PIONEER NICKEL LIMITED

ABN 44 103 423 981

Interim Financial Report
for the
Half-Year ended 31 December 2005

PIONEER NICKEL LIMITED
ABN 44 103 423 981

CORPORATE DIRECTORY

DIRECTORS	Reginald N Gillard *Non-Executive Chairman* David J Crook *Managing Director* Ian J Buchhorn *Non-Executive Director* Allan Trench *Non-Executive Director* Peter Langworthy *Non-Executive Director*
COMPANY SECRETARY	Julie A Wolseley
PRINCIPAL REGISTERED OFFICE	45 Brookman Street Kalgoorlie Western Australia, 6430 Telephone: (08) 9091 6974 Facsimile: (08) 9022 2294 Email: pioneer@pioneernickel.com.au Internet: www.pioneernickel.com.au
AUDITOR	Butler Settineri (Audit) Pty Ltd 35 – 37 Havelock Street West Perth Western Australia, 6005
SHARE REGISTRY	Security Transfer Registrars Pty Limited 770 Canning Highway Applecross Western Australia, 6153 Telephone: (08) 9315 0933 Facsimile: (08) 9315 2233 Email: registrar@securitytransfer.com.au
STOCK EXCHANGE LISTING	The Company's shares are quoted on the Australian Stock Exchange. The Home Exchange is Perth.
ASX CODE	PIO - ordinary shares

PIONEER NICKEL LIMITED
ABN 44 103 423 981

C O N T E N T S

PIONEER NICKEL LIMITED
and its controlled entity

DIRECTORS' REPORT

Your Directors present their report on the consolidated financial statements for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The following persons held office as Directors of Pioneer Nickel Limited during the half-year and until the date of this report:

Reginald N Gillard *– BA, FCPA, FAICD, JP*
Non-Executive Chairman

Mr Gillard was appointed a Director on 17 March 2005. Mr Gillard is an accountant with more than 30 years of experience initially in public practice and now in an advisory capacity focusing on corporate management and the identification and evaluation of resource project opportunities in Australia and overseas. Mr Gillard has had extensive experience in the successful acquisition and international funding of a number of resource projects particularly in developing countries for Australian and international companies.

David J Crook *– B.Sc, MAIMM, MAICD*
Managing Director

Mr Crook is a geologist with over 25 years experience in exploration, mining and management, predominantly within Western Australia. Mr Crook has investigated nickel sulphide, nickel laterite, gold and other commodity resources and has an excellent discovery record. He has held senior exploration and mining operations roles, including contract negotiation and management, and corporate evaluations.

Ian J Buchhorn *– B.Sc (Hons), Dipl. Geosci (Min. Econ), MAIMM*
Non-Executive Director

Mr Buchhorn is a mineral economist and geologist. Mr Buchhorn has worked on nickel, bauxite and industrial mineral mining and exploration, gold and base metal project generation, gold mine operations and corporate evaluations. He has 30 years experience as an economic geologist, has commissioned several open cut gold mines, and has operated as a Registered Mine Manager. Mr Buchhorn is the Managing Director of Heron Resources Limited.

Allan Trench – *B.Sc (Hons), Ph. D, M.Sc (Min. Econ), MBA (Oxon)*
Non-Executive Director

Dr Trench is a mineral economist, geophysicist and business management consultant with minerals experience including nickel, gold, vanadium and mineral sands. Dr Trench led nickel sulphide exploration teams for WMC Resources in the Widgiemooltha-Pioneer and Leinster-Mt Keith regions of WA in the mid 1990's. He has subsequently worked with McKinsey and Company, KCGM Pty Ltd and now with a major petroleum company. Dr Trench is a non-executive director of Heron Resources Ltd and Navigator Resources Ltd.

Peter Langworthy – *B.Sc (Hons), MAIMM*
Non-Executive Director

Mr Langworthy is presently the General Manager – Exploration for Jubilee Mines NL where he has been responsible for exploration and mine development activities. Mr Langworthy has had extensive experience in nickel sulphide exploration extending to regional exploration and operating mines. This experience was gained from 11 years with WMC Resources Ltd, which included being Geology Manager for the Leinster Nickel operation and prior to this was Exploration Manager for all nickel exploration in the Mount Keith Leinster belt for WMC.

The Directors named above each held office as at 31 December 2005.

COMPANY SECRETARY

Julie Wolseley – *B.Com, CA, MAICD*

Ms Wolseley was appointed Company Secretary on 11 August 2003. Ms Wolseley is the principal of a corporate advisory company with over 13 years experience acting as company secretary to a number of ASX listed public companies operating primarily in the resources sector. Previously Ms Wolseley was an audit manager both in Australia and overseas for an international accounting firm. Ms Wolseley also holds directorships on the boards of OM Holdings Limited and Territory Iron Limited.

REVIEW OF OPERATIONS

The consolidated entity recorded an operating loss after income tax for the half-year ended 31 December 2005 of $410,686, compared to the 31 December 2004 operating loss of $349,084.

During the half-year ended 31 December 2005 the consolidated entity incurred a total of $565,935 on exploration expenditure. The significant exploration and evaluation expenditure was incurred on the consolidated entity's Pioneer Dome, Wattle Dam and Ravensthorpe JV Projects in Western Australia.

During the half-year the consolidated entity continued its commitment to exploration with considerable exploration focused upon targeting predominantly nickel sulphide mineralisation, specifically at the Pioneer and Wattle Dam Projects. Exploration activities also extended to include exploration drilling, geophysical and geochemical surveys. The Company's joint venture partner at the Acra Joint Venture Project, Jubilee Mines NL also had successful exploration results from RC drilling programmes and geophysical surveys conducted during the half-year.

Subsequent to the end of the half-year the Company entered into a joint venture with Australian Mines Limited ("AUZ"), to farm in to the Golden Ridge Nickel Sulphide Project.

The Golden Ridge Joint Venture ("GRJV") covers more than 100 square kilometres of highly prospective tenements, located 30 kilometres north of Kambalda in WA. The tenements cover more than 20 kilometres of the Golden Ridge Ultramafic, interpreted to host the Blair and Carnilya Hill nickel sulphide mines, however the GRJV specifically excludes the Blair Mine.

Under the GRJV, the Company may earn an initial 51% interest in nickel and other non-gold metals by expending $2,250,000 exploring the JV ground within three years. There are then provisions for the Company to increase its interest up to 80% should AUZ elect to not contribute to exploration expenditure and the Company meeting further expenditure and development milestones.

During the half-year the Company issued a total of 7,171,875 ordinary shares at an issue price of 16 cents each raising $1,147,500. The proceeds raised were applied towards exploration programmes at the Wattle Dam and Pioneer projects as well as further pursuing the Company's other regional projects. In addition a further 36,875 shares were issued at a deemed issue price of 16 cents each to satisfy brokerage obligations in relation to the share placement.

The cash position remained strong at the end of the half-year at $2,032,606 with a further $230,000 due to be paid by Jubilee in accordance with the Acra Joint Venture Agreement.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This report is made and signed in accordance with a resolution of Directors.

Dated at Perth this 10 March 2006.

DJ Crook
Managing Director

Chartered
Accountants

BUTLER SETTINERI

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the review of Pioneer Nickel Limited for the half year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) No contraventions of any applicable code of professional conduct in relation to the review.

Butler Settineri (Audit) Pty Ltd

BUTLER SETTINERI (AUDIT) PTY LTD
Registered Company Auditor Number 289109

P Chabrel

PAUL J CHABREL
Director

Perth
Date: 10 March 2006

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Directors:
Colin Butler
FCA
Paul Chabrel
CA
Lucy Gardner
CA

Butler Settineri (Audit) Pty Ltd
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INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF PIONEER NICKEL LIMITED

Chartered Accountants

BUTLER SETTINERI

Scope

We have reviewed the financial report of Pioneer Nickel Limited ("the disclosing entity") for the half-year ended 31 December 2005 as set out on pages 6 to 20. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have provided the directors of the company with a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Review Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the disclosing entity is not in accordance with:

a) the Corporations Act 2001 including:

   i) giving a true and fair view of the disclosing entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Butler Settineri (Audit) Pty Ltd

BUTLER SETTINERI (AUDIT) PTY LTD
Registered Company Auditor Number 289109

PJ Chabrel

PAUL J CHABREL
Director

Perth
Date:10 March 2006

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PIONEER NICKEL LIMITED
and its controlled entity

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Pioneer Nickel Limited, I state that:

In the opinion of the Directors:

1. The financial statements and notes of the consolidated entity, as set out on pages 7 to 20:

    (a) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

    (b) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity.

2. In the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Dated at Perth this 10 March 2006.

DJ Crook
Managing Director

PIONEER NICKEL LIMITED
and its controlled entity

CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December 2005

	Note	31 December 2005 $	31 December 2004 $
Other income		**91,272**	69,125
Total revenue		**91,272**	69,125
Employee expenses		**(260,055)**	(258,181)
Depreciation		**(20,061)**	(21,883)
Exploration expenditure written off		**(13,084)**	(2,662)
Rental expense on operating leases		**(17,979)**	(15,234)
Non-Executive Directors' fees		**(62,500)**	(52,276)
Employee costs recharged to capitalised exploration		**164,423**	163,976
Expense of share-based payments		**(54,635)**	(33,736)
Exploration costs reimbursed		**(35,000)**	-
Other expenses		**(203,067)**	(198,213)
Loss before income tax		**(410,686)**	(349,084)
Income tax		**-**	-
Net loss attributable to members of the Company		**(410,686)**	(349,084)
Basic earnings/(loss) per share (cents per share)	3	**(0.77)**	(0.78)
Diluted earnings/(loss) per share (cents per share)	3	**(0.77)**	(0.78)

The accompanying notes form an integral part of these financial statements.

PIONEER NICKEL LIMITED
and its controlled entity

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Note	31 Dec 2005 $	30 June 2005 $	31 Dec 2004 $
CURRENT ASSETS				
Cash assets		**2,032,606**	1,629,510	2,814,845
Receivables		**279,743**	318,742	321,502
Other financial assets		**15,966**	29,879	11,071
TOTAL CURRENT ASSETS		**2,328,315**	1,978,131	3,147,418
NON-CURRENT ASSETS				
Investments		**70,000**	70,000	100,000
Property, plant and equipment		**144,548**	152,012	167,400
Capitalised mineral exploration and evaluation expenditure		**3,615,082**	3,097,232	2,307,815
TOTAL NON-CURRENT ASSETS		**3,829,630**	3,319,244	2,575,215
TOTAL ASSETS		**6,157,945**	5,297,375	5,722,633
CURRENT LIABILITIES				
Payables		**204,824**	121,740	156,045
Provisions		**16,929**	10,893	13,960
TOTAL CURRENT LIABILITIES		**221,753**	132,633	170,005
TOTAL LIABILITIES		**221,753**	132,633	170,005
NET ASSETS		**5,936,192**	5,164,742	5,552,628
EQUITY				
Contributed equity	2	**7,326,021**	6,198,521	6,187,021
Reserves	1(c)	**164,858**	110,223	76,769
Accumulated losses	1(c)	**(1,554,687)**	(1,144,002)	(711,162)
TOTAL EQUITY		**5,936,192**	5,164,742	5,552,628

The accompanying notes form an integral part of these financial statements.

PIONEER NICKEL LIMITED
and its controlled entity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2005

	Note	31 December 2005 $	31 December 2004 $
Total equity at the beginning of the half-year		**5,164,742**	5,256,332
Adjustments to equity:			
Option Reserve – share based payments		**54,636**	33,736
Loss for the half-year		**(410,686)**	(349,084)
Total recognised income and expense for the half-year		**(356,050)**	(315,348)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs		**1,127,500**	611,644
		1,127,500	611,644
Total equity at the end of the half-year		**5,936,192**	5,552,628

The accompanying notes form an integral part of these financial statements.

PIONEER NICKEL LIMITED
and its controlled entity

CONSOLIDATED CASH FLOW STATEMENT

For the half-year ended 31 December 2005

	31 Dec 2005 $ Inflows/(Outflows)	31 Dec 2004 $ Inflows/(Outflows)
Cash flows from operating activities		
Interest received	**67,411**	64,053
Payments to suppliers and employees (inclusive of goods and services taxes)	**(359,417)**	(287,954)
Net cash flows used in operating activities	**(292,006)**	(223,901)
Cash flows from investing activities		
Payments for exploration and evaluation	**(484,801)**	(920,954)
Payments for plant and equipment	**(12,597)**	(28,468)
Payments for tenement bonds	**-**	(30,000)
Refund of tenement bonds	**30,000**	-
Reimbursement of exploration expenditure	**35,000**	-
Payments for investments	**-**	(100,000)
Net cash flows used in investing activities	**(432,398)**	(1,079,422)
Cash flows from financing activities		
Proceeds from the issue of shares	**1,147,500**	611,643
Payments for the issue of shares	**(20,000)**	-
Net cash flows provided by financing activities	**1,127,500**	611,643
Net increase/(decrease) in cash held	**403,096**	(691,680)
Cash at the beginning of the half-year	**1,629,510**	3,506,525
Cash at the end of the half-year	**2,032,606**	2,814,845

The accompanying notes form an integral part of these financial statements.

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

These general purpose half-year financial statements for the half-year ended 31 December 2005 have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements (Urgent Issues Group Interpretations). It is recommended that these half-year financial statements and reports be read in conjunction with the Annual Report for the year ended 30 June 2005 and any public announcements made by Pioneer Nickel Limited and its controlled entity during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act, 2001.

As this is the first interim financial report prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual Financial Report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared in Note 1(c).

The half-year financial 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 financing and investing activities of the consolidated entity as the full financial report.

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

(a) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include AIFRS. Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

This is the first half-year financial report prepared based on AIFRS and comparatives for the year ended 31 December 2004 and the full year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the consolidated entity are disclosed in Note 1(b) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2904 and 30 June 2005; and
- AIFRS loss for the half-year ended 31 December 2004 and the full year ended 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full year financial report prepared under AGAAP are detailed in Note 1(c) below.

(b) Summary of Significant Accounting Policies

(i) Principles of Consolidation

Controlled Entities

The consolidated financial statements comprise the financial statements of Pioneer Nickel Ltd and its controlled entity. The controlled entity has the same reporting period as the parent company, using consistent accounting policies.

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions Eliminated on Consolidation

Inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(b) Summary of Significant Accounting Policies (Continued)

(ii) Income Tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

For the purposes of income taxation, Pioneer Nickel Limited and its 100% wholly owned controlled entity have not formed a tax consolidated group. There is no material effect on the future income taxation benefits as a result of the revised legislation.

(iii) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount..

Depreciation

The depreciable amount of all fixed assets are depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Depreciable non-current assets, are depreciated over their expected economic life using the diminishing value method. Profits and losses on disposal of non-current assets are taken into account in determining the operating loss for the year. The depreciation rate used for each class of assets is as follows:

- Plant and equipment 20 - 33%
- Motor vehicles 22.5%

(b) Summary of Significant Accounting Policies (Continued)

(iv) Exploration and Evaluation Expenditure

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and is subject to impairment testing. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest are continuing.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment 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.

Where a mineral resource has been identified and where it is expected that future expenditures will be recovered by future exploitation or sale, the impairment of the exploration and evaluation is written back and transferred to development costs. Once production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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.

Costs of site restoration and rehabilitation are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(v) Investments

All investments are initially recognised at cost, being the fair value of the consideration given.

Long term investments held are measured at amortised cost utilising the effective interest rate method. Amortised cost is calculated taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

(vi) Recoverable amount of Assets

At each reporting date the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(b) Summary of Significant Accounting Policies (Continued)

(vii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(viii) Joint Ventures

Interests in joint ventures have been brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements.

(ix) Employee Entitlements

Liabilities for wages and salaries, annual leave and other current employee entitlements expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services 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.

Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

(x) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(xi) Receivables and Revenue Recognition

Interest income on short term investments is recognised as it accrues.

Tenement bonds in the form of cash deposits are held as security with the Mines Department authorities.

All revenue is stated net of the amount of goods and services tax (GST).

(xii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

GST incurred is claimed from the ATO when a valid tax invoice is provided.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(b) Summary of Significant Accounting Policies (Continued)

(xiii) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(xiv) Contributed Equity

Issued capital is recognised as 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.

(xv) Earnings per Share

Basic earnings per share ("EPS") are calculated based upon the net loss divided by the weighted average number of shares. Diluted EPS are calculated as the net loss divided by the weighted average number of shares and dilutive potential shares.

(xvi) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight- line basis over the term of the lease.

(xvii) Share-based payment transactions

The consolidated entity provides benefits to employees (including Directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("Equity –settled transactions").

There is currently one plan in place to provide these benefits being an Employee Share Option Plan ("ESOP") which provides benefits to Directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Pioneer Nickel Ltd ("market conditions").

The cost of equity settled securities is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

(xviii) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

The year ended 30 June 2005 was the first year that consolidated financial statements were prepared due to the incorporation of Western Copper Pty Ltd on 21 June 2005. Western Copper Pty Ltd is 100% wholly owned by Pioneer Nickel Limited.

(c) Impact of Adoption of AIFRS

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") are illustrated below.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and
(ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest.

This opinion is formed 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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if the new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards before 1 January 2005 ("AGAAP") are illustrated below.

Reconciliation of total equity as presented under AGAAP to that under AIFRS at 30 June 2004

	AGAAP 2004	**Effect of Change**	**AIFRS 2004**
EQUITY	**$**	**$**	**$**
Issued Capital	5,575,377	-	5,575,377
Option Reserve	-	43,033	43,033
Accumulated Losses	(319,045)	(43,033)	(362,078)
	5,256,332	-	5,256,332

(c) Impact of Adoption of AIFRS

Reconciliation of total equity as presented under AGAAP to that under AIFRS at 31 December 2004

	AGAAP 2004	Effect of Change	AIFRS 2004
EQUITY	**$**	**$**	**$**
Issued Capital	6,187,021	-	6,187,021
Option Reserve	-	76,769	76,769
Accumulated Losses	(634,393)	(76,769)	(711,162)
	5,552,628	-	5,552,628

Reconciliation of total equity as presented under AGAAP to that under AIFRS at 30 June 2005

	AGAAP 2005	Effect of Change	AIFRS 2005
EQUITY	**$**	**$**	**$**
Issued Capital	6,198,521	-	6,198,521
Option Reserve	-	110,223	110,223
Accumulated Losses	(1,033,779)	(110,223)	(1,144,002)
	5,164,742	-	5,164,742

The requirement under AIFRS to expense share option plans means that options issued and which vest to Directors and employees during the periods ended 30 June 2004, 31 December 2004 and 30 June 2005 must be recognised as an expense. This constitutes a change to the AGAAP accounting policy, under which no expense is recognised for equity-based compensation.

Prior to 30 June 2005 a total of 2,550,000 options had been issued to Directors and employees. The options were exercisable at 25 cents each and expired on various dates with certain options vesting after 24 months of issue. The value of the these options issued has been assessed at $134,926, of which $43,033 was recognised at 30 June 2004, $33,736 was recognised at 31 December 2004 and $33,454 was recognised at 30 June 2005, being the portion representing that part of the vesting period that had elapsed as at each of the reporting periods.

Under AIFRS the cost of share-based payments for the year ended 30 June 2004 has been increased by $43,033, for the half-year ended 31 December 2004 has been increased by $33,736 and for the year ended 30 June 2005 has been increased by $33,454, with a corresponding increase in option reserve for each reporting period.

Reconciliation of loss after tax under AGAAP to that under AIFRS for the year ended 30 June 2004

	AGAAP 2004	Effect of Change	AIFRS 2004
	$	**$**	**$**
Expense of share-based payments	-	(43,033)	(43,033)
Loss before income tax	(311,337)	-	(311,337)
Loss before income tax	(311,337)	(43,033)	(354,370)
Income tax	-	-	-
Net loss after income tax	(311,337)	(43,033)	(354,370)
Basic loss per share – cents	(1.1)		(1.3)
Diluted loss per share - cents	(1.1)		(1.3)

(c) Impact of Adoption of AIFRS

Reconciliation of loss after tax under AGAAP to that under AIFRS for the half-year ended 31 December 2004

	AGAAP 2004 $	Effect of Change $	AIFRS 2004 $
Expense of share-based payments	-	(33,736)	(33,736)
Loss before income tax	(315,348)	-	(315,348)
Loss before income tax	(315,348)	(33,736)	(349,084)
Income tax	-	-	-
Net loss after income tax	(315,348)	(33,736)	(349,084)
Basic loss per share – cents	(0.7)		(0.78)
Diluted loss per share - cents	(0.7)		(0.78)

Reconciliation of loss after tax under AGAAP to that under AIFRS for the year ended 30 June 2005

	AGAAP 2005 $	Effect of Change $	AIFRS 2005 $
Expense of share-based payments	-	(33,454)	(33,454)
Loss before income tax	(714,734)	-	(714,734)
Loss before income tax	(714,734)	(33,454)	(748,188)
Income tax	-	-	-
Net loss after income tax	(714,734)	(33,454)	(748,188)
Basic loss per share – cents	(1.5)		(1.6)
Diluted loss per share - cents	(1.5)		(1.6)

Explanation of material adjustments to the cash flows

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

	31 Dec 2005 $	30 June 2005 $	31 Dec 2004 $
2. CONTRIBUTED EQUITY			
(a) Issued Capital			
55,336,383 ordinary shares; (30 June 2005: 48,127,633 ordinary shares); (31 December 2004: 48,077,633)	**7,326,021**	6,198,521	6,187,021

During the half year a total of 7,171,875 ordinary shares were issued at an issue price of 16 cents per share. In addition a further 36,875 ordinary shares were issued at a deemed issue price of 16 cents per share to settle brokerage obligations in relation to the placement.

(b) Options

Unlisted Options

The following unlisted options are outstanding in respect of ordinary shares:

- 6,050,000 options exercisable at 25 cents each on or before 31 December 2007.
- 3,750,000 options exercisable at 25 cents each on or before 28 November 2009.
- 500,000 options exercisable at 30 cents each on or before 1 April 2009.
- 300,000 options exercisable at 30 cents each on or before 30 November 2009 with a vesting period which can occur after 14 December 2007.
- 250,000 options exercisable at 30 cents each on or before 31 December 2008.
- 2,500,000 options exercisable at 30 cents each on or before 24 November 2007.

	31 Dec 2005 $	31 Dec 2004 $
3. EARNINGS/(LOSS) PER SHARE		
The following reflects the loss and share data used in the calculations of basic and diluted earnings/(loss) per share:		
Earnings/(loss) used in calculating basic and diluted earnings/(loss) per share	**(410,686)**	(349,084)
	Number of Shares <u>2005</u>	**Number of Shares <u>2004</u>**
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share:	**53,534,196**	44,731,323
Effect of dilutive securities		
Share options	**-**	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	**53,534,196**	44,731,323

4. DIVIDENDS

No dividend has been declared or paid during the half-year ended 31 December 2005.

5. EVENTS SUBSEQUENT TO BALANCE DATE

Since 31 December 2005, no event has arisen that would be likely to materially affect the operations of the consolidated entity, the results of the consolidated entity or the state of affairs of the consolidated entity not otherwise disclosed in the consolidated entity's financial statements.

6. CONTINGENT ASSETS AND LIABILITIES

Since the last reporting date, there has been no change of any contingent liabilities or contingent assets.

7. SEGMENT INFORMATION

The consolidated entity operates predominantly in one segment involved in the mineral exploration and development industry. Geographically the consolidated entity is domiciled and operates in one segment being Australia.