



BASS METALS LTD

ABN 31 109 933 995

22 December 2006

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

Dear Sir

Re: Letter of Intent – Que River Ore Sales

The Company is pleased to report that in association with its mining alliance partner, Mancala Pty Ltd, it has today signed a Letter of Intent (LOI) setting out the terms under which ore from the Que River project may be sold to the Intec-Polymetals joint venture which is operating the Hellyer Concentrator. The non-binding LOI will be formalised into a binding Ore Sales Contract subject to completion of a 1000 tonne trial mining and processing programme which has been approved already and is scheduled to commence in early February.

Full scale open pit mining at Que River will commence as soon as practical after that subject to a satisfactory outcome of the trial mining programme and receipt of Tasmanian Government approvals for the full scale mine development and environmental management plan which is expected to be decided in mid January 2007. A more detailed technical description of the mine plan was reported to ASX on 20 November 2006.

The LOI is an important step as it provides a commercial framework from which assumptions on revenue for the Stage 1 Mine plan over 21 months can be made and these are summarised below for various zinc price scenarios, referred to as *Conservative*, *Reasonable* and *Today's*:

Metal Price Assumptions	Conservative	Reasonable	Today's
zinc price (US\$/t)	3,000	3,600	4,200
lead price (US\$/t)	970	1,605	1,537
silver price (US\$/oz)	10	12.5	12.5
US\$:A\$	0.75	0.76	0.79
Estimated Financial Outcomes	A\$(M)	A\$(M)	A\$(M)
BSM-Mancala Gross Revenue	26.34	30.18	33.58
less Capital Expenditures	-1.06	-1.06	-1.06
less Operating costs	-17.31	-17.31	-17.31
Net Revenue	7.96	11.80	15.21

This is considered a conservative estimate as the adopted Base Case assumes that only zinc, lead and silver contribute to the revenue stream with possible copper and gold revenue streams still to be fully evaluated and represent further upside to cash flows. As well, Stage 1 is considered the first of 4-stage potential mining development which could generate a 3 to 5 year mine life at Que River with significant further exploration upside.

The Directors of Bass Metals are very pleased to report further significant progress towards production with the LOI and provide some insight into the financial outcomes which have motivated the Company to pursue this modest scale but potentially very profitable mining venture. On behalf of the Board I look forward to providing further updates on the Que River Project early in the New Year as well as on our many other exploration initiatives in northwest Tasmania.

Yours Sincerely

Mike Rosenstreich