

Bass Metals Ltd
A Unique Proposition

BSM

11 June 2010
Recommendation: BUY

Important Information: Intersuisse and an associate company, Phillip Capital Pty Ltd, are currently engaged by Bass Metals for corporate and capital markets services on commercial terms. For Disclosures, refer to the back page under "Important Information".

Investment Rationale

- Strategic tenement position across the northern section of the highly productive Mt Reid base metal province in Tasmania
- Development underway on the Fossey mine with first production in late 2010, from high grade ore averaging 8.6% zinc, 5.0% lead and 120 g/t silver that will provide 2 years production
- Additional ore from Hellyer and Que River mines will add a further 2-3 years operating life
- New exploration ideas throwing up numerous high value targets
- Current Market Capitalisation at a 50% discount to NPV

Overview

Bass has a track record of delivery since listing in Oct 2005. Bass has built a diverse portfolio of interests in Western Tasmania focused on the exploration for base metals and gold in the highly mineralised Mt Reid volcanic belt, one of Australia's premier base metal producing regions.

Bass is a producer with an expanding production profile. In the Hellyer tenements the company has multiple existing and potential ore sources including the newly discovered Fossey deposit, remnant ore in the previously mined Que River and Hellyer mines together with the Mt Charter gold prospect. Beyond that there are the 10mt of base metal tailings from the previous Hellyer operation. In addition Bass has an active and innovative exploration program with a number of high priority polymetallic VMS targets in the early stage of evaluation.

Que River mine is already producing high grade low cost ore which is sold to MMG at Rosebery, a second mine Fossey will commence production in late 2010. In about 2 years Bass will move to processing remnant ore from the Hellyer mine. These assets will provide investors exposure to significant robust, cash flow whilst Bass continues its successful and active explorer program searching for new high grade deposits.

Bass has generated some \$25m in cash flow over the past two years from the sale of polymetallic (zinc, lead, copper, silver & gold) ore from its Que River mine. These sales have funded all of the company's exploration and development activities, including the acquisition of the 1.5mtpa Hellyer processing plant and the completion of a feasibility study on the Fossey deposit. A sales agreement on Que River ore continues until July 2010.

The company raised A\$15 m late in 2009, this in combination with a A\$12 m banking facility and cash generated from the Que River operation provides sufficient funds for the company to complete development of its Fossey mine and accelerate testing of its new exploration targets in the Hellyer-Que River region.

Investment Summary

Volcanogenic Massive Sulphide or VMS deposits are generally recognised as being consistently the highest grade polymetallic deposit class known. Typically they occur in clusters within a specific geological region. The Mt Reid volcanics in Tasmania are one of the most productive VMS regions in the world yet there remains considerable untested potential. Bass has a strategic holding in the region and has already discovered a new orebody in Fossey. However, despite the company having existing production at Que River mine and the capital resources to bring the Fossey orebody into production, **Bass is capitalised at \$30 million only half our current valuation of \$59.5 million based on recently weaker base metal prices.**

There is a direct investment comparison with the earlier stage development of Jabiru Metals Ltd operating in the Murchison region of WA near the old Teutonic Bore Mine. Jabiru has discovered two new small but high grade zinc-copper VMS orebodies and is producing similar annual quantities of concentrate to that planned by Bass from Fossey. Jabiru is currently capitalised at \$174 million suggesting that not only is Bass significantly undervalued now but with modest exploration success has very substantial value upside.

Snapshot

Last Price	\$0.17
Market Cap	\$28.99m
52 Week High	\$0.3493
52 Week Low	\$0.155
Sector	Metals & Mining (Base Metals & Gold)
Shares on Issue	170.51 Million
Unlisted Options	6.0 Million
Average Share Turnover (for past 6 months)	447,000 (per day)
Cash	AUD\$17.586 (approximately)
Valuation NPV @12%	\$0.35

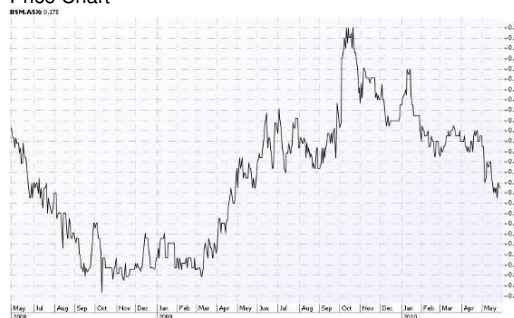
Management

The Board of BSM includes 2 non-Executive directors in addition to the Managing Director Mike Rosenstreich and Chairman Don Boyer. See p8 for details.

Major Shareholders

Metals Finance Limited	15.49%
ANZ Nominees Limited <Cash Income A/C>	6.02%
HSBC Custody Nominees <Australia>	2.38%
Merrill Lynch (Aust) Nominees Pty Ltd	1.92%
Remond Holdings Pty Ltd <The Defina A/C>	1.24%

Price Chart



Business Description

Bass Metals (BSM) is an Australian exploration and mining company focused on base metals in Tasmania. Since listing 5 years ago the company has established the profitable base metals Que River Mine in Tasmania. It has started development on its 2nd larger mining operation at Fossey for production start-up and processing through the Hellyer Mill in Q4 2010.

See www.bassmetals.com.au

Hellyer Mine Project (HMP)

In October 2009, BSM announced the results of a definitive feasibility study on the newly discovered Fossey deposit which is located close to the Hellyer processing plant. The study confirmed that the Fossey mine development with processing through the Hellyer plant to produce zinc, lead and copper-precious metals concentrates was financially and technically robust. BSM estimated that Fossey would generate a cash surplus of \$50 million after capital costs of \$26 million.

The HMP study was focused on developing a minimum five year mining and processing plan based on a combined mineral resource of 2.3 million tonnes of polymetallic massive sulphide resources located within a 4 km radius of the Hellyer mill. To increase revenue and improve economies of scale, the company is also evaluating the restart of the Hellyer Tails Retreatment Project, as well as other initiatives to fully utilise the company's 100% owned Hellyer treatment plant.

Fossey Orebody

Fossey is significant in that it is a new discover by Bass. Located just to the south of the previously mined Hellyer orebody it lies on the same ore horizon but at a different orientation to Hellyer and is recognised by Bass as a separate mineralised occurrence – not an extension of Hellyer. The mineralisation is dominated by Barite but is zoned with a high grade base metal core above a stringer zone but beneath a gradation into a Barite rich cap. The Hellyer Operating Plan is based on mining the base metal zones to an economic cut-off.



The Hellyer Operating Plan (HOP), is an optimised version of the feasibility study and covers the 1st phase of planned production for the Hellyer Mine Project. Initial production (see table below) is from the Fossey orebody at a rate of 400 ktpa of ore over two years to produce 80 ktpa of saleable zinc, lead and copper-precious metals concentrates. The HOP generates an EBITDA of approximately \$83 million and a positive operating surplus of over \$50 million after capital expenditure of \$26 million at an overall C1 production cost of US\$0.17/lb payable zinc (after credits),

Hellyer Operating Plan financial summary

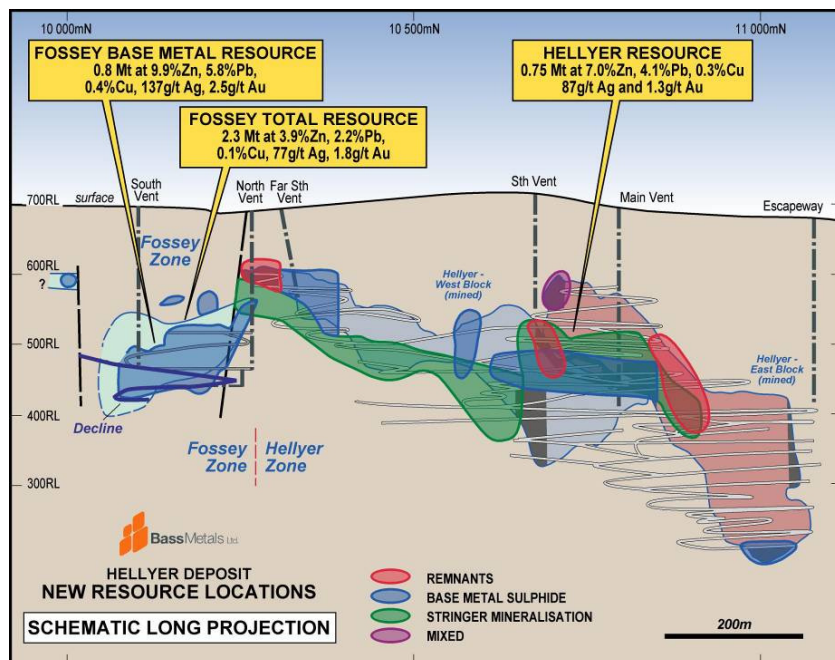
Entrance to the Fossey decline (under development)

	Hellyer Operating Plan	
Financial Outcomes	A\$M	A\$/t ore
Gross Revenue*	238	268
Net Smelter Return	172	194
Site Operating Costs	74	84
Royalties	15	17
EBITDA	83	94
Start-up Costs	21	24
Ongoing CAPEX	8	9
EBIT	54	61
EBIT Margin %	21%	
C1 Cost per lb payable Zn after credits	US\$0.17	



The initial development phase of the project comprising a 910 metre long decline accessing the Fossey ore body is well underway and currently at 340 metres from the portal. The Phase 1 planned mine development is for production of 851,000 tonnes which is sufficient to maintain production over the first two years of the Hellyer Mine Project life. The project is on schedule to be in production and selling concentrates in the December Quarter of this year and on recent metal prices (as at 07/05/2010) the gross value per tonne at the Fossey Ore Reserve grade is \$523/t

Hellyer Long section showing the Fossey Zone to the south and remnant resource blocks within the previously mined Hellyer ore Zone

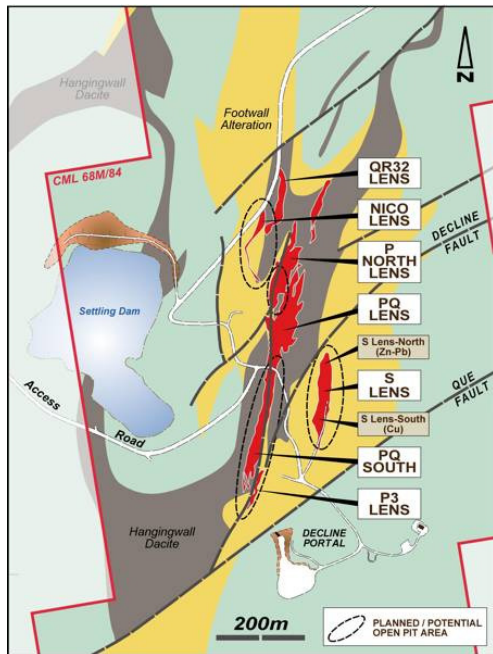


The HMP is the prime focus of the Company with its objective to establish a large scale, high grade base metal mine utilising its Hellyer Mill. Currently the HMP comprises the Fossey Ore Reserve, the adjacent Hellyer remnant resource and the Que River resources 4km south by internal haul road.

Que River Mine

The Que River Mine provided a low cost entry to production; although small in scale the high operating margin has generated sufficient cash to maintain Bass' larger base metals development activities and regional exploration activities. The Que River VHMS deposit consists of a cluster of seven steeply dipping polymetallic massive sulphide lenses referred to as QR32, Nico, P North, PQ, S, PQ South, and P3. These lenses strike approximately north-northeast over a length of 800 metres and extend to a depth of some 300 metres below surface.

Que River Mine – simplified geology plan



Originally mined during the 1980s as an underground operation, Bass has developed an open pit mine to extract upper level remnant pillars, extensions and narrow margins of the orebody not mined in the underground phase. Over the past two years approximately 130kt of Que River ore has been sold to MMG at Rosebery with an average grade of 15.7% Zn, 8.5% Pb, 0.4% Cu 220g/t Ag and 4.3 g/t Au. There is potential at Que River mine for limited underground operations to extract lower grade ore, for processing at the Hellyer Mill, that in both the previous operating period and during the Bass operation did not meet the specification for trucking and selling to Rosebery.

Que River Mine ore sales in April 2010 were 4,200 tonnes, consistent with the amount requested by MMG for the period. The gross value of ore delivered was A\$978/t based on current metal prices and the grades were above budget at 14.5% zinc, 8.2% lead, 0.2% copper, 344 g/t silver and 4.8 g/t gold. The mine generates a A\$1.8 million operating surplus in the March 2010 quarter despite several operational difficulties, which are now largely overcome and a further enhanced financial performance is expected in the June Quarter.

Hellyer remnant mining

The Hellyer deposit is a single high grade polymetallic VHMS ore body with the pre-mining mineral resource originally reported as – 17 million tonnes at 14% Zn, 7% Pb, 0.4% Cu, 5oz./t Ag & 2.5g/t Au. Mine development commenced in 1987, the concentrator was commissioned in 1989 and operated for approximately 11 years, at 1.5 million tonnes per annum until closure in June 2000.

Bass is investigating regaining access to the Hellyer mine to recover high grade remnant ore left from the previous operation. Hellyer was a highly mechanised mine during the former operating period from 1989 – 2000 therefore, areas of mineralisation narrower than 5 metres where often not mined. In addition records indicate that these zones on the fringe of the orebody were typically more recrystallised and therefore would have much better metallurgical recovery characteristics that the typical Hellyer ore. Bass intends to investigate these areas with a view to mining this ore as part of an extended Hellyer operating plan.

Ore Resources & Reserves

The Fossey mineralisation comprises distinct mineralised zones of low barite and base metals, medium barite zone with base metals and a barite rich zone barren of base metal but with minor gold and silver, in addition there is a footwall stringer zone. The resources and reserves as shown below for Fossey are confined to the base metal zones of the orebody

Massive Sulphide Mineral Resource Summary – Fossey - Hellyer - Que

Deposit	JORC Classification	Tonnes 000's	Cu %	Pb %	Zn %	Ag g/t	Au g/t
Fossey	Indicated	690	0.4	6.1	10.4	143	2.5
	Inferred	110	0.3	4.3	7.4	106	2.1
	Total	800	0.4	5.8	9.9	137	2.5
Hellyer Remnants	Indicated	640	0.4	4.0	6.8	83	1.3
	Inferred	110	0.2	4.9	8.1	107	1.5
	Total	750	0.3	4.1	7.0	87	1.3
Que River	Measured	80	1.3	3.1	6.0	119	1.6
	Indicated	450	1.2	2.8	5.6	85	0.7
	Inferred	180	1.0	2.6	4.8	72	0.7
	Total	720	1.1	2.8	5.4	85	0.8
Total Combined		2,270	0.6	4.3	7.5	104	1.6

The Fossey ore reserve is based on the hard geological boundaries (footwall) and a marginal cut off grade of 4% lead plus zinc (\$70/tonne). Dilution and recovery parameters appropriate for long hole open stoping methods, employing cemented aggregate fill in some of the stope voids were applied to estimate the final ore reserve.

Fossey Ore Reserve / Mining Inventory

Category	Tonnes 000's	Cu %	Pb %	Zn %	Ag g/t	Au g/t	SG (t/m ³)
Mining Inventory	62	0.2	3.8	6.2	84	1.9	4.0
Probable (stopes)	721	0.3	5.1	8.8	125	2.4	4.2
Probable (Dev.)	69	0.3	5.2	8.4	101	1.9	4.1
Total	851	0.3	5.0	8.6	120	2.4	4.2

Hellyer Mill

The Hellyer mill was acquired in 2009 from Intec Ltd for a total consideration of \$4.01 million cash payment and a \$2.5/t processed royalty capped at \$5 million. Bass will process Fossey ore through the mill commencing in Quarter 4 this year. Metallurgical testwork has confirmed that the Fossey ore is more easily processed in comparison to the Hellyer deposit ore previously processed through the Hellyer Mill.

Results from locked cycle flotation tests on samples of drill core from intersections distributed through the Fossey mineralisation are summarised in the table below, with a comparison to the Hellyer life of mine performance. These results mean that Bass can produce a higher grade and therefore higher value concentrate than previous operators with higher recovery at a lower operating cost. As demonstrated in the table, the recoveries of zinc to zinc concentrate and lead to lead concentrate from the Fossey ore body are expected to be significantly higher than from the Hellyer ore. This is important from an operating perspective in that it captures additional value at a lower operating cost.

Fossey Ore locked Cycle Flotation Test Results

Product	Fossey Ore			Hellyer Ore
	Low Barite Composite	Med Barite Composite	Stringer Zone Composite	LOM Plant performance
Lead Concentrate Conc.grade/recovery	63% Pb 87% recovery	58% Pb 69% recovery	63% Pb 77% recovery	60% Pb 42% recovery
Zinc Concentrate Conc.grade/recovery	60% Zn 93% recovery	54% Zn 82% recovery	55% Zn 89% recovery	50% Zn 65% recovery

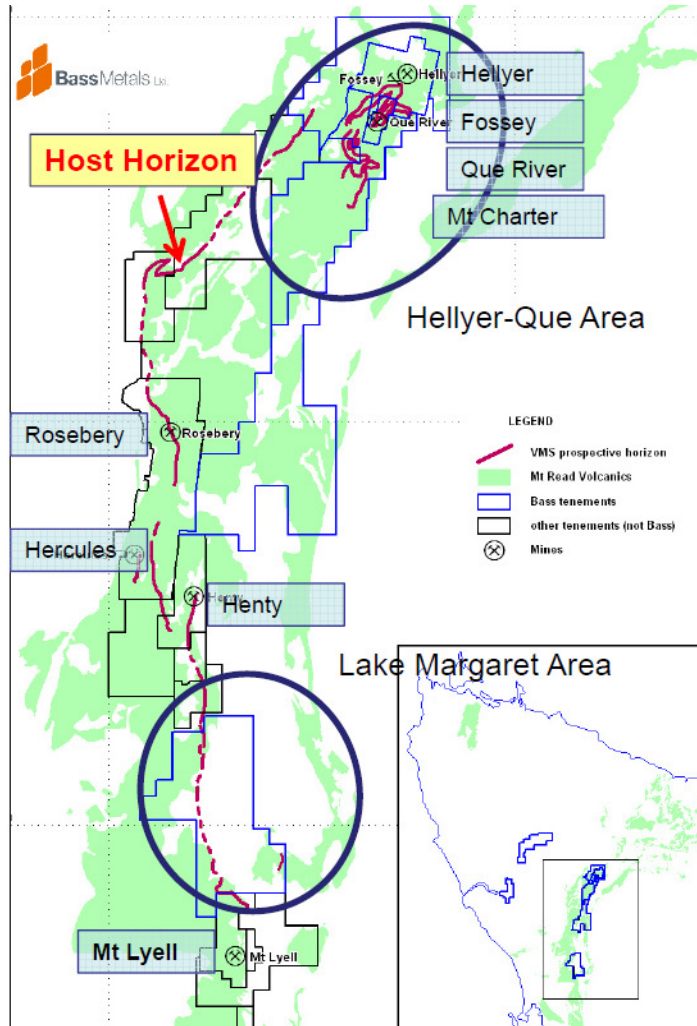
Through much of the previous producing life of the Hellyer project a composite concentrate was also produced to partly overcome these low recoveries, nevertheless a significant proportion of the metal was still lost to tailings. These are now the subject of ongoing research to develop a viable process to recover some of the metal values now in the tailings dam. The Que River ore generally has better metallurgical properties than both Fossey and Hellyer and remnant ore from Que River will be processed in conjunction with the remnant Hellyer ore on completion of the Fossey ore campaign.



SAG & Ball Mill at the Hellyer Processing Plant

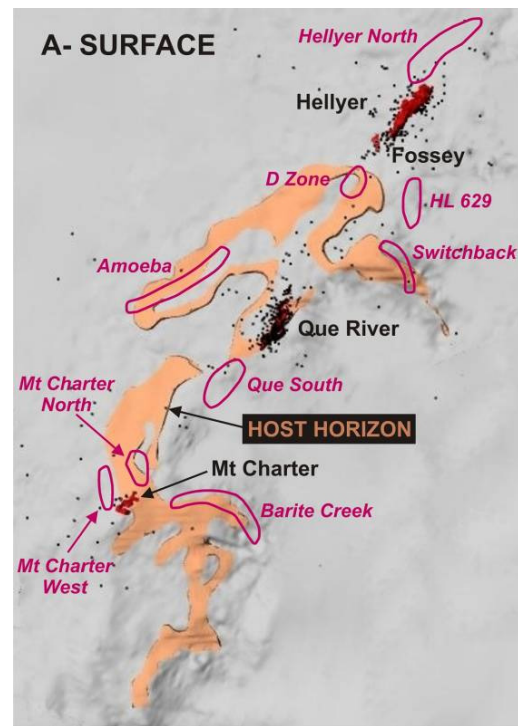
Exploration

Bass has brought new eyes, new ideas and new technologies to the Hellyer regional exploration. Nine months was spent in a data gathering, interpretation and fingerprinting known mineralisation which has generated some excellent new targets which Bass is in the process of evaluating. Bass has developed 13 key criteria as part of their regional analysis of historic data which the Company believes can provide a guide to targeting. This work is well underway with an exploration budget in the current year of \$3.3 million. The aim is to repeat the success of Fossey and find a new larger scale deposit.



Importantly all the known VMS deposits between Hellyer and Mt Lyell some 55km to the south, are associated with a defined host horizon. Bass has a dominant tenement position over that host horizon.

In the immediate Hellyer area large tracts of the host horizon (shown below at Surface) have not been effectively tested as shown by the distribution of drilling (black dots on plan below). Bass has generated a number of priority targets on which it has commenced a detailed exploration program.



outcropping gossan and mineralisation at the ore horizon position within a heavily forested part of the tenement. Located just 500 metres south of Fossey and effectively up-dip in a position where the ore horizon outcrops at surface, this is an exciting target ready for drilling.

The most significant results to date are at the D-Zone where follow up work on a large soil anomaly has discovered

The Mt Charter Prospect to the south of Que River has a resource of 6.1 million tonnes at 1.2 g/t gold and 36 g/t silver. This has potential as mill feed beyond the existing production plan but also represents an area for follow up exploration in particular for associated base metals at Mt Charter North, Mt Charter West and Barite Creek.

Valuation

Phillip Capital has valued Bass at A\$59.5million, that is A\$0.35per share.

The Fossey orebody will be mined and processed to concentrate over some two years generating very strong cash flows for Bass. Thereafter the Company plans to mine and process Que River and Hellyer remnant ore.

In developing the financial model to value Bass a number of assumptions have been made including operating parameters from the Company Operations plan and importantly commodity prices. . The most important factor for Bass is the zinc and lead price assumption as reflected into Australian dollars. In recent weeks metal markets have weakened significantly with both zinc and lead falling from an April high by more than 30% at the end of May. Concurrent weakness in the Australian dollar falling some 12% over the same period has to some extent mitigated the weaker metal prices.

In arriving at a valuation a judgement has been made about the timing and quantity of Que River and Hellyer Ore processed. Because this follows from Fossey in late 2012 and by its nature will be higher cost and lower volume mining than at Fossey, it has a relatively minor impact on the total Bass valuation. Nevertheless, it is important and has an unquantified option value for Bass as it keeps together the operating skill base with which Bass can hopefully transition into developing an additional new discovery from their exploration program.

Key Assumptions and results from the Bass Metals Ltd Financial Model

Metal Price	Zinc	US\$1875/t (Current LME cash price US\$1722/t)
	Lead	US\$1750/t (Current LME cash price US\$1662/t)
	Copper	US\$6500/t (Current LME cash price US\$6311/t)
Exchange Rate	A\$US\$	\$0.83
Throughput	Fossey	885kt as per the HOP (Fully diluted)
	Que River	365kt 80% of the Indicated Resource
	Hellyer	550kt 85% of the Indicated Resource
Operating Period		Dec qtr 2010 to Dec 2014
Gross Revenue		A\$416 million
Net Smelter Return		A\$292 million
Net after Tax Cash Flow		A\$45 million (Includes Capex but excludes current \$17 million cash holding)
NPV at 12% discount		\$59.5 million (12% reflects the high WACC for small companies, however because of the short mine life of Fossey this has little impact on the valuation)
Sensitivity		A 10% change in the Zinc price changes the NPV by 16%
Appraised value of Exploration		A\$12 million (Based on similar programs in junior companies that have no defined resource)

Note that this value is done under the current 30% company tax regime. Given the major cash flow comes from Fossey and this is complete by year end 2012 the RSPT as currently proposed has very little impact on this operation.

Bass Metals Limited Board & Management

Mr David Donald Boyer (Independent Non-Executive Chairman)
BSc (Hons), CP Geo, FAIMM, MAIG, MAICD
Appointed – 2 August 2004

Mr Boyer is a geologist and resource Company manager with over 40 years experience in gold and base metals exploration, including the management of resource projects in Australia and overseas. He has considerable experience in exploration management, project management and assessment, feasibility studies and development analysis. His experience includes responsibility for technical operations from project acquisition through discovery to production and he has been instrumental in the listing of a number of successful junior exploration companies.

Mr Boyer has held executive and Non-executive director positions in a number of listed Australian resource companies. He was previously the Non-executive Chairman of Western Areas NL from its founding until 28 August 2006. He is also currently the Non-executive Chairman of Midas Resources Ltd.

Mr Michael Benjamin Rosenstreich (Managing Director)
BSc (Hons), MMEE, MAIMM, MAICD
Appointed – 15 December 2004

Mr Rosenstreich has a strong combination of technical and commercial skills gained over the past 24 years in the banking and mining sectors. He is a geologist with 12 years of experience gained in both exploration and mining roles including senior management positions with companies such as Homestake Mining, Dominion Mining and Consolidated Gold.

Graduating in 1984 from Otago University (NZ) with an honours degree in Geology, he went on to complete a Masters of Mineral and Energy Economics at Macquarie University in 1996. Between July 1997 and November 2002 he was a senior member of the NM Rothschild Australia resource finance team where he was involved in domestic and offshore project and corporate financings covering a range of commodity types. He left Rothschild in late 2002 to become involved with several junior and start-up resources companies in management, corporate advisory and technical consulting roles. He has been the full-time Managing Director of BSM since December 2004. He is a member of the Australian Institute of Mining and Metallurgy

Mr Craig Ian McGown (Independent Non-executive Director)
B.Comm, FCA, ASIA
Appointed – 7 July 2004

Mr McGown has more than 36 years experience in corporate finance, covering mergers and acquisitions, capital raisings in both domestic and international financial markets, asset acquisitions and asset disposals, initial public offerings and corporate restructurings.

He holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of the Institute of Chartered Accountants and an Affiliate of the Financial Services Institute of Australasia (FINSIA).

Mr McGown has significant experience with capital raisings in both domestic and foreign financial markets and has been involved in a number of successful capital raising transactions. Mr McGown has also served on the Boards of a number of listed and unlisted companies including Resource Finance Corporation Limited as an Executive Director and as the Executive Chairman of DJ Carmichael Pty Limited. He is currently an Executive Director of New Holland Capital Pty Limited, Non-executive Chairman of Pioneer Resources Limited, Entek Energy Ltd and Non-executive Director of Peel Exploration Limited.

Mr Patrick Anthony Treasure (Non-executive Director)
BSc (Hons), MAusIMM, MAICD
Appointed 2 December 2008

Mr Treasure is a geologist by profession who has been actively involved in the resource and metal recovery industry for over 34 years, holding senior executive positions with a number of publicly listed companies in the process metallurgy and mining fields. He is currently a Director and Chief Executive Officer of Metals Finance Limited, a Company of which he was a founding director and primary architect of its business plan.

Mr Treasure has extensive experience in corporate management, technology development, project evaluation and development. He is Metals Finance Limited's nominated Director on the Board of BSM

Ms Susan Patricia Hunter (Company Secretary)
BCom, ACA, F Fin (GDipAFin(Seclnst)), MAICD (Dip), ACIS (Dip)
Appointed – 28 September 2006

Ms Hunter has over 15 years experience in the corporate finance industry. She holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors and is an Associate Director of consulting firm Norvest Corporate Pty Ltd. Ms Hunter is a Member of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia and is currently Company Secretary for several Australian Stock Exchange listed companies.

Mr Ben Hamilton – Chief Financial Officer B. Comm
Appointed – 17 September 2009

Mr Hamilton is an experienced CFO with a strong accounting, IT and commercial background, most recently in the energy sector. Prior to joining Bass Metals Ltd Mr. Hamilton was Chief Financial Officer of; the Gull Group, the largest independent fuel company in Western Australia and New Zealand; and prior to that Alinta Pty Ltd, Western Australia's largest integrated energy company. Mr Hamilton has a strong track record in transaction execution, compliance reporting and financial management.

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Prepared by Chris Bain

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