9. Other investments (continued)

Listed shares

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

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

10. Equity Accounted Investments

The Company has a 26.77% (2017: 26.77%) interest in Bulletin Resources Limited, which is involved in the exploration of precious and base metals in Australia. Bulletin is listed on the Australian Securities Exchange.

	2018 \$	2017 \$
Movements in carrying value of the Company's investment in associate:		
At 1 July	987,987	300,138
Additions	-	8,564
Share of gain/(losses) after income tax	(157,106)	4,305,782
Share of losses after income tax from discontinued operations	-	-
In-specie distribution of Pantoro shares	-	(3,600,000)
Share of change in reserves	12,652	(26,497)
At 30 June	843,533	987,987
The following table illustrates the summarised financial information of the Company's investment in Bulletin:		
Current assets	3,608,830	5,899,058
Non-current assets	250,000	-
Current liabilities	(136,489)	(1,637,102)
Non-current liabilities	-	-
Equity	3,722,341	4,261,956
Company's share of gain/(loss) for the year	(157,106)	4,305,782

The associate had no contingent liabilities or capital commitments as at 30 June 2018. Since the end of the financial year the associate has entered into a transaction that, if certain conditions are met, will require certain deferred payments.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
11. Exploration and evaluation assets		
Exploration expenditure capitalised at cost		
-exploration and evaluation phase	14,874,547	8,488,310
	<u>14,874,547</u>	<u>8,488,310</u>

Movements in carrying amounts

Exploration and evaluation phase

Balance at beginning of year	8,488,310	5,940,113
Acquisition of tenements	2,813,526	2,031,130
Exploration and evaluation incurred	2,494,006	6,876,571
Expenditure written off/provided for	(755,335)	(1,577,005)
Transferred from/(to) mine property and development	1,834,040	(4,782,499)
Balance at end of year	<u>14,874,547</u>	<u>8,488,310</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas. Upon a review of current exploration projects the board elected to provide for impairment of \$Nil (2017: \$1,278,272) in the financial year.

	2018 \$	2017 \$
12. Mine Property and Development		
Mine properties		
Balance at beginning of year	4,782,499	-
Transferred from/(to) exploration and evaluation assets	(1,834,040)	4,782,499
Additions	502,701	-
Depreciation expense for the period	(26,028)	-
Amortisation expense for the period	(2,951,159)	-
Balance at end of year	<u>473,973</u>	<u>4,782,499</u>
Mine capital development		
Balance at beginning of year	171,468	-
Additions	46,188	171,468
Amortisation expense for the period	(217,656)	-
Balance at end of year	<u>-</u>	<u>171,468</u>
Total mine properties and development	<u>473,973</u>	<u>4,953,967</u>

- (i) Costs transferred to mine properties and development in the year ended 30 June 2017 incorrectly included amounts that have been classified as exploration and evaluation expenditure. This has been corrected in the year ended 30 June 2018 rather than in the comparative period as the error was not deemed material under AASB 108 as it did not result in a change to profit or loss, equity and working capital.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
13. Property, plant and equipment		
Plant and equipment at cost	1,761,966	1,231,685
Accumulated depreciation	(1,013,512)	(1,052,481)
	748,454	179,204
Total property, plant and equipment	748,454	179,204

Movements in carrying amounts

	Plant and Equipment \$	Total \$
Consolidated		
Balance 30 June 2016	54,449	54,449
Additions	184,113	184,113
Disposals	-	-
Depreciation expense	(59,358)	(59,358)
Balance 30 June 2017	179,204	179,204
Additions	700,300	700,300
Disposals	-	-
Depreciation expense	(131,050)	(131,050)
Balance 30 June 2018	748,454	748,454

The Group leases motor vehicles and plant and equipment under a number of finance lease agreements. The leased equipment secures the lease obligations. At 30 June 2018 the net carrying amount of leased plant and equipment was \$89,355 (2017: \$82,162). During the year, the Group acquired leased assets of \$67,539 (2017: \$86,253).

	2018 \$	2017 \$
14. Trade and other payables		
Unsecured liabilities		
Trade payables	1,275,655	1,532,885
Sundry creditors and accrued expenses	438,355	151,419
	1,714,010	1,684,304

	2018 \$	2017 \$
15. Borrowings		
Current		
Secured liabilities		
Finance lease liabilities (i)	71,590	49,611
	71,590	49,611
Non Current		
Secured liabilities		
Loan (ii)	2,937,521	-
Finance lease liabilities (i)	17,765	42,707
	2,955,286	42,707

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

15. Borrowings (Continued)

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

	2018 \$	2017 \$
Reconciliation of loan		
Amount borrowed	3,000,000	-
Share based payment (note 18)	(107,107)	-
Interest charge	44,628	-
Balance at 30 June 2018	2,937,521	-

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

The key terms of the finance facility are as follows:

Principal Amount: \$4,000,000 (\$3M immediately 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 2019

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

In addition to the above 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 \$3M has been offset by the value of the options issued. At the end of the period the carrying value of the loan was \$2,937,521.

	2018 \$	2017 \$
16. Provisions		
Current		
Provision for annual leave	217,567	218,881
	217,567	218,881
Non-current		
Provision for long service leave	154,548	138,114
Provision for mine restoration	2,404,058	24,312
	2,558,606	162,426

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. Provisions (Continued)

	2018 \$	2017 \$
Movement in long service leave provision		
Opening balance 1 July	138,114	90,409
Increase in provision	16,434	47,705
Closing balance 30 June	154,548	138,114
Movement in provision for mine restoration		
Opening balance 1 July	24,312	97,037
Acquisition of tenements	2,224,876	-
Increase/(decrease) in provision	154,870	(72,725)
Closing balance 30 June	2,404,058	24,312

	2018 \$	2017 \$	2018 \$	2017 \$
17. Issued capital				
176,917,368 (2017: 144,706,779) fully paid ordinary shares	44,292,467	40,688,126	44,292,467	40,688,126
	No.	No.	\$	\$
Ordinary shares				
At the beginning of reporting period	144,706,779	144,156,779	40,688,126	40,536,876
Exercise of options	1,700,000	550,000	375,000	151,250
Share placement	11,325,079	-	2,548,143	-
Shares issued on acquisition	4,545,000	-	863,650	-
Bonus issue	14,640,510	-	-	-
Transaction costs	-	-	(182,452)	-
At reporting date	176,917,368	144,706,779	44,292,467	40,688,126

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

Options

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

Exercise Price	Expiry Date	Balance at beginning of year	Issued	Exercised	Lapsed	Balance at end of year
\$0.25	30 November 2017	2,650,000	-	(550,000)	(2,100,000)	-
\$0.30	30 November 2017	4,250,000	-	-	(4,250,000)	-
\$0.25	30 November 2019	4,375,000	-	(150,000)	(50,000)	4,175,000
\$0.25	30 November 2019	5,750,000	-	-	-	5,750,000
\$0.20	21 August 2019	-	1,000,000	(1,000,000)	-	-
\$0.30	30 November 2019	-	3,775,025	-	-	3,775,005
		17,025,000	4,775,025	(1,700,000)	(6,400,000)	13,700,025

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
18. Reserves		
Equity settled transaction	8,528,195	8,421,088
Available-for-sale reserve	1,927,447	696,074
	<u>10,455,642</u>	<u>9,117,162</u>
Equity settled transaction reserve		
Balance at beginning of financial year	8,421,088	7,253,656
Share based payment	107,107	1,167,432
Balance at end of financial year	<u>8,528,195</u>	<u>8,421,088</u>

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

Available-for-sale reserve		
Balance at beginning of financial year	696,074	468,111
Reclassified to profit and loss	(419,420)	(400,083)
Net change in fair value of available-for-sale financial assets	1,650,793	628,046
Balance at end of financial year	<u>1,927,447</u>	<u>696,074</u>

19. Accumulated losses		
Accumulated losses at beginning of financial year	32,397,626	34,686,707
Loss/(profit) for the year	5,117,742	(2,289,081)
Transfer from option reserve	-	-
Accumulated losses at end of financial year	<u>37,515,368</u>	<u>32,397,626</u>

20. Loss per share

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

Profit/(loss)	(5,117,800)	2,289,075
	No.	No.
Weighted average number of ordinary shares	161,177,741	144,644,999

Diluted loss per share

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

21. Commitments and Contingencies

Exploration and expenditure commitments

In order to maintain the mineral tenements in which the Company and other parties are involved, the consolidated entity is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure commitment requirement for granted tenements for the next year is \$1,480,098 (2017: \$1,869,584). This amount has not been provided for in the financial report. These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

Mine Development and Operating Commitments

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

Finance lease commitments

	2018 \$	2017 \$
Commitments in relation to finance leases are payable as follows:		
Within one year	75,899	54,206
Later than one year but not later than five years	18,483	44,236
Minimum lease payments	94,382	98,442
Less: Future finance charges	(5,027)	(6,124)
	89,355	92,318
Recognised as a liability		
Representing lease liabilities:		
Current (note 15)	71,590	49,611
Non-current (note 15)	17,765	42,707
	89,355	92,318

Operating lease commitments

Future operating lease rentals of office space provided for in the financial statements and payable:

- Not later than one year	47,154	79,240
- Later than one year but not later than five years	-	47,154
	47,154	126,394

Contingencies

There are no contingent assets or contingent liabilities as at 30 June 2018.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

22. Subsidiaries

	Country of Incorporation	Percentage Owned (%)	
		2018	2017
Parent Entity			
Matsa Resources Limited	Australia		
Subsidiary			
Matsa Gold Pty Ltd	Australia	100	100
Killaloe Minerals Pty Ltd	Australia	100	100
Lennard Shelf Exploration Pty Ltd	Australia	100	100
Red October Gold Pty Ltd	Australia	100	-
Australian Strategic and Precious Metals Investment Pty Ltd	Australia	100	100
Matsa Resources (Aust) Pty Ltd	Australia	100	100
Matsa Iron Pty Ltd	Australia	100	100
Cundeelee Pty Ltd	Australia	100	100
Matsa (Thailand) Co Ltd	Thailand	100	100
PVK Mining Loei Co Ltd	Thailand	100	100
Khlong Tabaek Co Ltd	Thailand	95	95
Paisali Mining Co Ltd	Thailand	95	95
Wichan Buri Resources Co Ltd	Thailand	100	100
Siam Copper Resources Co Ltd	Thailand	100	100
Loei Mining Co Ltd	Thailand	100	100
Azure Circle Co Ltd	Thailand	100	-

23. Cash flow information

Reconciliation of cash and cash equivalents

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

	2018	2017
	\$	\$
Cash and cash equivalents	3,791,684	2,067,018

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

23. Cash flow information (Continued)

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

	2018 \$	2017 \$
Profit/(loss) for year	(5,117,800)	2,289,075
Non-cash flows in loss from ordinary activities:		
Share-based payments	-	1,167,432
Depreciation	157,078	59,358
Exploration expenditure written off	755,335	298,733
Provision for impairment	-	1,278,272
Share of investee (profit)/loss	157,106	(4,305,782)
Net (gain) on sale of available-for-sale investments	(1,263,661)	(2,138,590)
Net (gain)/loss on disposal of plant and equipment	-	(91)
Interest expense classified as financing cash flow	302,084	2,384
Amortisation	3,168,815	-
Changes in assets and liabilities:		
Decrease (increase) in receivables	(831,883)	62,254
Increase (decrease) in trade creditors and accruals	(1,729,072)	203,514
Increase (decrease) in provisions	2,379,746	88,887
Cash flow from operations	(2,022,252)	(994,554)

Non-cash financing and investing activities

During the financial year Matsa acquired the Red October gold project for a total deemed consideration of \$2,000,000. Of that amount part of the consideration was satisfied by the issue of 4,545,000 fully paid ordinary shares to the vendor, Saracen Mineral Holdings Limited.

In the 2017 financial year nil shares were issued as consideration for the acquisition of exploration tenements.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

24. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2018 the parent company of the Group was Matsa Resources Limited.

	Company	
	2018	2017
	\$	\$
Result of the parent Entity		
Profit/(loss) for the year	(4,660,218)	3,710,738
Other comprehensive gain/(loss)	1,218,721	254,460
Total comprehensive profit/(loss) for the year	(3,441,497)	3,965,198
Financial position of parent entity at year end		
Current assets	3,526,500	1,981,388
Total assets	20,191,137	16,857,004
Current liabilities	774,377	611,737
Total liabilities	3,884,211	832,680
Total equity of the parent entity comprising of:		
Share capital	44,292,467	40,688,126
Reserves	10,452,278	9,113,799
Accumulated losses	(38,437,819)	(33,777,601)
Total equity	16,306,926	16,024,324

25. Financial instruments

Financial risk management

Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Credit risk

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

25. Financial instruments (Continued)

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

Cash and cash equivalents

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

Trade and other receivables

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

Exposure to credit risk

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

	Consolidated Carrying amount	
	2018	2017
	\$	\$
Trade and other receivables	813,848	23,385
Cash and cash equivalents	3,791,684	2,067,018
Deposits held	385,258	370,603
Impairment of deposits (refer Note 8 (ii))	(96,314)	(92,651)

The Group has \$183,910 in other receivables that are past due (2017: \$183,910).

Liquidity risk

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

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group also has investments in listed shares that could be sold to raise cash.

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

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

30 June 2018

	Weighted average interest rate	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
		\$	\$	\$	\$	\$	\$
Trade and other payables		1,714,010	1,714,010	1,714,010	-	-	-
Finance lease liabilities	8.27	89,355	89,355	35,968	35,622	17,765	-
Loan	12	2,937,521	2,937,521	-	-	2,937,521	-
		4,740,886	4,740,886	1,749,978	35,622	2,955,286	-

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

25. Financial instruments (Continued)

30 June 2017

	Weighted average interest rate	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
		\$	\$	\$	\$	\$	\$
Trade and other payables	N/A	1,684,304	1,684,304	1,684,304	-	-	-
Finance lease liabilities	6.57	92,318	92,318	25,219	24,392	42,707	-
		<u>1,776,622</u>	<u>1,776,622</u>	<u>1,709,523</u>	<u>24,392</u>	<u>42,707</u>	<u>-</u>

Market risk

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

Currency risk

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

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

	Carrying amount	
	2018	2017
	\$	\$
Other current assets	240,554	753,632
Cash and cash equivalents	310,869	230,032

Sensitivity analysis

The Group is exposed to fluctuations in foreign currencies arising from the acquisition of services from time to time in currencies other than the Group's functional currency. A change of 10% in the foreign currency exchange rate at 30 June 2018 would have increased equity by \$55,142 (2017: \$98,366), an equal change in the opposite direction would have decreased equity by an equal but opposite amount.

Interest rate risk

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

25. Financial instruments (Continued)

Profile

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

	Carrying amount	
	2018	2017
Fixed rate instruments		
Cash and cash equivalents	390,505	-
Lease liabilities	(89,355)	(92,318)
Loan	(2,937,521)	-
	<u>(2,636,371)</u>	<u>(92,318)</u>
Variable rate instruments		
Cash and cash equivalents	3,401,179	2,067,018
Cash backed performance bonds	181,502	474,617
	<u>3,582,681</u>	<u>2,541,635</u>

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as 2017.

	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2018				
Variable rate instruments	35,827	(35,827)	35,827	(35,827)
30 June 2017				
Variable rate instruments	25,416	(25,416)	25,416	(25,416)

Fair values

Fair values versus carrying amounts

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

25. Financial instruments (Continued)

Equity Price Risk

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

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

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

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

	Note	30 June 2018 \$	30 June 2017 \$
Listed equities (Level 1 fair value hierarchy)	9	2,683,246	2,109,065

Sensitivity analysis

The Group's equity investments are listed on the Australian Securities Exchange. A 3% increase in stock prices at 30 June 2018 would have increased equity by \$80,497 (2017: \$63,272), an equal change in the opposite direction would have decreased equity by an equal but opposite amount.

Capital Management

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

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26. Share-based payments

Employee Share Option Plan

The Group has an Employee Share Option Plan (ESOP) for the granting of options to staff members, directors and consultants. A new ESOP was approved by shareholders on 18 November 2016 and adopted. Options issued under the ESOP vest on the grant date.

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26. Share-based payments (Continued)

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

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

	2018 Number of Options	2018 Weighted Average Exercise Price \$	2017 Number of Options	2017 Weighted Average Exercise Price \$
Outstanding at the beginning of the year	6,125,000	0.25	3,590,000	0.285
Granted	-	-	3,875,000	0.25
Exercised	(700,000)	0.25	(550,000)	0.275
Expired	(1,750,000)	0.25	(790,000)	0.26
Outstanding at year-end	3,675,000	0.25	6,125,000	0.25
Exercisable at year-end	3,675,000	0.25	6,125,000	0.25

The outstanding balance as at 30 June 2018 is represented by the following options over ordinary shares, exercisable upon meeting the above terms and conditions:

- 3,675,000 options with an exercise price of \$0.25 each and with an expiry date of 30 November 2019. All have vested and are exercisable at balance date.

Directors and Executives Options

In addition to the ESOP, the Company has issued options to Directors and Executives from time to time. The terms and conditions of those options vary between option holders. There were nil (2017: 6,250,000) options issued to Directors or Executives during the financial year.

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

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26. Share-based payments (Continued)

(a) Summary of options issued to Directors and Executives

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

	2018 No.	2018 WAEP \$	2017 No.	2017 WAEP \$
Outstanding at 1 July	10,900,000	0.27	4,850,000	0.30
Granted during the year	-	-	6,250,000	0.25
Expired during the year	(4,650,000)	0.29	(200,000)	0.40
Outstanding at 30 June	6,250,000	0.25	10,900,000	0.27
Exercisable at 30 June	6,250,000	0.25	10,900,000	0.27

There were no options issued during the year.

Directors

- 5,750,000 options over ordinary shares with an exercise price of \$0.25 each, exercisable upon meeting the relevant conditions and until 30 November 2019.

Executives

- 500,000 options over ordinary shares with an exercise price of \$0.25 each exercisable upon meeting the relevant conditions and until 30 November 2019.

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

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

	2018		2017	
	Directors	Executives	Directors	Executives
Dividend yield (%)	-	-	-	-
Expected volatility (%)	-	-	91.68	91.68
Risk-free interest rate (%)	-	-	1.92	1.92
Expected life of options (years)	-	-	3.01	3.01
Option exercise price (\$)	-	-	0.25	0.25
Share price at grant date (\$)	-	-	0.21	0.21
Fair value at grant date (c)	-	-	11.53	11.53

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

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26. Share-based payments (Continued)

	Consolidated	
	2018	2017
	\$	\$
Employee Expenses		
Share options granted in 2017		
- equity settled	-	1,167,432
Total expense recognised as employee costs	-	1,167,432

27. Key management personnel

Details of key management personnel

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

Name	Position
Directors	
Paul Poli	Executive Chairman
Frank Sibbel	Non-Executive Director
Andrew Chapman	Director, Company Secretary and Chief Financial Officer

Executives

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

	2018	2017
	\$	\$
Compensation of Key Management Personnel		
Short-term employment benefits	856,453	867,482
Post-employment benefits	59,738	53,505
Termination benefits	-	-
Share-based payment	-	720,625
	916,191	1,641,612

The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the Group in relation to their services rendered to the Company.

Loans to Key Management Personnel

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

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

27. Key management personnel (Continued)

Other transactions and balances with Key Management Personnel

- (a) P Poli and F Sibbel are Directors of Bulletin Resources Limited. The Consolidated Entity has an agreement with Bulletin to provide accounting, technical and administrative services on an arms-length basis. In the current period \$76,146 has been charged to Bulletin for these services (2017: \$78,114).

At 30 June 2018 there was an outstanding balance of \$24,272 (2017: \$9,338) for Bulletin.

- (b) P Poli is a director and controlling shareholder of West-Sure Group Pty Ltd which provides alarm monitoring services to the Consolidated Entity. In the current period \$576 has been charged to the Consolidated Entity for this service (2017: \$554).

At 30 June 2018 there was an outstanding balance of \$nil (2017: nil) payable to West-Sure.

- (c) P Poli is a director and controlling shareholder of West-Sure Group Pty Ltd which the Consolidated Entity sub-lets storage space from. In the current period \$6,372 has been charged to the Consolidated Entity for this service (2017: \$6,371).

At 30 June 2018 there was an outstanding balance of \$nil (2017: nil) payable to West-Sure.

- (d) P Poli is a director and controlling shareholder of WA Fleet Systems Pty Ltd which provided the Consolidated Entity with a hire car from time to time. In the current period \$1,975 has been charged to the Consolidated Entity for this service (2017: Nil).

At 30 June 2018 there was an outstanding balance of \$nil (2017: nil) payable to WA Fleet Systems.

Individual directors and executives compensation disclosure

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

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

28. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 22.

Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report and Note 27.

MATSA RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

29. Remuneration of auditors

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

	Consolidated	
	2018	2017
	\$	\$
Amounts received or due and receivable by Nexia Perth for an audit or review of the entity and any other entity in the consolidated group.	56,140	44,000
Amounts received or due and receivable by related practices of Nexia Perth for:		
- tax compliance	7,700	6,600
	63,840	50,600

30. Events Subsequent to Balance Date

On 20 August 2018 Matsa announced that it has executed a binding agreement with Liontown Resources Limited ("Liontown" ASX: LTR) for the sale of the Company's Killaloe Project. The agreement covers the sale of all tenements held 100% by the Company and its 80% interest in two other tenements held in joint venture with Cullen Resources Limited ("Cullen").

The consideration for the sale of the project is:

- The issue of 20 million fully paid ordinary shares in Liontown to Matsa in two tranches as follows:
 - Tranche 1 - 10 million fully paid ordinary shares for all the Killaloe tenements other than in respect of the tenements held in joint venture with Cullen; and
 - Tranche 2 - 10 million paid ordinary shares for those tenements held in joint venture with Cullen.
- The grant of a 1% Net Smelter Royalty ("NSR") in favour of Matsa on all minerals recovered and produced from the Killaloe Project.

Settlement of Tranche 1 occurred on 6 September 2018.

On 11 September 2018 Matsa announced that it had commenced mining at the Red Dog gold mine.

MATSA RESOURCES LIMITED

DIRECTORS DECLARATION

1. In the opinion of the directors of Matsa Resources Limited (the "Company"):
 - (a) the consolidated financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b);
 - (c) the remuneration disclosures that are contained in page 30 to 37 of the Remuneration Report in the Directors' Report comply with the Corporations Act and Australian Accounting Standard AASB 124 Related Party Disclosures and
 - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the directors;



Paul Poli
Executive Chairman

Perth, 28 September 2018

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Matsa Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Funding and Liquidity <i>Refer to Note 2ad (Financial Position)</i> The Group is involved in exploration for gold and base metals and the development of gold projects. At the balance sheet date the Group had completed mining the Fortitude Trial Mine and subsequent to year end commenced mining the Red Dog project. The development of Red Dog will be funded from the Group's existing financial assets and management have prepared a cash flow forecast which assumes revenue from Red Dog will be available to fund other activities. The adequacy of funding and liquidity as well as the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the development of a mine.	We evaluated the Group's funding and liquidity position at 30 June 2018 and its ability to fund its existing liabilities and future expenditure for a minimum of 12 months from the date of signing the financial report. In doing so, we: • Obtained management's cash flow forecast for the 15 months from the commencement of the 2019 financial year and checked the mathematical accuracy of the forecast; • We checked mine development costs included in the forecast to service contracts and relevant actual costs; • We verified the forecast revenue to the physical amounts expected to be recovered to the Ore Reserve and the gold price to market information; • Assessed the reliability and completeness of management's assumptions by comparing the forecast cash flows to those of current year and as well as our understanding of future events and conditions; • Considered events subsequent to year end to determine whether any additional facts or information have become available since the date on which management made its assessment; and • We note that the Group had \$1 million that could be drawn under its loan facility at 30 June 2018 and \$4.32 million of investments in listed securities that could be sold to raise cash if required.
Provision for rehabilitation <i>Refer to Note 16 (Rehabilitation provision)</i> During the financial year, the Group acquired the Red October project and the obligation to fund rehabilitation work for existing disturbances at the time of acquisition. The estimated rehabilitation provision is \$2,224,876 at 30 June 2018. The Group engaged an external expert to estimate the costs of the rehabilitation work which requires significant judgment and estimation. The assessment of the rehabilitation process is a key audit matter as the amount is significant to the balance sheet and requires significant judgment.	Our procedures included, but were not limited to: ▪ Assessing the qualifications, objectivity, and experience of the external expert; and ▪ Comparing the rehabilitation costs calculated by the external expert report to the cost estimate per the the Mining Rehabilitation Fund report lodged in respect of the applicable tenements and querying material differences.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Directors' responsibility for the financial report

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

In preparing the consolidated financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 37 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Matsa Resources Limited., for the year ended 30 June 2018, complies with Section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

NPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani

Director

Perth 28 September 2018

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

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

SHAREHOLDING

Distribution of Shareholders as at 17 September 2018

Category (size of holding)	Number of Shareholders
1 – 1,000	204
1,001 – 5,000	451
5,001 – 10,000	271
10,001 – 100,000	759
100,001 – and over	216
	<u>1,901</u>

The number of shareholdings held in less than marketable parcels is 522.

Twenty Largest Shareholders as at 21 September 2017

Name	No.	%
JP Morgan Nominees Australia Limited	17,369,047	9.82
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	14,278,976	8.07
HF Resources Pty Ltd	12,947,000	7.32
Mr Paul Poli <P Poli Family A/C>	9,570,000	5.41
RASL AU LLC	4,620,000	2.61
Saracen Mineral Holdings Limited	4,454,091	2.52
Citicorp Nominees Pty Ltd	3,417,163	1.93
Mr William Robert Maunder & Mrs Jeanette Margaret Maunder <Superannuation Fund A/C>	3,337,700	1.89
Mr Steven James Brown <Family A/C>	2,751,210	1.56
Mr Mark John Allison & Mrs Lorraine Frances Allison <The M&L Allison S/F A/C>	2,350,000	1.33
L & S Davies Pty Ltd <Davies International A/C>	2,255,887	1.28
Mr Paul Poli & Mrs Sonya Kathleen Poli <P Poli Super Fund A/C>	2,255,000	1.28
Mr Oliver Nikolovski & Mrs Suzanne Karine Nikolovski <The Nikolovski S/Fund A/C>	2,250,000	1.27
HSBC Custody Nominees (Australia) Limited	2,206,208	1.24
National Nominees Limited	2,142,649	1.21
Mr Oliver Nikolovski <The Nikolovski Family A/C>	2,050,000	1.16
Mr Soo Chee Chan	2,000,000	1.13
Mr Kimberley Alan Harris <KA & TL Harris Family Account>	1,472,572	0.83
Mr John Francis Young & Mr Christopher John Young & Mr Brett William Young <J F Young Super Fund A/C>	1,389,000	0.78
Mr Robert Genovesi & Mrs Magalay Genovesi & Mr Frank Giannasi & Mrs Maria Giannasi <The Bld Workshop No1 S/F>	1,375,000	0.78
	<u>94,491,503</u>	<u>53.42</u>

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

Substantial Shareholders

Ordinary shareholder	Fully paid	
	Number	Percentage
HF Resources Pty Ltd	11,770,000	7.32%
Paul Poli	11,825,000	6.68%

RESTRICTED SECURITIES

The Company has no restricted securities on issue.

STATEMENT OF UNQUOTED SECURITIES

Number of Options	Number of Holders	Exercise Price	Date of Expiry
4,175,000	20	\$0.25	30 November 2019
5,750,000	3	\$0.25	30 November 2019
3,775,025	37	\$0.30	30 November 2019

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

TABLE OF MINERAL RESOURCES AND MINERAL RESERVES AT 30 JUNE 2018

Mineral Resource Estimates – Consolidated Summary & Annual Comparison

Project	Resource Category	Tonnes	Au (g/t)	Metal (Au oz)
30 June 2017				
Fortitude	Indicated	3,084,000	1.9	188,390
	Inferred	2,505,000	2.1	166,210
Red Dog	N/A	-	-	-
Red October	N/A	-	-	-
		5,589,000	2.0	354,600
Mining Depletion				
Fortitude	Indicated	(139,000)	2.6	(11,700)
	Inferred	(2,000)	2.0	(200)
Red Dog	N/A	-	-	-
Red October	N/A	-	-	-
		141,000	2.6	(11,900)
Resource Adjustments				
Fortitude	Indicated	-	-	-
	Inferred	-	-	-
Red Dog	Indicated	333,000	2.3	24,800
	Inferred	35,000	1.4	1,500
Red October	Indicated	340,000	4.5	49,000
	Inferred	106,000	14.7	50,000
30 June 2018				
Fortitude	Indicated	2,945,000	1.8	173,300
	Inferred	2,503,000	2.1	169,300
Red Dog	Indicated	333,000	2.3	24,800
	Inferred	35,000	1.4	1,500
Red October	Indicated	340,000	4.5	49,000
	Inferred	106,000	14.7	50,000
Total		6,262,000		467,900

Resource Statement Notes

- Red Dog and Red October were acquired during the 2017/18 financial year and resources determined for those projects.
- The geographic region for Gold Mineral Resources is Australia.
- Figures have been rounded in compliance with the JORC Code (2012). Rounding errors may cause a column to not add up precisely.

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

TABLE OF MINERAL RESOURCES AND MINERAL RESERVES AT 30 JUNE 2018 (continued)

Ore Reserve Estimates – Consolidated Summary & Annual Comparison

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

Project	Reserve Category	Tonnes	Au (g/t)	Metal (Au oz)
30 June 2017				
Fortitude	Probable	185,000	2.2	12,900
Red Dog	N/A	-	-	-
		185,000	2.2	12,900
Mining Depletion				
Fortitude	Probable	(139,000)	2.6	(11,700)
Red Dog	N/A	-	-	-
		(139,000)	2.6	(11,700)
Reserve Adjustments				
Fortitude	Probable	(46,000)	(2.3)	(3,400)
Red Dog	Probable	182,000	2.5	13,400
		136,000	1.96	10,000
30 June 2018				
Fortitude	Probable	-	-	-
Red Dog	Probable	182,000	2.5	13,400
Total		182,000	2.5	13,400

Reserve Statement Notes

- Figures are rounded to reflect appropriate levels of confidence. Apparent differences may occur due to rounding.
- Red Dog acquired during the 2017/18 financial year and maiden reserve determined
- The geographic region for Gold Mineral Resources is Australia.

Summary of Governance Arrangements and Internal Controls

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

MATSA RESOURCES LIMITED

ASX ADDITIONAL INFORMATION

Competent Persons Statement

Red October

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

Red Dog

The information contained in this report relating to Mineral Resources has been compiled by Susan Havlin of Optiro Ltd. Susan Havlin is a Member of The Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she 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". Susan Havlin consents to the inclusion in the report of the matters based on her information in the form and context in which it appears.

The information in this report that relates to Ore Reserve results is based on information compiled by Mr Frank Sibbel, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Sibbel is a non-executive director of Matsa Resources Limited. Mr Sibbel has sufficient experience which is relevant to the style of mineralisation and the type of ore deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Sibbel consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Fortitude

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

MATSA RESOURCES LIMITED
SCHEDULE OF MINING TENEMENTS

Tenement Type and No.	Project	Holder	Status	Share Held
E 69/3070	Symons Hill	Matsa Resources Limited	Live	100%
E 63/1018 ¹	Killaloe	Killaloe Minerals Pty Ltd	Live	80%
E 63/1199 ¹	Killaloe	Killaloe Minerals Pty Ltd	Live	80%
E 63/1646	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E63/1655	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E 63/1660	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E 63/1661	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E 63/1662	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E 63/1713	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
M 63/177	Killaloe	Killaloe Minerals Pty Ltd	Live	100%
E 38/2948	Mount Weld	Matsa Gold Pty Ltd	Live	100%
E 38/2949	Mount Weld	Matsa Gold Pty Ltd	Live	100%
E 38/3102	Mount Weld	Matsa Gold Pty Ltd	Live	100%
E 38/2938 ²	Lake Carey	Matsa Gold Pty Ltd	Live	90%
E 38/2945	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1287	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1752	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1770	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1796 ²	Lake Carey	Matsa Gold Pty Ltd	Live	90%
E 39/1803	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1812	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1819	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1834	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1837	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1840	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1863	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1864	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1889 ²	Lake Carey	Matsa Gold Pty Ltd	Live	90%
E 39/1957	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1958	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1980	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 39/1981	Lake Carey	Matsa Gold Pty Ltd	Live	100%

MATSA RESOURCES LIMITED
SCHEDULE OF MINING TENEMENTS

Tenement Type and No.	Project	Holder	Status	Share Held
E 39/2015	Lake Carey	Matsa Gold Pty Ltd	Live	100%
L 39/247	Lake Carey	Matsa Gold Pty Ltd	Live	100%
L 39/260	Lake Carey	Matsa Gold Pty Ltd	Live	100%
L 39/267	Lake Carey	Matsa Gold Pty Ltd	Live	100%
L 39/268	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/1	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/1065	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/1089	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/1099	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M39/1100	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/286	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/38	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/709	Lake Carey	Matsa Gold Pty Ltd	Live	100%
M 39/710	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5293	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5652	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5694	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5669	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5670	Lake Carey	Matsa Gold Pty Ltd	Live	100%
P 39/5841	Lake Carey	Matsa Gold Pty Ltd	Live	100%
E 28/2600	Lake Rebecca	Matsa Gold Pty Ltd	Live	100%
E 28/2635	Lake Rebecca	Matsa Gold Pty Ltd	Live	100%
E 47/3518	Paraburdoo	Matsa Resources Limited	Live	100%
E 09/2162	North Bore	Cundeelee Pty Ltd	Live	100%
E 52/3339	North Bore	Cundeelee Pty Ltd	Live	100%
M 39/411 ³	Red October	Red October Gold Pty Ltd	Live	100%
M 39/412 ³	Red October	Red October Gold Pty Ltd	Live	100%
M 39/413 ³	Red October	Red October Gold Pty Ltd	Live	100%
M 39/609 ³	Red October	Red October Gold Pty Ltd	Live	100%
M 39/610 ³	Red October	Red October Gold Pty Ltd	Live	100%
M 39/611 ³	Red October	Red October Gold Pty Ltd	Live	100%
SPL 22/2558	Siam Project ⁴	PVK Mining Co., Ltd	Live	100%

MATSA RESOURCES LIMITED
SCHEDULE OF MINING TENEMENTS

Tenement Type and No.	Project	Holder	Status	Share Held
SPL 23/2558	Siam Project ⁴	PVK Mining Co., Ltd	Live	100%
SPL 39/2558	Siam Project ⁴	Siam Copper Resources Co., Ltd	Live	100%
SPL 41/2558	Siam Project ⁴	Siam Copper Resources Co., Ltd	Live	100%
SPL 44/2558	Siam Project ⁴	Siam Copper Resources Co., Ltd	Live	100%
SPL 52/2558	Siam Project ⁴	Siam Copper Resources Co., Ltd	Live	100%
SPL 80/2558	Siam Project ⁴	Siam Copper Resources Co., Ltd	Live	100%

¹= 80% held by Matsa

²= 90% held by Matsa

³= Acquired 27th March 2018 from Saracen Mineral Holdings Limited; transfers pending

⁴= Located in Thailand

MATSA RESOURCES LIMITED

CORPORATE GOVERNANCE

The Board is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company's governance approach aims to achieve exploration, development and financial success while meeting stakeholders' expectations of sound corporate governance practices by proactively determining and adopting the most appropriate corporate governance arrangements.

ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council in the reporting period. A description of the Company's main corporate governance practices is set out below. The Corporate Governance Statement is current as at 30 June 2017, and has been approved by the Board of Directors. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure. All these practices, unless otherwise stated, were in place for the entire year. They comply with the *ASX Corporate Governance Principles and Recommendations (3rd edition)*.

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

1. Compliance with Best Practice Recommendations

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

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1	Lay solid foundations for management and oversight		
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	2(a)	Yes
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	2(b), 3(b)	Yes
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	3(b)	Yes
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	2(e)	Yes

MATSA RESOURCES LIMITED

CORPORATE GOVERNANCE

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	6(c)	Yes
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	2(h), 3(b)	Yes
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	3(b), Remuneration report	Yes
Principle 2	Structure the Board to add value		
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board	3(b)	No

MATSA RESOURCES LIMITED

CORPORATE GOVERNANCE

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
	succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.		
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	2(b)	Yes
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 (which appears on page 16 of the ASX Recommendations and is entitled "Factors relevant to assessing the independence of a director") but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	2(b), 2(d)	Yes
2.4	A majority of the board of a listed entity should be independent directors.	2(d)	No
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	2(b), 2(c), 2(d)	No
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	3(b)	Yes
Principle 3	Act ethically and responsibly		
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	6(a)	Yes
Principle 4	Safeguard integrity in financial reporting		
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee;	3(a)	No

MATSA RESOURCES LIMITED

CORPORATE GOVERNANCE

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
	(4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.		
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	5(c)	Yes
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	4(a)	Yes
Principle 5	Make timely and balanced disclosure		
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	4(b)	Yes
Principle 6	Respect the rights of security holders		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	4(a), 4(b)	Yes
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	5(a), 5(b)	Yes
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	4(a), 4(b)	Yes
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	4(a), 4(b)	Yes

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CORPORATE GOVERNANCE

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 7	Recognise and manage risk		
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	3(a)	No
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	5(a), 5(b), 5(d)	Yes
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	3(a)	No
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	5(a)	Yes
Principle 8	Remunerate fairly and responsibly		
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	3(b)	No

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Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
	(a) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.		
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	3(b), Remuneration Report	Yes
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	3(b), Remuneration Report	Yes

2. THE BOARD OF DIRECTORS

2(a) Roles and Responsibilities of the Board

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

The Board is responsible for:

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

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2. THE BOARD OF DIRECTORS (continued)

consistent with that Code; and other policies; and

- Reporting to and advising shareholders.

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

2(b) Board Composition

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

- the Board, in accordance with the Company's constitution must comprise a minimum of three Directors;
- the roles of the Chairman of the Board and of the Chief Executive Officer should be exercised by different individuals;
- the majority of the Board should comprise Directors who are non-executive;
- the Board should represent a broad range of qualifications, experience and expertise considered of benefit to the Company; and
- the Board must be structured in such a way that it has a proper understanding of, and competency in, the current and emerging issues facing the Company, and can effectively review management's decisions.

The Board is currently comprised of an Executive Chairman, an Executive Director and a non-executive Director. Details of the members of the Board, their experience, expertise, qualifications, terms of office and independent status are set out in the Directors' Report of the Annual Report under the heading "Directors". The Board composition is such that the Company does not comply with Recommendation 2.1 as there are no independent non-executive directors. There have been no changes to the Board since 1 July 2013.

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

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

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

2(c) Chairman and Chief Executive Officer

The Chairman is responsible for:

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

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2. THE BOARD OF DIRECTORS (continued)

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

The Chief Executive Officer is responsible for:

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

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

2(d) Independent Directors

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

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

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

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

The Company does not comply with ASX Recommendation 2.4. The Company has two executive Directors and one non-executive Director. In accordance with the definition of independence above the Company is considered to have no independent directors.

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

2(e) Company Secretary

The appointment, performance, review, and where appropriate, the removal of the Company Secretary is a key responsibility of the Board. All directors have access to the Company Secretary who is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

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CORPORATE GOVERNANCE

2. THE BOARD OF DIRECTORS (continued)

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

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

2(g) Board access to information and independent advice

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

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

2(h) Review of Board performance

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

3. BOARD COMMITTEES

3(a) Audit Committee

Given the size and scale of the Company's operations the full Board undertakes the role of the Audit Committee. The Audit Committee does not comply with ASX Recommendation 4.1 as two are executive directors and none are considered to be independent Directors (refer 2(d)). The role and responsibilities of the Audit Committee are summarised below.

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

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

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

External Auditors

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

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CORPORATE GOVERNANCE

3. BOARD COMMITTEES (continued)

3(a) Audit Committee (continued)

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

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

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

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

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

3(b) Remuneration and Nomination Committee

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

The Board has not established a separate Remuneration Committee due to the size and scale of its operations. This does not comply with Recommendation 2.1 however the Board as a whole takes responsibility for such issues.

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

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

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

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

4. TIMELY AND BALANCED DISCLOSURE

4(a) Shareholder communication

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

- be factual and subject to internal vetting and authorisation before issue;

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CORPORATE GOVERNANCE

4. TIMELY AND BALANCED DISCLOSURE (continued)

4(a) Shareholder communication (continued)

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

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

4(b) Continuous disclosure policy

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company. The Company's "ASX Disclosure Policy" described in 4(a) reinforces the Company's commitment to continuous disclosure and outline management's accountabilities and the processes to be followed for ensuring compliance.

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

5. RECOGNISING AND MANAGING RISK

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

5(a) Board oversight of the risk management system

The Board considers risks and discusses risk management at each Board meeting. Review of the risk management framework is an on-going process rather than an annual formal review. The Company's main areas of risk include:

- exploration;
- security of tenure including native title risk;
- joint venture management;
- new project acquisitions;
- environment;
- occupational health and safety;

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5. RECOGNISING AND MANAGING RISK (continued)

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

- government policy changes;
- funding;
- commodity prices;
- retention of key staff;
- financial reporting; and
- continuous disclosure obligations.

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

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

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

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

5(b) Risk management roles and responsibilities

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

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

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

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

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

5(d) Internal review and risk evaluation

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

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6. ETHICAL AND RESPONSIBLE DECISION MAKING

6(a) Code of Ethics and Conduct

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

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

All Directors, officers and employees are expected to:

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

6(b) Policy concerning trading in Company securities

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

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

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

6(c) Policy concerning diversity

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

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

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6. ETHICAL AND RESPONSIBLE DECISION MAKING (CONTINUED)

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

Objectives	Position
Increase the number of women in the workforce, including management and at board level.	There were no key senior female appointments made during the year. As at 30 June 2017, women represented 25% in the Consolidated Entity's workforce (2016: 25%), nil in key management positions (2016: nil) and Nil at board level (2016: Nil).
Review gender pay gaps on an annual basis and implement actions to address any variances.	As a part of the annual remuneration review, the Board assesses the performance and salaries of all key management personnel and executive directors. Any gender pay disparities are addressed.
Provide flexible workplace arrangements.	During the year Matsa employed 2 employees on flexible work arrangements (2016: 2).
Provide career development opportunities for every employee, irrespective of any cultural, gender and other differences.	Whilst Matsa places special focus on gender diversity, career development opportunities are equal for all employees. Employees are encouraged to attend professional development courses/workshops throughout the year.
Promote an inclusive culture that treats the workforce with fairness and respect.	Matsa has set a zero tolerance policy against discrimination of employees at all levels. The Company provides avenues to employees to voice their concerns or report any discrimination. No cases of discrimination were reported during the year (2016: Nil).



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