

16 June 2011

ADOBHA SPIN-OUT TERMINATION

The Board of Gippsland Limited (“Gippsland” or the “Company”) (ASX: GIP) advise that it has decided to retain the Company’s interests in its non-Egyptian assets and has decided not to proceed with the divestment of these interests to Adobha Resources Limited as had been previously announced.

Reasons for this decision include:

- that notwithstanding that the proposed offer, as described below (now abandoned), involved a pro-rata offer to all Gippsland shareholders, the transactions involve ascribing value to assets which are at an early stage of development, and therefore subject to considerable inherent uncertainty. This consideration is particularly relevant to the Heemskirk JV interest in the light of the expected announcement of the results of a scoping study conducted by the Company’s joint venture partner,
- adverse Eritrean tax implications for any transaction involving the outright sale of Gippsland’s interests in the Eritrean assets and adverse regulatory implications for the proposed transaction involving the effective farming-out of an interest in these assets by Gippsland to Adobha as previously described, and
- a rumour-based campaign mounted by certain Gippsland shareholders against the proposal before disclosure of the proposal’s details were permitted to be made. The Company made submissions to ASX regarding the proposal, in particular in relation to Gippsland shareholder approval not being required under the ASX Listing Rules. The Directors are of the view that this rumour-based campaign has adversely impacted on the perception of the proposed transactions, the Company and its Directors.

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 potential liability to the Eritrean government to the extent of the unexpended portion of the commitment or forfeiture or both.

With the abandonment of the proposed spin-out, continued exploration of the Eritrean assets will require additional equity raisings by Gippsland.

Whilst the Company was previously prevented from disclosing the terms of the proposed spin-out (now abandoned), the Directors would like to take this opportunity to put on the record what the terms of the proposed spin-out were going to be.

The spin-out proposal (now abandoned) had been intended to create a stand-alone, fully funded entity owned primarily by Gippsland shareholders. As the initial public offering (“IPO”) had been

intended to be restricted to the extent possible to Gippsland shareholders, the ultimate beneficial ownership of the assets would have remained in the hands of those individual Gippsland shareholders who had wished 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. Conversely, the proposal would have afforded 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.

The Directors of Adobha Resources Limited had been determined to afford every opportunity to Gippsland shareholders to maintain their proportional interest in the assets if they so chose and to offer a practical opportunity to participate for smaller shareholders.

The various legal agreements specific to the spin out transaction, including the agreement related to the sale of the Heemskirk JV interest and the agreement related to the subscription for shares in Adobha Resources (Eritrea) Pty Limited, which were referred to in the Company’s announcement dated 21 April 2011 will now be terminated.

I would like to take this opportunity to express my appreciation for the efforts of the dedicated Gippsland staff and directors. The Board had firmly believed that the divestment was the best way forward but will now move on with a renewed focus on Gippsland’s full portfolio of projects.

Signed for and on behalf of the Board

A handwritten signature in black ink, appearing to read 'Ian Gandel', written in a cursive style.

Ian Gandel

Chairman