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Independent Calculation of Abu Dabbab Project Economics

Highlights

- Noah's Rule completes independent calculation of project economic indicators for the Abu Dabbab Project;
- Un-geared Project NPV of $593m @ 10% discount rate;
- Un-geared NPV for Gippsland's interest in the Project of $264m @ 10% discount rate;
- Un-geared IRR for Gippsland's interest in the Project of 28.4%;
- Key price assumptions upon which the financial modelling was based include:
    - Tantalum oxide product is priced in accordance with the off-take agreement ("OTA") between the Company and H.C. Starck GmbH ("Starck") in respect of the contracted annual volume of 600,000 pounds of Ta_2O_5 contained in product per annum;
    - All other projected sales of products are taken at prevailing market prices; and
    - Notwithstanding that the subsidised prevailing Egyptian fuel price is approximately 20 US cents per litre, fuel costs assumptions are market based and are priced at 93.5 US cents per litre in the model, based on Mediterranean FOB price for diesel 10 ppm plus ten percent to account for shipping and transport charges.
- The Company's announcements dated 18 May 2011 and 8 June 2011 provide the technical and capital cost parameters upon which the financial modelling was based, which include a 3mtpa run of mine ore throughput.
- Results indicate the Abu Dabbab Project performance indicators remain relatively robust even when higher discount rates are applied or product prices below current market prices are used;
- As previously announced, the price escalation provisions of the OTA with Starck afford the Project with partial protection from operating expense escalation and thus project economic indicators are relatively insensitive to changes in operating expense; and
- Sensitivity of project economic indicators to adverse changes in revenue is expected to be reduced by some form of tin price hedging to complement the price security afforded by the OTA with Starck with respect to 600,000 pounds of the Project's anticipated 925,000 pounds annual production of Ta_2O_5.

Gippsland Limited [ASX: 'GIP'; FRA: 'GIX'] ('Gippsland' or the 'Company') is pleased to announce the results of an independent calculation of project economic indicators and sensitivities for the Abu Dabbab tin-tantalum-feldspar project completed by the Company's financial advisers, Noah's Rule.

The economic performance indicators produced are the conventional Net Present Value ("NPV") and Internal Rate of Return ("IRR") methodologies for project evaluation utilising a core set of costs provided by the Company's engineering consultants and revenue assumptions related to product sales, market price and fuel costs set by Gippsland's management in consultation with Noah's Rule. The results are summarised in Table 1.

Base Case Performance Indicators

The Company's announcements dated 18 May 2011 and 8 June 2011 provide the technical parameters upon which the financial modelling was based, which include a 3mtpa run of mine ore throughput.

The key price assumptions upon which the Base Case performance indicators presented in Tables 1(a) (un-geared) and 1 (b) (geared) were based are summarised in Table 2.

Table 1 (a) Base Case Un-Geared Economic Performance Indicators
(Capital costs 100% Equity Funded)

Performance Indicator	Units	Project	Gippsland Share
NPV @ 10% discount rate	US$ million	593.0	263.6
NPV @ 15% discount rate	US$ million	402.8	164.9
NPV @ 20% discount rate	US$ million	271.5	94.6
IRR	%	39.2	28.4

Table 1 (b) Base Case Geared Economic Performance Indicators
(Capital costs 50:50 Debt:Equity Funded)*

Performance Indicator	Units	Project	Gippsland Share
NPV @ 10% discount rate	US$ million	583.8	268.8
NPV @ 15% discount rate	US$ million	392.6	188.4
NPV @ 20% discount rate	US$ million	260.7	132.3
IRR	%	37.8	42.5

**Interest on debt is assumed at 7% per annum*

Table 2: Base Case Price Assumptions

Product		Unit	Product Price Assumptions
Tin		US$ per tonne	25,450
Ta_2O_5			
	Off-Take Price	US$ per pound	per OTA
	Residual Sales	US$ per pound	110
Feldspar		US$ per tonne FOB	35
Diesel Price		US$ per litre	0.935

For the purpose of financial modelling it is assumed that all feldspar products will be exported via a port facility to be located at Port Turumbi. Approval of a proposal for a port facility to be located in the vicinity of Marsa Abu Dabbab would increase net cash flow by up to US$4.8 million annually or approximately US$65 million over the initial project life of 13.5 years.

All results are drawn from a comprehensive financial model prepared by the Company in conjunction with the German banks KfW IPEX-Bank GmbH ("KfW") and DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH ("DEG"). Whilst Noah's Rule has reviewed and held discussions around the mining inputs, throughput and costs in the financial model, these are primarily supplied by the Company and its consultants. Noah's Rule's primary input into the financial model relates to market price assumptions utilised for commodity sales, discount factors and currency exposures.

Revenue Sensitivity Analysis

Indicator sensitivity to product price assumptions was tested by Noah's Rule by repeating the modelling using historical five year average market price assumptions. The price assumptions are set out in Table 4. The results are summarised in Tables 3 (a) (un-geared) and 3 (b) (geared).

It must be noted that historical Ta_2O_5 market prices were strongly influenced by the supply of material originating from conflict areas in the Democratic Republic Of Congo. The passage of the US Conflict Minerals Bill appears to have had a major impact on eliminating this material from the tantalum industry supply chain and market prices have risen substantially since the passage of this legislation. Accordingly whilst the use of a five year average price by Noah's Rule for the purpose of sensitivity analysis is appropriate for that purpose, the Company believes that the commitment by the major European and US processors of tantalum materials to eliminate 'conflict' materials from their supply chains, together with ongoing inventory reductions throughout the supply chain, will result in the maintenance of current prices going forward.

Table 3 (a) Un-Geared Economic Performance Indicators based on historical five year average market price assumptions
(Capital costs 100% Equity Funded)

Performance Indicator	Units	Project	Gippsland Share
NPV @ 10% discount rate	US$ million	120.6	43.4
NPV @ 15% discount rate	US$ million	34.6	-16.0
NPV @ 20% discount rate	US$ million	-25.1	-59.5
IRR	%	17.0	12.9

Table 3 (b) Geared Economic Performance Indicators based on historical five year average market price assumptions
(Capital costs 50:50 Debt:Equity Funded)*

Performance Indicator	Units	Project	Gippsland Share
NPV @ 10% discount rate	US$ million	111.5	52.2
NPV @ 15% discount rate	US$ million	24.4	14.3
NPV @ 20% discount rate	US$ million	-35.9	-12.7
IRR	%	16.7	16.2

**Interest on debt is assumed at 7% per annum*

Table 4: Historical 5 Year Average Product Price Assumptions

Product		Unit	Product Price Assumptions
Tin		US$ per tonne	17,000
Ta_2O_5			
	Off-Take Price	US$ per pound	per OTA
	Residual Sales	US$ per pound	67
Feldspar		US$ per tonne FOB	20
Diesel Price		US$ per litre	0.935

Noah's Rule found that the cash flow model indicates the Project is relatively robust even when higher discount rates are applied for the purpose of calculating NPV or when prices significantly below current levels are used to calculate the Project's NPV and IRR.

Additional Background Information

The Mining Licences for the 40 million tonne Abu Dabbab and the 98 million tonne Nuweibi tantalum deposits are held by Tantalum Egypt JSC ("TE"), an Egyptian registered joint venture company. Gippsland, via its wholly owned subsidiary Tantalum International Pty Ltd ("TI"), holds 50% of the shares in TE. Egyptian Mineral Resources Authority ("EMRA") (formerly Egyptian Geological Survey & Mining Authority) holds the balance of the shares in TE.

Pursuant to the TE shareholders agreement, funding for the development of the Abu Dabbab Project will be provided by project financiers and shareholder loans provided by TI. EMRA is not required to contribute to the funding of TE. All such loan funds are to be repaid from net project cash flow in priority to any distribution of profits by TE to its shareholders by way of dividends.

Further, prior to a distribution of profits by TE, Egyptian employees of TE are entitled to receive an annual bonus in value up to the equivalent of their salary.

Pursuant to the TE shareholders agreement, all TE profits are distributed quarterly to TE shareholders by way of dividend payments. As originally constituted, TI and EMRA would share equally in dividend payments by TE. TI's profit share (and thus the Company's interest) was reduced from 50% to 45% in January 2005. At the same time:-

- a 5% royalty that was to be levied by the Egyptian government on gross sales revenue arising from production at the Abu Dabbab project was extinguished, and

- the Egyptian General Authority for Investment & Free Trade Zones ("GAFI") approved TE's application to have the Abu Dabbab and Nuweibi projects operate within a project-specific Private Free Trade Zone. The approval of a Private Free Trade Zone provided benefits to the Abu Dabbab and the Nuweibi project including but not limited exemption from:-

  - customs import duty for plant & equipment and imported project consumables;
  - sales tax; and
  - general and Company profit taxation.

Project Debt Finance

The Company, together with Noah's Rule, is presently in discussions with a well known and respected global financial institution with a view to securing an offer for debt finance of the Abu Dabbab Project.

Subject to successful completion of these discussions and completion of project financing conditions precedent, the Company would be on track to announce project go-ahead later this year.

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About Noah's Rule

Noah's Rule is a specialist risk and financial advisory company which was founded in 2004 to provide independent input and advice on strategy and execution to companies managing significant commodities and/or financial markets exposure. Noah's Rule team of banking, treasury and industry trained professionals have worked with a broad range of highly successful resource companies both within Australia and overseas.