SECOND QUARTER ACTIVITIES REPORT

Period: October - December 2010
Release Date: 28 January 2011

The Directors of Gippsland Limited ('Gippsland' or 'the Company') [ASX: GIP, FRA: GIX] provide the following Activities Report for the period October - December 2010, together with details of events up to the date of this report.

EGYPT - ABU DABBAB TANTALUM-TIN PROJECT

Tantalum Offtake Agreement

Gippsland has a 10-year tantalum offtake agreement ('Offtake Agreement') executed in November 2007 between Gippsland’s 50% owned subsidiary Tantalum Egypt JSC ('Tantalum Egypt') and the German tantalum major HC Starck GmbH ('HC Starck').

Pursuant to the 10-year Offtake Agreement, Tantalum Egypt is contracted to supply approximately six million pounds of tantalum pentoxide (\(\text{Ta}_2\text{O}_5\)) produced from its 100% owned 44.5 million tonne Abu Dabbab Tantalum-Tin-Feldspar Project ('Abu Dabbab Project') in Egypt. With the exception of the first year of commercial production when Tantalum Egypt shall provide all \(\text{Ta}_2\text{O}_5\) produced to HC Starck, the Offtake Agreement represents 600,000 pounds of \(\text{Ta}_2\text{O}_5\) per year or 92% of the Abu Dabbab Project's initial projected annual \(\text{Ta}_2\text{O}_5\) production.

The prices of \(\text{Ta}_2\text{O}_5\) under the Offtake Agreement are confidential, however the Offtake Agreement provides a base price for \(\text{Ta}_2\text{O}_5\) and price-escalation clauses tied to production cost increases.

As previously advised, Gippsland is in negotiation with HC Starck regarding the terms of the Offtake Agreement.

Gippsland has also maintained contact with and continued discussions with other tantalum refiners.

Project Finance

Gippsland has previously advised the market that its proposed financing for the Abu Dabbab Project with KfW-IPEX Bank GmbH was well advanced. Prior to the onset of the global financial crisis, the legal and technical due diligence had been largely completed by the bankers. A key component of the financing of the Abu Dabbab Project is the Offtake Agreement.

Accordingly, the securing of a project finance offer from KfW-IPEX Bank GmbH awaits completion of negotiations with HC Starck or with other tantalum refiners, but in the meantime, the most likely requisite due diligence project verification steps are being completed, with the specialist guidance of Noah’s Rule.

Appointment of Corporate Advisor – Noah’s Rule

During October 2010 Gippsland announced the appointment of the risk and financial advisor, Noah’s Rule, to assist in fund raising and financial structuring in regard to the development of the 44.5 million tonne Abu Dabbab Project.
The Noah’s Rule team of banking, treasury and industry trained professionals, which has worked with a broad range of highly successful resource companies both within Australia and overseas, is well placed to provide advice in regard to the financing of the project and detailed tantalum offtake negotiations presently in progress with HC Starck.

**Coffey Mining Technical Review**

Coffey Mining Pty Ltd (Coffey Mining) was appointed as the Independent Engineer by the Company’s prospective debt financiers to conduct an Independent Engineering Audit (IEA) on the Abu Dabbab Project, located in Egypt. The purpose of the IEA was to validate the Company’s Bankable Feasibility Study (BFS) and confirm that the proposed mining operations, processing facilities and associated infrastructure and services have been based on appropriate and adequate data and were developed in terms of sound engineering principles and generally accepted environmental guidelines and practice. The IEA was also to verify that the operation would achieve the planned output of metals within the detailed capital and operating cost budgets over the planned life of mine.

Coffey Mining was initially appointed in November 2008. Its activities were suspended in early 2009 pending resolution of outstanding matters in relation to the tantalum Offtake Agreement between the Company and H.C Starck.

In anticipation of a final resolution of the outstanding matters relating to the Offtake Agreement, the Company requested in October 2010 that Coffey Mining complete the IEA. During the quarter, the Company received a final draft of the IEA.

The IEA relied on existing information supplied by Gippsland and the basis of the audit was a review of the latest Feasibility Study Update compiled by Lycopodium Pty Ltd (Lycopodium) in September 2008 and addendums to this study update prepared in January and February 2009. The IEA considered all of the Abu Dabbab Project’s technical parameters and did not identify any material flaws in the project BFS. In relation to the project implementation, it noted, “No significant or unusual risks are associated with the Abu Dabbab Project construction and commissioning schedules”, and also that, “There were no major environmental and permitting risks highlighted in this review.”

It is anticipated that the Coffey Mining report will be finalised and passed on to KFW-IPEX Bank GmbH in the next quarterly reporting period.

**Project ESIA**

Following evaluation of alternative approaches to the supply of raw sea water and the disposal of waste brine by Lycopodium and Gippsland, it was proposed to source raw sea water directly by way of a sea water intake from the Red Sea. Raw sea water will be desalinated within the area of the Free Trade Zone whilst brine will be disposed of in coastal re-injection wells. This proposal required regulatory approval from a number of authorities for the onshore pipeline facilities.

The Company has secured the relevant regulatory approvals and is now updating its ESIA to take account of the elimination of the use of sea water as process water and the consequential changes to the tailings storage facility (“TSF”) and sea water intake and brine discharge facilities. Accordingly, Tantalum Egypt has appointed its environmental consultants, Envionics, to prepare an ESIA study for the seawater intake and brine discharge activities, as well as to prepare an update of the ESIA addendum (prepared in 2008) to take account of the changes to the TSF resulting from the use of desalinated process water. Envionics is expected to deliver its report in the first quarter of 2011, following which the final environmental approvals for the project may be obtained.
Validation of SynCon Process

In anticipation of securing appropriate project finance, the Company has appointed CRT Minerals, the Company’s pyrometallurgical consultants, to prepare a test work program to validate the SynCon process and to accurately define key final equipment and process specification parameters. It is anticipated that a proposal for such work will be received early in 2011 and that work will commence immediately thereafter.

Bathymetric Survey

The Company has commenced a bathymetric survey of the seabed in the vicinity of Marsa Abu Dabbab in conjunction with its final design of the sea water intake facilities. This work will facilitate the ESIA update, particularly with regard to the proposed sea water desalination strategy.

Canadian 43-101 Resources and Reserves Classification

During the quarter an independent geological consultant commenced preparation of a Mineral Resources and Ore Reserves Report in relation to the Company’s Abu Dabbab and Nuweibi tantalum deposits that will comply with the reporting requirements set forth in the Canadian National Instrument 43-101, Companion Policy 43-101CP, and Form 43-101F1. Gippsland has been advised that this report should be finalised by the independent geological consultant during the next month.

While the Australian JORC Code[^1] classification is accepted worldwide, the North American market is in general more familiar with, and tends to rely more upon, the broadly similar Canadian 43-101 classification in relation to Mineral Resources & Ore Reserves.

The preparation of a Mineral Resources & Ore Reserves Report compliant with Canadian 43-101 classification will greatly assist in positioning the Company in the North American capital markets and in marketing the Company’s tantalum products to North American customers, and elsewhere.

Gippsland’s 44.5 million tonne Abu Dabbab and 98 million tonne Nuweibi deposits currently comply with the JORC Code and contain the following Mineral Resources and Ore Reserves:

Table 1: Abu Dabbab Resources (100g/t Ta₂O₅ cut-off)

<table>
<thead>
<tr>
<th>Category</th>
<th>Million Tonnes</th>
<th>Ta₂O₅ (g/t)</th>
<th>Sn (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measured</td>
<td>15.2</td>
<td>290</td>
<td>0.143%</td>
</tr>
<tr>
<td>Indicated</td>
<td>17.3</td>
<td>250</td>
<td>0.078%</td>
</tr>
<tr>
<td>Inferred</td>
<td>12</td>
<td>200</td>
<td>0.03%</td>
</tr>
<tr>
<td>Total</td>
<td>44.5</td>
<td>250</td>
<td>0.09%</td>
</tr>
</tbody>
</table>

Table 2: Abu Dabbab Ore Reserves (100g/t Ta₂O₅ cut-off)

<table>
<thead>
<tr>
<th>Category</th>
<th>Million Tonnes</th>
<th>Ta₂O₅ (g/t)</th>
<th>Sn (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proven</td>
<td>15.20</td>
<td>260</td>
<td>0.133</td>
</tr>
<tr>
<td>Probable</td>
<td>15.04</td>
<td>250</td>
<td>0.084</td>
</tr>
<tr>
<td>Total Proven &amp; Probable</td>
<td>30.24</td>
<td>255</td>
<td>0.109</td>
</tr>
</tbody>
</table>

Table 3: Nuweibi Resources (100g/t Ta₂O₅ cut-off)

<table>
<thead>
<tr>
<th>Category</th>
<th>Million Tonnes</th>
<th>Ta₂O₅ (g/t)</th>
<th>Nb₂O₅ (g/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicated</td>
<td>48</td>
<td>147</td>
<td>90</td>
</tr>
<tr>
<td>Inferred</td>
<td>50</td>
<td>138</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>143</td>
<td>92</td>
</tr>
</tbody>
</table>

NB: Numbers in Tables 1, 2 & 3 may not correlate exactly due to rounding.
**Tantalum Market**

The long predicted shortage in the global tantalum supply is now having a dramatic effect on the international tantalum market, with the spot market price increasing from approximately US$38 per pound in December 2009 to the present price range of US$110-US$120 per pound.

The shortage is expected to continue through to at least 2013 by which time the Abu Dabbab Project could be in a position to contribute substantially to demand with its initial production of in excess of 650,000 pounds of Ta₂O₅ per year, coupled with significant opportunities for production expansion should market conditions warrant. Implementation of the Abu Dabbab project would position Gippsland as a world ranking, top tier producer of conflict-free, clean tantalum, thereby justifying Abu Dabbab as a world class deposit.

**ERITREA (ADOBHA PROJECT)**

Gippsland’s 100% owned subsidiary Nubian Resources Pty Ltd holds a 2,100km² Exploration Licence plus three 100km² Prospecting Licences (total 2,400km²), in the highly prospective Adobha region of The State of Eritrea ('Licences').

The Licences cover 2,400km² of a highly mineral endowed region of Eritrea that is regarded as very prospective for volcanogenic massive sulphide (VMS) mineralisation and structurally controlled gold mineralisation. Local examples of these types of deposits are the Bisha base metal deposit (1.44 million ounce gold and 0.39 million tonne copper) located some 174km to the south and the 0.760 million ounce Zara gold project (Koka deposit) located only 16km to the south of the Company’s most southern Licence. The large area covered by the Licences forms part of the Precambrian Nubian-Arabian Shield that also hosts the 13.7 million ounce Sukari gold deposit.

Under the terms of the Eritrean Mining Act, Prospecting Licences are granted for one year after which they may be converted to Exploration Licences or surrendered. Exploration Licences have tenure of three years which can be extended for a further two years.

The Licences secure a large area around the promising base metal prospects discovered by the Company during recent regional reconnaissance geochemical surveys. The geochemical surveys and subsequent follow-up involving rock-chip sampling and geological mapping identified large areas of visible copper mineralisation, some of which contained associated lead and zinc. The geochemical surveys targeted the highest ranked of the interpreted Thematic Mapper satellite image anomalies. A number of anomalies are still to be examined.

During the quarter Gippsland has been preparing to complete geological mapping at 1:25,000 scale over the whole of the tenement area with 1:5,000 scale mapping over areas of interest such as outcropping mineralisation, geochemical anomalies and areas of hydrothermal alteration. Gippsland has purchased high resolution ALOS satellite imagery over the whole of the project area and has completed a geological interpretation of this imagery at a scale of 1:25,000. A broad scale interpretation at 1:250,000 has also been completed which has been exceptionally useful in identifying mappable units.

The interpretation work is a vital prelude to the field mapping which can now proceed and, as a consequence, will take considerably less time than originally forecast. Field work will commence during February and will continue through to April involving geological mapping and geochemical sampling.

A status report on the proposed spin off of the Eritrean assets and the Company’s interests in the Tasmanian Heemskirk Tin Project is included later in this report.
AUSTRALIA – HEEMSKIRK TIN DEPOSIT DRILLING RESULTS AND METALLURGICAL TESTWORK RESULTS

The Heemskirk Tin Project (Gippsland: 40% free carried to BFS), at Zeehan Tasmania, collectively comprises Australia’s largest known undeveloped hard rock tin deposit; the Queen Hill, Severn, and Montana deposits.

During the past year, Gippsland’s joint venture partner Stellar Resources Ltd (ASX: Code SRZ, ‘Stellar’) undertook a review of the historical drill data, focusing on Queen Hill, the shallowest of the three deposits, with the objective of selecting near surface drill targets for infill drilling.

During the quarter, Stellar announced it had completed initial metallurgical test work on recent drill core samples from the upper part of the Queen Hill mineralisation at the Heemskirk Tin Project.

Highlights of the metallurgical test work programme reported by Stellar include:

- Good liberation characteristics down to finer fractions and cassiterite tin mineralogy underpin the 70% recovery target.
- Mineral characterisation shows that it is possible to produce a saleable concentrate grading 50% tin at recovery of 70%.
- Pre-concentration can enhance the process by rejecting 15% of the non-economic minerals early in the process with negligible loss of tin.

On 25 January 2011, Stellar announced the following update of activities which it says will allow it to commence scoping studies in the June quarter:

- Preparation of a JORC compliant resource estimate is well advanced and following validation of some of the historical data should be ready for release at the end of February.
- Preliminary metallurgical test work has shown that the traditional high-sulphide tin processing circuit will work for Heemskirk tin mineralisation. Stellar has committed to the next stage of metallurgical testing which will focus on the tin float circuit.
- Tin prices remain strong at US$27,800/tonne with market tightness expected to maintain current or higher price levels throughout 2011.

Under the terms of the Heemskirk joint venture agreement, Stellar (subject to satisfaction of a number of conditions) has the right to increase its ownership of the Heemskirk Tin Project from 60% to 70%. These conditions include the requirement on Stellar to:

- Complete a comprehensive feasibility study recommending that commercial development be undertaken with a view to undertaking mining operations and containing all necessary supporting reports and data including geological and metallurgical, financing and marketing studies ('Studies'); coupled with,
- A written commitment based upon the Studies by a corporation, institution or bank acceptable to Gippsland and Stellar to lend not less than one half of all costs to be met by Gippsland for the commercial development of the project up to the date of commencement of commercial production.
CORPORATE

Placement to raise $3.2 million

During October 2010 Gippsland successfully raised the sum of $3.2 million (before costs) by way of a placement to institutional and sophisticated clients of Patersons Securities Limited which placed 80 million fully paid ordinary shares at $0.04 per share.

Spin off IPO of Eritrean and Tasmanian Assets

During the quarter, Gippsland has made significant progress in relation to the tasks involved with the proposed spin off via an IPO and listing on ASX Limited (‘ASX’) of Gippsland’s 100% owned Adobha Project located in the State of Eritrea and Gippsland’s 40% interest in the Heemskirk Tin Project located in Tasmania.

Gippsland’s primary focus is on the development of its 44.5 million tonne Abu Dabbab Project located in Egypt and to progressing the financing and construction of Abu Dabbab Project, which has the potential to be the world’s largest single source of the highly strategic supermetal tantalum.

Adobha Resources Ltd (‘ARL’) has been incorporated and, under the current proposal, will purchase from Gippsland the Adobha Project and Gippsland’s 40% interest in the Heemskirk Tin Project, in exchange for equity in ARL. ARL will seek to raise sufficient funds to explore the Adobha Project via an underwritten IPO prospectus, with Gippsland shareholders to be offered the opportunity to subscribe for ARL shares on a pro-rata basis.

It is the Board of Gippsland’s view that the Adobha Project and Gippsland’s 40% interest in the Heemskirk Tin Project are not currently attributed a significant valuation by the market and also believe that the potential value of these assets would be substantially unlocked by dedicated funding via an IPO of ARL on ASX.

Further updates in relation to the progress of the IPO and proposed timetable will be announced when available.

Annual Report

Gippsland’s Annual Report for the 2009/2010 year was released on 22 October 2010. The document is available on the Company’s website.

Executive Team

On 26 November 2010, Mr RJ (Jack) Telford resigned as a Director of Gippsland and its subsidiaries and the Board of Gippsland terminated Mr Telford’s contract as Chief Executive Officer.

Following these changes, an interim executive team was established, responsible for the day to day operation of the Company and comprised of Mr Jon Starink, Mr John Dunlop, Mr Ayman Ayyash, Dr John Chisholm and Mr Geoff Hawkins, supported by Mr Ian Gandel, the Company’s Chairman.

Mr John Dunlop has been appointed to replace Mr Telford on the boards of Gippsland’s subsidiary entities, Tantalum Egypt and Nubian Resources JSC, following the resignation of Mr Telford.

Mr Dunlop was also appointed to replace Mr Telford as Chairman on the boards of Tantalum Egypt and Nubian Resources. The board of each of these companies convened its respective annual general meeting in Cairo on 23 December 2010, thereby completing their annual audit and reporting compliance requirements for 2010.
A decision to appoint a new Chief Executive will be made as soon as the main and immediate project milestones are achieved in the first half of 2011.

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JSF Dunlop
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Note:
In accordance with Listing Rule 5.6 of the Australian Stock Exchange Limited, the geological information in this report that relates to Exploration Results, Mineral Resources and Ore Reserves is based on data compiled by Dr John Chisholm, a Fellow of The Australasian Institute of Mining and Metallurgy. Dr Chisholm has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Dr Chisholm consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia (JORC Code)