

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits.

The Group manages its exposure to key financial risks including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign currency risk and monitoring interest rate risk through the development of future rolling cash forecasts.

Primary responsibility for identification of and control of financial risks rests with the Board. The Board makes decisions in relation to managing risk.

(a) Risk Exposures and Responses

Interest rate risk

The exposure to market interest rates relates primarily to the Group's cash holdings.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian and United States variable interest rate risk that are not designated in cash flow hedges.

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Financial Assets		
Cash and Cash Equivalents	9,362,976	13,566,123
Other Receivables	1,877,882	2,287,362
	11,240,858	15,853,485
Financial Liabilities		-
NET EXPOSURE	11,240,858	15,853,485

The following sensitivity analysis is based on the interest rate exposures in existence at the balance date.

At 30 June, 2010 if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

Judgements of Reasonably Possible Movements	Post Tax Profit Higher / (Lower)	Post Tax Profit Higher / (Lower)	Effect on Equity	Effect on Equity
	June 10 (\$A)	June 09 (\$A)	June 10 (\$A)	June 09 (\$A)
Consolidated				
+1.0 % (2009:100 basis points)	78,371	108,948	78,371	108,948
-0.5% (50 basis points)	(39,185)	(54,474)	(39,185)	(54,474)

Foreign Currency Risk

As a result of ongoing exploration and evaluation activities, the Group has relatively minor exposure to the Pacific French Franc and the Solomon Island \$. Such exposures arise from purchases in currencies other than the Groups functional currency. The Group has not entered into forward currency contracts to hedge these exposures due to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

At 30 June, 2010, the Group has an exposure to the \$US foreign currency. The exchange rate used at the 2010 year end was \$US1: \$A 0.86 (2009 \$US 1: \$A 0.86). The \$US denominated loan has been fully impaired at year end.

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Financial Assets		
Cash and Cash Equivalents	-	-
Trade and Other Receivables	6,324,576	6,514,337
Impairment of Receivables	(6,324,576)	(6,514,337)
Financial Liabilities	-	-
Net Exposure	-	-

Liquidity Risk

Liquidity Risk arises from the financial liabilities of the Group and the Groups subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Groups objective is to manage its financial assets and liabilities by maintaining a balance of long and short term deposits, and operating accounts. Liquidity risk is monitored by use of future rolling cash flow forecasts.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

(b) Maturity Analysis of Financial Assets and Liabilities based on Management's expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly arise from evaluation activities and group operations. Cash and trade receivables are considered in the group's overall liquidity risk. To monitor existing financial assets and liabilities, as well as to enable an effective controlling of future risks, the group has established a comprehensive cash call and cash forecast reporting covering its Australian and Overseas business units. This process reflects expectations of management of expected settlement of financial assets and liabilities.

Consolidated	Less than 6 Months (\$A)	6-12 Months (\$A)	1-5 Years (\$A)	5 Years (\$A)	Total (\$A)
Financial Assets					
Cash and Cash Equivalents	9,362,976	-	-	-	9,362,976
Trade and Other Receivables	4,283	-	1,873,599	-	1,877,882
TOTAL	9,367,259	-	1,873,599	-	11,240,858
Consolidated Financial Liabilities					
Trade and other Payables	238,535	-	240,000	381,457	859,992
TOTAL	238,535	-	240,000	381,457	859,992
Net maturity	9,128,724	-	1,633,599	(381,457)	10,380,866

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
5. REVENUES AND EXPENSES		
(a) Foreign Exchange Gain (Loss) and Depreciation Differences included in Statement of Comprehensive Income		
Realised Foreign Exchange Gain	-	2,352,318
Unrealised Foreign Exchange Gain	-	1,114,106
	-	3,466,424
Unrealised Foreign Exchange Loss	(345,608)	(4,346)
Foreign Exchange Gain /(Loss)	(345,608)	3,462,078
Depreciation	173,729	167,172
(b) Finance (Costs) / Other Income		
Rental Income	7,875	-
Interest receivable	697,379	1,369,181
	705,254	1,369,181
(c) Lease Payments Included in Statement of Comprehensive Income		
Operating lease – premises	559,703	434,846
(d) Employee Benefits Expense		
Wages , Salaries and On costs	499,165	884,615
Superannuation Costs	32,008	54,675
Expense of Share Based Payment	(47,133)	35,350
	484,040	974,640
(e) Other		
Meals/ Entertainment	36,050	78,065
Loss on Disposal of Assets	89,185	-
Memberships	11,220	49,955
Bank Charges	36,028	89,338
Insurance	59,238	81,145
Printing and Stationery	24,602	92,939
Other	12,738	29,713
	269,061	421,155

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

6. INCOME TAX	Consolidated	
	June 10 (\$A)	June 09 (\$A)
(a) Reconciliation of Income Tax		
A reconciliation of income tax expense applicable to accounting profit/ (loss) before income tax at the statutory income tax rate to income tax expense at the group effective income tax rate for the years ended 30 June 2010 and 2009 is as follows:		
Accounting profit (loss) before tax	(2,396,873)	(98,513,230)
At the statutory income tax rate of 30% (2009: 30%)	(719,062)	(29,553,969)
Expenditure not allowable for income tax purpose:		
Impairment loss	(604,490)	27,848,186
Share Based payment	12,675	39,085
Non Deductible Foreign Expenditures	141,451	1,668,801
Non Deductible Entertainment	5,826	19,515
Non Deductible Legal / Consulting Fees	-	303,390
Deferred Tax Asset /(Liability) not recognised in current year	840,822	(2,462,148)
Deferred Tax Asset not recognised from prior year	99,939	168,858
Capital Costs	-	(362,042)
Other	(110,621)	(98,927)
Income Tax Expense/ (Benefit) reported in Statement of Comprehensive Income	(333,460)	(2,429,251)
(b) Major Components of Income Tax expense for the years ended 30 June 2010 and 2009 are:		
Current Income Tax Charge	(333,460)	-
Deferred Income Tax	-	(2,429,251)
Income Tax Expenses (Benefit) reported in Statement of Comprehensive Incomes	(333,460)	(2,429,251)
(c) Income Tax directly reported in Statement of Changes in Equity		
Tax Benefit of Share Capital Raising Costs	-	-
Income Tax Benefit reported in Equity	-	-

	Consolidated	
	June 10	June 09
	(\$A)	(\$A)
(d) Deferred Tax Asset and Deferred Tax Liability		
Deferred Income Tax at the 30 June relates to the following:		
(i) Deferred Tax Asset		
Losses available for offset against future taxable income	11,524,740	11,031,285
Share issue costs	481,869	516,551
Restoration provision	34,404	34,404
Other	92,994	362,097
Foreign Exchange – unrealised losses/ (gains)	(193,707)	(297,297)
Total Deferred Tax Asset	11,940,300	11,647,040
(ii) Deferred Tax Liability		
Accelerated deduction for exploration and evaluation	6,013,014	5,465,453
Other	1,421	1,421
Total Deferred Tax Liability	6,014,435	5,466,874
Sub Total Deferred Tax Asset (Liability)	5,925,865	6,180,166
Unrecognised DTA/ DTL	(5,925,865)	(6,180,166)
Total Deferred Tax Asset (Liability)	-	-

Gladstone Pacific Nickel Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated Group with effect from 1 July 2004. Gladstone Pacific Nickel Limited is the head entity of the tax consolidated Group. Members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiary on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

Tax effect accounting by members of the tax consolidated Group

Members of the tax consolidated Group have entered into a funding agreement. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiary's inter-company accounts with the tax consolidated Group head company, Gladstone Pacific Nickel Limited. The Group has applied the separate tax payer within the Group allocation approach in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated Group.

On the 14 August 2008, Egidia Pty Ltd joined the tax Consolidated Group.

In 2010 Gladstone Nickel Project Pty Ltd, transferred its unused tax losses of \$36,060 (2009: \$699,859) to Gladstone Pacific Nickel Limited under the tax consolidation arrangements.

Taxation of Financial Arrangements

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions, The Group has assessed that there is no impact on the deferred tax and income tax balances as at 30 June 2010.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
7. CASH ASSETS		
Cash at Bank and in hand	92,708	687,175
Short Term Deposits	9,270,268	12,878,948
	9,362,976	13,566,123
8. TRADE AND OTHER RECEIVABLES		
Amounts receivable from unrelated entities		
Goods and Services Tax Receivable	4,283	93,607
	4,283	93,607
9. OTHER ASSETS		
Rental Bonds	13,515	898
Prepayments	57,009	101,208
	70,524	102,106

10. PROPERTY PLANT AND EQUIPMENT

Year Ended 30 June 2010	Consolidated		Total (\$A)
	Plant and Equipment (\$A)	Land and Improvements (\$A)	
As at 1 July 2009 Net carrying amount	539,295	313,301	852,596
Additions	268,150	-	268,150
Disposals	(238,891)	-	(238,893)
Depreciation reversal on disposal	141,604	-	141,606
Depreciation charge for the year- Operations	(169,193)	(4,536)	(173,729)
Foreign Exchange Movement	(6,654)	-	(6,654)
As at 30 June 2010 Net carrying amount	534,311	308,765	843,076
As at 30 June 2010 Cost	986,829	376,250	1,363,079
Accumulated Depreciation	(452,518)	(26,235)	(478,753)
Impairment		(41,250)	(41,250)
As at 30 June 2010 Net Carrying Amount	534,311	308,765	843,076
As at 30 June 2009 Cost	957,570	376,250	1,333,820
Accumulated Depreciation	(418,275)	(21,699)	(439,974)
Impairment	-	(41,250)	(41,250)
As at 30 June 2009 Net Carrying Amount	539,295	313,301	852,596
Year Ended 30 June 2009	Plant and Equipment (\$A)	Land and Improvements (\$A)	Total (\$A)
As at 1 July 2008 Net carrying amount	511,227	363,551	874,778
Additions	226,535	-	226,535
Disposals	(6,379)	-	(6,379)
Depreciation charge for the year- Operations	(167,172)	-	(167,172)
Depreciation charge for the year- Evaluation	(24,916)	(9,000)	(33,916)
Impairment	-	(41,250)	(41,250)
As at 30 June 2009 Net carrying amount	539,295	313,301	852,596

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
11. DEFERRED EVALUATION AND EXPLORATION		
Opening balance	18,222,910	111,984,745
Foreign Currency Translation	-	127,053
Additions	-	3,177,466
Reversal of Share Based Payment (i)	-	(10,698,879)
Impairment (ii)	1,825,204	(86,367,475)
	20,048,114	18,222,910

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. Based on this, the portion of the Dasines Share based payment previously capitalised to Deferred Evaluation and Exploration has been reversed.

(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 Groups 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, the Company has concluded that the recoverable amount of this asset is greater than the carrying amount as at 30 June, 2010. The carrying amount of the asset is \$20,048,114 (2009 : \$18,222,910). An impairment reversal has been made, whereby the carrying amount of the asset at the end of the period is equivalent to the historical cost of the asset. The impairment reversal of \$1,825,204 has been made in the Statement of Comprehensive Income.

The 2009 impairment charge includes the full impairment of the Deferred Evaluation and Exploration asset associated with the Quinne SAS Joint Venture. As part of the Joint venture agreement, GPNL was to provide financing for the GNP. As funding for the GNP is uncertain, the Group has assessed that this asset remains fully impaired as at 30 June 2010.

Consolidated

12. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

	June 10 (\$A)	June 09 (\$A)
Security Deposits - Bank Guarantees	158,972	352,807
Amounts Receivable from Ouinne SAS to parent (a)	7,499,154	7,688,918
Impairment of Receivable from Ouinne SAS to parent (c)	(7,499,154)	(7,688,918)
Amounts Receivable from Ouinne SAS to subsidiary (b)	1,717,470	1,918,020
Impairment of Receivable from Ouinne SAS to subsidiary (c)	(1,717,470)	(1,918,020)
Others	30,137	55,250
Deposits – Land (Note17 (f))	1,684,490	1,684,490
	1,873,599	2,092,547

- (a) This amount forms part of the arrangements to earn an interest in Ouinne SAS. (refer also Note 17 (f))
- (b) This amount is interest bearing and represents advances made for the payment of exploration and evaluation activities in New Caledonia. The loans will be repaid by way of reduction in the Groups' purchase price of materials from Ouinne SAS.
- (c) As part of the Joint venture agreement, with SMGM, GPNL was to provide financing for the GNP. As the agreement for funding of the GNP did not proceed, the group assessed that all receivables from Ouinné SAS are subject to impairment .The recoverable amount of the receivable has been assessed as zero. An impairment expense has been included in the Statement of Comprehensive Income.

13. TRADE AND OTHER PAYABLES (CURRENT)

	June 10 (\$A)	June 09 (\$A)
Unrelated Parties	71,637	280,999
Related Parties (refer Note 18)	-	181,444
Sundry Creditors and Accrued Expenses	166,898	349,046
	238,535	811,489

14. INVESTMENTS IN JOINT VENTURE

	June 10 (\$A)	June 09 (\$A)
Ouinne SAS	1,712	1,712
	1,712	1,712

Refer also Note 18.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

15. PROVISIONS

	Consolidated		Total (\$A)
	Provision for Employee Entitlements (\$A)	Provision for Restoration and Rehabilitation (a) (\$A)	
As at 1 July 2009	153,501	114,860	268,361
Arising during the year	82,491	-	82,491
Adjustment	(14,500)	-	(14,500)
Utilised	(113,850)	-	(113,850)
As at 30 June 2010	107,642	114,860	222,502
Current 2009	136,265	-	136,265
Non Current 2009	17,236	114,860	132,096
Total Provisions 2009	153,501	114,860	268,361
Current 2010	107,642	-	107,642
Non Current 2010	-	114,860	114,860
Total Provisions 2010	107,642	114,860	222,502
As at 1 July 2008	150,491	176,549	327,040
Arising during the year	155,723	-	155,723
Adjustment	-	(61,689)	(61,689)
Utilised	(152,713)	-	(152,713)
As at 30 June 2009	153,501	114,860	268,361

16. TRADE AND OTHER PAYABLES (NON-CURRENT)

Sundry Creditors and Accrued Expenses :

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Native Title (a)	57,057	57,056
Land Compensation (b)	543,640	597,320
Related Party (refer note 18)	20,760	20,760
Other	-	50,554
	621,457	725,690

(a) This amount is only payable when project funding is successfully obtained.

(b) This amount represents the value of deferred settlement of land compensation rights. It is payable in six monthly instalments to 2025. The land compensation liability has been measured by discounting the balance due at 10%.

		Consolidated	
		June 10 (\$A)	June 09 (\$A)
17. COMMITMENTS AND CONTINGENCIES			
(a) Non Cancellable operating leases			
• not later than 1 year		7,800	343,043
• later than 1 year and not later than 5		-	509,029
• later than 5 years			-
		7,800	852,072
(b) Exploration and Evaluation Expenditure Mining Exploration Leases			
• not later than 1 year		367,402	375,807
• later than 1 year and not later than 5		1,435,268	1,439,338
• later than 5 years		3,279,363	3,637,934
		5,082,033	5,453,079
(c) Native Title Payments			
• not later than 1 year		184,647	179,269
• later than one year and not later than 5		738,588	717,076
• later than 5 years		2,769,705	2,689,034
		3,692,940	3,585,379
(d) Bank Guarantee facilities			
• Within 1 year		-	-
• After 1 year but not more than 5		-	194,015
• After 5 years		158,792	158,792
		158,792	352,807

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
(e) Share Issues		
• Within 1 year	-	-
• After 1 year but not more than 5	3,957,088	3,537,736
• After 5 years	-	-
	3,957,088	3,537,736

The Group has a 1% interest in SAS Ouinné. 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 15,000,000 million shares is calculated based on the GPNL share price and exchange rate at 30 June 2010.

Under the SMGM Agreement, to obtain the 49% interest in the Ouinne 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 GPNL elects to pay an additional US\$1 million, 31 December 2012, to obtain the funding to construct Stage 1 of the Gladstone Nickel Project.

(f) Land Purchase Agreements

• Within 1 year	-	-
• After 1 year but not more than 5	32,029,890	32,029,890
• After 5 years	-	-
	32,029,890	32,029,890

Gladstone Nickel Project Pty Ltd (subsidiary) has conditional land purchase agreements with the Minister for Industrial Development of Queensland for the Nickel Process Refinery site at Yarwun and the Residue Storage Facility site at Aldoga in the GSDA.

Settlements of the contracts are contingent upon GPNL raising sufficient equity capital and debt funding to enable the Project to proceed. This land will be used solely for purposes related to construction and operation of the project. GPNL has also guaranteed the obligations of Gladstone Nickel Project Pty under the contract to purchase land (refer Note 22) GPNL has extended the land purchase settlement dates in line with revised project timelines. The deposit paid to the Queensland Government is refundable if the purchase does not proceed.

18. RELATED PARTY DISCLOSURES

The Consolidated financial statements include the financial statements of Gladstone Pacific Nickel Limited and the subsidiaries and Joint Venture parties listed in the following table:

Name	Country of Incorporation	Equity Interest	
		2010	2009
Marlborough Nickel Pty Ltd	Australia	100%	100%
Gladstone Nickel Pipeline Pty Ltd	Australia	100%	100%
Gladstone Nickel Project Pty Ltd	Australia	100%	100%
Gladstone Solomon Islands Pty Ltd	Solomon Islands	100%	100%
Gladstone Nouvelle Calédonie SAS	New Caledonia	100%	100%
Egidia Pty Ltd	Australia	100%	100%
Ouinne SAS	New Caledonia	1%	1%

Directors

The directors of Gladstone Pacific Nickel Limited during the financial year ended 30 June 2010 were:

Domenic Vincent Martino

Clive Theodore Mensink

Bill Thomas Haseler: Appointed 9 April 2010, Resigned 9 September 2010

Vimal Kumar Sharma: Appointed 9 April 2010, Resigned 18 May 2010

Neil Eugene Meadows: Appointed 18 May 2010, Resigned 13 September 2010

James Gilbert Henderson: Resigned 9 April 2010

John Charles Downie: Resigned 11 September 2009

Benjamin Samuel Hill: Resigned 9 April 2010

Clive Frederick Palmer: Resigned 2 June 2009, Appointed 13 September 2010

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

Related Party Transactions

The following table provides the total amount of transactions which have been entered into with related parties in the relevant financial year:

Related Party		Purchases and payments for services from related parties (\$A)	Amounts owed to related parties (Note 13 and 16) (\$A)	Amounts owed from related parties (\$A)
Consolidated				
Share Based Payments	2010	-	-	-
Other	2010	-	20,760	-
		-	20,760	-
Share Based Payments	2009	-	-	-
Other	2009	234,031	202,204	-
		234,031	202,204	-

Terms and Conditions:

Purchases:

Purchases from related parties relate to billings for legal and consultancy fees and are made in arms' length transactions both at normal market prices and on normal terms and conditions.

Share Based Payments have been considered by the Board of Directors as reasonable and for the benefit of the Company.

Amounts owing to related parties:

Outstanding balances at year end are unsecured, non-interest bearing and settlement occurs in cash.

Associated Entities:

During the year Gladstone Pacific Nickel Limited advanced monies to its associated entities:

	2010		2009	
	Cash Advanced	Inter Company Transfers	Cash Advanced	Inter Company Transfers
Ouinne SAS	148,348	-	9,175,683	-
	148,348	-	9,175,863	-

Director and Director Related Entities

- A Royalty Agreement is in place between the Group and entities related to two former directors. Under the agreement, the group has granted a royalty of 1% of the gross value, less \$US2.20 per pound of nickel produced of the Quarterly production from the Gladstone Nickel Project.
- The Group relocated to a smaller premise in September, 2009 and paid out its lease at a cost of \$ 458,422.

Both the prior premise and the current premise are owned by a director Mr Clive Palmer, The terms of the prior and new leases are commercial. The amount of rent paid for the period when the premise was owned by Mr Palmer was \$41,982 (2009: \$58,848)

Key Management Personnel

During the year the following amounts were paid to Key Management Personnel (including Directors):

	Short-term	Post- Employment	Sub Total	Share-based payment	Total
2010					
Directors	535,601	35,429	571,030	81,065	652,095
Executives	168,807	15,193	184,000	35,350	219,350
	<u>704,408</u>	<u>50,622</u>	<u>755,030</u>	<u>116,415</u>	<u>871,445</u>
2009					
Directors	565,837	99,552	665,389	52,583	717,972
Executives	416,521	117,234	533,755	(62,246)*	471,509
	<u>982,358</u>	<u>216,786</u>	<u>1,199,144</u>	<u>(9,663)</u>	<u>1,189,481</u>

* Portion of option charge reversed for non- performance of option vesting condition amounting to \$97,596.

(a) Interests in the shares and options of the Group by the directors or their related companies or other associates at 30 June 2010:

	Shares	Options
C F Palmer (Resigned 02/06/09, Appointed 13/09/10)	34,545,233*	-
CT Mensink	-	-
D V Martino	190,375	-
B T Haseler (Appointed 09/04/10, Resigned 09/09/10)	-	-
V K Sharma (Appointed 09/04/10)	-	-
N E Meadows (Appointed 18/05/10, Resigned 13/09/10)	-	-
J G Henderson (Resigned 09/04/10)	240,375	-
J C Downie (Resigned 11/09/09)	-	-
B S Hill (Resigned 09/04/10)	-	-

* In addition, Dasines Pty Ltd holds 20,999,999 converting shares in MNPL which are convertible to 28,645,233 ordinary shares in GPNL upon execution of a binding agreement for the turnkey construction of the GNP and a binding agreement for the financing or assistance with the financing of the GNP.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

19. SHARE BASED PAYMENT PLANS

The Group has arrangements in place for the granting of non-transferable options and shares to certain Directors and senior executives. The Group also has issued Broker Special Warrants and Broker Warrants.

(a) Recognised share-based payment expenses

The expense recognised for services received during the year is shown in the following table:

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Options granted to Directors and Senior Executives charged to:		
Operating expense – Directors’ Options	81,065	52,583
Operating expense - Employee benefits expense (refer note 5(d))	35,350	35,350
Deferred evaluation and exploration costs	(82,475)	(38,680)
	33,940	49,253
Broker Warrants charged to expense as part of ongoing listing expense	42,250	42,350
	76,190	91,603
Share based payment granted by the company or a subsidiary to Director Related Entities for services rendered		
Share Based payment to Egidia and Dasines	-	109,271,416
Share Based payment to Transocean	-	3,000,000
Reversal of Dasines payment* and Transocean Fees (refer Note 11)	-	(10,698,879)
Unvested Portion- Dasines and Transocean Fees	-	(45,948,512)
Charged to Deferred exploration and evaluation	-	55,624,025

* On 7 December 2007, MNPL entered into Share Subscription Agreements with Dasines Pty Ltd. Under the subscription agreements, shares issued to Dasines would convert to ordinary shares in MNPL on the achievement of certain milestones. It is not probable that these milestones will be achieved. Based on this, the portion of the Dasines Share based payment previously capitalised to Deferred Evaluation and Exploration has been reversed.

(b) Types of share-based payment plans and other service arrangements.

Relevant terms and conditions applicable to options and shares granted include:

General Options**Tranche 2A and 2B**

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options may be exercised any time prior to 18 January 2010, subject to certain employment conditions;
- the exercise price is \$3.75; and
- options will lapse if not exercised by the expiry date.
- these options have now lapsed.

Tranche 3A

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options may be exercised any time prior to 25 February 2010.
- the exercise prices are \$4.21; and
- options will lapse if not exercised by the expiry date.
- these options have now lapsed

Tranche 4A

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options vest upon the achievement of goals relating to specific milestones and must be exercised prior to 31 December 2011.
- the exercise price is £1.50;
- options will lapse if not exercised by the expiry date; and
- These options lapsed on the 30 June 2009, due to non performance of milestones.

Tranche 4B

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options vest upon the achievement of goals relating to specific milestones and must be exercised prior to 31/12/2012;
- the exercise price is £1.75;
- options will lapse if not exercised by the expiry date; and
- These options lapsed on the 31 December 2009

Tranche 5A

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options may be exercised any time prior to 17 January 2011;
- the exercise price is £1.86; and
- options will lapse if not exercised by the expiry date
- these options have now lapsed

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

Tranche 6A

- options lapse if not exercised within 6 months of termination or expiry of employment with the Company;
- options may be exercised any time prior to 17 January 2012;
- the exercise price is £2.00; and
- options will lapse if not exercised by the expiry date.
- these options have now lapsed

Senior Manager Option Plan (SMOP)

- the options lapse on ceasing of employment with the Company, except in the event of death, retrenchment, retirement or termination by the Company without cause;
- options may be exercised between 01 January 2008 and 31 December 2010.
- the exercise price is £1.50; and
- options will lapse if not exercised by the expiry date.

Broker Warrants

- The Broker Warrants entitle the holder to receive, without payment of additional consideration, upon exercise, one ordinary share;
- options may be exercised any time prior to 27 February 2011
- the exercise price is £1.50; and
- options will lapse if not exercised by the expiry date.

Shares in MNPL granted to Director Related Entities

- 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 fair value of the ordinary shares has been determined using the market value of the services provided;
- The market value of the services provided is \$109,271,416 (refer Note 19(a)); and
- The Group has assessed that it is probable that the Dasines milestones will not be achieved.

Other Securities granted to Director Related Entities.

- GPNL has issued or agreed to issue a total of 1,195,500 shares to Director related entities;
- The issue of the shares is subject to the same milestones as the MNPL converting shares;
- The fair value of the ordinary shares has been determined using the market value of the services provided;
- The market value of the services provided is \$3,000,000 (refer Note 19(a)); and
- The Group has assessed that it is probable that the Dasines milestones will not be achieved.

(c) Summaries of options granted

Options issued during the year:

	No. of Options- 2010	Fair Value per option (\$A)	No. of Options- 2009	Fair Value per option (\$A)
General Options – 6A	-	-	250,000	-
	-	-	250,000	-

The fair values of the options are estimated at the date of grant using the Binomial Model.

The following table illustrates the number (no.) and weighted average exercise price (WAEP) of share options issued:

	2010		2009	
	No. of options	WAEP	No. of options	WAEP
Outstanding at the beginning of the year	1,500,000	3.61	2,730,990	3.51
Granted during the year	-	-	250,000	4.10
Exercised during the year	-	-	-	-
Expired during the year	(1,190,000)	3.60	(1,480,990)	3.51
Outstanding at the end of the year	310,000	3.51	1,500,000	3.61

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

The following table illustrates the ordinary shares which vested and were issued in 2009 in relation to the service agreements set out above. No ordinary shares have been issued in 2010 in relation to the service agreements as set out above.

	2009	
	Ordinary Shares in MNPL	Ordinary Shares in GPNL
MNPL Ordinary Shares issued		
GPNL Ordinary Shares issued	-	28,645,233
	-	28,645,233

Share Options issued and outstanding at the end of the year have the following exercise prices.

Expiry Date	Exercise Price	2010 (No.)	2009 (No.)
12/12/2009	\$3.75	-	250,000
17/01/2010	\$ 4.21	-	250,000
31/12/2010	£1.50*	160,000	350,000
17/01/2011	£1.86*	-	250,000
27/02/2011	£1.50*	150,000	150,000
17/01/2012	£2.00*	-	250,000
Exercisable at the end of the year-		310,000	1,500,000

* Converted to Australian equivalent based on an exchange rate on the day prior to the date of exercise.

The following table give the assumptions made in determining the fair value of the options granted during the year:

	2010	2009 General Options 6A
Dividend Yield %	-	-
Expected Volatility %	-	56.38
Risk free interest rate %	-	2.27
Expected Life of Options (years)	-	3
Share price at grant date (\$)	-	£0.19

The expected life of the options is based on a company in the same stage of project development and industry and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility of a company in the same stage of project development and industry will be the same as the future volatility.

Other than the conditions described above, no other features of options granted were incorporated into the measurement of fair value.

The weighted average contractual life for the share options outstanding as at 30 June 2010 is 2.5 years (2009: 2.5 years).

20. AUDITORS REMUNERATION

	Consolidated	
	June 10	June 09
	(\$A)	(\$A)
Amounts received or due and receivable by Ernst and Young Australia for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	37,000	86,028
• Advisory and tax compliance	20,400	202,051
	<u>57,400</u>	<u>288,079</u>
Amounts due and receivable by other auditors (foreign subsidiaries)		
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	24,572	15,493
	<u>24,572</u>	<u>15,493</u>

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

21. 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 Year Ended 30 June 2010	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Revenue				
Interest Received	688,291	16,963	-	705,254
Total Segment Revenue	688,291	16,963	-	705,254
Segment Net Operating Loss After Tax	(1,632,657)	(430,756)	-	(2,063,413)
Depreciation and Amortisation	153,134	20,595	-	173,729
Impairment	(1,825,204)	-	-	(1,825,204)
Foreign Exchange Loss – Unrealised	345,302	306	-	345,608
Other Non Cash Expenses	76,190	-	-	76,190
Income tax Expense	(333,460)	-	-	(333,460)
Intercompany Loans	5,320,853	-	(5,320,853)	-
Impairment of Intercompany Loans	(5,320,853)	-	5,320,853	-
Other Assets	32,105,653	98,631	-	32,204,284
Segment Assets	32,105,653	98,631	-	32,204,284
Capital Expenditure for Period	268,150	-	-	268,150
Intercompany Loans	-	5,320,853	(5,320,853)	-
Other Liabilities	1,051,123	31,371	-	1,082,494
Segment Liabilities	1,051,123	5,352,224	(5,320,853)	1,082,494

	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Operating Segments				
Year Ended 30 June 2009				
Revenue				
Interest Received	1,296,624	72,557	-	1,369,181
Foreign Exchange Gain	3,466,424	-	-	3,466,424
Total Segment Revenue	4,763,048	72,557	-	4,835,605
Segment Net Operating Loss After Tax	(91,922,107)	(4,161,872)	-	(96,083,979)
Depreciation and Amortisation	146,179	20,993	-	167,172
Impairment- Deferred Evaluation and Exploration	85,097,118	1,270,357	-	86,367,475
Foreign Exchange Loss – Unrealised	-	4,346	-	4,346
Other Non Cash Expenses	130,283	-	-	130,283
Income tax Expense (Benefit)	(2,429,251)	-	-	(2,429,251)
Intercompany Loans	6,046,403	-	(6,046,403)	-
Impairment of Intercompany Loans	(6,046,403)	-	6,046,403	-
Other	34,798,671	132,930	-	34,931,601
Segment Assets	34,798,671	132,930	-	34,931,601
Capital Expenditure for Period	217,363	9,172	-	226,535
Deferred Evaluation and Exploration Expenditure for Period	3,177,466	127,053	-	3,304,519
Intercompany Loans	-	6,046,403	(6,046,403)	-
Other	1,781,026	24,514	-	1,805,540
Segment Liabilities	1,781,026	6,070,917	(6,046,403)	1,805,540

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Segment Revenue Reconciliation to the Statement of Comprehensive Income		
Total Segment Revenue	705,254	4,835,605
Total Revenue	705,254	4,835,605

Segment Net Operating Profit /(Loss) After Tax Reconciliation to the Statement of Comprehensive Income

Segment Net Operating Profit/ (Loss) After Tax	(2,063,413)	(96,083,979)
Income Tax Expense (Benefit) at 30% (2009: 30%)	(333,460)	2,429,251
Segment Net Operating Profit (Loss) before Tax as per the Statement of Comprehensive Income	(2,396,873)	(98,513,230)

Segment Assets Reconciliation to the Statement of Financial Position

Segment Operating Assets	32,204,284	34,931,601
Intersegment Elimination :		
Intercompany Loans	5,320,853	6,046,403
Impairment of Intercompany Loans	(5,320,853)	(6,046,403)
Total Assets as per Statement of Financial Position	32,204,284	34,931,601

Segment Liabilities Reconciliation to the Statement of Financial Position

Segment Operating Liabilities	6,403,347	7,851,943
Intersegment Elimination	(5,320,853)	(6,046,403)
Total Liabilities as per Statement of Financial Position	1,082,494	1,805,540

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

22. PARENT ENTITY INFORMATION

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Current Assets	9,349,180	13,618,908
Total Assets	31,298,982	33,836,116
Current Liabilities	188,478	675,363
Total Liabilities	189,897	763,913
Issued Capital	127,456,754	127,456,754
Retained Earnings (Accumulated Losses)	(97,488,279)	(96,582,651)
Reserves :		
Share Option	1,391,836	1,315,646
Broker Warrants	882,454	882,454
Total Shareholders' Equity	32,242,765	33,072,203
Profit (Loss) of the parent entity	(2,039,309)	(89,813,631)
Total Comprehensive Income of the Parent Entity	(2,039,309)	(89,813,631)

Contingent Liabilities of the Parent Entity

Gladstone Nickel Project Pty Ltd (subsidiary) has conditional land purchase agreements with the Minister for Industrial Development of Queensland for the Nickel Process Refinery site at Yarwun and the Residue Storage Facility site at Aldoga in the GSDA.

Settlements of the contracts are contingent upon GPNL raising sufficient equity capital and debt funding to enable the Project to proceed. This land will be used solely for purposes related to construction and operation of the project. GPNL has also guaranteed the obligations of Gladstone Nickel Project Pty under the contract to purchase land (refer Note 17 (f)).

GPNL has extended the land purchase settlement dates in line with revised project timelines.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

23. ISSUED CAPITAL AND RESERVES (PARENT AND CONSOLIDATED)

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
(a) Issued and Paid Capital		
2010: 70,935,699 (2009: 70,935,699) ordinary shares fully paid	127,456,754	127,456,754
	127,456,754	127,456,754

(b) Options*

* including Broker Special Warrants

Issued and still outstanding at year end (Note 19)

	Number of Options	
	2010	2009
	310,000	1,500,000

(c) Movements in Shares on Issue

Opening balance

Issued during the year:

- Ordinary Shares issued

	2010		2009	
	(\$A)	Number of Shares	(\$A)	Number of Shares
Opening balance	127,456,754	70,935,699	84,259,743	42,290,466
Issued during the year:				
• Ordinary Shares issued	-	-	43,197,011	28,645,233
	127,456,754	70,935,699	127,456,754	70,935,699

(d) Terms and Conditions of Contributed Equity

Equity

Ordinary shares:

- Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.
- Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

	Foreign Currency Translation Reserve	Share and Options Reserve	Broker Special Warrants Reserve	Reserve arising from Deemed partial disposal/ acquisition of a subsidiary	Total Reserves
	(\$A)	(\$A)	(\$A)	(\$A)	(\$A)
e) Movements in Other Reserves					
Consolidated					
As at 30/06/08	(86,645)	44,913,335	882,454	(9,696,433)	36,012,711
Share Based Payment:					
• Employees and Directors' Options	-	91,603	-	-	91,603
• Director Related Entity Shares- GPNL	-	(398,703)	-	-	(398,703)
• Director Related Entity Shares- MNPL	-	(10,300,176)	-	-	(10,300,176)
Foreign Currency Translation Reserve	(26,008)	-	-	-	(26,008)
Transaction with other Equity Holders- Acquisition of remaining interest in Subsidiary				(11,856,500)	(11,856,500)
As at 30/6/09	(112,653)	34,306,059	882,454	(21,552,933)	13,522,927
Share Based Payment:					
• Employees and Directors' Options	-	76,190	-	-	76,190
Foreign Currency Translation Reserve	(17,048)	-	-	-	(17,048)
As at 30/6/10	(129,701)	34,382,249	882,454	(21,552,933)	13,582,069

f) Nature and Purpose of Reserves

Share and Options Reserve

The share and option reserve is used to record the value of equity benefits provided to senior managers and directors as part of the remuneration and for services provided.

Refer to Note19 for further details of these plans and service arrangements.

Broker Special Warrants Reserve

The Broker Special Warrant Reserve records the value of 780,990 Broker Special Warrants granted to Transocean Securities Pty Ltd and Research Capital Corporation, acting as agents, as part of their remuneration for the placement of 11,157,000 Special Warrants in June 2007.

Foreign Currency Translation Reserve

The Foreign Currency Translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Reserve on partial disposal / acquisition of subsidiary

This reserve is used to account for the partial disposal or acquisition of subsidiary which was treated as transaction between shareholders in accordance with the entity concept.

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

24. EARNINGS PER SHARE

	Consolidated	
	June 10 (\$A)	June 09 (\$A)
Net Profit (Loss)	(2,063,413)	(96,083,979)
Earnings used in Calculation of Basic Earnings per Share	(2,063,413)	(96,083,979)
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Basic Earnings per Share	70,935,699	63,970,835
Basic Earnings per Share	(0.03)	(1.50)

Options on issue are not considered dilutive.

25. CASH FLOW STATEMENT RECONCILIATION

	Consolidated	
	June 10 (\$A)	June 09 (A\$)
Operating Profit/(Loss) After Tax	(2,063,413)	(96,083,979)
Adjusted for :		
Interest	(173,147)	(218,333)
Share based Payments	76,190	-
Provision for Employee Entitlements	59,727	10,618
(Gain)/ Loss on Foreign Exchange	345,608	(3,462,078)
Impairment Loss Reversal	(1,825,204)	96,015,663
Depreciation- Charged to Operations	173,729	167,172
Loss on Disposal of Fixed Assets	89,185	-
Movement in Shares Based Payments and other reserves.	81,706	(6,491)
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	133,523	91,398
(Increase)/Decrease in Deferred Evaluation Costs	-	(3,146,455)
(Increase)/Decrease in Prepayments and other Assets	206,331	8,333
(Increase)/Decrease in Deferred Tax Asset/ Liability	(333,460)	(2,429,253)
Increase/(Decrease) in Payables	(601,577)	(1,369,655)
Increase/(Decrease) in Non-Current Payables	(104,233)	(86,414)
Increase/(Decrease) in Non-Current Provisions	(17,236)	(64,330)
Net Cash Flow Used from Operating Activities	(3,952,271)	(10,573,804)
Reconciliation of Cash:		
Cash Balance Comprises		
Cash at Bank and on Short Term Deposit	9,362,976	13,566,123
Closing Cash Balance	9,362,976	13,566,123
(a) Non cash financing and investments activities		
Ordinary Shares Issued	-	43,197,011
Reversal of Share Based Payments	-	(10,698,879)

Notes to the Financial Statements

for the year ended 30 June 2010 (continued)

26. EVENTS AFTER BALANCE DATE

Expiration of Memorandum of Understanding with TCC

The Memorandum of Understanding with China Tianchen Engineering Corporation ("TCC") for development of a heap leach project at Marlborough expired on the 30th June 2010. The Group is continuing its discussions with TCC with the objective that a development path can be identified and pursued.

Takeover Offer from QNI Resources Pty Ltd

The Company received a takeover offer on 12 August 2010 from QNI (a company ultimately owned by Mr Clive Palmer) for £0.14 per ordinary share for shares it did not own in the Company.

The Bidder's Statement was received by the Company on 21 September 2010 and has been distributed to Shareholders.

The Company has concluded a Target's Statement in which the Independent Director, Mr Martino, has advised shareholders of his opinion in relation to the takeover offer by QNI. The Target's Statement was distributed to shareholders on 6 October 2010.

In addition the Company issued a Supplementary Target's Statement dated 12 October 2010 which is to be read in conjunction with the Target's Statement dated 5 October 2010.

The offer closed on 25 October 2010.

On 25 October 2010, an application was made to the Takeovers Panel in Australia by RAB Special Situations (Master) Fund Limited (a shareholder of the Company) alleging that unacceptable circumstances had arisen in relation to the takeover offer for GPNL by QNI in respect of alleged deficiencies in the Company's Target's Statement, and sought orders that a further supplementary Target's Statement be issued and accepting shareholders be given a right to withdraw their acceptances. The Takeovers Panel made an interim order to the effect of preventing QNI from processing acceptances of the offer or paying consideration until further order or the matter being determined. At the date of this report, the Takeovers Panel had yet to decide to conduct proceedings in relation to the matter.

Resignation of Nominated Advisor and Broker

On 21 October the Company's Nominated Adviser for the purposes of the AIM Rules for Companies resigned. The Company's shares will be temporarily suspended from trading on AIM until such time as a replacement Nominated Adviser is appointed. If by 19 November 2010, the Company has failed to appoint a replacement Nominated Adviser, the admission of the Company's shares to trading on AIM will be cancelled. On 25 October, the Company's Broker resigned. The board is reviewing its position in relation to the appointment of the Nominated Adviser and Broker.

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 30 June 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 1st day of November, 2010

Independent auditor's report to the members of Gladstone Pacific Nickel Limited

We have audited the accompanying financial report of Gladstone Pacific Nickel Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

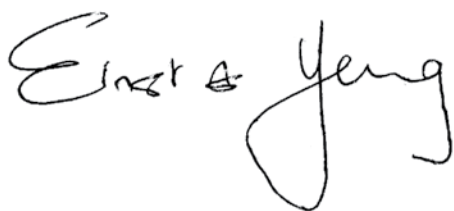
In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Gladstone Pacific Nickel limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Gladstone Pacific Nickel and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young



Mike Meintjes
Partner
Brisbane
1 November 2010

Corporate Governance Statement

Introduction

The Board is responsible for the good corporate governance of the Group and has commenced, and intends to continue to develop, its program of corporate governance policy and practices. It is using best-practice standards as its benchmark to the extent these are appropriate to it given the smaller size of the Group and its current focus on developing the Gladstone Nickel Project.

The corporate governance standards being benchmarked are the Australian Stock Exchange (“ASX”) Corporate Governance Council’s Principles of Good Corporate Governance and Best Practice Recommendations (“ASX Principles”) and the UK Financial Services Authority’s Combined Code-Principles of Good Governance and Code of Best Practice (“Combined Code”), both of which are sets of guidelines in respect of governance (collectively referred to as the “Good Governance Principles”). The Company is not listed on the Australian Stock Exchange but is listed on the London Stock Exchange’s Alternative Investment Market (AIM) and was previously listed on the Toronto Stock Exchange (TSX).

The Board is pleased to note that the Group complies with the Good Governance Principles except as referred to in this Statement.

The Board and Management

The Board regards its role as to oversee and guide the Group’s management with the aim of protecting and enhancing the interests of shareholders. In fulfilling this role, the Board also takes into account the interests of other stakeholders including employees, suppliers and the wider community.

The Board is responsible for:

- approving the Group’s strategic and operational direction;
- establishing goals for management and monitoring the achievement of those goals;
- approving and monitoring budgets; and
- over viewing senior management appointments.

The Board has adopted a formal statement of delegated financial authority to management.

The Board undertakes a regular review of the balance of responsibilities to ensure that the division of functions remains appropriate to the needs of the Company.

Board Composition

The Company’s Constitution calls for at least three but not more than nine Directors, and does not require a Director to hold shares.

The Board is currently comprised of three Non-executive Directors , Mr D Martino (Chairman), Messrs C Mensink and C Palmer. Details of each Director’s term in office, background, experience, professional skills and qualifications are set out in the Directors’ Report. The Board is of the view that given the Company’s size and nature of its operations that there is an appropriate collective mix of skills and experience among Directors.

Director Independence

All of the Board are Non-Executive Directors. The Board considers that Mr Martino would be regarded as an Independent Director under the Good Governance Principles (and Mr Martino is the nominated independent Director under the Combined Code).

While the ASX Principles recommend a majority of the Board (including the Chairman) be independent and the Combined Code recommends a majority of Non-Executive Directors should be independent, the Board is of the view that as a result of the current Board structure and in the current circumstances of the Company, there is a sufficient level of independent overview and decision-making at the Board level.

Meetings of the Board

The Board attempts to meet monthly with a minimum meeting bi-monthly, with additional meetings scheduled as necessary. Details of meetings of the Board, and Director attendance, are set out in the Directors' Report. Senior management and consultants attend Board meetings, as appropriate, and are available for questioning by Directors.

A standard agenda for regular Board meetings has been developed which facilitates provision by management of information and reporting as required by the Board. Agenda papers are, where possible, always provided in advance of the meeting.

Director Retirement and Re-Election

The Company's Constitution essentially requires that one third of the Board, as well as any Director appointed by the Board since the last AGM, submit to (re)election each year. The Board considers that on-going continuity of skills and experience on the Board is a dominant consideration at the current time and is, subject to individual Director performance, likely to recommend re-election of a Director who retires in accordance with the Constitutional requirements.

Financial Reporting

The Company's financial report preparation and approval process for the 2009-2010 financial year involved the Chief Financial Officer and the Audit Committee confirming that the Company's financial reports presented true and fair views, in all material respects, of the Company's financial condition and operational results and were in accordance with applicable accounting standards.

The Board intends that the external auditor will be invited to annual general meetings to answer questions about the conduct of the audit and the audit report.

Board Committees

The following Committees have been assisting the Board in the discharge of its responsibilities and to allow more detailed consideration of complex issues:

- Audit Committee; and
- Remuneration and Nominations Committee.

These Committees review matters and make recommendations to the Board. Given the nature of the Group's operations, the Board considers that there is no need for additional committees at the current time.

Audit Committee

Written terms of reference were approved by the Board for this Committee in 2005. This Committee's major functions are to monitor the integrity of the company's financial statements, review accounting policies, monitor financial compliance, review internal control and risk management systems, review 'whistleblower' arrangements, monitor the need for internal audit, review the appointment, remuneration and performance of the external auditor (including auditor independence), and review the audit plan and audit results.

The Committee is required to be composed of a majority of Non-Executive Directors and currently consists of Messrs D Martino (Committee Chairman and Non-Executive Director) and Mr C Mensink (Non- Executive Director) . The Committee structure fulfils the recommendations in the Good Governance Principles as to a committee comprised only of Non-Executive Directors all or a majority of whom should be independent Directors (including in the case of the ASX Principles, an independent chairperson). Given the current Board composition, the Board considers there is sufficient Non-Executive Director independence for the Committee to properly discharge its role and functions.

The Committee held two meetings during the 2009/2010 year and one meeting since financial year end to consider the 2009/2010 financial statements and audit report.

Corporate Governance Statement

(continued)

Remuneration and Nominations Committee

Written terms of reference were approved by the Board for this Committee in 2005. This Committee's major functions are to determine and make recommendations to the Board in respect of remuneration policy and terms for Executive Directors, Company Secretary and senior management (Non-Executive Director remuneration is a matter for the Chairman and Executive Director(s)), performance targets for performance-related pay schemes, share incentive plans, employee benefit structures, policy for authorising expenses of the Chairman and Executive Director(s), qualifications for additional Directors, Director candidates, appointments to the Audit Committee, and Board support of Director re-election.

The Committee is required to be composed of at least two members all of whom (if possible) are to be Non-Executive Directors. New members will be appointed prior to the next meeting of this committee. This Committee has not met during 2009/2010.

Remuneration

The Board has not yet adopted a formal remuneration policy given the nature of the Group's current activity. However the Board is of the view that Director and senior management remuneration must have regard to market relativities, must be at a level sufficient to attract competent and experienced personnel, and that senior management remuneration should contain a significant incentive component.

Remuneration structures for Executive Directors and senior management and for Non-Executive Directors are also referred to in the Directors' Report, as are arrangements regarding indemnification and insurance of Directors and Company officers.

Internal Control and Risk Management

The Board closely monitors financial and operational performance of the Group at regular meetings.

The Board is committed to identifying, monitoring and managing material risks and has included overview of risk management in the Audit Committee's functions. Management is responsible to the Board for the Company's identification and management of risk. While written policies have not been adopted (as recommended by the ASX Principles) the Board believes that given the nature of the Group's activity and the size of the Company's board and management, risk management can be properly addressed with the current arrangements.

Given the size and nature of the Group's operations, the Board considers that there is no current need for an internal audit function.

Code of Conduct

The Board expects the highest levels of integrity and ethics from Directors, employees and consultants. While a formal written code of conduct has not yet been adopted (as recommended by the ASX Principles) the Board intends to address a formal statement which will include expectations of Directors and personnel in relation to conflicts, confidentiality and compliance.

Share Trading

The Board has adopted a "Code for Dealing in Shares", which in summary prohibits Directors and relevant employees dealing in Company securities:

- on considerations of a short term nature; or
- within a period of 2 months preceding the announcement of the half-year and annual results; or
- when in possession of unpublished price-sensitive information.

A Director must not deal in Company securities without advising the Chairman in advance and receiving clearance. In the case of the Chairman, he must receive clearance from the Board. Relevant employees must advise the Chairman.

Disclosure

The Board understands and respects that prompt disclosure of unpublished price-sensitive information is central to the efficient operation of the stock markets. The Board continually reviews Group developments to ensure that it complies with all of its disclosure requirements – both continuous and periodic. The Chairman is responsible for ensuring timely disclosures.

While written policies and procedures have not been adopted (as recommended by the ASX Principles) the Board believes that given the size of the Company's Board and management, disclosure compliance can be achieved with the current arrangements.

Communications with Shareholders

The Board appreciates the importance of effective communications with shareholders. Its communications strategy promotes the communication of information to shareholders through the distribution of financial reports, announcements through the AIM, media releases and addresses by the Chairman at Annual General Meetings. Board Committee chairpersons will be available at Annual General Meetings to answer questions about committee activities.

Financial reports, AIM announcements, media releases and significant presentations and speeches will be posted on the Company's website.

Performance Evaluation

The Chairman is responsible for overseeing the performance and contribution of individual Directors. A formal performance evaluation of the Board is not undertaken but informal discussions periodically occur with individual directors. Given the nature of the Group's operations and the size of the Board, the Board considers this as an appropriate approach to Board performance.

Performance of key executives is periodically and informally discussed with relevant personnel by the Chairman. To the extent remuneration is performance based achievement of goals will be specifically reviewed. Given the size of Group management, the Board considers that a formal performance evaluation system is not appropriate.

Independent Advice

To assist in the proper discharge of the Directors' duties, each Director is able to obtain independent professional advice at the Company's expense and with the Chairman's prior approval.

Conflicts of Interest

In accordance with the Company's Constitution, Directors must inform the Board if they have any material interest or duty that could conflict with duties owed to the Company. A Director may not be present during consideration of, or vote on, a matter where a material personal interest arises (unless permitted by the Corporations Act).

Induction

The Company does not currently have a formal induction procedure for new Directors or staff, but given the relatively small size of the Board and management, the Board considers that this is not necessary. The Board will ensure that new Directors (if any) are adequately briefed and that the Chief Executive Officer ensures that all new staff are adequately briefed.

Additional Company Information

Top 20 Shareholders as at 28 August 2010

QNI Resources Pty Ltd	35,495,233	Aliana Pty Ltd	127,675
Computershare Company Nominees	29,438,303	Mr David Slager	125,000
Belgrave Square Pty Ltd	1,400,000	Mr Raymond Deasy	100,000
Robash Pty Ltd	1,258,700	Mr Philip Richards	80,000
Royal Bank Of Canada	843,000	Mustang Asset Pty Ltd	65,000
Barclays Bank Plc	500,000	Mr Anthony Eugene Collins	40,000
Dalenier Enterprises Pty Ltd	468,222	Cortar Pty Ltd ATF The Matvest Unit Trust	40,000
Zambari Investments Pty Ltd	390,495	Aubrey Deeley Esq	20,000
Jalonex Investments Pty Ltd	240,375	CLMGAG Pty Ltd	15,000
Impact Nominees Pty Ltd	190,375	Mr Roman Yurkiv	14,934

Exploration Tenements Held by GPNL

Tenement	Area (ha)	Description/Status	Station
EPM 11195	17,400	Granted	Woodstock, Marlborough, Ramillies, Coorumburra
EPM 11582	900	Granted – Portion on Freehold Land	Coorumburra, Marlborough
EPM 14145	300	Granted	Woodstock and State Forest
EPM 16931	2,700	Granted	

Mining Tenements Held by GPNL

Tenement	Area (ha)	Expiry Date	Description	Activities Proposed	Station	Title
ML 80056	230	30/11/24	Slopeway N	Mining	Woodstock	Leasehold
ML 80057	957	30/11/24	Slopeway Central and S	Mining, Ore Stockpile, Haul Roads	Marlborough	Pastoral Lease
ML 80058	722	30/11/24	Magpie W	Haul Road	Marlborough	Pastoral Lease
ML 80059	277	30/11/24	Magpie W	Haul Road	Marlborough	Pastoral Lease
ML 80060	1,138	30/11/23	Coorumburra W and E	Mining, Waste Rock, Ore Stockpile, Haul Roads	Ramillies	
ML 80061	207	30/11/23	West of Coorumburra	Haul Road	Coorumburra	Freehold
ML 80062	418	30/11/23	Whereat*	Mining, Ore Stockpile, Haul Roads	Coorumburra	Freehold
ML 80063	556	30/11/23	South of Develin Creek	Plant, Haul Roads, Reject Stockpile	Coorumburra	Freehold
ML 80064	69	30/11/23	South of Develin Creek	Potential Residue Storage Facility	Coorumburra	Freehold
ML 80065	960	30/11/23	South of Develin Creek	Process Residue Storage Facility	Coorumburra	Freehold
ML 80073	375	31/12/24	East of Whereat*	Evaporation Ponds, Waste Rock Disposal	Coorumburra	Freehold
ML 80074	1,650	31/12/24	West of Whereat*	Haul Roads	Coorumburra	Freehold
ML 7577	106.7	22/02/11	Slopeway Extensions	Potential Mining, Haul Roads	Marlborough	Pastoral Lease
ML 5772	18.2	30/04/26	Slopeway Extensions	Potential Mining, Haul Roads	Marlborough	Pastoral Lease
ML 5780	128.7	31/05/32	Slopeway Extensions	Potential Mining, Haul Roads	Marlborough	Pastoral Lease
ML 80004	17.49	31/08/12	Slopeway Extensions	Potential Mining, Haul Roads	Marlborough	Pastoral Lease

Note: ML 80065 Lies within EPM 8388 held by others. * Previously titled Junction

Competent Person's Statement

The information in this document that relates to Mineral Resources is based upon and accurately reflects data compiled by Ian Lipton, Principle Geologist, Golder Associates Pty Ltd, who is a fellow of the Australasian Institute of Mining and Metallurgy. Mr Lipton's twenty years experience in the evaluation of gold, nickel iron ore and base metal deposits, including a substantial experience in lateritic weathering terrains, qualifies him as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves". Mr Lipton has given his consent for the inclusion of the information in the form and context in which it appears.



GLADSTONE PACIFIC NICKEL LTD

www.gladstonepacific.com.au

AIM CODE: GPN