

4 May 2020

Mr Todd Lewis
Adviser
Listings Compliance Melbourne

By email: ListingsComplianceMelbourne@asx.com.au

Dear Todd

Bassari Resources Limited (“BSR”, “Bassari” or “Company”) – Queries regarding accounts

I refer to your letter of 27 April 2020 regarding queries relating to Bassari’s Full Year Accounts lodged with ASX Markets Platform on 24 April 2020.

The Company provides the following response to the questions raised in this letter:

1. Bassari Resources Senegal SARL (BRSS). The Group’s interest in the Moura permit is via a Joint Venture agreement between BRSS and Sengold NL (Sengold), with the permit held by Sengold, in trust for the Joint Venture. The component auditor reported that BRSS had negative equity, which is, according to the component auditor, a breach of local regulations, being the Corporations Code.

The impact on the audit report was that the auditor viewed this as a potential risk that if BRSS was to be liquidated or removed from the Company’s register in Senegal, the Group would no longer have an interest in the JV agreement.

Directors do not consider there has been a breach of Senegal regulations, noting from previous years that BRSS was formed in accordance with the Mining Code to operate as an exploration company. As such the Company operates in accordance with Mining legislation which provides a number of variations to local legislation that apply to other companies, including tax exemptions, and per Article 28 of the Mining Code which gives a “right to the stability of the legal, administrative, financial and fiscal conditions of the exploitation, in accordance with the stipulations of the mining convention”. The Directors take this to mean that whilst continuing to invest in an exploration permit the Company’s status will remain unchanged.

The Department of Mines and Geology (“DMG”) have over the years informed BRSS directors that exploration and exploitation companies come under the regulations of the Mining Code. Accordingly, the Directors believe it is a point an arguable position is supported by discussions with DMG when dealing with any action taken in relation to any perceived breach.

The Directors would also point to the fact that the “breach” has occurred throughout the existence of BRSS, as it has never generated income, as it is an exploration company.

A further consideration is that within the balance sheet of BRSS there is an asset of FCFA19,700,750,026 in relation to capitalised exploration costs at Sambarabougou. Upon commencement of production by Makabingui Gold Operation SA (MGO) an agreed amount of capitalised exploration expenditure referred to above will be paid out of the first gold proceeds by MGO to BRSS.

Whilst the Directors are confident that the status of BRSS is not at risk, they are exploring what action is required to clear this matter to ensure there is no repeat of the qualification included in the report of the auditor on the 2019 annual financial statements.

Subsequent to lodging the 2019 Annual Report, Bassari Resources Limited (“BRS”) has provided to its wholly owned subsidiary, BRSS, a guarantee that all present and future debts of BRSS will be met by BRS to ensure that BRSS is not in a negative equity position. Other options being considered and for which expert advice has been sought are:

- Recapitalisation of BRSS by capitalising amounts advanced to BRSS as equity (balance of inter-company loan is currently FCFA28,867,683,589)
- BRS providing a letter of subordination for the debt owed by BRSS to BRS to ensure any and all amounts owed by BRSS to creditors are satisfied in full before any repayment of loan monies by BRSS to BRS
- Confirmation with local authorities of ongoing status of BRSS.

The Directors have consulted local management and local advisors, legal and financial, on the most appropriate action to take on this matter. The Directors are working to resolve this matter quickly although the current restrictions arising from the COVID-19 pandemic mean there is no timeframe available to receive expert advice for consideration, and communication with local authorities.

2. The Directors have been in discussion with the auditor from the audit planning stage with regard to the carrying value of the Exploration and Evaluation Assets, which relate to expenditure on the Moura permit which has been capitalised under AASB 6 *Exploration for and evaluation of Mineral Resources*.

In considering the treatment of the expenditure, the Directors considered paragraphs 7.1 and 7.2 which state:

Para. 7.1

“For each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources shall be:

- (a) expensed as incurred; or*
- (b) partially or fully capitalised and recognised as an exploration and evaluation asset if the requirements of paragraph Aus 7.2 are satisfied.*

An entity shall make this decision separately for each area of interest.”

Para. 7.2

“An exploration and evaluation asset shall only be recognised in relation to an area of interest if the following conditions are satisfied:

- (a) the rights to tenure of the area of interest are current; and*
- (b) at least one of the following conditions is also met:*

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

(ii) exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing”

The Company's policy is to capitalise and recognise as an asset. The basis for capitalisation is that the Company has rights to tenure of the permit, through its joint venture agreement with Sengold and that the activities have not yet at reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

The Directors considered paragraph 18 in relation to impairment indicators which states:

“Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with AASB 136...”

Paragraph 20 of AASB 6 sets out some circumstances that may arise as indicators of impairment, as follows:

One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.*
- (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.*
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.*
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.*

The Directors considered the status of the permit, and the Group's plans for permit. The initial exploration permit expired in February 2016, and Sengold applied prior to that expiry date, for conversion of the permit to an exploitation licence. This application preserves the status of the exploration permit until such time as a decision is made to grant the applied for, exploitation permit. The latest response in relation to the application was in mid-2019 when the Senegal Department of Mines and Geology (“DMG”) requested additional technical data and information in support of the application, including additional drilling information.

The Group has plans to complete an additional close spaced drilling programme to provide the additional technical data to the DMG to transition the permit application toward the exploitation permit applied for. However, under current restrictions arising from COVID-19, the Directors are unable to provide a timeframe for the drilling programme. Further discussions with the

DMG will be undertaken should the restrictions on movements into the Moura area last into the latter part of the year.

The Group has experience of transferring an exploration permit to an exploitation permit, having done so with the Sambarabougou permit. The process took approximately 3 years to convert to an exploitation permit, and a further 2 years to transfer the holding to MGO. Legal advice obtained from SOJUFISC, a Senegalese legal firm specialising in the Mining Code, stated that where an application complies with the Mining Code then the permit remains valid whilst a decision is pending.

The Directors have considered

- the status of the permit application; and
- the status of BRSS

and believes that whilst both issues present documentation and compliance issues to address, neither impacts the currency of the Group's interest in the Joint Venture or the Moura permit.

The Directors have also considered the presence of other potential indicators of impairment. As noted, the project has not yet reached a stage that permits the Company to determine whether the existence or otherwise of economically recoverable reserves. However, plans have been made for additional planning beyond the requests of the DMG in support of the permit extension application. The Directors are satisfied there are no indicators of impairment.

3. Bassari is presently taking steps to raise additional funds for its ongoing operations. Bassari has negotiated further debt funding from its project financier in the amount of FCFA1 billion (approximately A\$2.5 million) with to date, approximately FCFA633 million (A\$1.6 million) drawn down. In addition to this approved financing, management in Senegal are discussing with its financier, a further funding increase and for a re-scheduling of loan repayments on its existing loan facility to be deferred and to commence once the Makabingui Gold Project is in production and has revenues from gold sales.

The Company has also mandated a financier to raise up to A\$5 million and this activity is presently underway. Bassari also has secured an investor who has indicated his intention to invest US\$2 million (approximately A\$3.08 million) immediately upon the investors return to Dubai. The investor has completed his due diligence in Senegal and due to COVID-19 restrictions, is unable to leave Senegal.

The abovementioned actions have been taken and directors strongly believe the above will be successful.

Directors in Senegal have also commenced discussions with two banks in Senegal who have expressed a view that they were very interested and would like to be financially involved in funding the Makabingui Gold Project. These discussions are at a preliminary stage only.

The Company has a long and successful history of capital raising, raising in excess of \$17.7 million after costs over the last 5 financial years, from a mix of rights issues, share purchase plans and placements.

Any additional funding the Company may require will depend on a number of variables, including but not limited to the success in full or partial of the matters referred to above. Directors will keep all options open in terms of the

nature of any further capital raisings or debt facility, however an option being considered, is a finance raising by convertible note, for which a prospectus is tentatively being prepared.

4. Directors believe that Bassari's financial condition is sufficient to warrant continued listing on ASX under Listing Rule 12.2. Directors are very confident that the matters referred to in the paragraph 3 above will be successful and that Bassari will remain in a position where it can meet all of its financial obligations. In addition, the expected commencement of gold production later in 2020, will provide positive cash flows to fund its operations and to meet any re-scheduled loan repayments to the project financier.
5. Not applicable.
6. Yes, a declaration was provided by the CEO and CFO to the Board, in compliance with Bassari's Corporate Governance Disclosure.
7. Not applicable.
8. The Board required a copy of the 2019 Annual Report and CEO and CFO Declaration for their review before providing the necessary consent for a director to sign both the Directors' Report and Directors' Declaration.
9. Bassari's Board believes BSR has a sound system of risk management and internal control which is operating effectively and is more than adequate to manage the matter raised by the Senegalese auditors. The audit qualification relates to a potential breach by BRSS of local legislation. The Directors are aware of this position and do not believe that the assessment of the component auditor is a significant risk to the existence or status of BRSS. The Group Chairman, Alex Mackenzie has approximately twenty years of experience working with the authorities in Senegal. In addition, another director, Peter Spivey, is also resident in Senegal and is fully cognisant of local legislation and business practices.

The Mining Code provides a level of complexity and ambiguity that has resulted in documentation and compliance issues that the Directors continue to address. The Group is limited in size and resources. The management of risk and control is a task performed by the board as a whole and one the Directors have continued to address in accordance with their responsibilities.

The Board at Group level facilitates ASX and Corporations Act compliance through the delegation of duties to appropriate directors. This is supported by local advisors on an ad hoc but consistent and reliable basis.

Management in Senegal is led by Mr Mackenzie who sits on the Board of and is Chairman of MGO. The Board of MGO also includes Mr Spivey and members of the Company's management team in Senegal, along with representatives of the Government and Joint Venture partner. Bassari holds majority membership of the Board, whilst accessing important Government advice and information through its Board associates.

The Directors are addressing the status of BRSS with the aim to ensure that any risk is fully identified and mitigated, whilst confident that the actual risk to BRSS remains low.

In terms of internal control, due to the size of the Company the Board are involved in the management of the Group's operations. As operations have grown, so has the management team and the Directors have been developing

practical internal controls to operate throughout the Group. This has involved the appointment of Mine and Development Project management and department heads to enable greater segregation of duties.

The Group's structures, operations and procedures have been improved significantly as the MGO mining operation developed throughout 2019 and to date. This has demanded a broadening of the risk management and internal control systems and the Board continues to monitor the effectiveness of these changes, manage implementation and make improvements where and when needed.

10. The Company confirms that it is in compliance with Listing Rules, and in particular, Listing Rule 3.1.
11. The Company confirms that responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its Board or an officer of BSR with delegated authority from the Board to respond to ASX on disclosure matters.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ian Riley', written in a cursive style.

Ian Riley
Director/Company Secretary



27 April 2020

Reference: ODIN16284

Mr Ian Riley
Director, Company Secretary and CFO
Bassari Resources Limited
Suite 1204
530 Little Collins Street
Melbourne Victoria 3000

By email: ian@bassari.com.au

Dear Mr Riley

Bassari Resources Limited ('BSR'): Queries regarding Accounts

ASX refers to:

- A. BSR's full year accounts for the full year ended 31 December 2019 lodged with ASX Market Announcements Platform and released on 24 April 2020 ('Full Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains a qualified opinion which states:

"Basis for Qualified Opinion

Bassari Resources Senegal SARL (Bassari), a company incorporated in Senegal and a wholly owned subsidiary of the Company had negative equity of approximately \$8.45 million (approximately 3.42 billion African Franc) as at 31 December 2019, which was in breach of the local Corporations Law in Senegal. We also understand that the matter is required to be fixed by a recapitalisation plan within the allowed 2-year time frame from the commencement of the matter which ended in 2018. There is a risk that Bassari will be wound-up by the local authorities. As recognised in the statement of financial position at 31 December 2019 and as disclosed in Note 14 to the financial report, a capitalised exploration and evaluation asset from the Moura exploration permit of \$5.99 million arose from the subsidiary. If Bassari is dissolved or wound up by the local authorities, the Company may lose its interest in the capitalised exploration and evaluation asset. As at the date of this report we are not aware of any arrangements in place or steps undertaken by the directors of the Company to secure the Company's interest in the capitalised exploration and evaluation asset should this wind-up eventuate. We were therefore unable to obtain sufficient and appropriate audit evidence to conclude that the Company will have a secured continuing interest in the capitalised exploration and evaluation asset."

- C. BSR's Corporate Governance Statement for 2018 lodged on the ASX Market Announcements Platform on 29 March 2019 which provides confirmation that BSR complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

E. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX accounts, the following rules apply.

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*
- (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a foreign entity, an overseas equivalent of a registered company auditor).*
- (e) If there is a directors' declaration that relates to the accounts, the directors' declaration must be given to ASX with the accounts.*
- (f) If there is a directors' report that relates to the period covered by the accounts, the directors' report must be given to ASX with the accounts.*

Request for Information

In light of the information contained in the Full Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. We noted the qualified opinion relates to the Auditors' inability to obtain sufficient and appropriate audit evidence to conclude that BSR will have a secured continuing interest in the capitalised exploration and evaluation asset valued at \$5.99 million. What steps have BSR taken and plan to take since the release of the Full year accounts Year Accounts to obtain an unqualified opinion in regards to its future financial statements? In answering this question, please comment specifically on the progress of undertaking a recapitalisation plan required by the local authorities and any other arrangements the directors of BSR takes to rectify the breach?
2. Given the qualified opinion is in relation to the carrying value of BSR's exploration and evaluation assets noted above, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

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3. Given BSR has a working capital deficit of \$17,827,000 and has fully drawn down on its loan facility, what steps has BSR taken, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
 4. Does BSR consider that the financial condition of BSR is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
 5. If the answer to questions 5 or 6 is “No”, please explain what steps BSR has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
 6. In relation to the Full, did the Board receive the CFO and CEO declaration, as described in section 4.2 of BSR’s Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of BSR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSR and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 7. If the answer to Question 8 is ‘no’, why did the Board not receive the CEO and CFO declaration as described in section 4.2 of BSR’s Corporate Governance Disclosure?
 8. What enquiries did the Board make of management to satisfy itself that the financial records of BSR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSR?
 9. Commenting specifically on the qualified opinion, does the board consider that BSR has a sound system of risk management and internal control which is operating effectively?
 10. Please confirm that BSR is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 11. Please confirm that BSR’s responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of BSR with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and BSR’s response to the market. Accordingly, BSR’s response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9 am AEST Tuesday, 5 May 2020**.

Any response should be sent to me by return email at ListingsComplianceMelbourne@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely

Todd Lewis
Adviser, Listings Compliance (Melbourne)