

26 March 2012

Financial Position & Strategy Update

Bass Metals Ltd (ASX: BSM) wishes to advise that, further to its announcement dated 16 March 2012, it has now reached agreement with all key stakeholders creating the opportunity to trade through its current financial situation.

As the initial step in this process, Bass Metals requested that its bank, RMB Australia Holdings Ltd (RMBAH), agree to changes to the terms of its secured loan facilities necessary to effect the Stage 1 workout plan, and RMBAH agreed to those changes on 9 March 2012 with a credit approved offer letter to amend the loan facilities. Bass Metals has accepted this offer and is currently working through the requirements that the facility variation is conditional upon.

Background

The Company has experienced technical problems at its Hellyer operations in NW Tasmania which have reduced the funds presently available to pay its debts as reported to ASX previously.

The Board of Bass Metals became aware of this issue on 20 January, 2012 and advised RMBAH. Given the then uncertainty in terms of the impact on cashflow and operations, and the response from the Company's creditors, the Board sought suspension of Bass Metals' shares from trading on ASX. Mining and processing operations are continuing at Hellyer on a scaled down basis to accelerate cash flow under what is termed the Stage 1 mine plan. Unfortunately the Company has had to defer payment of all invoices and accruals incurred prior to 20 January 2012 and then outstanding. The Company is continuing to operate on a pre-payment or cash-on-delivery basis and is not incurring any further debts, so creditor amounts are not increasing.

Current Financial Position

Bass Metals currently has a secured debt of \$20.4 million owed to RMBAH as well as a total unsecured creditor liability estimated to be approximately \$9.9 million (incl.GST), comprising mainly December 2011 and January 2012 costs.

A workout strategy has been implemented and is supported by key stakeholders whereby the Company plans to complete its Stage 1 plan by mid-May, 2012 to accelerate debt repayments. On the basis of its current receivables position and completion of the Stage 1 plan (with metal recoveries and sales as forecast in the plan), the Company expects to meet all of its debt obligations by 30 September 2012 subject to contributions from core asset sales and additional financial support such as new equity. The Company notes that as at the date of this announcement it has not finalised agreements for any core asset sales or additional financial support.

Key Stakeholder Agreement

The support of RMBAH through an executed credit approved Offer Letter to vary its facilities to enable the workout strategy to proceed is a critically important milestone and sign of support from the Company's secured lender. It enables the Company to focus on completion of the Stage 1 mining and processing plan to ensure the planned cash generation is achieved. The Company has also formulated a creditor payment plan for all of its unsecured creditors which has been supported by many creditors representing approximately 70% of the outstanding amount. The Company is very appreciative of their support.

The RMBAH offer is subject to a range of conditions precedent that are standard for a facility variation such as this, and include:

- the ongoing performance of the mining and milling plan consistent with the Stage 1 Mine Plan presented to RMBAH (in addition to being a condition precedent to the variation, it will be an ongoing requirement under the varied facility that RMBAH is satisfied (acting reasonably) that mining and milling is proceeding in accordance with the Stage 1 Mine Plan and the financing model agreed with RMBAH);

- technical due diligence including aspects focussed on environmental management, and underground geotechnical review;
- RMBAH's satisfaction with the status and implementation of the creditor payment plan, with proposed asset sales, and with the proposed changes to the financial model;
- agreement by the Company's mining alliance partner, Mancala, to the creditor payment plan and to a variation of the mining contract, which has now been received; and
- completion of documentation of the variations.

The Company and RMBAH are well advanced on addressing these and several other conditions precedent. Subject to completing the documentation and meeting all of the conditions precedent, RMBAH will waive or amend various events of default that exist under the RMBAH facilities as a result of the current financial difficulties, at which stage the Company considers it will not be in default under its facilities with RMBAH.

Overall Strategy

The Board and management of the Company are extremely disappointed that further technical problems emerged early this year at its Hellyer operations to place the business in this difficult financial position. The real value in the Company comprises the prospectivity of finding a world-class high grade polymetallic deposit (such as Hellyer or Que River), possibly in combination with developing the large scale Hellyer tailings gold project.

Clearly, over the past year, the realisation of this company value has been starved of funding by persistent production problems associated with a small to modest production profile which changed from an ancillary cash source to the core focus of management and expenditure as operations transitioned from the successful Que River mine to the problematical Fossey development.

The current plan is to restructure and pay down the majority of the existing debts through internal cash generation from the Stage 1 Mine Plan and then seek additional funding through either asset sales and/or new equity to erase the residual debt position and provide sufficient funds to re-start an aggressive exploration campaign that was starting to regain momentum towards a discovery in late 2011, after the Fossey East and McKay discoveries. This means it is likely that the Hellyer mining and mill operations will be placed on care and maintenance whilst the resource position is increased. The potential sale of the Hellyer Mill does not detract from the realisation of the exploration potential or gold study as there are other under-utilised mills in the area, and the gold processing scenario is largely reliant on a different process flowsheet.

The objective is for a "slimmed down", debt free company to emerge with a highly prospective ground position, advanced targets and resources and potentially a large scale gold development opportunity in pre-feasibility mode. To this end the Company is discussing a wide range of corporate, joint venture and divestment transactions with a number of parties.

Contact

Mike Rosenstreich
Managing Director
Bass Metals Ltd
T: +61 (0)8 6315 1300

COMPETENT PERSONS STATEMENTS

MINERAL RESOURCES

The information in this report that relates to the Fossey Mineral Resource estimate is based on information compiled by Mr Steve Richardson who is a fulltime employee of the company and a Member of the Australasian Institute of Mining and Metallurgy. Mr Richardson has sufficient experience which is relevant to the style of mineralisation and type of deposit and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)". Mr Richardson consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

ORE RESERVES

The information in this report that relates to the Fossey Ore Reserve estimate is based on information compiled by Mr Victor Rajasooriar who is a full time employee of the Company and a Member of the Australian 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 in the form and context in which it appears.

For personal use only