

Egyptian Asset Expropriation Update

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1 Overview

The Board of Gippsland Ltd (ASX:GIP) (the **Company**) has now received sufficient legal advice and local information in regard to the dispute over its 50% interest in the Abu Dabbab Tantalum-Tin-Feldspar project (the **Project**), located in Egypt to provide a further update and outlook on the situation.

The Egyptian Company for Mineral Resources (**ECMR**) alleges that Gippsland has abandoned the Project. The Company has been advised that as of 27 July 2015, ECMR (as its 50% equity partner), is seeking to have the Project Exploitation Licences removed from their joint venture company, Tantalum Egypt JSC (**TE**).

Gippsland rejects ECMR's allegations in their entirety and denies that it has, at any time, abandoned the Project. In Gippsland's view, ECMR's conduct constitutes expropriation, or measures tantamount to expropriation, of its interests in the Project (a material asset on which it has spent in excess of US\$30 million).

Gippsland has repeatedly tried to engage with ECMR to resolve the matter so as to be able to proceed to develop the Project with ECMR as joint venturers through TE. ECMR has not responded positively to Gippsland in this regard. Consequently, Gippsland has taken the view that it is highly unlikely that it will be able to resume its participation in, and development of, the Project. Of course, Gippsland has reserved its rights in this regard.

As reported previously, negotiations are in progress to restructure the Company's debt and to recapitalise the Company. Those discussions are now advancing on the basis that the focus of the Company will be to secure a new project and with the Project in Egypt being subject to a legal dispute (which may include Gippsland, in the future, making a claim for financial compensation for the damage it has suffered). Whilst the Board considers that it has a strong legal position, it understands that investors will likely not ascribe any material value to the Project in determining the price at which they will invest in light of the conduct of ECMR.

Therefore on this revised basis, namely a new equity financing under negotiation and little likelihood of regaining the Egyptian assets, the Directors consider that the shares of Gippsland should resume trading.

The Company plans to continue with its core business of identifying, exploring and developing mining projects. It is currently formulating a target framework for acquiring new projects in terms of commodity focus, project status and geographic location amongst other determinants. As well, Gippsland still maintains exploration tenements in Eritrea which are under review.

The Executive Chairman of Gippsland, Mr Rosenstreich, commented: "nobody should underestimate our resolve to gain appropriate compensation for the actions of our Egyptian partner. However, from a Gippsland shareholder perspective, we need to take a commercial view, move on and look for new opportunities. The situation in Egypt can't drive Gippsland's future. We intend to retain control of that ourselves. Along the way, obviously, we also hope that the Government of Egypt understands the implications of increasing sovereign risk and the ramifications of failing to do so will have on attracting international investment into Egypt. Time will tell."

2. ECMR DISPUTE

Since late March, 2015, Gippsland has been prevented from implementing its development and capital raising plans for the Project. At that time, the Company received advice from ECMR (its 50% equity partner 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.

2.1 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 dated 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.

The 400K Plan is a staged development strategy, with first production of tantalum and tin achievable within 12 months of starting capital works. The 400K Plan offers reduced technical, financing and commodity offtake risk compared to any other development proposal completed by Gippsland to date.

At the same time, 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 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 requirement.

As regards obtaining ECMR confirmation, 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 at that time, and has not responded to the Company's further requests to date. 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 not denied) 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.

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.

2.2 Update

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. Commensurate with this the Company has obtained both international and local Egyptian preliminary legal briefings regarding the extent to which the Company may be entitled to claim in response to ECMR's actions.

Whilst the legal investigative process is continuing, the Board considers that it has gained sufficient clarity on the situation to make the following observations and conclusions:

- The Company is unlikely to be able to develop the Project or regain full control of TE's Exploitation Licences.
- ECMR has stated that it is unwilling to further consider the 400K Plan.
- ECMR has accused Gippsland (and therefore TE) of abandoning the Project.
- Gippsland strongly rejects ECMR's allegations, denies it has abandoned the Project, and has reserved its rights (including to seek recourse under both Egyptian and International law).
- ECMR has yet to respond directly to Gippsland's questions or to its invitation to meet and discuss these matters.
- ECMR has refused to acknowledge Gippsland's appointments to the TE Board; namely Mr Rosenstreich to replace its previous representative as Chairman and the appointment of a new Gippsland representative to restore its representation to 2 directors on a Board of 4.

2.3 Outlook

The emerging outlook, based on Gippsland's legal advice and its own observations, is that it is highly unlikely that Gippsland will regain access to the Project or its other interests and assets in Egypt.

Gippsland believes that it will likely need to seek recourse under Egyptian and/or international law (including making a significant claim for financial compensation for the damage it has suffered).

Gippsland will, through its legal counsel, exercise its rights and pursue its claims vigorously. This may include seeking the support of a litigation funding group to assist it in doing so.

However, at this stage, for the reasons outlined above, the Board is proceeding with its recapitalisation negotiations assuming no material value for the Company's Egyptian assets

Subject to successful completion of the recapitalisation strategy the Company plans to continue with its core business of identifying, exploring and developing mining projects. It is currently formulating a target framework for acquiring new projects in terms of commodity focus, project status and geographic location amongst other determinants. As well, Gippsland still maintains exploration tenements in Eritrea which are under review.

Given this view by the Board and the planned announcement of a detailed restructure and recapitalisation plan, the Directors recommend the re-instatement of Gippsland's shares to trading on the ASX.

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Figure 1. Abu Dabbab Project ownership structure

