



QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2005



HIGHLIGHTS DURING QUARTER

- Sally Malay Project had a record quarter producing concentrate containing **2,368t Ni, 1,089t Cu & 133t Co**
- December was Sally Malay's best month ever with **848t Ni** contained metal produced
- Sally Malay Project on track to produce **8,700t Ni contained for the full year**
- Concentrate shipments with a combined value of over **US\$26million** departed Wyndham during the quarter
- Lanfranchi Project ramp up continues on track with **21,238t** mined grading **2.51% Ni**
- JV with Platinum Australia to earn a **50% interest in the first 1.5Mt high grade** ore from the Panton PGM Project
- Lanfranchi exploration successful with all four holes in Schmitz Extension drilling returning strong EM anomalies
- Drilling at Schmitz Extension re-commenced in late January targeting additional high grade ore
- Additional **1,000t Ni hedged at US\$6.12/lb** with matching currency at 0.7424 for delivery July 07-April 08
- Bank debt reduced by **\$2.3 million** via cash sweep mechanism and cash on hand totalling **\$19.3 million**

SALLY MALAY PROJECT

The Sally Malay Project had an outstanding quarter breaking all previous records in relation to concentrate and contained Ni metal production and metal recoveries. The Project remains on track to produce approximately 8,700t of contained Ni in 2005/06.

Operating Statistics

Table 1 – Sally Malay Operating Statistics

Area	Details	Units	3 mths ending 31 Dec 2005	3 mths ending 30 Sept 2005	2005/06 Year to Date
Mining	Open Pit - Waste	bcm	269,559	342,414	611,973
	Open Pit – Ore	bcm	61,427	58,851	120,278
	Open Pit – Ore	tonnes	214,994	205,978	420,972
	Underground ore	tonnes	43,484	10,800	54,284
	Ni grade	%	1.15	1.09	1.13
	Cu grade	%	0.49	0.53	0.51
	Co Grade	%	0.06	0.06	0.06
Milling	Ore	tonnes	236,359	223,722	460,081
	Ni grade	%	1.15	1.10	1.12
	Cu grade	%	0.49	0.52	0.50
	Co Grade	%	0.06	0.06	0.06
	Ni Recovery	%	85.3	81.6	83.4
	Cu Recovery	%	94.5	95.0	94.6
	Co Recovery	%	90.0	86.1	87.6
Concentrate Production	Concentrate	tonnes	27,542	23,554	51,096
	Ni grade	%	8.60	8.50	8.55
	Ni metal contained	tonnes	2,368	2,003	4,371
	Cu grade	%	3.95	4.69	4.29
	Cu metal contained	tonnes	1,089	1,104	2,193
	Co grade	%	0.48	0.48	0.48
	Co metal contained	tonnes	133	113	246

Area	Details	Units	3 mths ending 31 Dec 2005	3 mths ending 30 Sept 2005	2005/06 Year to Date
Concentrate Shipments	Concentrate	Dry metric tonnes	29,596	20,439	50,035
	Ni grade	%	8.42	8.31	8.37
	Ni metal contained	tonnes	1,696	1,696	4,187
	Cu grade	%	3.91	4.49	4.15
	Cu metal contained	tonnes	1,157	918	2,075
	Co grade	%	0.47	0.46	0.46
	Co metal contained	tonnes	138	94	233

Process Plant

The Sally Malay Plant has continued to exceed expectations, both in metal recovery performance and throughput rates. Recoveries for Ni are now consistently above 85% (10% above design) and are expected to move closer to 90% (15% above design) as we move to 100% underground ore feed in February. Monthly throughput has been as high as 75,000t which indicates the plant's capacity could be as high as 900,000tpa (20% above design of 750,00tpa) and this combined with the higher recoveries led to a record production month in December with 848t Ni produced. Recoveries for Cu and Co for the quarter were also outstanding averaging 94.5% and Co 90.0% respectively, Co being particularly impressive given 90% recovery is 30% above design of 69%.

Open Pit Mining

Over 330,000 bcms (ore and waste) were mined from the open pit during the quarter. Excellent production in both November and December 2005 resulted in year-to-date bcms exceeding budget with waste bcms reducing as expected. Unfortunately there was an isolated wall slippage on 3 January that caused open pit operations to be suspended and the Company and its open pit contractors, Roche Mining, have since decided not to re-commence open pit mining for safety reasons. The remaining 100,000t of ore in the base of the open pit will now be accessed from underground and detailed rescheduling of the mine plan is well advanced to ensure the budget of 8,700t Ni contained is achieved in 2005/06.

The Open Pit Long Section in Figure 1 shows excavation from February 2004 to December 2005.

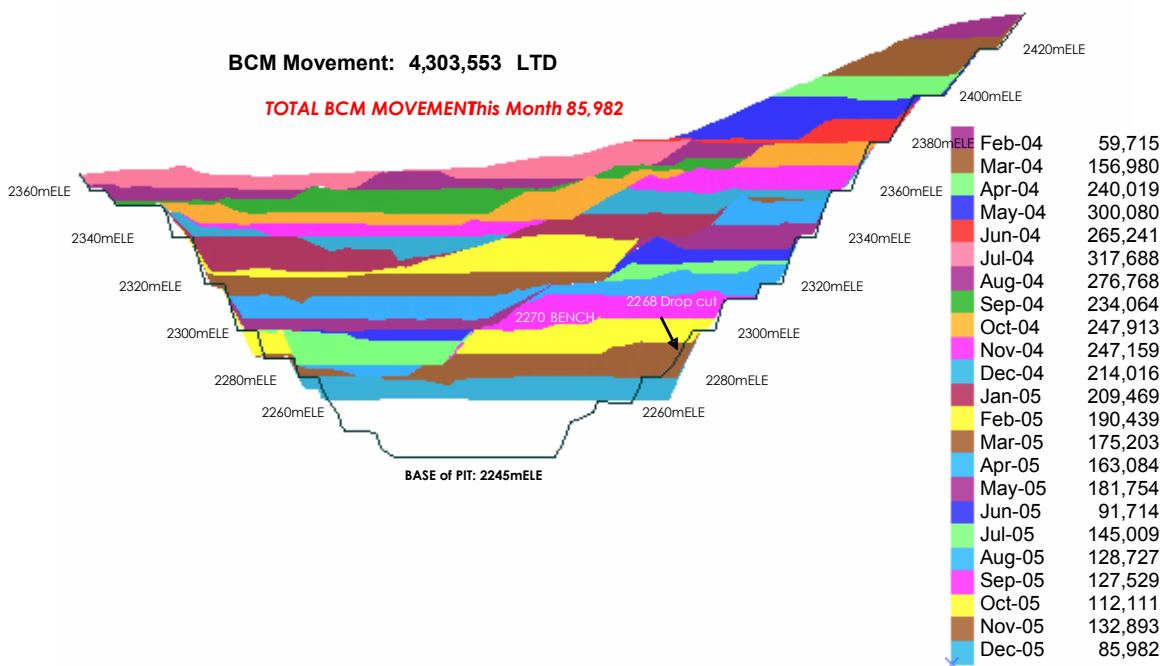


Figure 1: Sally Malay Open Pit Long Section as at December 2005

Underground Mining

Development of the decline and establishment of production headings continued during the quarter. Mining was completed on the first cross cut into ore, and work commenced in the 2140 crosscut. The decline has now advanced over 2,921m from the portal since work began in September 2004. A total of 43,484t of ore grading 1.15% Ni was mined from the underground during the December quarter as a ramp up to 100% feed from underground gathered momentum.

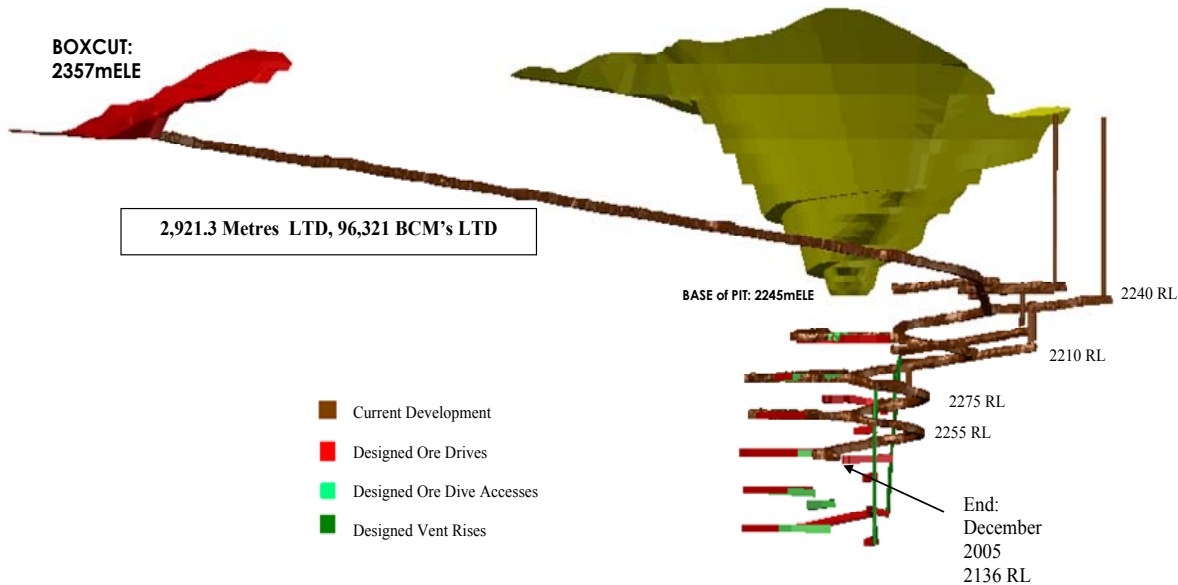


Figure 2: Sally Malay Underground Long Section

Financial Statistics

Table 4 – Sally Malay Financial Statistics

Area	Units	3 months ending 31 Dec 2005	3 months ending 30 Sept 2005	2005/06 Year to Date
Payable Nickel Produced	lbs	5,220,097	4,415,635	9,635,732
Mining Costs	A\$ per lb	2.05	2.53	2.27
Milling Costs	A\$ per lb	0.93	1.06	0.99
Concentrate Haulage	A\$ per lb	0.19	0.08	0.15
Administration	A\$ per lb	0.26	0.28	0.27
Less Capitalised Site Costs	A\$ per lb	(1.35)	(2.09)	(1.69)
Total Cash Cost at Mine Gate	A\$ per lb	2.08	1.86	1.99
Smelting/shipping Costs	A\$ per lb	3.65	4.08	3.83
By-product Credits	A\$ per lb	(2.16)	(2.16)	(2.16)
Total C1 Cash Costs	A\$ per lb	3.57	3.78	3.66
Total C1 Cash Costs	US\$ per lb	2.68	2.86	2.75
Royalty Cost	A\$ per lb	0.26	0.24	0.25
Capitalised Site Costs Amort	A\$ per lb	1.35	2.09	1.69
Depreciation/Amortisation	A\$ per lb	0.37	1.06	0.67
Net Finance Costs/Other	A\$ per lb	0.19	0.22	0.21
Total C3 Costs	A\$ per lb	5.74	7.39	6.49
Total C3 Costs	US\$ per lb	4.31	5.59	4.87
Net Nickel Revenue (inc hedging)	A\$ per lb	8.03	7.82	7.97

Logistics

Four concentrate shipments from the Sally Malay Project departed Wyndham during the December 2005 quarter with a combined weight of around 29,596dmt and average grade of 8.42%Ni, 3.91%Cu and 0.47%Co. The 100% provisional value of these four shipments was ~US\$26.8 million.

LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)

Production

Production from Lanfranchi ramped up on schedule during the quarter with 21,328t mined at an average grade of 2.51% Ni and deliveries of ore to the concentrator totalling 21,669t at 2.32% Ni. Installation of the paste plant is completed and wet commissioning commenced at the end of January 2006. In light of the expected availability of paste from February the mining engineers are re-considering stope designs and mining methods at Helmut South with the view to increasing scheduled production rates, subject to geotechnical limitations, which could see production rates increased markedly above the current plan of 12-15,000t/month.

Operating Statistics (100%)

Table 5 – Lanfranchi Operating Statistics

Area	Details	Units	3 months ending 31 Dec 2005	3 months ending 30 Sep 2005	2005/06 Year to Date
Mining	Ore mined	tonnes	21,328	8,814	30,142
	Ni grade	%	2.51	2.51	2.51
	Cu grade	%	0.19	0.21	0.20
Ore Delivered	Ore delivered	tonnes	21,669	6,810	28,479
	Ni grade	%	2.32	2.61	2.39
	Cu grade	%	0.19	0.21	0.20

Financial Statistics (100%)

Table 6 – Lanfranchi Financial Statistics

Area	Units	3 months ending 31 Dec 2005	3 months ending 30 Sept 2005	2005/06 Year to Date
Payable Nickel Produced	lbs	1,179,031	488,544	1,667,575
Mining Costs	A\$ per lb	2.45	1.97	2.31
Ore Haulage	A\$ per lb	0.09	0.09	0.09
Administration	A\$ per lb	1.30	0.56	1.10
Total Cash Cost at Mine Gate	A\$ per lb	3.84	2.62	3.50
Smelting	A\$ per lb	4.05	4.26	4.11
By-product Credits	A\$ per lb	(0.21)	(0.19)	(0.20)
Total C1 Cash Costs	A\$ per lb	7.68	6.69	7.41
Total C1 Cash Costs	US\$ per lb	5.77	5.06	5.56
Royalty Cost	A\$ per lb	0.18	0.20	0.18
Depreciation/Amortisation	A\$ per lb	1.23	1.75	1.38
Net Finance Costs/Other	A\$ per lb	0.10	0.16	0.12
Total C3 Costs	A\$ per lb	9.19	8.80	9.09
Total C3 Costs	US\$ per lb	6.91	6.65	6.82
Net Nickel Revenue	A\$ per lb	7.80	8.59	8.03

Note: Net Nickel revenue is a notional figure for 100% Lanfranchi Project and does not include the hedging activity of Cherish Metals (Sally Malay's 100% subsidiary that has the 75% interest in the Lanfranchi Project).

PANTON PGM PROJECT JOINT VENTURE

The Company has entered into a letter agreement with Platinum Australia Limited on its Panton PGM Project, whereby Sally Malay has agreed to fund a two-stage feasibility study to determine whether high grade PGM from Panton could be mined and processed through the Sally Malay Plant to produce a PGM rich concentrate for export to international PGM refineries. Sally Malay can earn a 50% interest in the first 1.5Mt of high-grade Panton PGM ore mined from the Project, and has rights to 50% of additional high grade ore from Panton, subject to meeting certain conditions precedent, including a positive Feasibility Study.

The Panton Project is located 60km south of the Sally Malay Plant on granted mining leases and hosts a resource of 14.3Mt at 5.2 g/t 7E PGM (2.4M oz 7E PGM), including a high grade resource of 10.1 Mt at 6.1 g/t 7E PGM. With the Sally Malay Project moving to 100% feed from underground in January 2006 at an annualised rate of approximately 600-650,000tpa there is potentially up to 300,000tpa of spare capacity in the Sally Malay Plant which is available today to treat 3rd party ores like the Panton PGM material. The strong price outlook for platinum and palladium and the savings in capital cost by utilising the existing infrastructure at Sally Malay will significantly improve the Panton Project economics and both parties are very excited about the potential to bring the Panton Project into commercial production within a short time frame.

EXPLORATION

Kimberley Regional

Sally Malay Tenements (100% owned)

Eastern End of Sally Malay Open Pit

Planning has commenced on a resource definition drilling program targeting known mineralisation at the eastern end of the pit. Previous surface drilling in this area is very limited (see figure 3 below), however there are several encouraging drill intersections in this area which, coupled with the strong surface EM responses (obtained by Anglo in the late 1970's), indicate potential for a sizable body (+100,000 tonnes) of mineralisation to be present. A combination of surface and underground drill holes may be required to adequately test the area with drilling planned for Q1 2006.

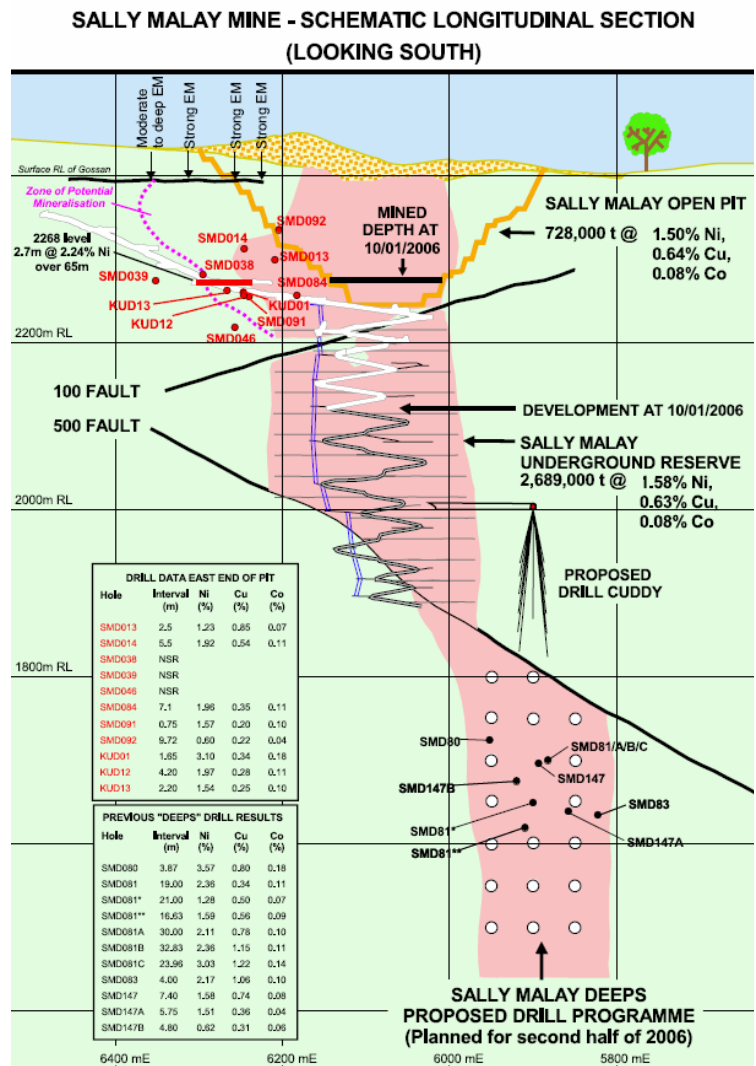


Figure 3: Sally Malay Project Schematic Longitudinal Section

Panton Sill (Platinum Australia 100%, Sally Malay earning 50%)

As detailed earlier in this report, Sally Malay has commenced a two stage feasibility study into mining and processing high grade Panton PGM ore through the Sally Malay Plant. Subject to a number of condition precedents being met, including a positive feasibility study, Sally Malay has the potential to earn a 50% interest in the first 1.5Mt of high grade Panton PGM ore mined from the Project, and rights to 50% of additional ore treated at the Sally Malay Plant.

Corkwood (100% owned)

Reviews of the Hoistem EM and all geophysical data pertaining to the Corkwood Ni-Cu-Co deposit have been completed. A strong EM conductor located immediately to the east of the existing drilling at Corkwood (resource of 225,000t @ 0.65% Ni), together with a small discreet anomaly at 8087250mN, 412500mE were identified. Follow-up field checks of both anomalies will be conducted in early 2006.

Wills Creek Joint Venture (earning 70%)

A review of the Wills Creek geophysical data has been completed. The review identified several anomalies requiring follow-up work. These anomalies included a strong conductor to the east of Sparrow, a weaker "Salk-like" anomaly at Palamino that has not been drill tested and a moderate to strong anomaly (similar to Sally Malay) in the Beta Grid area. These anomalies will be incorporated in to the Wills Creek geological data base, and follow-up work programs are scheduled to be completed early in the 2006 field season.

Copernicus JV (Sally Malay earning 60%)

The legal action in the Supreme Court of WA is continuing with the case not expected to be heard until May/June 2006.

Lanfranchi

Lanfranchi In-Mine - Schmitz (Skinner) Extension

Interpretation and modeling of the Down Hole EM (DHTEM) survey from the four-hole Schmitz Extension drilling programme completed in November 2005 detected strong anomalies, consistent with massive sulphide mineralisation, in **all four holes** (see figure 4 below).

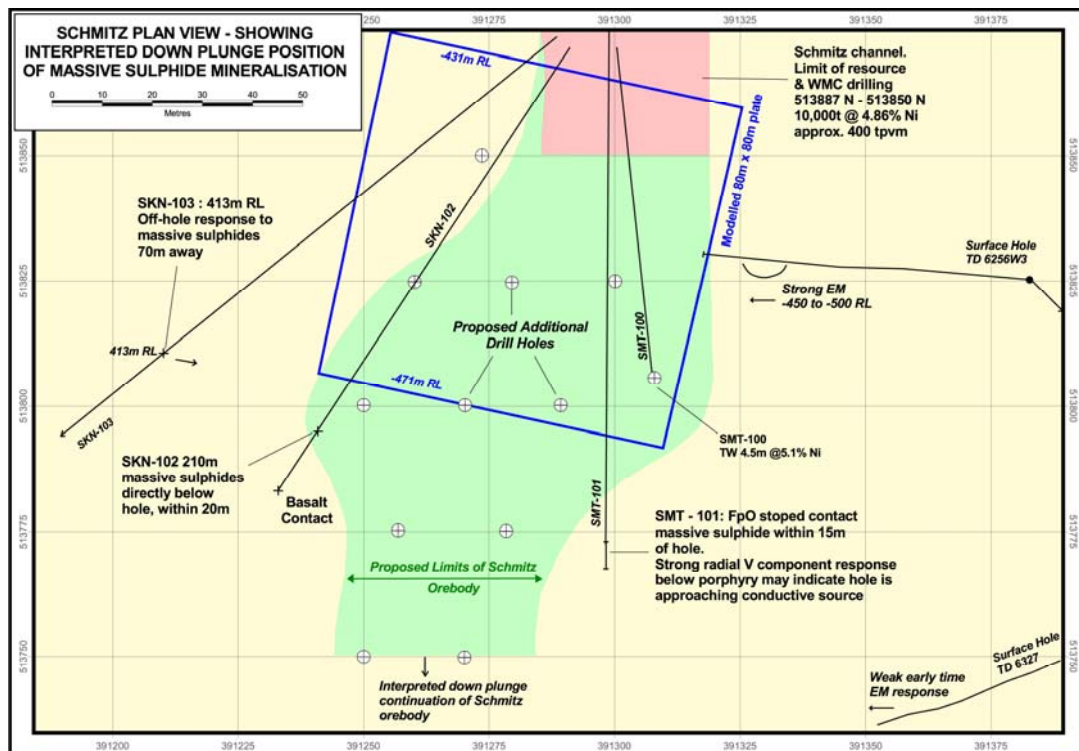


Figure 4: Schmitz Plan View

The modeled source of the anomalies is consistent with a single large conductor, similar to the conductor intersected in drill hole SMT-100 (4.5m true width at 5.1% Ni). A theoretical plate size of 80x 80m is indicated by the data and supported by the observation that:

- The conductor was detected in drill hole SKN-103 approximately 70m above and to the west of the modeled plate; and
- At a depth of 210m in hole SKN-102, the off-hole response indicates massive sulphide mineralisation directly below the hole and within a distance of 20m. This point is approximately 65m away from the intersection in drill hole SMT-100 and more or less at the same RL, indicating a potential mineralised strike length of at least 65m.

Importantly, the conductivity thickness of the observed data is consistent with massive sulphide mineralisation. In order to further test the down plunge potential of the Schmitz orebody and potentially delineate additional ore the first four holes in a planned eleven hole, 3,000m drill programme commenced in late January 2006. (Figure 4 shows a diagrammatical representation of the proposed drill programme.)

Winner/Schmitz up-plunge regional – Surface

Planning and liaison has commenced to explore the northern side of the Tramways Dome for buried massive sulphide shoots using the BHP Billiton GEOFERRET system (a deep penetrating electro-magnetic system). This programme is scheduled to commence as soon as the system becomes available.

CORPORATE

Cash Position & Corporate Debt

The cash on hand at the end of the quarter was \$19.3 million. Bank debt was reduced by \$2.3million to \$37.2 million due to the cash sweep mechanism resulting in an early pre-payment of outstanding debt. A further early pre-payment is likely at the end of January given the strong cashflow from the project during the December quarter. The first scheduled repayment of \$4.75 million is due in March 2005.

Hedging

The Company's hedge book as at 31 December 2005 was as follows:

Commodity	Quantity	Average Price/Rate
Nickel (delivery Jan 06-Dec 06)	5,282t	US\$10,051/t US\$4.56/lb
Currency - matched with Ni	59.1M	0.7041
Currency - unmatched	14.8M	0.6758
Currency - total	73.9M	0.6983

In accordance with the Company's hedging policy an additional 1,000t of Ni and matching US\$/A\$ currency hedging was undertaken by the Company on 23 January 2006 to cover a portion of forecast production between July 07 and April 08. The average price achieved was US\$13,486/t (US\$6.12/lb) at 0.7424 or A\$18,166/t (A\$8.24/lb). This hedging was transacted to take advantage of the strong forward prices and lock in profits on future, previously unhedged, production at metal prices >50% above long term average prices for Ni.

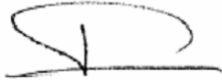
New Equity/Options

The Company allotted a total of 2,659,574 new shares to Macquarie Bank Limited during the quarter, following the exercise of the same number of unlisted options with an exercise price of \$0.282 per share. These options were issued to Macquarie Bank in 2003 as part of the terms of the Macquarie Bank \$3 million pre-feasibility financing package and were issued with a strike price fixed at a 20% premium to the share price at the time the financing was drawn down.

Personnel

Alasdair Cooke, Non-Executive Director, announced his resignation in November 2005, to enable him to concentrate his efforts on his executive directorships. Alasdair was a founding director and shareholder of the Company and the Board thanks Alasdair for his input and direction over the past four years which has seen the Company grow from a small IPO to a successful medium-sized nickel producer.

**Yours faithfully,
SALLY MALAY MINING LIMITED**



PETER HAROLD
Managing Director

The information in this release, in so far as it relates to resource estimation and exploration activities, is based on and accurately reflects information compiled or supervised by John Hicks who has more than five years experience in the field of the activity being reported on.

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