



**GLADSTONE PACIFIC NICKEL LTD**

26 March 2009

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008**

Gladstone Pacific Nickel Limited (AIM Code: GPN) today released their unaudited interim results for the six months ended 31 December 2008.

Gladstone Pacific Nickel Limited's ("the Company" or "GPNL") Chief Executive Officer John Downie said GPNL was pleased with the progression of the Gladstone Nickel Project and the numerous activities currently underway to bring the refinery into construction.

"The interim results were in line with the expectation of the Company at this stage of development, given the current economic climate. The last six months saw substantial progress achieved across a number of ongoing issues and activities." Mr Downie said.

The Company reported interim revenue from Ordinary Activities of A\$3,076,054 (£1,473,122\*) and Expenses of A\$81,832,407 (£39,189,540\*) the majority of which is made up of an impairment loss of A\$78,081,765 (£37,393,357\*). The loss for the period (after Income Tax benefit) was A\$77,951,389 (£37,330,920\*) representing a loss of A\$1.56/share (£0.75/share\*).

As a result of the global financial crisis the nickel industry has experienced a number of setbacks including the demand for nickel falling significantly, resulting in a nickel price of around US\$4.50/lb and nickel operations and projects including the Ambatovy Project in Madagascar and Ravensthorpe in Western Australia, ceasing construction and operation respectively, and carrying values being written down.

In response to these factors the Company has reviewed the carrying value of its Deferred Exploration and Evaluation Expenditure which comprises expenditure associated with the Gladstone Nickel Project ("GNP" or the "Project"), encompassing both the Marlborough and Quinné areas, together with associated refinery and infrastructure expenditure.

Based on a review of recent transactions, a modest outlook for the commodities market and an assessment of the recoverability of past costs, the Company estimates the fair value of the Project, net of selling costs, at 31 December 2008 to be A\$46,084,800 (£22,070,011\*). The carrying value of the deferred exploration asset was A\$124,125,315 (£59,443,614\*) and thus the asset is impaired to the extent of A\$78,040,515 (£37,373,603\*) and an impairment loss equal to that amount has been recognised.

A further impairment loss of A\$41,250 (£19,755\*) has been provided for in relation to the carrying value of a small land parcel.

Exploration and Evaluation Expenditure for this period of A\$12,140,592 (£5,814,130\*) was capitalised to deferred exploration and evaluation costs.

Cash on hand as at the end of the period was A\$16,744,306 (£8,018,848\*).  
Shareholder equity at 31 December 2008 stood at A\$71,497,487 (£34,240,147\*).

GPNL has undertaken a significant review and assessment of all activities and associated operating costs. As a result of this review, staff costs and other expenditures have been reduced in line with current requirements.

## Highlights

- Queensland State Government approval of the Environmental Impact Statement for construction and operation of Stages 1 and 2 of the Project.
- Completion of a comprehensive 12 month drilling program on the Ouinné nickel-cobalt laterite project in New Caledonia by the GPNL / Société Minière Georges Montagnat ("SMGM") Joint Venture ("JV"). The JV completed 265 holes for 6,387 metres. The results of this work confirm the geological continuity of the mineralised deposits over an area of approximately 273 hectares.

## Environmental Impact Statement ("EIS")

The Queensland State Government has approved the EIS for construction and operation of Stages 1 and 2 of the Project. Following the approval of the EIS by the Queensland Government, the Federal Government will assess the Project under federal legislation concerning matters of national environmental significance.

In addition to complying with the strict requirements of its environmental license the GNP will demonstrate environmental leadership through its use of best practice air emissions and process water treatment technology and the continued search for environmental synergies with alumina producers in the region.

As further evidence of the Company's environmental intentions, GPNL has agreed after project funding is in place, to provide up to A\$5 million at each stage of the Project to support any project which can reduce sulphur dioxide levels in the Gladstone air shed by 5,000 -10,000 tonnes a year.

GPNL will also establish the Gladstone Social Impact Mitigation Fund ("the Fund") to mitigate potential impacts of the GNP on the community during the Project construction and operational phases. Following an initial outlay of A\$9 million over the 3 years of construction activity to establish the Fund, the Company has agreed to further annual contributions of A\$500,000 in each year that the nickel plant meets profitability targets.

## Ongoing Drilling Ouinné Work Program

Geological mapping and literature research into historical drilling programs has identified significant exploration targets within the Joint Venture mineral concessions. The Joint Venture is continuing its evaluation of these areas. GPNL and SMGM are now working towards a maiden mineral resource estimate for Ouinné and it is anticipated that this will be completed during 2009.

## Nickel Markets

Average nickel prices have reduced substantially over the half year from US\$8.60/lb to US\$4.94/lb in the third and fourth quarter of 2008 respectively. Current prices are now around US\$4.50/lb. Demand has reduced substantially over the period with a corresponding sharp increase in LME stock levels to over 100,000 tonnes of nickel metal.

Although, the short term fundamentals for the nickel market remain relatively weak, the long term drivers of nickel consumption being the fast growing economies of China and India remain relatively strong. For long term projects, such as ours, an opportunity now exists to reduce the capital cost of the plant and position the Company for the long term benefits.

**John Downie**  
**Chief Executive Office**  
**Gladstone Pacific Nickel Limited**

\*Exchange rate used A\$1:£0.4789

The interim results for the six months ended 31 December 2008 will be posted to shareholders and are available on the Company's website [www.gladstonepacific.com.au](http://www.gladstonepacific.com.au)

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# Gladstone Pacific Nickel Limited

## Consolidated Income Statement

for the six months ended 31<sup>st</sup> December 2008

	Notes	Consolidated	
		Dec 08 (\$A)	Dec 07 (\$A)
Interest Income		728,488	1,213,342
Foreign Exchange Gain		2,347,566	-
<b>REVENUES FROM CONTINUING OPERATIONS</b>		<b>3,076,054</b>	<b>1,213,342</b>
Evaluation Costs		472,230	211,301
China Representative		140,133	-
Foreign Exchange Loss		3,502	465,422
Directors' Fees / Remuneration		394,166	433,000
Directors' Option Expense		26,292	-
Brokers' Option Expense		21,125	-
Professional Fees		965,493	320,036
Travel and Accommodation		213,029	191,647
Wages and On-costs		659,310	445,376
Office Rental		234,142	174,071
Public Relations and Ongoing Listing Fees		144,044	123,676
IT and Communication		129,753	84,805
Marketing		23,675	62,689
Depreciation		93,945	48,059
Other		229,803	259,595
Impairment Loss		78,081,765	-
<b>TOTAL EXPENSES</b>		<b>81,832,407</b>	<b>2,819,678</b>
<b>PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE</b>		<b>(78,756,353)</b>	<b>(1,606,336)</b>
<b>INCOME TAX (EXPENSE) / BENEFIT</b>		<b>804,964</b>	<b>(1,957,599)</b>
<b>PROFIT / (LOSS) AFTER INCOME TAX EXPENSE</b>		<b>(77,951,389)</b>	<b>(3,563,935)</b>
		<b>(77,951,389)</b>	<b>(3,563,935)</b>
<b>EARNINGS PER SHARE</b>			
Basic Earnings (Loss) per Share (Cents per Share)	6	(156.21)	(9.55)
Basic Earnings (Loss) per Share (Cents per Share)	6	(156.21)	(8.58)

# Gladstone Pacific Nickel Limited

## Consolidated Balance Sheet

for the six months ended 31<sup>st</sup> December 2008

		Consolidated		
Notes	Dec 08 (\$A)	June 08 (\$A)	Dec 07 (\$A)	
<b>CURRENT ASSETS</b>				
7	16,744,306	23,735,508	31,093,645	
	172,146	286,213	968,302	
	192,046	9,231	39,599	
	<b>17,108,498</b>	<b>24,030,952</b>	<b>32,101,546</b>	
<b>NON CURRENT ASSETS</b>				
	1,110,382	874,778	733,747	
4	46,084,800	111,984,745	51,825,646	
	5,380,918	3,448,452	2,637,175	
	5,331,308	5,318,688	5,950,964	
	<b>57,907,408</b>	<b>121,626,663</b>	<b>61,147,532</b>	
	<b>75,015,906</b>	<b>145,657,615</b>	<b>93,249,078</b>	
<b>CURRENT LIABILITIES</b>				
	718,521	2,186,788	2,583,728	
	164,395	130,614	84,206	
	<b>882,916</b>	<b>2,317,402</b>	<b>2,667,934</b>	
<b>NON CURRENT LIABILITIES</b>				
	818,115	812,109	860,333	
	1,624,287	2,429,251	3,115,338	
	193,101	196,426	187,649	
	<b>2,635,503</b>	<b>3,437,786</b>	<b>4,163,320</b>	
	<b>3,518,419</b>	<b>5,755,188</b>	<b>6,831,254</b>	
	<b>71,497,487</b>	<b>139,902,427</b>	<b>86,417,824</b>	
<b>NET ASSETS</b>				
<b>EQUITY</b>				
	108,035,294	84,259,743	83,320,272	
	53,146,355	36,012,711	9,483,116	
	(89,705,162)	(11,790,641)	(6,385,564)	
	71,476,487	108,481,813	86,417,824	
	21,000	31,420,614		
	<b>71,497,487</b>	<b>139,902,427</b>	<b>86,417,824</b>	

# Gladstone Pacific Nickel Limited

## Consolidated Cash Flow Statement

For the six months ended 31<sup>st</sup> December 2008

	Consolidated	
Notes	Dec 08 (\$A)	Dec 07 (\$A)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to Suppliers and Employees	(4,909,638)	(4,603,639)
Payments for Exploration and Evaluation	(2,697,346)	(14,780,292)
Interest Received	673,673	1,191,000
<b>NET CASH FLOWS FROM (USED) IN OPERATING ACTIVITIES</b>	7 (a) (6,933,311)	(18,192,931)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property plant and equipment	(370,452)	(188,997)
Advances to Quinné SAS	(2,035,006)	-
<b>NET CASH FLOWS (USED) FROM INVESTING ACTIVITIES</b>	(2,405,458)	(188,997)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Issue of Ordinary Shares and Warrants	-	12,335,265
Proceeds from Issue of Converting Shares	-	42,000
<b>NET CASH FLOWS FROM (USED) FINANCING ACTIVITIES</b>	-	12,377,265
Net Increase / (Decrease) in Cash Held	(9,338,769)	(6,004,663)
Net Foreign Exchange Differences	2,347,567	(465,422)
Opening Cash Brought Forward	23,735,508	37,563,730
<b>CLOSING CASH CARRIED FORWARD</b>	16,744,306	31,093,645

# Gladstone Pacific Nickel Limited

## Consolidated Statement of Changes in Equity

for the six months ended 31<sup>st</sup> December 2008

Consolidated	Notes	Issued capital	Special Warrants	Retained Earnings	Other Reserves	Minority Interest	Total
<b>AS AT 1 JULY 2007</b>		58,757,554	12,185,454	(2,281,630)	1,904,003	-	70,025,381
Ordinary Shares Issued During the Period		24,444,722	(12,185,454)	-	-	-	12,259,269
Converting Shares Issued During the Period		-	-	-	-	42,000	42,000
Share Based Payment – Employees and Directors' Options		-	-	-	-	-	-
Share Based Payment – Director		-	-	-	7,759,114	-	7,759,114
Tax Effect of Share Issue Costs		75,996	-	-	-	-	75,996
Profit /( Loss) for the Period		-	-	(3,563,935)	-	-	(3,563,935)
<b>AS AT 31 DECEMBER 2007</b>		<b>83,278,272</b>	<b>-</b>	<b>(6,385,565)</b>	<b>9,483,117</b>	<b>42,000</b>	<b>86,417,824</b>
<b>AS AT 1 JULY 2008</b>		84,259,743	-	(11,790,641)	36,012,711	31,420,614	139,902,427
Ordinary Shares Issued During the Period		23,775,551	-	-	-	-	23,775,551
Movement in Minority Interest to date of purchase		-	-	36,868	(2,443,893)	2,428,025	21,000
Share Based Payment – Employees and Directors' Options		-	-	-	178,022	-	178,022
Share Based Payment – Director		-	-	-	9,443,247	-	9,443,247
Translation Reserve		-	-	-	(54,046)	-	(54,046)
Minority Interest acquired in MNPL		-	-	-	-	(33,827,639)	(33,827,639)
Other Equity		-	-	-	10,010,314	-	10,010,314
Profit /( Loss) for the Period		-	-	(77,951,389)	-	-	(77,951,389)
<b>AS AT 31 DECEMBER 2008</b>		<b>108,035,294</b>	<b>-</b>	<b>(89,705,162)</b>	<b>53,146,355</b>	<b>21,000</b>	<b>71,497,487</b>

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008

### 1. CORPORATE INFORMATION

The financial report of Gladstone Pacific Nickel Limited for the six months ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on the 26th March 2009.

Gladstone Pacific Nickel Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The registered office of the Group is Level 7, 380 Queen Street, Brisbane, Queensland.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The half year report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and activities of the consolidated group as the full financial report. This report is to be read in conjunction with the Gladstone Pacific Nickel Ltd Annual Report for the Year ended 30 June 2008.

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, except for available for sale assets which have been measured at fair value. The financial statements are presented in Australian dollars.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

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.

There have not been any changes in accounting policies since June 2008. An additional policy in relation to joint venture accounting has been included (refer note 2(u)).

#### (b) Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the reporting period ending 31 December 2008. These are outlined in the table below. The application date for the group (\*) designates the beginning of the applicable annual reporting period for each amendment.

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 (AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038).	Amending standard issued as a consequence of AASB 8 Operating Segment.	01/01/09	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements.	01/07/09
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)	Amending standard issued as a consequence of revisions to AASB 123 Borrowing Costs.	01/01/09	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	01/07/09

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2007-8	Amendments to Australian Accounting Standards arising from AASB 101	Amending standard issued as a consequence of revisions to AASB 101 Presentation of Financial Statements.	01/01/09	The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 101.	01/07/09
AASB 8	Operating Segments	New standard replacing AASB 114 Segment Reporting, which adopts a management approach to segment reporting.	01/01/09	Refer to AASB 2007-3 above.	01/07/09
AASB 101 (revised) and AASB 2007-8	Presentation of Financial Statements	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for the dividends and changes to the titles of the financial statements.	01/01/09	Refer to AASB 2007-8 above.	01/07/09
AASB 123 (revised)	Borrowing Costs	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	01/01/09	Refer to AASB 2007-6 above.	01/07/09

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	01/01/09	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	01/07/09
AASB 3 (revised)	Business Combinations	<p>The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets.</p> <p>This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.</p>	01/07/09	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	01/07/09
AASB 127 (revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	01/07/09	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	01/07/09
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	01/01/09	These amendments are not expected to have any impact on the Group's financial report as the Group does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	01/07/09

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group*
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	01/07/09	Refer to AASB 3 (revised) and AASB 127 (revised) above.	01/07/09
AASB 2008-7	Amendments to Australian Accounting Standards -Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	01/01/09	<p>Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.</p> <p>In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.</p>	01/07/09
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs.	01/01/09	The Group has not yet determined the extent of the impact of the amendments, if any.	01/07/09
AASB 2008-6	Further amendments to Australian Accounting Standards arising from the Annual Improvements Project.	The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	01/07/09.	The Group has not yet determined the extent of the impact of the amendments, if any.	01/07/09

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### Adoption of New Accounting Standard

The Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss of the financial position of the entity.

The following amendments are not applicable therefore has no impact:

AASB	Affected Standard(s)
AASB 1004	Contributions
AASB Int 1038	Contributions by Owners Made to Wholly - Owned Public Sector Entities
AASB 1049	Whole of Government and General Government Sector Financial Reporting
AASB 1050	Administered Items
AASB 1051	Land under Roads
AASB 1052	Disaggregated Disclosures
AASB 2007-9	Amendments to Australian Accounting Standards arising from the review of AAS's 27,29 and 31
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in A Foreign Operation

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

### (c) Revenue Recognition

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:

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.

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 income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholder's equity. The acquisition of a minority interest is treated as a transaction with owners as owners and as a result, the impact is recognised directly in equity. In addition, no fair value adjustments are made to the subsidiary's assets and liabilities in the consolidated financial statements.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### (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 Balance Sheet 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 Statement of Cash Flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (g) Evaluation and 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 a bi-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 balance sheet 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.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 balance sheet 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 balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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, GPNL 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.

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 Balance Sheet.

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.

#### (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.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### (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 (2007:20%). Communications and IT equipment are depreciated at 30% pa (2007:30%). Improvements to land are depreciated at 20% pa (2007:20%)

#### 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).

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### (o) 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.

### (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) 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:

- (ii) General Options;
- (iii) Senior Manager Option Plan;
- (iv) Broker Options;
- (v) Converting Shares and
- (vi) 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, and (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 Income Statement 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.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### (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 profit or loss.

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 income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement 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 (A\$). 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 balance sheet date.

All exchange differences in the consolidated financial report are taken to profit and loss 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 profit and loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular operation is recognised in profit and loss. 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 using the equity method of accounting.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

Australia	South West Pacific Region	Total
(\$A)	(\$A)	(\$A)

### 3. SEGMENT REPORTING

The Group operates only in the mineral evaluation business within Australia and south-west Pacific region. The Group's primary reporting segment is by geographical segment. The Group's only reportable geographical segment is Australia. The Group has other operations in New Caledonia and the Solomon Islands.

#### Six Months ended 31 December 2008.

##### Revenue

Interest Received	728,488	-	728,488
Foreign Exchange Gain	2,347,567	-	2,347,567
Segment Revenue	3,076,055	-	3,076,055

##### Other Segment Information

Segment Assets	72,923,068	2,092,838	75,015,906
Total Assets	72,923,068	2,092,838	75,015,906

Capital Expenditure for the Period	298,837	79,393	378,320
Deferred Evaluation and Exploration Expenditure for the Period	1,990,870	706,475	2,697,345

#### Six Months ended 31 December 2007

##### Revenue

Interest Received	1,213,342	-	1,213,342
Segment Revenue	1,213,342	-	1,213,342

##### Other Segment Information

Segment Assets	82,158,732	1,562,809	83,721,541
Total Assets	82,158,732	1,562,809	83,721,541

Capital Expenditure for the Period	257,268	9,206	266,474
Deferred Evaluation and Exploration Expenditure for the Period	7,865,265	819,299	8,684,494

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### 4. DEFERRED EVALUATION AND EXPLORATION

	Consolidated	
	Dec 08 (\$A)	Dec 07 (\$A)
Opening balance	111,984,723	1,423,082
Additions	2,697,345	-
Additions – SBP (i)	9,443,247	-
Impairment (ii)	(78,040,515)	-
	46,084,800	1,423,082

#### i. Share Based Payments associated with progressing the evaluation of the Marlborough Nickel Project:

On 7 December 2007, Marlborough Nickel Pty Ltd (“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 milestones were:

1. Execution of a binding agreement for the turnkey construction of the Gladstone Nickel Project;
2. Execution of a binding agreement for the financing of or assistance with the financing of the Gladstone Nickel Project; and
3. The Company entering a Scheme of Arrangement with Resource Developments International Limited (“RDI”).

The deemed vesting period for milestones 1 and 2 are 36 months (i.e. to 31 December 2010) and for Milestone 3 is 31 March 2009.

The Scheme of Arrangement with RDI will not be completed by 31 March 2009, therefore Milestone 3 will not be achieved. The company expects that the execution of binding construction and financing agreements (Milestones 1 and 2) will be achieved within the vesting period.

#### ii. 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.

Total impairment charges of A\$78,040,515 have been recognised in respect of the Deferred Evaluation and Exploration asset. The triggers for the impairment test were the significant fall in the price of nickel, the closing of major nickel operations and write down of associated carrying values and the likelihood that the current RDI listing will not proceed.

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 groups activities, the fair value less costs to sell approach has been used in assessing the impairment charges.

The recoverable amount was based on the groups estimate of fair value less costs to sell, consistent with recent transactions of nickel projects having regard to the recoverable amounts work undertaken in relation to engineering, environmental and metallurgical activities.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### 5. COMMITMENTS AND CONTINGENCIES

	Consolidated	
	Dec 08 (\$A)	Dec 07 (\$A)
<b>(a) Option payments in relation to farm-in rights, drilling test work, ore analysis, mining and port engineering development</b>		
- Within 1 year	-	1,425,000
- After 1 year but not more than 5	-	12,575,000
- After 5 years	-	-
	-	14,000,000
<b>(b) Share Issues</b>		
- Within 1 year	-	-
- After 1 year but not more than 5	5,637,920	72,222,222
- After 5 years	-	-
	5,637,920	72,222,222

On 1 July 2008 the Company agreed to amend its Joint Venture Agreement with Société Minière Georges Montagnat ("SMGM") and fix the number of shares to be issued to SMGM at 15 million.

The original agreement provided for the issue of approximately 12 million shares with the exact number of shares to be determined using a formula based on the Company's share price at the time of issue.

GP NL has acquired an initial 1% shareholding in a JV entity. The issue of the fixed 15 million GP NL shares, in August 2010, will be consideration for the purchase of an additional 48% interest in the JV entity taking GP NL's interest in the JV entity, at that time, to 49%.

The value of 15 million shares is calculated based on the GP NL share price and exchange rate at 31 December 2008.

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### 6. EARNINGS PER SHARE

	Consolidated	
	Dec 08 (\$A)	Dec 07 (\$A)
Net Profit (Loss)	(77,951,389)	(3,563,935)
Earnings used in Calculation of Basic and Diluted Earnings per Share	(77,951,389)	(3,563,935)
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Basic Earnings per Share	49,903,035	37,281,551
Weighted Average Number of Ordinary Shares on Issue Used in the Calculation of Diluted Earnings per Share	49,903,035	41,536,977
Basic Earnings per Share	(156.21)	(9.55)
Diluted Earnings per Share	(156.21)	(8.58)

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

	Consolidated	
	Dec 08 (A\$)	Dec 07 (A\$)
<b>7. CASH FLOW STATEMENT RECONCILIATION</b>		
<b>a) Reconciliation of operating profit/ (loss) after tax to the net cash flows from operations</b>		
Operating Profit/(Loss) After Tax	(77,951,389)	(3,563,935)
Adjusted for :		
Provision for Employee Entitlements	9,672	(14,139)
(Gain)/ Loss on Foreign Exchange	(2,347,567)	465,422
Depreciation - Charged to Operations	93,945	48,059
Impairment Loss	78,081,765	-
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	113,882	(262,122)
(Increase)/Decrease in Other Current Assets	(2,827)	-
(Increase)/Decrease in Deferred Evaluation Costs	(2,697,346)	(14,635,057)
(Increase)/Decrease in Prepayments and other Assets	-	(2,061,760)
(Increase)/Decrease in Deferred Tax Asset/ Liability	(804,964)	1,181,618
Increase/(Decrease) in Payables	(1,468,268)	(145,235)
Increase/(Decrease) in Non-Current Payables	33,781	89,354
Increase/(Decrease) in Non-Current Provisions	6,006	11,100
<b>Net Cash Flow Used from Operating Activities</b>	<b>(6,933,311)</b>	<b>(18,192,931)</b>
Reconciliation of Cash:		
Cash Balance Comprises		
Cash at Bank and on Short Term Deposit	16,744,306	31,093,645
Closing Cash Balance	16,744,306	31,093,645
<b>b) Non cash financing and investments activities</b>		
Share Based Payments	9,443,247	-
Conversion of Ordinary Shares to Related Party	23,775,543	-

# Gladstone Pacific Nickel Limited

## Notes to the Financial Statements

for the six months ended 31 December 2008 (continued)

### 8. EVENTS AFTER BALANCE DATE

There are no significant events after balance date.

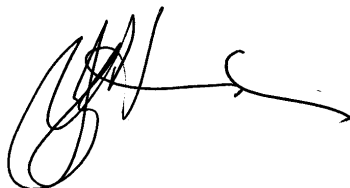
# Gladstone Pacific Nickel Limited

## Directors' Declaration

In accordance with a resolution of the directors' of Gladstone Pacific Nickel Limited, I state that:

1. In the opinion of the directors:
  - a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
    - ii. complying with Accounting Standards and Corporations Regulations 2001; and
  - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made for the six month financial period ending 31 December 2008.

On behalf of the Board



**J G Henderson**  
Chairman

Dated at Brisbane this 26th day of March 2009.