

18th May 2011

Gladstone Pacific Nickel Limited
ACN 104 261 887

INTERIM RESULTS FOR THE SIX MONTHS ENDED

31 DECEMBER 2010

Gladstone Pacific Nickel Limited ("GPNL" or the "Company") provides its unaudited interim results for the six months ended 31 December 2010.

Financial Results

The Company reported interim revenue from ordinary activities of A\$321,222 and expenses of A\$1,917,553, the majority of which was made up of tenement costs of A\$782,584 and a foreign exchange loss of A\$798,173. The loss for the period (after income tax benefits) was A\$1,529,372 representing a loss of A\$0.0216 per share .

In line with its accounting policies and the impairment of assets at 30 June 2010, the Company has reviewed the carrying value of its Deferred Exploration and Evaluation costs. Based on the current stage of the Gladstone Nickel Project and the MHLP, and the expected recoverability of historical costs, the Company estimates the fair value of its Deferred Exploration and Evaluation costs as at 31 December 2010 to be unchanged from the June 2010 value of A\$20,048,114.

The Company remains in a strong cash position with A\$9,446,601 in cash made up of cash on hand of \$7,786,703 and \$1,659,898 as a refundable deposit on the purchase of land at Gladstone which is recorded in the accounts as a Non Current Receivable. Total shareholder equity as at 31 December 2010 was \$29,572,966.

Project Update

In September 2010, QNI Resources Pty Ltd ("QNI") (a company wholly owned by Mr Clive Palmer) made an unconditional cash offer of £0.14 per share for all the ordinary shares in GPNL it does not already own. As a result, Mr Clive Palmer and his associated entities purchased additional GPNL shares, taking their total shareholding to represent 55.53% of the Company's ordinary shares in issue. A number of Board appointments and resignations followed the acquisition.

Relationships with key stakeholders critical to the success of the Gladstone Nickel Project have been maintained during the period.

The Company announced on the 17 September 2007 the signing of land agreements with the Queensland State Government in relation to the proposed refinery site and residue storage area in the Gladstone. These agreements are conditional on securing sufficient financing to fund the development of the Gladstone Nickel Project. The requirement to satisfy this condition is 6 March 2012. An extension to this date, by mutual agreement between GPNL and the Queensland State government is currently being negotiated.

The Environmental Impact Statement (EIS) in relation to the Project approved by the Queensland State Government and the Commonwealth Government for construction and operation of Stages 1 and 2 of the Project remains current.

The Company has maintained its Marlborough resources and reserves during the period and holds valid Mining Leases and Exploration Permits, along with associated Environmental Authorities and regional Registered Native Title agreements. Traditional owner relationships remain on a sound footing.

The company will provide a further project update with the release of its 2010/2011 annual accounts in November 2011.

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GLADSTONE PACIFIC NICKEL LTD

ACN 104 261 887

**Financial Report for the
Six Months ended 31 December 2010**

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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 2010**

Statement of Comprehensive Income

for the six months ended 31 December 2010

	Consolidated		
	Notes	Dec 10 (\$A)	Dec 09 (\$A)
Interest Income		317,022	444,819
Other Income		4,200	3,675
REVENUES FROM CONTINUING OPERATIONS		321,222	448,494
Impairment Loss/ Reversal		(713,048)	146,623
Tenement Expenses		782,584	917,174
Evaluation Costs		22,515	103,827
Foreign Exchange Loss		798,173	1,122,319
Directors' Fees / Remuneration		46,288	466,282
Brokers' Option Expense		-	21,125
Professional Fees		231,285	52,901
Travel and Accommodation		11,382	69,446
Wages and On-costs		392,490	334,083
Office Rental		53,835	570,130
Public Relations and Ongoing Listing Fees		89,634	75,268
IT and Communication		37,274	62,495
Marketing		-	-
Depreciation		88,323	133,591
Other		76,818	9,699
EXPENSES		1,917,553	4,167,963
PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		(1,596,331)	(3,719,469)
INCOME TAX (EXPENSE) / BENEFIT		66,959	333,769
PROFIT / (LOSS) AFTER INCOME TAX EXPENSE		(1,529,372)	(3,385,700)
OTHER COMPREHENSIVE INCOME			
Foreign Currency Translation		(11,855)	472,774
TOTAL COMPREHENSIVE INCOME		(1,541,227)	(2,912,926)
EARNINGS PER SHARE			
Basic Earnings (Loss) per Share (Cents per Share)	6	(2.16)	(4.77)

Statement of Financial Position

as at 31 December 2010

	Notes	Consolidated		
		Dec 10 (\$A)	June 10 (\$A)	Dec 09 (\$A)
CURRENT ASSETS				
Cash Assets	7	7,786,703	9,362,976	10,558,354
Trade and Other Receivables		88,133	4,283	153,692
Other Current Assets		13,435	70,524	14,612
TOTAL CURRENT ASSETS		7,888,271	9,437,783	10,726,658
NON CURRENT ASSETS				
Property Plant and Equipment		746,428	843,076	937,440
Investment in Joint Venture		1,712	1,712	1,712
Deferred Evaluation and Exploration Costs	3	20,048,114	20,048,114	18,222,910
Trade and Other Receivables		1,874,555	1,873,599	1,894,172
Deferred Tax Asset		-	-	-
TOTAL NON CURRENT ASSETS		22,670,809	22,766,501	21,056,234
TOTAL ASSETS		30,559,080	32,204,284	31,782,892
CURRENT LIABILITIES				
Trade and Other Payables		161,388	238,535	637,435
Provisions		88,407	107,642	72,067
TOTAL CURRENT LIABILITIES		249,795	346,177	709,502
NON CURRENT LIABILITIES				
Trade and Other Payables		621,459	621,457	718,399
Deferred Tax Liabilities		-	-	-
Provisions		114,860	114,860	132,096
TOTAL NON CURRENT LIABILITIES		736,319	736,317	850,495
TOTAL LIABILITIES		986,114	1,082,494	1,559,997
NET ASSETS		29,572,966	31,121,790	30,222,895
EQUITY				
Contributed Equity		127,456,754	127,456,754	127,456,754
Reserves		13,583,618	13,582,069	14,005,043
Retained Earnings / (Accumulated Losses)		(111,467,406)	(109,938,033)	(111,259,902)
Parent Interest		29,572,966	31,100,790	31,201,895
Minority Interest		-	21,000	21,000
TOTAL EQUITY		29,572,966	31,121,790	30,222,895

Cash Flow Statement

for the six months ended 31 December 2010

	Consolidated	
Notes	Dec 10 (\$A)	Dec 09 (\$A)
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to Suppliers and Employees	(1,914,250)	(2,988,282)
Payments for Exploration and Evaluation	-	(507,869)
Research and Development Rebate	66,492	333,460
Interest Received	271,483	311,771
NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES	(1,576,275)	(2,850,920)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property plant and equipment	-	(205,440)
Refund of Bank Guarantee	-	198,795
Advances to Joint Venture	-	(150,204)
NET CASH FLOWS (USED) FROM INVESTING ACTIVITIES	-	(156,849)
Net Increase / (Decrease) in Cash Held	(1,576,275)	(3,007,769)
Opening Cash Brought Forward	9,362,978	13,566,123
CLOSING CASH CARRIED FORWARD	7,786,703	10,558,354

Statement of Changes in Equity

for the six months ended 31 December 2010

Consolidated	Notes	Issued Capital	Special Warrants	Accumulated Losses	Other Reserves	Non Controlling Interest	Total Equity
AS AT 1 JULY 2009		127,456,754	-	(107,874,202)	13,522,927	21,000	33,126,479
Profit (Loss) for the period		-	-	(3,385,700)			(3,385,700)
Share Based Payment – Employees and Directors’ Options		-	-	-	9,342	-	9,342
Other Comprehensive Income					472,774	-	472,774
Total Comprehensive Income				(3,385,700)	482,116		(2,903,584)
AS AT 31 DEC 2009		127,456,754	-	(111,259,902)	14,005,043	21,000	30,222,895
AS AT 1 JULY 2010		127,456,754	-	(109,938,033)	13,603,069	-	31,121,790
Profit (Loss) for the period		-	-	(1,529,372)	-	-	(1,529,372)
Other Comprehensive Income		-	-	-	(19,542)	-	(19,542)
AS AT 31 DEC 2010		127,456,754	-	(111,467,406)	13,583,618	-	29,572,966

Notes to the Financial Statements

for the six months ended 31 December 2010.

1. CORPORATE INFORMATION

The financial report of Gladstone Pacific Nickel Limited for the six months ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 13 May, 2011.

Gladstone Pacific Nickel Limited (the Parent) is a company limited by shares incorporated in Australia. The ultimate parent company of Gladstone Pacific Nickel Limited is Waratah Coal Pty Ltd, which owns 55.53% of ordinary shares.

The nature of the operations and principal activities of the Group are described in the Directors' Report. 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 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. The financial statements are presented in Australian dollars.

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 project.

(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 period ending 31 December 2010. 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.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
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"> a) two categories for financial assets being amortised cost or fair value b) removal of the requirement to separate embedded derivatives in financial assets c) 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 d) 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 e) reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes f) changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

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 determined the extent of the impact, if any, will be minimal.	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	<p>These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.</p> <p>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.</p>	1 January 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards; and</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and</p> <p>(b) the Australian Government and State, Territory and Local Governments.</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) for-profit private sector entities that do not have public accountability;</p> <p>(b) all not-for-profit private sector entities; and</p> <p>(c) public sector entities other than the Australian Government and State, Territory and Local Governments.</p>	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	<p>This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.</p>	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

Adoption of New Accounting Standard

The Group has adopted AASB 7: *Financial Instruments and Disclosures*, AASB 8: *Operating Segments*, and AASB 101: *Presentation of Financial Statements* and all consequential amendments which became applicable on 1 January 2009 and AASB127: *Consolidated and Separate Financial Statements*, effective 1 July 2009.

The adoption of these standards has only affected the disclosure in these financial statements. There has been no effect 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, 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 Statement of Financial Position 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 Cash Flow Statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements

for the six months ended 31 December 2010 (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 Statement of Financial Position 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.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting 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 reporting 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 Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

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, Gladstone Pacific Nickel Ltd (the head company) 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 Statement of Financial Position.

Cash flows are included in the Cash Flow Statement 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.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

(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.

(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 (2009:20%). Communications and IT equipment are depreciated at 30% pa (2009:30%). Improvements to land are depreciated at 20%. (2009:20%)

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).

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

(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.

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 Statement of Comprehensive Income 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

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

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.

(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 the Statement of Comprehensive Income.

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 Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income 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 Statement of Financial Position date.

All exchange differences in the consolidated financial report are taken to Statement of Comprehensive Income 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 Statement of Comprehensive Income. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular operation is recognised in Statement of Comprehensive Income. 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.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

(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) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete information is available. Operating segments have been identified based on the information provided to the Board. The group has identified geographical segments as its operating segments.

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.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

	Dec 10 (\$A)	Dec 09 (\$A)
3. DEFERRED EVALUATION AND EXPLORATION		
Opening balance	20,048,114	18,222,910
Additions	-	507,868
Impairment (i)	-	(507,868)
	<u>20,048,114</u>	<u>18,222,910</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) Impairment:

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. Where the recoverable amount is greater than the historical cost of the asset, the historical cost is recorded.

Based on a valuation included in the Target Statement completed in response to QNI Takeover proposal in September 2010, the Company has concluded that the recoverable amount of this asset at 31 December 2010 is unchanged from the carrying amount as at 30 June, 2010. The carrying amount of the asset is \$20,048,114 (2009 : \$18,222,910).

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

4. COMMITMENTS AND CONTINGENCIES

	Consolidated	
	Dec 10 (\$A)	Dec 09 (\$A)
(a) Share Issues		
• Within 1 year	-	-
• After 1 year but not more than 5	3,197,320	4,595,422
• After 5 years	-	-
	<u>3,957,088</u>	<u>4,595,422</u>

The Group has a 1% interest in SAS Quinné. The Joint Venture agreement requires the company to issue 15 million GPNL ordinary shares in 2011, subject to financing of the GNP to purchase an additional 48% interest in the JV, taking the Group's interest to 49% at that time. The value of 15 million shares is calculated based on the last traded GPNL share price, £ 0.14 (2009: £0.17) and exchange rate at 31 December 2010 - \$A : £ 0.6568. (2009: \$A:£ 0.5549).

Under the SMGM Agreement, to obtain the 49% interest in the Quinne tenements the Group has to obtain the funding to construct Stage 1 of the Gladstone Nickel Project. The Group has until 31 December 2011, or if GPN elects to pay an additional US\$1 million, 31 December 2012, to obtain the funding to construct Stage 1 of the Gladstone Nickel Project.

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

5. OPERATING SEGMENTS

The Group operates only in the mineral evaluation business within Australia and South-West Pacific region.

The Group's has identified its operating segments based on the geographical location of its business. The operating segments are as follows:

- Australia
- South West Pacific region. (New Caledonia and Solomon Islands)

Management and the Board monitor the operating results of its each segment for the purpose of making decisions about resource allocation. Segment performance is evaluated based on operating profit and loss.

The Groups finance income and income taxes are managed on a geographical basis and are therefore allocated to operating segments.

Operating Segments Six Months Ended 31 Dec 2010	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Revenue				
Interest Received	316,220	5,002	-	321,222
Total Segment Revenue	316,220	5,002	-	321,222
Segment Net Operating Loss After Tax	(1,372,815)	(156,557)	-	(1,529,372)
Depreciation and Amortisation	84,591	3,732	-	88,323
Impairment	(780,194)	67,146	-	(713,048)
Foreign Exchange Loss – Unrealised	798,173	-	-	798,173
Other Non Cash Expenses	-	-	-	-
Income tax Expense (benefit)	(66,959)	-	-	(66,959)
Intercompany Loans	4,932,414	-	(4,932,414)	-
Impairment of Intercompany Loans	(4,932,414)	-	4,932,414	-
Other Assets	30,469,961	89,119	-	30,559,080
Segment Assets	30,469,961	89,119	-	30,559,080
Intercompany Loans	-	4,932,414	(4,932,414)	-
Other Liabilities	970,529	15,584	-	986,113
Segment Liabilities	970,529	5,352,224	(4,932,414)	986,113

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Operating Segments				
Six Months Ended 31 Dec 2009				
Revenue				
Interest Received	398,192	50,302		448,494
Foreign Exchange Gain				
Total Segment Revenue	398,192	50,302		448,494
Segment Net Operating Loss After Tax	(3,139,516)	(246,185)		(3,385,701)
Depreciation and Amortisation	123,067	10,525		133,592
Impairment- Deferred Evaluation and Exploration	4,906	141,717		146,623
Foreign Exchange Loss – Unrealised	1,121,888	431		1,122,319
Other Non Cash Expenses	21,125	-		21,125
Income tax Expense (Benefit)	(333,769)	-		(333,769)
Intercompany Loans	5,771,014	-	(5,771,014)	-
Impairment of Intercompany Loans	(5,771,014)	-	5,771,014	-
Other	31,670,109	112,783	-	31,782,892
Segment Assets	31,670,109	112,783	-	31,782,892
Capital Expenditure for Period	205,440	-	-	205,440
Deferred Evaluation and Exploration Expenditure for Period	507,868	-	-	507,868
Intercompany Loans	-	5,771,014	(5,771,014)	-
Other	1,488,454	71,543	-	1,559,997
Segment Liabilities	1,448,454	5,842,557	(5,771,014)	1,559,997

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

	Consolidated	
	Dec 10 (\$A)	Dec 09 (\$A)
Segment Revenue Reconciliation to the Statement of Comprehensive Income		
Total Segment Revenue	321,222	448,494
Total Revenue	321,222	448,494
Segment Net Operating Profit/(Loss) After Tax Reconciliation to the Statement of Comprehensive Income		
Segment Net Operating Profit/ (Loss) After Tax	(1,529,372)	(3,385,700)
Income Tax Expense (Benefit) at 30% (2009: 30%)	(66,959)	(333,769)
Segment Net Operating Profit (Loss) before Tax as per the Statement of Comprehensive Income	(1,596,331)	(3,719,469)
Segment Assets Reconciliation to the Statement of Financial Position		
Segment Operating Assets	30,559,080	31,782,892
Intersegment Elimination :		
Intercompany Loans	4,932,414	5,771,014
Impairment of Intercompany Loans	(4,932,414)	(5,771,014)
Total Assets as per Statement of Financial Position	30,559,080	31,782,892
Segment Liabilities Reconciliation to the Statement of Financial Position		
Segment Operating Liabilities	5,918,527	7,331,011
Intersegment Elimination	(4,932,414)	(5,771,014)
Total Liabilities as per Statement of Financial Position	986,113	1,559,997

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

6. EARNINGS PER SHARE

	Consolidated	
	Dec 10 (\$A)	Dec 09 (\$A)
Net Profit (Loss)	(1,529,372)	(3,385,700)
Earnings used in Calculation of Basic Earnings per Share	(1,529,372)	(3,385,700)
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Basic Earnings per Share	70,935,699	70,935,699
Basic Earnings per Share	(0.0216)	(0.0477)

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

7. CASH FLOW STATEMENT RECONCILIATION

	Consolidated	
	Dec 10	Dec 09
	(\$A)	(A\$)
Operating Profit/(Loss) After Tax	(1,529,372)	(3,385,700)
Adjusted for :		
Interest	(22,978)	(136,723)
Share based Payments	-	38,800
Provision for Employee Entitlements	-	11,900
(Gain)/ Loss on Foreign Exchange	798,173	1,122,319
Impairment Loss Reversal	(713,048)	146,623
Depreciation- Charged to Operations	88,323	133,592
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	(26,841)	41,123
(Increase)/Decrease in Deferred Evaluation Costs	-	537,183
(Increase)/Decrease in Prepayments and other Assets	80	13,714
(Increase)/Decrease in Deferred Tax Asset/ Liability	(73,763)	(309)
Increase/(Decrease) in Payables	(467)	(174,173)
Increase/(Decrease) in Non-Current Payables	(96,382)	(71,069)
Increase/(Decrease) in Non-Current Provisions	-	(26,406)
Net Cash Flow Used from Operating Activities	<u>(1,576,275)</u>	<u>(2,850,920)</u>
Reconciliation of Cash:		
Cash Balance Comprises		
Cash at Bank and on Short Term Deposit	7,786,703	10,558,354
Closing Cash Balance	<u>7,786,703</u>	<u>10,558,354</u>

Notes to the Financial Statements

for the six months ended 31 December 2010 (continued)

8. EVENTS AFTER BALANCE DATE

There are no post balance date events.

Directors' Declaration

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

In the opinion of the directors:

- (a) the consolidated entity is not a disclosing entity as defined in the Australian Accounting Standards;
- (b) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Domenic Martino
Chairman

Dated at Brisbane this 13 May, 2011

Directors' Declaration

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

In the opinion of the directors:

- (a) the consolidated entity is not a disclosing entity as defined in the Australian Accounting Standards;
- (b) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Domenic Martino
Chairman

Dated at Brisbane this 13 May, 2011