

28 August 2007

The Manager Companies
Australian Stock Exchange
20 Bridge Street
SYDNEY NSW 2000

Dear Sir

COMMENCEMENT OF QUE RIVER MINE DEVELOPMENT

Bass Metals Ltd (ASX:BSM) is pleased to provide the following update on its Que River Mine development.

Highlights

- **Ore sales agreement with Zinifex signed.**
- **Mine plan and financial analysis completed.**
- **Site works have commenced and first ore delivery scheduled for late September.**
- **Financing negotiations progressing well and metal price hedging programme commenced.**

ZINIFEX ORE SALES AGREEMENT

The Company has signed an Ore Sales Agreement to sell its Que River ore to Zinifex Australia Limited's Rosebery operations. The agreement covers all of the ore production for the Que River Stage 1 mine plan with Zinifex also holding a first right of refusal to purchase ore from any further developments at Que River as well as any mine developments which may eventuate at its advanced Farrell Base Metals Project. BSM will receive an average gross return of 40 to 45 % of the contained metal value delivered based on zinc, lead, silver, gold and copper payments.

QUE RIVER STAGE 1 MINE PLAN SUMMARY

Site establishment and preliminary mining activities have commenced under the management of BSM's alliance partner, Mancala Mining Pty Ltd. A summary of the technical and financial outcomes of the Que River Mine Study report are presented below.

Deposit: The deposit comprises 9 high grade polymetallic massive sulphide lenses representing a Cambrian volcanic hosted massive sulphide (VHMS) mineralised system with a total Mineral Resource of approximately 740,000t (*refer ASX Report 28 June 2007*). The 2 lenses to be mined in the Stage 1 Mine Plan comprise a mining inventory of 115,900t grading 8.3% Zn, 4.0% Pb, 0.7% Cu, 105g/t Ag and 2.1g/t Au. The total tonnage to be mined comprises 87% Ore Reserve reported in accordance with the JORC Code and 13% Inferred Mineral Resource as tabulated below in Table 1. The Inferred Resource which the Company expects to mine includes several high grade remnant pillars from the former underground mining operation of the PQ Lens. (*Refer Figure 1*)

Mining Method:

Two open pits are planned with a maximum vertical depth of 60m as shown in Figure 2. Mining will be by conventional open pit methods utilising drill and blast and an excavator loading 25t articulated trucks. Strong geological control is required throughout the mining cycle to minimise mining dilution and maximise ore recovery.

Average ore dilution factors of 25% and 10% have been assumed for each of the PQ and S-lens pits respectively. Mining recovery factors of 85% for PQ Pit and 95% for S-Lens have also been assumed.

Stage 1 has an average ore to waste ratio of 34:1 (BCM:BCM).

Production rates are based on supplying 5,000 to 8,000t of ore per month. Ore will be hauled 42km by standard 20t trucks on sealed roads to the Rosebery processing plant.

Table 1: Que River Stage 1 Mining Inventory

Ore Deposit	Tonnes	Zn %	Pb %	Cu %	Ag %	Au %	% by Tonnes	% by Value
PQ Probable Reserve	33,300	15.3	8.7	0.29	216	5.30	29	52
PQ Mining Inventory	11,700	11.90	6.10	0.26	155	3.50	10	14
PQ Total Inventory	45,000	14.4	8.02	0.29	200	4.83	39	66
S Lens Probable Reserve	68,600	4.6	1.5	0.92	45	0.43	59	33
S Lens Mining Inventory	2,300	0.60	0.18	2.20	29	0.20	2	1
S Lens Total Inventory	70,900	4.5	1.46	0.96	44	0.42	61	34
TOTAL MINING INVENTORY	115,900	8.3	4.0	0.70	105	2.13	100	100

Mine Life:

The current project life is 26 months. Mining will be completed in 18 months with stockpiled ore to be delivered over a further 8 months on the current delivery schedules.

The mining inventory is part of a substantial, generally shallow Mineral Resource which BSM plans to convert to Ore Reserves. As well, the Company has many shallow exploration targets with further potential to add to the resource base.

Manning:

Project Management will be undertaken by Mancala Mining Pty Ltd and involves approximately 20 personnel. All staff have been recruited.

Schedule:

Full project implementation has commenced for an ore production start in September 2007 and first ore deliveries in late September.

Costs:

Mining Cost - per BCM mined	\$5.70
Mining Cost – per tonne of ore sold	\$57.90
Total Operating Cost – per tonne of ore sold	\$175/t

These costs include approximately \$0.75M for rehabilitation and closure costs as well as \$1.1M for State Mineral Royalties, which will vary with metal prices.

Cash Flow Estimates:

Price Assumptions (prices as at 23 August 2007)

Zinc	US\$/t	3,160
Lead	US\$/t	3,165
Copper	US\$/t	7,270

Gold	US\$/oz	660
Silver	US\$/oz	12
1 AUD: 1 USD	A\$	0.8197

<u>Cash Inflow</u>	Gross ore sales revenue	\$M	30.67
<u>Cash Outflow</u>	All costs & royalties	\$M	21.81
<u>Total Pre-tax Cash Surplus</u>		\$M	8.86

KPI's
Per Tonne of Ore Sold

Revenue	A\$/t	263
Average operating cost (<i>includes State Royalties</i>)	A\$/t	175
Operating Margin	A\$/t	88
	%	50%

Per lb of payable zinc

Revenue	A\$/lb	3.39
Total Operating Costs	A\$/lb	2.25
Less by product credits	A\$/lb	(1.64)
Total Operating Cost	A\$/lb	0.61

Timing

Project Life	26 months
Positive cash flow after	Month 9
Pay back after	Month 13

COMMENTARY

The Board of BSM has approved the Que River mine development on the basis of the following positive attributes:

- Utilisation of neighbouring processing facilities through an Ore Sales Agreement with Zinifex which enables an early start-up with a small scale project and eliminates BSM's exposure to processing risk.
- Minimal start-up capital expenditure and establishment time.
- Well understood mining conditions as Que River was mined for 13 years to 1991.
- Simple shallow open-pit mining techniques.
- Good infrastructure available comprising sealed roads, large water retention dam, reticulated power and modern communications.
- Enthusiastic skilled local work force with several members of the current operations team involved with the mine in the 1980's.
- Minimal negative environmental impact as planned site works all occur within the footprint of the previously disturbed areas.
- Excellent potential to increase Mineral Resources and Ore Reserves.
- Good upside potential to extract extra high grade ore within current pit design from abandoned historic stope areas.
- BSM has formed a mining alliance with Mancala, an experienced local mining group who have completed 7 similar style operations in NW Tasmania.

Aspects of the project requiring ongoing management by BSM include:

- exposure to commodity prices and exchange rates, which are a prime risk to the project;
- strict environmental compliance conditions;
- the small scale of the project, perhaps making it more vulnerable to unexpected changes;
- expansions incorporating the conceptual stages 2 to 4 will require further environmental assessment and statutory approvals; and,
- start-up costs are modest but there is a need for working capital support to ensure the Company can maintain its active exploration programmes during the early stages of mine development.

The Company has initiated steps to mitigate its exposure to metal prices by embarking on a hedge programme comprising purchased Pb and Zn Put options. To date the Company has purchased options which cover approximately 15% of its payable metal production providing floor prices of A\$3,700/t and A\$3,000/t for Zn and Pb respectively. These options do not limit the Company's exposure to any rise in metal prices. The working capital funding requirement is also being addressed with negotiations progressing positively with several resource finance groups.

With the start of the Stage 1 mining activities the next step for the Que River mining team is to increase the mine life through resource conversion to reserves and exploration success. The priority is to complete Stage 2 mine planning and approvals to increase production and possibly accelerate cash flows.

The commencement of the Que River Stage 1 mine development represents a significant transition for the Company – to producer status. Based on the current metal price assumptions the project is forecast to deliver approximately A\$8.9M of surplus pre-tax cash flow to fund further exploration and growth initiatives. What is particularly exciting is that whilst Que River is the Company's most advanced project, it is only one of 4 advanced base metals projects currently being evaluated; the others being Hellyer, Farrell and Magnet. Furthermore developing Que River and the other advanced base metals projects is only "half" of the Company's twin strategy. The other half is the vigorous regional exploration programme to discover large high grade deposits such as those which already characterise the northwest of Tasmania where BSM has the dominant tenement position. BSM is moving into a unique position of positive cash flow from production with a strong growth outlook whilst maintaining significant exposure for its investors to a major discovery. I look forward to providing further updates on the Que River Mine and other activities.

Yours Sincerely



Mike Rosenstreich
Managing Director

The information within this report that relates to ore reserves and mine plans is based on information compiled by Mr. Tim Akerman BSc (Hons) MAusIMM and Mr Michael Rosenstreich BSc(Hons) MEEC MAusIMM. Mr Akerman has 20 years industry experience including 4 years as a production geologist at Que River from 1986. Since then he has had direct involvement in the planning and development of 5 other similar deposits in the Que River region as well as extensive resource delineation and mine planning work on many deposits in Australia and overseas. Mr Rosenstreich has 23 years industry experience including 5 years spent in direct mining and mine planning roles at a senior level, and 10 years involvement in resource finance and commercial aspects of the mining sector which included detailed technical and commercial reviews and monitoring of a large number of open pit and underground mining operations. Mr Akerman and Mr Rosenstreich meet the formal requirements as defined in the JORC Code to be a Competent Person for the Reporting of Exploration Results, Mineral Resources and Ore Reserves and they consent to the inclusion of this information in the form and context in which it appears in this report.

Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning Bass Metals Ltd's planned exploration program and other statements that are not historical facts. When used in this document, the words such as "could," "plan," "estimate," "expect," "intend," "may," "potential," "should," and similar expressions are forward-looking statements. Although Bass Metal Ltd believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.

Bass Metals Profile

Bass Metals Ltd (ASX: BSM) is a “Discovery” company focused on the exploration and rapid development of a quality portfolio of mineral assets in north-west Tasmania. It is supported by key alliances with zinc producer Zinifex Limited and mining group, Mancala.

Bass Metals is set to become a new Australian zinc producer through the imminent commencement of production from the Que River project. Ongoing drilling has indicated substantial potential to define further high-grade reserves, from the current resource of 740,000 tonnes grading 6% Zn, 3% Pb, 1% Cu, 84g/t Ag and 0.9g/t Au. The Company has commenced site preparation activities at Que River and is planning first ore delivery in late September 2007 following the recent signing of an Ore Sales Agreement with Zinifex’s Rosebery operations.

A vigorous exploration programme is being maintained with three drill rigs currently on its tenements to execute its twin strategy of testing advanced base metal and gold targets to increase resources and production, whilst also focused on the discovery of large new deposits such as already characterise the world class mineral terrain in which it operates. [end]

Figure 1: Long section of southern portion of PQ Pit showing remnant pillars and partially stoned areas within shallow high grade PQ Lens.

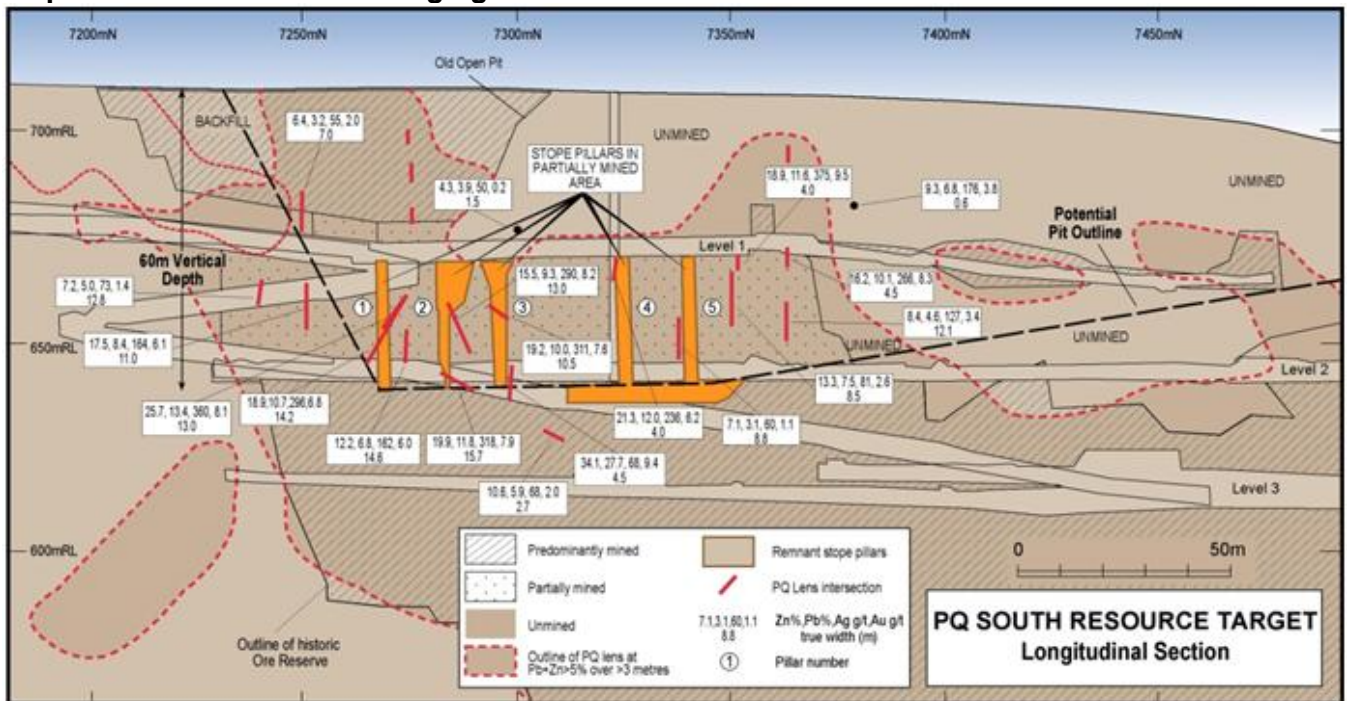


Figure 2: Schematic diagram looking south illustrating Pits at the completion of the Stage 1 Mine plan, prior to closure rehabilitation works.



Figure 3: Que River Stage 1 Site Layout Plan.

