

31 January 2012

The Manager Companies
Company Announcements
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Dear Sir

DECEMBER 2011 QUARTERLY REPORT OF ACTIVITIES & CASHFLOW

Please find attached the December 2011 quarterly report for Bass Metals Ltd (ASX:BSM). As the Company's shares are currently suspended from trading it is important to provide some commentary on those circumstances which relate to operations during the December 2011 quarter.

The financial circumstances that the Company currently finds itself in are not due to short term financial management issues. The Board of Bass Metals has acted prudently and pro-actively in light of new technical data that may adversely impact the Company's longer term cash flow projections.

As a matter of course the Company's management updates the cash flows with the most recent technical data available. Last week the revised technical parameters were incorporated into a financial model run at current metal prices. The projections indicate there is some uncertainty as to the Company's capacity to meet its secured debt to its lender, RMB Australia Holdings Ltd (RMBAH), from the continuing mining and processing of the current Fossey ore reserves. Bass Metals management informed the Lender's Agent, RMB Resources Ltd, and other key stakeholders immediately it became aware of the likely longer term outlook and is actively engaging with these parties with the aim of analysing the situation and negotiating a mutually agreed modified mining and processing scenario.

Whilst these discussions are ongoing, the Board of Bass Metals has determined that, given the uncertainty this situation presented for shareholders, the proper course of action was to suspend the trading of its securities until likely outcomes became clear. Many of the key decision time frames are not in the Company's control, so the final duration of the suspension remains uncertain but all parties are working to achieve an outcome as quickly as possible.

December 2011 Quarterly Activities Report

This report for the December 2011 quarter's activities and cash flows will provide the background technical detail on these issues and the Company's operating performance. In short, the technical issues relate mainly to metallurgical recoveries, especially of lead. The issues emerged on completion of the metallurgical balance of the December quarter data on the conclusion of trucking all concentrates to the Burnie Port on 16 January 2012. Reconciliation between the Burnie Port weigh bridge tonnage for lead concentrate and the daily estimates indicated that the calculated recoveries for the December campaign were actually 47%, well short of the anticipated 70% in the production plan. Whilst recovery performance is expected to vary with head grade and mill availability, the impact of this result is that it is no longer prudent for the Company to assume forward lead recoveries of over 70% based on planned progressive improvements.

Notwithstanding these current findings the Company is actively looking at additional measures to generate further improvements in recovery which it considers are quite possible.

A decline in metal prices in Australian dollar terms has previously been reported by the Company as contributing to a deteriorating financial outlook. Based on the previously experienced grade and metal recoveries this metal price reduction was assessed as being manageable. However in order to ensure that the Company's financial position was strengthened to mitigate this price decline issue the Company's management initiated several measures to manage this risk including seeking joint venture partners for both its gold project and exploration assets as well as obtaining toll treatment options for the Hellyer Mill; thereby reducing the financial input and exposure whilst potentially progressing the development of these assets more quickly and potentially with additional technical expertise. These initiatives remain important for the Company and management is continuing to pursue these opportunities.

The Company completed a significant refinancing process through the quarter with the closing of a non-renounceable entitlements offer on 18 October. With the subsequent placement of some shortfall shares a total of \$8.8 million was raised (\$8.2 million net of transaction costs).

During the quarter negotiations with RMB Resources Ltd, resulted in the Company's debt facility being increased by \$12 million, or \$6.5 million net of scheduled loan repayments and fees.

The following table summarises the financing cash flows and Hellyer Mine Project (HMP) cash flows for the six months to 31 December 2011:

	<u>\$'000</u>
Cash Balance - 1 July 2011	6,355
Financing Cashflows	
Proceeds from issue of shares/conversion of notes	8,741
Payments for transactions costs	(545)
Gross proceeds from RMB debt facility	12,000
Repayment of RMB debt facility	(4,800)
Payments for debt facility transactions costs	<u>(699)</u>
	<u>14,698</u>
Non-HMP Activities	
Payments for exploration costs	(1,663)
Payments for corporate costs	(1,634)
	<u>(3,297)</u>
HMP Activities	
Receipts (mainly concentrate sales)	33,967
Payments for hedge settlements/Interest charges	(2,622)
Payments for production costs	(38,407)
Payments for development costs	(4,506)
Payments for OHS/Enviro/admin	(2,153)
Payments for capital equipment	<u>(316)</u>
	<u>(14,038)</u>
Net cash movement in the half year	(2,638)
Cash balance - 31 December 2011	3,718

This table should be read in conjunction with the attached Appendix 5B document. The Company finished the December quarter with cash of \$3.72 million and \$7.73 million in trade receivables and concentrate inventories i.e. liquid assets of \$11.45 million as well as a significant stockpile of ore on the ROM for processing valued at \$5.47 million.

The immediate focus of the Board and management is managing the technical risks which have recently been identified following the completion of the December operations reconciliations by management. A modified mine plan based on updated technical inputs is being compiled and will be reported to ASX when and if it has been agreed by RMBAH and other key stakeholders.

Yours faithfully



Mike Rosenstreich
Managing Director

Competent Persons Statement

Mineral Resources & Exploration Results

The information within this report that relates to exploration results and Mineral Resource estimates is based on information compiled by Mr Kim Denwer and Mr Michael Rosenstreich who are both full time employees of the Company. Mr Rosenstreich is a Member of The Australasian Institute of Mining and Metallurgy and Mr Denwer is a Member of the Australian Institute of Geoscientists. They both, individually have sufficient experience relevant to the styles of mineralisation and types of deposits under consideration and to the activities currently being undertaken to qualify as a Competent Person(s) as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" and they consent to the inclusion of this information in the form and context in which it appears in this report.

Ore Reserves

The information in this report that relates to the Fossey Ore Reserve estimates is based on information compiled by Mr Victor Rajasooriar who is a full time employee of the Company and a Member of the Australasian Institute of Mining and Metallurgy. Mr Rajasooriar has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Reserves (the JORC Code)". Mr Rajasooriar consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

DECEMBER 2011 QUARTERLY ACTIVITIES REPORT

1. SUSTAINABILITY

1.1. SAFETY

There were no lost time injuries (LTI) on the Company's mining operations and exploration sites during the quarter. The Hellyer mining operations surpassed 500 LTI free days and completed 2011 with a record 502 LTI free days.

1.2 ENVIRONMENT

There were no material environmental incidents during the quarter on any Bass Metals' managed tenements. At Que River the care and maintenance rehabilitation program following the suspension of mining there following three years of successful open pit mining operations, was completed.

2. OPERATIONS

2.1 HELLYER MINE PROJECT (HMP)

Full production statistics for the December quarter and relevant commentary are presented in the following sections.

2.1.1 Mine Production

A full summary of mine production reconciled to budget plans is provided in Table 1. Reconciliation with Run-of-Mine (ROM) stockpiles and milling is presented in Table 2.

Table 1: Fossey Mine Production Summary

Description	UoM	September Qtr 2011	December Qtr Actual	December Qtr Budget	Variance to Budget	FY2012 YTD
Mine Production (T&G)						
Underground Development	m	778	460	547	-16%	1,238
Mine Ore Production	t	97,879	102,600	103,759	-1%	200,479
Zinc	%	9.6%	6.4%	6.9%	-7%	8.0%
Lead	%	5.6%	3.7%	3.9%	-5%	4.6%
Silver	g/t	110	98	87	12%	104
Gold	g/t	1.6	1.448	1.980	-27%	1.5
Copper	%	0.45%	0.24%	0.22%	8%	0.34%

The value of gold production is less than 5.0% of total revenue

Table 2: Mine Stockpile Reconciliation

	Tonnes	Estimated Metal Grades				
		Zn %	Pb %	Cu %	Ag g/t	Au g/t
September Qtr-Closing ROM Stock	54,643	9.8%	5.9%	0.43%	65	1.86
Tonnes Mined December Qtr	102,600	6.4%	3.7%	0.24%	98	1.45
Tonnes Milled December Qtr	133,793	7.4%	4.5%	0.30%	89	1.57
Closing Stocks December Qtr	23,450	8.4%	4.5%	0.30%	72	1.70

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During the period mine development focused on the decline to 425 level and the installation of the permanent water pump station. Overall Jumbo development advance was below budget in the December quarter due to the September quarter achieving more than the budgeted advance metres. Overall for the year, Jumbo development is marginally above budgeted quantities.

Ore production continued from the primary stopes (refer Figure 1). The 21 stope was completed prematurely with 10,000 tonnes not mined due to increased level of wall rock waste scaling off and mixing with the ore (unplanned dilution).

The mine plan for the updated Fossey Ore Reserve is reconciling closely with actual production from the Mill as presented in Table 3.

Table 3: December Quarter Reserve Reconciliation

Description	Tonnes	Estimated Metal Grades				
		Zn %	Pb %	Cu %	Ag g/t	Au g/t
Planned Production (Reserves)	104,059	6.9%	3.9%	0.21%	87	2.0
Actual Production to ROM	102,600	6.8%	4.0%	0.25%	106	1.6
Grade Variation		99%	102%	117%	122%	84%
Metal Variation		97%	101%	115%	120%	82%

The current water inflow rate is estimated to be 140l/sec, well within the current temporary dewatering capacity and the 300l/sec permanent pump station currently being installed.

Mine costs for the quarter were \$115/t of ore, 10% over the budgeted unit cost of \$104/t. These mining costs include all mine related expenditure including development, stope filling as well as production. The budgeted costs vary over time subject to what activities are being carried out; for example as the mine matures development costs will reduce significantly and the unit costs are expected to drop significantly also. On this basis the Company is in line with budget forecasts in terms of mine costs for the financial year to date, which is consistent with its life-of-mine (LOM) mining cost projection of \$90/tonne comprising \$84 per tonne of production costs and \$6 per tonne of capital costs.

2.1.2 Mine Planning

Mine planning activity during the quarter focussed on assessing results from the infill diamond drilling of the Fossey East resource, updating both the Fossey and Fossey East resource models with this new data and then developing a new mine plan to extract both resources. Further information on Fossey East resource is provided in Section 4 Exploration.

The formulation of a new mine plan included new geotechnical inputs and some grade modifications following further infill drilling.

Geotechnical data is constantly recorded and analysed to monitor rock mass properties as the mine void is increased. Because the rock strength properties have declined around certain void and fault areas, external consultants have recommended modifications to the planned stope shapes following their recent site visit and data analysis. The objective is to ensure stope stability to enable planned ore grades and tonnages to be extracted, but the consequence is greater planned dilution in the mine plan which reduces the metal grades.

A comparative table of the Fossey mine plan (excluding Fossey East), from 1st January 2012 illustrating the impact of these issues is presented in Table 4. The modified plan has an additional 14% of tonnes but at 11% and 19% lower zinc and lead grades respectively. Grades of silver and gold have not been affected because the barite altered diluent material has similar

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gold and silver grades to the massive sulphide ore. The contained metal has increased marginally for all metals except lead, but the reduced grades impacts on operating margins and results in lower metallurgical recoveries during processing.

Table 4: Comparison of the Fossey Mine Plan following new technical inputs

Mine Plan	Tonnes Mined	Mine Grades				
		Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (G/t)
Fossey Mine Plan	345,000	8.9	5.2	0.3	90	1.9
Modified Fossey Mine Plan (Jan 2012)	395,000	7.9	4.2	0.3	90	1.9
Variance	50,000	-1.0%	-1.0%	0%	-	-
	14%	-11%	-19%	0%	0%	0%
Metal Content		Zinc (t)	Lead (t)	Copper (t)	Silver (oz)	Gold (oz)
Fossey Mine Plan		30,705	17,940	1,035	998,392	21,077
Modified Fossey Mine Plan		31,205	16,590	1,185	1,143,087	24,132
Variance		500	-1,350	150	144,695	3,055
		2%	-8%	14%	14%	14%

2.1.3 Mining Outlook

As at the date of this report there is approximately 65,000 tonnes of Fossey ore on the ROM stockpile with zinc and lead grades estimated to be 7.5% and 4.5% respectively with other grades still awaiting assays. Processing of this material started on 30 January 2012.

Due to the impact of the revised mine plan on the HMP financials and based on forward metal price projections, Bass Metals and Mancala Mining are reviewing a number of alternative modified mining scenarios.

2.1.4 Hellyer Concentrator Operations

The performance of the Hellyer flotation concentrator was mixed through the December quarter which involved campaigns 6 and 7 as presented in Table 5 below. Campaign 6, ran during October and processed approximately 67,000 tonnes of ore, including a small proportion of spillage reclaim. This campaign produced above budget tonnages of zinc and lead concentrates but was under budget on production of copper-silver concentrate. Campaign 7, completed on 23 December 2011 saw significant improvements in the performance of the copper circuit but a downgrading in performance of the lead circuit with the zinc circuit being relatively stable as summarised in Table 5 below. Overall for the quarter, lead and zinc concentrate production was within 10% of budget.

The reduced metallurgical performance of the lead circuit is recent and unexpected. Final recovery estimates are based on metallurgical reconciliations based on more certain assays and tonnage estimates; in this case the trucked tonnes of concentrates as weighed at the Burnie Port weigh bridge received on 16 January, 2012. This is the first accurate assessment point of concentrate mass as up until then the various concentrates are distributed across the circuit as concentrate slurries in storage tanks which are filtered in campaigns and then stockpiled at the Hellyer storage shed with varying moisture levels, bulk densities and grades.

Table 5: Processing and concentrate production summary

Description		Sept. Qtr 2011	Campaign 6 (Oct2011)	Campaign 7 (Dec2011)	Dec. Qtr Actual	Dec. Qtr Budget	Var. to Budget	FY2012 YTD
PROCESSING								
Ore Treated	t	52,863	64,160	69,633	133,793	136,364	-2%	186,656
Feed Grades								
Zinc	%	8.9%	8.8%	6.2%	7.4%	7.4%	0%	7.8%
Lead	%	5.7%	5.3%	3.7%	4.5%	4.2%	5%	4.8%
Silver	g/t	118	97	81	89	87	3%	97
Gold	g/t	1.85	1.95	1.22	1.57	1.89	-17%	1.65
Copper	%	0.44%	0.40%	0.22%	0.30%	0.26%	17%	0.34%
CONCENTRATE PRODUCED								
Zinc concentrate	t	6,060	7,775	5,059	12,834	13,780	-7%	18,894
Zinc grade	%	53%	50%	58%	53%	53%	1%	53%
Silver grade	g/t	169	154	138	148	150	-2%	154
Gold grade	g/t	1.1	2.2	1.0	1.7	2.4	-27%	1.5
Lead concentrate	t	2,966	4,153	2,170	6,323	6,931	-9%	9,289
Lead grade	%	61%	56%	57%	56%	58%	-3%	58%
Silver grade	g/t	641	701	896	768	478	61%	727
Gold grade	g/t	1.2	3.9	1.4	3.1	2.3	33%	2.5
Copper concentrate	t	251	380	335	715	903	-21%	966
Copper	%	20%	17%	18%	17%	17%	-1%	18%
Silver	g/t	6,317	3,889	4,560	4,204	4,319	-3%	4,753
Gold	g/t	19.8	10.2	19.1	14.4	9.0	60%	15.8
Lead	%	8%	11%	10%	11%	7%	57%	10%
Zinc Recovery to Zinc Conc.	%	68%	69%	69%	69%	72%	-4%	69%
Lead Recovery to Lead Conc.	%	60%	69%	47%	60%	70%	-15%	60%
Copper Recovery to Copper Conc.	%	21%	25%	39%	30%	45%	-33%	27%
Silver Recovery overall	%	72%	90%	74%	82%	71%	16%	79%
Gold Recovery overall	%	15%	30%	17%	25%	16%	54%	22%

*Note rounding errors may occur.

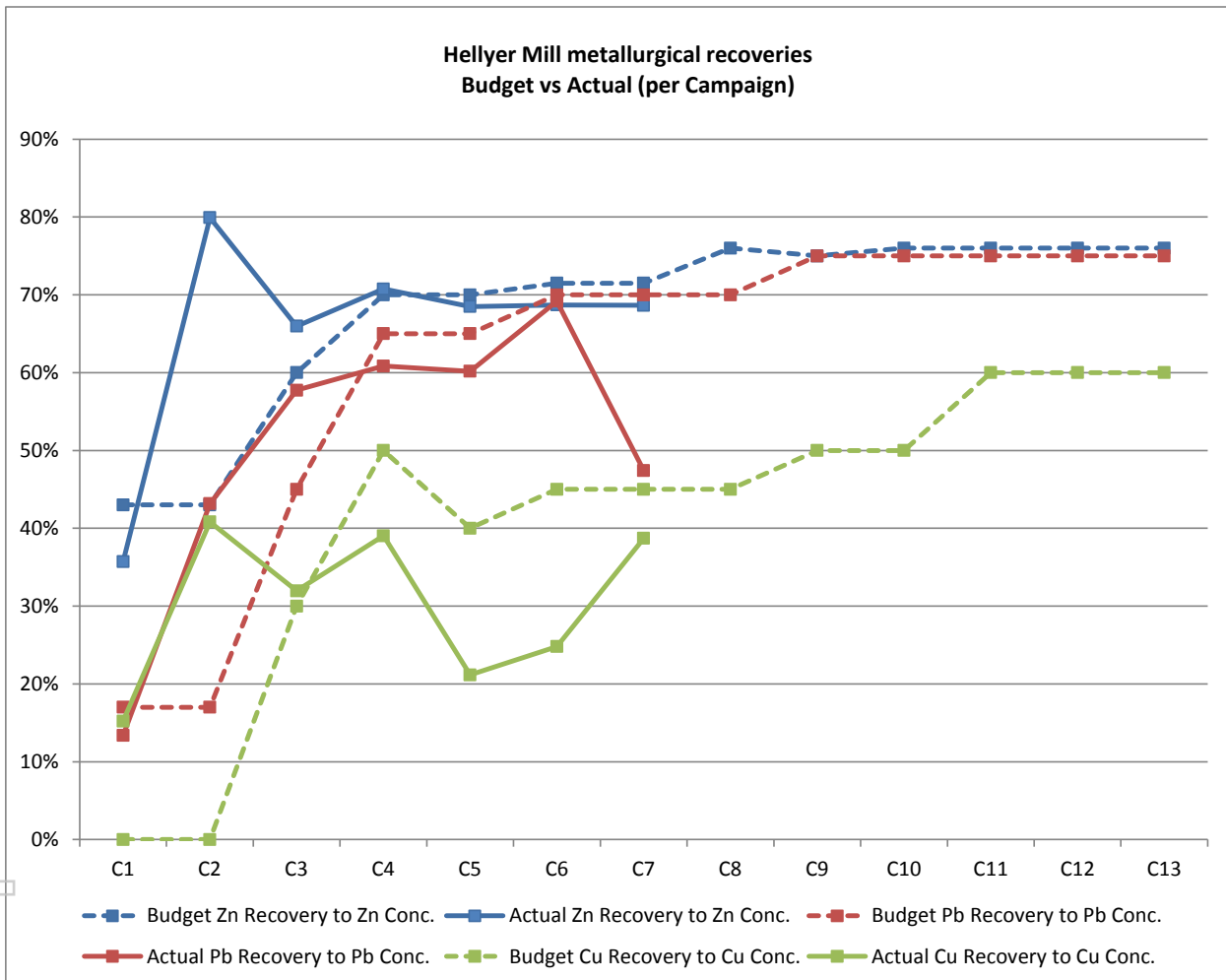
All concentrates are in dry metric tonnes.

A summary of metallurgical recoveries for each campaign against budget is presented in Figure 2. The graph illustrates several salient points in relation to the milling performance and projections:

- The budget (dotted) lines reflect a gradual ramp up of recovery performance consistent with the Feasibility Study results representing a gradual improvement in operational performance and also improving head grades.
- Results for Campaigns 4 to 5 indicate trends close to budget and with further modifications to the plant still to be implemented generated confidence that the recovery projections were achievable.
- The estimated average lead recovery across Campaigns 6 and 7 at 60% is well below the budgeted level of 70%.

- Copper recovery has been erratic and difficult and given the overall low proportion of revenue that it represents an approach was adopted to ensure higher silver redeployment into the lead concentrate, where the Company receives higher payment terms.
- Significant operational improvements were implemented around the copper circuit during Campaign 7 resulting in a lift of copper recovery from 25% to 39%.
- Silver and gold recoveries into concentrates where a payment is credited have been at or above budget levels (not graphed but in Table 5).
- At the conclusion of campaign 6, with further circuit modifications planned there was a reasonable expectation for budget recoveries to be attained.

Figure 2: Planned and Actual recoveries for zinc, lead and copper to respective primary concentrates



The cost per tonne of ore milled for the quarter was \$28/tonne of ore processed, 20% below the budgeted cost of \$35/tonne; which includes all of the fixed costs incurred during the non-milling period.

2.1.5 Processing Outlook

Processing of approximately 65,000 tonnes on the Hellyer ROM stockpile (Campaign 8) started on the 30 January 2012. Given the data presented in Figure 2, it is now unrealistic for the Company to continue basing its financial projections on the current budget recoveries. Further optimisation testwork utilising live plant feed was undertaken in December with these results

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currently being assessed. So whilst it may be possible to attain improved recoveries from those realised in the last two campaigns it is not an assumption that the business can factor into its forecasts. Therefore, modified metallurgical recoveries have been adopted for the remaining LOM campaigns which are lower than those original budget levels presented in Figure 2. These recoveries are; zinc 72%, lead 62% and copper 35% until more definitive operational data becomes available, possibly through campaign 8.

The downturn and “plateauing” of the key metallurgical recoveries is unexpected for the reasons explained above and whilst testwork was in progress to support attaining the final budgeted recovery ramp-ups, mill assumptions, especially for lead recovery need to be modified downward significantly which adversely affects payable metal recovery and hence revenue.

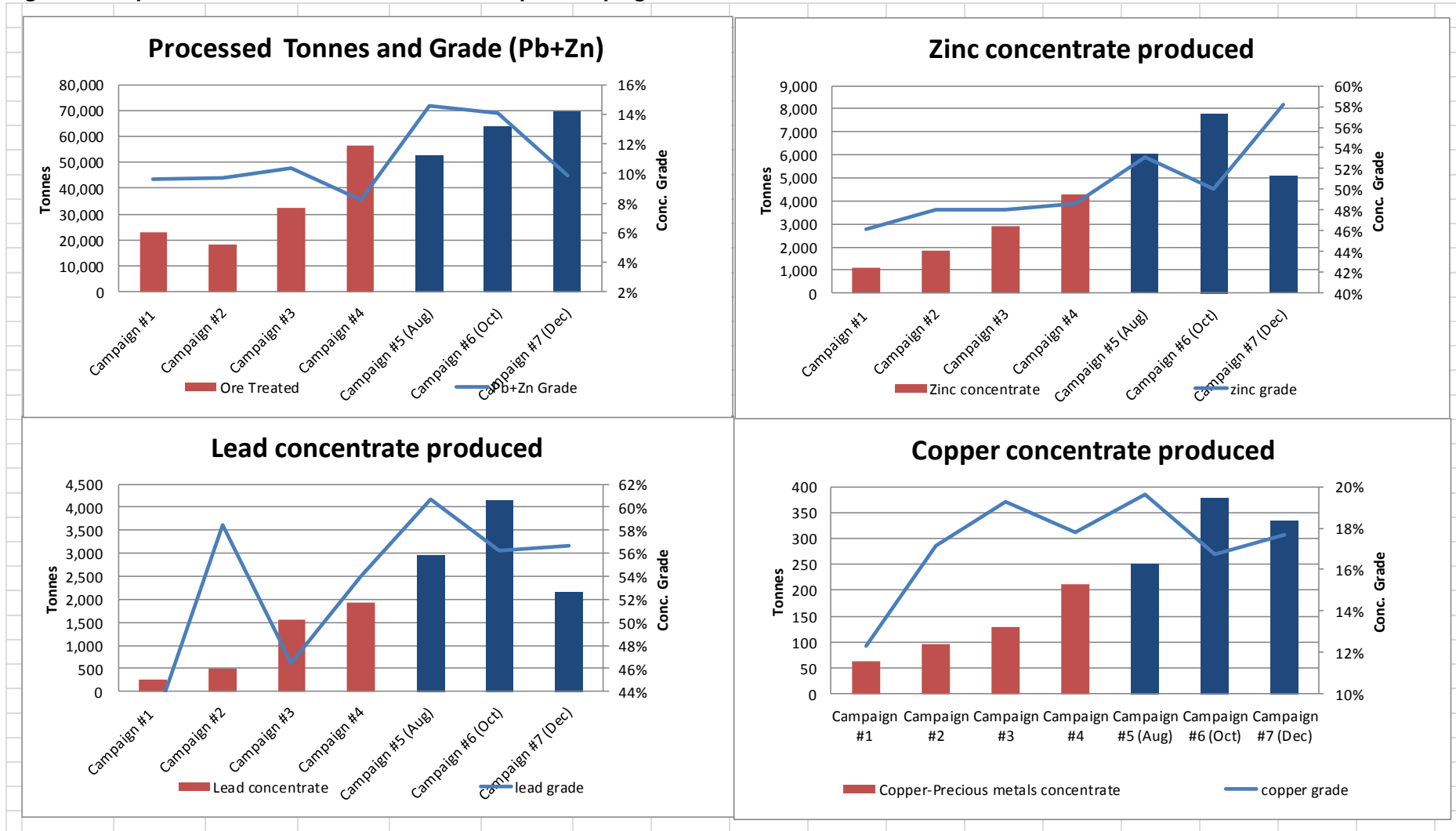
2.1.6 Concentrate Sales & Marketing

The Company has zinc and lead concentrate sales agreements with Nyrstar Sales and Marketing AG for production from its Fossey and Fossey East deposits, and agreements with LN Metals International Limited for the copper-silver-gold concentrate for concentrate production sourced from the Fossey deposit, Fossey East and potential bulk lead-zinc concentrate production from retreatment of the Hellyer Tails.

During the quarter the company sold 12,060 tonnes of zinc concentrate, 4,321 tonnes of lead concentrate and 502 tonnes of copper concentrate. As Campaign 7 finished on 23 December, there were significant stocks of zinc, lead and copper concentrates in storage tanks in the plant (still to be filtered) and as stockpiles in the Hellyer concentrate storage shed, over the Christmas-New Year break.

Total invoicing for the quarter was \$9.37 million, but with significant inventory of concentrate remaining to be loaded and invoiced.

Figure 3: Graphical Summaries of Mill Performance per Campaign



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2.2 QUE RIVER MINE

The Que River Mine site is on a care and maintenance regime with the final stages of rehabilitation being completed during the quarter. This involved the construction of a small dam to manage potential acid mine drainage events.

3. SPECIAL PROJECTS

3.1 GOLD RECOVERY STUDY

During the December quarter the Company received the evaluation report on gold processing options for the refractory gold and silver within the Hellyer tails from metallurgical consulting group BatteryLimits, with the results reported in detail to the ASX on 9 December, 2011. The technical and financial assessments indicated a positive economic return utilising the Albion processing method to recover gold and silver which provided strong encouragement to continue with further detailed study.

Bass Metals commissioned an independent review of the BatteryLimits work prior to making further commitments given the complexity of the process route. The results of this review were very valuable in setting the future testwork and evaluation strategy for the Hellyer Gold Project. Key points include:

1. Confirmation of Albion as the most attractive option, notwithstanding processing complexity, based on the very high gold and silver recoveries.
2. Modification of certain operating cost inputs including limestone and oxygen, two key reagents, to produce a more reliable conceptual financial evaluation as summarised in Table 6 below.
3. Higher input costs have increased the projected unit costs from A\$288/ounce to A\$466/ounce of gold recovered.
4. The potentially lower cost, more efficient roasting method has not been adequately tested and this warrants further testwork.

Table 6: Key Modelling Outcomes Updated

		Updated Concept Model	Original BL Concept Model
		Gold: A\$1712/oz	
		Silver: A\$32/oz	
Production			
Gold – project total	oz.	575,237	
Gold – per year (avg.)	oz.	63,915	
Silver – project total	oz.	22,880,368	
Silver – per year (avg.)	oz.	2,542,263	
Gold (eq.) – project total ¹	oz.	1,003,000	
Gold (eq.) – per year (avg.)	oz.	111,000	
Gold:Silver Ratio ²		54	
Financial Estimates			
Capital Cost (includes 20% contingency)	A\$M	189	
Revenue-Life of Mine	A\$M	1,717	1,717
Net Cash-Life of Mine	A\$M	527	631
NPV (pre-tax/10% RoD)	A\$M	258	325
IRR (pre-tax)	%	36%	42%

Average Net cash per year	A\$M	80	91
Cost Estimates			
Cash Operating Cost (after silver credits)	A\$/oz	287	109
Total Cash Cost (after silver credits)	A\$/oz	466	288
Total Cash Operating Cost (per ounce gold equivalent)	A\$/oz	895	792
Total Cash Cost (per ounce gold equivalent)	A\$/oz	997	895
% Revenue from Silver Co-product.	%	43%	43

Notes:

- Gold Equivalent ounces (eq.).** The HGP contains high grade silver credits which testwork indicates are recoverable. For comparative purposes Bass is referring to Gold Equivalent ounces, which is when the silver content is expressed as gold by applying the gold:silver price ratio. This is determined by dividing the gold price by the silver price. Only gold and silver estimated to be recoverable have been used in this calculation of gold equivalence.
- Gold-silver Price Ratio.** The gold:silver price ratio is important if unit costs are being expressed per ounce gold (eq.). In the past 12 months, due to major movements in the price of gold and silver, the gold:silver price ratio has been volatile ranging from 64 to 32. The gold:silver price ratio is tabulated along with the percentage of revenue from silver.

The increase in conceptual operating costs is disappointing, but continues to support a potentially attractive project, indeed providing a more realistic starting basis on which to evaluate the project as further test results are received. The Company was fortunate to have been allocated a three month slot from June 2012 for Albion pilot testing and subject to its present situation is keen to utilise this opportunity as well as progressing additional small scale roasting testwork as recommended.

4. EXPLORATION

During the quarter, first pass exploration drilling was completed at the McKay Prospect where in July 2012, the discovery hole HLD1030 intersected 7 metres at 22.3% zinc, 9.9% lead, 0.7% copper, 181 g/t silver and 3.4 g/t Au. This drill hole was not only a very high grade discovery hole; it was located deep in the alteration zone and confirms a new target zone. Drilling in the zone between Hellyer and Que River (D-Zone) commenced with two diamond drill holes completed and infill drilling at Fossey East commenced late in the period, from underground. A total of six drill holes for 1,932 metres were completed for the period (Table 7).

Table 7: Diamond drill hole collar details

Hole ID	Grid* North	Grid East	Azimuth	Dip	Depth (m)
HLD1034	10280.0	5878.0	250	-68	338.5
HLD1035	10280.1	5877.7	252	-68	350.5
HLD1036	10295.0	5805.4	287	-69	218.5
HLD1037	10255.3	5449.6	287	-58	260
HED25	9511	5598	267	-48.5	413
HED26	8996	5468	270	-60	410
HED27	9187	5539	272	-65	80!
FUD99	10119.3	5670.0	284	-60	23!

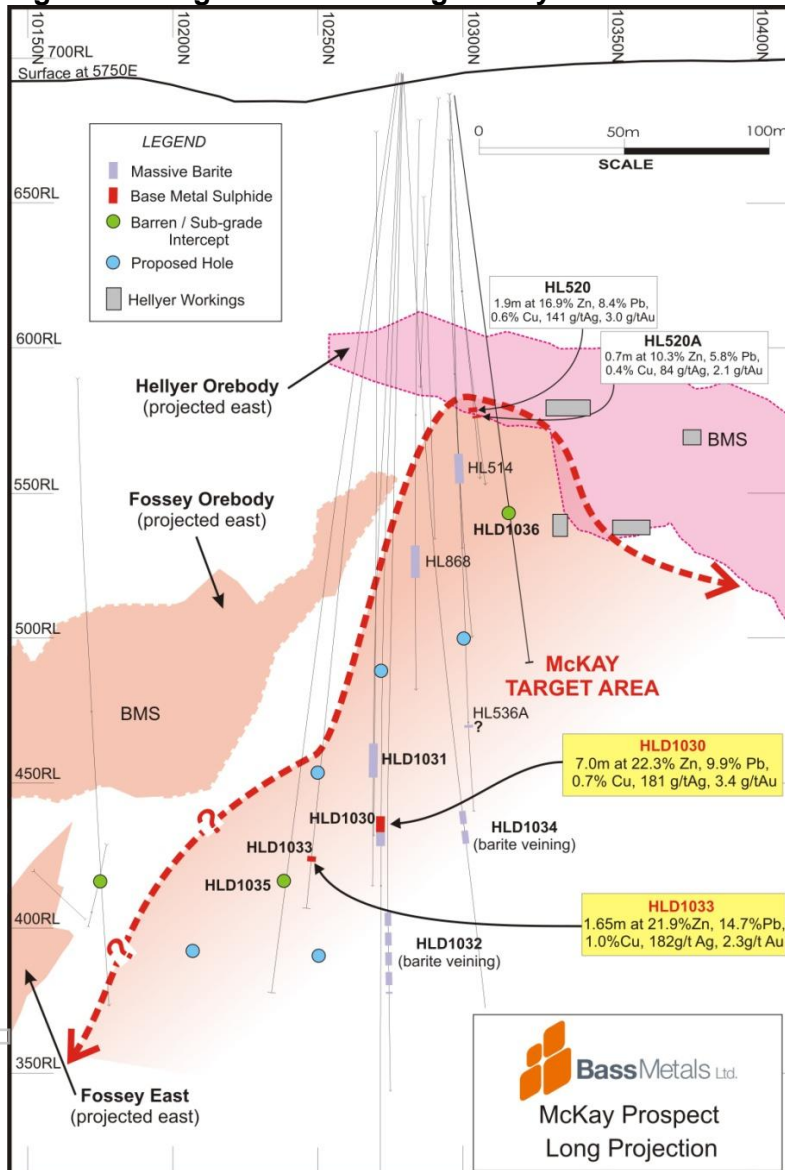
*-Hellyer Mine grid is orientated at 22.1 degrees to AMG

!-Drill hole in progress

4.1. McKay Prospect:

Seven drill holes were completed to the end of December 2011 for 2,319 metres into the new zone of alteration and mineralisation referred to as the McKay Prospect, with two of those drill holes completed during the period (Table 7). These drill holes intersected major zones of faulting around the expected ore position as well as barite stockwork (Figure 4), but no significant mineralisation. A review of the structural setting and new drill hole planning is in progress to test for faulted off sets of this very high grade mineralised zone.

Figure 4: Long section showing McKay drill results



4.2. Fossey East:

The 25 metre spaced diamond drilling program completed recently enabled recognition of a low grade barite alteration zone occurring centrally to two zones of high-grade base metal sulphide mineralisation within the Fossey east resource outline. A new drilling program commenced late in the December quarter to infill the drilling to 12.5 metre centres.

A new resource estimate has been completed for Fossey East (Table 8). The Fossey East Resource estimate is 155,000 tonnes grading 11.6% zinc, 5.8% lead, 0.5% copper, 93 g/t silver and 2.1 g/t gold. At this tighter drill spacing the tonnage is lower and the grades higher than the original estimate at the same cut-off.

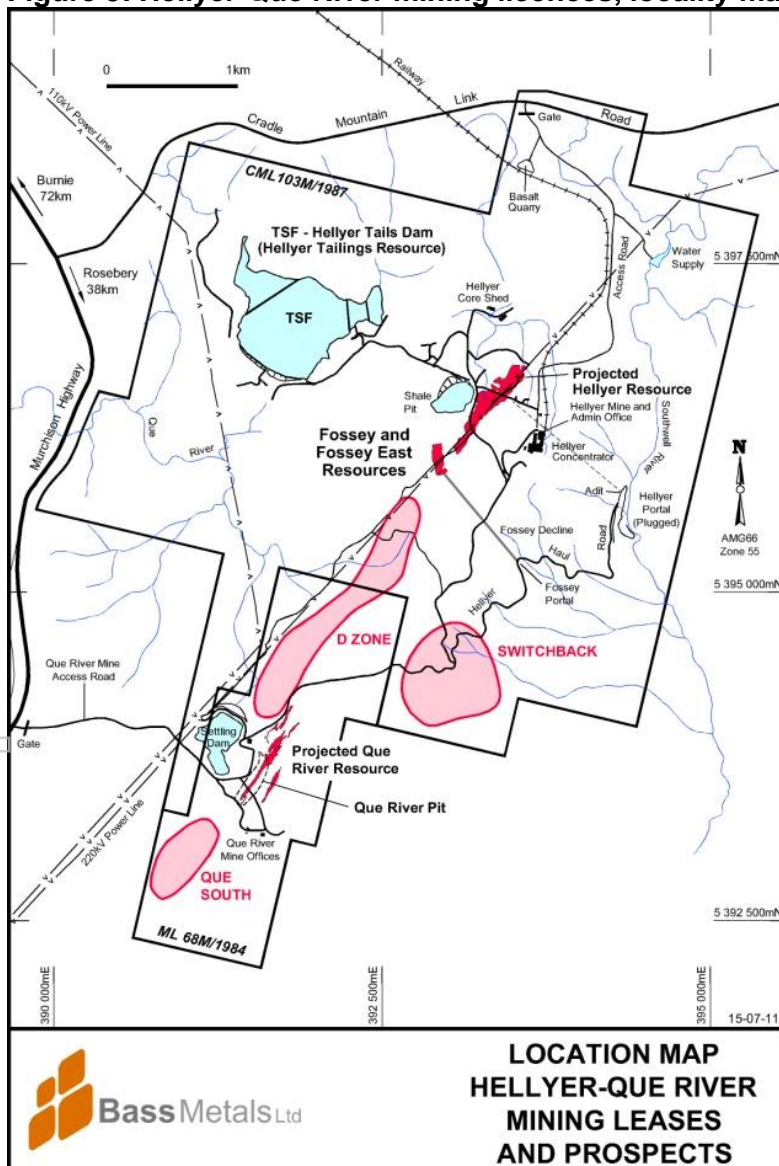
This is due to better definition of the Fossey East outlines, including the intervening low grade zone, after the modifications to the Fossey resource outline in the middle of last year. This resource estimate has been reported in accordance with the JORC (2004) Code by Bass employees (please refer Competent Persons Statement and checklist attached Table 10).

Table 8 – Fossey East Mineral Resources at >5%(Pb+Zn)

Category	'000 Tonnes	Cu%	Pb%	Zn%	Ag g/t	Au g/t	Ba%	Density
Measured	5	0.6	9.1	16.3	189	3.1	13.9	4.40
Indicated	120	0.6	6.0	12.1	90	2.0	17.1	4.23
Inferred	30	0.4	4.7	9.5	93	2.3	21.7	4.31
Total	155	0.5	5.8	11.6	93	2.1	18.0	4.25

Note: small rounding errors may occur

Figure 5: Hellyer-Que River mining licences, locality map and major prospects



4.3 D-Zone – Que South:

Diamond drilling commenced at D-Zone (refer Figure 5) during the period with a new rig mobilised to site. The D-Zone and Que–South Prospects were highly anomalous in both pathfinder element geochemistry and SWIR (*Short Wavelength Infra-Red*) surveys. Historic stratigraphic analysis interpreted much of this alteration to occur in the footwall well below the ore forming horizon. The new understanding that Fossey East occurs deep within the footwall alteration zone opens up large tracts for additional exploration, previously considered non-prospective. Drilling programs to systematically test these zones, commenced during the period with 2 drill holes completed for a total of 1,008 metres. Major zones of alteration were intersected in both drill holes and are contributing significant new information in testing this new target horizon as well as better defining the conventional ore horizon trends.

4.4 REGIONAL EXPLORATION

Only minor field work was undertaken regionally during the period as detailed below.

4.4.1 Mackintosh Creek (EL 24/2010) – BSM 100%

Ground traverses were completed mapping the extent of limestone on this tenement as a possible reagent source for the Hellyer Gold Project process flow sheet.

4.4.2 Heazlewood (EL 31/2003) and Whyte River (EL36/2003) Venture Minerals 70% BSM 30% - Sn-Fe-W JV.

Planning was completed for additional sampling and drill testing of geochemical and geophysical anomalies within the Heazlewood and Whyte River tenements, and permission sought from Mineral Resources Tasmania to start the field programmes in the next quarter.

4.4.3 Lake Margaret (EL 28/2009), - BMS 70% Clancy Exploration 30%:

An MMI soil sampling program has been completed on the Lake Margaret tenement. Results are expected early next period. Planning is in place for an airborne electromagnetic survey.

5. CORPORATE

The main corporate focus of the Company during the quarter was to complete the non-renounceable entitlements offer.

5.1 NON-RENOUNCEABLE ENTITLEMENTS OFFER

On 15 September 2011, Bass Metals announced an entitlement offer to existing eligible shareholders to subscribe for one new share plus one free attaching option for every three existing shares held via a non-renounceable entitlements offer (“Offer”).

The price for each new share was \$0.15 and the free attaching option, which is listed on the ASX, has an exercise price of \$0.20 each and will expire on 30 September 2014.

The offer closed on 26 October 2011 with the Company raising a total of \$8.8 million out of a possible \$10.7 million, which included placement of Shortfall stock to sophisticated investors.

5.2 FINANCIAL POSITION

5.2.1 Cash

Cash on hand at the end of the quarter was \$3.72 million and \$7.73 million in trade receivables and concentrate inventories, i.e. liquid assets of \$11.45 million.

A summary of cash flows for both the quarter and six months ended 31 December 2011 appears in this and the accompanying Appendix 5B documents.

5.2.2 Debt

The Company had debt at the end of the quarter of \$24.64 million, comprising the RMBAH debt facility of \$20.8 million, a silver loan of \$3.84 million and lease obligations of \$0.25 million. A series of convertible notes with a face value of \$3.3 million, issued in the previous quarter, were redeemed in November.

5.2.3 Hedging

The Company has two hedging structures that it uses to minimise its metal price exposure; the original 2010 strategic hedging program comprising A\$ zinc, lead and silver forward contracts, as summarised in Table 9 (see below) and a Quotational Period ("QP") hedging program to lock in revenue once concentrate material is shipped and provisionally invoiced. The strategic hedge position unwinds on 30 June 2012 and is being progressively restructured to also cover QP exposures as they arise. At present the Company has approximately 92% of its QP exposure to copper covered, approximately 90% of its lead and zinc covered; and approximately 87% of its exposure to silver covered.

Table 9: Strategic hedge Summary as at 31 December 2011

Metal	Tonnes/ Ounces	Weighted Average Price (AUD)
Lead	2,411	\$2,410
Zinc	2,705	\$2,460
Silver	159,5000	\$26.58

5.3 CAPITAL STRUCTURE

During the quarter the following securities were issued:

- On 31 October 2011, 66,700,000 unlisted options exercisable at \$0.18 each on or before 31 October 2014 were issued to RMBAH pursuant to shareholder approval obtained at the General Meeting of Shareholders held on 31 October 2011.
- On 4 November 2011, 58,548,617 fully paid ordinary shares were issued pursuant to the non-renounceable entitlements offer Prospectus dated 15 September 2011 and a further 15,699,001 fully paid ordinary shares were issued as announced to ASX on 31 October 2011 and 4 November 2011.
- On 4 November 2011, 58,548,617 quoted options exercisable at \$0.20 each on or before 30 September 2014 were issued pursuant to the non-renounceable entitlements offer Prospectus dated 15 September 2011 and 2,927,431 quoted options exercisable at \$0.20 each on or before 30 September 2014 were issued to the Lead Manager of the non-renounceable entitlements offer pursuant to the terms and conditions as disclosed in the Prospectus dated 15 September 2011.
- On 21 November 2011, 100,000 fully paid ordinary shares were issued under the Bass Metals Ltd Employee Share Loan Scheme (approved by shareholders on 30 November 2010) to a senior employee pursuant to the terms of their employment agreement with the Company.
- On 5 December 2011, 5,037 fully paid ordinary shares were issued on exercise of 5,037 quoted options exercisable at \$0.20 each on or before 30 September 2014.

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As at 31 December 2011, the Company had 294,450,145 fully paid ordinary shares, 111,311,667 unquoted options and 61,471,011 million quoted options on issue.

5.4 CONTINUING SUSPENSION

It is the Board's intention to request that ASX keep the Company's shares suspended until some degree of certainty surrounding the financial position of the company is resolved through receipt of approvals for a modified mine plan from key stakeholders including the secured creditor, RMBAH. While the Board and management is working constructively with all of these groups, it considers that reinstatement of trading in the Company's shares before this certainty is reached makes it difficult for the market to properly assess or value the Company's shares. Whilst Bass is not in control of the respective approvals process it anticipates being able to apply for re-quotation of the Company's ordinary shares before 24 February 2012.

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Table 10: Checklist of Assessment and Reporting Criteria- Fossey Resource and Reserve Estimate

Criteria	Comments
Geological Setting	Fossey / Fossey East is a Volcanic Hosted Massive Sulphide deposit comprising dominantly baritic mineralisation, associated with areas of high-grade Base Metal Sulphide (BMS) and underlain by minor stringer and disseminated mineralisation. The deposit is dominantly stratiform but Fossey East in part appears to cross-cut stratigraphy.
Tenement and land status	The deposit occurs within Hellyer Mining Lease CML103M/87 and is wholly owned by Bass Metals Ltd.
Drilling	The current resource estimate is based on 122 intercepts on nominal 12.5m centres – 33 Bass surface holes, 14 historic surface holes and 75 Bass underground holes. In addition 24 sets of continuous chip samples from underground cross-cuts through mineralisation were used. All Bass Metals Ltd holes were diamond-drilled and NTW, NQ or LTK60-sized core recovered (diameters of 56mm, 47.6mm or 45.2mm respectively). Historic holes were also diamond-drilled and are of NQ or BQ core size (47.6mm or 36.4mm diameter respectively). >90% core recovery, averaged over the entire hole, was achieved during Bass Metals drilling with close to 100% recovery in the ore zones. Similar high recoveries were achieved by historic drilling. Surface drilling is on E-W sections and underground holes are drilled as skewed fans from several underground sites.
Logging	All drill holes have been geologically logged using standard Que-Hellyer logging codes. Wet and dry digital photographs of all Bass Metals core were taken and RQD measurements were recorded at per drill-run intervals (average of 3.0m). For historic holes RQD was also measured and core photographs on slide film were taken.
Sampling	For both Bass and historic drilling half-core samples were collected at nominal 1.0m intervals or at lithological boundaries. Sampling extended into barren host rocks or sub-grade mineralisation in both the hangingwall and footwall.
Assaying	Half core samples were submitted for assay, with SG determination conducted by the laboratory on each assay sample. For Bass infill drilling, samples were submitted to ALS Laboratories in Burnie, Tasmania. Samples were analysed for Cu, Pb, Zn, Ag, As and Fe (AAS), Ba, S and Si (XRF) and Au (fire assay). For the original 2007-2009 surface drilling programs samples were assayed for Cu, Pb, Zn, Ag, As and Fe, using a modified aqua regia digest followed by ICP, at Amdel laboratories in Adelaide, South Australia. Au and Ba were assayed at Ammtec (now ALS) laboratories in Burnie, using fire assay and pressed powder XRF respectively. QA-QC involved standards, blanks and duplicates (one of each every 25 samples). Historic assays were carried out on half core at Aberfoyle's company laboratory (now the ALS Burnie lab) using pressed powder XRF for Cu, Pb, Zn; AAS for Ag and As and Au by fire assay. Internal laboratory blanks and standards were the only QA-QC for historic holes.
Surveying	Historic drill-hole collar locations were measured by the Hellyer Mine surveyor, Bass surface drill-holes by a contract surveyor and Fossey underground holes by the Fossey Mine surveyor.
Database integrity	The drill-hole database used comprises Bass Metals drilling data recorded on Excel spreadsheet and historical data in ASCII format, both imported into Datamine software. New assay results together with standard and blank results were checked to ensure these were within acceptable limits.
Geological Interpretation	The Fossey ore body strikes grid NNW and has the broad cross sectional form of a folded downward tapering wedge. The deposit comprises three major zones: <ul style="list-style-type: none"> <i>Massive Barite Zone</i> - The bulk of the deposit comprises massive barite, which is dominant in the stratigraphically upper areas. <i>BMS Zone</i> - Underlying the massive barite zone is banded to massive BMS. The boundary of the footwall of the BMS is a sharp contact. The internal boundary between the BMS and Barite zones is usually a sharp mappable contact but occasionally is a gradational grade boundary. <i>Footwall Zone</i> - Commonly underlying the BMS is low to moderate grade base metal mineralisation as disseminations to stringer veins up to several 10's of centimeters thick. Fossey East mineralisation occurs as a roughly tabular lens striking grid north and dipping steeply east. At its southern end massive barite joins and continues down-dip from the Fossey deposit but to the north it diverges and occurs east and below the main Fossey body. Fossey East mineralisation terminates to the north on the Easy St. Fault whilst to the south and at depth mineralisation lenses out.
Estimation and modelling techniques	Elements were estimated using ordinary kriging, restricted to mineralisation domain boundaries. Variography of all elements was studied and grade continuity modelled.
Cut-off parameters.	The outer boundary of the Fossey and Fossey East barite and BMS zones is based on sharp geological contacts. The internal boundary between the two zones can be gradational and a boundary of 5%(Pb+Zn) was chosen as the best grade which provided good continuity between holes and from section to section. Immediately underlying the BMS zone at Fossey holes usually contain stringer vein and / or disseminated to semi-massive mineralisation. This domain was wireframed at a cutoff of 5%(Pb+Zn).
Previous Mining	Mining of the Fossey deposit began in December 2010 with development ore being sourced from the 465 level followed by the 445, 485 and 510 levels. Longhole open stoping production commenced in March 2011. To the 30 th December 2011 a total of 358KT of ore has been hauled to the Hellyer Mill ROM grading 0.3% Cu, 4.4% Pb, 7.8% Zn, 1.7g/t Au and 108g/t Ag.
Mining factors / assumptions.	Some dilution (<5.0% Pb+Zn) is internal to the ore body and falls within the coherent stope shapes; this is classified as planned dilution. This material is predominantly found between the two main zones of BMS lenses. A portion of planned dilution is also from outside of the Fossey BMS and Stringer Zones where in the lower levels of the mine, stope geometries require some dilution to commence stope blasting. Planned dilution amounts to some 50K tonnes, or some 10% of the total reserve tonnage. In general, the unplanned dilution has been included where pillar widths between the two high grade BMS lenses, between the 445 and 495 levels, are too narrow to retain or are required to be extracted to allow for

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	<p>upper level ore extraction. The average grade of this material has been calculated using the data from the geological block model.</p> <p>For the primary and secondary stopes, unplanned dilution is estimated to average 10%, where dilution is defined as:</p> <p><i>Dilution (%) = (volume of unplanned dilution) x 100/(volume of resource tonnage in stope envelope)</i></p> <p>Dilution grade has been assigned a zero grade across all stopes, both primary and secondary. Initial CMS surveys of the 465 level stopes indicate minor dilution is occurring, with the 21 stope showing excessive dilution being close proximity to the Easy Street Fault. Most dilution is anticipated from the eastern and western contacts in the primary stopes driven by orebody contact structures and rock type changes. Secondary stope dilution will be waste rock or CAF.</p> <p>The total unplanned waste rock dilution which is contained within the stope reserve amounts to approximately 50K tonnes at 0.04% Cu, 0.49% Pb, 0.99% Zn, 9.2g/t Ag and 0.41g/t Au at an average density of 3.0.</p> <p>In addition to dilution from stoping activities, development within the resource model has been estimated to attract 5% dilution and a recovery of 90% of the diluted resource volumes. Estimated dilution parameters at Fossey are consistent with the long term averages from Hellyer, where similar stope geometries were adopted and where similar CAF strength was used.</p> <p>Ore body recovery is estimated to be 85% of the diluted resource volumes as both the primary and secondary stopes are expected to be stable. The net result is an overall dilution (stope, pillars and development) of approximately 15% waste for an estimated recovery of 85%.</p>
Metallurgical factors	No assumptions have been made about metallurgical treatment.
Bulk density	Where no bulk density measurement was available (514 of 4112 assay samples in the mineralised zones, mostly continuous chip samples) regression equations were developed to estimate bulk density from assay values. Bulk density was interpolated for each block.
Classification	Classification of resources and reserves was undertaken by taking into account data integrity, grade continuity, estimation variance, geological confidence and drill hole spacing.
Audits or reviews	This resource estimate is an update of an earlier estimate (July 2011) that was reviewed by resource consultant specialists, Snowden Group.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

BASS METALS LIMITED

ABN

31 109 933 995

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'ooo	Year to date (6 months) \$A'ooo
1.1 Receipts from product sales and related debtors	18,302	33,845
1.2 Payments for		
(a) exploration & evaluation	(951)	(1,663)
(b) development	(2,791)	(4,506)
(c) production	(18,545)	(38,342)
(d) OHS & environmental	(274)	(661)
(e) site administration	(861)	(1,492)
(f) corporate	(438)	(1,634)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	95	95
1.5 Interest and other costs of finance paid	(519)	(862)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(5,982)	(15,220)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(165)	(316)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	27	27
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other - Hedge settlements	(1,181)	(1,760)
Net investing cash flows	(1,319)	(2,049)
1.13 Total operating and investing cash flows (carried forward)	(7,301)	(17,269)

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Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(7,301)	(17,269)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	4,518	4,518
1.15	Proceeds from convertible notes	239	4,223
1.16	Proceeds from borrowings	3,650	12,000
1.17	Repayment of borrowings	(1,356)	(4,866)
1.18	Dividends paid	-	-
1.19	Other - Fundraising transaction costs	(1,018)	(1,243)
	Net financing cash flows	6,033	14,632
	Net increase (decrease) in cash held	(1,268)	(2,637)
1.20	Cash at beginning of quarter/year to date	4,986	6,355
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	3,718	3,718

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'ooo
1.23	Aggregate amount of payments to the parties included in item 1.2	69
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	20,800
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	350
4.2 Development	980
4.3 Production	11,062
4.4 Corporate/Site Admin/Environmental/OH&S	1,236
Total	13,628

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,692	4,928
5.2 Deposits at call	26	58
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,718	4,986

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			

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Appendix 5B
Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased

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Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	294,450,145	294,450,145		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	74,252,655 100,000	74,252,655 100,000	15.0 cents 12.5 cents	15.0 cents 12.5 cents
7.5 +Convertible debt securities <i>(description)</i>	-	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	3,300,000	-	100 cents	100 cents

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Appendix 5B
Mining exploration entity quarterly report

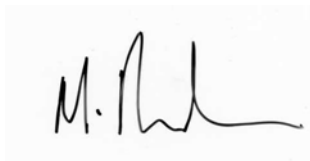
7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
		225,000	-	37.5 cents	31.12.11
		425,000	-	51.0 cents	31.12.11
		1,055,000	-	42.5 cents	16.10.11
		400,000	-	25.0 cents	1.9.13
		400,000	-	35.0 cents	1.9.13
		200,000	-	50.0 cents	1.9.13
		300,000	-	26.0 cents	31.12.12
		300,000	-	28.5 cents	31.12.12
		300,000	-	30.5 cents	31.12.12
		950,000	-	30.0 cents	31.12.12
		3,000,000	-	22.8 cents	22.9.13
		990,000	-	22.0 cents	15.7.13
		200,000	-	20.5 cents	11.10.14
		200,000	-	29.0 cents	11.10.14
		200,000	-	41.0 cents	11.10.14
		100,000	-	43.5 cents	31.1.15
		100,000	-	61.0 cents	31.1.15
		100,000	-	88.0 cents	31.1.15
		5,900,000	-	31.8 cents	27.5.14
		200,000	-	26.0 cents	27.8.15
		200,000	-	36.5 cents	27.8.15
		200,000	-	52.5 cents	27.8.15
		28,666,667	-	20.0 cents	30.9.14
		66,700,000	-	18.0 cents	31.10.14
		61,476,048	61,476,048	20.0 cents	30.9.14
7.8	Issued during quarter	66,700,000 61,476,048	- 61,476,048	18 cents 20 cents	31.10.14 30.09.14
7.9	Exercised during quarter	5,037	5,037	20 cents	30.09.14
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement provides a true and fair view of the matters disclosed.



Sign here: Date: 31 January 2012
Director

Print name: Mike Rosenstreich

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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