

MATSA RESOURCES LIMITED

ABN 48 106 732 487

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INTERIM FINANCIAL REPORT

31 December 2009

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MATSA RESOURCES LIMITED

COMPANY DIRECTORY

Directors

Paul Poli (Executive Chairman)
Andy Viner (Executive Director)
Andrew Chapman (Non-Executive Director)

Company Secretary

Andrew Chapman

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Website

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NEDLANDS WA 6009

Share Registry

Advanced Share Registry Services
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NEDLANDS WA 6909
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Home Stock Exchange

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
PERTH WA 6000
ASX Code: MAT

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the six months ended 31 December 2009 and the review report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

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

Mr Paul Poli
Mr Andy Viner
Mr Michael Atkins (resigned 30 November 2009)
Mr Andrew Chapman (appointed 17 December 2009)

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

REVIEW AND RESULTS OF OPERATIONS

During the half year the Company made a loss of \$2,652,998 (2008: \$4,951,879).

EXPLORATION ACTIVITIES

Matsa is a mineral exploration company based in Western Australia.

The Company's principal assets are extensive mineral leases that contain defined gold resources and various mineral prospects.

The principal project is located in the Norseman region within the southern part of Western Australia's Eastern Goldfields.

STRATEGY

Over the period Matsa has implemented a strategy of focussing on Gold and Iron Ore projects within Australia and SE Asia. To enhance its financial and development capability the Company has formed a relationship with Chinese interests who have a similar investment strategy.

The Company's principal activity during the reporting period was advancing the low-cost start-up development of Small Scale Mining Operations targeting shallow and higher grade resources at Norseman. The Company expects approvals before the middle of the year to mine between 100,000 and 500,000 tonnes of ore during 2010-2011, and treat at or sell to regional gold treatment facility operators.

During late 2009 and early 2010 the Company announced that it and the Shandong Provincial Bureau of Geology and Mineral Resources through its partly owned vehicle HF Resources Pty Ltd ("SDGM") have agreed to commence negotiations in good faith to form a strategic project exploration and mine development partnership commencing with Matsa's Norseman Project. This development may affect a decision to commence the Small Scale Mining Operation at Norseman should a compelling Joint Venture arrangement be entered into that would see a larger development occurring.

SDGM have also agreed to a conceptual terms sheet in connection with the Iron Ore potential at the Norseman Gold Project and the Company is very keen to advance a Farm-in Joint Venture. The strategy being developed is to look at the potential for a joint Gold and Iron Ore project, maximising personnel and infrastructure at the lowest possible cost of production. Initial conceptual studies indicate this to be a very encouraging option.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

The Company has a deliberate strategy of seeking world-class exploration and mining opportunities in South East Asia. During the period Matsa secured a 180 square kilometre exploration project adjacent to Kingsgate Consolidated Limited's 5 million ounce Chatree Gold Mine and has also secured a further 107 square kilometres of land with high potential for magnetite iron ore deposits.

COMPANY ACTIVITIES

NORSEMAN PROJECT

As previously reported the current Mineral Resource for the Norseman Gold Project totals 26.5 million tonnes @ 1.7g/t for 1.47 million indicated and inferred ounces as tabulated below.

Norseman Gold Project Resources			
(>1g/t Au)			
	Tonnes (Million)	Grade (g/t)	Ounces
Indicated			
Mt Henry	5.6	1.9	350,000
Selene	11.8	1.6	600,000
North Scotia	0.2	5.2	36,000
Total	17.6	1.8	990,000
Inferred			
Mt Henry	4.9	1.8	280,000
Selene	3.1	1.4	140,000
North Scotia	0.3	2.2	24,000
Abbotshall	0.5	2.0	30,000
Total	8.9	1.7	480,000
Grand Total			
Grand Total	26.5	1.7	1,470,000

- 1) All resources are reported to a lower cut-off grade of 1.0 g/t
- 2) Rounding, conforming to the JORC code may cause computational errors.

Small Scale Mining Development

The Company substantially completed all activities required to enable production of the reports for the relevant decision making authorities and lodgement of Notice of Intent to Mine with the Department of Mines and Petroleum. Final Native Title negotiations are expected to allow lodgement and approval before the end of the financial year.

Large Scale Mining Development

The Company continues to assess the viability of developing a gold operation producing approximately 100,000 ounces per annum. During the last period additional samples were gathered from the Mount Henry deposit and metallurgically tested. This new work has indicated that recoveries within this deposit are variable and further representative sampling is required. A very positive outcome of the test-work was the successful recovery of a much higher percentage of gold through gravity separation using current techniques and equipment. This should improve recoveries and lower process costs.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

As this gold mineralisation is hosted within a Sedimentary Iron Formation the Company has commenced a review of the potential to recover a magnetite product either from the gold ore and/or in addition to the gold ore. Conceptually this process appears to justify further evaluation prior to recommencing gold feasibility studies.

Iron Ore

In addition to the potential for magnetite mineralisation independent studies have indicated that there is potential for small areas of hematite mineralisation in the Sedimentary Iron Formation. Exploration work is planned to commence in March 2010 and assess both hematite and magnetite iron ore mineralisation potential.

The presence of significant infrastructure including rail, sealed road, gas pipeline and the Esperance Port suggests a lower than normal Capital Cost for any future Iron Ore operation.

THAILAND

In October 2009 Matsa announced that applications have been accepted by the Thailand Department of Industry & Mines for eleven (11) Special Prospecting Licenses (SPLs) covering approximately 180 square kilometres located only 20 kilometres east of Kingsgate Consolidated Limited's 5 million ounce Chatree Gold Mine.

The KT Project (because it is in the Ban Khlong Tabaek area) is located 300 kilometres north of Bangkok in the Petchabun Province, and is approximately 20 kilometres to the east of the Kingsgate's Chatree Gold Mine. The project SPL's are contiguous with Kingsgate's licences and are bound on the east by State Forest where exploration is prohibited.

Highlights of mineral exploration to date include:

1. Previous work includes 800 stream soil and rock chip samples with 34 element analyses and semi-detailed geological mapping contained in a GIS dataset.
2. The presence of coherent gold-silver and multi-element anomalies in 2 discrete areas (NW and SE).
3. Nearby diamond drilling in the state forest has intersected 6 metres @ 2.42g/t Au from 60 metres.

In November 2009 Matsa announced that applications were accepted by the Thailand Department of Industry & Mines for nine (9) Special Prospecting Licenses (SPLs) covering approximately 107 square kilometres located 55 kilometres south of Matsa's KT Project and called the Paisali Iron Project.

The SPL's include a central 18 square kilometre section covered by 2 SPL's that have had extensive detailed ground magnetic surveys and shallow diamond drill holes which have defined the initial magnetite iron prospects.

Coarse magnetite up to an impressive 65% in grade within oxidation depths of up to 30 metres has been observed suggesting both Direct Shipping Ore (DSO) and magnetite concentrate potential is present.

The Company is awaiting the granting of all tenements applied for in Thailand.

CORPORATE ACTIVITIES

On 24 July 2009 following the receipt of shareholder approval the Company issued 2,480,572 fully paid ordinary shares at an issue price of 10 cents each in satisfaction of loans previously advanced to the Company.

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

On 19 August 2009 the Company announced that it had agreed to place 4,002,236 shares at an issue price of 16.1 cents per share to raise \$644,306.

On 17 September 2009 the Company announced it raised \$1,900,000 through a placement of 9.5 million shares at an issue price of 20 cents per share to sophisticated and professional investors. The placement was facilitated by Lead Manager Patersons Securities Limited.

In December 2009 the Company conducted a Share Purchase Plan. It raised \$465,000 via the issue of 1,860,000 ordinary shares at an issue price of \$0.25 each.

The funds raised from the placements are to advance the Company's development programs targeting the commencement of gold production within the first half of 2010 from the Mt Henry and North Scotia deposits within its Norseman Gold Project.

The Company held its Annual General Meeting on 30 November 2009 where all resolutions were passed. Mr Michael Atkins retired as a director at the AGM. Mr Atkins was a former Chairman of the Company and was instrumental in the acquisition of Matsa (Aust) Pty Ltd in late 2008. Andrew Chapman was appointed as a director of the Company in late December 2009.

Subsequent to the end of the period, on 2 February 2010 the Company announced that it and the Shandong Provincial Bureau of Geology and Mineral Resources through its partly owned vehicle HF Resources Pty Ltd ("**SDGM**") have agreed to commence negotiations in good faith to form a strategic project exploration and mine development partnership commencing with Matsa's Norseman Project. An initial placement of 11,770,000 million shares in Matsa in three tranches subject to FIRB and any other regulatory approvals, to SDGM is expected to be the first step towards further investments and project agreements.

Furthermore, it is contemplated that, subject to entering into separate agreements, Matsa will issue to SDGM, subject to FIRB and other regulatory approvals:

1. 5,885,000 shares at \$0.398 per share should the parties complete a joint venture agreement in connection to the Matsa Iron Ore Project situated at the Norseman Gold Project area; and
2. 5,885,000 shares at \$0.50 per share should the parties complete a joint venture agreement in connection with the Norseman Gold Project

The parties have agreed to negotiate in good faith up to three further Memorandums of Understanding as follows:

Iron Ore

A conceptual terms sheet has been signed and discussions are advanced on a joint venture agreement in connection with the Iron Ore potential at the Norseman Gold Project. SDGM have conducted a site visit and reviewed previous work completed by Matsa and determined that there exists enough evidence of haematite and magnetite to justify further studies of the Banded Iron Formation occurring at the Norseman Gold Project. To this extent a preliminary term sheet has been agreed encompassing the following terms:

1. SDGM have a 6 month option to access land, samples and all data relevant to Iron Ore by completing further drilling, sampling and other work at no cost to Matsa, in order to determine whether they wish to exercise a farm-in arrangement;
2. SDGM via the payment of \$250,000 can exercise their right to begin a 4 year farm in to acquire a 60% interest in the Iron Ore project at the Norseman Project. The interest is earned as follows:
 - a) Within 2 years SDGM to fund 100% and define a JORC compliant resource and complete a Scoping Level Study
 - b) During the subsequent 2 years SDGM to fund and complete a Bankable or Definitive Feasibility Study to Australian Standards
 - c) Matsa may elect to request SDGM after the completion of a Bankable Feasibility Study to fund 100% of the project development capital costs and dilute to a 20% interest contributing only at the commencement of mining;

MATSA RESOURCES LIMITED

DIRECTORS' REPORT

3. Matsa will receive a 1% gross royalty for all haematite ore sold and 0.5% gross revenue royalty for all magnetite ore sold;
4. A joint venture company will be formed and will manage the exploration and development activities, with all costs to be borne by SDGM during the earn-in stage;
5. The joint venture company will have exclusive rights to all iron ore exploration, mining and processing opportunities within a 100km radius of the Norseman Gold Project in respect of tenements owned or acquired by either party, and similar terms will apply;
6. SDGM through their network within China have also agreed to work towards an off-take agreement for all Iron Ore produced at the Norseman Gold Project.

Gold

A detailed review of all samples, data and Company records has been commenced by SDGM under a Confidentiality Agreement, for the purpose of determining a valuation and the most appropriate way forward for a joint venture agreement. SDGM may acquire an option to access land, samples and all data relevant to the gold deposit with the view to negotiating in good faith a joint venture agreement to develop the Norseman Gold Project. As such, discussions are well advanced subsequent to a site visit by SDGM in connection with the Norseman Gold Project which may lead to SDGM acquiring an interest in the Norseman Gold Project and its potential development, including a Definitive Bankable Feasibility Study and the possibility of funding all capital requirements for the construction of a gold treatment plant.

Strategic Co-operation and Future Projects

SDGM and Matsa have agreed to develop a strategy for encompassing the further development of Matsa's other projects in Australia and Thailand and to consider the acquisition of other projects of interest to both parties.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 7 and forms part of the directors' report for the six months ended 31 December 2009.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to Section 306(3) of the Corporations Act 2001.



Paul Poli
Executive Chairman

Dated this 16th day of March 2010

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Richard Breyley, who is a member of the Australasian Institute of Mining and Metallurgy. Richard Breyley is a full time employee of Matsa Resources. Richard Breyley 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 2004 Edition of the 'Australasian Code for Reporting of Mineral Resources and Ore Reserves. Richard Breyley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

16 March 2010

To the Board of Directors of Matsa Resources Limited

Dear Sirs

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, in relation to the review of the financial report for the half-year ended 31 December 2009, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully
ORD PARTNERS



Robert Parker
Partner

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MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2009**

	2009	2008
	\$	\$
Interest income	19,952	18,360
Other income	250	-
Forgiveness of interest expense	-	316,277
Loss on sale of exploration assets	-	(50,000)
Consultants' expense	(55,665)	(83,890)
Corporate compliance expense	(32,278)	(51,297)
Depreciation expense	(45,428)	(3,185)
Salaries and employment benefits expenses	(272,657)	(61,872)
Exploration expenditure written off	(1,137,407)	(2,918,341)
Occupancy expense	(58,092)	(16,518)
Other administration expenses	(217,342)	(201,673)
Share based payments expense	(830,653)	(1,251,366)
Impairment of goodwill on acquisition	-	(590,216)
Legal expenses	(15,154)	(58,248)
Provision for doubtful debts	(8,524)	-
	<hr/>	<hr/>
Loss before income tax	(2,652,998)	(4,951,879)
Income tax benefit	-	-
	<hr/>	<hr/>
Loss for the period	(2,652,998)	(4,951,879)
	<hr/>	<hr/>
Other comprehensive income	-	-
Total comprehensive loss for the period, net of tax attributable to the shareholders of the parent	(2,652,998)	(4,951,879)
	<hr/> <hr/>	<hr/> <hr/>
Earnings per share:		
Basic loss per share (cents per share)	(2.68)	(2.89)
Diluted loss per share (cents per share)	(2.68)	(2.89)

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	31 Dec 09	30 Jun 09
	\$	\$
Current Assets		
Cash and cash equivalents	1,125,503	806,351
Trade and other receivables	106,804	104,338
Other current assets	318,838	331,888
	<hr/>	<hr/>
Total Current Assets	1,551,145	1,242,577
	<hr/>	<hr/>
Non-Current Assets		
Plant and equipment	213,914	212,424
Exploration and evaluation asset	13,231,570	12,871,497
	<hr/>	<hr/>
Total Non-Current Assets	13,445,484	13,083,921
	<hr/>	<hr/>
Total Assets	14,996,629	14,326,498
	<hr/>	<hr/>
Current Liabilities		
Trade and other payables	257,471	664,098
Borrowings	62,536	321,380
Provisions	85,079	66,420
	<hr/>	<hr/>
Total Current Liabilities	405,086	1,051,898
	<hr/>	<hr/>
Non-Current Liabilities		
Borrowings	71,717	111,081
	<hr/>	<hr/>
Total Non-Current Liabilities	71,717	111,081
	<hr/>	<hr/>
Total Liabilities	476,803	1,162,979
	<hr/>	<hr/>
Net Assets	14,519,826	13,163,519
	<hr/>	<hr/>
Equity		
Issued capital	7 29,454,801	26,314,908
Reserves	4,184,985	3,315,573
Accumulated losses	(19,119,960)	(16,466,962)
	<hr/>	<hr/>
Total Equity	14,519,826	13,163,519
	<hr/>	<hr/>

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2009**

	Issued Capital Ordinary \$	Accumulated Losses \$	Equity Settled Benefits Reserve \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 1 July 2009	26,314,908	(16,466,962)	3,276,587	38,986	13,163,519
Comprehensive loss for the period	-	(2,652,998)	-	-	(2,652,998)
Total comprehensive loss for the period	-	(2,652,998)	-	-	(2,652,998)
Shares issued during the period	3,257,417	-	-	-	3,257,417
Options issued during the period	-	-	38,759	-	38,759
Capital raising costs during the period	(117,524)	-	-	-	(117,524)
Share based payment	-	-	830,653	-	830,653
Balance at 31 December 2009	<u>29,454,801</u>	<u>(19,119,960)</u>	<u>4,145,999</u>	<u>38,986</u>	<u>14,519,826</u>
Balance at 1 July 2008	18,869,626	(9,245,323)	1,475,237	38,550	11,138,090
Comprehensive loss for the period	-	(4,951,879)	-	881	(4,950,998)
Total comprehensive loss for the period	-	(4,951,879)	-	881	(4,950,998)
Shares issued during the period	4,752,000	-	-	-	4,752,000
Capital raising costs during the period	(2,842)	-	-	-	(2,842)
Equity settled transaction	-	-	1,570,566	-	1,570,566
Balance at 31 December 2008	<u>23,618,784</u>	<u>(14,197,202)</u>	<u>3,045,803</u>	<u>39,431</u>	<u>12,506,816</u>

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

MATSA RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOW
For the six months ended 31 December 2009**

	2009	2008
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(693,483)	(133,604)
Interest received	18,668	7,313
Other income	250	-
	(674,565)	(126,291)
Cash flows from investing activities		
Purchase of plant and equipment	(46,918)	-
Exploration and evaluation expenditure	(1,811,985)	(1,644,631)
Deposits for guarantees	4,375	(3,234)
Payment for subsidiary net of cash received	-	(11,710)
Proceeds from sale of exploration and evaluation assets	-	200,000
	(1,854,528)	(1,459,575)
Cash flows from financing activities		
Proceeds from issue of shares	2,977,161	304,000
Proceeds from issue of options	38,759	-
Capital raising costs	(117,524)	(2,842)
Proceeds from/(repayment of) borrowings	(50,151)	248,057
Proceeds from share placement monies	-	666,950
	2,848,245	1,216,165
Net increase/(decrease) in cash and cash equivalents	319,152	(369,701)
Cash and cash equivalents at beginning of the period	806,351	1,029,048
	1,125,503	659,347
Cash and cash equivalents at end of the period	1,125,503	659,347

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

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MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2009

1. Reporting Entity

Matsa Resources Limited ('Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the 'Group').

The consolidated annual financial report of the Group as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at Suite 1, Vosper House, 31-33 Dugan Street, Kalgoorlie, Western Australia, 6430 or at www.matsa.com.au.

2. Statement of Compliance

The consolidated half-year financial report is a general purpose financial report which has been prepared in accordance with AASB 134: "Interim Financial Reporting", Accounting Interpretations, other authoritative announcements issued by the Australian Accounting Standards Board and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34: "Interim Financial Reporting".

The consolidated half-year financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2009, and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

3. Significant Accounting Policies

Apart from the adoption of new or revised standards noted below the accounting policies applied by the Group in this consolidated half year financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2009.

Adoption of New or Revised Standards

Since 1 July 2009 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2009. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 8 *Operating Segments*. Adoption of AASB8 has resulted in the Group revising its segment report. Refer to note 6 for details of reportable segments and applicable accounting policies.
- AASB 101 *Revised Presentation of Financial Statements*: The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

4. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2009.

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2009

5. Going Concern

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

The Group has incurred a net loss after tax for the period ended 31 December 2009 of \$2,652,998 (2008: \$4,951,879) and experienced net cash outflows from operating and investing activities of \$2,529,093 (2008: \$1,585,866).

On 2 February 2010 the Company announced that it and the Shandong Provincial Bureau of Geology and Mineral Resources through its partly owned vehicle HF Resources Pty Ltd (“SDGM”) have agreed to commence negotiations in good faith to form a strategic project exploration and mine development partnership commencing with Matsa’s Norseman Project. An initial placement to raise \$4.423 million via the issue of 11,770,000 million shares in Matsa in three tranches is pending subject to FIRB and any other regulatory approvals. Further details are provided in Note 12. The directors believe that the required approvals and therefore funds will be received in due course.

The directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company and Group will achieve the matters set out above.

Notwithstanding this, should the above placement with SDGM not proceed the Company and the Group would have to secure further working capital by the issue of additional equities, debt, the sale of non-core assets, or a combination of debt, equity and/or the sale of assets to continue as going concerns.

There is material uncertainty in obtaining FIRB and other regulatory approvals as well as in securing additional future working capital. As such, should the Company and Group be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company and the Group be unable to continue as going concerns.

6. Segment information

Identification of reportable segment

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

The Group operates primarily in mineral exploration in Western Australia. The Group has also applied for exploration licences in Thailand but at this stage they have not been granted. The 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 in Western Australia. The financial information presented in the income statements and balance sheet is the same as that presented to 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 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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2009

	31 Dec 09	30 Jun 09
	\$	\$
7. Issued Capital		
106,403,951 (30 June 2009: 88,561,143) ordinary shares	29,454,801	26,314,908
Issue of Ordinary Shares – during the period	Number of shares	\$
At 1 July 2009	88,561,143	26,314,908
Issued during the year		
Issued on placement of 16.1 cents each	4,002,236	644,360
Issued on placement of 20 cents each	9,500,000	1,900,000
Conversion of unsecured loans	2,480,572	248,057
Share Purchase Plan at 10 cents each	1,860,000	465,000
Transaction costs relating to issue	-	(117,524)
	106,403,951	29,454,801
Issue of options during the period	Number of options	\$
Opening balance at 1 July 2009	18,870,000	3,276,587
Unlisted options issued during this period	3,450,000	830,653
Consideration for issue of unlisted options	-	38,759
Options expired during the period	-	-
	22,320,000	4,145,999

8. Commitments

Exploration and Expenditure Commitments

In order to maintain the mineral tenements in which the Company and other parties are involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure commitment requirements for the next year is \$1,449,255 (30 June 2009: \$1,567,000). These obligations are capable of being varied from time to time. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

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MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2009

9. Related Parties

Arrangements with related parties continue to be in place. The following are related parties which are referred to in the body of this note:

- RASL AU LLC ('RASL') is a company wholly-owned by Richard Alter and Stanley Lewis (both former non-executive directors of the Company).
- Paul Poli and Andrew Viner are executive directors of the Company.

During the period the following changes to these arrangements occurred.

	31 Dec 09	30 Jun 09
	\$	\$
Loan from RASL		
Beginning of the period	123,224	123,224
Repayment of loan via issue of shares	(123,224)	-
End of period	-	123,224
Loan from Poli/Viner		
Beginning of the period	124,833	124,833
Repayment of loan via issue of shares	(124,833)	-
End of period	-	124,833

Paul Poli, Andrew Viner and RASL were issued 2,480,572 fully paid ordinary shares on 23 July 2009 as consideration for the repayment of the above loans.

Paul Poli, Andrew Viner and RASL were issued 1 million options each with an exercise price of 27.3 cents each expiring 26 November 2012. The value of each option is referred to in Note 10.

10. Share Based Payments

In December 2009, 2,000,000 options were granted to directors. All of these options vest immediately. The fair value of the options granted is estimated using a Black & Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2009.

	Exercise Price 27.3 Cents
Grant Date	8 December 2009
Expected Volatility	100%
Risk-free Interest Rate	5.0%
Expected Life of Options	1.48 years
Consideration paid per option	1.938 cents
Share Price at Grant Date	26.5 cents
Fair Value at Grant Date	19.66 cents
Number of Options Issued	2 million

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MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 31 December 2009

11. Business Combination

Acquisition of Matsa Resources (Aust.) Limited (formerly Matsa Resources Limited)

Following shareholder approval on 18 December 2008 the Company acquired 100% of Matsa Resources (Aust.) Limited on 23 December 2008.

The total cost of the combination was \$1,918,882 and comprised an issue of equity instruments of \$1,448,000 and costs of \$151,682 directly attributable to the acquisition. The Company issued 80 million ordinary shares with a fair value of 1.81 cents per share, based on the weighted average quoted price of the shares of the Company for the five business days prior to settlement. In addition 20 million options with a fair value of 1.59 cents were issued with an exercise price of 7 cents each expiring 1 July 2011. The options have a fair value of \$319,200.

The fair value of the identifiable assets and liabilities of Matsa Resources (Aust.) Limited at the date of acquisition are:

	Consolidated		
	Recognised on Acquisition	Fair Value Adjustment	Pre-Acquisition Carrying Value
Cash and cash equivalents	5,896	-	5,896
Trade and other receivables	37,026	-	37,026
Plant and equipment	65,401	-	65,401
Exploration and evaluation assets	1,450,000	533,036	916,964
Other financial assets	21,146	-	21,146
	<u>1,579,469</u>	<u>533,036</u>	<u>1,046,433</u>
Trade payables	(189,406)	-	(189,406)
Provisions	(11,397)	-	(11,397)
Borrowings	(50,000)	-	(50,000)
	<u>(250,803)</u>	<u>-</u>	<u>(250,803)</u>
Fair value of identifiable net assets	<u>1,328,666</u>	<u>533,036</u>	<u>795,630</u>
Cost of the combination	<u>1,918,882</u>		
Goodwill	<u>590,216</u>		

The cash outflow on acquisition is as follows

Cash payments for interest acquired	(151,682)
Net cash acquired with the subsidiary	<u>5,896</u>
Net cash outflow	<u>(145,786)</u>

For the period in which it was part of the Group, Matsa Resources (Aust) Limited contributed nil to the consolidated loss for the period.

Reconciliation of Goodwill on Acquisition

Balance at beginning of period	-
Goodwill on acquisition	590,216
Write-off of goodwill on acquisition	<u>(590,216)</u>
Balance at end of period	<u>-</u>

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2009

12. Subsequent Events

On 2 February 2010 the Company announced that it and the Shandong Provincial Bureau of Geology and Mineral Resources through its partly owned vehicle HF Resources Pty Ltd (“SDGM”) have agreed to commence negotiations in good faith to form a strategic project exploration and mine development partnership commencing with Matsa’s Norseman Project. An initial placement of 11,770,000 million shares in Matsa in three tranches subject to FIRB and any other regulatory approvals, to SDGM is expected to be the first step towards further investments and project agreements.

Furthermore, it is contemplated that, subject to entering into separate agreements, Matsa will issue to SDGM, subject to FIRB and other regulatory approvals:

1. 5,885,000 shares at \$0.398 per share should the parties complete a joint venture agreement in connection to the Matsa Iron Ore Project situated at the Norseman Gold Project area; and
2. 5,885,000 shares at \$0.50 per share should the parties complete a joint venture agreement in connection with the Norseman Gold Project

The parties have agreed to negotiate in good faith up to three further Memorandums of Understanding as follows:

Iron Ore

A conceptual terms sheet has been signed and discussions are advanced on a joint venture agreement in connection with the Iron Ore potential at the Norseman Gold Project. SDGM have conducted a site visit and reviewed previous work completed by Matsa and determined that there exists enough evidence of Haematite and Magnetite to justify further studies of the Banded Iron Formation occurring at the Norseman Gold Project. To this extent a preliminary term sheet has been agreed encompassing the following terms:

1. SDGM have a 6 month option to access land, samples and all data relevant to Iron Ore by completing further drilling, sampling and other work at no cost to Matsa, in order to determine whether they wish to exercise a farm-in arrangement;
2. SDGM via the payment of \$250,000 can exercise their right to begin a 4 year farm in to acquire a 60% interest in the Iron Ore project at the Norseman Project. The interest is earned as follows:
 - a) Within 2 years SDGM to fund 100% and define a JORC compliant resource and complete a Scoping Level Study
 - b) during the subsequent 2 years SDGM to fund and complete a Bankable or Definitive Feasibility Study to Australian Standards
 - c) Matsa may elect to request SDGM after the completion of a Bankable Feasibility Study to fund 100% of the project development capital costs and dilute to a 20% interest contributing only at the commencement of mining;
 - d) Matsa will receive a 1% gross royalty for all Haematite ore sold and 0.5% gross revenue royalty for all Magnetite ore sold;
 - e) A joint venture company will be formed and will manage the exploration and development activities, with all costs of Matsa to be reimbursed by SDGM during the earn-in stage;
 - f) The joint venture company will have exclusive rights to all iron ore exploration, mining and processing opportunities within a 100km radius of the Norseman Gold Project in respect of tenements owned or acquired by either party, and similar terms will apply;
 - g) SDGM through their network within China have also agreed to work towards an off-take agreement for all Iron Ore produced at the Norseman Gold Project.

MATSA RESOURCES LIMITED

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 31 December 2009

12. Subsequent Events (continued)

Gold

A detailed review of all samples, data and Company records has been commenced by SDGM under a Confidentiality Agreement, for the purpose of determining a valuation and the most appropriate way forward for a joint venture agreement. SDGM may acquire an option to access land, samples and all data relevant to the gold deposit with the view to negotiating in good faith a joint venture agreement to develop the Norseman Gold Project. As such, discussions are well advanced subsequent to a site visit by SDGM in connection with the Norseman Gold Project which may lead to SDGM acquiring an interest in the Norseman Gold Project and its potential development, including a definitive bankable feasibility study and the possibility of funding all capital requirements for the construction of a gold treatment plant.

Strategic Co-operation and Future Projects

SDGM and Matsa have agreed to develop a strategy for encompassing the further development of Matsa's other projects in Australia and Thailand and to consider the acquisition of other projects of interest to both parties. A joint venture entity will be established.

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MATSA RESOURCES LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of Matsa Resources Limited ("the Company"):

1. The financial statements and notes set out on pages 6 to 18 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the six month period on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors, made pursuant to Section 303 (5) of the Corporations Act 2001.



Paul Poli
Executive Chairman

Dated this 16th day of March 2010

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MATSA RESOURCES LIMITED**

O | R | D

P A R T N E R S

CHARTERED ACCOUNTANTS

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Matsa Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 1 to 12 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement; whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matsa Resources Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ian K Macpherson CA

Robert W Parker CA

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Conclusion

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

- (i) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters referred to in Note 5 "Going Concern" to the interim financial statements, the ability of the Company to continue as a going concern and meet its planned and committed expenditure, including exploration expenditure, is dependent upon the Company raising further working capital. In the event that the Company cannot raise further working capital, there is material uncertainty whether the Company will be able to pay its debts as and when they become due and payable. Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

ORD PARTNERS

Chartered Accountants



Robert Parker

Perth, 16 March 2010

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