

Gladstone Pacific Nickel LTD

ACN 104 261 887

12 March 2007

INTERIM RESULTS FOR THE SIX MONTHS TO 31ST DECEMBER 2006

The Board of Gladstone Pacific Nickel Limited has approved the Financial Report relating to the Company's affairs for six months ending 31st December 2006.

The Condensed Income Statement for the period shows that revenue from Ordinary Activities was A\$454,064 (£183,033*), expenses totalled A\$1,220,294 (£491,901*) and the loss for the period (after Income Tax Expense) was A\$584,060 (£235,434*). This represents a loss of A\$0.02 /share (£.008 /share*).

The Balance Sheet as at the 31st December 2006 indicates total shareholder equity in the Company as A\$37,266,971 (£15,022,316*). A\$6,331,620 (£2,552,276*) of exploration and evaluation expenditure was capitalised for the period to Deferred Exploration and Evaluation Costs. Cash on hand as at the end of the period was A\$11,702,658 (£4,717,341*).

The period under financial review was one where substantial progress was made across a number of ongoing issues and activities.

This includes:

Environmental Impact Statement (EIS)

This is a comprehensive review of the impact of the Project on the environment and local communities based on guidelines determined by State and Federal Government agencies.

The EIS process (undertaken by URS, the Company's environmental consultants) is nearing completion with final review by the Queensland Government's Office of the Coordinator-General in progress. It is expected that the EIS document will be released for public review and comment in mid-April 2007. The Company has worked proactively with the Queensland Government ("QG") to ensure that key aspects have been addressed in the study.

Land Acquisition

There have been a number of minor issues that have delayed the finalisation of the contract to acquire the substantial land assets in the QG owned State Development Area. However, the Directors are confident that the contract will be signed before the end of June 2007.

The contract covers the purchase of:

- A refinery site of about 250ha in the Yarwun Precinct that is ideally located about 5km west of deepwater in the Port of Gladstone; and
- A site covering about 2,000ha in the Aldoga Precinct to accommodate residues from the refining process. This site is about 12km from the Yarwun Refinery site and has the capacity to store up to 25 years of refinery residues for both stages 1 and 2. The Company proposes the use of an existing services corridor to connect the Yarwun Refinery to the Aldoga Residue Storage Facility (RSF).

Integrated Definitive Feasibility Study (IDFS)

The IDFS (as identified in the 2006 Annual Report) is scheduled for completion in Q3 2007 and preparatory work is well advanced.

This integrated study is based on a blend of Marlborough ore (~30%) and east coast New Caledonian ore (~70%). Marlborough is a key element of the Project providing secure local ore supply. Initial results of a pre-feasibility level study, conducted by the Company, have identified that a blend of 30% Marlborough ore to 70% New Caledonian ore is required to ensure effective utilisation of capital infrastructure for the initial phase of the Project.

- Representative ore samples of the blend have been mined and shipped to SGS Lakefield Oretest in Perth, Western Australia, for preparation prior to an intensive piloting campaign to be conducted over several weeks during May 2007.
- Process design criteria have been provided to Aker Kvaerner. Aker Kvaerner has submitted its proposal for completion of the IDFS engineering estimate and is ready to complete the assignment within the Company's timeframe.

Welcome to CEO John Downie

Mr John Downie officially commenced his assignment as Chief Executive Officer with the Company on 26th February 2007. He joins us after working as Director of Mining at CVRD Inco's Goro Project where he was in charge of mine activities, ore preparation and residue disposal. His experience in New Caledonia provides the Company with an excellent understanding of the New Caledonian political landscape, cultural and social issues and approval processes. I will be stepping down in my capacity as Executive Chairman to a non executive capacity on Mr Downie's appointment to the board.

Country Manager Appointment in New Caledonia

Further underlining the Company's commitment to growth and development, Mr Olivier Pecqueux has been appointed as Country Manager for the Company's 100% subsidiary Gladstone Nouvelle-Calédonie SAS ("GNC"). Mr Pecqueux has considerable experience in mining in New Caledonia having been employed by La Société Minière du Sud Pacifique S.A. as Mining Manager of their New Caledonian east coast mines. Mr Pecqueux commences his assignment with GNC in the next 2 weeks.

Preliminary Estimate of Project Capital and Operating Costs Incorporating Imported Ore

The estimates below were developed based on previous studies relevant to 100% Marlborough ore treatment conducted by Aker Kvaerner, IMC Consulting and other third parties to an average +/-15% level of accuracy. These studies were then adjusted by the Company using factors to scale equipment costs. Additional equipment was added to incorporate mine and infrastructure requirements for overseas ore. The estimates are currently at a pre-feasibility level with an accuracy of +/-30%, and will be refined to +/-15% during the course of the IDFS. Behre Dolbear Australia (independent engineer for the Project) has reviewed and agrees with the pre-feasibility estimate methodology.

Capital Cost Estimate

The pre-feasibility level capital cost estimate for Stage 1 of the Project is US\$2,800M producing approximately 60,000 t/a (~132 million lb) of nickel and 4,400 t/a (~9.7 million lb) of cobalt. This capital cost estimate includes building the mine at Marlborough, offshore infrastructure at New Caledonia, a processing facility at Yarwun near the Port of Gladstone producing nickel and cobalt metal, owner's costs and contingency but excluding escalation.

This represents a Capital Cost Index (CCI) of just over US\$21/annual lb of nickel at full production (significantly below the CCI of other similar projects).

Capital Cost Pre-feasibility Estimate

Item Description	US\$M
Marlborough Mine, Rail sidings, water services	110
Overseas Mines and Ports	145
Leach Plant (Processes nickel ore to mixed sulphide product)	640
Metals Plant (Processes mixed sulphide product to metal)	185
Sulphuric Acid and Power Plant	365
Utilities (includes residue storage facility, process gas plants, pipe racks, conveyors, water supply, etc)	585
EPCM costs and Site Costs	250
Owners' costs (includes owners' team, insurance, pre production & commissioning, land, accommodation and housing, power connection, etc)	250
Contingency	270
Total Capital Cost	2,800
Capital Cost – US\$/annual lb nickel	21.16

This estimate was based on utilising rail rather than a pipeline for delivery of Marlborough ores to Gladstone as the Company now believes that rail may provide the most flexible and least capital intensive solution for transporting ore from Marlborough. Hence, a review of rail versus pipeline options will be subject to more detailed investigations during the IDFS.

Operating Cost Pre-feasibility Estimate

Cash Operating costs have been estimated by the Company at approximately US\$2.93/lb for the first full year of production. Unit cost per lb of nickel after by-product credits is US\$2.17/lb (assuming cobalt prices at US\$10.00/lb).

Operating Cost Pre-feasibility Estimate (at full production)

Item Description	US\$M/a
Ore Supply (Marlborough & Offshore) including mining and transport costs	164
Labour, Maintenance and Administration Costs	90
Sulphur Costs	55
Other Process Utilities	70
Realisation Costs (Ni & Co metal)	11
Total Operating Costs	390
Unit Cost per lb Nickel	US\$2.93
Unit Cost per lb Nickel with By-product Credits	US\$2.17
Note: cobalt credits are calculated at US\$10/lb Cobalt price	

The estimate was based on long term averages for sulphur price, freight costs and other consumables on the basis that the Company will be negotiating long term contracts with suppliers. By-product credits have been included for both cobalt and ammonium sulphate.

Nickel Markets

Nickel cash prices have recently broken the US\$20.00/lb level. Nickel supply continues to lag demand, fuelled predominantly by China's appetite for raw materials. LME stocks further reflect the tight nickel market with stock levels currently below 4,000 tonnes.

Significant production growth from new developments worldwide remains limited in the short term. If the Goro, Ravensthorpe and Ambatovy mines/operations come on-stream over the next 3 years, together with production of nickeliferous pig-iron, a significant proportion of the current pent up demand will be absorbed. Importantly, it is reported that nickeliferous pig-iron, even though utilising old blast furnace facilities, has a production cost of US\$11-12/lb so presumably this source of nickel would not be sustainable at lower nickel prices.

Of course, during that time, demand is likely to continue increasing, making our Gladstone Nickel Project, with its low operating costs, well placed to take advantage of future nickel supply opportunities.

Robert Pearce
Chairman

*Exchange rate used A\$1:£0.403

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Condensed Income Statement for the 6 months ended 31st December 2006

	Notes	Consolidated	
		Dec-06 (\$A)	Dec-05 (\$A)
Interest Income		454,064	658,738
Profit on Sale of Investment		-	4,980
REVENUES FROM ORDINARY ACTIVITIES		454,064	663,718
OTHER INCOME		2,768	-
Foreign Exchange Loss		2,500	4,772
Offshore Evaluation Costs		223,077	-
Directors' Fees/ Remuneration		220,000	146,965
Directors' Options		-	-
Professional Fees		125,054	39,752
Travel and Accommodation		112,433	100,789
Wages and Oncosts		163,491	91,864
Office Rental		54,771	41,935
Public relations and Ongoing list fees		103,820	119,228
Other		188,197	142,955
Depreciation		26,952	22,620
EXPENSES FROM ORDINARY ACTIVITIES		1,220,294	710,880
PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		(763,462)	(47,162)
INCOME TAX (EXPENSE) / BENEFIT		179,402	12,564
PROFIT / (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(584,060)	(34,598)
EARNINGS PER SHARE (CENTS PER SHARE)	3		
Basic earnings (loss) per share (cents per share)		(1.94)	(0.12)
Diluted earnings (loss) per share (cents per share)		(1.94)	(0.12)

Condensed Balance Sheet for the 6 months ended 31st December 2006

Notes	Consolidated		
	Dec-06 (\$A)	Jun -06 (\$A)	Dec-05 (\$A)
CURRENT ASSETS			
Cash assets	11,702,658	19,382,837	20,337,336
Receivables	293,250	392,161	581,785
Other current assets	23,631	18,878	15,260
Other financial assets	-		3,203,251
TOTAL CURRENT ASSETS	12,019,539	19,793,876	24,137,632
NON CURRENT ASSETS			
Equipment	172,268	141,904	84,527
Deferred evaluation and exploration costs	28,870,682	22,539,062	16,081,156
Receivables	263,404	356,922	259,090
Deferred tax assets	5,977,043	4,382,384	3,704,831
TOTAL NON CURRENT ASSETS	35,283,397	27,420,272	20,129,604
TOTAL ASSETS	47,302,936	47,214,148	44,267,236
CURRENT LIABILITIES			
Trade and other payables	812,983	1,586,271	1,522,393
Provisions	66,628	63,628	19,876
TOTAL CURRENT LIABILITIES	879,611	1,649,899	1,542,269
NON CURRENT LIABILITIES			
Trade and other payables	801,409	832,416	897,489
Deferred tax liabilities	8,178,396	6,763,139	5,443,259
Provisions	176,549	147,137	6,261
TOTAL NON CURRENT LIABILITIES	9,156,354	7,742,692	6,347,009
TOTAL LIABILITIES	10,035,965	9,392,591	7,889,278
NET ASSETS / LIABILITIES	37,266,971	37,821,557	36,377,958
EQUITY			
Contributed equity	37,942,416	37,942,416	37,942,416
Reserves	247,465	217,991	1,444,150
Retained earnings / (Accumulated losses)	(922,910)	(338,850)	(3,008,608)
TOTAL EQUITY	37,266,971	37,821,557	36,377,958

Condensed Cash Flow Statement for the 6 months ended 31st December 2006

	Notes	Consolidated	
		Dec-06 (\$A)	Dec-05 (\$A)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,767	-
Payments to suppliers and employees		(982,194)	(1,287,079)
Payments for exploration and evaluation		(7,104,908)	(5,941,156)
Interest received		461,472	736,690
NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES	4	(7,622,863)	(6,491,545)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment		(57,316)	(17,677)
Purchase of investment		-	(370,311)
Sale of investments		-	23,675
NET CASH FLOWS USED FROM INVESTING ACTIVITIES		(57,316)	(364,313)
CASH FLOWS FROM FINANCING ACTIVITIES			
NET CASH FLOWS FROM (USED) FINANCING ACTIVITIES		-	-
Net increase / (decrease) in cash held		(7,680,179)	(6,855,857)
Opening cash brought forward		19,382,837	27,193,193
CLOSING CASH CARRIED FORWARD		11,702,658	20,337,336

Condensed Statement of Changes in Equity for the 6 months ended 31st December 2006

Consolidated	Notes	Issued Capital	Retained Earnings	Net Unrealised Gains Reserve	Share Options Reserve	Total
As at 30/06/05		37,942,416	(2,974,010)	200,708	-	35,169,114
Net gains on Available for Sale Investments		-	-	1,776,346	-	1,776,346
Tax effect of net gains on Available for Sale Investments		-	-	(532,904)	-	(532,904)
Profit / (Loss) for 6 months to 31/12/05		-	(34,598)	-	-	(34,598)
As at 31/12/05		37,942,416	(3,008,608)	1,444,150	-	36,377,958

Consolidated		Issued Capital	Retained Earnings	Net Unrealised Gains Reserve	Share Options Reserve	Total
As at 30/06/06		37,942,416	(338,850)	-	217,991	37,821,557
Share based payment		-	-	-	29,474	29,474
Profit / (Loss) for 6 months to 31/12/06		-	(584,060)	-	-	(584,060)
As at 31/12/06		37,942,416	(922,910)	-	247,465	37,266,971

Notes to the Financial Statements for the 6 months ended 31st December 2006

1. CORPORATE INFORMATION

The financial report of Gladstone Pacific Nickel Limited for the 6 months ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 9 March, 2007.

Gladstone Pacific Nickel Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Group operates in the mineral evaluation business within Australia and south-west Pacific region. The registered office of the Group is Suite 9, Level 3, 320 Adelaide Street, Brisbane, Queensland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the half year report

The half year report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and activities of the consolidated group as the full financial report. This report is to be read in conjunction with the Gladstone Pacific Nickel Ltd Annual Report for the Year ended 30th June 2006.

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, and Australian Accounting Standards.

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain assets and liabilities.

The financial statements are presented in Australian dollars.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

The accounts have been prepared using the going concern assumption. This assumes that the Group will be able to settle all debts as and when they fall due in the ordinary course of business. Management and the directors monitor the forecast cash flows to ensure that sufficient funds exist to cover overheads, retain title to mineral properties and to progress the Definitive Feasibility Study. Where the results of the Definitive Feasibility Study indicate the opportunity to intensify the program, the directors will review the need for a further capital raising.

There have not been any changes in accounting policies since June 2006.

(b) Statement of Compliance

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The following Australian Accounting Standards, applicable to the group, that have recently been issued or amended but are not yet effective, have not been adopted for the reporting period ending 31 December 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard ¹	Application date for Group
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments Recognition and Measurement, AASB 1: First-time adoption of AIFRS.	No change to accounting policy required, therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7: Financial Instruments: Disclosures	No change to accounting policy required, therefore no impact.	1 January 2007	1 July 2007

¹ Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Notes to the Financial Statements for the 6 months ended 31st December 2006 cont

The following amendments are not applicable to the Group and therefore have no impact:

AASB	Affected Standard(s)
2005-4	AASB 139: Financial Instruments Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time adoption of AIFRS, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts
2005-9	AASB 139: Financial Instruments Recognition and Measurement and AASB 132: Financial Instruments: Disclosure and Presentation, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments
2005-10	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 1038: Life Insurance Contracts
2005-12	AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
2005-13	AASB 25: Financial Reporting by Superannuation Plans

(c) *Significant Accounting Estimates and Assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Binomial model.

Rehabilitation and Restoration Provision

The Group reviews rehabilitation requirements for its exploration and tenements on an annual basis by undertaking an in house analysis of the costs to rehabilitate its sites.

Impairment

Carrying values of intangible assets plant, equipment and deferred exploration and evaluation expenditure are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

(d) *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 31 December 2006 and 31 December 2005.

Accounting policies applicable for the year ending 31 December 2006

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ending 31 December 2005

Revenue is recognised when the Group's right to receive payment is established.

(e) *Basis of consolidation*

The financial statements of the Gladstone Pacific Nickel Limited Group, comprises Gladstone Pacific Nickel Limited (the parent company) and all entities that Gladstone Pacific Nickel Limited controlled from time to time during the year and at reporting date, being Marlborough Nickel Pty Ltd, Gladstone Nickel Pipeline Pty Ltd, Gladstone Nickel Project Pty Ltd, Gladstone Nouvelle Caledonie Pty Ltd, Gladstone Solomon Islands Pty Ltd.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Notes to the Financial Statements for the 6 months ended 31st December 2006 cont

(f) *Recoverable amounts*

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amounts, the expected cash flows have been discounted to their present value using a market determined risk adjusted discount rate specific to the asset.

(g) *Cash and Cash Equivalents*

Cash and short term deposits in the Balance Sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less. For the purpose of the Statement of Cash Flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) *Evaluation, Exploration Costs*

Costs carried forward

Evaluation and exploration expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditure comprises net direct costs and appropriate portion of related overhead expenditure. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not at balance date, reached a stage to allow reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an area of interest abandoned are written off in full in the financial period in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount may not be recoverable.

Amortisation

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area on a production output basis.

Restoration Costs

Provisions are raised for rehabilitation and restoration as soon as the disturbance is made, with the cost included as part of the related assets, in respect of any estimated costs of dismantling and removing the assets and restoring the site on which they are located. Rehabilitation provision is estimated at current cost. These expenditures include cost of labour, materials and equipment required to rehabilitate disturbed areas.

(i) *Income Tax*

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of the asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The tax effects of items attributable to equity are recognised in equity.

(j) *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the net GST component of cash flows arising from all activities, which is recoverable from, or payable to, the taxation authority is classified as an operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST that may become recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements for the 6 months ended 31st December 2006 cont

(k) *Trade and other payables*

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 31 December 2006 and 31 December 2005.

Accounting policies applicable for the year ending 31 December 2006

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 31 December 2005

Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(l) *Interest-bearing liabilities*

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest bearing liabilities applicable for the years ending 31 December 2006 and 31 December 2005.

Accounting policies applicable for the year ending 31 December 2006

All interest bearing liabilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ending 31 December 2005

All interest-bearing liabilities were measured at the principal amount. Interest was recognised as an expense as it accrued.

(m) *Employee leave benefits*

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services provided up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services provided up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long Service Leave

All on-costs, including payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions. Annual leave and the current portion of long service leave and workers' compensation provisions are measured at their nominal amount, based on remuneration rates which are expected to be paid when the liability is settled.

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided to employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(n) *Foreign Currencies*

Translation of foreign currency transactions

Transactions in foreign currencies of entities with the Gladstone Pacific Nickel Limited Group are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the Gladstone Pacific Nickel Limited Group that are outstanding at the reporting date and are denominated in foreign currencies are translated at the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or restatement are brought to account in determining the net profit or loss for the financial year.

(o) *Contributed equity*

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

Notes to the Financial Statements for the 6 months ended 31st December 2006 cont

(p) *Investments and other Financial Assets*

Available for Sale Investments

Available for Sale Investments are those non-derivative financial assets that are designated as available for sale. After initial recognition Available for Sale Investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(q) *Property, Plant and Equipment*

Cost – Equipment is measured at cost.

Depreciation – Site vehicles are depreciated at 20% pa (2005: 20%). Communications and IT equipment are depreciated at 30% pa (2005: 30%).

(r) *Earnings per share (EPS)*

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) *Comparatives*

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(t) *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to passage of time is recognised as a borrowing cost.

(u) *Share-based payment transactions*

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions').

There are currently three arrangements in place to provide benefits:

- Director Options
- General Options
- Senior Manager Option Plan

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Gladstone Pacific Nickel Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

(v) *Impairment*

The Group determines whether Deferred Exploration and Evaluation Costs are impaired at least on an annual basis. If an impairment trigger is identified this requires an estimation of the recoverable amount of the cash generating units to which these asset groups belong.

(w) *Financial Risk Management Objectives and Policies*

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to manage the finances for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk and foreign currency risk.

During evaluation activities, the Group has had some transactional currency exposures, principally to the New Caledonian XPF and the Solomon Islands \$. Such exposure arises from purchases in currencies other than the Group's functional currency. The Group has not entered into forward currency contracts to hedge these exposures due to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

(x) *Leases*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(y) *Segment reporting*

The Group operates only in the mineral evaluation business within Australia and south-west Pacific region. The Group's primary reporting segment is by geographical segment. The Group's only reportable geographical segment is Australia. The Group has other operations in New Caledonia and the Solomon Islands. The activities of the group in the south-west Pacific are not of a size and nature to currently meet the reporting standards as required under AASB 114 – Segment Reporting.

3. EARNINGS PER SHARE

	Consolidated	
	Dec-06 (\$A)	Dec-05 (\$A)
Net profit (loss)	(584,060)	(34,598)
Earnings used in calculation of diluted earnings per share	(584,060)	(34,598)
Weighted Average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	30,042,293	30,042,293
Basic and Diluted earnings per share (cents per share)	(1.94)	(0.12)

Options on issue are not considered dilutive.

4. RECONCILIATION OF OPERATING PROFIT / (LOSS) AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS

Operating profit/(loss) after tax	(584,060)	(34,598)
<i>Adjusted for</i>		
Provision for employee entitlements	3,000	11,938
Net profit on Available for Sale Assets	-	(1,781,326)
Depreciation	26,952	22,620
Interest expense	-	-
Movement in reserves	29,474	1,243,442
<i>Changes in Assets and Liabilities</i>		
(Increase)/decrease in receivables	98,911	(353,889)
(Increase)/decrease in other current assets	(4,753)	(6,295)
(Increase)/decrease in deferred evaluation costs	(6,331,620)	(6,101,239)
(Increase)/decrease in deferred tax asset	(1,594,659)	(1,842,935)
(Increase)/decrease in non-current receivables	93,518	(159,027)
Increase/(decrease) in payables	(773,288)	160,083
Increase/(decrease) in non-current payables	(31,007)	(14,854)
Increase/(decrease) in non-current provisions	29,412	1,261
Increase/(decrease) in deferred tax liability	1,415,257	2,363,274
Net cash flow used from operating activities	(7,622,863)	(6,491,545)
<i>Reconciliation of cash</i>		
Cash balance comprises		
Cash at bank and on short term deposit	11,702,658	20,337,336
Closing Cash Balance	11,702,658	20,337,336

Notes to the Financial Statements for the 6 months ended 31st December 2006 cont

5. COMMITMENTS AND CONTINGENCIES

Expenditure Commitments

As at 31st December 2006 the Group has signed a binding Heads of Agreement that secures substantial long-term limonite nickel ore supply from New Caledonia. The Group has entered into the Heads of Agreement with Société des Mines de la Tontouta ("SMT"), a company that owns nickel ore mines and numerous nickel ore tenements on the east coast of New Caledonia.

The Group has obtained an option to proceed with the establishment of a mine any time after 1st January 2009 provided certain conditions are met by the Group in relation to financing and mining authorisations. GPNL will hold 49% of the equity in the capital of the new company to be set up to operate the mine, the Group will provide all development costs and start-up costs by way of shareholder loans. The Group at its own option will pay a minimum of A\$14 million in option payments and development costs over the option period which ends on 31st December 2010. A shareholders' agreement will cover, inter alia, pricing, management, long term ownership, rights and obligations between the parties to the agreement.

As at the 31st December 2006 expenditure commitments, not recognised as liabilities, are as follows:

Expenditure Commitments	Consolidated	
	Dec-06 (\$A)	Dec-05 (\$A)
Within 1 year:	-	-
After 1 year but not more than 5 years		
Option payments, drilling test work, ore analysis, mining and port engineering development	14,000,000	-
After 5 years	-	-