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19 September 2005

**GLADSTONE PACIFIC NICKEL LIMITED  
FINAL RESULTS FOR THE YEAR TO 30 JUNE 2005**

**Chairman's Report**

**Accounts**

Gladstone Pacific Nickel Limited (GPNL) listed on the AIM market on 17 March 2005. The loss to 30 June 2005 was A\$622,615 (£251,723\*) and the previous year was A\$564,547 (£228,246). These numbers are not indicative of future results as the cost of the Project and its administration, interest receivable on invested funds, no borrowings, etc., take effect.

**Finance**

You will see from the annual accounts that we raised a net A\$24.7 million (£10 million) on the AIM market which, together with the convertible note proceeds of A\$2.5 million, totalled A\$27.2 million (£11 million) raised. As at the end of August 2005, we have spent approximately A\$2.22 million (£0.9 million), reflecting the drilling programme, the various other development expenditures outlined in the Project update, investment and administration costs.

There has been some increase in budgets to those presented in the Prospectus largely due to the upward pressure on cost of equipment hire and people, due to impact of high demand on these items and skills in Australia currently. This increase is comfortably covered by our contingency plans.

**The Gladstone Pacific Nickel Project**

All aspects of the Project are proceeding better than we expected, although these results do show the impact of cost increases for qualified personnel and equipment due to the current high level of mining activity in Australia and overseas. In Gavin Becker's Project Status Report that follows, he gives a detailed assessment on where we are at in terms of Stage 1 of the Project as outlined in the Prospectus. I draw particular attention to the information presented on the drilling to mid-September, which represents an update and presents, on average, higher grades to those announced in August. These results are consistent with the orebody's previous owner's results and are expected to allow conversion of Inferred Resources into Indicated Resources in this area. Furthermore, the grades, thicknesses and depths of the mineralisation indicate excellent prospects for extension of the open pit mining areas and a positive impact on ore reserves.

Because of the current resource demand in Australia and internationally, sourcing drilling rigs, engineers, geologists, etc., at prices budgeted less than a year ago, has been difficult (for example, we have a need to source junior geologists out of New Zealand to help manage the drilling programme). In addition, the infamous "Murphy" is alive and well causing heavy rain

during the so-called "dry period", making it difficult to move drilling rigs (this will not be a problem during operations as ore will be stockpiled for processing and substantial roads and infrastructure will be in place).

We are expanding the overall feasibility plans to take advantage of a number of positive factors. The successful fund raising in March has allowed us to do so and we will still have a substantial cash buffer when the Feasibility Study has been finished.

One of the most exciting "good news events" concerns the probability (if you are bullish) or possibility (if you are bearish) that the Central Queensland Port Authority will complete construction of the Wiggins Island export/import loading facility by 2009 prior to the planned completion of our plant some four kilometres away (the implementation programme is well underway). This will give the GNPL team enormous flexibility in being able to accelerate Stages 2 & 3 rapidly if market conditions are positive and potential joint venturers/purchasers so choose, as well as being able to source our sulphur supply more efficiently. In addition new rail lines are planned: apart from providing a siding to bring in our limestone requirements, the lines provide a substantial buffer to the river. Our conveyor will run alongside the rail lines to our part of the unloading facility. The beneficiated ore slurry line from Marlborough and the tailings slurry line from the plant to the tailings area will run along a dedicated corridor.

### **Stages 2 & 3**

We have already started negotiations to source large quantities of ore for the intended expansion. To date, those discussions have progressed well and we expect to be able to finalise appropriate arrangements earlier than had been anticipated. If the market holds up anywhere near foreseeable levels as the Wiggins Island facility rapidly progresses, there may well be substantial imports required much sooner than expected.

### **Government**

We have nothing but positive support from the State of Queensland and the Federal Australian Government. Negotiations have commenced with the State to enter into the various option agreements outlined in the Memorandum of Understanding.

### **Industry Relations**

Your Deputy Chairman, Peter Matheson, dedicates an increasing part of his time to the important task of promoting GNPL to the worldwide nickel and steel industry. He has already presented our Project at several conferences and will be the only nickel company delivering a paper at the 4<sup>th</sup> Chinese Stainless Steel Conference in China later this month. The attendance list is a "Who's Who" of the world's steel companies. Peter will be presenting to at least five other major conferences over the coming year.

### **Markets**

I do not intend to make a long dissertation about the current nickel market and the effect that the Chinese economy is having on commodity markets in general. Suffice it to say that the United Nations earlier this year reported that the world population by 2050 would increase to 9.1 billion people, up from 6.5 billion last year. That means a 40% population increase in 45 years over a number that has taken thousands of years to build up. As well, it is reported that approximately 600 million Chinese people would be "urbanised" in the next 30 to 40 years, effectively creating another two USA's in potential spending power. India's population will exceed that of China within the next 25 years. Even if these numbers are only 20% correct, the ripple effect is enormous. The overriding point is that the world now has the capital markets, information technology and heavy equipment available to handle this expansion (perhaps I should say explosion). Health and other issues obviously have to be taken into account and there will be cyclical events that will

“rock the boat” however, I firmly believe that over the next 50 years the use of stainless steel will continue its inexorable rise. It is worth noting that the respected commentators on nickel prices have all shifted their long term price significantly upward.

### **Annual General Meeting**

We will be holding the Annual General Meeting in London on 16 November 2005 to give you the opportunity to hear a further update on our progress to that time. We will also have a booth at the Mines & Money conference in London during the week following. If you cannot attend the AGM, please come to see us at the conference.

### **People**

Our most important asset is our people and we have now put together an impressive, experienced Project team to carry us forward. Gavin Becker's extensive experience in various nickel operations in Australia, past experience of the Marlborough ore body and overall management and consulting background make him the ideal person to drive the Project forward. We have also been fortunate to employ some of the BHP Billiton nickel people, who have chosen not to relocate to Perth as part of the recent WMC Resources takeover. Their current lateritic and ore importation experience will be invaluable to us. We are instituting an employee and consultants' short term share option plan as part of our remuneration plan and will be bringing to you for your approval, a similar director share option plan at the AGM. The total of both plans will not exceed 10% of the share capital at the time.

I would also like to thank the Board members for their vigorous debate and support.

**Robert A Pearce**  
**Executive Chairman**

\*All sterling figures are quoted at the conversion rate: A\$1: £0.4043 being the average open bid rate over the year to 30 June 2005.

## Project Status Report

The Definitive Feasibility Study (DFS) is progressing well, with the following project milestones having been completed by mid-September:

- Recruitment of key senior staff, who bring excellent relevant experience to the project team, is in hand;
- Independent engineers, Behre Dolbear, have been appointed and are actively monitoring our programme and progress to ensure that all aspects of the DFS are being professionally and properly carried out;
- 30,000m Reverse Circulation (RC) drilling campaign at Marlborough is 45% complete (sample analysis 19% complete);
- Metallurgical testwork programme at SGS Lakefield Oretest has commenced;
- Impact Assessment Statement (IAS) has been submitted to the authorities, which has allowed progression of the Environmental Impact Study (EIS) for the Slurry Pipeline, Gladstone Refinery and Tailing Storage Facility (TSF). Marlborough site approvals (mining and beneficiation) are already in place; and
- DFS scope has been defined and Aker Kvaerner's engineering studies will commence in October.

## Project Team

Appointments to date have been:

- **Engineering Manager – Stewart Peters**, commenced 18 August. Recent experience has been in the engineering management of the A\$1.4 billion Swanbank Paper Project. Stewart is a Chemical Engineer (UQ, 1985) with added commercial qualifications (Economics, and MBA), who has approximately 15 years project management experience.
- **Financial Controller – Julien McNally**, commenced 12 September. Julien is a CPA, with a Bachelor of Business (1992) and MBA (2004) from Queensland University of Technology. Julien comes to GPNL following nearly nine years experience with BHP Billiton (Stainless Steel Materials), most recently as Group Accountant and then Senior Commercial Analyst – Special Projects.
- **Resources Development Manager – Albert Mostert**, commences 17 October. Albert is a highly regarded geologist with 30 years experience in precious and base metals (including laterites). He is an honours graduate in Geology from Stellenbosch (1975), and completed his M.Sc at Pretoria (1980). Prior to joining Gladstone Pacific Nickel, Albert worked for 25 years with BHP Billiton and its predecessors Billiton and Gencor, in Africa, UK, Australia and the SW Pacific. Most recently he was employed as Regional Development Manager – SE Asia, and Group Manager Geology and Resources for BHP Billiton Stainless Steel Materials, based in Brisbane.

We are currently recruiting for a Business Evaluation Manager to balance out the team. External consultants will be employed from time to time to complete various specialised tasks.

## Drilling at Marlborough Mining Leases

The drilling programme using two exploration rigs is successfully underway to improve and expand the known nickel/cobalt resource. To date, over 45% of a planned 30,000 metre infill and step-out RC drilling programme has been completed. Sample analysis is 19% complete and we are very pleasantly surprised at the results.

Once the drilling programme is completed, IMC Consultants will undertake mine design optimisation studies for input into the DFS.

### **Metallurgical Testwork**

70 samples in (600kg ea) bulka bags, from the 900mm diameter Caldwell Bucket Rig drill programme, have been dispatched to SGS Lakefield Oretest (SGSLO) in Perth, Western Australia. These ore samples, representing the suite of ores to be mined in the first five years from Marlborough, will undergo ore variability beneficiation and pressure leaching testwork in a four month metallurgical programme, to provide process design criteria for the Stage 1 Definitive Feasibility Study. This testwork commenced in early September 2005.

### **Slurry Pipeline from Marlborough Mine and Beneficiation Plant to Gladstone Refinery**

The preferred route for the pipeline has been identified, and engineering design will be finalised after completion of rheological testwork on slurry samples from the metallurgical testwork programme mentioned above.

### **Refinery Site Gladstone**

A comparison of alternative refinery sites available including the preferred site in the Yarwun precinct has been carried out jointly by engineering contractor Aker Kvaerner and environmental and foundation engineers Connell Wagner.

This has confirmed the original proposition to site the refinery at Yarwun in the Gladstone State Development Area, which is within four kilometres of the proposed Wiggins Island deep-water berth development.

Subsequent to this decision the Queensland Government Department of State Development and Innovation has offered the Company additional land contiguous with the original allocation at Yarwun. This brings the total area of land available to the Company to about 250 ha.

Preliminary discussions have been initiated with the Department to gain formal title to this land in compliance with the Memorandum of Understanding with the State Government dated 18 February 2005.

### **Environmental Approvals**

We currently hold all approvals and licenses necessary to commence mining operations on our Mining Leases at Marlborough (Environmental Authority No: MIM 800078102).

With respect to the slurry pipeline, Gladstone refinery and tailings storage facility, we have finalised and released the IAS for review by the Queensland Department of State Development and Innovation, and a referral under the EPBC Act for the Commonwealth Department of Environment and Heritage.

The IAS is a comprehensive statement of our intent with respect to our plans for the refinery, tailings disposal, slurry pipeline and all other ancillary services. It is an important document for several reasons:

- From this, the statutory bodies will determine the requirements that we must observe in preparing the Project EIS and the conditions relevant to Permits to Construct.
- It opens the way for the Project to be considered for declaration as a Significant Project under the State Development and Public Works Organisation Act 1971, and/or receipt of Major Project Facilitation Status by the Federal Authorities.

We will be actively progressing these aspects in both Brisbane and Canberra in the near future. Completion of the EIS to the extent of public display is expected to be in July 2006.

## **Community Relations**

We have developed solid relationships with all project stakeholders, including neighbouring land owners and Aboriginal groups. The Traditional Owners have co-operated effectively with cultural heritage clearances ahead of the exploration drilling programme. Mutual respect and sustainability are key planks in our interaction.

## **Engineering Studies and Project Schedule**

The engineering component of the Stage 1 DFS (to be performed by Aker Kvaerner) is due to commence in October 2005. Stage 1 will be costed to an accuracy of +/- 15%, and the DFS remains on track for completion in the third quarter of 2006. A Preliminary Feasibility Study (PFS) for Stages 2 & 3 is likely to be completed simultaneously.

## **Project Enhancements**

Several project optimisation considerations, which have the potential to significantly enhance project value, have emerged since the drawing up of the Prospectus. The two most important issues relate to a slightly reduced ore cut-off grade together with increased autoclave throughput, and the potential use of saline water for beneficiation and slurring at Marlborough, instead of using freshwater out of the Fitzroy River catchment.

- Less Aggressive Beneficiation to lower Risk and improve Project Economics

Less aggressive beneficiation conditions than initially envisaged during the Conceptual Study will have the effect of significantly extending the life of the Marlborough orebodies and reducing unit mining costs, as a greater proportion of the resource is converted to reserve status. Increased ore body life significantly improves the risk profile of the project and its overall economics, whilst the reduced mining costs ameliorate the increased unit processing costs incurred in treating slightly lower autoclave feed grades. A minor increase in planned leach temperature and pressure (well within engineering design limitations) is also expected to allow increased autoclave throughput rates to maintain metal production make at good extraction rates which will also further offset marginally lower feed grades.

- Potential Use of Saline Water to Replace Freshwater Use

This plant design option is currently under investigation (subject to confirmatory metallurgical testwork). The use of saline water, instead of freshwater, for beneficiation, slurring and leaching potentially improves slurry rheologies, and increases slurry densities, facilitating the slurry pipeline pumping operations, which may well allow a further increased throughput in the leach plant (in the order of 10 to 20%). Consequently, this would increase metal production rates from about 30,000 tonnes per annum to potentially as much as 36,000 tonnes per annum. It would translate into a reduction in water usage per unit of production, and allow a significant component of the proposed water allocation from the Fitzroy River to be reallocated to other parties resulting in substantial savings.

## Best Drill Intersections to Date

### (1) Coorumburra

Drill Hole	From (m)	To (m)	Metres	% Ni	% Co
COR042	29	44	16	0.79	0.05
COR044	60	66	6	0.83	0.03
COR048	55	60	5	0.94	0.03
COR078	49	56	7	0.99	0.03
COR079	30	43	13	0.94	0.02
COR093	49	68	19	1.39	0.05

- A mixture of infilling and extensional drilling at the previously identified Coorumburra orebodies.

### (2) Gumigil East

Drill Hole	From (m)	To (m)	Metres	% Ni	% Co
GUM012	13	38	25	0.99	0.03
GUM028	11	22	11	0.96	0.04

- Extensional drilling at the new Gumigil East prospect

### (3) Slopeaway

Drill Hole	From (m)	To (m)	Metres	% Ni	% Co
SLP002	9	30	21	1.47	0.06
SLP011	15	23	8	1.42	0.18
SLP018	0 (surface)	10	10	0.77	0.04
SLP054	8	31	23	0.89	0.03
		Including	11	1.05	0.03
SLP062	0 (surface)	25	25	1.00	0.02
		Including	18	1.14	0.03
SLP069	40	53	13	0.95	0.13
SLP071	2	18	11	0.81	0.07
SLP076	5	15	10	0.87	0.06
SLP095	17	26	9	0.73	0.08
	47	60	13	0.87	0.02
SLP096	19	28	9	0.95	0.11
SLP097	21	36	15	1.19	0.15
		Including	13	1.28	0.15
SLP098	37	44	7	1.09	0.08
		Including	4	1.49	0.09
SLP110	6	19	13	1.11	0.05
	25	32	7	0.86	0.03
SLP122	23	40	17	1.10	0.07

SLP129	8	14	6	0.96	0.06
SLP 139	10	38 including	28 12	0.97 1.21	0.05 0.05
SLP179	23	34	11	1.02	0.06
SLP233	30	39	9	1.08	0.12
SLP247	18	30 Including	12 5	0.86 1.07	0.10 0.17
SLP253	8	23 Including	15 7	0.89 1.02	0.07 0.13

- All the drill holes in the above table are infilling part of the Inferred Resource at Slopeaway. Assay results for the first 70 holes have been received thus far. Only those 20 holes showing substantially thick intersections (6 metres or more) are listed here.
- The majority of the other 50 holes also intersected ore grades (above 0.7% Ni), but were of less significance.
- These results are consistent with the previous owner's results and are expected to allow conversion of Inferred Resources into Indicated Resources in this area. Furthermore, the grades, thicknesses and depths of the mineralisation indicate excellent prospects for extension of the open pit mining areas and a positive impact on ore reserves.

**Gavin Becker,**  
**General Manager (Project Development)**

## Statement of Financial Performance

<i>YEAR ENDED 30 June 2005</i>	<i>Consolidated</i>	<i>Consolidated</i>	<i>Parent</i>	<i>Parent</i>
	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>
<b><i>REVENUES FROM ORDINARY ACTIVITIES</i></b>	<b>513,394</b>	1,989	<b>455,932</b>	-
Borrowing costs expense	<b>(494,702)</b>	(285,787)	-	-
Directors fees	<b>(84,301)</b>	-	(84,301)	-
Professional fees	<b>(124,206)</b>	(27,847)	(116,139)	(13,597)
Travel & accommodation	<b>(115,764)</b>	(165,391)	(115,764)	(165,391)
Wages & on costs	<b>(61,248)</b>	(29,089)	(5,430)	-
Communication costs	<b>(12,573)</b>	(8,952)	(11,460)	(8,952)
Public relations & ongoing listing fees	<b>(121,924)</b>	-	(121,924)	-
Tenement administration costs	<b>(9,971)</b>	(25,634)	-	(2,267)
Cost of investment t sold	<b>(56,184)</b>	-	(56,184)	-
Other	<b>(55,135)</b>	(23,836)	(44,482)	(11,367)
	<b>(1,136,008)</b>	(566,536)	<b>(555,684)</b>	(201,574)
<b><i>EXPENSES FROM ORDINARY ACTIVITIES</i></b>				
<b><i>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</i></b>	<b>(622,614)</b>	(564,547)	<b>(99,752)</b>	(201,574)
<b><i>INCOME TAX (EXPENSE) BENEFIT RELATING TO ORDINARY ACTIVITIES</i></b>	<b>-</b>	-	-	-
<b><i>LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</i></b>	<b>(622,615)</b>	(564,547)	<b>(99,752)</b>	(201,574)
Share issue costs	(2,182,574)	-	(2,182,574)	-
<b><i>TOTAL EXPENSES ATTRIBUTABLE TO MEMBERS OF GLADSTONE PACIFIC NICKEL LTD AND RECOGNISED IN EQUITY</i></b>	<b>(2,182,574)</b>	-	<b>(2,182,574)</b>	-
<b><i>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS OF ATTRIBUTABLE TO MEMBERS OF GLADSTONE PACIFIC NICKEL LTD</i></b>	<b>(2,805,188)</b>	(564,547)	<b>(2,282,326)</b>	(201,574)
Basic earnings/ (loss) per share (cents per share)	<b>(3.77)</b>	(2278.00)		
Diluted earnings/ (loss) per share (cents per share)	<b>(3.60)</b>	(2278.00)		

## Statement of Financial Position

	<i>Consolidated</i>	<i>Consolidated</i>	<i>Parent</i>	<i>Parent</i>
	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>
<b>CURRENT ASSETS</b>				
Cash assets	<b>27,193,193</b>	59,566	<b>27,118,820</b>	2,476
Receivables	<b>182,010</b>	6,338	<b>89,728</b>	3,777
Other current assets	<b>54,851</b>	1,035	<b>54,851</b>	1,035
Other financial assets	<b>788,571</b>	-	<b>788,571</b>	-
<b>TOTAL CURRENT ASSETS</b>	<b>28,218,625</b>	66,939	<b>28,051,970</b>	7,288
<b>NON-CURRENT ASSETS</b>				
Equipment	<b>89,471</b>	-	<b>71,024</b>	-
Deferred evaluation & exploration costs	<b>9,979,917</b>	8,193,478	<b>654,070</b>	149,329
Receivables	<b>100,063</b>	139,012	<b>8,845,070</b>	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>10,169,451</b>	8,332,490	<b>9,570,164</b>	149,329
<b>TOTAL ASSETS</b>	<b>38,388,076</b>	8,399,429	<b>37,622,134</b>	156,617
<b>CURRENT LIABILITIES</b>				
Payables	<b>1,362,313</b>	394,732	<b>635,816</b>	19,517
Interest bearing liabilities	-	7,242,121	-	-
Provisions	<b>7,937</b>	6,322	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,370,250</b>	7,643,175	<b>635,816</b>	19,517
<b>NON-CURRENT LIABILITIES</b>				
Payables	<b>912,343</b>	1,316,841	-	337,574
Provisions	<b>5,000</b>	2,860	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>917,343</b>	1,319,701	-	337,574
<b>TOTAL LIABILITIES</b>	<b>2,287,593</b>	8,962,876	<b>635,816</b>	357,091
<b>NET ASSETS / (LIABILITES)</b>	<b>36,100,483</b>	(563,447)	<b>36,986,318</b>	(200,474)
<b>EQUITY</b>				
Contributed equity	<b>37,287,644</b>	1,100	<b>37,287,644</b>	1,100
Accumulated losses	<b>(1,187,161)</b>	(564,547)	<b>(301,326)</b>	(201,574)
<b>TOTAL EQUITY / (DEFICIENCY)</b>	<b>36,100,483</b>	(563,447)	<b>36,986,318</b>	(200,474)

## Statement of Cash Flows

30 June 2005	<i>Consolidated</i>	<i>Consolidated</i>	<i>Parent</i>	<i>Parent</i>
	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>	<i>2005 (\$A)</i>	<i>2004 (\$A)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	-	-	-	-
Payments to suppliers and employees	<b>(276,632)</b>	(318,264)	<b>(208,399)</b>	(186,869)
Payments for exploration and evaluation	<b>(1,167,264)</b>	(149,329)	<b>(291,122)</b>	(149,329)
Interest received	<b>389,298</b>	1,989	<b>371,561</b>	-
Interest & borrowing costs paid	<b>(494,702)</b>	-	-	-
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(1,549,300)</b>	(465,604)	<b>(127,960)</b>	(336,198)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of equipment	<b>(93,194)</b>	-	<b>(71,024)</b>	-
Cash acquired on purchase of controlled entity	-	28,496	-	-
Purchase of investments	<b>(847,688)</b>	-	<b>(847,688)</b>	-
Sale of investments	<b>59,117</b>	-	<b>59,117</b>	-
<b>NET CASH FLOWS USED FROM INVESTING ACTIVITIES</b>	<b>(881,765)</b>	28,496	<b>(859,595)</b>	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of ordinary shares	<b>39,454,329</b>	1,100	<b>39,454,329</b>	1,100
Cost of raising funds	<b>(2,167,785)</b>	-	<b>(2,167,785)</b>	-
(Repayment)/ proceeds of borrowings	<b>(7,384,278)</b>	158,000	-	-
Advances to subsidiaries	-	-	<b>(8,845,070)</b>	-
(Repayment)/advances from directors and related entities	<b>(337,574)</b>	337,574	<b>(337,574)</b>	337,574
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>29,564,692</b>	496,674	<b>28,103,900</b>	338,674
<b>NET INCREASE IN CASH HELD</b>	<b>27,133,627</b>	59,566	<b>27,116,344</b>	2,476
Opening cash brought forward	<b>59,566</b>	-	<b>2,476</b>	-
<b>CLOSING CASH CARRIED FORWARD</b>	<b>27,193,193</b>	59,566	<b>27,118,820</b>	2,476

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## NOTES

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of accounting

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention.

These financial statements are for the year ended 30 June 2005. The comparative information is for the period ended 30 June 2004 which was the first financial period since incorporation of GPNL, being the period from incorporation on 31 March 2003 to 30 June 2004.

These accounts have been prepared under Australian GAAP (please see note 6).

#### (b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of the right to receive the interest payment.

#### (c) Principles of consolidation

The financial statements of the GPNL Group, comprises GPNL (the parent company) and all entities that GPNL controlled from time to time during the year and at reporting date, being MNPL.

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.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

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 intercompany 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.

#### (d) Evaluation, Exploration and Restoration costs

Costs carried forward

Evaluation and exploration expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, 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.

On acquisition of MNPL by GPNL on 29 December 2003, the fair value of the evaluation and exploration expenditure acquired was assessed as being equal to the net liabilities of MNPL at that date.

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

While an obligation exists for restoration activities to be undertaken for any exploration activities performed on the tenements, these are usually incurred during the period in which those activities were performed and recognised in the statement of financial performance for that period.

**(e) Taxation**

**Income tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

**Goods and services tax (GST)**

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 receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

**(f) Trade and other payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the GPNL Group.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

**(g) Foreign currencies**

*Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the GPNL Group are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the GPNL Group that are outstanding at the reporting date and are denominated in foreign currencies are translated at the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or restatement are brought to account in determining the net profit or loss for the financial year.

**(h) Earnings per share (EPS)**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## 2. DEFERRED EVALUATION AND EXPLORATION COSTS

	<i>Consolidated</i> 2005 (\$A)	<i>Consolidated</i> 2004 (\$A)	<i>Parent</i> 2005 (\$A)	<i>Parent</i> 2004 (\$A)
Liabilities at date of MNPL acquisition (see below)	<b>8,044,149</b>	8,044,149	-	-
Additions - evaluation costs	<b>1,935,768</b>	149,329	654,070	149,329
	<b>9,979,917</b>	8,193,478	654,070	149,329

The previous owners of MNPL spent in excess of \$36 million on exploration, land purchase, feasibility studies and a variety of other costs on the Marlborough ore body and a stand alone processing plant at the minesite. A substantial amount of these costs are still relevant to the orebody, however the directors, after due consultation, decided to bring only to account the value attributable to the liabilities at the date of acquisition.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

## 3. ACCUMULATED LOSSES

Balance at the beginning of the year	<b>(564,547)</b>	-	<b>(201,574)</b>	-
Net loss	<b>(622,614)</b>	(564,547)	<b>(99,752)</b>	(201,574)
Balance at end of year	<b>(1,187,161)</b>	(564,547)	<b>(301,326)</b>	(201,574)

## 4. CASH FLOW INFORMATION

Reconciliation of the operating profit / (loss) after tax to the net cash flows from operations

Operating loss after tax	<b>(622,614)</b>	(564,547)	<b>(99,752)</b>	(201,574)
<b>Non-cash items:</b>				
Provision for employee entitlements	<b>3,755</b>	4,564	-	-
Depreciation	<b>3,723</b>	-	-	-
<b>Changes in assets and liabilities</b>				
(Increase)/decrease in receivables	<b>(137,365)</b>	70,264	<b>(47,643)</b>	(3,777)
(Increase)/decrease in prepayments	<b>(88,993)</b>	(1,035)	<b>(88,993)</b>	(1,035)
(Increase)/decrease in deferred evaluation costs	<b>(1,755,124)</b>	(149,329)	<b>(473,426)</b>	(149,329)
Increase/(decrease) in payables	<b>1,008,369</b>	(111,308)	<b>581,854</b>	19,517
Increase/(decrease) in accrued interest	-	285,787	-	-
(Increase)/decrease in deposits	<b>38,949</b>	-	-	-
Net cash flow from (used in) operating activities	<b>(1,549,300)</b>	(465,604)	<b>(127,960)</b>	(336,198)

Reconciliation of cash

Cash balance comprises:				
- cash at bank & on short term deposit	<b>27,193,193</b>	59,566	<b>27,118,820</b>	2,476
Closing cash balance	<b>27,193,193</b>	59,566	<b>27,118,820</b>	2,476

## 5. CASH FLOW INFORMATION (Cont.)

### Acquisition of controlled entity

On 29 December 2003, GPNL acquired 100% of the voting share capital of MNPL, an unlisted Australian company operating in mineral exploration. The components of the acquisition were:

Consideration	\$A
- cash paid	-
	-
Net assets of MNPL at 29 Dec 2003:	
- cash	28,496
- trade debtors	80,102
- exploration and evaluation development costs	8,044,148
- security deposits	136,512
	8,289,258
- employee provisions	(4,618)
- payables and interest bearing liabilities	(8,284,640)
<b>Total</b>	-
Net cash effect	
Cash consideration paid	-
Less cash included in net assets acquired	(28,496)
Cash received for purchase of controlled entity	(28,496)

## 6. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Company's financial information has been prepared in accordance with generally accepted accounting principles in Australia ("Australian GAAP"), which differ in certain respects from International Financial Reporting Standards ("IFRS") applicable as at the date of this report.

GPNL is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. As a result of these procedures, GPNL established a project team to address each of the areas in order of priority. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, GPNL's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when GPNL prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

As a result of the above process, as at 1 July 2004 there are no areas where accounting policies are expected to change on adoption of AIFRS and, accordingly, there would be no material adjustments arising from differences between Australian GAAP and AIFRS that would be required to be made to the equity attributable to members of GPNL as at 1 July 2004 if this financial information were to be presented in accordance with AIFRS.

Management has decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. As at 30 June 2005 there are no areas where accounting policies are expected to change on adoption of AIFRS and, accordingly, there would be no material adjustments arising from differences between Australian GAAP and AIFRS that would be required to be made to the net profit and equity attributable to members of GPNL as at 30 June 2005 if this financial information were to be presented in accordance with AIFRS. If AASB 132 and AASB 139 were applied at 30 June 2005, investments in shares would be classified as "available for sale" securities and measured at fair value with fair value changes taken to equity resulting in an increase in assets and equity of \$286,697.

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project team; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

## 7. The Report and Accounts for the year to 30 June 2005 will be sent to shareholders in due course.