

### DECEMBER 2016 QUARTERLY REPORT OF ACTIVITIES

#### Highlights

- Bass Metals Ltd (“Bass” or “the Company”) undertakes significant development and activity on site following acquisition of Graphmada operating Graphite Mine
- Excellent optimisation results achieved during the quarter from ongoing test work
- Bass announced the commencement of drilling at its Mahefedok site with plans for an extensive program across tenement package with initial results imminent
- Company announced it had achieved outstanding high grade concentrate results from its Mahefedok site
- Bass completed a material and favourable revision of outstanding terms to acquire the Graphmada site from Stratmin Global Resources PLC (Stratmin) amounting to a saving of some \$10m
- Bass successfully completes a capital raising on 29 December 2016 in order to settle terms with Stratmin and further bolster working capital
- Graphmada Care program continues with favourable support from local business and the community

#### Graphmada Graphite Mine

The Graphmada large flake graphite mine is Bass Metals’ flagship project located in eastern Madagascar. With its purchase, Bass has transitioned to become the only ASX listed producer of graphite concentrates. The Graphmada mine has 40 year mining permits in place, containing four premium quality, large flake, graphite deposits. Graphmada has significant potential for low capital intensity expansion and ongoing lowest quartile cost production. Bass is investing capital into Graphmada to optimise and expand production and improve the quality of final graphite concentrates. The company has also made the strategic decision to, in parallel with the optimisation at Graphmada to in parallel actively explore and develop additional resources in the immediate proximity to the project, with a view to materially expanding existing resource inventories.



Loharano mining bench with highly reflective graphite mineralisation near to surface.

### Excellent Optimisation Results

In November the Company announced that it had achieved excellent results from its test work on the Loranho Ore feed.

The test work was completed by highly regarded independent consultants, Independent Metallurgical Operations (“IMO”), and recognised the following results –

- 66% large to super jumbo flake recovery from Lohrano with an average grade of >96% and
- Optimisation results demonstrate proposed low capital intensity flowsheet will be highly effective at the producing Graphmada Mine.

The Company is pleased with these results, given that high grade, large to super jumbo flake graphite trades at significant market premiums. Bass is confident that these results can yield significant benefits to the Company upon the sale of its high value concentrates.

### Drilling Commenced at Mahefedok Large Flake Graphite Deposit

In October 2016, the company announced that drilling at its Mahefedok deposit was due to commence.

The Mahefedok deposit is immediately adjacent to existing operations and the Company is confident the drill program will deliver on and progress the companies strategic aim of increasing the size and quality of its resource across the Graphmada complex.

The proposed drill program is along a well defined 1.8km strike with 2,500 metres of shallow drilling intended. The strike zone is close to the existing processing facilities.

A summary of the drill plan is as follows:

- The initial drill program is 2,500 metres;
- The depth meters per hole is between 40m to 100m;
- The number of holes is approximately 50;
- The drill hole inclination is 90° and inclined approximately 45–50°;
- HQ core diameter; and
- The drill program duration is approximately 3 months, dependent on weather.



*Drilling on site at Mahefedok – December 2016*

To the date of this report, the progress of drilling has been as expected and the company is confident of completing Stage 1 of this program within the next 4 – 6 weeks with details about the results to follow shortly thereafter.

Following the commencement of drilling and on 17 November 2016, the Company announced it had ***achieved outstanding high grade concentrate results*** from its Mahefedok site.

### Highlights of this announcement included -

- 48% of the recovered concentrate from the adjacent Mahefedok deposit is high value large to super jumbo flake material, with an average grade of >96%.
- Test results confirm significant upside potential at the 1.8km long Mahefedok deposit
- The potential maiden resource at Mahefedok <sup>(1)</sup> is a key component of value creation at the producing graphite mine and
- Testing confirms Mahefedok high value concentrates can be produced from an optimised flowsheet and sold to existing customers in the US, Europe and India.

The Board and Management of Bass were delighted with these results and believe this will significantly contribute to the Company's strategy of further developing a low capital intense pathway to selling high value concentrates to the world market.

<sup>(1)</sup> Further details of the proposed drill program and final concentrate results can be found in the Company's announcement of 17 November 2016.

### Renegotiation of Settlement Terms with Stratmin Global Resources Plc

In December 2016, the Company was pleased to announce it had renegotiated more favourable terms in its final settlement with Stratmin Global Resources Plc ("Stratmin").

The original settlement terms with Stratmin required the Company to issue to Stratmin \$8m worth of shares in the Company as part of its Tranche 2 and 3 obligations. These obligations were to be met over the next 1 – 3 years.

The revised terms (deed of amendment) requires the Company to pay the amount of \$2,600,000 over the following timeframes –

- \$955,000 by 19 December 2016,
- \$1,185,000 by 17 March 2017 and
- A final payment of \$500,000 by 30 September 2017.

Additionally, the Company has secured the right to buy back its royalty obligations payable to Stratmin over the next 5 years. Under the terms of this agreement, the Company can pay the amount of \$500,000 by 31 December 2017 and then no longer be required to meet potential future royalty payment of \$5,000,000.

The Company is delighted with these favourable terms and this allows the board and management to move forward with certainty as to the Company's cash flow and capital structure.

The Company also paid the amount of \$955,000 to Stratmin in December 2016 as part of the agreement.

### Production update and guidance

From the 1 October to the end of the quarter, 376 tonnes of dry concentrate was produced from 32 days of production. Additionally, 467 tonnes (estimate on dried basis) of wet graphite was produced from 60 days of production.

The remainder of the available production time was used to continue the Company's integration and development strategy. This included plant downtime to complete the installation of the recovery and grade improvement initiatives resulting in the previously mentioned productivity gains.

At the end of the quarter, Graphmada had 362 dry tonnes in stock. This is of significant value and the Company is currently negotiating with parties to sell this concentrate in the short term.

Production in Q3 FY2017 is forecast to be between 300 tonnes and 500 tonnes, due to the expected loss of available production time as refurbishment activities continue in order to ramp up production.



*Stockpile of Graphite concentrates – December 2016*

### Successful completion of Capital Raising

During the quarter, Bizzell Capital Partners Pty Ltd (BCP) was engaged by Bass to assist the Company to raise funds needed to meet its obligations under the terms of the revised agreement with Stratmin, as outlined above, and to provide some further working capital.

A placement was concluded in December 2016 with 175m shares issued at a placement price of \$0.013 with \$2,275,000 raised (before costs).

In addition, Bass was successful in obtaining commitments predominantly from directors, staff and existing shareholders to purchase Stratmin's 75,000,000 remaining shares totalling approximately \$1,000,000. Settlement of this transaction is expected to be completed within the next week.

The Board and Management were delighted with the demand from largely existing shareholders shares in this placement and believe that ultimately this transaction will be viewed as transformational for the company.

### Graphmada Care

The Company is pleased to report that it has also continued its community engagement program: Graphmada Care. The program is based on the commitment by the Company to develop its business through strong local partnerships built on five pillars: education, health, production, transparency and empowerment.

As such, the Company has complete its first water well for the Mahatsara community and recently completed two more water wells at neighbouring communities. These water wells provide enormous assistance to local communities.

### Settlement with LionGold Corp update

As previously announced, the Company recently signed an agreement to sell the balance of funds due to it (A\$1,450,000) by LionGold Corp Ltd ("LionGold") to a Singaporean based entity. This agreement was executed on 26 September 2016 and the full sale proceeds of A\$1,000,000 were expected to be paid before 2016 year end. Funds have not as yet been received and the Company is in discussion with LionGold with a view to resolving the issue of the outstanding payment.

### Management of Tasmanian Assets

The Company continues to liaise with interested parties in relation to the potential divestment or joint venture of some of its Tasmanian assets. The Board will assess the merits of any proposals they may receive and inform the market and their stakeholders as and when required.

The Company also continues to comply with its Care and Maintenance Plan for its Tasmanian assets. Environmental management at the Que River site is focussed on the

rehabilitation of the surface areas of the site, with significant progress being achieved in clean up, covering and re-seeding of previously disturbed areas. Daily field testing and environmental laboratory testing continued throughout the period as per the site's Care and Maintenance Plan.

### Summary

The last quarter has been a period of intense activity and the team at Bass are pleased with the Company's progress and remain on track to deliver on its established goals and strategic initiatives for 2017.

We look forward to updating the market with further details as we progress the Graphmada project for the benefit of shareholders.

Yours faithfully



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## TENEMENT & PERMIT HOLDING AT QUARTER END

The Company's interests in mining and exploration tenements and permits at the end of the quarter were as follows:

Country	Region	Tenement / Permits	Interest
Australia	Tasmania	EL48/2003 Mt Block <sup>2</sup>	100%
Australia	Tasmania	CML 103M/1987 Hellyer Mine Lease <sup>1&amp;2</sup>	100%
Australia	Tasmania	CML 68M/1984 Que River Mine Lease <sup>2</sup>	100%
Madagascar	Antsinanana	PE 25600 Loharano (East)	100%
Madagascar	Antsinanana	PE 26670 Mahefedok	100%
Madagascar	Antsinanana	PE 24730 Antsirabe (Andapa)	100%

Notes:

1. CML 103M/1987 is owned by HMO a 100% subsidiary of Ivy Resources Ltd. Bass has 100% interest in all of the existing base metal resources and base metal exploration rights through a Sublease Agreement.
2. Intec Limited holds a 2.5% NSR Royalty over all Product from Bass' interests in EL48/2003, CML68M/1984 and CML103M/1987.

## ABOUT THE GRAPHMADA LARGE FLAKE GRAPHITE MINE

Bass Metals Ltd. is one of only five publicly listed graphite producers in the world. The company owns and operates the Graphmada large flake graphite mine, Bass' flagship project, located in eastern Madagascar. Madagascar has been a recognized producer and exporter of graphite since 1907 and sets the world standard for product quality and flake size.



The Graphmada mine has 40-year mining permits in place, containing four premium quality, large flake, graphite deposits hosted in weathered graphitic gneiss, a soft, easily minable rock that incurs low mining costs. With all associated mining infrastructure and logistics in place, the mine currently produces and sells a range of graphite concentrates into multiple market segments, to customers in India, the United States and Europe.

Generating revenue through ongoing lowest quartile cost production, the mine is currently being optimised by an experienced management team to 6000 tonnes per annum with improved final graphite concentrate grades, in order to grow cash margins.

Graphmada also has significant potential for low capital intensity expansion. Bass plans to invest capital to expand production to greater than 20,000 tonnes per annum of graphite concentrate sales by late 2018.

The Company has also made the strategic decision, in parallel with the optimisation at Graphmada, to actively explore and develop deposits in the immediate proximity to the mine, with a view to materially expanding existing resource inventories.

The Loharano deposit has provided the bulk of the feed to the Graphmada processing plant and has total JORC compliant Indicated and Inferred resources of 5.7Mt @ 4.1% Grade with a 2% cut-off<sup>1</sup>. These resources are to a depth of only 6 meters, and mineralization is known to go to depth with increasing grade, and is open in all directions.

With the Company having a strong community engagement program and being well down the path in achieving its optimisation plans and growing its resource inventory, the team at Bass is confident of its plans for expansion and its future value creation for shareholders.

<sup>1</sup> These estimates were prepared and first disclosed by Stratmin Global Resource PLC under the JORC Code 2004. The estimates have not been updated to JORC Code 2012 on the basis that the information has not materially changed since it was last reported. Reference is made to the Company's announcement of 2 September 2015, which provides further detail regarding this information.

## DISCLAIMER & CAUTIONARY STATEMENTS

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### Competent Person Statement

The information in this report that relates to Mineral Resources is based on information compiled by Tim McManus, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy and a full-time employee of the Company. Tim McManus has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Tim McManus consents to the inclusion of the information in this report in the form and context in which it appears.

### Subsequent Public Reporting

The information for the JORC Mineral Resource Summary is extracted from the ASX Announcement “Strategic investment in producing graphite asset” released 2 September 2015, which is available to view on [www.asx.com.au](http://www.asx.com.au). Bass Metals Ltd. confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcements.