Gippsland Limited [ASX: GIP, DB: GIX] ("Gippsland" or "the Company") is pleased to provide an update in relation to the Abu Dabbab hard-rock tantalum-tin-feldspar project (the "Project") located in Egypt, further to its most recent updates dated 24 July 2013, 5 March 2013 and 17 October 2012. The Abu Dabbab project is a significant hard rock tantalum-tin-feldspar deposit held by Tantalum Egypt JSC (TE JSC); Gippsland and the Egyptian government each have a 50% shareholding in TE JSC.

Summary Points

- Significant project review underway focussed on reducing the overall capital costs to develop the Project and the proportion of that capital cost to be borne by TE JSC.

- Revised financing strategy focuses on contract mining & crushing, seeking outsource arrangements for support services including the provision of power, desalinated process water and camp facilities, as well as examining toll treatment smelting options for the tantalum-tin smelter feed concentrate to be produced.

- A study completed to +/-25% cost estimation accuracy has indicated that implementing an alternative approach to the design and construction of the primary mill, securing BOO contracts for the provision of services and utilising contractor or leased mining equipment could reduce the capital required to be invested by TE JSC for the core processing requirements to US$77 million, with initial 2 Mtpa ROM treatment capacity, which could be readily expanded to 3 Mtpa ROM treatment capacity.

- The study was undertaken by MSP Engineering of Perth, who have extensive experience in engineering design, construction and operation of gravity recovery circuits particularly in relation to hard-rock tin-tantalum projects.

- It is proposed that further work be undertaken to develop all engineering and commercial elements of the revised approach to culminate in a definitive study, subject to meeting technical milestones and financial thresholds through this process, over the next 6 months.

- A reduced financing requirement for TE JSC would allow TE JSC and the Company to be more flexible in their approach to obtaining the project finance.

Banking Consortium

As previously announced, a Consortium of Egyptian banks was formed to jointly support TE JSC in raising the required senior debt financing for the development of the initial phase of the Project. Whilst the latest political events in Egypt have not affected the Consortium’s enthusiasm for the financing, the financing process has slowed as the Company seeks to reassess the capital investment requirements as set out below. The Consortium has been advised by Gippsland that financing discussions will be suspended until the project review is complete. Subject to the findings of the project review, it is anticipated that a coherent lower cost development strategy will be discussed and advanced with financiers.
It is important to note, that the underlying mining and processing flow sheet was recently assessed by the Consortium’s independent technical expert who concluded in a preliminary draft report that the Project had no fatal flaws.

Historical Capital Cost Estimate

Gippsland completed a comprehensive Feasibility Study for the project based on a processing rate of 2 Mtpa of ore, which was last updated in late 2010. The development strategy in that Feasibility Study was based on TE JSC providing a fully operational turnkey facility including mining fleet, crushing, process plant, power station, Reverse Osmosis (RO) plant and overland water supply pipeline, along with full infrastructure including accommodation facility. It was also planned to construct and operate a smelter on site.

The capital cost for the first stage (tin metal and tantalum slag production) of the Abu Dabbab project was estimated in 2010 at US$178 million for the 2 Mtpa plant and US$225 million for a 3 Mtpa plant (refer announcement dated 18 May 2011), excluding finance charges during construction. With the benefit of hindsight, it is apparent that this 2010 capital cost estimate was commissioned at the height of the mining investment cycle.

Board Review

The Board is undertaking an advanced and comprehensive project review examining various financing opportunities for the development of the Abu Dabbab project. This ongoing review process has already highlighted the significant opportunity for TE JSC and the Company to reduce its capital investment by compartmentalising discrete components of the process flow sheet and support services and seeking to utilise local and regional third party equipment and services where possible. The components of the project capital cost for which the Company is exploring outsourcing opportunities include drilling and blasting, the mining fleet, crushing equipment, RO plant, power station and the smelter.

In November 2013, Gippsland engaged MSP Engineering (MSP) to prepare a Capital Estimate Study for the project, which incorporated the following key development approach;

- Contractor mining and crushing with capacity to produce up to 3 Mtpa of fine ore feed;
- A wet beneficiation plant with initial capacity to process 2 Mtpa of mill feed and the ability to be expanded to 3 Mtpa of mill feed;
- A Build Own Operate (BOO) power station;
- A BOO process water provider including RO plant;
- The inclusion of second-hand equipment, where possible; and
- Toll smelting of the tantalum-tin concentrates.

Based on the above criteria, MSP developed a revised capital estimate for the facility of US$77 million, including $6 million of contingency, which is current as at 4th Qtr 2013 and expected to be ±25% order of accuracy.

The MSP capital estimate does not include allowance for the construction of a water supply pipeline from the RO plant to the plant site or the construction of gravity concentrate upgrading facilities on site, which still need to be factored into the overall capital expenditure budget. However the scale of potential reduction in the overall capital investment requirement for TE JSC can be gauged from a comparison of the MSP estimate to the 2010 estimate. This has resulted from a combination of electing to utilise BOO facilities owned by other parties and toll terms for key components of the mining and treatment process, utilising a primary mill comprised of pre-assembled modules, the use
of suitable second hand plant where applicable and the stage of the mining investment cycle at which the respective estimates have been prepared.

MSP is a Western Australian based engineering firm with a global reputation for expertise in tin and tantalum processing and gravity separation techniques such as are planned to be employed at Abu Dabbab. MSP built the treatment plants at the world class Greenbushes and Wodgina tantalum (tin & lithium) deposits, in Western Australia and acted as project managers for the Wodgina and Dalgaranga Tantalite Expansion Projects.

The Company expects to leverage the in-country experience it has gained from the execution of the alluvial tin project which has demonstrated that there are a number of Egyptian and MENA based firms who could undertake and provide local services to the Project on a contract basis at internationally accepted standards.

Next Steps

The Company is now working toward completing a base case project development plan and is planning to further refine these capital costs and the resulting operating costs to ultimately complete a Definitive Feasibility Study (DFS) on the Abu Dabbab tantalum-tin project. Indicative offers and expressions of interest for all of the major contractor and BOO components have already been received by MSP and Gippsland. There is an ongoing assessment process of a series of technical and financial milestones to continually review the viability of the development strategy in terms of returns for Gippsland shareholders, attainment of which will determine progress toward completion of the DFS.

Based on implementing a staged and disciplined technical and financial implementation strategy the Company is also examining its financing requirements to complete this implementation process and will provide further updates as this becomes clearer.

Other

The Company has secured the consulting services of Keystone Resource Development, whose principal, Mr Mike Rosenstreich will focus on business development and strategy with particular emphasis on the Abu Dabbab project. Mr. Rosenstreich has a technical background but has worked in corporate finance and management of listed companies over the past 30 years.

The Company looks forward to providing further updates in due course.

Yours faithfully
Gippsland Limited

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