



**Breakaway
Research**

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Company Information

| ASX Code | MAT |
|-------------------------|-----------------|
| Share Price | A\$0.12 |
| Ord Shares | 131.2m |
| Options | 10.1m |
| Market Cap | A\$15.7m |
| Cash (June 12 est) | A\$2.0m |
| Shares + receivables | A\$12.2m |
| Total Debt | A\$0m |
| Enterprise Value | A\$1.5m |

Directors

| | |
|------------------------|----------------|
| Chairman | Paul Poli |
| Non-Executive Director | Frank Sibbel |
| Non-Executive Director | Andrew Chapman |

Substantial Share Holders

| | |
|-----------------|--------|
| JP Morgan Nom's | 11.63% |
| HF Resources | 8.97% |
| Paul Poli | 8.04% |
| RASL Au LLC | 6.73% |

Source: Bloomberg

Company Details

| | |
|---------|---|
| Address | Suite 11, 139 Newcastle Street Perth WA 6000 |
| Phone | +618 9230 3555 |
| Web | www.matsa.com.au |

1 Year Price Chart



Source: Bloomberg

Matsa Resources Limited (MAT)

*JV agreement provides cash injection
and paves the way to production*

Recommendation: Speculative BUY

Company Update

Key Points

- **JV agreement at Mt Henry with Panoramic Resources provides cash injection for Matsa while retaining a 30% free carry through the BFS**
- **Liquid assets (cash + shares) now greater than current market cap**
- **Additional exploration potential at Mt Henry with drilling to commence imminently**
- **Nearby Dundas iron ore project has +300Mt potential**
- **Thailand projects provide longer term opportunities**

Matsa Resources has signed a lucrative JV agreement with Panoramic Resources providing the company with necessary capital and an opportunity to advance the 1.46Moz Mt Henry gold deposit through a free carried BFS. Matsa now also has funds available to conduct drilling campaigns at the Dundas iron ore project which has a +300Mt target. The Thailand based projects provide a highly prospective pipeline of opportunities which are likely to benefit from more aggressive exploration in the coming months.

Company Update

Matsa Resources (ASX: MAT) recently announced a Joint Venture (JV) agreement with ASX 200 company Panoramic Resources (ASX: PAN).

Under the terms of the JV, Panoramic will earn a 70% interest in the 1.46Moz Mt Henry Gold Project (formerly called the Norseman Gold Project) for A\$5m in cash and 14m PAN shares (current PAN share price: ~A\$0.62). Panoramic will also 'free carry' Matsa through to completion of a Bankable Feasibility Study (BFS) which is estimated to have total cost of A\$10m.

Matsa – Panoramic Transaction Summary

| | |
|-----------------------------------|------------------|
| Cash | A\$ 5.0m |
| PAN shares at A\$0.62/share | A\$ 8.7m |
| 'Free Carry' to completion of BFS | ~A\$3.0m |
| Total | A\$ 16.7m |

Source: Breakaway Research

Breakaway estimates the total attributable value to Matsa is ~A\$16.7m plus a 30% retained interest in the Mt Henry Gold project. Further to this, significant exploration potential still exists within the Mt Henry project area and new exploration programs are set to commence imminently.

Matsa also has a strong pipeline of earlier stage iron ore, copper and gold projects in WA and Thailand which will benefit from the recent cash injection.



Investment Review

Panoramic are established producers

Panoramic currently has a market cap of ~A\$160m, ~A\$60m in cash and an Enterprise Value (EV) of ~A\$75m. The company currently owns and operates two underground nickel sulphide mines in WA producing a combined 20ktpa. Panoramica have been actively acquiring assets and have diversified their asset base to include PGM (Platinum Group Metals) by acquiring a majority interest in Magma Metals which hosts the Thunder Bay North PGM project in Ontario, Canada, and the purchase of the Panton PGM project in the East Kimberley, WA.

Panoramic now have a 2.07Moz gold resource

In early 2011, PAN also acquired the Gidgee gold project and more recently acquired the Wilsons gold deposit from Apex Minerals (for A\$8m in cash) located near Wiluna, WA. With Panoramica's newly acquired 70% interest in the Mt Henry deposit, the company now has a total gold resource of 2.07Moz of gold.

'Stamp of approval' and near term production potential

Breakaway has been encouraged by the terms of the agreement and the quality of the JV partner. Panoramica clearly has a vision to broaden its exploration and production base. The fact it has chosen to partner with Matsa on the Mt Henry project brings a 'stamp of approval' on the quality of the assets and the near term production potential.

Matsa retain 30% interest in Mt Henry deposit

Panoramica (currently also undertaking a share buyback) is well placed to advance Mt Henry through to completion of a BFS. On completion of a BFS, should Matsa not be in a position to contribute its pro rata capex requirements, Panoramica will buy out Matsa's 30% interest in the project for A\$6.5m with a further A\$5m payable in royalties once in production, providing a valuable 'safety net' for Matsa.

1.46Moz @ 1.7g/t Au

Mt Henry – Total Resources

| Deposit | Tonnes (Mt) | Grade (g/t Au) | Ounces (oz) |
|------------------|-------------|----------------|------------------|
| Indicated | | | |
| Mt Henry | 5.9 | 1.9 | 364,500 |
| Selene | 11.8 | 1.6 | 602,000 |
| North Scotia | 0.2 | 5.2 | 35,800 |
| Total | 17.8 | 1.8 | 1,002,300 |
| Inferred | | | |
| Mt Henry | 5.0 | 1.8 | 288,500 |
| Selene | 3.1 | 1.4 | 144,400 |
| North Scotia | 0.3 | 2.2 | 24,000 |
| Total | 8.9 | 1.7 | 456,900 |
| Total | 26.5 | 1.7 | 1,459,000 |

Source: Matsa Resources

Additional exploration potential in project area

On completion of the agreement, the JV will conduct further exploration programs, (funded on a pro rata basis), complete feasibility studies (sole funded by PAN) and ultimately develop the project – targeting construction of a 2mtpa operation producing ~80koz pa by 2015.

Further grass roots opportunities

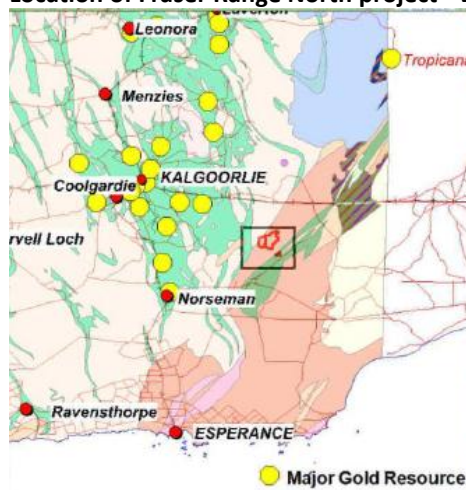
Matsa is also advancing the Dunnsville gold project which comprises of a group of licences 65km WNW of Kalgoorlie. The most advanced prospect is 'Big Red', a grass-roots discovery extending over 3km. In 2010, Matsa completed 138 holes to test geochemical targets and intersected relatively high grade, narrow vein mineralisation. These intersections confirm the discovery of potentially significant gold mineralisation and will be followed up in the near term.

New Strategic Partner

New exploration ground through farm in agreement

Matsa also recently signed a 'farm in' agreement with Triton Gold Limited to earn a 90% interest in the Fraser Range North project located in the Albany Fraser province, north east of the Mt Henry project. Fraser Range is considered prospective for gold and demonstrates similar characteristics to that of Matsa's Dunnsville and Mt Henry Projects. Exploration is still at an early stage.

Location of Fraser Range North project - WA



Source: Matsa Resources

Prospective for gold

Breakaway's View

JV agreement with PAN worth at least A\$16.7m

Breakaway estimates the JV agreement with Panoramic to be worth at least A\$16.7m to Matsa shareholders before assigning any value to the retained 30% interest in Mt Henry.

PAN appears to have been 'oversold' and company has implemented a share buy back

Until two months ago, Panoramic was trading at ~\$1.20/share which would have valued Matsa's 14m shares at ~A\$16.8m. Since then, PAN shares have fallen away to ~A\$0.62/share with no company specific news to justify this sell off (other than European woes). Panoramic has recently announced a share buy back of up to 10% of issued capital which should support the share price in the short term.

Cash available to advance pipeline of projects

Matsa Resources (excluding the cash + share injection from PAN) has an EV of ~A\$17.7m and appears to have been overlooked by the broader market. The company still retains a valuable 30% interest in the Mt Henry project and a strong pipeline of earlier stage exploration projects. Approximately 5km north of the Norseman project, the company has identified large widths of magnetite iron ore at Dundas. A further drilling program is required to define a JORC inferred resource which can now be internally funded. The company has an exploration target of +300Mt.

Matsa also has projects prospective for gold, copper and iron ore in Thailand. Of particular interest to Breakaway is the Paisali iron ore project (reviewed in May research report). Ground magnetic surveys have highlighted large magnetic anomalies which are believed to be shallow magnetite skarn deposits. Formal granting of exploration licences is expected imminently at which point drilling programs can commence.

Liquid assets alone (cash+ shares) justify current MCAP

Matsa continues to represent significant value. The liquid assets alone justify the current EV with no apparent value attributed to the remaining 30% interest in Mt Henry and the highly prospective Australian and Thailand prospects.



Analyst Verification

We, Grant Craighhead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Matsa Resources and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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