

JUNE 2015 QUARTERLY ACTIVITIES & CASHFLOW REPORT

Period: 1 April 2015 to 30 June, 2015

Release Date: 20 July, 2015

OVERVIEW

Since late March, Gippsland has been prevented from implementing its development and capital raising plans for its large scale Abu Dabbab tantalum-tin-feldspar project in Egypt (Project). At that time, the Company received advice from the Egyptian Company for Mineral Resources (ECMR) (its 50% equity partner in Tantalum Egypt JSC (TE), the joint venture company through which the Project is to be developed), that ECMR was seeking to dissolve TE and re-tender the Project's Exploitation Licences.

The Company had announced a new lower risk/lower cost development and financing strategy in late February 2015. Gippsland sought clarification from ECMR of its intentions with respect to the Project, as well as certain assurances that ECMR remained supportive of TE and Project development. However, neither that clarification nor those assurances were received. Consequently, in the circumstances, Gippsland has withheld further funding of TE at this stage. In turn, Gippsland's Board of Directors requested that ASX grant suspension over trading in its shares while it sought a clearer picture of Gippsland's position with respect to TE and the Project.

As Gippsland's co-venturer in the Project, ECMR's participation in, and support of, TE will play an important role in the Company procuring appropriate investment funding for the Project. However, currently:

- the proposed financier for the Project has reconsidered its investment in the Project, such that the Company will need to make a fresh approach to seeking financing for the Project once the prevailing investment climate in Egypt, and for the Project improves; and
- ECMR has not demonstrated any preparedness to either discuss, or resolve, the above matters.

The Company has received information that ECMR's present unwillingness to engage with the Company and, accordingly, the Company's ability to develop the Project, results from political pressure on ECMR. This information indicates that Egypt may intend to gain full control of TE's Exploitation Licences and the Project.

Over the last Quarter, the Company has spent significant time and resources seeking to resolve this matter with the Egyptian authorities, as well as reserving its rights under Egyptian and international law. During that time it has also sought to negotiate a debt restructure with its creditors and to recapitalise the Company.

Additionally, in late March-early April, increasing business commitments led Mr Ian Gandel, the Company's Chairman and major shareholder to resign from the Board.

The overall situation has led Gippsland to take decisive actions in terms of reducing its costs regrettably including; the termination of the Company's Chief Financial Officer and Project Development Manager, reducing the role of the MENA Regional manager and closing the Perth office.

Over the next few months the Company will continue to pursue its rights in Egypt, restructure its debt and seek opportunities for alternative funding.

FOR FURTHER INFORMATION PLEASE CONTACT

Mike Rosenstreich
www.gippslandltd.com

T: +61 8 9340 6000

E: info@gippslandltd.com

QUARTERLY ACTIVITIES & CASH FLOW REPORT

The Directors of Gippsland Limited (Gippsland or the Company) provide the following Activities and Cash Flow Report for the June 2015 quarter.

1. ABU DABBAB TANTALUM-TIN-FELDSPAR PROJECT (50% INTEREST VIA SHAREHOLDING IN TANTALUM EGYPT JSC)

1.1 Background

The Company announced a revised Project development strategy (the 400K Plan), and a conditional financing arrangement for the Project, on 26 February 2015 (refer ASX announcement 26 February 2015: “Conditional Financing Agreement for Abu Dabbab”).

The 400K Plan and financing arrangements were presented to ECMR at meetings in Egypt in March 2015. ECMR expressed concerns in relation to the time taken to commence the Project since the publication of the first feasibility study in 2004. In a letter to the Egyptian Minister of Petroleum and Mines, and the Chairman of ECMR, the Company committed to commence the Project works by mid-July 2015 or, failing that, the Company would relinquish its interest in the Project.

The 400K Plan is a staged development strategy, with first production of tantalum and tin achievable within 12 months of starting capital works by utilising the equipment, infrastructure, labour and service contracts from the alluvial tin operation situated on the Abu Dabbab site which ceased operations in September 2014 (Stage 1). The 400K Plan offers reduced execution risk, and was primarily developed to facilitate financing of the Project. It solicited financing and investment interest from several parties.

In conjunction with the presentation of the 400K Plan proposal to ECMR, the Company entered into a conditional financing arrangement, to finance the US\$7 million capital expenditure for Stage 1, in return for a 50% interest in the Company’s 100% subsidiary, Tantalum International Pty Ltd (TIPL). TIPL holds the Company’s 50% interest in the Project, as illustrated in Figure 1.

This investment was subject to the satisfaction of customary conditions, including the receipt of confirmation, by way of letters, from each of ECMR, and the Egyptian Ministry of Investment (GAFI), that Tantalum Egypt JSC (TE) was in good standing. GAFI is the regulatory authority for TE, and TE holds the Exploitation Licences at Abu Dabbab.

GAFI has approved TE’s renewal of its work permit for the period 1 January 2015 to 31 December 2015, effectively satisfying the GAFI condition precedent.

As regards the ECMR condition precedent, the Company had received verbal assurances of support from ECMR representatives on the TE Board and from the ECMR Chairman, and anticipated the required support letter from ECMR would follow. Despite these assurances, following a meeting between the Chairman of ECMR and the Chairman of TE (who was also the Company’s representative on the TE Board), the Company became aware, on 26 March 2015, that ECMR was seeking ways to dissolve TE, and to reissue the Exploitation Licences to a third party, although no formal notice to that effect has been received.

The Company requested urgent clarification of ECMR’s intentions from ECMR. ECMR did not respond to the Company’s request, and has not responded to the Company’s further requests to date, the latest on 2 June 2015.

As the result of ECMR’s unwillingness to engage with the Company, the Company suspended further funding into TE.

The Company considers (and ECMR has refused to deny) that Egypt, through ECMR and the Egyptian Mining and Resources Authority (EMRA), is taking measures to gain full control of TE’s Exploitation Licences and the Project.

These developments were completely unexpected in the context of meetings in Cairo through mid-March 2015 where the Company was able to present the Project as “the closest it has ever come to going into production”. Indeed, whilst there were clearly subsisting frustrations in ECMR concerning the long time-line to development, and the poor performance of the alluvial tin operation, the Company had been complimented by representatives of ECMR for the more consultative and collaborative approach adopted over the past 12 months in the joint venture relationship.

As noted above, the Company is seeking both international and local Egyptian legal advice regarding the extent to which the Company may be entitled to claim in response to such actions. Given the potential consequences of not continuing to fund TE, the Directors requested a suspension of trading of the Company’s shares on the ASX pending some clarity or resolution of the matters threatening the Company’s ongoing interest in the Project.

1.2 Current Status

To date the Company has focussed on direct and confidential discussions with ECMR, EMRA and relevant Egyptian Government agencies to maximise the prospects of achieving a positive outcome on this dispute with ECMR. Without ECMR’s support, the Company is not able to procure the required investment funding. The current situation is that:

- the financier has reconsidered the investment, and the Company would need to make a fresh approach to this financing opportunity when the prevailing investment climate changes; and
- ECMR has not demonstrated any preparedness to either discuss, or resolve, the situation.

The Company considers ECMR’s present unwillingness to engage, and, accordingly, the Company’s ability to develop the Project, is the direct result of intense pressure on EMCR from a high sovereign authority in Egypt seeking to gain full control of TE’s Exploitation Licences and the Project. The Company has firsthand information to support this view.

The Company and TIPL continue to conduct themselves and operate in a manner consistent with remaining in Egypt and committed to developing the Project.

ECMR has stated that it is unwilling to further consider the 400K Plan. It has put forward the view – despite having not seen or obviously considered the complete, detailed 400K Plan – that it does not meet international standards, and that the initial investment of US\$7 million is too low.

Accordingly, the Company has on several occasions re-affirmed to ECMR:

1. that the 400K Plan meets international standards for an operation of this kind;
2. the initial investment of US\$7 million is for Stage-1 only, and does not include expenditure on stages 2 and 3 of the 400K Plan; and
3. that the staged approach mitigates many technical risks and marketing risks associated with the tantalum concentrate and feldspar product.

The Company acknowledges the obligations of TE to its Egyptian employees and service providers during this period, however the Company is not prepared to contribute further Gippsland shareholder funds until the dispute is resolved.

Resuming the Project development in accordance with the 400K Plan remains the Company’s preferred option, and the Company has invited ECMR to regularise their relationship accordingly. The Company is, in parallel, pursuing the protection of its investment through all available legal avenues.

2. Corporate

2.1 Financial Position

Cash at the end of the June quarter was \$9k. Total net operating outgoings for the quarter were \$340k, which comprises largely administration and legal costs and “one-offs” such as termination benefits and

office relocation costs. The Company's forecast expenditure for the September, 2015 quarter of \$173k is subject to the successful execution of the refinancing strategy referred to in section 2.3 below.

On 30 June, 2015, Gippsland reported that the repayment date of the loans provided by Gandel Metals Pty Ltd has been extended from 30 June, 2015 to 30 September, 2015. Gandel Metals, a company associated with the Company's major shareholder and former Chairman, Mr Ian Gandel has provided various loans to the Company since September 2013. The total amount outstanding is approximately \$3.45 million including accrued interest. The loan extension is to provide additional time for the Company, Gandel Metals and Mr Ian Gandel to negotiate a possible agreement on an overall debt restructure and recapitalisation strategy.

2.3 Corporate Strategy

The Board is focussed on a debt and capital restructuring process as the first step toward recapitalising the Company on a high priority basis. Additional funding, if forthcoming, would be largely directed toward new mineral opportunities. This will provide the Company's shareholders other opportunities rather than just reliance on the outcome of a legal dispute in Egypt.

Discussions with key creditors and potential financiers are in progress.

2.4 Board Changes

On 14 April 2015, Mr Ian Gandel announced his resignation as a Director and Chairman of Gippsland. Mr Michael Rosenstreich was subsequently elected to replace him as Chairman. Mr Gandel commented "I was originally planning to step-back from my Chairman role as Gippsland transitioned into the development phase of Abu Dabbab with its new partner, due to increasing and pressing business commitments elsewhere. I consider that it is in the best interests of the Company to handover to Mike now to develop and lead a revised corporate strategy. I wish the newly formed Board every success and assure them of my ongoing interest and support as a major shareholder and creditor of the Company."

Mr Rowan Caren, Company Secretary, was appointed as a Director.

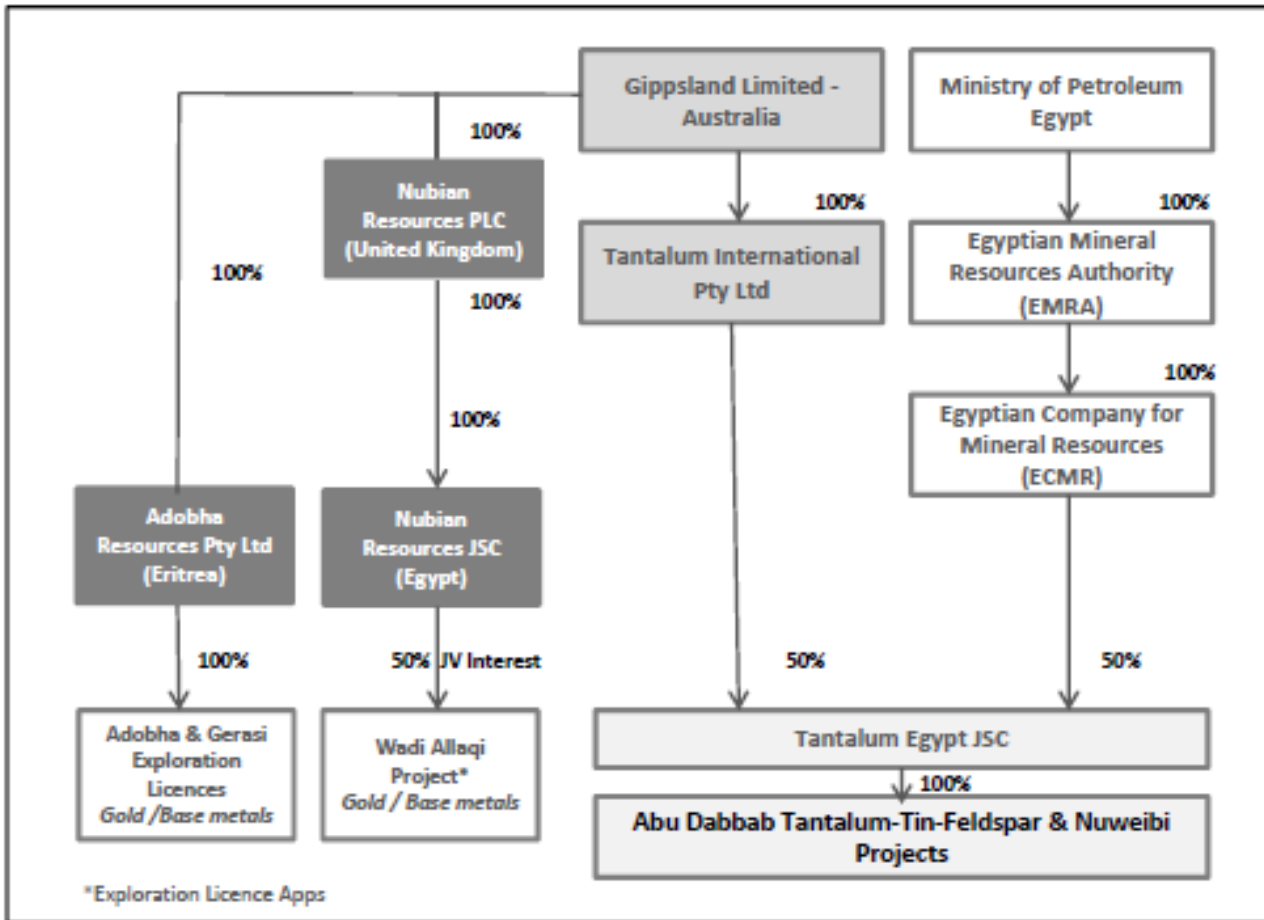
To further reduce costs the Company has closed its Perth office and until the ECMR issue is resolved will run a "virtual" office. This has resulted in several key staff changes including; the Chief Financial Officer, Mr Geoff Hawkins leaving the Company at the end of April, 2015 with the financial management of the Company to be handled by Rowan Caren. Mr Brian Talbot, the Project Development Manager also left the Company in early May, 2015. The Directors deeply regret these losses and thank both Geoff and Brian for their outstanding contributions. Mr Rosenstreich has reduced his time commitment to 50% on an interim basis to manage the dispute resolution, guide the restructure process and assess any new project opportunities, working closely with Mr Caren.

The Company's non-executive directors have agreed to a fee moratorium until 30 June, 2015.

3. Exploration

There were no material exploration activities during the quarter. Despite several approaches, there was no progress on joint venture discussions of Gippsland's Eritrean projects during the quarter. The Company continues to reduce its interests and commitments there.

Figure 1. Abu Dabbab Project ownership structure



Attachment 1 Tenement Details

Tenements Held at 30 June 2015

Country	Project	Tenement	Status	Interest held by Gippsland
Egypt	Abu Dabbab	Exploitation Licence 1658	Granted	50% ¹
Egypt	Abu Dabbab	Exploitation Licence 1659	Granted	50% ¹
Egypt	Nuweibi	Exploitation Licence 1785	Granted	50% ¹
Eritrea	Adobha	Exploration Licence	Granted	100%
Eritrea	Adobha (Gerasi South)	Exploration Licence	Granted	100%

Notes:

1. Gippsland holds 50% of the shares in TE JSC which holds the exploitation licences. The Company may be unable to regain control of Tantalum Egypt' JSC's Exploitation Licences including the Abu Dabbab Project, as a result of ECMR seeking to dissolve Tantalum Egypt JSC and re-tender the Project's Exploitation Licences.

Schedule of Mining Tenements acquired and disposed of during the quarter

1. As stated above the Company may be unable to regain control of Tantalum Egypt' JSC's Exploitation Licences including the Abu Dabbab Project, as a result of ECMR seeking to dissolve Tantalum Egypt JSC and re-tender the Project's Exploitation Licences.
2. The Company had previously noted that the Wadi Allaqi group of exploration licences had been granted subject to an agreement with the Egyptian Government (EMRA) dated 21 June 2004, however the status of these tenements is in dispute with EMRA which the Company had hoped to resolve through the grant of a large Exploration Licence area that encompasses all of the nine disputed tenements. Until the dispute is resolved, the Company will not list any interest in these projects.

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 2015

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	-	53
1.2 Payments for		
(a) exploration & evaluation	(11)	(130)
(b) development	(48)	(468)
(c) production*	-	(466)
(d) administration	(285)	(1,081)
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	-	(72)
1.6 Income taxes paid		
1.7 Other – refund of Egyptian costs	-	55
	(344)	(2,108)
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	-	(1)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	2	109
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Funds attributable to Egyptian companies	(59)	(59)
	(57)	49
Net investing cash flows		
1.13 Total operating and investing cash flows	(401)	(2,059)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	1,045
1.15 Proceeds from sale of forfeited shares	-	
1.16 Proceeds from borrowings	-	1,183
1.17 Repayment of borrowings	-	(400)
1.18 Dividends paid	-	
1.19 Other – capital raising costs (rights issue)	-	(43)
	-	1,785
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)	-	1,785
	Net increase (decrease) in cash held	(401)	(274)
1.20	Cash at beginning of quarter/year to date	410	277
1.21	Exchange rate adjustments to item 1.20	-	6
1.22	Cash at end of quarter	9	9

* Includes payment of outstanding amounts in relation to the alluvial tin project incurred up to the date of closure of the project on 10 September 2014 and closure costs for the alluvial tin project.

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	102
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. Payments of fees to director related entities of Mr Caren included for the period after he was appointed as a Director.

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	-	3,337
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	-
4.2	Development	-
4.3	Production	-
4.4	Administration	173
	Total	173

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.	Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	9	410
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	9	410

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 Abu Dabbab 1658 Abu Dabbab 1659 Nuweibi 1785	Held via 50% shareholding in Tantalum Egypt JSC	50%	The Company may be unable to regain control of Tantalum Egypt JSC's Exploitation Licences including the Abu Dabbab Project, as a result of ECOMR seeking to dissolve Tantalum Egypt JSC and re-tender the Project's Exploitation Licences.
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	1,898,122,866	1,898,122,866	
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: 20 July 2015

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.