

**GLADSTONE PACIFIC NICKEL LIMITED**  
**(ACN 104 261 887)**

**EXPLANATORY MEMORANDUM**

**IMPORTANT NOTICE**

This Explanatory Memorandum contains an explanation of, and information about, the Resolutions to be considered at the general meeting of Gladstone Pacific Nickel Limited (**Company**) to which the Notice of Meeting relates. It is given to the Company's Shareholders to help them determine how to vote on the Resolutions set out in the Notice of Meeting.

Shareholders should read this Explanatory Memorandum in full, because individual sections do not give a comprehensive review of the proposals contemplated in this Explanatory Memorandum. This Explanatory Memorandum forms part of the Notice of Meeting and should be read with the Notice of Meeting.

If you are in doubt about what to do in relation to each of the Resolutions set out in the Notice of Meeting you should consult your financial or other professional adviser.

The Glossary at the end of this Explanatory Memorandum gives the meanings of expressions used in this Explanatory Memorandum where the meaning is not given in the Notice of Meeting or in the body of this Explanatory Memorandum.

This Explanatory Memorandum is dated 3 May 2007.

**1. BACKGROUND**

On 17 March 2005, the Company was listed on the AIM. At the time of listing the Company had raised £11,000,000 (equivalent to A\$26,855,470) through a private placement associated with its AIM listing.

As disclosed in the AIM Admission Document prepared for the Company's AIM listing, the Company's plans, at that time, were to carry out:

- a definitive feasibility study into the establishment of a two autoclave HPAL nickel laterite ore processing facility and refinery at Gladstone, Queensland, to produce approximately 30,000 tonnes of nickel and 1,400 tonnes of cobalt per annum, from ore mined from the Company's nickel laterite ore deposits at Marlborough near Rockhampton, Queensland and fed to that processing facility via a slurry pipeline from Marlborough to Gladstone; and
- a preliminary feasibility study in connection with an expansion of the Gladstone facilities to four autoclaves with additional ore to be sourced from off shore sources in the south western Pacific region, and production increasing to 60,000 tonnes of nickel and 3,800 tonnes of cobalt annually.

The Company in the course of conducting the definitive feasibility study identified a combination of several major developments which warranted the acceleration of the Company's plans for the importation of high grade New Caledonian ores. These include:

- the signing of a Heads of Agreement securing substantial long-term high grade limonite nickel ore from the east coast of New Caledonia in September 2006;

- the Central Queensland Ports Authority's accelerated plans for the new Wiggins Island export/import terminal at Gladstone;
- metallurgical test programmes demonstrating substantial improvements in nickel recoveries by utilisation of sea water rather than fresh water; and
- a significant opportunity to reduce residence time in the autoclave was highlighted resulting in increased design autoclave throughput rates.

The Company's Board decided in, or about, September 2006 to bring forward the imported ore aspects of the previously proposed preliminary feasibility study and to extend the definitive feasibility study (now called the integrated definitive feasibility study) to consider the importation of ore from project commencement. This has made the search for an adequate and secure off shore ore supply more urgent and has, or will, necessitate:

- further metallurgical studies in respect of ore sourced from New Caledonia;
- off shore exploration work to better define ore resources and develop mine plans;
- negotiation of ore supply and other arrangements to secure substantial quantities of ore from off shore – with attendant costs to secure options or buy, or buy into, ore sources;
- studies into the establishment of off shore mines, ore transportation and handling facilities and infrastructure, port and ore loading facilities;
- studies associated with Gladstone port facilities and the transportation of ore from the Gladstone Port to the Company's Gladstone processing facilities;
- engineering of the Gladstone processing facility to accommodate the processing of a range of imported ores in conjunction with ore from Marlborough;
- studies to determine the most appropriate design of the Plant to allow for flexibility in processing different grades, volumes and characteristics of ore from both Marlborough and overseas; and
- review of the arrangements for transportation of ore from Marlborough to Gladstone and the possible use of rail instead of a slurry pipeline.

The Company anticipates that the integrated definitive feasibility study will be completed prior to the end of 2007.

The Company has progressed its search for overseas nickel laterite sources and has concluded an option arrangement in respect of a source of ore in New Caledonia. Formal documentation of this arrangement is currently being negotiated and other New Caledonian sources are being actively pursued. To facilitate these activities and progress local issues, including developing relationships with, and plans for the assistance of, the local indigenous people, the Company has opened and staffed a local office in Noumea, New Caledonia and formed a New Caledonian subsidiary.

## **2. FUNDING REQUIREMENTS**

The Company has undertaken a budgeting exercise to determine the funds which the Company will need to:

- complete the integrated definitive feasibility study, including metallurgical testwork and engineering activities;

- meet anticipated costs for exploration, drilling and associated activities to better define off shore ore resources and to secure access to off shore ore sources<sup>1</sup>;
- undertake front-end engineering design work so as to identify and secure long lead items for the Project and to minimise delays once the Company's Board decides to proceed with the Project; and
- fund general working capital for the Company.

The budget shows that the Company requires, for its operations through to December 2007, and expenses associated with a capital raising and TSX Listing, and for its general working capital requirements from January 2008 to June 2008, an additional sum of approximately US\$40 million<sup>2</sup>.

For some time the Company's Board has been considering listing the Company on the TSX. The need for additional funding and the arrangements by which it has been secured have presented an opportunity to bring the process of seeking a TSX Listing forward.

While it was possible for the Company to seek to raise the funds it currently needs through an initial public offering coupled with a TSX Listing, the listing process in Canada can take several months and has been known to be delayed for a variety of reasons. Because the Company needed to ensure that it has sufficient funds available to it, to allow time for the completion of a TSX Listing, the Company's Board determined to undertake a private placement, as soon as reasonably possible.

### 3. FUND RAISING

The Company engaged Research Capital Corporation and Transocean Securities Pty Ltd (the **Agents**) to undertake a private placement with the objective of raising a maximum of US\$40 million before proceeding with a public offering, linked to a TSX Listing. As matters have transpired the Agents have received indications from prospective placees to subscribe for a total of US\$40 million to the Company, subject to shareholder approval being obtained in accordance with the Company's Constitution.

The Placement will be by way of subscription for what are known in the Canadian market as "special warrants". Upon issue of the special warrants the subscriber pays the full amount intended to be paid for an Ordinary Share. In this case that is £1.80 per special warrant/Ordinary Share<sup>3</sup>. Each special warrant is a right to have issued to the holder of the special warrant one Ordinary Share on the condition that, if the TSX Listing Qualification is not achieved by the Listing Date, each special warrant will entitle the holder to be issued 1.1 Ordinary Shares, with a further increase of 0.1 Ordinary Shares for each month after the Listing Date until the TSX Listing Qualification is achieved to a maximum of one additional Ordinary Share. The special warrants will be exercisable by the holders of the special warrants at any time but will automatically convert to Ordinary Shares on the above basis on the later of the TSX Listing

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<sup>1</sup> In relation to the amount budgeted to secure off shore ore supply the amount does include amounts which the Company would have to pay under the option arrangement it entered in September 2006 in order to continue that option for a further period. Beyond that amount, it is not possible to predict with any certainty how negotiations might develop in relation to other ore sources and what up front payments may need to be made. Notwithstanding this, the Company has estimated the amount it believes it will require for up front or other payments to secure sources of imported ore.

<sup>2</sup> This amount is in addition to the Company's available cash, which at 30 April 2007 stood at A\$9.7 million (converted to US\$8.0 million at US\$0.82:A\$1)

<sup>3</sup> Payment of the subscription price will be tendered in US dollars on settlement based upon the 10.00am spot exchange rate for one British pound sterling, expressed in US dollars, as quoted by the Federal Reserve Bank of New York on 26 April 2007, being US\$1.9919:£1.

Qualification being achieved and the first anniversary of the Closing Date. No additional consideration will be payable on exercise of the special warrants.

The special warrants will be issued to the placees under the Placement subject to the passing of Resolution 1 set out in the Notice of Meeting.

It is intended that the proceeds from the capital raising will be used in accordance with the following table:

<b>APPLICATION OF FUNDS</b>	
<b>DESCRIPTION</b>	<b>AMOUNT<sup>4</sup> US\$ Millions</b>
Completion of the definitive feasibility study (including metallurgical testwork and engineering activities)	13.2
Exploration, drilling and associated activities to better define off shore ore resources and to secure access to off shore ore sources	12.5
Front-end engineering design work so as to identify and secure long lead items for the Project and to minimise delays once the Company's Board decides to proceed with the Project	7.7
Expenses associated with the capital raising and TSX Listing, including but not limited to Agents' fees, legal fees, due diligence activities and TSX Listing fees	4.0
Corporate costs, AIM listing fees, project owners' team and maintenance of the Marlborough tenements	5.4
General working capital	5.3
<b>Total Application of Funds</b>	<b>48.1</b>
<b>SOURCES OF FUNDS</b>	
Capital raising	40.0
Cash at bank as at 30 April 2007 (A\$9.7 million converted at US\$0.83:A\$1)	8.1
<b>TOTAL</b>	<b>48.1</b>

In order to list the Ordinary Shares on TSX the Company will need to achieve the spread of shareholders required for such listing. That spread is 300 shareholders, each holding a minimum of 100 Ordinary Shares. To achieve this spread the Company will need to offer additional Ordinary Shares for subscription pursuant to a prospectus. The Company's board intends to utilise the 15% limit allowed under Rule 7 of the Company's constitution to issue the further Ordinary Shares required for this purpose.

<sup>4</sup> All US dollars amounts have been converted from Australian dollars at an exchange rate of US\$0.80:A\$1, except where stated otherwise

#### **4. AGENTS RIGHT TO OPTIONS**

The Agents' terms of engagement to undertake the Placement include the right to a fee of 7% of the gross proceeds of the Placement plus options to subscribe for Ordinary Shares equal to 7% of the total number of special warrants subscribed under the Placement.

Each option will entitle the option holder to subscribe for one Ordinary Share at an exercise price of £1.80 per option on the condition that, if the TSX Listing Qualification is not achieved by the Listing Date, each option will entitle the holder to be issued 1.1 Ordinary Shares, with a further increase of 0.1 Ordinary Shares for each month after the Listing Date until the TSX Listing Qualification is achieved to a maximum of one additional Ordinary Share. The exercise price of each option will not change on the exercise rate of the options being increased in this manner. The options will be exercisable at any time until the second anniversary of the Closing Date but will automatically be exercised on the TSX Listing Qualification being achieved.

The detailed terms and conditions of issue of the options are set out in Annexure 1 to this Explanatory Memorandum.

#### **5. THE SHAREHOLDER APPROVAL REQUIRED**

Rule 7 of the Company's Constitution prohibits the Company, in any period of 12 months, issuing or agreeing to issuing a number of securities (being shares or other securities with rights of conversion to shares – which includes options and the special warrants discussed in section 3 above) which represents more than 15% of its shares on issue 12 months previously plus certain shares issued during that 12 month period.

The Company's Board has decided (in order to preserve the Board's ability to issue further shares without shareholder approval within the limits of Rule 7 of its constitution if and as the need arises) to seek shareholder approval for the issue of the maximum number of Ordinary Shares and the maximum number of options which the Company may become obliged to issue under the Placement (including in respect of the Agents' fee and as may arise because the Company is unable to achieve TSX Listing by the Listing Date). The Company anticipates that the TSX Listing will be achieved by the Listing Date but shareholders need to appreciate that, in spite of the best efforts of the Company, it remains a possibility that TSX Listing will not in fact be achieved by the Listing Date.

##### ***Resolution 1***

Resolution 1 set out in the Notice of Meeting seeks shareholder approval for the issue by the Company of 11,157,000 special warrants to the participants in the Placement, conditional on the passing of Resolution 1. That Resolution allows for the fact that the special warrants may entitle the holders of them to 1.1 Ordinary Shares per special warrant, with a further increase of 0.1 Ordinary Shares for each month after the Listing Date until the TSX Listing Qualification is achieved to a maximum of one additional Ordinary Share, (instead of 1 Ordinary Share per special warrant) if TSX Listing Qualification is not achieved by the Listing Date.

##### ***Resolution 2***

Resolution 2 set out in the Notice of Meeting seeks shareholder approval for the issue by the Company of 780,990 options to which the Agents are entitled pursuant to the terms of their engagement to undertake the Placement. That Resolution allows for the fact that each option may entitle the Agents, upon exercise, to 1.1 Ordinary Shares, with a further increase of 0.1 Ordinary Shares for each month after the Listing Date until the TSX Listing Qualification is achieved to a maximum of one additional Ordinary Share, (instead of 1 Ordinary Share per option exercised) if TSX Listing Qualification is not achieved by the Listing Date.

## **6. TRANSOCEAN SECURITIES PTY LTD**

One of the Agents is Transocean Securities Pty Ltd. Mr James Henderson, a director of the Company, is also a director of Transocean Securities Pty Ltd and directly or indirectly is interested in 100% of its issued voting shares. Mr Henderson therefore has a personal pecuniary interest in Resolution 2. The directors of the Company, other than Mr Henderson, have formed the view that the terms of the engagement of the Agents (including the terms which relate to the Agents entitlement to options to subscribe for shares in the Company) are terms which are standard in the Canadian market and on which the Company would have entered into that engagement if the Agents were all parties entirely at arms length from the Company.

It is noted that the options to be issued to the Agents will be divided between them in equal proportions.

## **7. EFFECT OF ISSUES OF SECURITIES ON CAPITAL STRUCTURE AND CONTROL**

On a fully diluted basis, assuming all special warrants are converted to shares and all the options the subject of Resolution 2 and all other options currently on issue are exercised, the issues of securities the subject matter of the Resolutions set out in the Notice of Meeting will represent:

- (a) if the Company achieves the TSX Listing Qualification by the Listing Date, 26.85% of the Company's expanded issued capital; or
- (b) if, in the worst case scenario, the Company does not achieve TSX Listing Qualification by the Listing Date, 42.33% of the Company's expanded issued capital.

## **8. RECOMMENDATION**

The directors of the Company, other than Mr Henderson, who considers that it is not appropriate for him to make a recommendation by reason of his interests in Transocean Securities Pty Ltd, unanimously recommend that shareholders vote in favour of both Resolutions set out in the Notice of Meeting. They consider that the funding arising from the Placement is essential for the ongoing operations of the Company and that the price committed to be subscribed for the special warrants to which Resolution 1 relates is an attractive price having regard to recent trading in Ordinary Shares on AIM.

- In the period from 1 December 2006 to 19 March 2007, being the date immediately prior to the Company's announcement to AIM of the proposed capital raising of US\$40 million, Ordinary Shares traded on AIM in the range of £1.49 to £1.94 with a weighted average of £1.77. The exercise price of £1.80 for the special warrants and options represent a 1.7% premium to the weighted average price for the above period.
- In the period from 20 March 2007, being the date on which the Company announced the proposed capital raising to AIM, to 30 April 2007 Ordinary Shares traded on AIM in the range of £1.72 to £2.25 with a weighted average of £2.07. The exercise price of £1.80 for the special warrants and options represent a 13.0% discount to the weighted average price for the above period. The directors took into consideration this period after announcement of the proposed capital raising and believe that the discount is reasonable in terms of a capital raisings of this sort.

The directors also believe that a listing of Ordinary Shares on the TSX, a market with a demonstrated interest in nickel companies, has the potential to benefit shareholders in terms of providing a substantial capital market to facilitate the raising of additional funds for the execution of the Project.

While the directors of the Company intend to utilise their ability to issue securities within the constraints of Rule 7 of the Company's constitution, without shareholder approval, in order to issue the securities contemplated by Resolution 2, if shareholders do not pass that resolution, they consider that:

- the need to do so may prejudice the flexibility they may need to issue securities for purposes connected with the ongoing development of the Company's business, in circumstances where time is not available to seek shareholder approval for such an issue if, in the circumstances Rule 7 of the Company's constitution would require that approval to be obtained because shareholders do not pass Resolution 2; and
- as a result the interests of the Company as a whole may be prejudiced, particularly as in relation to securing off shore ore supplies.

Each of the directors, other than Mr Henderson, who have the ability to control the exercise of the voting rights attached to Ordinary Shares intends to procure that the votes attached to those Ordinary Shares are exercised in favour of Resolutions 1 and 2.

## 9. GLOSSARY

In this Explanatory Memorandum the following expressions have the following meanings respectively:

Expression	Meaning
AIM	Market of that name operated by London Stock Exchange Plc
AIM Admission Document	The document entitled "Gladstone Pacific Nickel Limited Placing and Admission to AIM" issued by the Company in connection with its admission to trading on AIM on 17 March 2005
Board	The board of directors of the Company
Closing Date	30 May 2007 (or such other date as the Agents may determine), being the closing date of the Placement
Gladstone Pacific Nickel Limited or the Company	Gladstone Pacific Nickel Limited ACN 104 261 887
Listing Date	The date which is 180 days after the Closing Date
Placement	The private placement by the Company's agents, Research Capital Corporation and Transocean Securities Pty Ltd, of 11,157,000 special warrants as described in this Explanatory Memorandum
Prospectus Qualification Date	The date of issuance of a receipt for a prospectus qualifying the distribution in Canada of the Ordinary Shares issuable upon

	exercise of the special warrants under the Placement and the Ordinary Shares issuable on exercise of the Agents' options or, if applicable, the date as of which the Company has done all things required to be done by it to provide "free tradeability" in Canada for all outstanding Ordinary Shares and the Ordinary Shares issuable upon exercise of the special warrants and Agents' Options
Shareholder	A holder of Ordinary Shares in the Company
TSX	Toronto Stock Exchange
TSX Listing	Admission of the Company to the official list of the TSX or, in the alternative, the TSX Venture Exchange, and the admission to trading of all Ordinary Shares in issue on the TSX or the TSX Venture Exchange (as the case may be)
TSX Listing Qualification	Each of the Prospectus Qualification Date and the TSX Listing has occurred

## ANNEXURE 1

### TERMS AND CONDITIONS OF OPTIONS

In these Terms and Conditions, words and expressions defined in the Explanatory Memorandum accompanying the Notice of Meeting dated 1 May 2007, to which this document is Annexure 1, and used in these Terms and Conditions have the meanings given in the Explanatory Memorandum unless the context requires otherwise.

- (a) The options will expire 2 years from the Closing Date. (“Expiry Date”).
- (b) The options will be issued to Research Capital Corporation and Transocean Securities Pty Ltd (“Optionholders”) in the proportions 50% and 50% respectively.
- (c) Each option is a right in favour of the Optionholder to subscribe for 1 Ordinary Share, or, if the TSX Listing Qualification is not achieved by the Listing Date, 1.1 Ordinary Shares, with a further increase of 0.1 Ordinary Shares for each month after the Listing Date until the TSX Listing Qualification is achieved to a maximum of one additional Ordinary Share, without any adjustment to the per option exercise price.
- (d) Subject to paragraph (e), Optionholders may exercise the options any time prior to the Expiry Date.
- (e) All the unexercised options will be deemed to have been automatically exercised on the TSX Listing Qualification being achieved, and the Company will notify the Optionholder on it achieving the TSX Listing Qualification. The Optionholder must deliver the holding statement and cheque required to be delivered under paragraph (i) to the Company as soon as practicable following receipt of notice from the Company that the TSX Listing Qualification has been achieved.
- (f) Ordinary Shares allotted to Optionholders on exercise of the options will be issued at £1.80 each (“Exercise Price”).
- (g) The Exercise Price will be payable in full on exercise of the options.
- (h) The options will be exercisable by the delivery to the registered office of the Company or the Share Registry of a notice in writing stating the intention of the Optionholder to:
  - (i) exercise all or a specified number of options; and
  - (ii) pay the Exercise Price in full for the exercise of each option (“Notice”).

Where paragraph (e) applies, the Notice will be deemed to have been given by the Optionholder in accordance with this paragraph.

- (i) The Notice must be accompanied by a holding statement and a cheque made payable to the Company for the Exercise Price for the Ordinary Shares. An exercise of only some options will not affect the rights of the Optionholder to the balance of the options held by the Optionholder. The Notice and cheque must be received by the Company prior to the Expiry Date.
- (j) The Company will allot the resultant Ordinary Shares and deliver the holding statement within 15 Business Days of the receipt of the Notice or, where paragraph (e) applies, receipt of the holding statement and cheque required to be delivered by the Optionholder to the Company under paragraph (i).

- (k) The options will be freely transferable.
- (l) Ordinary Shares allotted pursuant to an exercise of the options will rank, from the date of allotment, equally with existing ordinary fully paid shares of the Company in all respects.
- (m) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the authorised or issued securities of the Company, all rights of the Optionholders will be reconstructed (as appropriate) in accordance with the applicable rules of the TSX.
- (n) The options will not give any right to participate in dividends, bonus issues or new issues until Ordinary Shares are allotted pursuant to the exercise of the relevant options. There is no right to change the exercise price of the options if the Company completes a bonus or new issue.