



## Matsa Resources Ltd Iron & Gold

### Corporate Structure

Shares	119m.
Options	22.3@ av 44cts
Share price	0.325
Market Cap	\$ 39m.
Cash (est)	\$ 3.0m.

### Shareholders

Board	11.8%
HF Resources	9.9%
RASL	7.1%
Top 20	59.4%

### Directors

<b>Paul Poli</b>	Managing Director & Executive Chairman
<b>Andy Viner</b>	Executive Director
<b>Andrew Chapman</b>	Non-Executive
<b>Frank Sibbel</b>	Project Manager

### Opinion\*

Matsa is moving steadily ahead on a well planned path towards evaluating a magnetite project at Norseman. Early geological and metallurgical evidence, along with access to rail, road, accommodation and potential power infrastructure at this location, provides Matsa with a solid technical and commercial basis to move forward. Potential co-location of 1.4 million ounces of gold mineralisation alongside magnetite ore may result in operational efficiencies, if both gold and iron ore can be mined from one open pit location or a second mine.

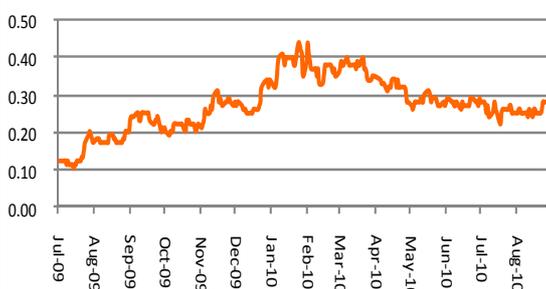
Early cash flow could be achieved from toll processing or sale of higher grade gold Resources or, subject to further exploration success, from early stage sales of DSO iron ore.

Negotiations with potential development partners are well advanced. Successful selection of a well established iron & steel industry partner could provide significant momentum to the company and its valuation.

Peter Strachan.

\*No recommendation is offered for commissioned research.

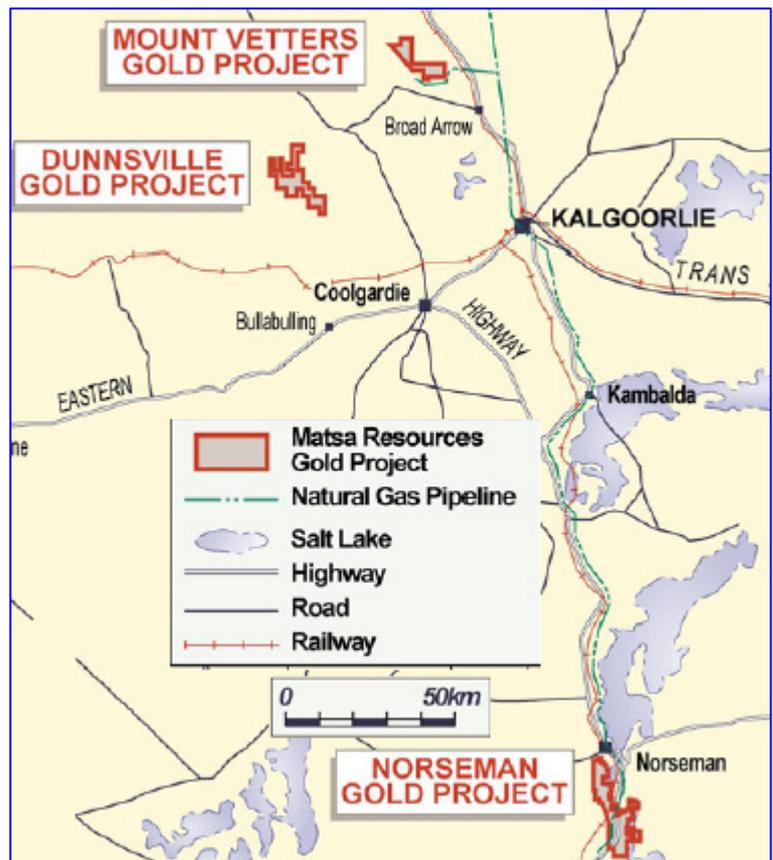
### Share Price



### Investment Drivers

- Matsa Resources trades with a low market capitalisation, equal to about A\$22 per ounce of Indicated and Inferred gold Resources. Small scale mining and toll processing of high grade portions of its Resource near Norseman is an option.
- Geophysical mapping, combined with assay and logging results from previous gold focused RC and diamond drill core, has enabled the company to establish a conceptual, magnetite Exploration Target of >350 million tonnes, along 16 kilometres of BIFs within Greenstone Formation at Norseman. Development would benefit from access to a nearby township, rail transport linked to the Port of Esperance and a gas pipeline to provide fuel for power generation.
- A process of attracting off-take partners to enter into a strategic project exploration and mine development partnership continues. Matsa's withdrawal from negotiations with Shandong Provincial Bureau of Geology and Mineral Resources ("SDGM"), illustrates that the company will not accept a deal which is not in shareholder's best long term interests.
- Drilling and metallurgical test work has commenced on a fine grained magnetite mineralisation, with results expected during H2, 2010.
- Valuation multiples for both gold and magnetite ore, indicate a target valuation of over \$100 million for Matsa, once magnetite ore is established, which compares favourably with current market value of \$39 million.
- Matsa has taken out exploration applications in Thailand with a potential for discovery of magnetite iron ore, copper and gold.

Fig 1. Matsa Project Locations



Source: Matsa

Proximity to infrastructure is a key for success

## Introduction

Matsa Resources Limited emerged from a recapitalisation of Kalgoorlie-Boulder Resources Ltd. Its main project area is located in the Norseman region, within the southern part of Western Australia's Eastern Goldfields. The company has an Indicated and Inferred gold Resource totalling 1.44 moz at a grade of 1.7 g/t, in several deposits located south and west of Norseman, where recent review and remapping of previous drilling, along with preliminary metallurgical test work, has indicated the potential for a significant resource of magnetite ore.

The company has also made application for exploration permits in Thailand, where early stage mapping and sampling shows potential for gold, copper and iron ore mineralisation.

## Projects

### NORSEMAN GOLD PROJECT

990,000 oz of Indicated gold Resource

The gold project covers 124 km<sup>2</sup> of the South Yilgarn Greenstone belt near Norseman on the Eastern Goldfields in Western Australia. The Norseman project is located in two project areas. The Abbotshall-Mt Henry area extends 10 to 26 kilometres south from the town of Norseman and north-west past the Abbotshall Mine, 5 kilometres west of Norseman. The Everlasting area is located 8 kilometres north-east of Norseman. The current Mineral Resource for the Norseman Gold Project totals **26.3 mt grading 1.7 g/t, containing 1.44 moz Au.**

Previous feasibility study work on this low grade gold mineralisation indicated cash operating costs of around A\$900 to A\$950 per ounce could be achieved. Some of the mineralisation contains partially refractory ore, which can hinder metallurgical recovery of gold, but portions of the ore could also be suitable for selective mining and toll processing of higher grade tonnages.

Potential for up to 2 mt pa of magnetite concentrate plus +100koz pa of Au

Recent field work has shown that the sulphide gold mineralisation is co-hosted with magnetite mineralisation. Development scenarios for this mineralisation have expanded to include:

1. Co-production of 300-500,000 tpa of magnetite concentrate from gold tailings. Metallurgical test work is underway to find a process route which would reduce the sulphur content of magnetite, possibly by floating off the sulphur component, which might also increase gold recovery.
2. Processing low gold content or barren magnetite mineralisation which will be mined as waste rock in conjunction with gold ore extraction, in a separate magnetite circuit to produce about 1 million tonnes pa of low sulphur magnetite product with potentially additional gold recovery from a sulphide concentrate.
3. A larger mining operation, aimed at the dual production of gold and magnetite products.

The company's Scoping Study, modelling a purely gold focused open pit operation at 1.8 mt pa, indicates that at a gold price of A\$1,350/oz, a seven year project to produce about 700,000 oz of gold would generate a net cash surplus of \$270 million.

### DUNDAS IRON PROJECT

Magnetite project, close to transport & potential power infrastructure

A Mining Lease Application has been lodged for iron ore covering the Dundas Iron Project, located just north of the company's Mt Henry and Selene gold Project. Unlike many proposed iron ore projects in Western Australia, Matsa's Dundas project is near a town, which can accommodate a potential workforce and has excellent access to power, water and transport infrastructure. Relative to other projects, Matsa's project is virtually on top of road and rail infrastructure, linking it to a nearby Port at Esperance and has access to a natural gas pipeline, which could supply fuel for power requirements.

Early metallurgical tests show promise

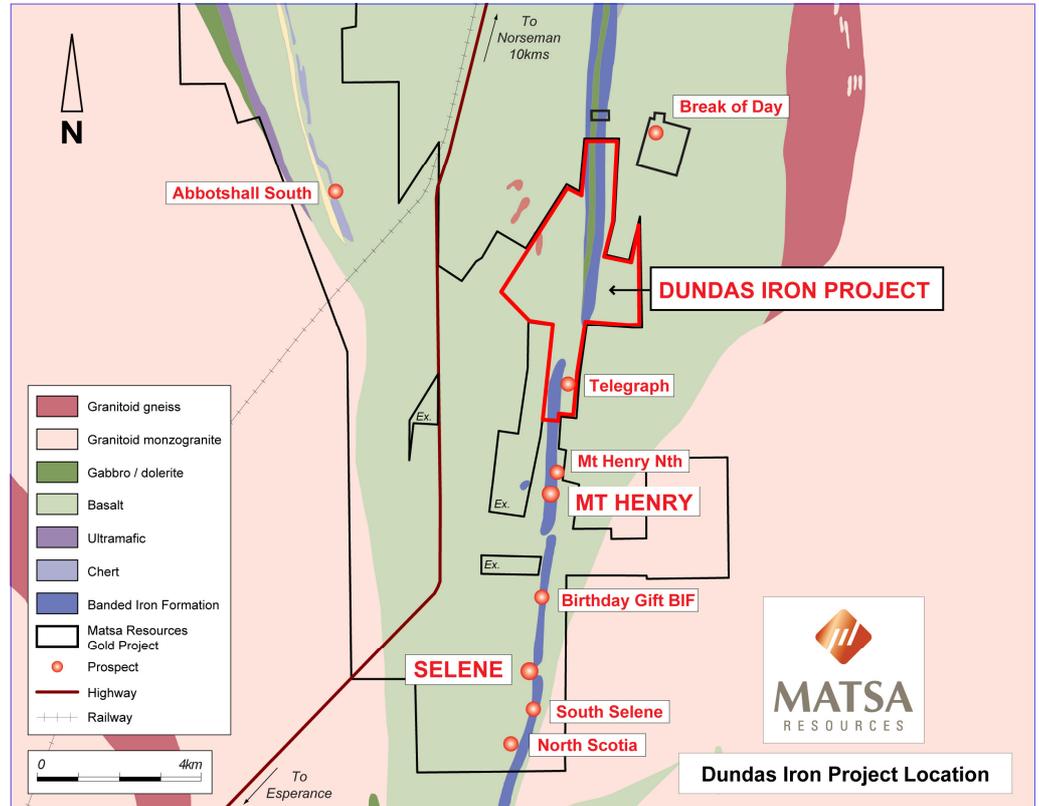
Geophysical mapping data indicates three main zones of highly magnetic mineralisation which is confirmed by previous, gold focused drilling data. Within this zone, each band of mineralisation has a strike length of approximately seven kilometres, which in combination with other data, suggests an Exploration Target of over 350 million tonnes at greater than 25% magnetite.

Preliminary metallurgical tests on a composite sample of mineralisation derived from drill-hole residue indicate that recovery of 30%-40% of magnetite can be achieved to deliver a concentrate product grading 65% to 70% Fe. Diamond core sample was also submitted for grinding test work, with recovery tests carried out on samples reduced to 80% passing 32 microns. More drilling is required to collect representative samples from along the total strike length of this mineralisation. Isolation of areas with high and low sulphur content will be essential in order to define commercial quantities of low sulphur mineralisation suitable for commercial concentrate production. Magnetite zones close to gold mineralisation tend to have high sulphide content which would make then

less suitable for commercial magnetite production. However, test work is now under way to examine reducing the sulphur content by floating off the sulphide mineral content into a separate product, which may contain gold credits.

Surface sampling has also indicated some potential for smaller tonnages of direct shipping grade ore with grades of over 50% and up to 62% Fe, but more work is required to outline tonnage potential and overall composition at these grades and the extent of any beneficiation required or possible.

**Fig 2 Southern Norseman Permit Areas**



Source: Matsa

3 phase evaluation programme budgeted

Tonnes & metallurgy to be defined

Matsa has set out a three stage evaluation programme, with an all-up estimated cost of \$5.8 million, to establish an iron ore project at Norseman. Stage I involves spending \$1 million on 3,100 metres of RC drilling along traverses spaced at 800 metre intervals along 7 kilometres of strike, to determine bulk tonnage and grade potential of the magnetite target, assess overall tonnage potential and recover samples for further metallurgical test work. This work will aim to select best locations to outline an initial 10 mt Resource, with low silica, alumina, sulphur and phosphorous contents.

Once Phase I is complete, Phase II will involve infill drilling on 400 metre spaced lines, with the aim of outlining an Inferred Resource of over 350 million tonnes of mineralisation grading over 25% magnetite. Additional drilling on any DSO targets will also be undertaken in Phase II. This phase will also involve additional metallurgical refinement to determine if a product with specifications appropriate for pellet plant feed can be produced.

Phase III will then involve spending a budgeted \$3.8 million on infill drilling at 200 metre spacing, designed to outline at least 350 million tonnes at Indicated Resources status, along with metallurgical tests leading to design of a conceptual process flow-sheet.

Partnership discussions ongoing

Additional diamond drill cores will be used to provide geotechnical and geological information as well as additional material for crushing and recovery metallurgical tests.

With a plan in place and initial positive indications for the project, Matsa is working to establish a strategic project exploration and mine development partnership with groups in China that could add value by getting involved as both a funding and possible off-take partner.

**DUNNSVILLE PROJECT**

At this project, 40 kilometres north of Coolgardie, a 3 kilometre long gold in soil geochemical anomaly named Big Red, has been identified. A geophysical survey has been undertaken over the Big Red zone, designed to identify possible drill targets in subsurface structures.

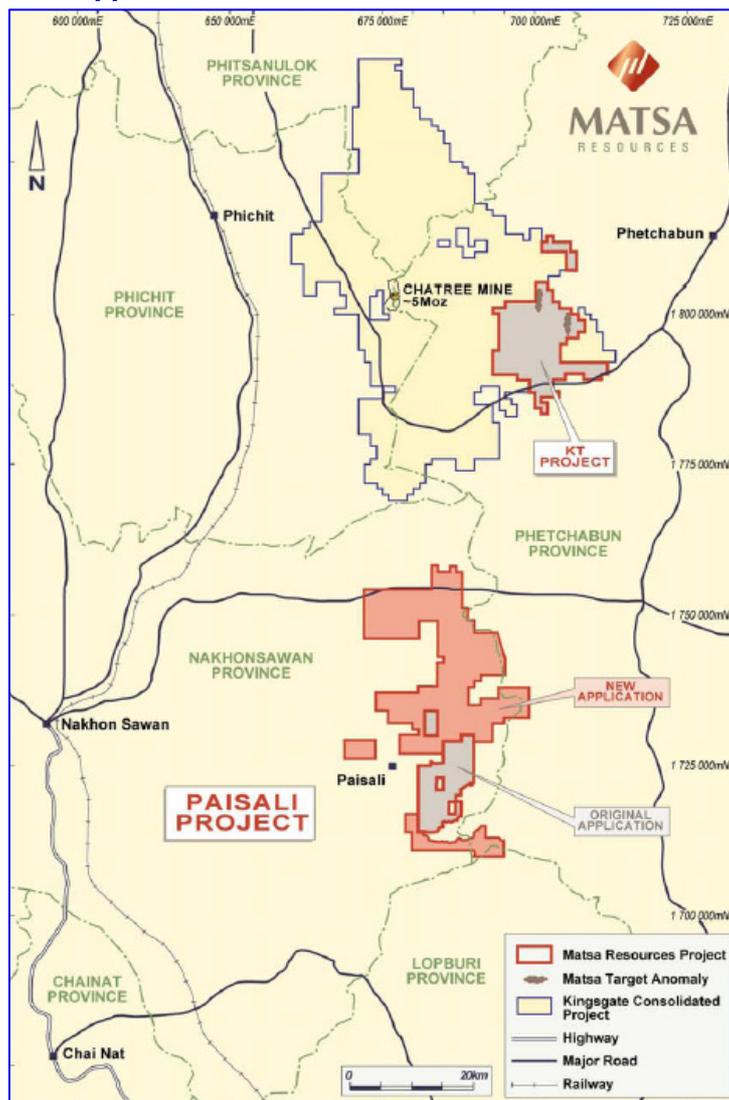
**MT VETTERS**

Previous drilling on these permits located 45 kilometres northwest of Kalgoorlie has intersected anomalous gold below 30-40 metres of cover, including 7 metres grading 2.3 g/t Au. Matsa plans follow-up drilling on identified zones of gold mineralisation. Even small zones of mineralisation would be potentially commercial in this location, close to gold milling infrastructure.

**THAILAND**

**Fig 3 Thai Permit Applications**

Significant potential from grassroots Thai Projects



Source: Matsa

In Thailand, Matsa has taken out permit applications over an area located to the east of Kingsgate's 10 million ounce, Chatree Gold Mine on an extensive, mineralised hydrothermal system. Previous work has established two gold-in-soil anomalies. The south-east target also has coincident geophysical anomalism. Nearby drilling by the Thai geological survey has intersected 6 metres grading 2.4 g/t Au, proving that there is gold in the system at this location.

Further south at its Central Thailand and Paisali Projects, Matsa holds applications over a large volcanic system with potential for copper and gold mineralisation, as well as magnetite mineralisation.

## Valuation

Recent transactions in the magnetite industry provide a guide to project valuations.

Takeover multiples reveal a valuation of 12 to 31 cents per tonne of magnetite

Atlas Iron paid an effective price of \$143 million to buy Aurox, after adjusting for net debt. Aurox had stated magnetite Reserves of 229 million tonnes and Resources of 459 million tonnes, placing a value of 31 cents per tonne of its Resources and 62 cents per tonne of Reserves. Similarly, Xstrata has agreed to buy Sphere Minerals in a deal which values its assets, net of cash at about \$394 million. This price equates to a value of 12 cents per tonne of magnetite Resources in Mauritania.

350 mt of magnetite should be worth >\$42 million to Matsa

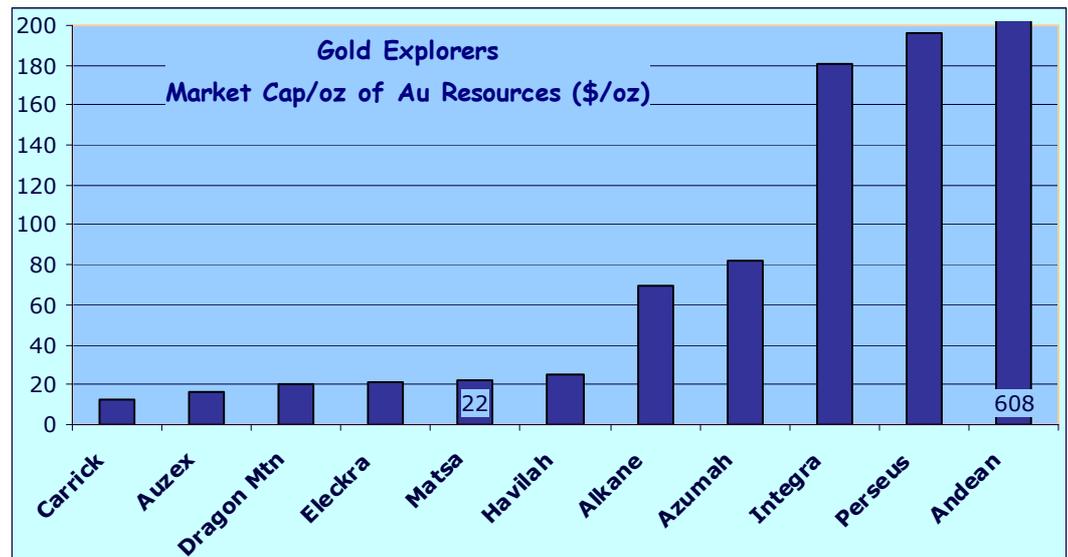
Sphere's projects in Mauritania have the advantage of being serviced by a rail line to a port, but the country and developments in its northern region, present significant political and funding risks.

Taking the Sphere valuation as a base target, Matsa's Exploration Target of 350 – 750 tonnes of magnetite, represents an upside target valuation to Matsa of between \$42 million and \$90 million. Applying the Aurox takeover multiple, generates a value target for Matsa of over \$108 million, should a Resource of 350 million tonnes of magnetite be realised.

Given Matsa's current market capitalisation of \$32 million, these value targets represent significant upside for shareholders, purely based on its ability to outline 350 million tonnes of magnetite at Norseman and without ascribing any value for gold Resources.

Matsa also has valuation upside for gold assets

Separately, Matsa currently trades with a market capitalisation of \$22 per ounce of gold in Resources. Some peer exploration companies trade with a similar low multiple, but companies that can demonstrate a path to production, such as Azumah, Integra and Perseus, attract a multiple of \$80/oz and up to \$200 per ounce of gold in Resource. Strachan Corporate believes that as Matsa moves towards demonstrating funding capacity to develop a viable gold and magnetite project during 2011, its market multiple to gold held in Resources could double or even triple, taking its market capitalisation towards \$80 million.



Source: Company Reports & Strachan Corporate

## S.W.O.T Analysis

### Strengths

**MANAGEMENT:** As significant shareholders, Matsa's management is motivated to succeed.

**SHAREHOLDER SUPPORT:** Matsa has a tight share register with about 59.4% of shares held by its largest 20 shareholders.

**LOCATION:** Matsa's iron ore project is well located with respect to transport, labour and possible gas fired power.

**CO-LOCATION OF GOLD & MAGNETITE:** Mining and process synergies could be achieved from a dual product mining and processing operation.

### Weaknesses

**FUNDING:** Small companies are always more at risk of market volatility, being reliant on capital markets for growth capital.

**LOW GRADES:** Matsa's gold Resources are low grade and relatively high cost to process, while grades of magnetite are still to be established along its area of interest.

### Opportunities

**FUNDING & OFF-TAKE PARTNER:** Matsa has made progress towards attracting a partner which might fund its development plans.

**STRONG GLOBAL MARKETS:** Demand for iron ore from India and China is unlikely to peak until late in the current decade, providing opportunities for new entrants.

### Threats

**COMMODITY PRICES AND COSTS:** The outlook for iron ore price is favourable over the coming 1 to 4 years, but new projects globally could ease pricing pressure in the latter half of this decade.

**COSTS AND SKILLS:** In common with all smaller companies operating in WA, Matsa will need to compete for capital and scarce skills.

**REGISTRY INSTABILITY:** HF Resources, representing SDGM from China, took a \$4.4 million placement in Matsa, but may seek to withdraw if Matsa brings in a new development partner.

## Management

### Chairman

Paul has previously run a successful accounting practise. He is a major shareholder in Matsa and has wide experience, running businesses in Australia and South East Asia.

**Paul Poli, Bcomm, FCPA**

### Executive Director

Andy is a geologist with over 25 years of experience in gold and base metals within Western Australia.

**Andy Viner, BAppSc**

### Non-Exec Director

Andrew has over 16 years of experience with publicly listed companies as Chief Financial Officer, bringing him into contact with corporate finance and acquisition activities.

**Andrew Chapman, BBus, CA**

### Project Manager

Frank is a Mining Engineer with over 40 years of operational and management experience in large and small scale mining projects from development through to successful production

**Frank Sibbel, B.E. (Hons) Mining**

### Exploration Manager, Iron Ore.

Dave has 35 years of experience in exploration geology, the last 10 years with Cleveland Cliffs and Fortescue.

**Dave Fielding B Sc Geol, MSc Min Exploration**

### Chief Geologist

Richard has over 16 years of experience in geology and project development.

**Richard Breyley, BSc (Hons)**

### Financial Controller

**Oliver Nikolovski, Bcomm, CPA**

### Disclaimer

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