

25 October 2012

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

Dear Sir

SEPTEMBER 2012 QUARTERLY REPORT OF ACTIVITIES & CASHFLOW

Please find attached the September 2012 quarterly report for Bass Metals Ltd (ASX: BSM).

All of the Company's mining and processing operations at its Hellyer Project in NW Tasmania were completed in the previous quarter. On 6 July Bass Metals announced the signing of a binding Share Sale Agreement to sell its wholly-owned subsidiary, Hellyer Mill Operations Pty Ltd (HMO) and Placement Agreement, both with LionGold Corp. Ltd for a total consideration of \$14.1 million in cash for Bass. These funds were to be allocated against debt repayment as the top priority.

However, despite LionGold having completed all of its due diligence prior to signing the agreements and the absence of any preconditions relating to due diligence, LionGold failed to settle the transaction, claiming that Bass had not met all of the conditions precedent to enable settlement. LionGold has still not identified which conditions precedent they considered were not satisfied. Bass considers that all the condition precedents were satisfied and that LionGold had no basis on which to terminate the Share Sale Agreement on the 3 September, 2012. Following LionGold's failure to accept the Company's subsequent request to complete the sale on 7 September, the Company advised LionGold in writing on 11 September, 2012 that, due to LionGold's breaches and further repudiation of the Share Sale Agreement, Bass was terminating the agreement.

Bass Metals has made several attempts to engage with LionGold to attempt to resolve the dispute but has not had any serious response to these approaches. Therefore, as indicated directly to LionGold and in previous public announcements, Bass has on Tuesday 16 October, 2012 filed a writ and statement of claim in the Supreme Court of Western Australia seeking damages and costs potentially up to \$20 million in relation to LionGold's breach of the Share Sale and Placement agreements. It has also commenced discussions with several litigation funding groups to explore means to ensure that it has the financial capacity to maintain its legal action whilst reducing its financial exposure and management time to that process.

To provide Bass Metals the time to complete an alternative asset sales deal the Company announced on the 28 September, 2012 that it had signed agreements with:

- RMB Australia Holdings (RMBAH), its banker, to extend the Initial Repayment Date for its Loan Facility from the 30 September 2012 to 30 November 2012; and
- the two secured creditors, RMBAH and Mancala Mining Pty Ltd, to forbear on taking any winding-up action or other enforcement action until the 30 November 2012.


Having stabilised the secured creditor position the Company is now in contact with its unsecured creditors seeking their continued forbearance and support whilst Bass completes a new asset divestment transaction as the best means of repaying the balance of funds owed.

This asset sale program recommenced late in the quarter, with a good level of interest in both the processing plant and gold resource assets. Management is focussed on facilitating this process to expedite a new sale agreement.

The Company has made significant cost cutting measures including reducing staff to a current total of 5; 2 in its Perth office and 3 at its Hellyer site as well as cuts to salaries and office overheads. There is a significant level of one-off type costs associated with the closure of the operations as well as a high level of expenditure related to legal advisors and consultants related initially to completing the LionGold transaction and then to contesting it. The overall debt position has improved markedly from approximately \$35 million in March 2012 to approximately \$10 million currently.

The Company is very grateful for the ongoing support of all its creditors and in particular its secured creditors who are clearly giving Bass Metals every opportunity to get a positive outcome for all creditors and shareholders and are supportive of the continued litigation against LionGold.

Yours faithfully



Mike Rosenstreich
Managing Director

Competent Persons Statement

Mineral Resources & Exploration Results

The information within this report that relates to exploration results and Mineral Resource estimates is based on information compiled by Mr Michael Rosenstreich who is an employee of the Company. Mr Rosenstreich is a Member of The Australasian Institute of Mining and Metallurgy. He has 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 as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" and he consents to the inclusion of this information in the form and context in which it appears in this report.

SEPTEMBER 2012 QUARTERLY ACTIVITIES REPORT

1. TASMANIAN SITE ACTIVITIES

1.1. SAFETY

There were no lost time injuries (LTI) on the Company's operations during the quarter, which have achieved 776 days LTI free to the end of September.

1.2 ENVIRONMENT

There were no material environmental incidents during the quarter on any Bass Metals' managed tenements. The Company has prepared a care and maintenance plan to ensure the current high standards are maintained now that mining and processing operations have ceased. The Company has recently recruited a new Environmental Co-ordinator to ensure ongoing responsible environmental management and compliance.

1.3 HELLYER MINE PROJECT

The Fossey Mine and Hellyer Plant have been placed on care and maintenance.

1.4 QUE RIVER MINE

The Que River Mine site is on a care and maintenance regime.

1.5 EXPLORATION

Bass has retained a Senior Exploration Geologist in Tasmania. His focus during the quarter was to provide information to a variety of interested parties doing due diligence on Bass' assets as part of a sale process, completing statutory reports and undertaking geological research in preparation for when exploration resumes.

2. CORPORATE ACTIVITIES

The main corporate focus of the Company during the quarter was to complete extensive legal documentation of the transaction with LionGold and prepare for settlement, continue to manage its creditor position, finalise concentrate invoices and complete the annual accounts audit process and report.

2.1 FINANCIAL POSITION

2.1.1 Cash Flow

Cash on hand at the end of the quarter was \$1.46 million.

Receipts from concentrate sales totalled \$2.26 million for the quarter, with further receipts expected in the December quarter as quotational periods for metal prices, concentrate assays and weights are finalised.

The main expenditure items included:

- residual production related costs carried over from the previous quarter of \$1.81 million, which includes operational employee redundancies and a \$0.35 million payment to Mancala, to reduce the overall Mancala debt position to \$2.2 million;

- site costs totaling \$0.88 million, relating to care and maintenance, environmental management and one-off type closure costs for the Mill and establishing the care and maintenance regime;
- the cement plug to seal the Fossey Decline cost approximately \$0.65 million; and
- corporate costs of \$0.8 million which includes substantial legal costs, redundancies and office relocation expenses.

A summary of cash flows for the quarter appears in the accompanying Appendix 5B document.

2.1.2 Debt

The Company's main debt components at the end of the June quarter comprised secured creditors of \$6.5 million, comprising the RMBAH debt facility of \$4.3 million and \$2.2 million to Mancala Mining as well as unsecured creditors of approximately \$3.5 million.

2.1.3 Hedging & Concentrate Sales

The Company closed out all of its hedge positions in late August, 2012, therefore realising the benefit of rising metal prices through late August and September in its Final stage concentrate invoices. It currently has no further QP exposures to any lead or zinc concentrates shipments. In terms of copper-silver concentrates it has largely hedged its QP exposures for this material through a fixed pricing mechanism. Due to the greater shipping distances and more complex processing of this material Bass Metals is still expecting copper concentrate receipts over the next 3 to 6 months.

2.2 COMMERCIAL

Finalisation of the LionGold transaction was a time consuming legal documentation process involving several stakeholder groups, such as secured creditors, Tasmanian Government agencies and a royalty holder and all their respective legal advisors. This process of negotiation and legal drafting continued virtually fulltime to early September when it became clear that LionGold was not going to complete the transaction. At this point the focus changed from "completion" to litigation and has now involved specialist litigation lawyers including a Senior Counsel.

The Company was also involved in two series of negotiations and legal documentation with its secured lenders:

- a. the initial part was focused on amending the respective facilities and agreements on the basis that the LionGold transaction was going to complete; and
- b. the more recent phase, amending those facilities again to provide the accommodation required to enable Bass Metals to seek alternative asset sale deals.

To facilitate the LionGold deal or the potential sale of the Hellyer plant, Bass Metals announced on 9 July that it had signed a binding letter agreement with Intec Limited (ASX:INL) to remove the Hellyer Processing Royalty in return for the issue to Intec of 15,000,000 Bass Metals shares and a 2.5% Net Smelter Return royalty payable on the sale proceeds of any base metal ores mined and attributable to Bass Metals on certain leases in the Hellyer – Que River area. Following this, all parties negotiated and executed the detailed agreements required to underpin this agreed arrangement.

This significant level of legal drafting and negotiation dominated corporate activities and expenses during the quarter.

2.3 CAPITAL STRUCTURE

During the quarter the following securities were issued:

- 15,000,000 shares to Intec Envirometals Ltd as part consideration for the restructuring of the Hellyer Processing Royalty, referred to in section 2.2 above; and
- 15,000,000 unlisted options to RMBAH as part of a drawdown fee related to the Company's loan facility.

Both issues were approved by Shareholders at a General Meeting of Shareholders held on 17 August, 2012.

During the quarter:

- 90,600,000 unlisted options previously held by RMBAH were cancelled in accordance with ASX Listing Rule 6.23.1 for nil consideration; and
- 2,065,000 unlisted employee options were cancelled pursuant to the terms of the Bass employee share option schemes as the employee option holders had left the Company.

As at the 30 September, 2012, the Company had 309,450,145 fully paid ordinary shares, 90,137,678 quoted options and 19,595,000 unquoted options on issue.

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

BASS METALS LTD

ABN

31 109 933 995

Quarter ended ("current quarter")

30 SEPTEMBER 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	2,255	2,255
1.2 Payments for		
(a) exploration & evaluation	(48)	(48)
(b) development	-	-
(c) production	(1,813)	(1,813)
(d) OHS & environmental	(348)	(348)
(e) Site care & maintenance	(216)	(216)
(f) site administration	(316)	(316)
(g) mine closure	(647)	(647)
(h) corporate administration	(799)	(799)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	8	8
1.5 Interest and other costs of finance paid	(60)	(60)
1.6 Income taxes paid	30	30
1.7 Other		
Net Operating Cash Flows	(1,954)	(1,954)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	9	9
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – Hedging Settlements	603	603
Net investing cash flows	612	612
1.13 Total operating and investing cash flows (carried forward)	(1,342)	(1,342)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,342)	(1,342)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from convertible notes	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(868)	(868)
1.18	Dividends paid	-	-
1.19	Other (fundraising transaction costs)	-	-
	Net financing cash flows	(868)	(868)
	Net increase (decrease) in cash held	(2,210)	(2,210)
1.20	Cash at beginning of quarter/year to date	3,671	3,671
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	1,461	1,461

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	65
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

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

The repudiation by LionGold Corp. Ltd of the Share Sale and Placement Agreements due to settle in September, 2012 resulted in Bass not issuing the placement shares nor receiving the \$14,080,000 cash inflow.

15,000,000 shares were issued to Intec Envirometals for no consideration.

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

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	4,300
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	56
4.2 Development	-
4.3 Production	-
4.4 Site Care & Maintenance	140
4.5 Site Environmental Management	270
4.6 Corporate (includes \$235k legal costs & \$163K finance costs)	783
Total	1,249

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,435	3,645
5.2 Deposits at call	26	26
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,461	3,671

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased

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Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	309,450,145	309,450,145		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	15,000,000	15,000,000	-	-
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
		90,137,678		20.0 cents	30.09.14
		425,000		51.0 cents	31.12.12
		765,000		42.5 cents	16.10.12
		200,000		25.0 cents	1.9.13
		200,000		35.0 cents	1.9.13
		200,000		50.0 cents	1.9.13
		300,000		26.0 cents	31.12.12
		300,000		28.5 cents	31.12.12
		300,000		30.5 cents	31.12.12
		650,000		30.0 cents	31.12.12
		730,000		22.0 cents	5.7.13
		75,000		43.5 cents	31.1.15
		75,000		61.0 cents	31.1.15
		75,000		88.0 cents	31.1.15
		100,000		26.0 cents	27.8.15
		100,000		36.5 cents	27.8.15
		100,000		52.5 cents	27.8.15
		15,000,000		1.30 cents	31.05.15
7.8	Issued during quarter	15,000,000	-	1.30 cents	31.05.15
7.9	Exercised during quarter	-		-	-
7.10	Expired during quarter	3,000,000		22.8 cents	22.09.13
		5,900,000		31.8 cents	27.05.14
		66,700,000		18.0 cents	31.10.14
		15,000,000		18.0 cents	23.02.15
		300,000		30.0 cents	31.12.12
		100,000		26.0 cents	27.08.15
		100,000		36.5 cents	27.08.15
		100,000		52.5 cents	27.08.15
		200,000		25.0 cents	01.09.13
		200,000		35.0 cents	01.09.13
		210,000		42.5 cents	16.10.12
		180,000		22.0 cents	05.07.13
		200,000		20.5 cents	11.10.14
		200,000		29.0 cents	11.10.14
		200,000		41.0 cents	11.10.14
		25,000		43.5 cents	31.01.15
		25,000		61.0 cents	31.01.15
		25,000		88.0 cents	31.01.15
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

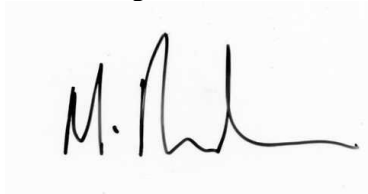
Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

+ See chapter 19 for defined terms.

Appendix 5B Mining exploration entity quarterly report

2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 25 October 2012
(Director/Company secretary)

Print name: Michael Rosenstreich

Notes

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

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