

JUNE 2014 QUARTER ACTIVITIES & CASHFLOW REPORT

Period: 1 April – 30 June 2014

Release Date: 23 July 2014

Key Points

- Main focus continues to be on the implementation of the investment strategy to attract funds for the completion of the 2014 Abu Dabbab definitive feasibility study and initial site work. Marketing of the investment opportunity has commenced to selected investment groups in the Gulf region to a positive reception.
- Lycopodium has completed the Abu Dabbab Updated Process Plant Feasibility Study. Whilst comparative capital costs have increased between 2008 and 2014 by US\$57 million to US\$201 million, adjustments by Gippsland accounting for the out-sourcing of key services such as mining, power and water generates a modified capital cost of US\$125 million for the process plant and supporting infrastructure; these comprise the “core” of the project given the significant outsourcing planned.
- The updated 2014 study provides an excellent platform for Gippsland to quickly complete an integrated definitive feasibility study including the out-sourced services costs, updated permits, new mine plan and several planned project enhancements.
- The Abu Dabbab Alluvial Tin Operation shipped approximately 45 tonnes of cassiterite (tin-oxide) concentrate in the period with the resolution of the export issue on 23 April, 2014 which had delayed all exports and imports for several months. Specialty crushers were installed and commissioned and concentrate production will resume post-Ramadan, in early August to treat an 81,000 tonne stockpile of coarse material before the alluvial project is completed.
- Gandel Metals has continued to provide funding to the Company in the June quarter. The Company’s closing cash position at 30 June 2014 was \$277,000.

INTRODUCTION

The Directors of Gippsland Limited (Gippsland or the Company) provide the following Activities and Cash Flow Report for the June 2014 quarter.

The Company’s key asset is the large scale Abu Dabbab tantalum-tin-feldspar deposit in Egypt (the Project) held through its 50% shareholding in Tantalum Egypt JSC (TE), which the Company is seeking to bring into production within the next 2 years. In February 2013 TE commenced a small scale alluvial tin operation at the same site to produce a cassiterite (tin) concentrate.

The key focus for the June 2014 quarter was to commence marketing the financing proposal, complete the feasibility study update of the process plant with Lycopodium and to continue the review process of all company activities to minimise expenditure and ensure full attention to the development of the Abu Dabbab tantalum-tin-feldspar project development. This quarterly report provides an update of those core activities.

QUARTERLY ACTIVITIES

1. CORPORATE

- An investment strategy has been developed whereby the Company is seeking to attract investment funds through divestment of a portion of Gippsland's 100% owned holding company of its project equity, linked to provision of the project development funding. Introductions and meetings are in progress with a selected group of investors from the Middle East and North Africa region with an encouraging level of interest and support emerging at this early stage.
- In early April, the Company relocated its head office in Perth to significantly smaller premises and the exploration office in Eritrea was closed. This is part of an overall restructuring and cost saving process to ensure that the Company is focussed solely on the development of the Abu Dabbab Project.
- The Company borrowed a further \$784,000 from Gandel Metals Pty Ltd, a company controlled by the Company's Chairman, Mr Ian Gandel. The total amount of the unsecured loan outstanding at 30 June 2014 was \$2,572,000.
- Gandel Metals Pty Ltd has agreed to extend the term of the existing loans from 1 July 2014 to 1 August, 2014. Provision of any further loan funds or extensions to the repayment date are conditional on the Company continuing to make positive progress with respect to financing of the Project, in the opinion of Gandel Metals.
- Cash on hand at the close of the Quarter was \$277,000.

2. ABU DABBAB TANTALUM-TIN-FELDSPAR PROJECT (50% INTEREST)

The Company continues to work through a Project development and financing strategy centred around a "low-capital" development model utilising contractors and suppliers to undertake activities such as mining, crushing and screening the ore and supplying water, power and other services on a "through the fence" basis. During April and May negotiations with preferred supplier and contractor groups continued and the tendered prices have been utilised by Gippsland for its internal modelling and development of its Project Development Plan.

Running in parallel with this process, Gippsland engaged Lycopodium Engineering Pty Ltd in March 2014 to update the operating and capital cost estimates associated with the processing plant of the 2008 Abu Dabbab Feasibility Study which is based on a 2 Mtpa ore treatment rate.

The outcomes of the 2014 updated Processing Plant Feasibility Study (2014 PPFs), updating capital and operating costs for the process plant and associated infrastructure are summarised in Tables 1 and 2 below. Whilst the estimates are to a feasibility study standard according to Lycopodium, the summations do not represent estimates to complete the entire project; these are "work in progress figures". However from a capital cost perspective, given the intent to utilise contractor mining services, they do represent the majority or the core of the expected total expenditure.

The key omissions are capital and operating cost estimates related to mining and smelting. The Lycopodium scope did not include review of the mining plan or the construction or utilisation of an on-site smelter as explained below:

- *Mining:* There appear to be many opportunities to improve on the existing mine design and schedule and with the involvement of a local mining contractor, the Company considered there was little value in undertaking this process prematurely.

- *Smelting:* In regard to the smelter, Gippsland is assessing opportunities to initially utilise toll smelting services as an important risk reduction strategy. There is a strong concern that introducing two major processing plants; the gravity concentrator and the smelter simultaneously introduces major operational and implementation risks. Aside from the deferral of capital, the Company considers that there may also be opportunities to install a smelter closer to power, labour and transport hubs rather than at the Abu Dabbab site where all of those inputs come at a considerable cost premium. Discussions with potential toll smelting groups include secondment of TE personnel for training and supervision purposes.

Table 1: Comparison of the 2008 and 2014 Feasibility Studies (Excluding mining and smelter costs)

US\$ - millions	2008 FS	2014 PPFS	2014 PPFS (Adjusted)	Variance 1 and 2	Variance 2 and 3
	1	2	3	(2-1)	(3-2)
Cost Centre					
Site Establishment & Construction Costs	5.85	7.73	5.52	1.88	-2.21
Treatment Plant Costs	67.71	62.22	56.04	-5.49	-6.18
Infrastructure Costs	37.57	76.95	23.74	39.38	-53.21
Management Costs	21.58	25.56	15.55	3.98	-10.01
Owners Costs	10.35	15.03	11.18	4.68	-3.85
General Working Capital	5.52	13.10	13.10	7.58	0.00
Total	148.58	200.59	125.13	52.01	-75.46
<i>Contingency - the 2014 PPFS numbers include an item by item contingency of between 13% and 20% with an average of approximately 15%.</i>					

2.1 Capital Cost Estimates

Comparison of the 2008 FS with the 2014 PPFS indicates an overall escalation in the capital costs covered, of US\$52 million between late 2008 and early 2014, focussed mainly around the costs of power and water desalination utilities.

Given the adoption of a project development model to outsource utilities and crushing and screening of the ore, adjustments were made by Gippsland to the 2014 PPFS estimates as shown in Table 1, column 3. The impact was to remove US\$75.5 million of capital expenditure from the Project schedule, comprising mainly the removal of US\$59.4 million for outsourced capital items such as utilities and ore feed preparation. Not included in the adjusted summation above are further reductions that Gippsland considers are available subject to further evaluation which total approximately US\$15 million and comprise cost items such as reduced EPCM, utilisation of some second hand equipment and modified tails dam design and construction.

2.2 Operating Cost Estimates

An operating cost for that part of the project incorporating ore processing and input services has been estimated by Lycopodium and presented in Table 2 below. This does not include the mining or smelting costs which may be undertaken on a contract or toll basis but does include the cost of running the various utilities.

Table 2: Processing and Utility Input Operating Costs

Comparative Cases	US\$/t ore
2008 FS	9.95
2014 PPFS	22.05

There is a significant \$12.10/t increase in the estimated operating cost, much of which is attributable to the treatment of fuel costs. The 2014 PPFS operating cost estimates above do not assume eligibility to any Government fuel subsidies, which have recently been reduced causing the price of diesel fuel to increase 64% to US\$0.25/litre compared to the non-subsidised cost of approximately US\$0.98/litre. However, the 2008 FS did incorporate fuel subsidies, explaining a large part of the operating cost increase.

The move to outsourcing is regarded as an important “de-risking” strategy, however it does not mitigate the ongoing exposure to fuel prices via international price movements or changes to Government fuel subsidies. As with the capital cost estimates, given the move toward outsourcing various inputs such as power, water, mining and feed preparation, these figures are indicative and regarded as “work in progress” subject to completing the final feasibility study.

Gippsland considers that there are several opportunities to improve these operating cost estimates which are currently under investigation:

- Reduced power consumption through design improvements has the potential to reduce operating costs significantly as power accounts for 50 to 55 % of the total operating cost;
- Improved recovery of fine grained Ta and Sn minerals as 50% of the Sn and Ta report to the minus-38 micron size fraction; and
- Reduction in the use of desalinated water, by using raw seawater for dust suppression and possibly process water.

2.3 Summary

A complete definitive feasibility study still needs to be completed to bring together an updated mine plan, potential toll smelting agreement, the various supplier and contractor tender pricing and to verify the savings indicated above as well as to update several outstanding statutory project permit requirements. The new technical team has also identified several opportunities to optimise the process flow sheet which may lead to further cost savings.

In December 2013, to expedite the timing of the project development the Company elected to focus on the most advanced and detailed technical data available to it, which generally comprised the estimates around the 2 Mtpa of ore production case. Gippsland had previously highlighted the merits of an expanded ore production rate of 3 Mtpa and the potential to add feldspar recovery to produce a saleable feldspar product to the white-ware ceramic industry. These opportunities remain “on the radar” and might be incorporated into the final definitive feasibility study subject to the completion of the financing and collective view of the TE Board in regard to the risk of further technical distractions delaying the project development. Having now updated to a feasibility study standard the “core” of the project expenditure for the 2 Mtpa case, this provides a very solid platform from which to systematically plan further work to add value to the development case and complete a fully integrated feasibility study within a short time frame.

3. ALLUVIAL TIN OPERATION (50% INTEREST)

Mining of the alluvial tin deposits at Abu Dabbab was completed in late January 2014. During February to April plant feed comprised lower grade, clayey tailings material whilst awaiting the arrival of special crushers to enable the processing of an 81,000 tonne stockpile of coarse (+2.5mm / -4mm) material.

In mid-April, given the poor operational performance treating the tailings material, suspension of concentrate exports and the delays in importing the crushers, management elected to suspend Spiral

Plant operations pending resolution of the export permit issues and a review of restarting operations to treat the 81,000 tonnes stockpile.

Following the reinstatement of the import-export permits on 23 April, approximately 45 tonnes of tin concentrate was shipped in early May and the crushers also arrived on site in late May. The crushers have since been installed and commissioned with a small stockpile of crushed material accumulated. All operations have been suspended for safety reasons during Ramadan and are planned to resume in early August. Treatment of the 81,000 tonne stockpile is planned to be complete in early November at which time the alluvial operation will be decommissioned.

FOR FURTHER INFORMATION PLEASE CONTACT

Mike Rosenstreich
Managing Director
Gippsland Limited
www.gippslandltd.com

T: +61 8 9340 6000

E: info@gippslandltd.com

Attachment – Appendix 5B Cash Flow

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Name of entity

Gippsland Limited

ABN

31 004 766 376

Quarter ended ("current quarter")

30 June 2014

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	310	2,126
1.2 Payments for (a) exploration & evaluation	(28)	(192)
(b) development	(202)	(262)
(c) production	(533)	(2,932)
(d) administration	(368)	(1,503)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	-	1
1.5 Interest and other costs of finance paid	(14)	(36)
1.6 Income taxes paid		
1.7 Other (provide details if material) – Refund of prior year cost	33	34
	(802)	(2,764)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	-	(98)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities	-	8
1.12 Other (provide details if material)		
	-	(90)
Net investing cash flows		
1.13 Total operating and investing cash flows	(802)	(2,854)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.		
1.15 Proceeds from sale of forfeited shares		
1.16 Proceeds from borrowings	784	2,572
1.17 Repayment of borrowings		
1.18 Dividends paid		
1.19 Other – share issue costs	-	(6)
	784	2,566
Net financing cash flows (carried forward)		

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

Net financing cash flows (brought forward)	784	2,566
Net increase (decrease) in cash held	(18)	(288)
1.20 Cash at beginning of quarter/year to date	302	587
1.21 Exchange rate adjustments to item 1.20	(7)	(22)
1.22 Cash at end of quarter	277	277

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

		Curent quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2		44
1.24 Aggregate amount of loans to the parties included in item 1.10		Nil
1.25 Explanation necessary for an understanding of the transactions	Payments of consulting fees and directors fees to directors and director related entities	

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

None

- 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

None

Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	2,572	2,572
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	15
4.2 Development	58
4.3 Production	646
4.4 Administration	585
Total	1,304

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.	0 \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	277	302
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	277	302

Changes in interests in mining tenements and petroleum tenements

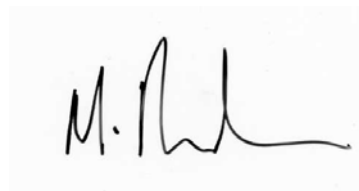
	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

Issued and quoted securities at end of current quarter

	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	1,375,700,081	1,375,700,081	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	+Convertible debt securities <i>(description)</i>			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			
7.7	Options	-	-	<i>Exercise price</i>
7.8	Issued during quarter			<i>Expiry date</i>
7.9	Exercised during quarter			
7.10	Expired during quarter			
7.11	Debentures (totals only)			
7.12	Unsecured notes (totals only)			

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).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.



Director: M.B. Rosenstreich
Date: 23 July 2014

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 and petroleum 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 or petroleum 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.