

20 December 2006

Exploring a quality portfolio

Investment highlights

- Pioneer Nickel Ltd (PIO) is a well-funded explorer focusing on its flagship Golden Ridge and Ravensthorpe Projects in WA and securing experienced and well-financed JV partners for several of its other projects. While PIO is not cheap on current EV:Resource metrics of US\$3.49/lb of nickel (peer average US\$1.14/lb) we believe its active exploration program should see steady growth in current resources. Accordingly we rate PIO a SPECULATIVE BUY.
- Having recently raised A\$2.8m via issuing 22.75m shares at 12.5c per share, PIO has ample cash to fund its exploration program. JBM maintained its 17.4% shareholding in PIO and remains a supportive shareholder.
- PIO's Golden Ridge JV (earning <80%) and Ravensthorpe JV (earning <85%) offer near-term production potential and a likely re-rating with development progress.
- An initial Indicated Resource of 151kt at 1.43% Ni for 2,164t of contained nickel has been outlined at Blair South. A further 140 holes of RAB drilling intercepted nickel sulphide mineralisation along the 2.8km ultramafic zone between Blair Mine and Blair South and PIO has recently resumed RC drilling at Blair South with 3,000m contracted.
- A first pass RC drilling program of 1,500m at Ravensthorpe has to date evaluated approximately 180m of the 850m mineralised strike with encouraging Cu-Au intercepts being returned from the first 19 holes. Assays are pending for a further 5 holes drilled before exploration was halted with Paxton Enterprises Pty Ltd refusing JV parties access to the ground.
- With a firm focus on its two brownfields projects, JV agreements for several other projects have been reached with premier miners such as BHP Billiton, Jubilee Mines and LionOre Mining.

Company

Stock code:	PIO
Share price:	\$0.26
Recommendation:	Speculative Buy

S&P/ASX 300 = 5,596.6

Analyst

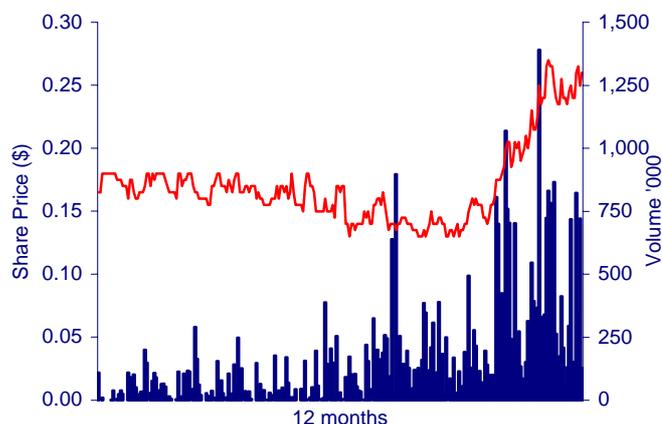
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Disclosure: Patersons Securities Limited acted as Lead Manager to the Initial Public Offering that raised A\$4.5m at \$0.20 for Pioneer Nickel Limited in December 2003. It received a fee for this service.

Patersons Securities Limited also acted as Lead Manager and Underwriter to the Share Placement and Share Purchase Plan that raised A\$2.84m at \$0.125 for Pioneer Nickel Limited in September 2005. It received a fee for this service.

Company Statistics & Performance

Shares on Issue	78.1m	Daily Vol.	47,359
Options	24.7m	Debt	\$0.0m
Market Cap.	\$20.3m	Cash	\$3.6m
52 Week Range	\$0.13 - \$0.27	Unpaid Cap.	\$1.2m



Investment Summary

Directors	
Reginald Gillard	Non-Executive Chairman
David Crook	Managing Director
Allan Trench	Non-executive Director
Peter Langworthy	Non-executive Director

Substantial Shareholders	Shares (m)	(%)
Jubilee Mines NL	13.6	17.40
Kurana Pty Ltd	11.8	15.11
Link Traders (Aust) Pty Ltd	11.5	14.73
MBM Corporation Pty Ltd	5.6	7.17

Resources			
JORC - Indicated	(kt)	Ni (%)	Cont.Ni (t)
Golden Ridge - Blair South Prospect	151.3	1.43	2164

Background

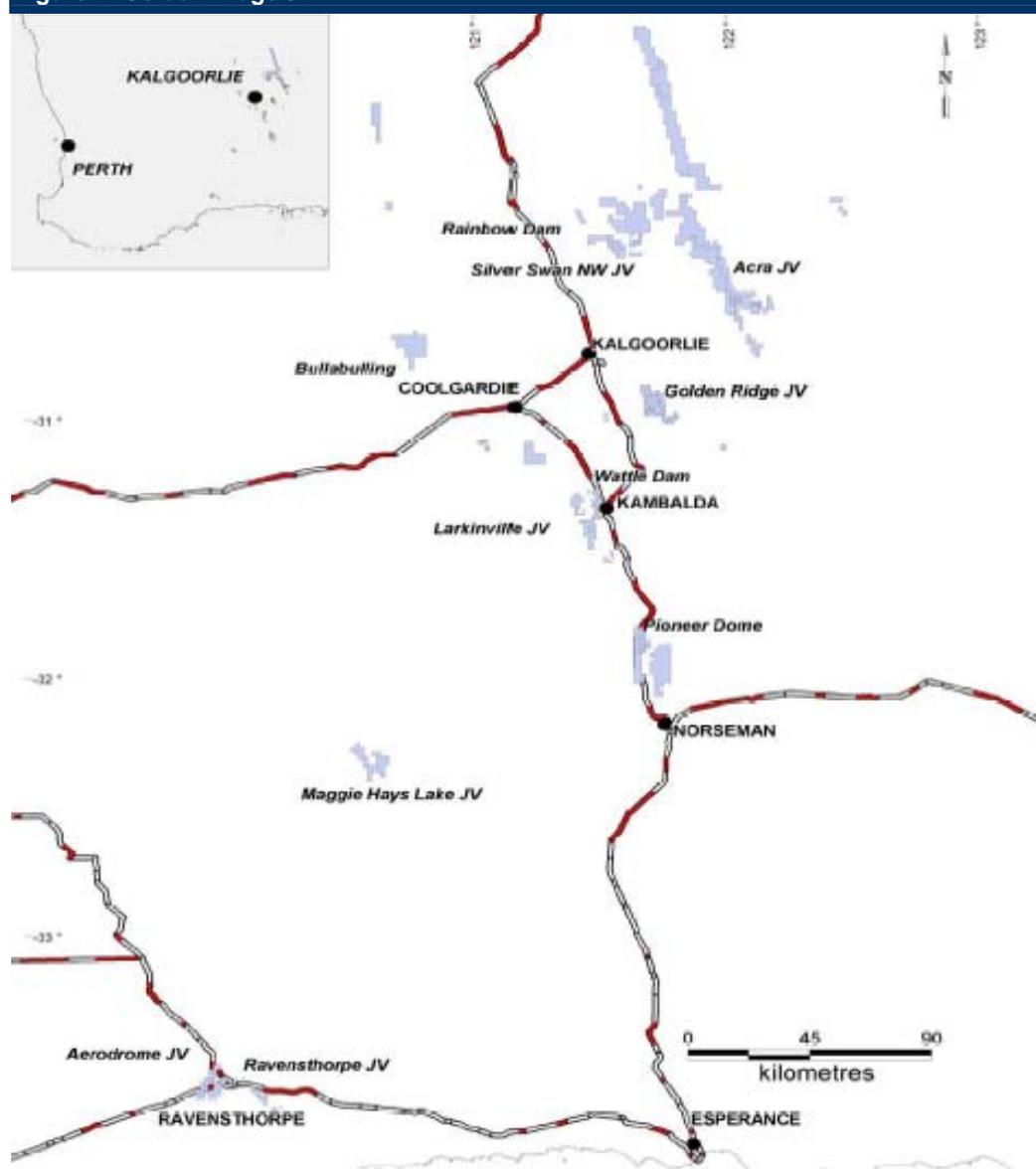
PIO was spun out of Heron Resources Ltd (HRR) in December 2003. PIO's lead project on its IPO was the Acra Project, which has now been the subject of a JV with Jubilee Mines NL (JBM).

During the past twelve months, PIO has entered into the Golden Ridge JV to explore for nickel sulphides and initiated the Ravensthorpe JV to explore for copper and gold.

With a focus on these two brownfields projects, and in order to avoid stretching resources to far, PIO has continued to secure JV partners for a number of its other projects, including:

- Acra JV Project – Jubilee Mines NL
- Silver Swan Northwest JV Project – BHP Billiton Minerals Pty Ltd
- Wattle Dam, Larkenville and Bullabulling JV Projects – Ramelius Resources Ltd
- Maggie Hays Lake JV Project – LionOre Australia (Nickel) Ltd
- Heazlewood and Whyte River JV Project – Bass Metals Ltd
- NSW Royalty Project – Kinsha Exploration Pty Ltd

Figure 1: Golden Ridge JV



Source: Pioneer Nickel Limited

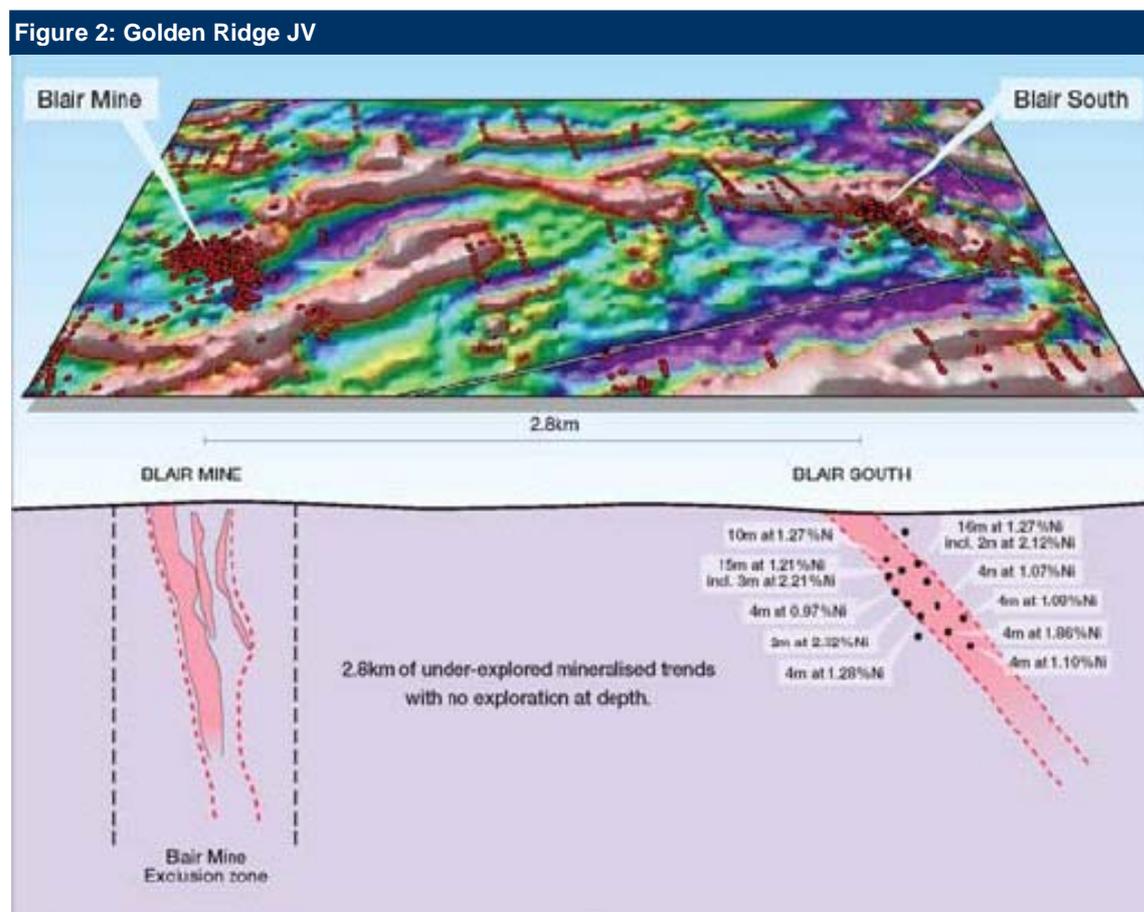
Golden Ridge JV Project (Nickel)

The Golden Ridge JV Project is located 30km south east of Kalgoorlie. PIO has the right to earn an initial 51% interest in the project from Australian Mines Limited (AUZ) by spending A\$2.25 million on exploration within three years and up to 80% interest. The project targets ultramafic units of the Golden Ridge Greenstone Belt. The area consists of five occurrences on nickel sulphide mineralisation, which includes the historic Blair Mine.

A 140 hole RAB drilling program completed in the September Q was successful, intercepting sporadic nickel sulphide mineralisation. Anomalous nickel values were returned in three holes adjacent to these previously unidentified ultramafic contact positions. Best results include 2m at 0.70% Ni and 0.08% Cu.

Importantly, drilling also confirmed geological interpretations along the 2.8km ultramafic zone between the Blair Mine and Blair South.

The Blair South Prospect is located approximately 2.7km south of the Blair Nickel Mine (the 300m area surrounding the mine has been retained by AUZ). The recent drilling program identified the presence of two ultramafic contacts that occur between these two locations.



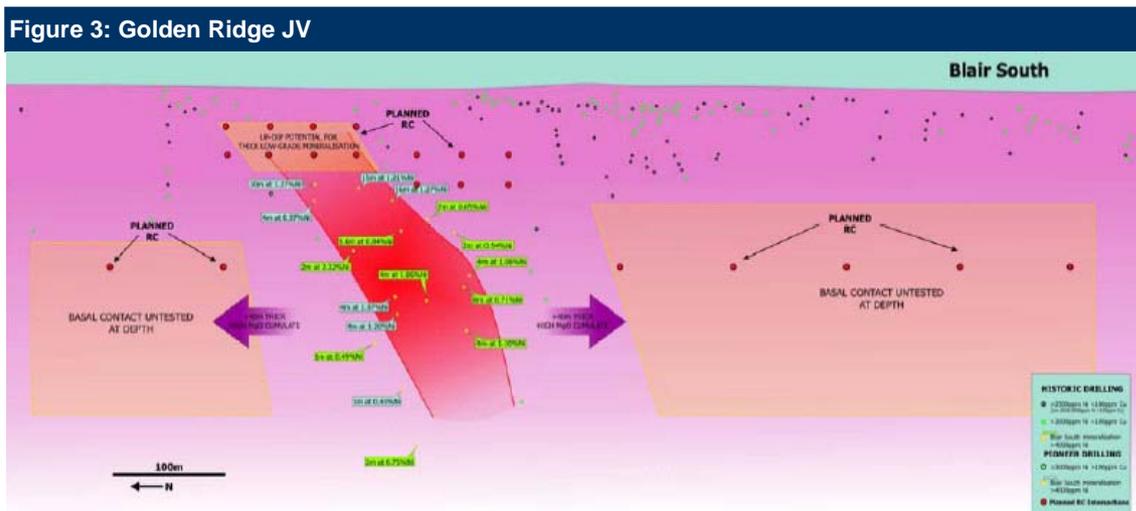
Source: Pioneer Nickel Limited

Previous drilling consisting of 4,055m for a total of 19 RC and diamond drill holes intersected a thick zone of disseminated mineralisation at the Blair South Prospect. Best results included 15m at 1.21% Ni and 0.13% Cu, 10m at 1.27% Ni and 0.11% Cu and 16m at 1.27% Ni and 0.12% Cu.

This led to the delineation of an initial Indicated Resource for the South Blair Prospect of 151,331t at 1.43% Ni for 2,164t of contained nickel.

PIO has resumed RC drilling at the Blair South Prospect with 3,000m contracted. This program will include:

- An initial 14 RC holes to test for extensions to the current resource.
- A further 7 RC holes to systematically test beneath anomalous shallow drilling, these will act as platforms for DHTEM surveys.



Source: Pioneer Nickel Limited

As a precursor to the above RC drilling:

- A gravity survey has commenced, which will provide data to facilitate geological interpretations.
- Detailed aeromagnetic survey data and existing surface EM data is being reviewed for inclusion into the new geological model.

The first drill holes completed which tested for extensions, intersected mineralisation over a plunge length of 100m. Best results so far include 5m at 1.48% Ni and 0.17% Cu, 2m at 1.08% Ni and 0.08% Cu and 4m at 1.14% Ni and 0.11% Cu.

The project tenements are largely granted mining leases and are crossed by a 40km haul road to an existing nickel concentrator. Accordingly, it is expected that any nickel sulphide discovery could be brought into production quickly with minimal capital cost.

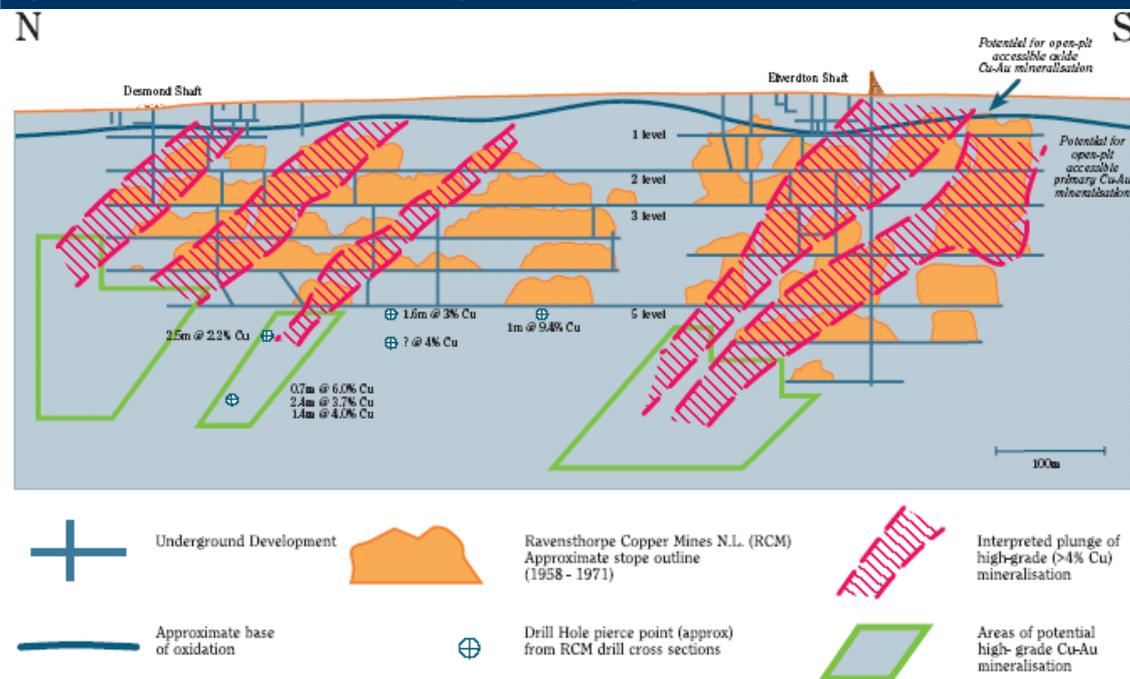
Ravensthorpe JV Project (Copper-Gold)

The Ravensthorpe JV Project is located 10km south east of Ravensthorpe. Galaxy Resources Ltd owns 100% of all minerals rights. PIO may earn an initial 75% and up to 85% in all minerals (except locations where tantalum and lithium is excluded) through spending A\$0.5m.

Ravensthorpe's historic production is believed to be in excess of 20kt of copper and 120koz of gold. The project contains four historic mines, Elverdton, Mt Desmond, Mount Cattlin and Marion Martin, where copper concentrates were produced between 1899 and 1971, however little exploration has occurred since.

The Elverdton and Mt Desmond mines were joined on the No. 2, 3 and 5 levels. The strike length mined was approximately 850m and at its deepest part, the No. 7 level beneath the Elverdton headframe, was accessed to 350 metres.

Figure 4: Elverdton-Mt Desmond Underground Workings



Source: Pioneer Nickel Limited

The project offers PIO near-term production potential from the area surrounding and beneath the old workings. We also note that Tectonic Resources' NL (TTR) Rav8 plant is in close proximity and synergies may exist.

Since entering the JV in June 2005, PIO has experienced an extended delay in the granting of key mining leases at Ravensthorpe. A breakthrough was made in July this year when negotiations were finalised with the Southern Noongar Land and Sea Council.

To date, 19 holes have been completed from PIO's proposed 7,000m initial drilling program. First pass drilling has now tested approximately 180m of the 850m mineralised strike as indicated from underground workings.

The first 16 holes targeted the upper 100m of the Desmond workings with encouraging intercepts of disseminated chalcopyrite being recorded. A further three holes were drilled close to the Elverdton main shaft.

Results so far, together with old mine information, verify that the narrow, high-grade ore mined during the 1960s at Mt Desmond is enveloped by a broad halo of disseminated copper and gold mineralisation. If the halo is adequately developed, this zone may be amenable to open pit mining.

Best intersections include 15m at 2.32% Cu and 1.04g/t Au from 34m and 7m at 2.00% Cu and 1.48g/t Au from 11m. Five further holes have been drilled with assays pending.



Source: Pioneer Nickel Limited

Recent dispute regarding access to Ravensthorpe

PIO's land holding at Ravensthorpe consists of approximately 100km² which includes Mining Lease M74/163 held by Galaxy, with an area of 4.8km². This is the tenement that contains the historical underground Elverdton and Mt Desmond copper mines.

M74/102 is a separate Mining Lease located largely within the boundary of M74/163 and is the subject of a Tailings Agreement between Galaxy and Paxton Enterprises Pty Ltd. M74/102 covers an area of approximately 0.4km², enclosing a tailings dump and the Elverdton headframe and shaft collar. Importantly, M74/102 is limited in depth to 15m below the surface.

Recently, Paxton has refused the Ravensthorpe JV parties access to M74/102 for exploration and has advised Galaxy that a Notice of Dispute will be issued.

This is seen as a trivial set-back by PIO as it believes that Paxton has no basis to refuse access to Mining Lease M74/102 and will be taking immediate action against Paxton to enforce its legitimate rights.

Paxton's right to M74/102 is limited in depth to 15m below the surface. With historic underground mining extending to a depth of 350m, any mining of deeper primary mineralisation will be unaffected by the outcome of this dispute. However, we highlight the potential constraints to open pit mining if the broad halo of disseminated copper and gold mineralisation or oxidised copper mineralisation is proven to be economic.

PIO and Galaxy have retained Legal Counsel to provide advice with a view to resolving any issues expeditiously. Consequently, PIO expect to resume drilling at Ravensthorpe in January 2007.

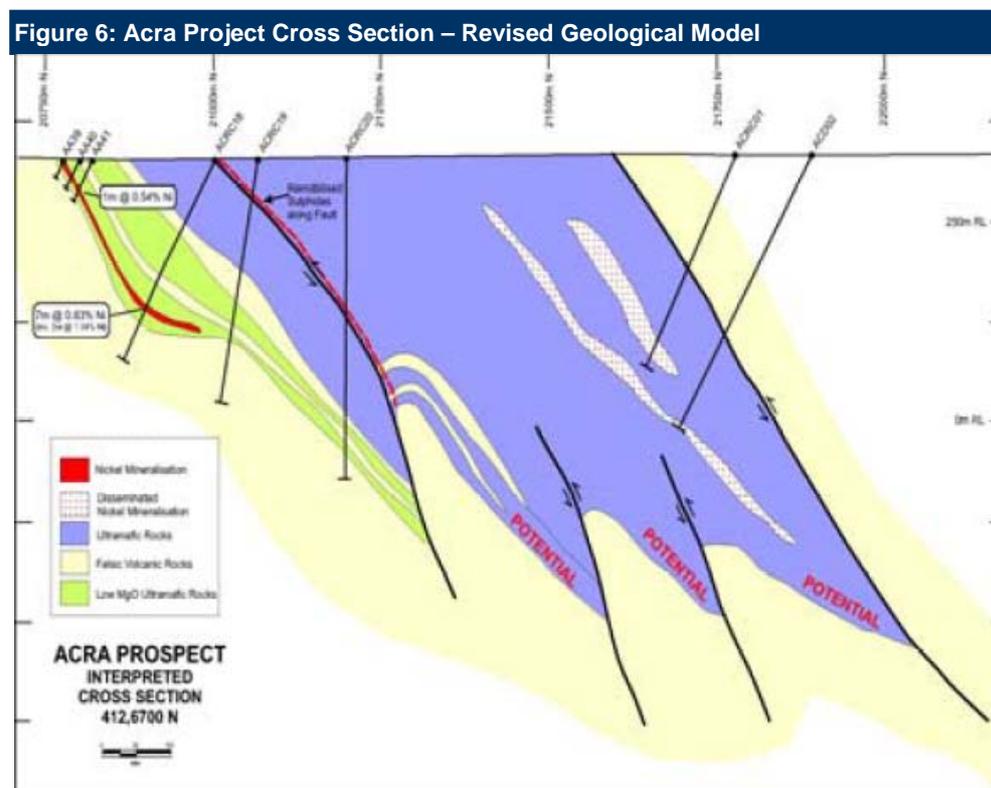
In the interim, Clearing Permit applications for other areas within M74/163 have been lodged and additional botanic surveys will also be completed in preparation for future drilling.

Acra JV Project (Nickel)

The Acra Project is located approximately 75km north east of Kalgoorlie. JBM currently holds a 60% interest and is earning up to a 75% by spending A\$3.5m on ongoing exploration. PIO owns the remaining 40% and HRR retains 100% of the nickel laterite ore.

The project lies along the Emu Fault and extends over 140km of prospective geological units that host both massive and disseminated nickel sulphides.

The zone has been partially tested by RC and diamond drilling totalling 23 holes for 6,500m which intersected nickel sulphide mineralisation including 2m at 1.04% Ni. This drilling provided a fresh perspective into the project stratigraphy and resulted in a new geological model being developed. This new model has the prospective basal contact located along the southern ultramafic contact.



Source: Pioneer Nickel Limited

JBM notified PIO that further RC drilling, totalling six holes for 1,320m, has tested the Southern Acra contact during the September Q. Assay results are pending for these holes.

This latest drilling identified what has been interpreted as a footwall embayment which has associated nickel mineralisation. This further supports the view that the southern contact is the basal contact which is prospective for massive nickel sulphide mineralisation.

Future drilling will continue to target this embayment.

Silver Swan Northwest JV Project (Nickel)

The Silver Swan Northwest JV Project is located approximately 70km north east of Kalgoorlie and 6km north west of the Black Swan Nickel Sulphide Mine in WA. PIO has 100% of all mineral rights with BHPB to fund US\$5m of exploration to earn 80% interest in the project. PIO is 20% free carried to mine development.

Geological units, including ultramafic rocks associated with nickel sulphide mineralisation at Black Swan, Ringlock Dam, East Scotia and Rainbow Dam, are interpreted to extend into the Silver Swan Northwest Project.

BHPB will manage the JV project and apply GeoFerret EM and other exploration techniques. The Silver Swan Northwest tenements are considered highly prospective for nickel sulphide mineralisation. BHPB intends to drill existing targets and define additional targets.

Exploration Program

We view PIO's active exploration program and growth in its resource base as the major medium-term share price catalyst.

We also consider any success from JBM's exploration program at Acra to provide a strengthening argument for the probability of a takeover.

Figure 7: PIO's Exploration Schedule

PROJECT	Q4 2006	Q1 2007
Golden Ridge JV (PIO <80%)	Drilling	Results Due Before Christmas Drilling/Modelling
	Gravity Magnetics/Geochemistry/Geology/TEM	
Ravensthorpe (PIO <85%)	Drilling	Results Due End of November Drilling
	Clearing Applications	Aeromag VTEM Modelling
Acra JV (JBM)	Drilling	Drilling/Modelling
SSNW (BHPB)	Tenure	Exploration (Geoferret and other modern technology)
RMS Alliance	Drilling	Drilling/Prospecting

Source: Pioneer Nickel Limited

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