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Gladstone Pacific Nickel Good Drilling Results 20.9.2005



A good set of drilling results has been announced by AIM quoted Gladstone Pacific Nickel. They raise the possibility of an increase in the size of the orebody. Other information released with the results for the year to June 2005 suggest that the economics of this North Australian nickel project may be rather better than we previously believed likely.

Key points are:

- Of 70 holes drilled at the largest resource, Slopeaway, 20 show 6 metres or more of intersections, with grades at least as good as the rest of the deposit and at the top end of the scale having higher levels than we had been expecting.
- Using salt water rather than fresh water in the Beneficiation Plant and slurry line could reduce costs and increase metal production rates from 30,000 tpa to possibly 36,000 tpa.
- It seems that small changes to the ore processing plans could lead to higher mine extraction rates than we had expected.
- Lowering the cut-off point for the orebody from 0.8 to 0.7% could possibly double the size of recoverable reserves.

The news from this new company is good, and investors who took shares when the company floated in March should be encouraged.

Share Price: 100p

12m High: 149p

12m Low: 89p

Market Cap: £30m

Shares in Issue:

30.0m diluted and undiluted

NAV/Share: A\$1.20

Gearing: Nil

Interest Cover: n.a.

EPIC Code: GPN

SEDOL No: B06BJD2

Sector: Mining

Market: London AIM

PR: Bankside

Nominated Advisor and Broker:
Insinger De Beaufort

Website:
www.gladstonepacific.com.au

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Background

Gladstone Pacific Nickel came to the AIM market in March 2005, raising £11m gross by placing new shares at 120p each. The cash is being used to fund a Definitive Feasibility Study into a potential nickel processing plant at the port of Gladstone, in Queensland Australia, and an associated nickel orebody 175 kilometres inland.

Gladstone is receiving considerable assistance from the Queensland Government in the development of this project. Land is being made available at Gladstone for both a nickel Processing Plant and for tailings. The planned nickel mine is at Marlborough, an inland town with a good rail link to Gladstone. The mine will be opencast, and while the orebody is of only moderate grade, it has been well drilled out by previous owners and the ore is easily accessible. The company plans to place a Beneficiation Plant on site at the mine to concentrate the ore before sending it down to the Gladstone processing plant as a slurry in a pipeline.

Both the ore grade being processed and the throughput at Gladstone are planned to be boosted by the shipping of nickel ore from other mines in the Pacific region

The mine, the beneficiation plant, the slurry pipeline and the processing plant have all yet to be built.

Assuming that the work over the next twelve months is successful in proving up the project, we then expect Gladstone Pacific Nickel to negotiate joint venturing or a sale to one of the world's major companies in mining or related industries.

The Full Year Results

The financials for the year to June 30 2005 are probably the least important part of the statement that was released on Monday 19 September. They show a loss of A\$622,000, three quarters of which was accounted for by borrowing costs before the AIM capital raising in March. The company will continue to declare a loss for several years, until the project is revenue generating, which is unlikely to be before 2009.

The cash flow statement shows A\$1.17m spent on exploration and evaluation over the period. We understand that this work has been coming in a little over budget (by in the region of 10%) because of the shortage of skilled personnel and drilling equipment caused by the natural

resources boom and some unseasonal rain in the dry season. The development programme was at one stage running eight weeks behind schedule. Some of this overspend, and some of the time slippage, has been made up in recent weeks.

Given that Gladstone raised £5m more than necessary in its March 2005 AIM flotation precisely to cover eventualities such as this, the modest overspend is, in our opinion, a non-issue.

The Marlborough Orebody

The Marlborough Orebody is not the central part of the project, but it is at the upstream end of it, and also is the part of the project that has seen the most interesting news in this results announcement.

The Recoverable Ore at Marlborough is probably more extensive than previously thought.

Gladstone has been infill drilling at Marlborough, largely (although not exclusively) on the biggest of the four known orebodies on the site.

The drill results have been good. They show grades of up to 1.49% of nickel, with 17 of the 20 holes giving significant recoverable sections of over 1% nickel, and the majority of other holes intersecting nickel at 0.7% grade or above. All the nickel has been found at shallow depths.

This is better than we had been expecting. Gavin Becker, General Manager of Project Development at Gladstone, believes these results will allow conversion of Inferred Resources into Indicated Resources at this particular orebody (named Slopeaway). In its original business plan, Gladstone stated that it would undertake 30,000 metres of new drilling. It is so pleased with the results that it is stepping up its plans and is now likely to take the additional drilling up to 40,000 metres.

We are particularly encouraged by the number of holes yielding 1% or higher nickel. We had always viewed Marlborough as a moderate grade prospect, and that the economics of the Gladstone process plant would benefit hugely from some input of higher grade material from other mines elsewhere in the Pacific area.

The cut-off grade for assessment of this mine may be moved from 0.8% nickel to

0.7% nickel. This is a mildly unconventional proposal, and Gladstone may not go ahead with it. The proposal does raise the prospect of a very significant increase in recoverable reserves, however.

Combining the new drilling results with a lowering of the cut-off grade could possibly double the recoverable reserves on site at Marlborough.

Of course, further infill and step-out drilling at the other orebodies may in future not be so good. Gladstone has completed 45% of its planned drilling, but has only had results back on 19%. The full package needs to be evaluated before shareholders get too excited.

The Beneficiation Plant

Before being passed down the line to the Processing Plant, all the ore removed from Marlborough is to be put through a Beneficiation Plant, to raise the grade of ore processed and so cut both transport costs and processing costs at the Processing Plant.

Over the last three months, the company has come to the conclusion that by slightly increasing the temperature and pressure in the Autoclave, and by using sea water rather than fresh water, it will be able to increase throughput. This means that either more beneficiated ore can be pushed down the pipeline to Gladstone, or that the nickel grade in the orebody mined can be dropped slightly – say from that 0.8% cut-off point to a new cut-off point of 0.7%. On an orebody such as Marlborough, that could make a huge difference to project value. When viewed in conjunction with the beneficiation plant, the move to change the cut-off grade at the mine site starts to have a compelling industrial logic.

The Pipeline

The planned 175 kilometre pipeline between Marlborough and the proposed Processing Plant at Gladstone is key to the project.

There have been some interesting developments here.

First, development costs to date have been slightly higher than we expected. Secondly, Gladstone has found that it can reduce eventual operating costs by mixing sea water with the Beneficiated ore to form the slurry, rather than freshwater as originally proposed. Fresh water costs money in this drought affected part of

Australia. Sea water comes free, apart from the cost of pumping it uphill from the sea to Marlborough. The biggest single cost of getting sea water to Marlborough would normally be the cost of digging and covering the pipework. As the trench is having to be both dug and filled in for the laying of the slurry line, a decision now to use salt water comes very much cheaper than it would otherwise have done.

Meanwhile, the sea water has an added benefit in helping the Beneficiation Plant operate more efficiently.

It needs to be remembered that Gladstone Pacific Nickel is able to ‘piggy back’ on a complementary, Government backed pipeline project for approximately two thirds of this pipe’s length. This makes the project very much less expensive than might be expected. Planning and route issues appear to have been largely resolved.

Piping of ore in slurry is a common way of moving it in the mining industry, and Gladstone Pacific Nickel is not breaking any new ground technologically with this proposal.

The Dock Facilities

The company is getting very excited about the progress at the dock facilities at Gladstone.

Port facilities are needed both to bring in ore from other mines in the Pacific region, which is at present very short of Nickel Processing capacity, and to ship out the processed and refined nickel to the end-users, which will be Stainless Steel plants throughout the Far East.

The Central Queensland Port Authority is to complete construction of its Wiggins Island export/import loading facility by 2009. This is earlier than we expected, and means that all port facilities will be up and running before the Processing Plant is in operation.

We find this hugely encouraging. The Port Authority is also pressing ahead with new rail links, and Gladstone Pacific Nickel will find these very useful, particularly for bringing in limestone from other sites inland – limestone will be needed by the processing plant as part of the technology that the company has chosen to treat the beneficiated ore (High Pressure Acid Leaching, or HPAL).

Should Wiggins Island fall behind schedule, there are other facilities available a very short distance to the North, at Fishermans Wharf. To use Fishermans Wharf for a short time would be restrictive and slightly more expensive, but

would not be a major issue, at least not to start with. If Gladstone Pacific Nickel is to take its Processing Plant quickly through Stage 1 and into Stages 2 and 3, where we believe the real money is to be made, then Wiggins Island becomes very important.

The latest news from Wiggins Island suggests that the company may be able to accelerate development to Stages 2 and 3, which will have a considerable impact on the financials when it comes to negotiating with future Joint Venture partners or purchasers.

The Processing Plant

As part of the Port Authority's rail programme, Gladstone is likely to lose a small corner of its proposed site for its Processing Plant. To compensate, the Port Authority has earmarked a far larger parcel of additional land that lies alongside the existing plant site. Gladstone will get use of the rail line more cheaply than if it had built the rail link itself, because the Port Authority is putting it in primarily for coal movements.

The bunding work necessary to protect the entire area from the risk of flooding will be taken care of as part of the rail line cost, and Gladstone Pacific Nickel will have plenty of additional space both for future expansion and for storing imported ore, limestone and processed end product.

The Processing Plant is to be 4 kilometres from the Wiggins Island Port facility. There is to be a conveyor link between the Processing Plant and Wiggins Island.

It should be pointed out that Gladstone has a good Power Station, is used to processing plant as Comalco has an Alumina Refinery there and Orica has a chemical plant, that the prevailing wind blows from the plant away from the town, and that the town itself is large enough to provide for the plant's labour needs.

An added benefit to Gladstone Pacific Nickel has been WMC (Western Mining)'s decision to relocate its local facilities to Perth. As a result GPN has been able to pick up some useful skilled personnel who did not want to make the move to the West Coast.

The Tailings

One of the biggest problems in any mining project can be what to do with the waste.

The Queensland Government has allocated a large area a few kilometres to the West of the Processing Plant for the company's tailings. It is close to the area currently used for tailings by the aluminium producer Comalco. The tailings will be infilling a valley area, and only a small part of the land remains to be purchased.

The closeness of the Comalco tailings to those to come from the Gladstone project raises an interesting bit of lateral thinking by someone's part at State Government level.

The Gladstone Pacific Nickel tailings will be acidic – as implied by the name for the production process chosen.

The Comalco tailings are alkaline.

By mixing the two together, it should be possible to broadly neutralise the tailings, very much improving the environmental profile of both companies.

What Next?

One thing that certainly won't come next is additional funding. Gladstone Pacific Nickel has more than enough cash to cover it through to Definitive Feasibility Study stage and to cover almost all pitfalls that might occur in the meantime.

There is no denying, however, that the project's timing has slipped slightly. We were originally looking for engineering work to have finished by end-July 2006. We are currently looking for completing in September 2006. Some of this slippage is accounted for by increase the drilling programme by a third, others to a number of small items such as the wet weather holding back movement of drilling rigs.

Overall, though, we are delighted with progress and feel this latest statement has considerably improved the odds on Gladstone Pacific Nickel being a commercially viable prospect.

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