

## **news release**

**18 September 2006**

### **PRELIMINARY RESULTS FOR THE YEAR ENDED 30 JUNE 2006**

The results for this year have been affected mainly by the profit on the sale of Weda Bay Minerals Inc. ("Weda Bay") shares of A\$4,272,089. The Company built up a stake in Weda Bay as part of a strategy to work together for mutual benefit. The stake was sold once it became clear that the Weda Bay management were not interested in progressing discussions.

Including the proceeds of the sale of the Weda Bay shareholding, the Company made an overall profit of A\$2,434,452, compared to a loss of A\$440,550 for the prior year. The loss before tax (excluding the profit from the sale of the Weda Bay shares) is A\$674,970 (2005: A\$622,614). Earnings per share were A\$0.081 (2005: a loss of A\$0.0267). A\$12,559,145 (2005: A\$1,786,439) was spent on evaluation and exploration expenditure during the year, together with A\$1,891,444 (2005: A\$280,762) on general and administration expenditure.

This increase in the level of expenditure reflects the progress the Company has been making in its activities during the current year and is commented on in more detail below.

In my interim report the company reported on the completion of its initial drill program at Marlborough and the increase in the resource base by 22% and that the beneficiation testwork on HPAL feed material indicated an average upgrade of 28% at a 64% mass recovery (i.e. 81% of the Nickel is recoverable into 64% of the mass).

These developments have been complemented in the second half with the announcement that the Company has reached a binding heads of agreement to purchase 4 mining leases adjacent to and south west of Marlborough and that the first Stage of the Gladstone Nickel Project (GNP) has been granted Major Project Facilitation (MPF) status by the Federal Government of Australia. As a result, the Australian government's inward investment agency, Invest Australia, will assist the Company to gain all necessary government, environmental and community approvals for the first stage of the GNP which should prove a major benefit to the Company. Invest Australia will also identify relevant government programs that may assist the Project.

The Central Queensland Port Authority (CQPA) are proceeding with the Final Feasibility Study and Environmental Impact Study (EIS) for the development of the new Wiggins Island export/import terminal in Gladstone, which has encouraged the Company to accelerate its plans to process a blend of New Caledonian high grade ore and Marlborough ore from "day one" of its production plan. The feasibility study and associated EIS are well advanced and running in parallel with GPNL's revised study.

I would draw shareholders attention to the announcement today that the Company has signed binding Heads of Agreement with Société des Mines de la Tontouta ("SMT"), a company that owns nickel ore mines and numerous nickel ore tenements on the east coast of New Caledonia.

This secures substantial long-term limonite nickel ore supply from New Caledonia. Further details on this will be announced on the signing of a formal contract in due course.

The combination of this decision with the outcome of the Company's metallurgical test program results shows that an increased production rate of up to 60,000 tonnes per annum (tpa) nickel metal and 4,800 tpa cobalt (out of the same two autoclaves) should be achievable by the completion of the ramp up period after commissioning starts in 2010.

## **DEFINITIVE FEASIBILITY STUDY**

In light of the above developments, the Company has extended the current DFS completion date. This additional work will be completed by mid 2007 at which time the EIS will also be complete and through the public review process.

Positive outcomes of the DFS to date include:

- Environmental issues are well understood with a draft EIS to be available for public display prior to the end of the year.
- The Residue Storage Area will be sufficient to provide a minimum of 25 years storage volume at a production rate of 120,000 tonnes of nickel per year covering the first two stages of the Project.
- The Company is in final negotiations with the Queensland State Yarwun Refinery site and associated Residue Storage Facilities at Aldoga (both in the Gladstone State Development Area (GSDA)).
- The Pipeline corridor route has been defined after detailed discussions with landowners and environmental and constructability reviews.
- The metallurgical test programmes have demonstrated substantial improvements in nickel recoveries by utilisation of sea water rather than fresh water. In addition, a significant opportunity to reduce residence time in the autoclave was highlighted resulting in increased design autoclave throughput rates.
- The continuing good working relationship with the Traditional Owners in the vicinity of the Marlborough mine.

## **CAPITAL COSTS**

It is anticipated that the final capital costs to be generated by the DFS will rise from those quoted in the Prospectus (for effectively Stages 1 & 2). Not only a doubling of the production rate of nickel and cobalt, but also additional capital costs associated with mining and loading of imported ore, and the current worldwide pressure on engineering resources coupled with the high commodity price environment will contribute to the increase.

The Company has observed the effect of current market conditions and developments on other major projects such as BHP Billiton's Ravensthorpe in Australia and Inco's Goro in New Caledonia nickel projects, both of which will produce approximately 60,000 tpa of nickel each and should be completed by the end of next year, making them good benchmarks for our project.

Given the capital cost increases recently announced on these projects, GPNL will do all that is possible (including offshore modularisation) whilst evaluating the DFS to optimise the final project capital costs. However the Company expects the capital costs to be well in excess of US\$2 billion for the 60,000 tpa nickel production case.

## **OUTLOOK**

The Company has made substantial progress through the year. Although the increase in capital costs is painful to swallow, it was inevitable given the worldwide pressures commented on above. However this is more than compensated by the success of our metallurgical testwork, the high price of nickel and the improved outlook for nickel pricing long term. Whereas our original base case economics were based on a nickel price of US\$3.75/lb and cobalt price of US\$10.00/lb, current prices in excess of \$13.00/lb of nickel and US\$19.00/lb of cobalt mean that a higher base case price is sensible. The Company has a potentially highly lucrative project which will make even better economic sense in the current environment than was originally planned.

### **Robert Pearce Chairman**

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#### ***About Gladstone Pacific Nickel:***

Gladstone Pacific Nickel Limited (GPNL) is an Australian mining development company presently undertaking a Definitive Feasibility Study (DFS) for the Gladstone Nickel Project (GNP). The company's vision is to build a major long-life nickel cobalt refinery at the deepwater port at Gladstone, in Central Queensland, Australia, treating abundant high grade nickel laterite ores from around the south west Pacific region, underpinned by beneficiated ores from its own Marlborough deposits. The refinery will have the capacity to ultimately produce some 8 -10% of global nickel demand.

GPNL was listed on the Alternative Investment Market (AIM) (**Trading Code: GPN**) of the London Stock Exchange on 17 March 2005, after raising £11million.

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**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated	
		Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)
Interest Income		1,211,738	424,475
Foreign Exchange Gain		4,736	29,802
<b>REVENUES FROM ORDINARY ACTIVITIES</b>		<b>1,216,474</b>	<b>454,277</b>
<b>OTHER INCOME</b>			
Profit on Sale of Investments		4,272,089	2,933
Borrowing Cost Expense		-	494,702
Other Evaluation Costs		253,022	-
Directors' Fees		344,012	84,301
Directors' Options		127,400	-
Professional Fees		174,555	124,206
Travel and Accommodation		170,624	115,764
Wages and Oncosts		235,928	61,248
Office Rental		84,038	17,521
Public relations and Ongoing list fees		218,622	121,924
Tenement Administration Costs		-	9,971
Other		248,208	46,464
Depreciation		35,035	3,723
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>		<b>1,891,444</b>	<b>1,079,824</b>
<b>PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE</b>		<b>3,597,119</b>	<b>(622,614)</b>
<b>INCOME TAX (EXPENSE) / BENEFIT</b>		<b>(1,162,667)</b>	<b>182,064</b>
<b>PROFIT / (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>		<b>2,434,452</b>	<b>(440,550)</b>
<b>EARNINGS PER SHARE (CENTS PER SHARE)</b>			
Basic and diluted earnings (loss) per share (cents per share)	2	8.10	(2.67)
Diluted earnings (loss) per share (cents per share)		8.10	(2.67)

**BALANCE SHEET FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)	Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)
<b>CURRENT ASSETS</b>				
Cash assets	19,382,837	27,193,193	19,222,922	27,118,820
Receivables	392,161	227,896	301,435	135,614
Other current assets	18,878	8,965	18,878	8,965
Other financial assets	-	1,075,287	-	1,075,287
<b>TOTAL CURRENT ASSETS</b>	<b>19,793,876</b>	<b>28,505,341</b>	<b>19,543,235</b>	<b>28,338,686</b>
<b>NON CURRENT ASSETS</b>				
Equipment	141,904	89,471	126,131	71,024
Deferred evaluation and exploration costs	22,539,062	9,979,917	-	-
Receivables	356,922	100,063	18,282,201	8,633,315
Deferred tax assets	4,382,384	1,861,896	4,102,870	1,603,873
<b>TOTAL NON CURRENT ASSETS</b>	<b>27,420,272</b>	<b>12,031,347</b>	<b>22,511,202</b>	<b>10,308,212</b>
<b>TOTAL ASSETS</b>	<b>47,214,148</b>	<b>40,536,688</b>	<b>42,054,437</b>	<b>38,646,898</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	1,586,271	1,362,310	1,391,799	635,815
Provisions	63,628	7,937	46,476	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,649,899</b>	<b>1,370,247</b>	<b>1,438,275</b>	<b>635,815</b>
<b>NON CURRENT LIABILITIES</b>				
Trade and other payables	832,416	912,343	-	-
Deferred tax liabilities	6,763,139	3,079,984	1,421	86,009
Provisions	147,137	5,000	-	-
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>7,742,692</b>	<b>3,997,327</b>	<b>1,421</b>	<b>86,009</b>
<b>TOTAL LIABILITIES</b>	<b>9,392,591</b>	<b>5,367,574</b>	<b>1,439,696</b>	<b>721,824</b>
<b>NET ASSETS / LIABILITIES</b>	<b>37,821,557</b>	<b>35,169,114</b>	<b>40,614,741</b>	<b>37,925,074</b>
<b>EQUITY</b>				
Contributed equity	37,942,416	37,942,416	37,942,416	37,942,416
Reserves	418,699	200,708	418,699	200,708
Retained earnings / (Accumulated losses)	(539,558)	(2,974,010)	2,253,626	(218,050)
<b>TOTAL EQUITY</b>	<b>37,821,557</b>	<b>35,169,114</b>	<b>40,614,741</b>	<b>37,925,074</b>

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated	
		Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		-	-
Payments to suppliers and employees		(1,994,730)	(276,632)
Payments for exploration and evaluation		(12,335,168)	(1,167,264)
Interest received		1,259,652	389,298
<b>NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES</b>	3	<u>(13,070,246)</u>	<u>(1,054,598)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of equipment		(87,468)	(93,194)
Purchase of investment		(370,329)	(847,688)
Sale of investments		5,717,687	59,117
<b>NET CASH FLOWS USED FROM INVESTING ACTIVITIES</b>		<u>5,259,890</u>	<u>(881,765)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		-	39,454,329
Cost of raising funds		-	(2,167,785)
(Repayment) proceeds of borrowings		-	(7,384,278)
Interest and borrowing costs		-	(494,702)
Advances to subsidiaries		-	-
Repayment of advances from directors and related entities		-	(337,574)
<b>NET CASH FLOWS FROM (USED) FINANCING ACTIVITIES</b>		<u>-</u>	<u>29,069,990</u>
Net decrease in cash held		(7,810,356)	27,133,627
Opening cash brought forward		27,193,193	59,566
<b>CLOSING CASH CARRIED FORWARD</b>		<u>19,382,837</u>	<u>27,193,193</u>

**STATEMENT OF CHANGES IN EQUITY**

<b>Consolidated</b>	<b>Notes</b>	<b>Issued Capital</b>	<b>Retained Earnings</b>	<b>Net Unrealised Gains Reserve</b>	<b>Share Options Reserve</b>	<b>Total</b>
As at 01/07/04		1,100	(2,533,460)	-	-	(2,532,360)
Issued during year	21	37,286,544	-	-	-	37,286,544
Tax effect of share issue cost		654,772	-	-	-	654,772
Net gains on available for sale investments		-	-	286,717	-	286,717
Tax effect of net gains on available for sale investments		-	-	(86,009)	-	(86,009)
Profit / (Loss) for year		-	(440,550)	-	-	(440,550)
As at 30/06/05		37,942,416	(2,974,010)	200,708	-	35,169,114
Share based payment		-	-	-	217,991	217,991
Profit / (Loss) for year		-	2,434,452	-	-	2,434,452
As at 30/06/06		37,942,416	(539,558)	200,708	217,991	37,821,557

**Notes:**

1. The financial information set out above does not constitute the company's financial report for the years ended 30 June 2005 or 2006. The financial information contained in this preliminary announcement complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The financial information is prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 4.

The financial statements will be the first financial statements to be prepared in accordance with the AIFRS's. AASB1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing the financial statements.

2. Earnings per share

As at 30 June 2006	Consolidated	
	Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)
Net gain (loss)	2,434,452	(440,550)
Earnings used in calculation of diluted earnings per share	2,434,452	(440,550)
Weighted Average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	30,042,293	16,513,339
Basic and Diluted earnings per share	0.08	(0.03)

Options on issue are not considered dilutive.

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

As at 30 June 2006	Consolidated	
	Jun-06 (\$A) Unaudited	Jun-05 (\$A) Audited (restated)
Operating profit/(loss) after tax	2,434,452	(440,550)
<i>Adjusted for</i>		
Provision for employee entitlements	55,691	3,755
Net profit on available for sale assets	(4,272,089)	-
Depreciation	35,035	3,723
Interest expense	-	494,702
Movement in share option reserve	217,991	-
<i>Changes in Assets and Liabilities</i>		
(Increase)/decrease in receivables	(164,265)	(137,365)
(Increase)/decrease in other current assets	(9,913)	(88,993)

(Increase)/decrease in deferred evaluation costs	(12,559,145)	(1,755,124)
(Increase)/decrease in other assets	(236,922)	-
(increase)/decrease in deposits	-	38,949
(Increase)/decrease inter-company receivable	-	-
(Increase)/decrease in deferred tax asset	(2,520,488)	(717,994)
(Increase)/decrease in non-current receivables	(19,937)	-
Increase/(decrease) in payables	223,978	1,008,367
Increase/(decrease) in non-current payables	(79,926)	-
Increase/(decrease) in non-current provisions	142,137	-
Increase/(decrease) in deferred tax liability	3,683,155	535,932
Net cash flow used from operating activities	<u>(13,070,246)</u>	<u>(1,054,598)</u>

*Reconciliation of cash*

Cash balance comprises

Cash at bank and on short term deposit	19,382,837	27,193,193
Closing Cash Balance	<u>19,382,837</u>	<u>27,193,193</u>

4. Explanation of transition to Australian Equivalents to IFRS
- a. Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS):

	<b>Consolidated</b>	
	<b>30 June 2005</b>	<b>01 July 2004</b>
Total Equity Under previous AGAAP	36,100,483	(563,447)
<i>Adjustments to Contributed Equity:</i>		
Recognition of deferred tax asset on share issue costs	654,772	-
<i>Adjustment to retained earnings:</i>		
Recognition of deferred tax asset on unused tax losses and other temporary differences	1,207,126	489,129
Changes in Valuation of available for sale investments (1)	286,717	-
Tax effect of net gain in available for sale investments	(86,009)	
Recognition of deferred tax liability on evaluation and exploration expenditure	(2,993,975)	(2,458,044)
Total Equity Under AIFRS	<u>35,169,114</u>	<u>(2,532,362)</u>

(1) Financial Assets that are classified as available for sale under AASB 139 "Financial Instruments: Recognition and Measurement" are carried at fair value. They were carried at cost under AGAAP.

b. Profit on Sale of Assets

Under AGAAP the proceeds from sale of non-current assets were included in revenue from operating activity within revenue and the net gain on disposal was included in profit from ordinary activities. Under AIFRS the net gain on disposal is included in Other Income. As this represents a reclassification within the income statement, there is no impact on the balance sheet.

The effect of these changes on the consolidated entity's income statement is shown in the table below:

*Debits are negative (credits) are positive*

	Consolidated 30 June 2005
Profit on disposal of assets	(2,933)
Proceeds on disposal of assets	<u>59,117</u>
Cost of Investment sold	<u><u>56,184</u></u>

c. Income Tax

Under AGAAP the income statement method was used which involved tax affecting only those items that impacted Profit and Loss. AIFRS requires the balance sheet method to be used.

	Consolidated 30 June 2005
<i>Deferred Tax Asset</i>	
Deferred Tax Losses	1,048,097
Temporary differences	<u>813,799</u>
	<u><u>1,861,896</u></u>

	Consolidated 30 June 2005
<i>Deferred Tax Liability</i>	
Unrealised fair value gain	86,009
Deferred evaluation and exploration expenditure	<u>2,993,975</u>
	<u><u>3,079,984</u></u>

5. The Financial Report for the year ended 30 June 2006 will be sent to shareholders in due course.