

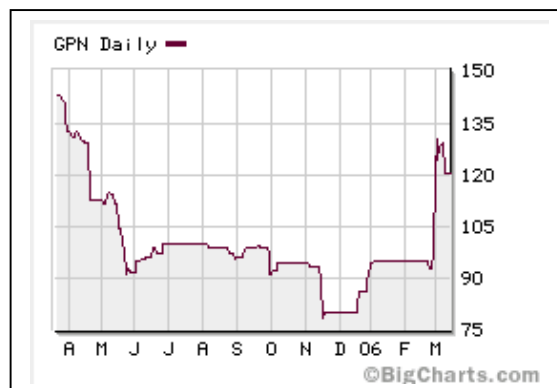
Gladstone Pacific Nickel Interim Results – Good Progress 129p

17.03.2006

Progress with Gladstone's project has been very pleasing. Since listing in March 2005, Gladstone is making headway with its definitive feasibility (DFS) plans to construct a technologically modern, high pressure acid leach (HPAL) plant and refinery for processing nickel and cobalt ore at Gladstone, Queensland. With the mining licence and environmental approvals at Marlborough in place, a further drill programme has now been completed at the Marlborough nickel property thereby improving the resource base which is progressively being proved up to JORC proven and probable categories. The mine plan, design for the beneficiation plant and slurry pipeline have all been improved thereby allowing potential production to increase to more than 40,000 tpa from 2 autoclaves and lowering operating costs. With additional off-shore ore it is expected that the DFS will be expanded to cover a 4 autoclave refinery.

Key points are:

- The Marlborough resource base has been increased by 22% to 125M dry tones grading 0.80% nickel and 0.05% cobalt. Potential to increase this with further exploration drilling.
- The Marlborough beneficiation and HPAL testwork has increased potential production to over 40,000 tpa - an increase of 33%. The DFS for this production level is expected to be completed in Q306.
- A Letter of Intent signed to acquire ore supply from a new mine in New Caledonia which will be firmed up soon. There is also the possibility of additional offshore ore from Indonesia.
- The approval of the Wiggins Island Terminal by the Queensland State Authority means that an early start on the imported ore programme is possible.
- The company is well funded and has £10.8m in cash.



Share Price: 129p

12m High: 148.75p

12m Low: 75p

Market Cap: £39m

Shares in Issue:

31.47m Fully Diluted

30.04m In Issue

NAV/Share: A\$1.20 (50p)

Gearing: Nil

Interest Cover: n.a.

EPIC Code: GPN

SEDOL No: B06BJD2

Sector: Mining

Market: London AIM

PR: Bankside Consultants

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Nominated Advisor and Broker:

Insinger De Beaufort

Website:

www.gladstonepacific.com.au

Previous Research Note: 20.9.2005
'Good Drilling Results', 100p

Analyst: Zahida Aslam and
Roger Hardman

A fair degree of risk and uncertainty has been taken out of this project thus making it more appealing to an industrial major to buy out or becoming majority joint venture partners.

Interim Results

For the half year ending Dec 31 2005, the after tax loss for the Group stood at A\$47,162 (£20,000) after receiving interest of A\$663,718 (£281,000). Capitalised and deferred exploration and evaluation costs for the period amounted to \$A6.1m (£2.6m). Cash reserves remained strong for 2006 at A\$20.5m (£8.7m).

Post balance sheet events include the divestment of 2.5m shares in *Weda Bay Minerals Inc* for cash proceeds of A\$5.6m, making a pre-tax profit of \$4.5m. This raises the current total cash balance to A\$25.6m (£10.8m).

The basic loss per share decreased from 0.45 australian cents to 0.16 cents. Employees and consultants have been granted 180,000 share options exercisable any time throughout 2007.

The Resource

As we have previously reported, the drilling results and resource upgrade at Marlborough have been particularly encouraging. Further sources of ore have been identified. The 125M dry tonne resource base could yet increase by possibly another 10M tonnes at the same grades as a Heads of Agreement has been reached on the right to mine an adjacent mining area for nickel and cobalt. Negotiations on other adjoining leases are underway.

According to Gladstone, after including newly identified areas at Marlborough, resources should increase to in excess of 220M tonnes. On top of this, there is the ore from the import programme from New Caledonia, Indonesia and the Solomon Islands to consider. Ore supply agreements are progressing for the next stage of the Project.

The Process

The pilot metallurgical testwork has shown that beneficiation of blended ore results in HPAL feed material with an average upgrade of 28% at a 64% mass recovery. So 81% of the nickel is recovered into 64% of the mass. The use of saline water (rather than fresh water) to create the slurry treated in the leaching process has demonstrated significantly improved metal extraction rates. This allows redesigning of the HPAL circuit so that processing time is reduced from 75 minutes to 50 minutes at 48 atmospheres, increasing autoclave throughput by 50% to 3Mdt/y. Using saprolite in the neutralisation process in place of some of the limestone otherwise required, results in additional nickel and cobalt extractions (55% recovery from this additional material). This clearly impacts positively on metal production and Project cash flows.

Engineering design of the pipeline is progressing with the beneficiated slurry rheology testwork completed. The preferred pipeline route has been refined and the environmental impact study (EIS) is progressing well with the Final Terms of Reference being released at the end of this month. The draft EIS is expected to go on public display in late July.

The project schedule is expected to be stepped up given that the Queensland Government is supporting the acceleration of the Wiggins Island Coal Terminal, and the Company has achieved early success in identifying the source of off-shore ore supply. This will mean starting the DFS for the next stage of the project of 4 autoclaves, within a few months time.

Another plus point is that the plant location has all the infrastructure already in place e.g. power, tailings area, plant site within the Gladstone State Development Area (GSDA) with a deepwater port.

Costing The Project

Capex and Opex are expected to increase as the increase in metal production capacity of the HPAL plant necessitates using larger equipment in some parts of the plant. On top of this there are material and labour cost increases. However, Gladstone believes that its capital cost per annual pound of nickel production will be more competitive than other new nickel projects and increased production coupled with higher long term nickel prices will compensate for the additional capex.

Low cost shipping of imported ore is key to profitability in the next stages of the project. Using Capesize vessels (150,000+ tonnes capacity) unloading at Wiggins Island – only 4km away from the Gladstone plant site will help keep costs at bay.

The nickel market price forecasts have improved further. The Monthly LME forward price demonstrates the medium term strength as the January '27 month forward prices/tonnes' have increased from US\$11,500 (US\$5.22/lb) in 2004 to US\$12,500 (US\$5.67/lb) in 2005 and US\$13,500 (US\$6.12/lb) in 2006.

The 3rd generation HPAL plants are already showing success as evidenced by the successful commissioning of *Sumitomo's* Rio Tuba plant in the Philippines which is now in production. Inco, BHP and CVRD are all investing in similar plants for completion in 18 to 30 months time.

Conclusion

The above matters represent significant progress in the development of the Gladstone Nickel Project, and on-going work on the DFS will optimise the design of the mine, refinery and pipeline. These activities will mitigate the technical and financial risk associated with the Project. The second DFS is expected to commence in May 2006 and be completed by November.

This project has the potential to be amongst the largest in the world producing over 150,000 tpa nickel – equivalent to around 10% of world demand.

Given the projected demand/supply gap for nickel, this suggests that the progress made so far by Gladstone will undoubtedly attract the interest of a major that can take the Project through to commercial production and we wouldn't be surprised to see that happen end 2006 or sometime in 2007.

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