

2011 report

annual



GLADSTONE PACIFIC NICKEL LTD

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2011

corporate direc- tory

GLADSTONE PACIFIC NICKEL LIMITED

ACN 104 261 887

This annual report covers Gladstone Pacific Nickel Limited (GPNL) as an individual entity and the consolidated entity comprising GPNL and its subsidiaries.

A description of the group's operations and of its principal activities is included in the Chairman's Review. This is not part of the Financial Report.

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DIRECTORS

Domenic Vincent Martino
Chairman

Blair Matthew Brewster
Executive Director

Clive Frederick Palmer
Non-Executive Director

COMPANY SECRETARY

Karen Williams

AUDITORS

Ernst & Young (Australia)
KPMG (New Caledonia)

BANKERS

National Australia Bank
Bank of Queensland

SOLICITORS TO THE COMPANY

AUSTRALIA
Clayton Utz
Blake Dawson

UK
Lawrence Graham

CANADA
Heenan Blaikie

SHARE REGISTER

UNITED KINGDOM
C/-Computershare Investor Services PLC
PO Box 82
The Pavilions Bridgwater Road
Bristol BS13 8AE UK

During this year, while Gladstone Pacific Nickel Ltd ("GPNL") has not been able to progress the Gladstone Nickel Project ("GNP") as quickly as it would have wished. 2010/2011 saw a number of significant shareholder transactions and corporate developments.

August 2010

In August 2010, QNI Resources Pty Ltd ("QNI") (a wholly owned subsidiary of Mr Clive Palmer) made an unconditional cash offer of £0.14 per share for all the ordinary shares in GPNL it did not already own. QNI received 3,899,105 acceptances in respect to their takeover bid which closed on 25 October 2010. Following this purchase, Mr. Palmer and his related entities held 39,394,338 ordinary shares in the Company representing 55.53% of the ordinary shares in issue. QNI subsequently transferred its shareholding to Waratah Coal Pty Ltd ("Waratah") a wholly owned subsidiary of Mr Clive Palmer.

November 2010

The Company was unable to appoint a replacement Nominated Advisor for the purposes of the AIM Rules for Companies. Pursuant to AIM Rule 1, the Company's AIM securities were cancelled from AIM on 24 November 2010.

June 2011

In June 2011, Waratah made an unconditional cash offer of \$A0.05 per share for all the ordinary shares in GPNL it did not already own. Waratah received 589,888 acceptances in respect to their takeover bid which closed on 1 August 2011. Following this purchase, Mr. Palmer and his related entities held 39,984,226 ordinary shares in the Company representing 56.37% of the ordinary shares in issue. Waratah subsequently transferred its shareholding to Fairway Coal Pty Ltd ("Fairway") a wholly owned subsidiary of Mr Clive Palmer.

August 2011

On 12 August, the Company lodged a Prospectus with ASIC for a non-renounceable rights issue to existing Shareholders on the basis of 11 new shares for every 1 share held at an issue price of \$0.08 per new share. The amount raised by the Issue, after deducting associated costs, was to be used by the Company to undertake a variety of activities, including funding ongoing operating and legal costs, a revised drilling program and tenement acquisition program and an updated feasibility study and to fund the Company's obligations under the then proposed variation of contracts to purchase land for the Project from the Queensland State Government. On 22 August, 2011 an application was made to the Takeovers Panel in Australia by a shareholder Robash Pty Ltd ("Robash") alleging that unacceptable circumstances had arisen in relation to the proposed issue. On 9 September, 2011, the company's major shareholder, Fairway, advised GPNL they would not support the current capital raising. The prospectus was withdrawn on 9 September 2011. The Takeovers Panel declined to make a declaration of unacceptable circumstances in response to the application by Robash. The Board is reviewing the group's funding requirements with a view to a capital raising later in the year to be used to undertake a variety of activities as outlined in the prospectus.

September 2011

GPNL is party to legally binding agreements with the Queensland Government to acquire land at Gladstone for its refinery and residue storage facility for A\$33 million subject to various approval and development conditions. In September 2011 the company concluded negotiations with the relevant agencies to revise the content and timing of the development conditions applicable to the land. The detailed changes to the land agreements are set out in the Directors Report. GPNL is able to proceed with the purchase of the land at any time, subject to the availability of funds. GPNL considers that the modification of the conditions as described above is advantageous for its timetable for the development of the Project.

chairman's review

Other developments during the year

During the year, GPNL has continued to talk with our partners Société Minière Georges Montagnat ("SMGM") in New Caledonia. The agreement with SMGM is conditional upon GPNL securing funding for the GNP. The dates associated with funding are 30th December 2011, with GPNL having an option to extend this date to 30 December 2012, upon payment of US\$1,000,000. Discussions between GPNL and SMGM have commenced in relation to the JV agreement, however an outcome has not yet been reached.

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 EIS continues to be a critical foundation in the development of the GNP.

The group has maintained its Marlborough resources and reserves during the period. The group holds valid Mining Leases and Exploration Permits, along with associated Environmental Authorities and regional Registered Native Title agreements. The final necessary Indigenous Land User Agreement was registered 9 December 2009. Traditional owner relationships remain on a sound footing.

On 29 July 2011 Robash, filed an application in the Supreme Court of New South Wales seeking leave of the Court to bring proceedings in the name of GPNL against Clive Palmer and other companies controlled by him. GPNL has obtained legal advice about the claim by Robash. On the basis of that advice, the independent director of GPNL, Mr Martino, remains of the view that the claim by Robash is not supported. GPNL has instructed its solicitors to defend Robash's application. As at the date of this report, it is not possible to predict whether Robash will be granted leave to bring proceedings in GPNL's name.

Financial performance

The Company's net loss before income tax was A\$2,438,154 (2010: A\$2,396,873) which includes an impairment loss reversal of A\$1,105,003 (2009: A\$ 1,825,204).

Based on movements in exchange rates affecting loan balances with the Ouinne Joint Venture, exchange losses of A\$1,213,897 (2010: A\$345,608) were recorded.

Interest income for the period was of A\$591,616 (2010: A\$697,379).

Tenement Expenditure of A\$912,966 (2010: A\$1,305,504) reflects ongoing native title and tenement maintenance costs for the GNP. During 2010 additional salaries were incurred in relation to review of the Marlborough Heap leach program.

Professional Fees were A\$470,237 (2010: A\$330,213) reflecting costs associated with undertaking various corporate transactions.

Wages and on costs were A\$769,852 (2010: A\$484,040). The increase during 2011 represents payments of contractual obligations for senior management.

The carrying value of the Deferred Evaluation and Exploration Expenditure asset at 30 June 2011 remains at \$A20,048,114 (2010: A\$20,048,114) and reflects the historical cost of the asset after adjustment for impairment. This value does not incorporate the value of the extensive feasibility studies, environmental impact studies and development approvals which have been undertaken to facilitate project financing and development. This approach is consistent with the valuation methodology applied in 2010, having regard to the applicable accounting standards. The company, in assessing the Deferred Evaluation and Exploration Expenditure asset for impairment, has taken into consideration the Independent Expert Report which was included in the GPNL Target Statement in response to Waratah's Takeover offer.

The Company continues to have a strong cash balance with A\$7,176,758 (2009: \$9,362,976) on hand at the end of the period.

The critical next step to move the project forward is to raise funds to continue the development of the GNP. The Board is reviewing the group's funding requirements and assessing options available for a capital raising. The funds raised will be used to undertake the variety of activities as outlined in the recent prospectus.

The Board would like to acknowledge the strong and continued support from all the stakeholders associated with the Gladstone Nickel Project.

financial
report

2021



GLADSTONE PACIFIC NICKEL LTD

Directors' Report

Gladstone Pacific Nickel Ltd (“GPNL” or the “Company”) and its subsidiaries are together referred to as the “Group” in this report.

The names of the Directors of Gladstone Pacific Nickel Limited in office during the financial year and until the date of this report were:

Domenic Vincent Martino

B Bus, FCPA, FCA, FAICD

Appointed 08/12/07

- Non Executive Director
- Chairman Audit Committee

Appointed 18/05/10

- Non Executive Chairman

Domenic Martino is the Chairman of Australasian Resources Limited (“ARH”), an ASX listed Australian resource company. He is active in the Australian resource industry and is or has been a Director of a number of Australian public companies. He was Chief Executive Officer of Deloitte Touché Tohmatsu Australia for two years and was a partner with Deloitte Touché Tohmatsu and its predecessor firms from 1981 to 2003. He has a wealth of experience in mergers and acquisitions, initial public offerings and identifying and developing strategic opportunities.

Professor Clive Frederick Palmer

Appointed 21/04/09

- Non Executive Director

Resigned 02/06/09

Appointed 13/09/10

- Non Executive Director

Clive Palmer has over 25 years experience in the Australian resource industry and has had significant success with major projects. He is Chairman of Mineralogy Pty Ltd. (“Mineralogy”), a private Australian Company that has successfully concluded major transactions with a number of companies including the Chinese Government-owned CITIC Pacific Limited (HK Listed), Australasian Resources Limited (ASX Listed) and a Memorandum of Understanding with Fortescue Metals Limited (ASX Listed). Mineralogy holds one of the world’s major iron ore deposits in the Pilbara region of Western Australia. CITIC Pacific Limited has commenced the development of a A\$4 billion project, funded by Chinese Government owned Banks, to export 24 million tonnes of iron ore annually from Western Australia.

Blair Brewster

Appointed 04/11/10

- Non Executive Director

Appointed 23/05/11

- Managing Director
- Member – Audit Committee

Mr Blair Brewster manages Mineralogy Group operations in HR and Marketing with vast experience in both, at State and Federal levels. The marketing activities included detailed tendering, contracting and procurement activities as well as commercial negotiations. He has also been responsible for community and government relations. Prior to joining Mineralogy, Mr Brewster has 15 years experience in sales and marketing with major soft drink & snack food company.

Clive Theodore Mensink

Appointed 26/05/09

- Non Executive Director

Appointed 09/07/10

- Member – Audit Committee

Resigned 03/11/10

Clive Mensink is a Senior Executive Officer and Director of Mineralogy. He has been with Mineralogy for over 15 years. He is also Deputy Chairman of Australasian Resources Ltd (ARH) and Director of International Minerals Pty Ltd.

As Project Manager for Mineralogy’s numerous exploration programmes, Mr. Mensink has played a key role in the development of ARH’s \$2 billion Balmoral South iron ore project. He has led and been instrumental in the success of numerous business delegations which have represented Mineralogy in the Peoples Republic of China.

William Thomas Haseler

Appointed 09/04/10

- Non Executive Director

Appointed 09/07/10

- Member – Remuneration & Nominations Committee

Resigned 09/09/10

William Haseler is the company lawyer for Mineralogy Pty Ltd. He has 20 years experience as a litigation/company lawyer and has extensive experience in company law, contracts and joint ventures.

Mr. Haseler has, in the course of his legal career appeared and instructed on many matters in the Supreme Courts of Queensland and New South Wales, the Appeal Courts and the High Court of Australia.

Mr. Haseler has been the legal advisor in litigation, mediation and arbitration matters to one of Australia’s top four banks. He also holds a current practising certificate as a solicitor of the Supreme Court of Queensland.

Directors' Report

(continued)

Neil Eugene Meadows

Appointed 18/05/10

- Managing Director

Appointed 09/07/10

- Member – Remuneration & Nominations Committee

- Member – Audit Committee

Resigned 13/09/10

Neil Meadows is Chief Operating Officer of and a director of Queensland Nickel Pty Ltd ("QNPL"). QNPL operates the Yabulu Refinery nickel operation in Townsville, Queensland, Australia.

Mr Meadows undertook various plant management roles at the Yabulu Refinery operation between 2000 and 2003 before spending in excess of five years as General Manager and later Projects Director for Minara Resources Ltd's Murrin Murrin nickel operation.

Mr Meadows returned to the Yabulu Refinery in September 2008 in the role of General Manager for BHP Billiton. Since the sale of the Yabulu Refinery to Mr Clive Palmer he has accepted the role of Chief Operating Officer.

Company Secretary

The names of the company secretaries of Gladstone Pacific Nickel Limited in office during the financial year and until the date of this report were:

Karen Ruth Williams CPA

Appointed 17/05/11

- Company Secretary

Karen Williams joined the Group in September 2006 as Corporate Accountant, and was appointed Company Secretary of GPNL on the 17th May, 2011. She is a CPA with a Bachelor of Economics.

Julien Francis McNally MBA, CPA, BA

Appointed 08/03/06

- Company Secretary

Resigned 13/05/11

Joined the Group in September 2005 as Chief Financial Officer. He is a CPA with a Bachelor of Business (1992) and MBA (2004) from Queensland University of Technology. Has had nearly nine years' experience with BHP Billiton's Nickel and Chrome businesses, most recently as Group Accountant and then Senior Commercial Analyst – Special Projects. His expertise encompasses financial compliance, commercial negotiation and project financial evaluation.

All directors and company secretaries were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

Interests in the shares and options of the Group by the directors or their related companies or other associates at 30 June 2011:

	Shares	Options
D V Martino	190,375	-
C F Palmer *(Appointed 13/09/10)	39,984,226*	-
Blair Brewster (Appointed 23/05/11)	-	-

*In addition, Dasines Pty Ltd (a company controlled by Clive Palmer) held 20,999,999 converting shares in MNPL which were 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. These milestones were not met and the converting shares lapsed on 8 December 2010.

Earnings per Share

The Group made a basic and diluted \$0.03 loss per share for the year.

Corporate Structure

Gladstone Pacific Nickel Limited (formerly Pearce Matheson Group Pty Ltd) became a public company on 14 January 2005, listing on the AIM Market of the London Stock Exchange on 17 March 2005 and on the Toronto Stock Exchange on 31 July 2007. The company delisted from the Toronto Stock Exchange ("TSX") on 22 February 2008 and from the AIM on 23 November 2010.

Gladstone Pacific Nickel Limited ("GPNL") has a 100% interest in Marlborough Nickel Ltd ("MNPL"), Gladstone Nickel Pipeline Pty Ltd, Gladstone Nickel Project Pty Ltd ("GNP"), Gladstone Nouvelle Calédonie SAS ("GNC") and Gladstone Solomon Islands Pty Ltd ("GSI").

GPNL has a 1% interest in Ouinné SAS, a joint venture incorporated in New Caledonia, with a right to earn an interest of up to 49% after meeting certain milestones.

Principal Activities

The principal activity of the Group during the financial year was to maintain the asset base in light of global market conditions and to manage a number of shareholder activities as listed below.

Takeover offers from QNI Resources Limited and Waratah Coal Pty Ltd.

On 21 September 2010, QNI Resources Pty Ltd ("QNI") lodged a Bidder's Statement in relation to an unconditional cash offer for all of the ordinary shares in GPNL that it did not already own at a price of GBP 0.14 per Share (approximately AUD 0.23). QNI acquired 3,899,105 shares pursuant to acceptances under the Bidder's Statement. Subsequently, QNI transferred the Shares it held to a related body corporate, Waratah Coal Pty Ltd, at a price of GBP 0.14 per Share.

On 6 June 2011, Waratah Coal Pty Ltd ("Waratah") lodged a Bidder's Statement in relation to an unconditional cash offer for all of the ordinary shares in GPNL that it did not already own at a price of AUD 0.05 per Share. The offer closed on 1 August 2011 and Waratah acquired 589,888 Shares pursuant to the Bidder's Statement. Subsequently, Waratah transferred the shares it held in GPNL to a related body corporate, Fairway Coal Pty Ltd.

Resignation of Nominated Advisor and Broker

On 21 October 2010 the Company's Nominated Adviser for the purposes of the AIM Rules for Companies resigned and the Company's shares were temporarily suspended from trading on AIM. On 25 October 2010, the Company's Broker resigned. The Company was unable to appoint another Nominated Adviser and the company was delisted from the AIM on 23 November 2010.

Land purchase agreements

In September 2011, GPNL and the Queensland Government concluded negotiations in respect to the land purchase agreements. The land purchases are now treated as standalone transactions that are not linked to development of the Marlborough tenements. The land purchases are now not conditional upon project finance. Removal of these conditions is regarded as advantageous to the company in order to obtain a strategic, valuable asset that also creates certainty about the ability to proceed with development on the site and maintain current environmental approvals which are linked to this specific site. Further details in relation to the revised contracts are given in the Significant Developments after Balance Date section.

Operations and Financial Review

The loss after tax of the Group for the year ended 30 June 2011 was \$2,371,684 (2010: \$2,063,413). No dividend is proposed or will be paid this year.

Impairment Assessment:

The Group has reviewed the carrying value of its Deferred Exploration and Evaluation Expenditure which comprises expenditure associated with Gladstone Nickel Project ("GNP") encompassing both the Marlborough and Ouinné areas, together with associated refinery and infrastructure expenditure. In addition, the Company has also reviewed the value of GPNL's receivables in relation to its loans to Ouinné SAS, the incorporated joint venture operator of the joint venture with SMGM.

(i) Deferred Evaluation and Exploration

Based on a valuation included in the Target Statement completed in response to Waratah Takeover proposal, the majority of directors have concluded that the recoverable amount of this asset is equal to the carrying amount as at 30 June 2011. The carrying amount of the asset is \$20,048,114 (2010:\$20,048,114)

(ii) Receivables from Ouinné SAS

GPNL has continued to maintain a conservative view that the company is unlikely to be able to meet the funding milestones in relation to its Joint Venture Agreement with SMGM, hence the Group has assessed that an impairment trigger exists in relation to the recoverable amount of the receivable from Ouinné SAS. As at the end of the period receivables from Ouinné SAS remain fully impaired with a total impairment provision with the group recognised at 30th June 2011 of \$8,553,884 (2010: \$9,216,624).

Directors' Report

(continued)

General Expenditure:

Tenement Expenditure of \$912,996 (2010:\$1,305,504) reflects ongoing native title and tenement maintenance costs for Marlborough which forms part of the GNP. During the year one staff member only has been employed to oversee this process. As the GNP has been deferred and no significant advancement of the GNP has occurred, all ongoing maintenance costs of the GNP are expensed as incurred.

Total Evaluation costs were \$20,978 (2010:\$413,108) which reflects the very limited activities undertaken in New Caledonia during the year.

The Group recognised an unrealised foreign exchange loss of \$1,213,897 (2010: loss \$345,608) in relation to a loan to Ouinne SAS denominated in \$US.

The Group employs a small number of key personnel and continues to monitor all expenditure.

Significant Changes in the State of Affairs

The contributed equity of the Group remained at \$127,456,754 for the year.

Significant Developments after Balance Date

Non-renounceable rights Issue

On 12 August 2011, the Company lodged a prospectus with ASIC for a non-renounceable rights issue (the issue) to existing Shareholders on the basis of 11 new shares for every 1 share held at an issue price of \$0.08 per new share. If all entitlements to participate in the Issue were taken up by Shareholders, the Issue would result in the issue of approximately 780 million New Shares and would raise approximately \$62.4 million. The minimum amount to be raised was \$25 million. The amount raised by the Issue, after deducting associated costs, was to be used by the Company to undertake a variety of activities, including funding ongoing operating and legal costs, a revised drilling program and tenement acquisition program and an updated feasibility study and to fund the Company's obligations under the then proposed variation of contracts to purchase land for the Project from the Queensland State Government.

On 22 August 2011 an application was made to the Takeovers Panel in Australia by a shareholder, Robash Pty Ltd, ("Robash") alleging that unacceptable circumstances had arisen in relation to the proposed non-renounceable rights issue. Robash had also indicated that it would not support the proposed capital raising. GPNL undertook not to issue the prospectus before 19 September 2011 or thereafter without first giving the Panel and the parties 48 hours of its intention to do so.

On 9 September 2011 the company's major shareholder, Fairway Coal Pty Ltd and companies associated with Mr Clive Palmer advised GPNL they would not support the current capital raising. The prospectus was withdrawn on 9 September 2011. On 15 September 2011, the Takeovers Panel announced that it had declined to make a declaration of unacceptable circumstances in response to the application by Robash.

The Board is reviewing the group's funding requirements with a view to a capital raising later in the year to be used to undertake a variety of activities as outlined in the August 2011 prospectus.

Legal Proceedings by Robash Pty Ltd

On 29 July 2011 Robash, filed an application in the Supreme Court of New South Wales seeking leave of the Court to bring proceedings in the name of GPNL against Clive Palmer and other companies controlled by him. GPNL has obtained legal advice about the claim by Robash. On the basis of that advice, the independent director of GPNL, Mr Martino, remains of the view that the claim by Robash is not supported. GPNL has instructed its solicitors to defend Robash's application. As at the date of this report, it is not possible to predict whether Robash will be granted leave to bring proceedings in GPNL's name.

Land purchase agreements

GPNL is party to legally binding agreements with the Queensland Government to acquire land at Gladstone for its refinery and residue storage facility for A\$33 million subject to various approval and development conditions. The Company has now concluded negotiations with the relevant agencies to revise the content and timing of the development conditions applicable to the land. The changes are as follows.

- (a) Conditions as to the Marlborough mine being commenced and ore transport and supply being contracted have been removed and replaced by a condition that GPNL demonstrate (by 30 June 2015 or such later date as the parties may agree) that it is committed to proceeding with the proposed development of the Project.
- (b) GPNL will relinquish part of the area originally subject to agreement and will grant a licence to the adjoining landowner, Wiggins Island Coal Export Terminal Pty Ltd (WICET) to use parts of the land for lay down purposes, for extraction of landfill and to undertake defined works including the construction of bunds.
- (c) The condition as to the Project being financed has been removed and replaced by a condition that GPNL raise sufficient funds (whether by way of equity capital, debt funding (or a blend of the two) to enable it to purchase the land.
- (d) The provision for a sunset date for extension of the date for satisfaction of these conditions has been extended to 31 December 2016, however the contract provides that this date will not be extended beyond 31 December 2016 (except by agreement of the parties (acting reasonably) in exceptional circumstances, with a specific provision contemplating that this could occur if the time for completion of works by WICET has been extended.

GPNL is able to proceed with the purchase of the land at any time, subject to the availability of funds.

Environmental Regulation and Performance

The Australian environmental obligations of the Group are regulated under Queensland and Australian Federal law. All environmental performance obligations are monitored by the Directors and subjected from time to time to both Federal and Queensland Government agency audits and site inspections. As at the date of this report, the Directors believe that the activities of the Group adequately provide for Environmental Regulation and Performance in the restoration and rehabilitation provisions. There has been no material breach of the Group's environmental obligations. The appropriate Queensland Government Departments hold bank guarantees to cover the Group's current obligations. The offshore environmental obligations of the Group are regulated under New Caledonian law. At the date of this report, there are no outstanding environmental obligations in respect of the foreign subsidiaries.

Share Options

Total share options over ordinary shares outstanding as at 30 June 2011 were nil (2010: 310,000).

During the year 310,000 (2010: 1,190,000) options lapsed.

Dasines Pty Ltd (a company controlled by Clive Palmer) held 20,999,999 converting shares in MNPL which were 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. These milestones were not met and the converting shares lapsed on 8 December 2010.

For details on the valuation of Options, including models and assumptions used, refer to Note 19.

Indemnification and Insurance of Directors and Officers

The Group has entered various agreements indemnifying, to the extent that is lawful, directors and officers against liabilities incurred as an officer of the Group. This includes legal costs in defending actions however exclusions to the indemnity apply. The Group has taken out a Director's and Officer's insurance policy insuring Directors and Officers (as defined) against certain liabilities, and has paid the applicable premium. The terms of the policy preclude disclosure of the nature of the liability covered, the name of the insurer, the liability limit and the premium.

Directors' Report

(continued)

CORPORATE INFORMATION

Employees

As at 30 June 2011, the entity employed 3 staff (2010:5). In addition, a number of consultants are engaged to assist with specific tasks as required.

Directors' Meetings

	Directors' Meetings	Audit Committee	Remuneration Committee
Number of Meetings held	8	2	-
Number of Meetings Attended :			
C T Mensink (resigned 03/11/10)	6/7	1/1	-
D V Martino	7/8	2/2	-
B T Haseler (resigned 09/09/10)	3/3	-	-
N E Meadows (resigned 13/09/10)	3/3	-	-
C F Palmer (appointed 13/09/10)	3/5	-	-
B. Brewster (appointed 04/11/10)	2/2	1/1	-

Committee Membership

As at the date of this report the Group has an Audit Committee.

Members of the committee's of the Board during the year were:

Audit Committee

D Martino (Chairman appointed 08/12/07)
N Meadows (appointed 09/07/10, resigned 13/09/10)
C Mensink (appointed 09/07/10, resigned 03/11/10)
B. Brewster (appointed 13/05/11)

Remuneration Committee

N Meadows (appointed 09/07/10, resigned 13/09/10)
W Haseler (appointed 09/07/10 resigned 09/09/10)

Auditor's Independence and Non-Audit Services Declaration

Auditor's Independent declaration to the Directors of Gladstone Pacific Nickel Limited.

A copy of the Auditor's Independence Declaration on page 13 received from the auditor, forms part of the Director's Report for the year ended 30 June 2011.

Non-Audit Services

The following non-audit services were provided by the entity's auditors, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor's independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance and advisory services: \$11,000

Signed in accordance with a resolution of the directors.



D Martino
Chairman

Dated at Brisbane this 24th day of October 2011.



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Auditor's Independence Declaration to the Directors of Gladstone Pacific Nickel Limited

In relation to our audit of the financial report of Gladstone Pacific Nickel Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Mike Meintjes' in a cursive style.

Mike Meintjes
Partner
24 October 2011

Statement of Comprehensive Income

for the year ended 30 June 2011

Consolidated

	Notes	June 11 (\$A)	June 10 (\$A)
Interest Income	5(b)	591,616	697,379
Other Income	5(b)	7,700	7,875
REVENUES FROM CONTINUING OPERATIONS		599,316	705,254
Impairment Reversal	11/12	(1,105,003)	(1,825,204)
Tenement Expenses		912,996	1,305,504
Evaluation Costs		20,978	413,108
Foreign Exchange Loss	5(a)	1,213,897	345,608
Directors' Fees / Remuneration	18	103,942	571,030
Directors' Option Expense	19(a)	-	81,065
Brokers' Option Expense	19(a)	28,611	42,250
Professional Fees		470,237	330,213
Travel and Accommodation		31,370	106,624
Wages and On-costs	5(d)	769,852	484,040
Office Rental	5 (c)	103,549	559,703
Public Relations and Listing Fees		96,162	135,313
IT and Communication		68,835	110,083
Depreciation	5 (a)	166,075	173,729
Other	5(e)	155,969	269,061
EXPENSES		3,037,470	3,102,127
PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		(2,438,154)	(2,396,873)
INCOME TAX (EXPENSE) / BENEFIT	6	66,470	333,460
PROFIT / (LOSS) AFTER INCOME TAX EXPENSE		(2,371,684)	(2,063,413)
OTHER COMPREHENSIVE INCOME			
Foreign Currency Translation		20,340	(17,048)
TOTAL COMPREHENSIVE INCOME		(2,351,344)	(2,080,461)
EARNINGS PER SHARE			
Basic and Diluted Earnings (Loss) per Share (Cents per Share)	24	(3.65)	(2.90)

Statement of Financial Position

as at 30 June 2011

Consolidated

Notes	Consolidated		
	June 11 (\$A)	June 10 (\$A)	
CURRENT ASSETS			
Cash Assets	7	7,176,758	9,362,976
Trade and Other Receivables	8	7,245	4,283
Other Current Assets	9	88,244	70,524
TOTAL CURRENT ASSETS		7,272,247	9,437,783
NON CURRENT ASSETS			
Property Plant and Equipment	10	660,351	843,076
Investment in Joint Venture	14	1,712	1,712
Deferred Evaluation and Exploration Costs	11	20,048,114	20,048,114
Trade and Other Receivables	12	1,872,035	1,873,599
Deferred Tax Asset	6 (c)	-	-
TOTAL NON CURRENT ASSETS		22,582,212	22,766,501
TOTAL ASSETS		29,854,459	32,204,284
CURRENT LIABILITIES			
Trade and Other Payables	13	370,379	238,535
Provisions	15	46,101	107,642
TOTAL CURRENT LIABILITIES		416,480	346,177
NON CURRENT LIABILITIES			
Trade and Other Payables	16	565,437	621,457
Deferred Tax Liabilities	6 (c)	-	-
Provisions	15	116,756	114,860
TOTAL NON CURRENT LIABILITIES		682,193	736,317
TOTAL LIABILITIES		1,098,673	1,082,494
NET ASSETS		28,755,786	31,121,790
EQUITY			
Contributed Equity	23	127,456,754	127,456,754
Reserves	23 (e)	13,608,749	13,582,069
Retained Earnings / (Accumulated Losses)		(112,309,717)	(109,938,033)
Parent Interest		28,755,786	31,100,790
Non-Controlling Interest		-	21,000
TOTAL EQUITY		28,755,786	31,121,790

Cash Flow Statement

for the year ended 30 June 2011

		Consolidated	
Notes	June 11 (\$A)	June 10 (\$A)	
CASH FLOWS FROM OPERATING ACTIVITIES			
	(2,747,264)	(4,779,838)	
Payments to Suppliers and Employees			
	66,470	333,460	
Research and Development Rebate			
	560,668	494,107	
Interest Received			
	25	(3,952,271)	
NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
	16,650	(268,150)	
Sale (purchase) of property plant and equipment			
	(82,742)	(176,560)	
Advances to Joint Venture			
	-	193,834	
Increase (decrease) in other non-current receivables			
	(66,092)	(250,876)	
NET CASH FLOWS (USED) FROM INVESTING ACTIVITIES			
	(2,186,218)	(4,203,147)	
Net Increase / (Decrease) in Cash Held			
	-	-	
Net Foreign Exchange Differences			
	9,362,976	13,566,123	
Opening Cash Brought Forward			
	7	9,362,976	
CLOSING CASH CARRIED FORWARD			

Statement of Changes in Equity

for the year ended 30 June 2011

Consolidated	Notes	Issued Capital	Accumulated Losses	Other Reserves	Non Controlling Interest	Total Equity
AS AT 1 JULY 2009		127,456,754	(107,874,620)	13,522,927	21,000	33,126,061
Profit (Loss) for the period		-	(2,063,413)	-	-	(2,063,413)
Other Comprehensive Income		-	-	(17,048)	-	(17,048)
Share Based Payment – Employees and Directors' Options	23 (e)	-	-	76,190	-	76,190
AS AT 30 JUNE 2010		127,456,754	(109,938,033)	13,582,069	21,000	31,121,790
Profit (Loss) for the period		-	(2,371,684)	-	-	(2, 371,684)
Other Comprehensive Income	23 (e)	-	-	(20,340)	-	(20,340)
Cancellation of Converting Shares		-	-	-	(21,000)	(21,000)
Share Based Payment – Employees and Directors' Options	23 (e)	-	-	47,020	-	47,020
AS AT 30 JUNE 2011		127,456,754	(112,309,717)	13,608,749	-	28,755,786

Notes to the Financial Statements

for the year ended 30 June 2011

1. CORPORATE INFORMATION

The financial report of Gladstone Pacific Nickel Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 24 October 2011.

Gladstone Pacific Nickel Limited (the Parent) is a public unlisted company incorporated in Australia. The ultimate parent company of Gladstone Pacific Nickel Limited is Fairway Coal Pty Ltd, which owns 56.4% 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

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

New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 January 2010.

- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash settled Share Based Payment Transactions (AASB 2)* effective 1 January 2010
- AASB 2009-5 - *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 & 139)* effective 1 January 2010
- AASB 3 *Business Combination (revised 2008)* effective 1 July 2009
- AASB 127 *Consolidated and Separate Financial Statements (Revised 2008)* effective 1 July 2009
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective 1 July 2009
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements (AASB1 and AASB 5)* effective 1 July 2009
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from the AASB 3 and AASB 27* 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 or the financial position of the Group.

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2011, are outlined in the table below

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 year ended 30 June 2011 (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>These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p><u>This Standard shall be applied when AASB 9 is applied</u></p>	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

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
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard makes amendments to many Australian Accounting Standards, reducing the disclosure requirements for Tier 2 entities, identified in accordance with AASB 1053, preparing general purpose financial statements.	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 1054	Australian Additional Disclosures	<p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation Credits 	1 July 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 year ended 30 June 2011 (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
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 January 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	<p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.	1 January 2012	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2012
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2011
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities that are applying AASB 1053.	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 2011-5**	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131]	This Standard makes amendments to: <ul style="list-style-type: none"> ▶ AASB 127 <i>Consolidated and Separate Financial Statements</i> ▶ AASB 128 <i>Investments in Associates</i> ▶ AASB 131 <i>Interests in Joint Ventures</i> <p>To extend the circumstances in which an entity can obtain relief from consolidation, the equity method or proportionate consolidation, and relates primarily to those applying the reduced disclosure regime or not-for-profit entities.</p>	1 July 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 year ended 30 June 2011 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2011-3**	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]	This Standard makes amendments including clarifying the definition of the ABS GFS Manual, Facilitating the orderly adoption of changes to the ABS GFS Manual and related disclosures to AASB 1049.	1 July 2012	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	1 July 2012	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013

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</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)</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 non – for – profit private sector entities</p> <p>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2</p>	1 July 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less likely than a majority voting rights may give control. This is likely to lead more entities being consolidated into the group.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.</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 year ended 30 June 2011 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 11	Joint Arrangements	<p>AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and UIG-113 <i>Jointly – Controlled Entities – Non-monetary Contributions by Ventures</i>. AASB 11 use the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give ventures a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB128.</p>	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	<p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.</p>	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1 January 2013	The Group has determined the extent of the impact, if any, will be minimal.	1 July 2013

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 119	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the methods of calculating the return on plan assets.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</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 year ended 30 June 2011 (continued)

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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.

(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 year ended 30 June 2011 (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.

(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 (2010:20%). Communications and IT equipment are depreciated at 30% pa (2010:30%). Improvements to land are depreciated at 20%. (2010:20%)

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 year ended 30 June 2011 (continued)

(o) Earnings per Share (EPS)

Basic EPS is calculated as net profit (loss) 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 (loss) 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) and service providers 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:

- General Options;
- Senior Manager Option Plan;
- Broker Options;
- Converting Shares; and
- 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 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 exchange rate at the date of the initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(u) Joint Venture

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

(v) 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 year ended 30 June 2011 (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements required management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant Accounting Judgments

(i) Impairment of Non-Financial Assets Other Than Goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

(ii) Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits (including the offset against the crystallisation of a deferred tax liability).

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

(iii) Determination of Mineral Resources and Ore Reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, and provisions for decommissioning and restoration. The Group requires that the Australian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code') be used as a minimum standard. The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(b) Significant Accounting Estimates and Assumptions

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

(i) Impairment of Capitalised Exploration and Evaluation Expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources less costs to sell, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made. Where the Group has the right to earn an interest in the exploration of tenements, the rights of tenure are regarded as current from continued capitalisation of the expenditure whilst the group plans to continue its commitment under the arrangement.

(ii) Impairment of Property, Plant and Equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to a higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(iii) Provisions for Decommissioning and Restoration Costs

Decommissioning and restoration costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

(iv) Recoverability of Potential Deferred Income Tax Assets

The Group recognises deferred income tax assets in respect to tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

(v) Share-based Payment Transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an external valuer using a binomial model, with the assumptions detailed in Note 19. The accounting estimates and assumptions relating to equity-settled share-based payments may impact on the carrying amounts of assets and liabilities within the next annual reporting period and also may impact expenses and equity.

Notes to the Financial Statements

For the year ended 30 June 2011 (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 11 (\$A)	June 10 (\$A)
Financial Assets		
Cash and Cash Equivalents	7,176,758	9,362,976
Other Receivables	1,879,280	1,877,882
	9,056,038	11,240,858
Financial Liabilities		
NET EXPOSURE	9,056,038	11,240,858

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

At 30 June, 2011 if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit / (loss) would have been affected as follows:

Judgements of Reasonably Possible Movements	Pre- Tax Profit (Loss) Higher / (Lower)	Pre- Tax Profit (Loss) Higher / (Lower)	Effect on Equity	Effect on Equity
	June 11 (\$A)	June 10 (\$A)	June 11 (\$A)	June 10 (\$A)
Consolidated				
+1.0 % (2010:100 basis points)	90,194	111,958	90,194	111,958
-0.5% (2010: 50 basis points)	(45,097)	(55,979)	(45,097)	(55,979)

Foreign Currency Risk

As a result of reduced 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, 2011, the Group has an exposure to the \$US foreign currency. The exchange rate used at the 2011 year end was : \$A 1.05: \$US1.00 (2010: \$A 0.86: \$US1.00) The \$US denominated loan set out below has been fully impaired at year end.

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
Financial Assets		
Cash and Cash Equivalents	-	-
Trade and Other Receivables	5,138,016	6,324,576
Impairment of Receivables	(5,138,016)	(6,324,576)
Financial Liabilities	-	-
Net Exposure	-	-

The following sensitivity is based on the foreign currency risk exposures in existence at the balance date. At 30 June 2011, the group had loans denominated in \$US foreign currency. Had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows:

Judgements of Reasonably Possible Movements	Pre-Tax Profit (Loss) Higher / (Lower)	Pre-Tax Profit (Loss) Higher / (Lower)	Effect on Equity	Effect on Equity
	June 11 (\$A)	June 10 (\$A)	June 11 (\$A)	June 10 (\$A)
Consolidated				
AUD/ USD : 4.0% (2010: 4.0%)	(197,615)	(243,256)	(197,615)	(243,256)
AUD/ USD: (4.0%) (2010: (4.0%))	214,084	263,527	214,084	263,257

The above movements are in regards to the trade and other receivables balance. Any movements will also be reflected in a corresponding adjustment in the impairment provision.

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 2011 (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	7,176,758	-	-	-	7,176,758
Trade and Other Receivables	7,245	-	1,872,035	-	1,879,280
TOTAL	7,184,003	-	1,872,035	-	9,056,038
Consolidated Financial Liabilities					
Trade and other Payables	370,379	-	240,000	325,432	935,811
TOTAL	370,379	-	240,000	325,432	935,811
Net maturity	6,813,624	-	1,632,035	(325,432)	8,120,227

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
5. REVENUES AND EXPENSES		
(a) Foreign Exchange Gain (Loss) and Depreciation Differences included in Statement of Comprehensive Income		
Unrealised Foreign Exchange Loss (Gain)	1,213,897	(345,608)
Foreign Exchange Loss (Gain)	1,213,897	(345,608)
Depreciation	166,075	173,729
(b) Finance (Costs) / Other Income		
Rental Income	7,700	7,875
Interest Receivable	591,616	697,379
	599,316	705,254
(c) Lease Payments Included in Statement of Comprehensive Income		
Operating lease – premises	103,549	559,703
(d) Employee Benefits Expense		
Wages , Salaries and On costs	703,082	499,165
Superannuation Costs	47,917	32,008
Expense of Share Based Payment	18,853	(47,133)
	769,852	484,040
(e) Other		
Meals/ Entertainment	908	36,050
Loss on Disposal of Assets	-	89,185
Memberships	3,807	11,220
Bank Charges	38,611	36,028
Insurance	51,966	59,238
Printing and Stationery	48,737	24,602
Other	11,940	12,738
	155,969	269,061

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

6. INCOME TAX	Consolidated	
	June 11 (\$A)	June 10 (\$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 2011 and 2010 is as follows:		
Accounting profit (loss) before tax	(2,438,155)	(2,396,873)
At the statutory income tax rate of 30% (2010: 30%)	(731,446)	(719,062)
Expenditure not allowable for income tax purpose:		
Impairment loss	(355,878)	(604,490)
Share Based payment	8,450	12,675
Non Deductible Foreign Expenditures	107,757	141,451
Non Deductible Entertainment	272	5,826
Research and Development Rebate	(66,470)	(333,460)
Deferred Tax Asset /(Liability) not recognised in current year	1,542,268	1,174,282
Deferred Tax Asset not recognised from prior year	(563,137)	99,939
Other	(8,286)	(110,621)
Income Tax Expense/ (Benefit) reported in Statement of Comprehensive Income	(66,470)	(333,460)
(b) Major Components of Income Tax expense/(credit) for the years ended 30 June 2011 and 2010 are:		
Current Income Tax Charge / (Credit)	(66,470)	(333,460)
Deferred Income Tax	-	-
Income Tax Expense (Benefit) reported in Statement of Comprehensive Income	(66,470)	(333,460)

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
(c) 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	12,915,093	11,524,740
Share issue costs	208,393	481,869
Restoration provision	34,404	34,404
Other	78,623	92,994
Foreign Exchange – unrealised losses/ (gains)	170,461	(193,707)
Total Deferred Tax Asset	13,406,974	11,940,300
(ii) Deferred Tax Liability		
Accelerated deduction for exploration and evaluation	6,013,014	6,013,014
Other	1,421	1,421
Total Deferred Tax Liability	6,014,435	6,014,435
Sub Total Deferred Tax Asset (Liability)	7,392,539	5,925,865
Unrecognised DTA/ DTL	(7,392,539)	(5,925,865)
Net 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 10 December 2010, MNPL rejoined the tax Consolidated Group.

In 2011 Gladstone Nickel Project Pty Ltd, transferred its unused tax losses of \$4,140 (2010: \$36,060) 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 2011.

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
7. CASH ASSETS		
Cash at Bank and in hand	86,490	92,708
Short Term Deposits	7,090,268	9,270,268
	7,176,758	9,362,976
8. TRADE AND OTHER RECEIVABLES		
Goods and Services Tax Receivable	7,245	4,283
	7,245	4,283
9. OTHER ASSETS		
Rental Bonds	12,788	13,515
Prepayments/ Other	75,456	57,009
	88,244	70,524

10. PROPERTY PLANT AND EQUIPMENT

Year Ended 30 June 2011	Consolidated		Total (\$A)
	Plant and Equipment (\$A)	Land and Improvements (\$A)	
As at 1 July 2010 Net carrying amount	534,311	308,765	843,076
Disposals	(71,655)	-	(71,655)
Depreciation reversal on disposal	55,005	-	55,005
Depreciation charge for the year- Operations	(157,074)	(9,001)	(166,075)
As at 30 June 2011 Net carrying amount	360,587	299,764	660,351
As at 30 June 2011 Cost	915,174	376,250	1,291,424
Accumulated Depreciation	(554,587)	(35,236)	(589,823)
Impairment	-	(41,250)	(41,250)
As at 30 June 2011 Net Carrying Amount	360,587	299,764	660,351
Year Ended 30 June 2010	Plant and Equipment (\$A)	Land and Improvements (\$A)	Total (\$A)
As at 1 July 2009 Net carrying amount	539,295	313,301	852,596
Additions	268,150	-	268,150
Disposals	(238,891)	-	(238,891)
Depreciation charge for the year- Operations	(169,193)	(4,536)	(173,729)
Depreciation reversal on disposal	141,604	-	141,604
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

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

11. DEFERRED EVALUATION AND EXPLORATION

Year Ended 30 June 2011	Consolidated	
	Deferred Evaluation and Exploration (\$A)	Total (\$A)
As at 1 July 2010 Net carrying amount	20,048,114	20,048,114
As at 30 June 2011 Net carrying amount	20,048,114	20,048,114
As at 30 June 2010 Cost	104,463,332	104,463,332
Foreign Currency Translation	127,053	127,053
Impairment	(84,542,271)	(84,542,271)
As at 30 June 2011 Net Carrying Amount	20,048,114	20,048,114
Year Ended 30 June 2010	Deferred Evaluation and Exploration (\$A)	Total (\$A)
As at 1 July 2009 Net carrying amount	18,222,910	18,222,910
Impairment Reversal	1,825,204	1,825,204
As at 30 June 2010 Net carrying amount	20,048,114	20,048,114
As at 30 June 2009 Cost	104,463,332	104,463,332
Foreign Currency Translation	127,053	127,053
Impairment	(84,542,271)	(84,542,271)
As at 30 June 2010 Net Carrying Amount	20,048,114	20,048,114

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:

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area on a production output basis. The amount will be recovered through successful development or sale.

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

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

As there is no active market or a binding contract for the sale of the asset the group has used the best information available based on arm's length transactions to assess fair value and costs to sell.

In July 2011 in response to the Waratah Coal Pty Ltd ("Waratah") Takeover Proposal, a valuation of the Marlborough area of interest and associated refinery and infrastructure expenditure associated with the GNP was completed by Behre Dolbear Australia ('BDA').

BDA specialises in mineral evaluations, due diligence assessments, Independent expert reports and strategic planning as well as technical geological, mining and process consulting. The valuation was prepared by Mr Malcolm Hancock (BA, MA, FGS,FAusIMM, MIMM,MMICA, CP(Geol) Executive Director of BDA and MR Bill Kable (CGeol, BEcon, BComm, MAusIMM,SIA (Aff), MPESA) Senior Associate of BDA.

Marlborough Tenements

Based on a variety of valuation approaches, the valuation range for the asset was \$A34.0-63.7m with a most likely value of \$48.9m.

The historical cost of the asset is A\$20,048,114 (2010: A\$20,048,114) , The majority of directors have concluded that the recoverable amount of this asset is equal to the carrying value as at 30 June, 2011. The carrying amount of the asset is \$20,048,114 (2010: \$20,048,114).

Other Tenements/ Projects

The historical cost of the other tenements/ projects held by the group os A\$84,415,218 (2010:A\$84,415,218) which has previously been impaired to a carrying value of nil.

Previous impairment charges include 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 2011.

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

Consolidated

12. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

	June 11 (\$A)	June 10 (\$A)
Security Deposits - Bank Guarantees	158,972	158,972
Amounts Receivable from Ouinne SAS to parent (a)	6,312,594	7,499,154
Impairment of Receivable from Ouinne SAS to parent (c)	(6,312,594)	(7,499,154)
Amounts Receivable from Ouinne SAS to subsidiary (b)	1,611,674	1,717,470
Impairment of Receivable from Ouinne SAS to subsidiary (c)	(1,611,674)	(1,717,470)
Others	28,573	30,137
Deposits – Land (Note 17 (f))	1,684,490	1,684,490
	1,872,035	1,873,599

- (a) This amount forms part of the arrangements to earn an interest in Ouinne SAS. (refer also Note 17 (e))
- (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. Interest recognised during the period has been fully impaired.
- (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. Any movements in the impairment during the period is a result of foreign currency movements on the receivables which have been valued in accordance with the accounting standards.

13. TRADE AND OTHER PAYABLES (CURRENT)

	June 11 (\$A)	June 10 (\$A)
Unrelated Parties	75,931	71,637
Related Parties (refer Note 18)	-	-
Sundry Creditors and Accrued Expenses	294,448	166,898
	370,379	238,535

14. INVESTMENTS IN JOINT VENTURE

	June 11 (\$A)	June 10 (\$A)
Ouinne SAS	1,712	1,712
	1,712	1,712

Refer also Note 18.

15. PROVISIONS

	Consolidated		Total (\$A)
	Provision for Employee Entitlements (\$A)	Provision for Restoration and Rehabilitation (a) (\$A)	
As at 1 July 2010	107,642	114,860	222,502
Arising during the year	52,692	-	52,692
Adjustment	(841)	-	(841)
Utilised	(111,496)	-	(111,496)
As at 30 June 2011	47,997	114,860	162,857
Current 2011	46,101	-	46,101
Non Current 2011	1,896	114,860	116,756
Total Provisions 2011	47,997	114,860	162,857
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 2010	107,642	-	107,642
Non Current 2010	-	114,860	114,860
Total Provisions 2010	107,642	114,860	222,502

16. TRADE AND OTHER PAYABLES (NON-CURRENT)

Sundry Creditors and Accrued Expenses :

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
Native Title (a)	57,057	57,057
Land Compensation (b)	487,620	543,640
Related Party (refer note 18)	20,760	20,760
Other	-	-
	565,437	621,457

(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%.

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

Consolidated

	June 11 (\$A)	June 10 (\$A)
17. COMMITMENTS AND CONTINGENCIES		
(a) Non Cancellable operating leases		
• not later than 1 year	6,868	7,800
	6,868	7,800
(b) Exploration and Evaluation Expenditure Mining Exploration Leases		
• not later than 1 year	393,221	367,402
• later than 1 year and not later than 5	1,518,786	1,435,268
• later than 5 years	3,083,557	3,279,363
	4,995,564	5,082,033
(c) Native Title Payments		
• not later than 1 year	190,186	184,647
• later than one year and not later than 5	760,746	738,588
• later than 5 years	2,852,795	2,769,705
	3,803,727	3,692,940
(d) Bank Guarantee facilities		
• Within 1 year	-	-
• After 1 year but not more than 5	-	-
• After 5 years	158,792	158,792
	158,792	158,792

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
(e) Share Issues		
• Within 1 year	3,211,500	-
• After 1 year but not more than 5	-	3,957,088
• After 5 years	-	-
	3,211,500	3,957,088

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 last GPNL share price prior to delisting from AIM and exchange rate at 30 June 2011.

Under the Joint Venture 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 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. Discussions between GPNL and SMGM have commenced in relation to the JV agreement, however an outcome has not yet been reached.

(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 a 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.

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. In September 2011 GPNL and the Queensland State Government entered into new purchase contracts which have removed and extended various condition satisfaction dates. (Refer Note 22). The deposit paid to the Queensland State Government is refundable if the purchase does not proceed.

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

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	
		2011	2010
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%
Quinne SAS	New Caledonia	1%	1%

Directors

The directors of Gladstone Pacific Nickel Limited during the financial year ended 30 June 2011 were:

Domenic Vincent Martino

Clive Theodore Mensink Resigned 3 November 2010

Bill Thomas Haseler: Resigned 9 September 2010

Neil Eugene Meadows Resigned 13 September 2010

Clive Frederick Palmer: Appointed 13 September 2010

Blair Brewster: Appointed 4 November 2010

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	2011	-	-	-
Other	2011	79,170	41,760	19,060
		<u>79,170</u>	<u>41,760</u>	<u>19,060</u>
Share Based Payments	2010	-	-	-
Other	2010	510,653	20,760	-
		<u>510,653</u>	<u>20,760</u>	<u>-</u>

Terms and Conditions:

Purchases:

Purchases from related parties relate to billings for leases 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:

	2011		2010	
	Cash Advanced	Inter Company Transfers	Cash Advanced	Inter Company Transfers
Quinne SAS	86,444	-	148,348	-
	<u>86,444</u>	<u>-</u>	<u>148,348</u>	<u>-</u>

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.
- In September 2009 the Group paid out its existing lease at a cost of \$458,422 and relocated to a smaller premise. Both the existing premise and the new premise are owned by entities associated with Clive Palmer. All leases are on commercial terms. The amount of rent paid for the period the premise has been owned by Mr Palmer is \$79,170 (2010:\$41,982)

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

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
2011					
Directors	99,838	4,104	103,942	-	103,942
Executives	391,049	35,194	426,243	17,675	443,918
	490,887	39,298	530,185	17,675	547,860
2010					
Directors	535,601	35,429	571,030	81,065	652,095
Executives	168,807	15,193	184,000	35,350	219,350
	704,408	50,622	755,030	116,415	871,445

- (a) Interests in the shares and options of the Group by the directors or their related companies or other associates at 30 June 2011:

	June 2011 Shares	June 2010 Shares
C F Palmer (Appointed 13/09/10)	39,984,226*	34,454,233*
D V Martino	190,375	190,375
J G Henderson (Resigned 09/04/10)	-	240,375

*In addition, Dasines Pty Ltd (a company controlled by Clive Palmer) held 20,999,999 converting shares in MNPL which were 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. These milestones were not met and the converting shares were cancelled in December 2010.

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 11 (\$A)	June 10 (\$A)
Options granted to Directors and Senior Executives charged to:		
Operating expense – Directors’ Options	-	81,065
Operating expense - Employee benefits expense (refer note 5(d))	18,854	35,350
Deferred evaluation and exploration costs	-	(82,475)
	18,854	33,940
Broker Warrants charged to expense as part of listing expense	28,166	42,250
	47,020	76,190

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

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

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.
- These options have now lapsed

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
- these options have now lapsed.

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

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 Dasines milestones due for completion by 7 December 2010 have not been achieved, and these shares have not converted.

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 Dasines milestones due for completion by 7 December 2010 have not been achieved.

(c) Summaries of options granted

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:

	2011		2010	
	No. of options	WAEP	No. of options	WAEP
Outstanding at the beginning of the year	310,000	3.51	1,500,000	3.61
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(310,000)	3.51	(1,190,000)	3.60
Outstanding at the end of the year	-	-	310,000	3.51

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

Expiry Date	Exercise Price	2011 (No.)	2010 (No.)
31/12/2010	£1.50*	-	160,000
27/02/2011	£1.50*	-	150,000
Exercisable at the end of the year-		-	310,000

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

20. AUDITORS REMUNERATION

Consolidated

June 11 (\$A)	June 10 (\$A)
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Amounts received or due and receivable by Ernst and Young Australia for:

<ul style="list-style-type: none"> • An audit or review of the financial report of the entity and any other entity in the consolidated entity • Advisory and tax compliance 	<table border="1"> <tr> <td style="text-align: right;">43,000</td> <td style="text-align: right;">37,000</td> </tr> <tr> <td style="text-align: right;">11,000</td> <td style="text-align: right;">20,400</td> </tr> <tr> <td style="text-align: right;">54,000</td> <td style="text-align: right;">57,400</td> </tr> </table>	43,000	37,000	11,000	20,400	54,000	57,400
43,000	37,000						
11,000	20,400						
54,000	57,400						

Amounts due and receivable by other auditors (foreign subsidiaries)

<ul style="list-style-type: none"> • An audit or review of the financial report of the entity and any other entity in the consolidated entity 	<table border="1"> <tr> <td style="text-align: right;">12,539</td> <td style="text-align: right;">24,572</td> </tr> <tr> <td style="text-align: right;">12,539</td> <td style="text-align: right;">24,572</td> </tr> </table>	12,539	24,572	12,539	24,572
12,539	24,572				
12,539	24,572				

Notes to the Financial Statements

For the year ended 30 June 2011 (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 2011	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Revenue				
Interest Received	583,568	8,048	-	591,616
Rent	7,700	-	-	7,700
Total Segment Revenue	591,268	8,048	-	599,316
Segment Net Operating Loss After Tax	(2,014,104)	(357,580)	-	(2,371,684)
Depreciation and Amortisation	154,495	11,580	-	166,075
Impairment	(1,186,259)	81,256	-	(1,105,003)
Foreign Exchange Loss – Unrealised	1,213,897	-	-	1,213,897
Other Non Cash Expenses	(47,019)	-	-	(47,019)
Income tax Expense	(66,470)	-	-	(66,470)
Intercompany Loans	5,442,601	-	(5,442,601)	-
Impairment of Intercompany Loans	(5,442,601)	-	5,442,601	-
Other Assets	29,786,944	67,515	-	29,854,459
Segment Assets	29,786,944	67,515	-	29,854,459
Capital Expenditure for Period	-	-	-	-
Intercompany Loans	-	5,442,601	(5,442,601)	-
Other Liabilities	1,098,673	-	-	1,098,673
Segment Liabilities	1,098,673	5,442,601	(5,442,601)	1,098,673

	Australia (\$A)	South West Pacific (\$A)	Intersegment Elimination (\$A)	Total (\$A)
Operating Segments				
Year Ended 30 June 2010				
Revenue				
Interest Received	688,291	16,963	-	705,254
Foreign Exchange Gain	-	-	-	-
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- Deferred Evaluation and Exploration	(1,825,204)	-	-	(1,825,204)
Foreign Exchange Loss – Unrealised	-	306	-	306
Other Non Cash Expenses	76,190	-	-	76,190
Income tax Expense (Benefit)	(333,460)	-	-	(333,460)
Intercompany Loans	5,320,853	-	(5,320,853)	-
Impairment of Intercompany Loans	(5,320,853)	-	5,320,853	-
Other	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
Deferred Evaluation and Exploration Expenditure for Period	-	-	-	-
Intercompany Loans	-	5,320,853	(5,320,853)	-
Other	1,051,123	31,371	-	1,082,494
Segment Liabilities	1,051,123	5,352,224	(5,320,853)	1,082,494

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

Consolidated

June 11 (\$A)	June 10 (\$A)
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Segment Revenue Reconciliation to the Statement of Comprehensive Income

Total Segment Revenue	599,316	705,254
Total Revenue	599,316	705,254

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

Segment Net Operating Profit/ (Loss) After Tax	(2,371,684)	(2,063,413)
Income Tax Expense (Benefit) at 30% (2010: 30%)	(66,470)	(333,460)
Segment Net Operating Profit (Loss) before Tax as per the Statement of Comprehensive Income	(2,438,154)	(2,396,873)

Segment Assets Reconciliation to the Statement of Financial Position

Segment Operating Assets	29,854,459	32,204,284
Intersegment Elimination :		
Intercompany Loans	5,442,601	5,320,853
Impairment of Intercompany Loans	(5,442,601)	(5,320,853)
Total Assets as per Statement of Financial Position	29,854,459	32,204,284

Segment Liabilities Reconciliation to the Statement of Financial Position

Segment Operating Liabilities	6,521,274	6,403,347
Intersegment Elimination	(5,442,601)	(5,320,853)
Total Liabilities as per Statement of Financial Position	1,098,673	1,082,494

22. PARENT ENTITY INFORMATION

Consolidated

	June 11 (\$A)	June 10 (\$A)
Current Assets	7,214,812	9,349,180
Total Assets	29,000,382	31,298,982
Current Liabilities	262,180	188,478
Total Liabilities	263,601	189,897
Issued Capital	127,456,754	127,456,754
Retained Earnings (Accumulated Losses)	(99,631,171)	(97,488,279)
Reserves :		
Share Option	1,438,846	1,391,836
Broker Warrants	882,454	882,454
Total Shareholders' Equity	30,146,883	32,242,765
Profit (Loss) of the parent entity	(2,142,894)	(2,039,309)
Total Comprehensive Income of the Parent Entity	(1,866,465)	(2,039,309)

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. In September 2011 the company concluded negotiations with the relevant agencies to revise the content and timing of the development conditions applicable to the land. The changes are as follows:

- (a) Conditions as to the Marlborough mine being commenced and ore transport and supply being contracted have been removed and replaced by a condition that GPNL demonstrate (by 30 June 2015 or such later date as the parties may agree) that it is committed to proceeding with the proposed development of the Project.
- (b) GPNL will relinquish part of the area originally subject to agreement and will grant a licence to the adjoining landowner, Wiggins Island Coal Export Terminal Pty Ltd (WICET) to use parts of the land for lay down purposes, for extraction of landfill and to undertake defined works including the construction of bunds.
- (c) The condition as to the Project being financed has been removed and replaced by a condition that GPNL raise sufficient funds (whether by way of equity capital, debt funding (or a blend of the two) to enable it to purchase the land.
- (d) The provision for a sunset date for extension of the date for satisfaction of these conditions has been extended to 31 December 2016, however the contract provides that this date will not be extended beyond 31 December 2016 (except by agreement of the parties (acting reasonably) in exceptional circumstances, with a specific provision contemplating that this could occur if the time for completion of works by WICET has been extended.

GPNL is able to proceed with the purchase of the land at any time, subject to the availability of funds.

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)).

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

23. ISSUED CAPITAL AND RESERVES (PARENT AND CONSOLIDATED)

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
(a) Issued and Paid Capital		
2011: 70,935,699 (2010: 70,935,699) ordinary shares fully paid	127,456,754	127,456,754
	127,456,754	127,456,754

	Number of Options	
	2011	2010
(b) Options*		
* including Broker Special Warrants		
Issued and still outstanding at year end (Note 19)	-	310,000

	2011		2010	
	(\$A)	Number of Shares	(\$A)	Number of Shares
(c) Movements in Shares on Issue				
Opening balance	127,456,754	70,935,699	127,456,754	70,935,699
Issued during the year:				
• Ordinary Shares issued	-	-	-	-
	127,456,754	70,935,699	127,456,754	70,935,699

(d) Terms and Conditions of Contributed Equity

Equity

Ordinary shares:

- (i) 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.
- (ii) 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 (\$A)	Total Reserves (\$A)
	(\$A)	(\$A)	(\$A)	(\$A)	(\$A)
e) Movements in Other Reserves					
Consolidated					
As at 30/06/09	(112,653)	34,306,059	882,454	(21,552,933)	13,522,927
Share Based Payment:	-	76,190	-	-	76,190
• Employees and Directors' Options					
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
Share Based Payment:					
• Employees and Directors' Options	-	47,020	-	-	47,020
Foreign Currency Translation Reserve	(20,340)	-	-	-	(20,340)
As at 30/6/11	(150,041)	34,429,269	882,454	(21,552,933)	13,608,749

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 Note 19 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 2011 (continued)

24. EARNINGS PER SHARE

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
Net Loss	(2,371,684)	(2,063,413)
Earnings used in Calculation of Basic / Diluted Earnings per Share	(2,371,684)	(2,063,413)
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Basic / Diluted Earnings per Share	70,935,699	70,935,699
Basic / Diluted Earnings per Share	(0.03)	(0.03)

Options on issue are not considered dilutive.

25. CASH FLOW STATEMENT RECONCILIATION

	Consolidated	
	June 11 (\$A)	June 10 (\$A)
Operating Profit/(Loss) After Tax	(2,371,684)	(2,063,413)
Adjusted for :		
Interest	(35,686)	(173,147)
Share based Payments	47,019	76,190
Provision for Employee Entitlements	(48,470)	59,727
(Gain)/ Loss on Foreign Exchange	1,213,897	345,608
Impairment Loss Reversal	(1,105,003)	(1,825,204)
Depreciation- Charged to Operations	166,075	173,729
Loss on Disposal of Fixed Assets	-	89,185
Movement in Shares Based Payments and other reserves.	390	81,706
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	53,718	133,523
(Increase)/Decrease in Prepayments and other Assets	8,016	206,331
(Increase)/Decrease in Deferred Tax Asset/ Liability	(66,470)	(333,460)
Increase/(Decrease) in Payables	131,852	(601,577)
Increase/(Decrease) in Non-Current Payables	(54,135)	(104,233)
Increase/(Decrease) in Non-Current Provisions	(59,645)	(17,236)
Net Cash Flow Used from Operating Activities	(2,120,126)	(3,952,271)
Reconciliation of Cash:		
Cash Balance Comprises		
Cash at Bank and on Short Term Deposit	7,176,758	9,362,976
Closing Cash Balance	7,176,758	9,362,976

Notes to the Financial Statements

For the year ended 30 June 2011 (continued)

26. EVENTS AFTER BALANCE DATE

Non-renounceable rights Issue

On 12 August 2011, the Company lodged a prospectus with ASIC for a non-renounceable rights issue (the issue) to existing Shareholders on the basis of 11 new shares for every 1 share held at an issue price of \$0.08 per new share. If all entitlements to participate in the Issue were taken up by Shareholders, the Issue would result in the issue of approximately 780 million New Shares and would raise approximately \$62.4 million. The minimum amount to be raised was \$25 million. The amount raised by the Issue, after deducting associated costs, was to be used by the Company to undertake a variety of activities, including funding ongoing operating and legal costs, a revised drilling program and tenement acquisition program and an updated feasibility study and to fund the Company's obligations under the then proposed variation of contracts to purchase land for the Project from the Queensland State Government.

On 22 August 2011 an application was made to the Takeovers Panel in Australia by a shareholder, Robash Pty Ltd, ("Robash") alleging that unacceptable circumstances had arisen in relation to the proposed non-renounceable rights issue. Robash had also indicated that it would not support the proposed capital raising. GPNL undertook not to issue the prospectus before 19 September 2011 or thereafter without first giving the Panel and the parties 48 hours of its intention to do so.

On 9 September 2011 the company's major shareholder, Fairway Coal Pty Ltd and companies associated with Mr Clive Palmer advised GPNL they would not support the current capital raising. The prospectus was withdrawn on 9 September 2011. On 15 September 2011, the Takeovers Panel announced that it had declined to make a declaration of unacceptable circumstances in response to the application by Robash.

The Board is reviewing the group's funding requirements with a view to a capital raising later in the year to be used to undertake a variety of activities as outlined in the August 2011 prospectus.

Legal Proceedings by Robash Pty Ltd

On 29 July 2011 Robash, filed an application in the Supreme Court of New South Wales seeking leave of the Court to bring proceedings in the name of GPNL against Clive Palmer and other companies controlled by him. GPNL has obtained legal advice about the claim by Robash. On the basis of that advice, the independent director of GPNL, Mr Martino, remains of the view that the claim by Robash is not supported. GPNL has instructed its solicitors to defend Robash's application. As at the date of this report, it is not possible to predict whether Robash will be granted leave to bring proceedings in GPNL's name.

Land purchase agreements

GPNL is party to legally binding agreements with the Queensland Government to acquire land at Gladstone for its refinery and residue storage facility for A\$33 million subject to various approval and development conditions. In September 2011 the company concluded negotiations with the relevant agencies to revise the content and timing of the development conditions applicable to the land. The changes are as follows:

- (a) Conditions as to the Marlborough mine being commenced and ore transport and supply being contracted have been removed and replaced by a condition that GPNL demonstrate (by 30 June 2015 or such later date as the parties may agree) that it is committed to proceeding with the proposed development of the Project.
- (b) GPNL will relinquish part of the area originally subject to agreement and will grant a licence to the adjoining landowner, Wiggins Island Coal Export Terminal Pty Ltd (WICET) to use parts of the land for lay down purposes, for extraction of landfill and to undertake defined works including the construction of bunds.
- (c) The condition as to the Project being financed has been removed and replaced by a condition that GPNL raise sufficient funds (whether by way of equity capital, debt funding (or a blend of the two) to enable it to purchase the land.
- (d) The provision for a sunset date for extension of the date for satisfaction of these conditions has been extended to 31 December 2016, however the contract provides that this date will not be extended beyond 31 December 2016 (except by agreement of the parties (acting reasonably) in exceptional circumstances, with a specific provision contemplating that this could occur if the time for completion of works by WICET has been extended.

GPNL is able to proceed with the purchase of the land at any time, subject to the availability of funds.

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 2011 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 24th day of October ,2011

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

Report on the financial report

We have audited the accompanying financial report of Gladstone Pacific Nickel Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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.

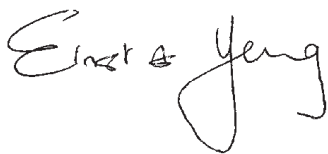
Independence

In conducting our audit we have complied with 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.

Opinion

In our opinion:

- a. 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).



Ernst & Young



Mike Meintjes
Partner
Brisbane
24 October 2011

www.gladstonepacific.com.au