Bass Metals Ltd.
ABN 31 109 933 995

15 March 2012

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

Dear Sir

Please find attached the Half Year Report of Bass Metals Ltd ("the Company" or "Bass") for the period ended 31 December 2011.

As announced previously, Bass encountered operational difficulties at its Hellyer operations in NW Tasmania, which were identified in late January 2012 and caused the Company to revise the operating plan and its future mining and processing activities. Given the revision and likely suspension of the Company's operations in mid 2012, all mining assets have been reviewed for impairment and the impact on comprehensive income is detailed in the attached accounts and is included in the summary below.

A summary of the December 2011 financial statements is as follows:

- Revenue from concentrate sales of $34.1 million for the half year;
- Total comprehensive loss of $46.6 million;
- EBITDA of $7.4 million;
- Cash, receivables and derivative financial assets of $11.1 million;
- Concentrate stockpiles, other stock and spares on hand of $11.1 million; and
- All of the secured debt payable of $22.8 million is shown in current liabilities.

Further details of these items and the activities of Bass in the six months to the 31 December 2011 are detailed in the attached Half Year Report.

Yours faithfully

Mike Rosenstreich
Managing Director

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Bass Metals Ltd.

ABN 31 109 933 995

HALF-YEAR REPORT

For the period ended
31 December 2011

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LEGAL ADVISORS

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Rooftop, 33 Albany Street
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SHARE REGISTRY
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000

Telephone: 1300 55 70 10

AUDITORS
Grant Thornton Audit Pty Ltd
Level 1, 10 Kings Park Road
West Perth WA 6005

STOCK EXCHANGE LISTINGS

ASX Limited	(Code: BSM)
Deutsche Börse	(R2F-Ber (Berlin) and R2F-FRA (Frankfurt))

DIRECTORS REPORT

Your Directors submit the financial report on the Consolidated Group for the half-year ended 31 December 2011.

Directors

The following were directors of Bass Metals Ltd ("the Company" or "Bass") during the half-year and until the date of this report:

Mr David Donald Boyer – Independent Non-executive Director (resigned 31 December 2011)

Mr Michael Benjamin Rosenstreich – Managing Director

Mr Craig Ian McGown – Independent Non-executive Director

Mr Patrick Anthony Treasure – Non-executive Director

Mr Rickman Victor Rajasooriar – Executive Director (appointed 17 November 2011)

Mr Barry James Kevin Sullivan – Non-executive Director (appointed 9 January 2012)

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

Consolidated Entities

The wholly owned subsidiaries of Bass during the half-year and until the date of this report are:

Hellyer Mill Operations Pty Ltd.

REVIEW OF OPERATIONS

Bass has encountered operational difficulties in the six months under review, due to technical problems at its Hellyer operations in May 2011, which necessitated a major refinancing, as reflected in the financial statements. New technical issues emerged in early 2012 which have also adversely impacted the forward looking aspects of these financial statements.

Operational Results

Sales revenue from the sale of metal concentrates was $34,119,181 for the half-year, up on the corresponding prior period (2010: $3,322,299). Production was from the Fossey mine which commenced in January 2011, whereas in the corresponding period in 2010, sales revenue related to ore sales from the Que River mine which ceased operations in September 2010.

The total loss for the period after tax is $52,061,970 [2010: ($4,249,087)] with the main components comprising: amortisation charges of $19,432,003; depreciation charges of $18,028,780; and an impairment charge of $10,500,000.

1. SUSTAINABILTY

1.1 SAFETY

There were no lost time injuries (LTI) during the period. The Fossey underground mine operation has an LTI free record since commencement which stands at 502 days to 31 December 2011.

1.2 ENVIRONMENT

There were no material environmental incidents recorded during the period on any Bass-managed tenements. At Que River rehabilitation earth works have been completed.

1.3 HUMAN RESOURCES

The Company had an average of approximately 130 employees and contractors on site and at its Perth corporate office through the period.

2. OPERATIONS

2.1 HELLYER MINE PROJECT

In July 2011 the Company revised its Fossey Mine plan following the completion of an infill diamond drilling program providing better definition of high-grade ore zones. In conjunction with a significantly upgraded mine dewatering system, the operational performance improved through the 6 months to December 2011.

In January 2012, however, it became apparent that the continued ramp-up of metallurgical recoveries to budgeted levels could not be relied upon placing uncertainty around the Company's capacity to repay its project debt facility. This has forced the Company to adopt a scaled down mining and milling plan focussed on accelerating cash flow to repay debt and at the conclusion of that program, in May 2012, it is likely that the operation will be placed on care and maintenance pending an increase to the reserve base, improved metal prices and additional funding.

2.1.1 Fossey Mine

During the period mine development focussed on 435 level, 510 level, the decline to 425 level and the installation of the permanent water pump station. Overall for the period, underground development was marginally above budget.

Ore was produced from three stopes on the 465 and 445 levels. One stope (21 stope) was completed prematurely with 10,000 tonnes not mined due to increased levels of wall rock waste scaling off and mixing with the ore (unplanned dilution). The current water inflow rate is estimated to be 140l/sec, well within the temporary dewatering capacity.

A summary of mine production is provided in Table 1. Reconciliation with ore processed is presented in Table 2.

Table 1: Fossey Mine Production Summary

	Tonnes	Zn%	Pb%	Ag g/t	Au g/t	Cu%
September Quarter	97,879	9.6	5.6	110	1.6	0.45
December Quarter	102,600	6.4	3.7	98	1.4	0.24
TOTAL	**200,479**	**8.0**	**4.6**	**104**	**1.5**	**0.34**

Mine planning activity focussed on assessing results from 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. As part of this process an external review of ongoing geotechnical data monitoring recommended modifications to planned stope shapes. The objective was to ensure stope stability to enable planned ore grades and tonnages to be extracted, but a consequence was greater planned dilution in the mine plan which reduces metal grades. 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 dilution has similar gold and silver grades to the massive sulphide ore. The contained metal has increased marginally for all metals except lead, but the reduced grade impacts on operating margins and results in lower metallurgical recoveries during processing.

2.1.2 Hellyer Concentrator Operations

Three campaigns (5-7) were completed for the period with 186,656 tonnes of ore processed (Table 2). The reported performance of the Hellyer flotation concentrator has been mixed, associated with the monthly campaigning of ore and delayed reconciliations from prior concentrate sales. Feed grade was within 10% of budget (except for gold) and lead and zinc concentrate production was within 10% of budget. Copper production is below budget and improving with circuit modifications. Circuit surveys were undertaken during campaign 7 as well as comparison flotation test work to the original feasibility study to ascertain if variations were related to mineralogy, physical or chemical separation of the respective minerals. The data is being reviewed and plant physical and chemical changes planned for successive campaigns.

Table 2: Processing and concentrate production summary

Description		Sept. Qtr FY2011	Dec. Qtr Actual	FY2012 YTD	FY 2012 Budget	Var. to Budget
PROCESSING (T&G)						
Ore Treated	t	52,863	133,793	186,656	188,379	-1%
Feed Grades:						
• zinc	%	8.90%	7.40%	7.80%	8.04%	-3%
• lead	%	5.70%	4.50%	4.80%	4.59%	5%
• silver	g/t	118	89	97	90	7%
• gold	g/t	1.85	1.57	1.65	1.9	-13%
• copper	%	0.44%	0.30%	0.34%	0.31%	9%
CONCENTRATE PRODUCED						
Zinc concentrate	t	6,060	12,834	18,894	20638	-8%
• zinc grade	%	53%	53%	53%	52.72%	1%
• silver grade	g/t	169	148	154	150	3%
• gold grade	g/t	1.1	1.7	1.5	2.40	-38%
Lead concentrate	t	2,966	6,323	9,289	10223	-9%
• lead grade	%	61%	56%	58%	58.00%	0%
• silver grade	g/t	641	768	727	478	52%
• gold grade	g/t	1.2	3.1	2.5	2.30	9%
Copper concentrate	t	251	715	966	1466	-34%
• copper	%	20%	17%	18%	17%	6%
• silver	g/t	6,317	4,204	4,753	4302	10%
• gold	g/t	19.8	14.4	15.8	9	76%
• lead	%	8%	11%	10%	7%	43%

**Note rounding errors may occur.*

All concentrates are in dry metric tonnes.

2.1.3 Concentrate Sales & Marketing

During the period the company sold 7,549 tonnes of zinc concentrate, 4,860 tonnes of lead concentrate and 510 tonnes of copper concentrate. As Campaign 7 finished on 23 December 2011, 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.

Total invoicing for the period was $34.11 million but with significant inventory of concentrate remaining to be loaded and invoiced.

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.

2.3 SPECIAL PROJECTS

The Company has received the Hellyer Tailings Gold evaluation study 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 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.

3. EXPLORATION

3.1 NEAR MINE EXPLORATION

During the period 17 drillholes were completed for 4,562 metres. The highlight for the period was the discovery of the McKay prospect where the first hole, HLD1030, intersected seven metres at 22.3 % zinc, 9.9 % lead, 0.7 % copper, 181 g/t silver and 3.4 g/t Au. This hole was not only a very high grade discovery hole; it is also located deep in the alteration zone and confirms a new target zone.

McKay Prospect:

Seven holes have been completed to date for 2,319 metres into the new alteration and mineralised zone at the McKay prospect where follow-up to the discovery hole included HLD1033 which intersected 1.65 metres of very high grade mineralisation (1.65 metres at 21.9% Zn, 14.7% Pb, 1.0% Cu, 182 g/t Ag and 2.3 g/t Au). A review of the structural setting and new drill hole planning is in progress.

Fossey East:

25 metre spaced infill drilling, which was completed during the period, allowed recognition of a zone of low grade barite occurring centrally to two zones of base metal sulphide mineralisation. A new drilling program commenced late in the period to infill the drilling to12.5 metre centres.

A new resource estimate has been completed for Fossey East of 155kt at 11.6 % Zn, 5.8% Pb, 0.5% Cu, 93 g/t Ag and 2.1 g/t Au. At this tighter drill spacing tonnage is lower and grade higher than the original estimate. This is due to the shape of Fossey East being more clearly defined by this drilling and a definition of a distinct base metal zone.

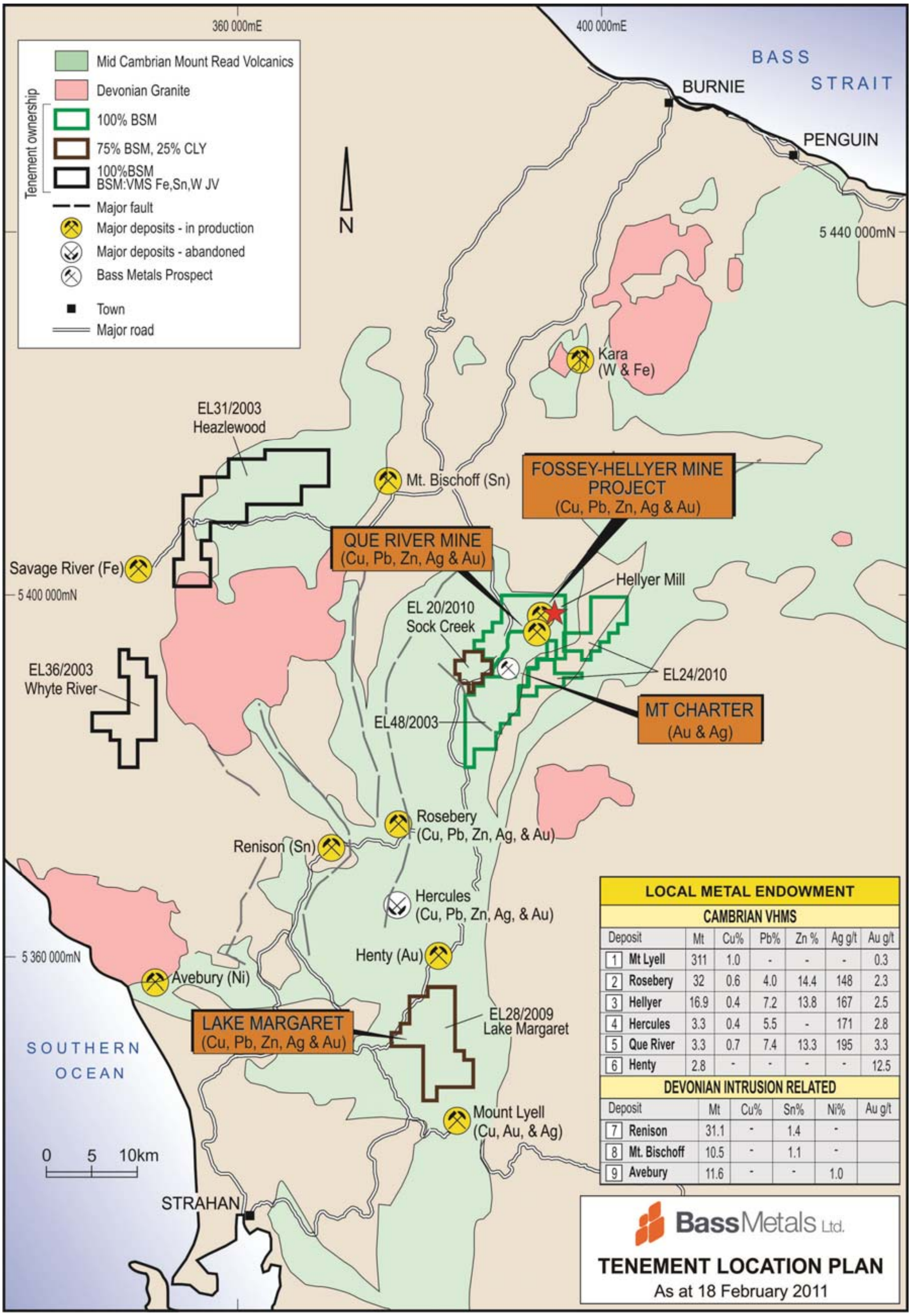
D-Zone – Que South:

Drilling commenced at D-Zone during the period. D-Zone and Que –South prospects were highly anomalous in both pathfinder element geochemistry and SWIR 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 two holes completed for a total of 1,008 metres. Major zones of alteration were intersected in both holes.

3.2 REGIONAL EXPLORATION

No significant exploration was completed during the period.

Figure 1: Bass current tenement holdings and Joint Venture interests.



LOCAL METAL ENDOWMENT

CAMBRIAN VHMS

Deposit	Mt	Cu%	Pb%	Zn %	Ag g/t	Au g/t
1 Mt Lyell	311	1.0	-	-	-	0.3
2 Rosebery	32	0.6	4.0	14.4	148	2.3
3 Hellyer	16.9	0.4	7.2	13.8	167	2.5
4 Hercules	3.3	0.4	5.5	-	171	2.8
5 Que River	3.3	0.7	7.4	13.3	195	3.3
6 Henty	2.8	-	-	-	-	12.5

DEVONIAN INTRUSION RELATED

Deposit	Mt	Cu%	Sn%	Ni%	Au g/t
7 Renison	31.1	-	1.4	-	
8 Mt. Bischoff	10.5	-	1.1	-	
9 Avebury	11.6	-	-	1.0	

Note: *The data presented in the Endowment Table above refers to historic production and published Mineral Resources as reported from Tasmanian Government Dept public database (MRT). This information should not be construed as compiled Mineral Resources but as an indication of the highly mineralised nature of the region.*

3.3 COMPETENT PERSONS STATEMENTS

3.3.1 Mineral Resources & Exploration Results

The information contained within this report that relates to exploration results and Mineral Resource estimates are 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.

3.3.2 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 undertaking 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.

4. Subsequent Events

On 23 January 2012 the Company announced a temporary trading halt pending the release of an initial financial assessment of the Hellyer mining and processing operations. At the request of the Company, the securities were subsequently suspended. Refer to Note 1(j) for more information.

On 7 February 2012 the Company announced that it was in negotiations with key stakeholders regarding the ongoing operations of the Hellyer mill project and, as a consequence, scaled down mining and exploration activities. The Company also advised its securities should remain suspended until the end of successful negotiations with the key stakeholders.

On 23 February 2012 the Company announced it has issued 15 million 18 cents options to its financier, RMB Australia Holdings Ltd, following the drawdown of funds available under its debt facility.

On 9 March 2012 the Company announced negotiations with key stakeholders continued but were not yet finalised, and that the Company's securities should remain suspended until those negotiations had been finalised.

There have are no other matters or circumstances not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Group.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 34.

Signed in accordance with a resolution of the Directors:

M.

M B Rosenstreich
Managing Director

West Perth, Western Australia
15 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Half-year ended 31 Dec 2011 $	31 Dec 2010 $
Sales revenue	2	34,119,181	3,322,299
Cost of sales	3	(35,317,100)	(4,581,959)
Gross loss		**(1,197,919)**	**(1,259,660)**
Other income	2	73,006	522,721
Other expenses	3	(45,737,472)	(4,006,244)
Share-based payment expenses	3	(4,180,007)	(368,773)
Finance costs	3	(4,213,044)	(439,191)
Loss before income tax		**(55,255,436)**	**(5,551,147)**
Income tax benefit	1(f)	3,193,466	1,302,060
Loss after income tax for the period		**(52,061,970)**	**(4,249,087)**
Other comprehensive loss net of income tax			
Cash flow hedge taken to equity	15	5,464,520	(6,513,288)
Total other comprehensive profit/(loss)		**5,464,520**	**(6,513,288)**
Total comprehensive loss for the period		**(46,597,450)**	**(10,762,375)**
Loss attributed to:			
Members of the parent entity		(46,597,450)	(10,762,375)
Total comprehensive income attributed to:			
Members of the parent entity		(46,597,450)	(10,762,375)
Earnings per share			
Basic earnings per share (cents)		(21.71)	(2.42)
Diluted earnings per share (cents)		(21.71)	(2.42)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	31 Dec 2011 $	30 June 2011 $
CURRENT ASSETS			
Cash & cash equivalents	5	3,717,771	6,355,450
Trade & other receivables		3,114,919	2,862,577
Inventories		11,072,695	5,333,510
Derivative financial assets	15	4,260,204	-
Other assets		85,823	217,404
Total Current Assets		**22,251,412**	**14,768,941**
NON-CURRENT ASSETS			
Trade & other receivables		2,831,683	2,836,683
Plant & equipment	11	12,272,892	30,008,117
Mine properties	12	14,007,272	32,165,670
Capitalised exploration & evaluation expenditure	10	9,586,171	16,910,948
Other financial assets		1,045,204	720,251
Deferred tax assets	1(f)	-	11,641,495
Total Non-Current Assets		**39,743,222**	**94,283,164**
TOTAL ASSETS		**61,994,634**	**109,052,105**
CURRENT LIABILITIES			
Trade & other payables		6,404,622	10,446,341
Borrowings	14	22,806,285	14,821,254
Derivative financial liabilities	15	-	1,204,315
Provisions		243,722	167,674
Contingent consideration		2,289,566	943,038
Total Current Liabilities		**31,744,195**	**27,582,622**
NON-CURRENT LIABILITIES			
Borrowings	14	200,691	2,585,282
Provisions		5,013,251	5,006,787
Contingent consideration		-	2,754,566
Deferred tax liabilities	1(f)	-	14,834,961
Total Non-Current Liabilities		**5,213,942**	**25,181,596**
TOTAL LIABILITIES		**36,958,137**	**52,764,218**
NET ASSETS		**25,036,497**	**56,287,887**
EQUITY			
Issued capital	4	61,524,050	50,357,997
Reserves		11,145,510	1,500,983
(Accumulated losses)/Retained profits		(47,633,063)	4,428,907
TOTAL EQUITY		**25,036,497**	**56,287,887**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Issued Capital $	Retained Profits/ (Accumulated Losses) $	Option Reserve $	Hedge Reserve $	Total Equity $
Balance at 1 July 2010	37,172,160	18,215,072	1,172,478	-	56,559,710
Loss for the period	-	(4,249,087)	-	(6,513,288)	(10,762,375)
Transactions with owners, recorded directly in equity					
Shares issued during the period	3,831,600	-	-	-	3,831,600
Share issue costs	(247,715)	-	-	-	(247,715)
Tax benefit relating to share issue costs	74,315	-	-	-	74,315
Share options issued during the period in accordance with AASB 2: *Share-based Payments*	100,000	-	678,223	-	778,223
Total contributions by and distributions to owners	3,758,200	-	678,223	-	4,436,423
Total transactions with owners	3,758,200	(4,249,087)	678,223	(6,513,288)	(6,325,952)
Balance at 31 December 2010	**40,930,360**	**13,965,985**	**1,850,701**	**(6,513,288)**	**50,233,758**
Balance at 1 July 2011	50,357,997	4,428,907	2,705,298	(1,204,315)	56,287,887
Loss for the period	-	(52,061,970)	-	5,464,520	(46,597,450)
Transactions with owners, recorded directly in equity					
Shares issued during the period	12,150,650	-	-	-	12,150,650
Share issue costs	(984,597)	-	-	-	(984,597)
Share options issued during the period in accordance with AASB 2: *Share-based Payments*	-	-	4,180,007	-	4,180,007
Total contributions by and distributions to owners	11,166,052	-	4,180,007	-	15,346,059
Total transactions with owners	11,166,052	(52,061,970)	4,180,007	-	(36,715,911)
Balance at 31 December 2011	**61,524,050**	**(47,633,063)**	**6,885,305**	**4,260,205**	**25,036,497**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Half-year ended 31 Dec 2011 $	31 Dec 2010 $
Cash flows from operating activities			
Cash receipts in the course of operations		32,513,758	8,209,274
Cash payments in the course of operations		(40,069,192)	(9,255,484)
Interest received		94,841	231,081
Interest paid		(862,270)	(19,233)
Net cash used in operating activities		**(8,322,863)**	**(834,362)**
Cash flows from investing activities			
Proceeds from sale of plant & equipment		27,400	-
Purchase of plant & equipment		(315,702)	(3,472,744)
Payments for exploration & evaluation expenditure		(1,663,001)	(1,634,764)
Payments for development of mine properties		(4,506,262)	(13,808,487)
Payments for mining lease guarantee		-	70,000
Proceeds from/(payments for) derivative financial instruments		125,166	(62,456)
Net cash used in investing activities		**(6,332,399)**	**(18,908,451)**
Cash flows from financing activities			
Proceeds from issue of shares		4,648,301	3,831,600
Proceeds from borrowings		14,842,883	16,377,552
Repayments of borrowings		(6,859,000)	13,500
Costs of share issues		(614,600)	(247,715)
Net cash provided by financing activities		**12,017,584**	**19,974,937**
Net increase in cash and cash equivalents		(2,637,678)	232,124
Cash and cash equivalents at the beginning of the period		6,355,449	9,471,543
Cash and cash equivalents at the end of the period	**5**	**3,717,771**	**9,703,667**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies

(a) Basis of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: *Interim Financial Reporting*. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Bass Metals Ltd and its controlled entities ("the Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcements made during the half-year.

(b) Adoption of New and Revised Accounting Standards

In the half-year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and therefore no change is necessary to the Group's accounting policies.

The Group has revised all new Standards and Interpretations that have been issued but are not effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

(c) Plant & Equipment

Plant and equipment is measured at cost less, where applicable, any accumulated depreciation and impairment losses.

Ore processing equipment is depreciated on a units-of-production basis consistent with the consumption pattern. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced, and accordingly, the useful lives of ore processing equipment assets. This has resulted in an additional depreciation charge for the half year of $17,195,136.

Plant and equipment assets unrelated to ore processing is unaffected by the adoption of the revised mine and mill plan, and useful lives remain as disclosed in the annual financial statements of the Group for the year ended 30 June 2011.

(d) Mine Properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred in respect of areas of interest in which mining has commenced or in the process of commencing. When further development expenditure is incurred in respect of mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a units-of-production basis (other than restoration and rehabilitation expenditure) which results in a write off of the cost proportional to the depletion of the proven and probable mineral reserves.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced. This has resulted in an additional amortisation charge for the half year of $10,188,100. Refer to Note 3 *Expenses.*

(e) Capitalised Exploration & Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies (cont)

When production commences, the accumulated costs for the relevant area of interest are transferred to Mine Properties and amortised over the life of the area according to the rate of depletion of the economically recoverable reserves (refer to Note 1(d) *Mine Properties* for further information).

During the period a review for impairment was completed for each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. This has resulted in: (i) the transfer of expenditure to Mine Properties amounting to $6,426,925; and (ii) the impairment of expenditure amounting to $2,560,853. Refer to Note 3 *Expenses.*

(f) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates and assumptions made in preparation of these half-year financial statements are described below:

Impairment of Non-financial Assets other than Goodwill and Indefinite Life Intangibles

The Group assesses impairment at each reporting date by evaluating conditions specific to the entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Following adoption of the revised mine and mill plan in January 2012, estimated total reserves have materially reduced, and accordingly, the value-in-use calculation. This has resulted in an impairment charge of $10,500,000.

Recoverability of Assets

Certain assumptions are required to be made in order to assess the recoverability of assets. Key assumptions include the future price of commodities, future cash flows, an estimated discount rate and estimates of ore reserves. In addition, cash flows are projected over the life of mine, which is based on proved and probable ore reserves. Estimates of ore reserves in themselves are dependent on various assumptions, in addition to those described above, including cut-off grades. Changes in these estimates could materially impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced, and accordingly, the useful lives of some assets. Refer Note 1(c) *Plant & Equipment* for further information.

Determination of Ore Reserves and Remaining Mine Life

The Group estimates its ore reserves and mineral resources based on information compiled by Competent Persons (as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (the JORC Code)). Reserves determined in this way are taken into account in the calculation of depreciation, amortisation, impairment, deferred mining costs, rehabilitation and environmental expenditure.

In estimating the remaining mine life for the purposes of amortisation and depreciation calculations, due regard is given, not only to remaining recoverable metals contained in proved and probable ore reserves, but also to limitations which could arise from the potential for changes in technology, demand, and other issues which are inherently difficult to estimate over a lengthy time frame.

Where a change in estimated recoverable metals contained in proved and probable ore reserves is made, depreciation and amortisation is accounted for prospectively.

The determination of ore reserves and remaining mine life affects the carrying value of a number of the Group's assets and liabilities including deferred mining costs and the provision for rehabilitation.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced, and accordingly, the useful lives of some assets. Refer Note 1(d) *Mine Properties* for further information.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies (cont)

Estimation of Useful Lives of Assets

The consolidated entity's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. Management will increase the depreciation and amortisation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced, and accordingly, the useful lives of some assets. Refer Note 1(c) *Plant & Equipment* for further information.

Units-of-Production Amortisation and Depreciation

Estimated recoverable reserves are used in determining the depreciation and amortisation of mine specific assets. This results in amortisation/depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Numerous units-of-production (UOP) depreciation methodologies are available to choose from. The Group adopts a Run-of-the-Mine (ROM) tonnes of ore produced methodology for mining costs and tonnes of metal produced methodology for post mining costs. Changes are accounted for prospectively.

Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), estimated total reserves have materially reduced, and accordingly, the useful lives of some assets. Refer Note 1(c) *Plant & Equipment* and Note 1(d) *Mine Properties* for further information.

Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Judgment is required in determining whether deferred tax assets are recognised on the *Statement of Financial Position*. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

In the annual financial statements of the Group for the year ended 30 June 2011 the balance of deferred tax assets was $11,641,495, and deferred tax liabilities was $14,834,961. Following adoption of the revised mine and mill plan in January 2012 (refer Note 1(j) for further information), a value-in-use deficiency was identified and an impairment charge booked, therefore the likelihood of the Group generating taxable income in future periods is not probable. This removed the requirement to recognise the deferred tax liability and deferred tax asset resulting in a net income tax benefit of $3,193,466 being shown in the *Statement of Comprehensive Income*.

(g) Changes in Accounting Estimates

Subsequent to the reporting date the Directors received revised technical inputs regarding metallurgical recovery as a result of milling campaigns undertaken during the period. The results of the financial assessment of this information required modification to the mine plan including revision to the ore grades and ore reserves, adjusting downward the estimated metallurgical recoveries, life of mine and changes to expected metal prices, ie: ore reserves have decreased from 677,669 to 510,004 tonnes.

In estimating the remaining life of the mine for the purposes of amortisation and depreciation calculations, due regard is given not only to remaining recoverable metals contained in proved and probable ore reserves, but also to limitations which could arise from the potential for changes in technology, demand, and other issues which are inherently difficult to estimate over a lengthy time frame.

Where a change in estimated recoverable metals contained in proved and probable ore reserves is made, depreciation and amortisation is accounted for prospectively.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies (cont)

The financial effects of the changes in accounting estimates are as follows:

- Increase in amortisation charge of $10,188,100 on *Mine Properties* assets as a result of downgrades in ore reserves;
- Increase in depreciation charge of $17,195,136 on *Plant & Equipment* assets as a result of downgrades in ore reserves;
- Recognition of an impairment charge of $10,500,000 resulting from a value-in-use calculation deficiency; and
- Recognition of an impairment charge of $2,560,853 relating to capitalised exploration and evaluation expenditure deemed no longer recoverable.

The amounts noted above have been recognised in the *Statement of Comprehensive Income* for the current period and have been included in Note 3.

(h) Derivative financial instruments and hedging

The Group uses Australian dollar commodity derivative financial instruments to hedge exchange rate and commodity price risks associated with US dollar commodity sales. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of a derivative changes in response to changes in the underlying foreign exchange rate or commodity price; for example, increasing commodity prices will lower the fair value of the Group's forward commodity contracts. Derivative assets and liabilities are classified as non-current when the remaining term to maturity is more than 12 months, or current when the remaining term to maturity is less than 12 months.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the period. For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (the Group does not currently have any fair value hedges);
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction (the Company currently has cash flow hedges attributable to lead, silver and zinc forward contracts);
- Hedges of a net investment in a foreign operation (the Group does not currently have any hedges of a net investment in a foreign operation)

The Group's cash flow hedges meet the strict criteria for hedge accounting and are accounted for in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* and as summarised below.

The Group tests each of the designated cash flow hedges for effectiveness at each reporting date both retrospectively and prospectively by comparing the cash flow, or fair value for unrealised hedge movements, of the hedge and the hedged item. Where the difference between the two is within a range of 80% to 125%, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the hedge would no longer be considered effective and amounts recognised in equity are transferred immediately to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies (cont)

(i) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

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

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(j) Material Uncertainty in relation to Going Concern

The financial statements for the half year ended 31 December 2011 have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the period the consolidated entity incurred a loss after tax of $46,597,450 (2010: loss of $10,762,375). Net cash outflows from operations during the period were $8,322,863 (2010: net cash outflows of $834,362). At 31 December 2011, current liabilities exceeded current assets by $9,492,783.

In January 2012 it became apparent that the continued ramp-up of metallurgical recoveries to budgeted levels could not be relied upon placing uncertainty around the Company's capacity to repay its project debt facility. This has forced the Company to adopt a scaled down mining and milling plan focussed on accelerating cash flow to repay debt and at the conclusion of that program, in May 2012, it is likely that the operation will be placed on care and maintenance pending an increase to the reserve base, improved metal prices and additional funding.

The Company has engaged with its key stakeholders to negotiate for the continuation of the Stage 1 mine plan and rescheduling of both secured and unsecured debt repayment obligations. These negotiations are progressing but, at the date of this report, have not yet concluded.

The Directors recognise that the above factors represent a material uncertainty as to the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on successfully completing its Stage 1 mine and processing plan, the continued support of its creditors, the continued financial support of its financiers, successful realisation of proceeds from the sale of processing assets and the successful completion of any capital raisings which may be required. The Directors are confident this support will be forthcoming and are confident the Company will be able to continue operating into the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

2. Revenue

		31 Dec 2011 $	31 Dec 2010 $
(a)	**Sales revenue**		
	Concentrate sales – Fossey	34,119,181	-
	Ore sales – Que River	-	3,322,299
	Total sales revenue	**34,119,181**	**3,322,299**
(b)	**Other income**		
	Interest received	94,841	231,081
	Joint venture establishment fee	-	1,845
	Foreign currency loss	(64,340)	(2,707)
	Other revenue	42,505	292,502
	Total other income	**73,006**	**522,721**

NOTES TO THE FINANCIAL STATEMENTS

3. Expenses

		31 Dec 2011 $	31 Dec 2010 $
(a)	**Cost of sales**		
	Production costs	21,826,306	2,467,921
	Amortisation – mine closure & restoration	-	52,401
	Amortisation – mine properties	8,255,813	1,629,109
	Royalties	426,823	49,012
	Treatment charges	4,808,158	383,516
	Total cost of sales	**35,317,100**	**4,581,959**
(b)	**Other expenses**		
	Employee benefits expense	1,134,197	487,360
	Contracting & consulting expense	404,932	496,853
	Operating lease expense	96,363	60,619
	Other administration expense	1,085,368	722,159
	Depreciation – plant & equipment	18,028,780	110,204
	Amortisation – rehabilitation assets	200,954	120,821
	Additional mine properties' amortisation resulting from ore reserves revision – refer Note 1(j)	10,088,100	-
	Capitalised exploration & evaluation expenditure written off	2,560,853	2,302
	Value-in-use impairment charge – refer Note 1(f)	10,500,000	-
	Exploration expenditure expensed	-	117,924
	Hellyer operating infrastructure – care & maintenance	1,811,531	1,561,127
	Que River mine closure management	-	116,049
	Net (gain)/loss on derivative financial instruments	(173,606)	210,826
	Total other expenses	**45,737,472**	**4,006,244**
(c)	**Share-based payments**		
	Share-based payments (refer note 9)	**4,180,007**	**368,773**
(d)	**Finance costs**		
	Interest charges	2,444,119	419,940
	Borrowing costs	881,789	431
	Finance costs	887,136	18,820
	Total finance costs	**4,213,044**	**439,191**
	Total expenses	**89,447,623**	**9,396,167**

NOTES TO THE FINANCIAL STATEMENTS

4. Movements in Issued Capital

	31 Dec 2011 Number of Shares	$	30 June 2011 Number of Shares	$
At the beginning of the financial period	**213,430,823**	**50,357,997**	**170,505,386**	**37,172,160**
Issued during the half-year				
• Ordinary shares issued at 25 cents to sophisticated and professional investors issued on 05 November 2010	-	-	14,400,000	3,600,000
• Ordinary shares issued at 25 cents in lieu of brokerage fees and investor relations service retainer issued on 5 November 2010	-	-	900,000	225,000
• Ordinary shares issued at 23.9 cents pursuant to employee share plan on 30 November 2010	-	-	418,410	100,000
• Ordinary shares issued at 22 cents pursuant to employee share plan on 30 November 2010	-	-	30,000	6,600
• Ordinary shares issued at 26 cents pursuant to the employee loan scheme on 28 February 2011	-	-	100,000	26,000
• Ordinary shares issued at 22 cents pursuant to employee share plan on 4 April 2011	-	-	50,000	11,000
• Ordinary shares issued at 37 cents to sophisticated and professional shareholders on 27 April 2011	-	-	10,000,000	3,700,000
• Ordinary shares issued at 37 cents to sophisticated and professional investors on 30 May 2011	-	-	17,027,027	6,300,000
• Ordinary shares issued at 15 cents conversion of loans on 30 September 2011[1]	6,666,667	1,000,000	-	-
• Ordinary shares issued at 15 cents being shortfall placement on 4 November 2011	3,866,667	580,000	-	-
• Ordinary shares issued at 15 cents pursuant to rights issue on 4 November 2011	24,415,284	3,662,293	-	-
• Ordinary shares issued at 15 cents being forgone payment of convertible notes on 4 November 2011[2]	32,032,334	4,804,850	-	-
• Ordinary shares issued at 15 cents in lieu of brokerage fees, royalties and investor relations service retainer issued on 4 November 2011	13,933,333	2,090,000	-	-
• Ordinary shares issued at 12.5 cents pursuant to the employee loan scheme on 4 November 2011	100,000	12,500	-	-
• Ordinary shares issued at 20 cents on exercise of options on 6 December 2011	5,037	1,007	-	-
Less share issue costs	-	(984,597)	-	(857,078)
Current and previously unrecognised tax benefit relating to share issue costs	-	-		74,315
Balance at the end of the financial period	**294,450,145**	**61,524,050**	**213,430,823**	**50,357,997**

Non-Cash Financing Activities

1 Share issue relates to conversion of 1 million loan notes issued to Directors, pursuant to approval by shareholders at a general meeting held on 26 September 2011.

2 Share issue relates to conversion of convertible note obligations, pursuant to approval by shareholders at a general meeting held on 3 January 2012.

5. Cash & Cash Equivalents

Included in cash & cash equivalents is a restricted amount of $2,900,000 (2010: $623,000) on deposit as credit support for short dated forward sales agreements.

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments

Segment Information

Identification of reportable segments
The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision maker in assessing performance and determining the allocation of resources in accordance with AASB 8: *Operating Segments*.

The operating segments identified are based on geographical location, different risk profiles and performance assessment criteria.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment; and
- the manufacturing or production processes.

Reportable segments
Tasmanian Operations – Mining
The Tasmanian Operations – Mining segment produces ore from its Tasmanian mining operations.

Tasmanian Operations – Processing
The Tasmanian Operations – Processing segment processes the ore produced by the Tasmanian Operations – Mining segment. It includes the Hellyer mill and associated infrastructure.

Exploration
The Exploration segment covers activities related to the identification and discovery of new and additional mineral resources.

Basis of accounting for purposes of reporting by operating segments
Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions
Inter-segment loans receivable and payable are recognised at the consideration to be received/paid and are eliminated.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that has greatest influence over the asset's economic value. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
The Group does not report liabilities to the chief operating decision maker that are allocated to the operating segments and consequently has not reported any liabilities in this note.

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments (cont)

Unallocated items

The following items of revenue, expense and assets are not allocated to operating segments as they are not considered part of the core operations of any segment:

a. corporate costs;
b. interest revenue and expense;
c. share based payments;
d. derivatives;
e. income tax expense; and
f. deferred tax assets (except for those relating to the closure provision for the Hellyer Mill).

(a) **Segment Performance**

Half-year ended 31 December 2011	**Tasmanian Operations – Mining** $	**Tasmanian Operations – Processing** $	**Exploration** $	**Total** $
Revenue				
Sales to external customers	34,119,181	-	-	34,119,181
Total segment revenue	**34,119,181**	**-**	**-**	**34,119,181**
Reportable segment loss before income tax	**(40,815,725)**[1]	**(6,611,961)**	**(2,560,853)**	**(49,988,539)**
Reconciliation of reportable segment result to Group loss before income tax				
Unallocated items:				
• Interest revenue				94,841
• Corporate expenses				(1,181,731)
• Share-based payments				(4,180,007)
Consolidated loss before income tax				**(55,255,436)**

1 Includes impairment charge of $10,500,000 – refer Notes 1(g) and 1(j) for further information.

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments (cont)

(a) **Segment Performance**

Half-year ended 31 December 2010	Tasmanian Operations – Mining $	Tasmanian Operations – Processing $	Exploration $	Total $
Revenue				
Sales to external customers	3,322,299	-	-	3,322,299
Total segment revenue	**3,322,299**	**-**	**-**	**3,322,299**
Reportable segment loss before income tax	**(1,335,494)**	**(1,613,528)**	**(238,152)**	**(3,187,174)**
Reconciliation of reportable segment result to Group loss before income tax				
Unallocated items:				
• Interest revenue				231,081
• Other profit				291,636
• Corporate expenses				(2,307,091)
• Net loss on derivative financial instruments				(210,826)
• Share-based payments				(368,773)
Consolidated loss before income tax				**(5,551,147)**

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments (cont)

(b) **Segment assets**

31 December 2011	**Tasmanian Operations – Mining** $	**Tasmanian Operations – Processing** $	**Exploration** $	**Total** $
Reportable segment assets	**18,347,346**	**22,469,013**	**9,586,171**	**50,402,530**
Segment asset additions during the period:				
• Plant & equipment	-	211,766	-	211,766
• Mine properties	10,933,182			10,933,182
• Capitalised exploration & evaluation expenditure			1,663,001	1,663,001

Reconciliation of segment assets to Group assets

Total assets for reportable segments	50,402,530
Elimination of inter-segment assets	-
Unallocated assets:	
• Cash & cash equivalents	3,717,771
• Trade & other receivables	3,114,919
• Plant & equipment	413,387
• Derivative financial assets	4,260,204
• Other assets	85,823
Total Group Assets	**61,994,634**

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments (cont)

(b) **Segment assets**

30 June 2011	Tasmanian Operations – Mining $	Tasmanian Operations – Processing $	Exploration $	Total $
Reportable segment assets	**27,166,969**	**42,376,993**	**17,546,818**	**87,090,780**
Segment asset additions during the period:				
• Plant & equipment	-	3,681,725	-	3,681,725
• Mine properties	22,404,053	-	-	22,404,053
• Capitalised exploration & evaluation expenditure	-	-	3,363,063	3,363,063

Reconciliation of segment assets to Group assets	
Total assets for reportable segments	87,090,780
Elimination of inter-segment assets	-
Unallocated assets:	
• Cash and cash equivalents	6,355,450
• Trade and other receivables	2,860,457
• Plant and equipment	624,836
• Other assets	479,087
• Deferred tax assets	11,641,495
Total Group Assets	**109,052,105**

NOTES TO THE FINANCIAL STATEMENTS

6. Operating Segments (cont)

(c) Revenue by geographical region

The Group only operates within Australia.

(d) Major customers

The Group had two customers during the period, being Nyrstar Sales & Marketing AG and LN Metals International Limited.

7. Contingent Liabilities

At the end of the financial period the Group had no contingent liabilities.

8. Subsequent Events

On 23 January 2012 the Company announced a temporary trading halt pending the release of an initial financial assessment of the Hellyer mining and processing operations. At the request of the Company, the securities were subsequently suspended. Refer to Note 1(j) for more information.

On 7 February 2012 the Company announced that it was in negotiations with key stakeholders regarding the ongoing operations of the Hellyer mill project and, as a consequence, scaled down mining and exploration activities. The Company also advised its securities should remain suspended until the end of successful negotiations with the key stakeholders.

On 23 February 2012 the Company announced it has issued 15 million 18 cents options to its financier, RMB Australia Holdings Ltd, following the drawdown of funds available under its debt facility.

On 9 March 2012 the Company announced negotiations with key stakeholders continued but were not yet finalised, and that the Company's securities should remain suspended until those negotiations had been finalised.

There have are no other matters or circumstances not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Group.

9. Share-based Payments

The following options were issued during the half-year:

(a) On 31 October 2011, 66,700,000 unlisted options exercisable at $0.18 each on or before 31 October 2014 were issued to the Group's financier as ratified by a resolution passed at a general meeting of shareholders held on 31 October 2011.

Number of options	66,700,000
Fair value at grant date[1]	$0.046
Share price	$0.15
Exercise price	$0.18
Volatility factor	72.0%
Expiry date of the options	31 October 2014
Risk free interest rate[2]	3.92%

[1] *The basis of measuring fair value of the options was the Black-Scholes option pricing model.*

[2] *Based on the 2 year Commonwealth Government bond rate*

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NOTES TO THE FINANCIAL STATEMENTS

9. Share-based Payments (cont)

(b) On 1 September 2011, 200,000 unlisted options exercisable at $0.26 each on or before 27 August 2015 were issued to employees of the Group pursuant to the Group's employee performance incentive plan approved by shareholders on 30 November 2010.

Number of options	200,000
Fair value at grant date[1]	$0.0441
Share price	$0.15
Exercise price	$0.26
Volatility factor	72.0%
Expiry date of the options	27 August 2015
Risk free interest rate[2]	3.97%

[1] *The basis of measuring fair value of the options was the Black-Scholes option pricing model.*

[2] *Based on the 2 year Commonwealth Government bond rate.*

(c) On 1 September 2011, 200,000 unlisted options exercisable at $0.365 each on or before 27 August 2015 were issued to employees of the Group pursuant to the Group's employee performance incentive plan approved by shareholders on 30 November 2010.

Number of options	200,000
Fair value at grant date[1]	$0.0356
Share price	$0.15
Exercise price	$0.365
Volatility factor	72.0%
Expiry date of the options	27 August 2015
Risk free interest rate[2]	3.97%

[1] *The basis of measuring fair value of the options was the Black-Scholes option pricing model.*

[2] *Based on the 3 year Commonwealth Government bond rate.*

(d) On 1 September 2011, 200,000 unlisted options exercisable at $0.525 each on or before 27 August 2015 were issued to employees of the Group pursuant to the Group's employee performance incentive plan approved by shareholders on 30 November 2010.

Number of options	200,000
Fair value at grant date[1]	$0.0273
Share price	$0.15
Exercise price	$0.525
Volatility factor	72.0%
Expiry date of the options	27 August 2015
Risk free interest rate[2]	3.97%

[1] *The basis of measuring fair value of the options was the Black-Scholes option pricing model.*

[2] *Based on the 3 year Commonwealth Government bond rate.*

NOTES TO THE FINANCIAL STATEMENTS

9. Share Based Payments (cont)

(e) On 26 September 2011, 28,666,667 unlisted options exercisable at $0.20 each on or before 30 September 2014 were issued to various parties pursuant to various resolutions passed at the general meeting of shareholders held on 26 September 2011.

Number of options	28,666,667
Fair value at grant date[1]	$0.0427
Share price	$0.15
Exercise price	$0.20
Volatility factor	70.0%
Expiry date of the options	30 September 2014
Risk free interest rate[2]	3.97%

[1] *The basis of measuring fair value of the options was the Black-Scholes option pricing model.*

[2] *Based on the 3 year Commonwealth Government bond rate.*

10. Exploration and Evaluation Expenditure

	31 Dec 2011 $	30 June 2011 $
The Consolidated Group has mineral exploration costs carried forward in respect of areas of interest currently in the phase of exploration and evaluation:		
Balance at the beginning of the period	**16,910,948**	**13,564,128**
Capitalised expenditure for the period	1,663,002	3,363,063
Write-off resulting from relinquished tenements	-	(1,831)
Transfers to mine properties	(6,426,926)	-
Impairment charge recognised in statement of comprehensive income (Note 1(e))	(2,560,853)	(14,412)
Balance at the end of the period	**9,586,171**	**16,910,948**

11. Plant and Equipment

Consolidated	Plant & Equipment Ore Processing $	Plant & Equipment Hellyer Mill Refurbishment $	Plant & Equipment Other $	Leased Plant & Equipment $	Total $
Balance at 1 July 2011	**23,753,149**	**5,183,029**	**989,621**	**82,318**	**30,008,117**
Additions	-	18,009	309,487	-	327,496
Disposals	(674)	(27,743)	(5,524)	-	(33,941)
Depreciation expense[1]	(14,624,655)	(3,174,780)	(219,575)	(9,770)	(18,028,780)
	(14,253,329)	(3,184,514)	84,388	(9,770)	(17,363,225)
Balance at 31 December 2011	**9,127,820**	**1,998,515**	**1,074,009**	**72,548**	**12,272,892**

1 Includes additional depreciation charge of $17,195,136 – refer Notes 1(c) and 1(g) for further information.

NOTES TO THE FINANCIAL STATEMENTS

12. Mine Properties

Consolidated	Hellyer Tailings Dam	Hellyer Operating Infrastructure – Mill Closure and Restoration	Fossey Capital Infrastructure	Fossey Mine Closure and Restoration	Fossey Mine Development	Total
	$	$	$	$	$	$
Balance at 1 July 2011	**9,000,000**	**943,210**	**2,426,088**	**345,204**	**19,451,168**	**32,165,670**
Additions	-	-	1,662,614	-	2,843,645	4,506,259
Transfers from capitalised exploration & evaluation expenditure	-	-	-	-	6,426,926	6,426,926
Amortisation expense	-	(471,605)	(2,057,222)	(200,954)	(15,861,802)	(18,591,583)
	9,000,000	471,605	2,031,480	144,250	12,859,937	24,507,272
Impairment charge[1]	-	(319,325)	(1,375,520)	(97,670)	(8,707,485)	(10,500,000)
Balance at 31 December 2011	**9,000,000**	**152,280**	**655,960**	**46,580**	**4,152,452**	**14,007,272**

1 Refer to Notes 1(c) and 1(g) for information pertaining to the impairment charge.

13. Capital and Leasing Commitments

There has been no significant change to capital and leasing commitments disclosed in the annual report at 30 June 2011.

14. Interest Bearing Loans and Borrowings

	31 December 2011	30 June 2011
Current		
Lease liability	52,285	58,873
Insurance premium funding	-	35,148
Silver loan	1,954,000	3,840,699
Secured bank loans	20,800,000	10,886,534
	22,806,285	14,821,254
Non-current		
Lease liability	200,691	212,769
Secured bank loans	-	2,372,513
	200,691	2,585,282

NOTES TO THE FINANCIAL STATEMENTS

14. Interest Bearing Loans and Borrowings (cont)

(a) Fair Values

The carrying amount of the Group's interest bearing loans and borrowings approximate their fair values

(b) Assets pledged as security

Under the terms and conditions of the secured bank loans, the Group has granted a fixed and floating charge over all of its assets in favour of the financier. The charge remains in effect until the Company has fully discharged its financial indebtedness; including the settlement of outstanding zinc, lead and silver derivative instruments.

(c) Defaults and breaches

For the period ended 31 December 2011 there were no defaults or breaches against any of the Group's interest bearing loans and borrowings.

In January 2012 it became apparent that the continued ramp-up of metallurgical recoveries to budgeted levels could not be relied upon placing uncertainty around the Company's capacity to repay its project debt facility – refer Notes 1(j) and 8 for more information.

15. Derivative Financial Instruments

	31 December 2011	30 June 2011
Current Assets		
Forward commodity contracts	4,260,205	-
Current Liabilities		
Forward commodity contracts	-	1,204,315

(a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business to hedge exposure to exchange rate and price risk associated with metal concentrates sold under US dollar-denominated sales agreements.

NOTES TO THE FINANCIAL STATEMENTS

15. Derivative Financial Instruments (cont)

(i) Forward Commodity Derivatives

The Group has entered into forward commodity contracts to hedge the price and currency risk of highly probable metal concentrate sales. The hedge instruments are timed to mature in line with the estimated sales of the hedged item.

Cash flows from the sale of lead, silver and zinc are timed to occur over the following two years. The hedge instruments are therefore also timed to mature during this period as outlined below:

Lead Forward Contracts	**Tonnes Hedged**	**Average Price (AUD)**
< 12 months	3,286	2,410

Silver Forward Contracts	**Ounces Hedged**	**Average Price (AUD)**
< 12 months	223,000	26.52

Zinc Forward Contracts	**Tonnes Hedged**	**Average Price (AUD)**
< 12 months	5,386	2,459

These forward contracts have been specifically designated as a cash flow hedge in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* and quality for hedge accounting. Under hedge accounting, the proportion of the gain or loss that is determined to be an effective hedge shall be recognised in other comprehensive income. The forward commodity contracts are considered to be highly effective hedges as they are aligned with the sale of physical metal and any gain or loss attributed to the settlement of the forward contract will be off-set by a gain or loss on the sale of the physical metal.

(ii) Movement in commodity forward hedge reserve

	31 December 2011	**30 June 2011**
Opening balance	(1,204,315)	-
Charged to other comprehensive income	5,464,520	(1,204,315)
Closing Balance	**4,260,205**	**(1,204,315)**

Note: Amounts have not been tax-effected

DIRECTORS' DECLARATION

In the opinion of the Directors the Consolidated Group:

1. The financial statements and notes set out on pages 10 to 32 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the Consolidated Group as at 31 December 2011 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that the Consolidated Group will be able to pay its debts as and when they become due and payable.

Dated at Perth, Western Australia this 15th day of March 2012.

Signed in accordance with a resolution of the directors:

M B Rosenstreich
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration
To The Directors of Bass Metals Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Bass Metals Limited for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 15 March 2012

INDEPENDENT AUDITOR'S REVIEW REPORT

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Independent Auditor's Review Report
To the Members of Bass Metals Limited

We have reviewed the accompanying half-year financial report of Bass Metals Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both 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 half-year 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 consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a 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 2011 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 Bass Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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.

INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)

Independence

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

Electronic presentation of reviewed financial report

This auditor's review report relates to the financial report of Bass Metals Limited for the half-year ended 31 December 2011 included on Bass Metals Limited's web site. The Company's directors are responsible for the integrity of Bass Metals Limited's web site. We have not been engaged to report on the integrity of Bass Metals Limited's web site. The auditor's review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

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 Bass Metals Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1(j) in the half-year financial report which indicates that the consolidated entity incurred a net loss of $46,597,450 during the half-year ended 31 December 2011 (31 December 2010: $10,762,375) and, as of that date, the consolidated entity's current liabilities exceeded its current assets by $9,492,783 (30 June 2011: $12,813,681). These conditions, along with other matters as set forth in Note 1(j), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the half-year financial report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 15 March 2012