



GLADSTONE PACIFIC NICKEL LTD

GLADSTONE PACIFIC NICKEL LTD

ACN 104 261 887

**Financial Report for the
Six Months ended 31 December 2009**

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**This report is to be read in conjunction with the
Gladstone Pacific Nickel Limited Annual Report
For the Year Ended 30 June 2009**

Gladstone Pacific Nickel Limited

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2009

	Notes	Consolidated	
		Dec 09 (\$A)	Dec 08 (\$A)
Interest Income		448,494	728,488
Foreign Exchange Gain		-	2,347,566
TOTAL REVENUE		448,494	3,076,054
Evaluation Costs		103,827	472,230
China Representative		-	140,133
Foreign Exchange Loss		1,122,319	3,502
Directors' Fees / Remuneration		466,282	394,166
Directors' Option Expense		-	26,292
Brokers' Option Expense		21,125	21,125
Professional Fees		52,901	965,493
Travel and Accommodation		69,446	213,029
Wages and On-costs		334,083	659,310
Office Rental		570,130	234,142
Public Relations and Ongoing Listing Fees		75,268	144,044
IT and Communication		62,495	129,753
Marketing		-	23,675
Depreciation		133,591	93,945
Other		92,699	229,803
Tenement Expenses		917,174	-
Impairment Loss		146,623	78,081,765
TOTAL EXPENSES		4,167,963	81,832,407
PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		(3,719,469)	(78,756,353)
Income Tax Benefit / (Expense)		333,769	804,964
PROFIT / (LOSS) AFTER INCOME TAX EXPENSE		(3,385,700)	(77,951,389)
OTHER COMPREHENSIVE INCOME*			
Foreign Currency Translation		472,774	(54,036)
Income Tax on Items of Other Comprehensive Income		-	-
Other Comprehensive Income for the period (net of tax)		472,774	(54,036)
TOTAL COMPREHENSIVE INCOME		(2,912,926)	(78,005,425)
EARNINGS PER SHARE			
Basic Earnings (Loss) per Share (Cents per Share)	6	(4.77)	(156.21)
Basic Earnings (Loss) per Share (Cents per Share)	6	(4.77)	(156.21)

*Reported directly to Other Reserves In Equity.

Gladstone Pacific Nickel Limited

Consolidated Balance Sheet

for the six months ended 31 December 2009

	Notes	Consolidated		
		Dec 09 (\$A)	June 09 (\$A)	Dec 08 (\$A)
CURRENT ASSETS				
Cash Assets	7	10,558,354	13,566,123	16,744,306
Trade and Other Receivables		153,692	194,815	172,146
Other Current Assets		14,612	898	192,046
TOTAL CURRENT ASSETS		10,726,658	13,761,836	17,108,498
NON CURRENT ASSETS				
Property Plant and Equipment		937,440	852,596	1,110,382
Investment in Subsidiaries		1,712	1,712	-
Deferred Evaluation and Exploration Costs	4	18,222,910	18,222,910	46,084,800
Trade and Other Receivables		1,894,172	2,092,547	10,712,226
TOTAL NON CURRENT ASSETS		21,056,234	21,169,765	57,907,408
TOTAL ASSETS		31,782,892	34,931,601	75,015,906
CURRENT LIABILITIES				
Trade and Other Payables		637,435	811,489	718,521
Provisions		72,067	136,265	164,395
TOTAL CURRENT LIABILITIES		709,502	947,754	882,916
NON CURRENT LIABILITIES				
Trade and Other Payables		718,399	725,690	818,115
Deferred Tax Liabilities		-	-	1,624,287
Provisions		132,096	132,096	193,101
TOTAL NON CURRENT LIABILITIES		850,495	857,786	2,635,503
TOTAL LIABILITIES		1,559,997	1,805,540	3,518,419
NET ASSETS		30,222,895	33,126,061	71,497,487
EQUITY				
Contributed Equity		127,456,754	127,456,754	108,035,294
Reserves		14,005,043	13,522,927	53,146,355
Retained Earnings / (Accumulated Losses)		(111,259,902)	(107,874,620)	(89,705,162)
Parent Interest		30,201,895	33,105,061	71,476,487
Minority Interest		21,000	21,000	21,000
TOTAL EQUITY		30,222,895	33,126,061	71,497,487

Gladstone Pacific Nickel Limited

Consolidated Cash Flow Statement

For the six months ended 31 December 2009

	Notes	Consolidated	
		Dec 09 (\$A)	Dec 08 (\$A)
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to Suppliers and Employees		(2,988,282)	(4,909,638)
Payments for Exploration and Evaluation		(507,869)	(2,697,346)
Research and Development Rebate		333,460	-
Interest Received		311,771	673,673
NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES	7 (a)	(2,850,920)	(6,933,311)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property plant and equipment		(205,440)	(370,452)
Refund of Bank Guarantee – Bond Security		198,795	-
Advances to Ouinne SAS		(150,204)	(2,035,006)
NET CASH FLOWS (USED) FROM INVESTING ACTIVITIES		(156,849)	(2,405,458)
CASH FLOWS FROM FINANCING ACTIVITIES			
NET CASH FLOWS FROM (USED) FINANCING ACTIVITIES		-	-
Net Increase / (Decrease) in Cash Held		(3,007,769)	(9,338,769)
Net Foreign Exchange Differences		-	2,347,567
Opening Cash Brought Forward		13,566,123	23,735,508
CLOSING CASH CARRIED FORWARD		10,558,354	16,744,306

Gladstone Pacific Nickel Limited

Statement of Changes in Equity

for the six months ended 31 December 2009

Consolidated	Notes	Issued capital	Retained Earnings	Other Reserves	Minority Interest	Total
AS AT 1 JULY 2008		84,259,743	(11,790,641)	36,012,711	31,420,614	139,902,427
Profit /(Loss) for the Period		-	(77,951,389)	-	-	(77,951,389)
Other Comprehensive Income		-	-	(54,036)	-	(54,036)
Total Comprehensive Income		-	(77,951,389)	(54,036)	-	(78,005,425)
Ordinary Shares Issued During the Year		23,775,551	-	-	-	23,775,551
Movement in Minority Interest to date of purchase		-	36,868	(2,443,893)	2,428,025	21,000
Share Based Payment – Employees and Directors' Options		-	-	178,022	-	178,022
Share Based Payment – Director		-	-	9,443,247	-	9,443,247
Minority Interest acquired in MNPL		-	-	-	(33,827,639)	(33,827,639)
Other Equity		-	-	10,010,314	-	10,010,314
AS AT 31 DECEMBER 2008		108,035,294	(89,705,162)	53,146,365	21,000	71,497,487

AS AT 1 JULY 2009	127,456,754	(107,874,202)	13,522,927	21,000	33,126,061
Profit /(Loss) for the Period	-	(3,385,700)	-	-	(3,385,700)
Other Comprehensive Income	-	-	472,774	-	472,774
Total Comprehensive Income	-	(3,385,700)	472,774	-	(2,912,926)
Share Based Payment – Employees and Directors' Options	-	-	9,342	-	9,342
AS AT 31 DECEMBER 2009	127,456,754	(111,259,902)	14,005,043	21,000	30,222,895

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009

1. CORPORATE INFORMATION

The financial report of Gladstone Pacific Nickel Limited for the six months ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 24 March, 2010.

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 registered office of the Group is Level 2, 380 Queen Street, Brisbane, Queensland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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 2009.

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

The financial statements have been prepared in accordance with the historical cost convention, except for available for sale assets which have been measured at fair value. 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 company's strategies.

There have not been any changes in accounting policies since June 2009.

(b) Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the six month reporting period ending 31 December 2009. These are outlined in the table below. The application date for the group (*) designates the beginning of the applicable annual reporting period for each amendment.

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 & 139)	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.</p> <p>The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined.</p> <p>These amendments arise from the issuance of the IASB's <i>Improvements to IFRSs</i>. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above).</p>	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

Gladstone Pacific Nickel Limited

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2009-8	Amendments to IFRS 2	<p>These amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:</p> <ul style="list-style-type: none"> the scope of AASB 2; and the interaction between IFRS 2 and other standards. <p>An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p> <p>A "group" has the same meaning as in IAS 27 <i>Consolidated and Separate Financial Statements</i>, that is, it includes only a parent and its subsidiaries.</p> <p>The amendments also incorporate guidance previously included in IFRIC 8 <i>Scope</i> of IFRS 0 and IFRS 11 <i>IFRS 2-Group and Treasury Share Transactions</i>. As a result, IFRIC 8 and IFRS 11 have been withdrawn.</p>	1 January 2010	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has determined the extent of the impact, if any, will be minimal.	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	<p>This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share-based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i>.</p> <p>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.</p> <p>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p>	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2010

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Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2013

Gladstone Pacific Nickel Limited

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p>	1 January 2011	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter may apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	1 July 2010	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2010
Interpretation 19***	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	<p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	1 July 2010	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2010

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

Adoption of New Accounting Standard

The Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2008. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss of the financial position of the entity.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) 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:

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

Interest Income

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.

(d) 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 Calédonie SAS, Gladstone Solomon Islands Pty Ltd and Egidia 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.

A reduction of an interest in a subsidiary is accounted for using the entity concept model whereby the transaction is treated as a transaction with other equity shareholders with no gain or loss recognised in the income statement.

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.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholder's equity.

(e) Recoverable Amounts

Non-current assets 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.

(f) 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.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

(g) 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 of interest 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

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.

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.

(h) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax Consolidation Legislation

Gladstone Pacific Nickel Limited and the controlled entities have implemented the tax consolidation legislation as of 1 July 2004.

Gladstone Pacific Nickel Limited the head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the separate tax payer within the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, GPNL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in Note 6.

Any difference between the amount assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(i) 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.

(j) Trade and Other Payables

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.

(k) Interest-Bearing Liabilities

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.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

(l) 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.

(m) 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.

Issued and fully paid special warrants are recognised at the fair value of the consideration received by the Company. When special warrants are exercised the fair value is reduced by the portion of the fair value attributable to the special warrants exercised and issued capital is increased by an equal amount.

(n) Property, Plant and Equipment

Cost – Equipment and Land are measured at cost

Depreciation – Site vehicles are depreciated at 20% pa (2008:20%). Communications and IT equipment are depreciated at 30% pa (2008:30%). Improvements to land are depreciated at 20%.

Impairment

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating assets).

(o) 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.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

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.

(p) Comparatives

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

(q) 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.

(r) 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 five arrangements in place to provide benefits:

- (i) General Options;
- (ii) Senior Manager Option Plan;
- (iii) Broker Options;
- (iv) Converting Shares; and
- (v) Ordinary Shares.

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 cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the grant date fair value of the award (ii) the extent to which the vesting period has expired and (iii) 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.

The charge to the income statement and Deferred Expenditure account for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity settled awards granted by GPNL to employees of subsidiaries are recognised in the parent's financial statements as an additional investment in the subsidiary with a corresponding credit entry to equity. As a result the expense recognised by GPNL in relation to equity settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the group is the total expense associated with all such awards.

If the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity settled award is cancelled it is treated as if it had vested at the date of cancellation and any expense not yet recognised for the award is recorded immediately. However if a new award is substituted for the cancelled award and designated as replacement award on the date it is granted, the cancelled and new award is treated as if it were a modification of the original award, as described in the provision paragraph.

The dilutive effect, if any of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the year ended 31 December 2009 (continued)

(s) 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.

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.

(t) Foreign Currency Translation

Functional and Presentation Currency

Both the functional and presentation currency of Gladstone Pacific Nickel Ltd and its Australian subsidiaries are Australian Dollars (\$). Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit and loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment at which time they are recognised in profit and loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular operation is recognised in profit and loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non Monetary items that are measured in terms of historical cost in a foreign currency are translated using the change rate at the date of the initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(u) Joint Venture

The group has an interest in joint venture that is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The group recognises its interest in the joint venture by recognising its interests in the assets and liabilities of the joint venture. The group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled entity.

(v) Segment Reporting

A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

3. SEGMENT REPORTING

Australia	South West Pacific	Total
(\$A)	(\$A)	(\$A)

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 (South West Pacific).

Operating Segments

For the six months ended 31 December 2009

Revenue

Interest Received	398,192	50,302	448,494
Total Segment Revenue	398,192	50,302	448,494

Segment Net Operating Profit After Tax

	(3,139,516)	(246,184)	(3,385,700)
Depreciation and Amortisation	123,066	10,525	133,591
Impairment	4,906	141,717	146,623
Foreign Exchange Loss – Unrealised	1,121,888	431	1,122,319

Segment Assets

Capital Expenditure for Period	205,440	-	205,440
Deferred Evaluation and Exploration Expenditure for Period	507,868	-	507,868

Segment Liabilities

	1,488,454	71,434	1,559,997
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Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

Operating Segments

For the six months ended 31 December 2008

Revenue

Interest Received

Foreign Exchange Gain

Total Segment Revenue

Segment Net Operating Profit After Tax

Depreciation and Amortisation

Impairment

Foreign Exchange Loss – Unrealised

Segment Assets

Capital Expenditure for Period

Deferred Evaluation and Exploration Expenditure for Period

Segment Liabilities

	Australia (\$A)	South West Pacific (\$A)	Total (\$A)
Interest Received	728,488	-	728,488
Foreign Exchange Gain	2,347,566	-	2,347,566
Total Segment Revenue	3,076,054	-	3,076,054
Segment Net Operating Profit After Tax	(77,564,391)	(386,998)	(77,951,389)
Depreciation and Amortisation	77,681	16,264	93,945
Impairment	78,081,765	-	78,081,765
Foreign Exchange Loss – Unrealised	-	3,502	3,502
Segment Assets	72,923,068	2,092,838	75,015,906
Capital Expenditure for Period	298,837	79,393	378,230
Deferred Evaluation and Exploration Expenditure for Period	1,990,870	706,475	2,697,345
Segment Liabilities	3,460,210	58,209	3,518,419

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

	Consolidated	
	Dec 09 (\$A)	Dec 08 (\$A)
Segment Revenue Reconciliation to the Statement of Comprehensive Income		
Total Segment Revenue	448,494	3,076,054
Total Revenue	448,494	3,076,054
Segment Net Operating Profit After Tax Reconciliation to the Statement of Comprehensive Income		
Segment Net Operating profit (Loss) After Tax	(3,385,700)	(77,951,389)
Income Tax Expense (Benefit) at 30% (2008: 30%)	(333,769)	(804,964)
Segment Net Operating Profit (Loss) before Tax as per the Statement of Comprehensive Income	(3,719,469)	(78,756,353)
Segment Assets Reconciliation to the Statement of Financial Position		
Segment Operating Assets	31,782,783	75,015,906
Total Assets as per Statement of Financial Position	31,782,783	75,015,906
Segment Liabilities Reconciliation to the Statement of Financial Position		
Segment Operating Liabilities	1,559,997	3,518,419
Total Liabilities as per Statement of Financial Position	1,559,997	3,518,419

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

4. DEFERRED EVALUATION AND EXPLORATION

	Consolidated	
	Dec 09 (\$A)	Dec 08 (\$A)
Opening balance	18,222,910	111,984,723
Additions	507,868	2,697,345
Additions – SBP (i)	-	*9,443,247
Impairment (ii)	(507,868)	(78,040,515)
	<u>18,222,910</u>	<u>46,084,800</u>

Exploration and Evaluation expenditure incurred by the Group is accumulated for each area of interest. This expenditure is carried at cost and is comprised of direct costs and an appropriate directly attributable portion of related salary and contractor costs and overhead costs.

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. The amount will be recovered through successful development or sale.

i. Share Based Payments associated with progressing the evaluation of the Marlborough Nickel Project:

On 7 December 2007, MNPL entered into Share Subscription Agreements with Dasines Pty Ltd. An amendment to the milestones in the Dasines Share subscription agreement was approved on 14 August 2008. Under the subscription agreements, shares issued to Dasines would convert to ordinary shares in MNPL on the achievement of certain milestones. The milestones were:

1. Execution of a binding agreement for the turnkey construction of the Gladstone Nickel Project; and
2. Execution of a binding agreement for the financing of or assistance with the financing of the Gladstone Nickel Project or
3. The Company entering a Scheme of Arrangement with Resource Developments International Limited ("RDI").

The Scheme of Arrangement with RDI was not completed by 31 March 2009, and Milestone 3 was not achieved. The Memorandum of Understanding ("MOU") with MCC lapsed on 30 June 2009. As a result, it is not probable that Milestone 1 and 2 will be achieved.

* The portion of the Dasines Share based payment previously capitalised to Deferred Evaluation and Exploration at December 2008, was reversed as at June 2009.

ii. Impairment:

Exploration and Evaluation expenditure incurred by the Group is accumulated for each area of interest. This expenditure is carried at cost and is comprised of direct costs and an appropriate directly attributable portion of related salary and contractor costs and overhead costs.

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. The amount will be recovered through successful development or sale.

The Group determines whether Deferred Evaluation and Exploration Costs are impaired at least on a bi-annual basis.

In assessing whether impairment is required to the carrying value of an asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the group's activities, the 'fair value less costs to sell' approach has been used in assessing the impairment charges.

The triggers for the impairment test at 30 June 2009 were the significant fall in the price of nickel, the closing of major nickel operations and write down of associated carrying values, proposed RDI listing not proceeding and the MOU with MCC lapsing as at 30 June 2009. Given the current operating environment, and the level of expenditure during the six months to 31 December, 2009 the group has assessed that the carrying value of the deferred evaluation and exploration asset at 31 December 2009 remains at \$18,222,910 (June 2009: \$18,222,910). The recoverable amount of Deferred Exploration and Evaluation asset associated with the Quinne SAS joint Venture remains nil. (June 2009: nil)

Total impairment charges of \$507,868 have been recognised in respect of the Deferred Evaluation and Exploration asset for the six months to 31 December, 2009.

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

The recoverable amount of the Deferred Exploration and Evaluation asset is based on the group's estimate of fair value less costs to sell, consistent with recent transactions of nickel projects having regard to the recoverable amounts work undertaken in relation to engineering, environmental and metallurgical activities. The principles applied to the estimate of the December 2009 recoverable amount are consistent with those applied to estimating the June 2009 recoverable amount.

5. COMMITMENTS AND CONTINGENCIES

	Consolidated	
	Dec 09 (\$A)	Dec 08 (\$A)
(a) Share Issues		
- Within 1 year	-	-
- After 1 year but not more than 5	4,595,422	5,637,920
- After 5 years	-	-
	<u>4,595,422</u>	<u>5,637,920</u>

The Group has a 1% shareholding in a Ouinné SAS. The joint venture agreement requires the company to issue 15 million GPNL ordinary shares in 2010 to purchase an additional 48% interest in the JV, taking the Groups interest to 49% at that time.

The value of 15 million shares is calculated based on the GPNL share price and exchange rate at 31 December, 2009. (£0.17 per share) (A\$: £ =.5549)

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

6. EARNINGS PER SHARE

	Consolidated	
	Dec-09 (\$A)	Dec-08 (\$A)
Net Profit (Loss)	(3,385,700)	(77,951,389)
Earnings used in Calculation of Basic and Diluted Earnings per Share	(3,385,700)	(77,951,389)
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Basic and Diluted Earnings per Share	70,935,699	49,903,035
Basic and Diluted Earnings per Share	(0.0477)	(1.5621)

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

7. CASH FLOW STATEMENT RECONCILIATION

	Consolidated	
	Dec 09 (A\$)	Dec 08 (A\$)
a) Reconciliation of operating profit / (loss) after tax to the net cash flows from operations		
Operating Profit/(Loss) After Tax	(3,385,700)	(77,951,389)
Adjusted for :		
Provision for Employee Entitlements	11,900	9,672
Options	38,800	-
Interest	(136,723)	-
(Gain)/ Loss on Foreign Exchange	1,122,319	(2,347,567)
Depreciation- Charged to Operations	133,592	93,945
Impairment Loss	146,623	78,081,765
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	41,123	113,882
(Increase)/Decrease in Other Current Assets	(13,714)	(2,827)
(Increase)/Decrease in Deferred Evaluation Costs	(537,183)	(2,697,346)
(Increase)/Decrease in Prepayments and other Assets	-	-
(Increase)/Decrease in Deferred Tax Asset/ Liability	(309)	(804,964)
Increase/(Decrease) in Payables	(174,173)	(1,468,269)
Increase/(Decrease) in Non-Current Payables	(71,069)	33,781
Increase/(Decrease) in Non-Current Provisions	(26,406)	6,006
Net Cash Flow Used from Operating Activities	<u>(2,850,920)</u>	<u>(6,933,311)</u>
Reconciliation of Cash:		
Cash Balance Comprises		
Cash at Bank and on Short Term Deposit	10,558,354	16,744,306
Closing Cash Balance	<u>10,558,354</u>	<u>16,744,306</u>
b) Non cash financing and investments activities		
Share Based Payments	-	9,443,247
Conversion of Ordinary Shares to Related Party	-	23,775,543

Gladstone Pacific Nickel Limited

Notes to the Financial Statements

for the six months ended 31 December 2009 (continued)

8. EVENTS AFTER BALANCE DATE

Increase in Shareholding

On the 5 January 2010 Mr. Clive Palmer or his related entities acquired an additional 950,000 ordinary shares at 17 pence per share. Following this purchase, Mr. Palmer and his related entities are interested in a total of 35,495,233 ordinary shares in the Company which represents 50.04% of the Company's ordinary shares in issue.

General Meeting of Shareholders.

The company has called a General Meeting of shareholders to be held on the 9 April 2010. The Meeting will consider the following resolutions:

1. Removal of Mr James Henderson as a director.
2. Election of Mr Vimal Sharma as a director.
3. Removal of Mr Benjamin Hill as a director.
4. Election of Mr William Haseler as a director.

Gladstone Pacific Nickel Limited

Directors' Declaration

In accordance with a resolution of the directors' of Gladstone Pacific Nickel Limited, I state that:

1. In the opinion of the directors:
 - a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made for the six month financial period ending 31 December, 2009.

On behalf of the Board



J G Henderson
Chairman

Dated at Brisbane this 24th day of March, 2010.