

QUARTERLY ACTIVITY REPORT

Period October – December 2002

31 January 2003

SUMMARY

- Completion of fund raising in full.
 - Progressive results of Abu Dabbab Bankable Feasibility Study encouraging.
 - Abu Dabbab on track to become the World's number two Ta₂O₅ producer.
 - Ta₂O₅ production costs likely to be world lowest.
 - Discussions with prime Ta₂O₅ consumers.
 - Increase in feldspar production from 450,000 to 800,000 tpa equating to 80% of total mine production.
 - Feldspar market studies and consumer enquiries encouraging.
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COMPLETION OF FUND RAISING IN FULL

During the Quarter Gippsland Limited ("Gippsland" or "the Company") announced a pro-rata non-renounceable entitlement issue to Gippsland shareholders of 15,671,393 fully paid up ordinary New Shares in Gippsland, the issue being based upon one (1) New Share for every five (5) Shares at an issue price of 3 cents per New Share. Each New Share subscribed for included an attaching New Option for no consideration with each New Option having an exercise price of 9 cents and a term expiring on 31 December 2007.

On 15 January 2003, the Directors announced that the issue had been completed in full thus raising the sum of \$470,141. The funds raised shall in the main go towards funding the bankable feasibility study ("BFS") currently being conducted upon the Abu Dabbab tantalite-feldspar project.

ABU DABBAB TANTALITE-FELDSPAR PROJECT

The Company's 40 million tonne Abu Dabbab tantalite-feldspar project is located adjacent to the western shore of the Red Sea in Egypt.

The project, which is located conveniently with respect to ocean ports and general infrastructure, is the subject of a 50:50 joint venture agreement between Gippsland and the Egyptian Geological Survey & Mining Authority, (a state agency of the Egyptian Government).

BANKABLE FEASIBILITY STUDY

The BFS, which is being undertaken by the engineering group Lycopodium Pty Ltd, is proceeding to expectations and is progressively producing encouraging results. During the quarter, the scope of the BFS was expanded to consider the production of 800,000 tonnes of ceramic grade feldspar, a co-product to the tantalum pentoxide ("Ta₂O₅").

The BFS is proceeding based on an initial annual throughput of 1 million tonnes per annum.



Metallurgical Testwork

The initial metallurgical testwork programme produced most encouraging results with respect to the recovery of ceramic grade feldspar and the metal oxides of tantalum, niobium and tin metal.

The testwork undertaken to date has confirmed that the recovery of the feldspar and metallic components will follow well tested and therefore well known technologies. Accordingly the Company's consultants will be able to draw upon their considerable experience in connection with other major tantalum projects located both within Australia and overseas. It will not be necessary, therefore, for the Company to endure the risk normally associated with pioneering a new extraction process.

Lakefield Orestest Pty Ltd has now commenced Phase 2 of the overall three part metallurgical testwork programme in order to maximise the recovery of all products and to optimise the design of the project flow-sheet. Phase 2 is expected to be completed by March 2003.

Phase 3 of the metallurgical testwork is expected to complete all of the metallurgical work associated with the BFS. This final programme will involve the pilot scale treatment in Australia of approximately 20 tonnes of Abu Dabbab ore. Failing any unforeseen delays, this work is expected to be completed by July 2003.

Increased Feldspar Production (800,000 tpa)

The most important outcome resulting from the metallurgical testwork to date relates to the production of ceramic grade feldspar, which is now anticipated will be increased from 450,000 tpa to 800,000 tpa.

Most significantly, the income generated from the ceramic grade feldspar appears certain to eclipse the project revenue associated with the Ta₂O₅.

Approximately 70% of the World's feldspar output is used in the production of ceramic wall and floor tiles plus porcelain products, as found in bathroom and toilet facilities. Ceramic tiles consist of approximately 70% feldspar.

To be suitable for such use, the feldspar must contain certain minimum levels of Na₂O and K₂O plus strict maximum levels of a range of impurities including Fe₂O₃ and TiO₂.

Italian Feldspar Testwork

During the quarter, Abu Dabbab feldspar was subjected to numerous practical tests in Italy pertaining to the production of ceramic tiles, the largest use for feldspar.

The tests were undertaken at ceramic tile manufacturing plants owned by Ceramica Rondine-Rubiera www.rondinegroup.com and Ceramica COEM www.coem.it, both of which are located in the region of Sussuolo, the centre of the Italian ceramic industry.

Italian ceramicists used full-scale ceramic tile production firing lines for the tests.

The tests demonstrated that the Abu Dabbab feldspar is prime grade material. On being fired, it exhibited minimal shrinkage whilst producing tiles of very low porosity. Most importantly, firing of the material resulted in a colour shift towards white, an uncommon but most desirable change.

Subsequent tests involving the forming and firing of finished tiles demonstrated that the Abu Dabbab feldspar blends well with the various clays used in the production of ceramics.

Italy is Europe's largest ceramic tile producer and currently imports approximately 1.8 Mt of coarse feldspar from Turkey. The use of the majority of this feldspar is limited to certain end uses, as the material exhibits a distinct colour shift to yellow when fired. Because of this adverse colour shift, the material attracts a low selling price. Additionally, the majority of this material is delivered as a coarse grain-sized particle which must undergo expensive energy intensive milling in order to produce the finished ceramic product. In stark contrast to this, the Abu Dabbab feldspar would be delivered as a milled product, thus providing ceramic producers with the opportunity to reduce energy consumption, together with a reduction in mill maintenance and



mill consumables. It will also enable ceramic producers to increase production, as the existing mills will achieve a higher throughput by use of ready milled feldspar.

The Italian ceramicists concluded that the Abu Dabbab feldspar was of such an exceptionally high quality that it is certain to enjoy a price premium in the Italian market.

Tecnargilla Exhibition (Italy)

During October 2002, a Gippsland Director attended the Tecnargilla ceramics exhibition which is held annually in Rimini, Italy. This international event is attended by the World's leading producers of ceramic tiles and porcelain products, the largest of which are located in Italy. Suppliers of machinery and raw materials to the ceramics industry are major participants in the exhibition.

As a result of contacts made at Tecnargilla 2002, the Company has received a number of enquiries from Italian, Spanish and German feldspar consumers, all of which have expressed interest in accessing the Company's feldspar.

Spanish Feldspar Interest

Spain is Europe's second largest producer of ceramic tiles and imports approximately 450,000 tpa of feldspar. As this sector of Spanish industry is expanding rapidly, increased supplies of imported feldspar will be required.

The Company has received a number of encouraging enquiries from participants in the Spanish ceramics industry.

Off-take Arrangements

The Company is presently in discussion with tantalum refiners and consumers with the view to execute off-take agreements. The Company has been requested to make presentations to two such companies during the current quarter.

Similarly, discussions are being held with a number of major feldspar consumers and producers in Italy, Spain, France and Germany.

Gippsland is unlikely to enter into off-take agreements until the BFS has been completed, as the Directors believe this approach will yield the best possible commercial outcome for the Company.

OUTLOOK

The Directors are most pleased with developments to date. The metallurgical testwork has proceeded well, especially with respect to feldspar, while the developments of the overall process flow sheet is progressing as expected.

The BFS has been expanded to make allowance for the proposed increase in ceramic grade feldspar production which has been lifted to approximately 800,000 tpa.

The Directors consider that the expansion of the BFS is most warranted as the income generated by the feldspar is likely to exceed that resulting from the sale of Ta₂O₅.

Notwithstanding the benefits that feldspar production brings to the project, it is anticipated that the project will have a positive NPV based solely upon production and sale of Ta₂O₅. Indeed it is currently anticipated that the project will have a positive NPV based solely upon production and sale of feldspar. Taken together, the project will be financially most attractive.

John (Jack) Telford
Executive Chairman