

18 May 2007

Dear Shareholder

General Meeting to approve US\$40 million Placement and related matters

This is an important letter in connection with the General Meeting of Gladstone Pacific Nickel Limited (“Company”) to be held on 29 May 2007 (“General Meeting”) and should be read by you before the General Meeting.

I refer to the Notice of General Meeting and Explanatory Memorandum sent to you under cover of a letter from me dated 3 May 2007 (“Notice of Meeting” and “Explanatory Memorandum” respectively).

Unless the contrary is stated, an expression given a meaning in the Explanatory Memorandum has that meaning when used in this letter. Expressions with upper case initial letter(s) in this letter are given a meaning in the Explanatory Memorandum or in this letter.

Correction of Errors – Agents’ options

The Explanatory Memorandum contains an error in relation to the proposed issue of options to the Agents (ie Transocean Securities Pty Ltd and Research Capital Corporation) as part of their fee for undertaking the proposed private placement of 11,157,000 Special Warrants as described in the Explanatory Memorandum.

Section 4 of the Explanatory Memorandum incorrectly states that the options proposed to be issued to the Agents will automatically be exercised on the TSX Listing Qualification being achieved. The options may be exercised at any time during the period from the date of issue until the second anniversary of the Closing Date, and will not automatically be exercised at any time during that period. Exercise of the options, at any time, will be entirely a matter for the option holder’s election.

This error was also incorporated in paragraph (e) of the terms and conditions of issue of those options set out in Annexure 1 to the Explanatory Memorandum.

It has also come to our attention that the terms and conditions of options set out in Annexure 1 of the Explanatory Memorandum:

- (a) do not make it clear that the Exercise Price is a price payable per option exercised;
- (b) do not admit of the possibility that, as discussed below, a TSX Listing may be achieved without the Company filing a prospectus in Canada; and
- (c) are not consistent with Canadian legal practice in respect of the time allowed for the Company to issue Ordinary Shares following the exercise of options and as to adjustments to be made for transactions affecting the Company’s share capital in the period before the options are exercised.

All of these matters have been taken into account in the revised terms and conditions of options which are set out in Annexure 1 to this letter. For the purposes of Resolution 2 set out in the Notice of Meeting Annexure 1

to this letter is substituted for Annexure 1 to the Explanatory Memorandum. At the General Meeting Resolution 2 will be amended by deleting reference to Annexure 1 to the Explanatory Memorandum and substituting reference to Annexure 1 to this letter.

We apologise for any inconvenience the error in the Explanatory Memorandum and the changes to the terms and conditions of options may have caused.

The options to be issued to the Agents may not be issued immediately following the General Meeting. Instead the Company may issue to the Agents special warrants in respect of those options. Such special warrants would entitle the Agents to the grant of the options at any time at their election, with the special warrants automatically converting to the underlying options on the earlier of TSX Listing Qualification being achieved and the first anniversary of the Closing Date. No consideration would be payable for these special warrants or on their conversion into the options (but the Agents would have to pay the exercise price of £1.80 per option exercised in order to exercise the options). The special warrants in respect of the options would be issued to the Agents if that proves necessary, under Canadian law, in order to ensure free tradability, within 180 days of the Closing Date, of the Ordinary Shares issued upon exercise of the options.

If shareholders approve the issue of the options to the Agents by passing Resolution 2 set out in the Notice of Meeting, the Board can issue special warrants in respect of those options without further shareholder approval.

Other Matters

We take this opportunity to augment the Explanatory Memorandum with additional information relating to the proposed TSX Listing of the Company and to clarify some of the information contained in that Explanatory Memorandum in so far as that listing is concerned.

Public offering may not be required

The Explanatory Memorandum contemplates that a public offering will be required in connection with the Company's proposed TSX Listing. Further investigations have revealed that the Company may be able to achieve the shareholder spread required for TSX Listing without the necessity to raise further funds through a related initial public offering. The Company intends to continue these investigations and, if possible and practicable, to proceed to a TSX Listing without a related initial public offering.

TSX Listing without a prospectus

The Company and the Agents have been, and continue, in discussions with a view to determining whether the Company can proceed with, and achieve, a TSX Listing and free tradability of all Ordinary Shares within 180 days of the Closing Date without filing a prospectus under Canadian law. If it proves that this is possible then, for the purposes of the Explanatory Memorandum and Resolution 2 set out in the Notice of Meeting, the expression "TSX Listing Qualification" would become a reference only to the TSX Listing Date having occurred as there would then be no Prospectus Qualification Date.

Under Canadian law, the currently outstanding Ordinary Shares would be expected to be freely tradable over the TSX or TSXV (as applicable) immediately on the TSX Listing occurring (without the Company needing to file a prospectus in Canada). However, if a prospectus is not filed in Canada (or discretionary relief is not granted by Canadian securities regulatory authorities), certain (and perhaps all) of the Ordinary Shares to be issued in the Placement (i.e. on conversion of the Special Warrants purchased by places under the Placement) would be subject to a "hold period" of four months from the TSX Listing Date.

To satisfy the Company's obligation to the places under the Placement, to achieve free trading on TSX or TSXV (as applicable) in the Ordinary Shares to be issued on conversion of their Special Warrants within 180 days of the Closing Date, without the filing of a prospectus in Canada, the Company would need to achieve a listing on the TSX within two months of the Closing Date (such that the four month "hold period" described in the preceding paragraph will expire within 180 days of the Closing Date). Should it prove that a TSX Listing by this date is not possible or practicable the Company would proceed with the prospectus route (or seek discretionary relief as described above, if available).

Conversion of special warrants.

Placees under the Placement have the right to convert their Special Warrants into Ordinary Shares at any time after those Special Warrants are issued. If any of the Special Warrants are so converted before TSX Listing is achieved the Company would seek the admission to trading, on AIM, of the Ordinary Shares into which they are converted. Placees under the Placement who so convert their Special Warrants would have Ordinary Shares that are tradable on AIM until TSX Listing is achieved (and, of course, thereafter as the Company intends to maintain its AIM listing in addition to TSX Listing. In this regard it is noted that once TSX Listing and free tradability is achieved all Ordinary Shares on issue from time to time will be able to be traded on AIM and TSX (or, if applicable, TSXV). Any Placee who decides to convert Special Warrants before TSX Listing is achieved would lose the right conferred by the terms of the Placement to receive up to one additional Ordinary Share for each of those Special Warrants (two Ordinary Shares in all), if TSX Listing and free tradability is delayed beyond the expiry of 180 days from the Closing Date. This right in respect of additional Ordinary Shares is discussed in Section 3 of the Explanatory Memorandum.

Recommendation

The directors of the Company, other than Mr J Henderson who did not make a recommendation in the Explanatory Memorandum because he considered that it was not appropriate for him to make a recommendation by reason of his interests in Transocean Securities Pty Ltd, confirm their unanimous recommendation that shareholders vote in favour of the two Resolutions set out in the Notice of Meeting.

By order of the Board.

R.A. Pearce
Chairman

**Attachment
Annexure 1**

Terms and Conditions of Options

Definitions:

In these Terms and Conditions:

- (a) words and expressions defined in the Explanatory Memorandum accompanying the Notice of Meeting dated 3 May 2007 and used in these Terms and Conditions have the meanings given in the Explanatory Memorandum unless the context requires otherwise; and
- (b) The following terms have the following meanings:

Market Price on any date means the volume weighted average selling price of Ordinary Shares for the 20 consecutive trading days, ending five trading days prior to that date:

- (i) on the TSX; or
- (ii) if the Ordinary Shares are not listed on the TSX as at that date, on AIM or such other stock exchange on which the Ordinary Shares are then listed as may be selected by the directors:
or,
- (iii) if the Ordinary Shares are not then listed on any stock exchange, then on such over-the-counter market as may be selected for such purpose by the directors; or

if the Ordinary Shares are not then listed on any stock exchange or quoted on a quotation system, the price per Ordinary Share determined by the directors.

record date means close of business (in the principal location of the market used to determine Current Market Price or otherwise close of business in the city where the Company's head office is located) on the relevant date.

Terms and Conditions:

- (a) The options issued to the Agents ("**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 and free tradability of all Ordinary Shares is not achieved within six months of the Closing Date, 1.1 Ordinary Shares, with a further increase of 0.1 Ordinary Shares for each month thereafter until the TSX Listing and free tradability of all Ordinary Shares is achieved, without any adjustment to the per Option exercise price.
- (d) Optionholders may exercise the Options any time on or prior to the Expiry Date.
- (e) The amount payable by an Optionholder upon the exercise of Options is £1.80 per Option exercised ("**Exercise Price**").
- (f) The Exercise Price will be payable in full on exercise of the Options.
- (g) 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 each Option exercised (“Notice”).
- (h) The Notice must be accompanied by a holding statement and a cheque made payable to the Company for the Exercise Price for each Option exercised. 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, holding statement and cheque must be received by the Company prior to the Expiry Date.
- (i) The Company will allot the resultant Ordinary Shares and deliver the holding statement within 10 days of the receipt of the Notice.
- (j) The Options will be freely transferable.
- (k) 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.
- (l) 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.
- (m) If at any time prior to the Expiry Date the Company fixes a record date for the issue of rights, options or warrants to all or substantially all of the Shareholders under which such Shareholders are entitled, during a period expiring not more than 45 days after the record date for such issue (the “**Rights Period**”), to subscribe for or acquire Ordinary Shares at a price per Ordinary Share of less than 95% of the Market Price as at that record date (“**Rights Offering**”), then the number of Ordinary Shares to be issued upon the exercise of each Option shall be adjusted to a number calculated as follows:

$$NS = OS \times \left(\frac{A}{B + ((C \times D)/E)} \right)$$

Where:

- NS = the number of Ordinary Shares to be issued on the exercise of each Option after adjustment in accordance with this paragraph;
- OS = the number of Ordinary Shares to be issued on the exercise of each Option as at the record date for that Rights Offering before adjustment in accordance with this paragraph
- A = the number of Ordinary Shares on issue on the record date for the Rights Offering plus the number of Ordinary Shares actually issued upon the exercise of the rights, options or warrants issued under the Rights Offering;);
- B = the number of Ordinary Shares on issue as at the record date for the Rights Offering;
- C = the number of Ordinary Shares actually issued upon the exercise of the rights, options or warrants issued under the Rights Offering;
- D = the price at which such Ordinary Shares are issued under the Rights Offering; and
- E = the Market Price of the issued Ordinary Shares as at the record date for the Rights Offering.
- (n) If at any time prior to the Expiry Date the Company issues or distributes to all or to substantially all the Shareholders:

- (i) shares in the capital of the Company of any class or rights, options or warrants (other than rights, options or warrants exercisable within 45 days from the date of issue) (“**Securities**”) at an issue price or conversion price (as the case may be) of less than 95% of the Market Price as at the record date for such issue or distribution;
- (ii) evidences of indebtedness of the Company; or
- (iii) any property or other assets (excluding cash dividends),

and such issue or distribution does not constitute a reconstruction of the kind described in paragraph (l) or a Rights Offering (“**Special Distribution**”), then the number of Ordinary Shares to be issued on exercise of each Option shall be adjusted with effect immediately after the record date for the Special Distribution to a number calculated as follows:

$$NS = OS \times \left(\frac{A}{B - (C - D)} \right)$$

Where:

- NS = the number of Ordinary Shares to be issued on the exercise of each Option after adjustment in accordance with this paragraph;
- OS = the number of Ordinary Shares to be issued on the exercise of each Option as at that record date before adjustment in accordance with this paragraph;
- A = OS multiplied by the Market Price as at that record date;
- B = an amount equal to A;
- C = the fair market value on that record date, as determined by the directors (whose determination shall, absent manifest error, be conclusive), of the Securities, evidences of indebtedness, property or other assets issued or distributed in the Special Distribution; and
- D = the fair market value of the consideration received by the Company from the Shareholders for the Securities, evidences of indebtedness, property or other assets issued or distributed in the Special Distribution, as determined by the directors (whose determination shall, absent manifest error, be conclusive).

- (o) If an adjustment to the number of Ordinary Shares to be issued upon the exercise of each Option is made under paragraph (m) or (n) that number shall be further adjusted, if necessary, by the application of these Terms and Conditions for any event arising after the record date for the Rights Offering or Special Distribution which requires an adjustment to that number.
- (p) The Options will not give any right to participate in dividends or new issues until Ordinary Shares are allotted pursuant to the exercise of the relevant options. Further, no adjustments will be made pursuant to paragraphs (m) and (n) above if the Optionholder has been afforded the right to participate in the Rights Offering or Special Distribution as if the Optionholder held, as at the relevant record date, the Ordinary Shares to be issued on exercise of the Options.
- (q) If at the time an Option is exercised it is not possible to calculate the number of Ordinary Shares which are to be issued because a particular adjustment cannot then be calculated:
 - (i) that number of Ordinary Shares which can be so calculated shall be issued and allotted, and the relevant holding statement delivered in accordance with paragraph (i); and

- (ii) the additional Ordinary Shares arising from the adjustment (and any subsequent adjustment) shall be issued and allotted and the relevant holding statement delivered within 10 days of the first day on which it is possible for the calculation to be made.