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## ADOBHA SPIN-OUT UPDATE

As previously announced, Gippsland Limited ("Gippsland" or the "Company") (ASX: GIP) has entered into various transactions in relation to Gippsland's interests in its non-Egyptian assets with a newly incorporated company, Adobha Resources Limited ("Adobha"). The transactions involve: (i) the sale of the Company's joint venture interest in the Heemskirk project to Adobha; and (ii) subscription by Adobha for shares in the Company's subsidiary which holds the Company's Eritrean assets (together, the "Spin Out"). The Spin Out was entered into with a view to creating a stand-alone entity owned by Gippsland shareholders with access to dedicated funding with a view to unlocking the value of these assets.

The valuations underpinning these transactions were performed by an independent expert appointed by the Gippsland Board in September 2010. The valuations were performed in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("VALMIN Code"). In view of the time elapsed since the date of the valuations, the Board has requested that the independent expert update his valuations to take into account changes in circumstances (if any) since the date of his valuations.

Adobha is proposing to conduct an initial public offering of fully paid ordinary shares to Gippsland shareholders of \$4.0 million (and under certain circumstances may accept oversubscriptions of \$1.0 million) ("IPO") and to seek a listing on the Australian Securities Exchange ("ASX"). The IPO will be made by way of a prospectus when the Adobha shares are offered. Applications for Adobha shares must be made pursuant to the application form that will accompany the prospectus.

The IPO offer is an offer by Adobha and therefore (in addition to the statutory restrictions noted below) the terms of the IPO is a matter for the Adobha board and is not a matter on which Gippsland is able make an announcement until such time as the Adobha prospectus is issued.

The *Corporations Act 2001 (Cth)* ("Corporations Act") includes restrictions on advertising the IPO which prevents the Company from publishing details of the structure of the IPO at this time. Section 734(5) of the Corporations Act restricts advertising of an offer prior to the issue of a disclosure document (including a prospectus). In particular, section 734(5)(b) of the Corporations Act states that any advertising for non-quoted securities prior to the issue of a disclosure document must state the following and no more:

- "(i) a statement that identifies the offeror and the securities;
  - (ii) a statement that a disclosure document for the offer will be made available when the securities are offered;
  - (iii) a statement that anyone who wants to acquire the securities will need to complete the application form that will be in or will accompany the disclosure document;
  - (iv) a statement of how to arrange to receive a copy of the disclosure document.
- To satisfy paragraph (b), the advertisement or publication must include all of the statements referred to in subparagraphs (i), (ii) and (iii). It may include the statement referred to in subparagraph (iv)."*

Gippsland made submissions to ASX regarding the Spin Out and IPO, in particular in relation to Gippsland shareholder approval not being required under the Listing Rules. On the basis of the information provided by Gippsland to ASX, ASX did not disagree with Gippsland's submissions. Consequently, Gippsland will not be seeking shareholder approval for the Spin Out and IPO.

Continued exploration of the Eritrean assets requires substantial future commitment of funds. Under Eritrean mining law, expenditure commitments entered into by the holder in relation to tenements are mandatory. Failure to expend funds in accordance with a commitment results in a liability to the Eritrean government to the extent of the unexpended portion of the commitment or forfeiture.

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Continued exploration of the Eritrean assets by Gippsland would have imposed a significant burden on available funds and would inevitably have resulted in additional equity raisings by Gippsland.

As the IPO will be offered to the extent possible to Gippsland shareholders, the ultimate beneficial ownership of the assets remains in the hands of those individual Gippsland shareholders who wish to maintain their interest in these assets by "opting in" to the contribution of the necessary equity funding for the further exploration of these assets whilst affording the opportunity for those Gippsland shareholders who wish only to contribute to the on-going development of Gippsland's flagship Abu Dabbab project to "opt out" from the contribution of the necessary equity funding for the further exploration of these assets without dilution of their proportional interests in the Abu Dabbab project.

*Reasons for the Spin-out*

As previously announced, the Directors of Gippsland believe that there are a number of compelling reasons for the 'spin-out' of the assets.

These include

- (a) the need for substantial commitment of funding and personnel resources to the exploitation of these assets;
- (b) providing an opportunity to 'unlock' the value of these assets for the benefit of Gippsland shareholders;
- (c) creating an entity with its own funding managed by a management group dedicated to the effective exploitation of the assets; and
- (d) permitting Gippsland to devote its financial and management resources to the development of the Abu Dabbab project.

The combination of all of GIP non-Egyptian assets provides the new entity with sufficient critical mass to represent an attractive investment opportunity, which in isolation they would not.

The Directors of Gippsland wish to record their appreciation to Mr Ian Gandel for the financial support afforded by him to Adobha on very favourable terms, providing the means to fund immediate mandatory exploration expenditure in Eritrea without Gippsland having to issue additional shares for this purpose.

Yours faithfully



Rowan Caren  
Company Secretary