SALLY MALAY MINING LIMITED

QUARTERLY REPORT
FOR THE PERIOD ENDED 31 MARCH 2006

HIGHLIGHTS DURING QUARTER

- Significant drill intersections at Sally Malay including 23.1m at 3.15% Ni outside existing resource boundary
- New southern shoot potentially identified at Sally Malay with best intersection of 4.1m at 3.46% Ni
- Stope definition drilling at Sally Malay increases nickel tonnes by 38% between 2140 and 2215mRL
- Smooth ramp up of underground production at Sally Malay following completion of open pit
- Production at Sally Malay for March was 50,0000t of ore at 1.3%Ni with underground mine now fully commissioned
- Sally Malay Project on track for around 8,000t Ni production in 2005/06 full year and higher in 2006/07
- Lanfranchi ramps up and has record month in March producing 15,250t of ore at 2.4% Ni
- Significant addition resource of 3,390t Ni identified at Schmitz Extension, mine planning underway
- Copernicus dispute settled on mutually favourable terms with THX confirming SMY owns 60% interest
- First round of metallurgical testwork completed on Panton PGM ore

SALLY MALAY PROJECT

While ore production at Sally Malay was below budget for the quarter due to the open pit wall slippage that occurred on 1 January, contingency plans were in place for such an event and underground production ramped up quickly towards the end of the quarter. The Project is now forecast to produce approximately 8,000t of contained Ni in 2005/06 and significantly more Ni in 2006/07.

Operating Statistics

Table 1 – Sally Malay Operating Statistics

Area	Details	Units	3 mths ending 31 Mar 2006	3 mths ending 31 Dec 2005	2005/06 Year to Date
Mining	Open Pit - Waste	bcm	**530**	269,559	**612,503**
	Open Pit – Ore	bcm	**212**	61,427	**120,490**
	Open Pit – Ore	tonnes	**10,400**	214,994	**431,372**
	Underground ore	tonnes	**110,296**	43,484	**164,580**
	Ni grade	%	**1.14**	1.15	**1.13**
	Cu grade	%	**0.59**	0.49	**0.52**
	Co Grade	%	**0.04**	0.06	**0.06**
Milling	Ore	tonnes	**159,657**	236,359	**619,738**
	Ni grade	%	**1.14**	1.15	**1.13**
	Cu grade	%	**0.59**	0.49	**0.52**
	Co Grade	%	**0.04**	0.06	**0.05**
	Ni Recovery	%	**83.6**	85.3	**84.6**
	Cu Recovery	%	**93.6**	94.5	**94.4**
	Co Recovery	%	**87.6**	90.0	**87.1**
Concentrate Production	Concentrate	tonnes	**18,708**	27,542	**69,804**
	Ni grade	%	**8.21**	8.60	**8.46**
	Ni metal contained	tonnes	**1,535**	2,368	**5,906**
	Cu grade	%	**4.68**	3.95	**4.39**
	Cu metal contained	tonnes	**875**	1,089	**3,067**
	Co grade	%	**0.32**	0.48	**0.44**
	Co metal contained	tonnes	**60**	133	**306**

Area	Details	Units	3 mths ending 31 Mar 2006	3 mths ending 31 Dec 2005	2005/06 Year to Date
Concentrate Shipments	Concentrate	Dry metric tonnes	**10,904**	**29,596**	**60,939**
	Ni grade	%	**8.13**	**8.42**	**8.33**
	Ni metal contained	tonnes	**887**	**2,491**	**5,074**
	Cu grade	%	**4.36**	**3.91**	**4.18**
	Cu metal contained	tonnes	**475**	**1,157**	**2,550**
	Co grade	%	**0.45**	**0.47**	**0.46**
	Co metal contained	tonnes	**49**	**138**	**282**

Process Plant

The Sally Malay Plant continued to exceed design metallurgical recoveries, even at the lower grades experienced during the quarter from treating low grade stockpiles after open pit ore was exhausted and ahead of the underground ramp up. Ore is now sourced 100% from underground and the nickel head grade into the mill going forward is expected to consistently exceed 1.5%Ni while metallurgical recoveries for nickel should be in the 88-90% range.

Open Pit Mining

Open pit mining was suspended on 1 January due to the isolated wall slippage. Subsequently, the Company and its open pit contractor, Roche Mining, decided not to re-commence open pit mining for safety reasons. The pit was due to finish in February and the remaining 100,000t of ore in the base of the open pit will now be accessed from underground and is scheduled to be mined towards the end of Q2 2006 and treated during the 2nd half of 2006.

Underground Mining

Underground operations were accelerated during the quarter following the pit wall slippage and approval to commence stoping was received in early March. Production ramped up very quickly to an annualized rate of 600-650,000tpa with over 110,000t mined during the quarter, initially from development and then from the stoping which commenced in March. With ore scheduled to be mined from both the open pit area and main underground mine, production for the 2nd half of 2006 should range between 65-80,000t/month which means the mill will be close to capacity.

Financial Statistics

Table 2 – Sally Malay Financial Statistics

Area	Units	3 months ending 31 Mar 2006	3 months ending 31 Dec 2005	2005/06 Year to Date
Payable Nickel Produced	**lbs**	**3,384,974**	**5,220,097**	**13,020,706**
Mining Costs	A$ per lb	2.08	2.05	2.22
Milling Costs	A$ per lb	1.15	0.93	1.03
Concentrate Haulage	A$ per lb	0.19	0.19	0.15
Administration	A$ per lb	0.53	0.26	0.34
Less Capitalised Site Costs	A$ per lb	(0.40)	(1.35)	(1.35)
Total Cash Cost at Mine Gate	**A$ per lb**	**3.55**	**2.08**	**2.39**
Smelting/shipping Costs	A$ per lb	3.90	3.65	3.84
By-product Credits	A$ per lb	(2.65)	(2.16)	(2.24)
Total C1 Cash Costs	**A$ per lb**	**4.80**	**3.57**	**3.98**
Total C1 Cash Costs	**US$ per lb**	**3.53**	**2.68**	**2.97**
Royalty Cost	A$ per lb	0.27	0.26	0.27
Open Pit/Underground Amort	A$ per lb	0.42	0.01	0.86
Depreciation/Other Amortisation	A$ per lb	1.20	0.70	0.91
Net Finance Costs/Other	A$ per lb	0.27	0.19	0.22
Total C3 Costs	**A$ per lb**	**6.96**	**4.73**	**6.25**
Total C3 Costs	**US$ per lb**	**5.12**	**3.55**	**4.67**
Net Nickel Revenue (inc hedging)	**A$ per lb**	**8.72**	**8.03**	**8.22**

Note: The Dec. 2005 financial statistics have been adjusted for the write-back of $5.2M in amortisation charge on capitalised open pit costs. This adjustment was made in the Dec 2005 half year financials following the open pit wall spillage on 1 January 2006.

LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)

Production

Production from Lanfranchi continued to ramp up on schedule during the quarter with 30,966t mined at an average grade of 2.43% Ni and deliveries of ore to the concentrator totalling 32,241t at 2.49% Ni. Ore production was a Joint Venture record in March with over 15,259t mined at a grade of 2.4% Ni. Commissioning the paste plant took longer that anticipated with some frustrating minor breakdowns, however the excellent production in March did reflect the better availability of the paste plant. We are confident we can maintain a mining rate of at least 15,000t/month going forward.

Operating Statistics (100%)

Table 3 – Lanfranchi Operating Statistics

Area	Details	Units	3 months ending 31 Mar 2006	3 months ending 31 Dec 2005	2005/06 Year to Date
Mining	Ore mined	tonnes	30,966	21,328	61,108
	Ni grade	%	2.43	2.51	2.47
	Ni metal contained	tonnes	754	535	1,510
	Cu grade	%	0.21	0.19	0.21
Ore Delivered	Ore delivered	tonnes	32,241	21,669	60,720
	Ni grade	%	2.49	2.32	2.44
	Ni metal contained	tonnes	802	503	1,483
	Cu grade	%	0.21	0.19	0.21

Financial Statistics (100%)

Table 4 – Lanfranchi Financial Statistics

Area	Units	3 months ending 31 Mar 2006	3 months ending 31 Dec 2005	2005/06 Year to Date
Payable Nickel Produced	**lbs**	**1,661,843**	**1,179,031**	**3,329,418**
Mining Costs	A$ per lb	2.02	2.70	2.27
Ore Haulage	A$ per lb	0.10	0.09	0.09
Administration	A$ per lb	0.79	1.05	0.85
Total Cash Cost at Mine Gate	**A$ per lb**	**2.91**	**3.84**	**3.21**
Smelting	A$ per lb	4.68	4.05	4.39
By-product Credits	A$ per lb	(0.27)	(0.21)	(0.24)
Total C1 Cash Costs	**A$ per lb**	**7.32**	**7.68**	**7.36**
Total C1 Cash Costs	**US$ per lb**	**5.38**	**5.77**	**5.48**
Royalty Cost	A$ per lb	0.21	0.18	0.20
Depreciation/Amortisation	A$ per lb	2.01	1.23	1.70
Net Finance Costs/Other	A$ per lb	0.09	0.10	0.10
Total C3 Costs	**A$ per lb**	**9.63**	**9.19**	**9.36**
Total C3 Costs	**US$ per lb**	**7.08**	**6.91**	**6.97**
Net Nickel Revenue	**A$ per lb**	**9.19**	**7.80**	**8.58**

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).

EXPLORATION

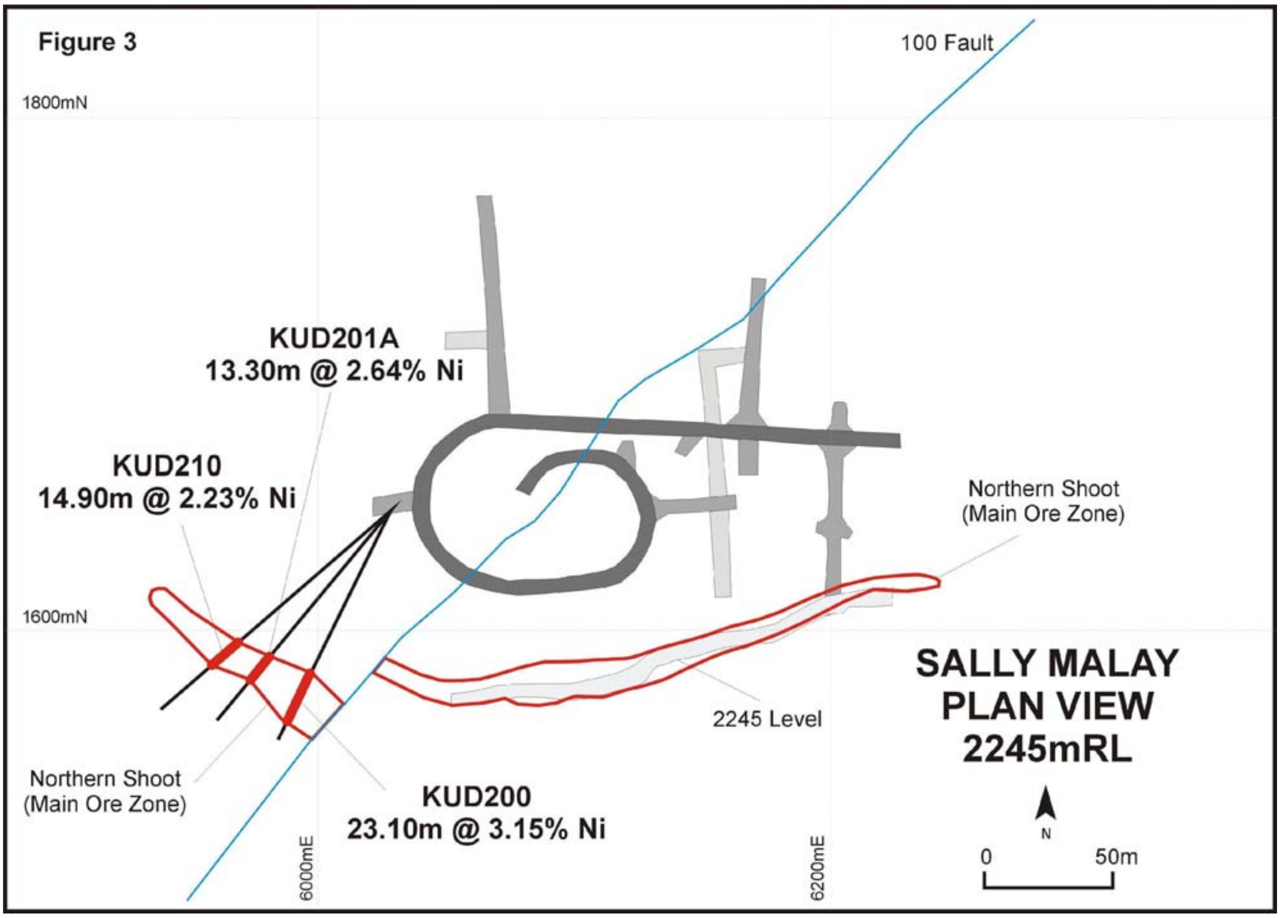
Kimberley Regional

Sally Malay Tenements (100% owned)
Underground drilling carried out during the quarter discovered significant mineralisation outside the current Sally Malay resource/reserve boundary (see Figures 1, 2 & 3). A summary of the drill results is shown in Table 5:

Table 5 – Sally Malay Project – Near Mine Underground Exploration Drilling Results

Drill Hole ID	Width (m)	Nickel (%)	Copper (%)	Cobalt (%)	Comment
KUD01	1.65	3.10	0.34	0.18	MOZ east
KUD12	4.20	1.97	0.28	0.11	MOZ east
KUD13	2.20	1.54	0.25	0.10	MOZ east
KUD45	13.2	2.57	0.93	0.13	MOZ west
KUD56	10.4	1.20	0.37	0.14	MOZ west
(including)	3.64	3.06	0.95	0.12	MOZ west
KUD200	**23.1**	**3.15**	**1.22**	**0.16**	**MOZ west**
KUD201A	**13.3**	**2.64**	**1.6**	**0.12**	**MOZ west**
KUD202	2.22	3.05	1.29	0.15	MOZ west
KUD202	4.1	3.46	0.31	0.17	Possible new south shoot
KUD203	3.8	3.28	0.72	0.17	MOZ west
KUD203	4.5	3.07	1.48	0.15	Possible new south shoot
KUD210	**14.9**	**2.23**	**0.84**	**0.10**	**MOZ west**
KUD211	19.8	3.07	1.05	0.15	MOZ west
KUD221	9.65	2.84	1.00	0.15	MOZ west

Drill holes to the west of the orebody intersected significant mineralisation resulting in an extension to the Sally Malay Main Ore Zone (MOZ) by up to 50 metres further to the west (Figures 2 & 3).



In addition, two of the holes (KUD202 and 203) were extended beyond the MOZ and intersected a previously unknown parallel zone of mineralisation, which could be a new shoot of mineralisation (the "Southern Shoot").

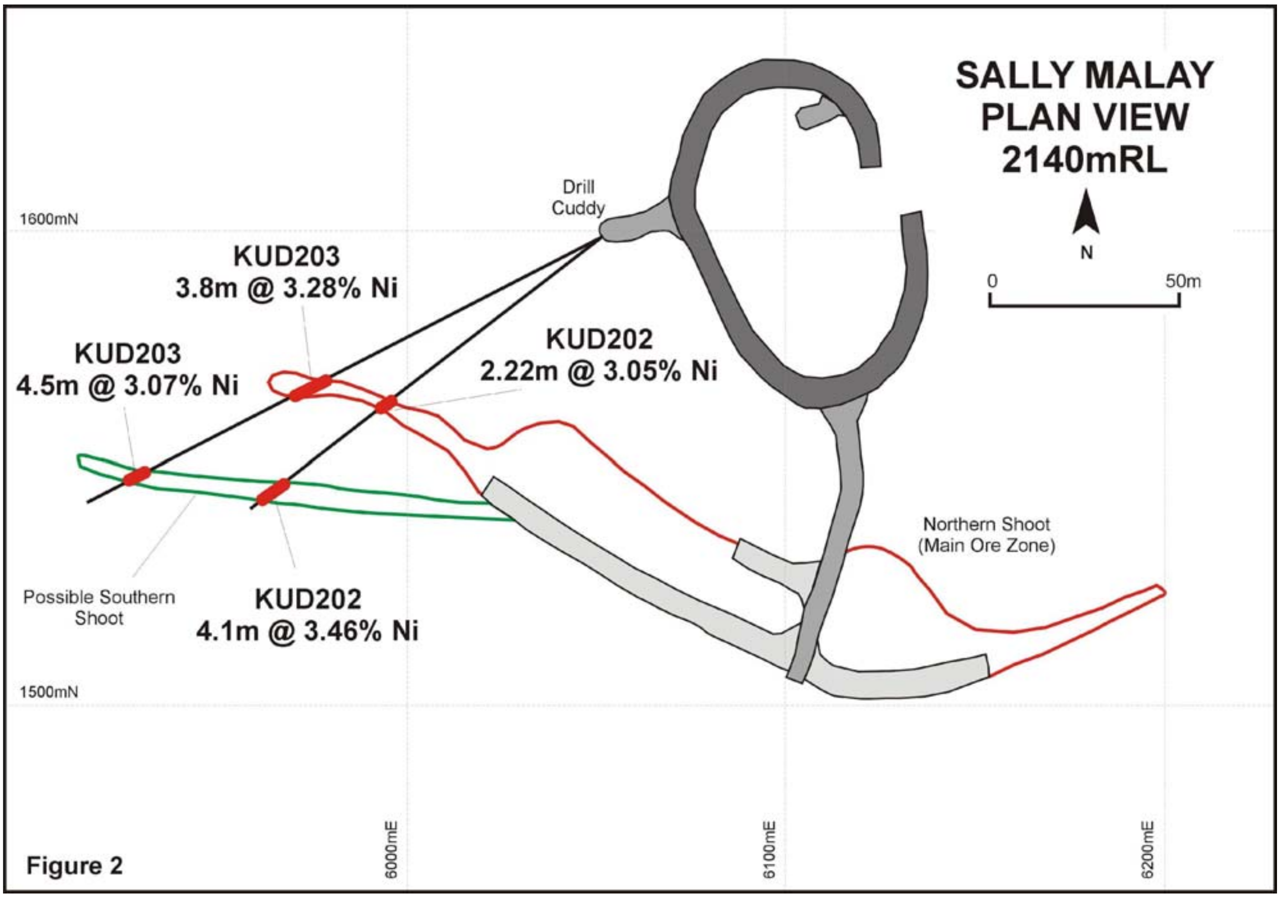


Figure 2

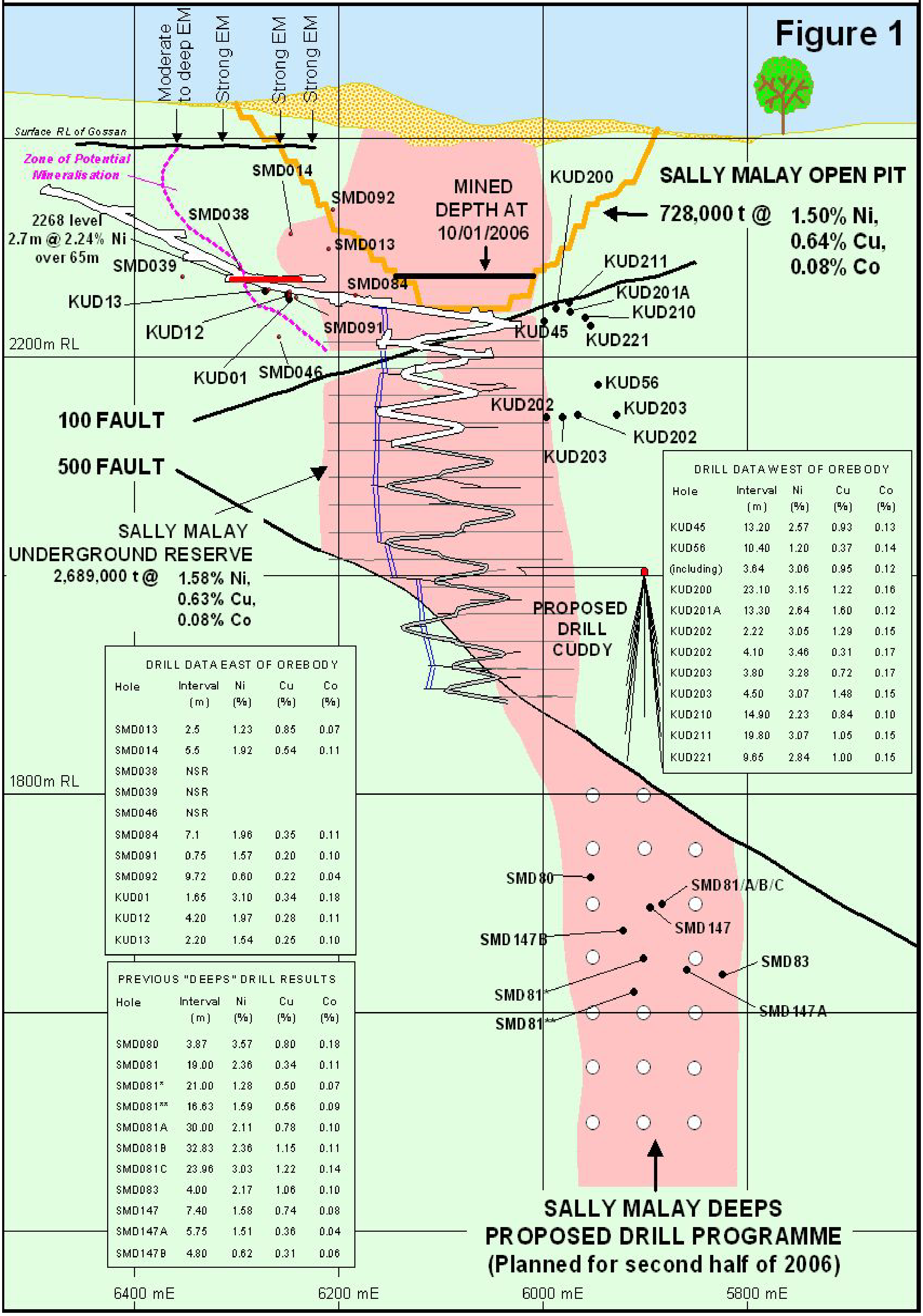
The western and eastern extremities of the MOZ at Sally Malay have previously attracted very limited drilling due to their generally thinner nature and the rugged surface topography above these areas which restricted drill access. The western side of the orebody between 2260mRL, the 500 Fault and west to 5900mE is essentially devoid of any historical surface drill holes and consequently the Company believes these intersections could be the most important since the Company purchased the Project in 2001. If further drilling identifies more mineralisation of similar width and grade this could lead to a significant increase in the resource base in the near term in an area close to the existing underground mining operations. The Company will continue to test these areas as drill positions become available and incorporate this mineralisation into the mining reserve as soon as possible.

Systematic underground stope definition drilling was completed during the quarter between 2140 and 2215mRL and when compared with the Feasibility Study Resource Model indicates a 50% increase in ore tonnes (corresponding to a 38% increase in Ni tonnes). These results confirm that the positive reconciliation trend observed in the open pit is likely to continue into the underground operations. A detail breakdown of the data is presented in Table 6:

Table 6 – Sally Malay Project – Additional Resource Tonnes – stope definition drilling 2140 – 2215mRL

Source	Tonnes ore	Ni grade	Ni tonnes	Cu grade	Cu tonnes	Co grade	Co tonnes
Feasibility Study	525,782	1.64%	**8,623**	0.63%	3,312	0.09%	473
Definition Drilling (2140-2215mRL)	798,300	1.49%	**11,895**	0.63%	5,029	0.10%	798
Increase/decrease	272,518 +51.8%	-0.15% -9.15%	**3,272** **+38.0%**	-	1,717 +51.9%	0.01% +11.1%	325 +68.7%

SALLY MALAY MINE - SCHEMATIC LONGITUDINAL SECTION (LOOKING SOUTH)



DRILL DATA EAST OF OREBODY

Hole	Interval (m)	Ni (%)	Cu (%)	Co (%)
SMD013	2.5	1.23	0.85	0.07
SMD014	5.5	1.92	0.54	0.11
SMD038	NSR			
SMD039	NSR			
SMD046	NSR			
SMD084	7.1	1.96	0.35	0.11
SMD091	0.75	1.57	0.20	0.10
SMD092	9.72	0.60	0.22	0.04
KUD01	1.65	3.10	0.34	0.18
KUD12	4.20	1.97	0.28	0.11
KUD13	2.20	1.54	0.25	0.10

PREVIOUS "DEEPS" DRILL RESULTS

Hole	Interval (m)	Ni (%)	Cu (%)	Co (%)
SMD080	3.87	3.57	0.80	0.18
SMD081	19.00	2.36	0.34	0.11
SMD081*	21.00	1.28	0.50	0.07
SMD081**	16.63	1.59	0.56	0.09
SMD081A	30.00	2.11	0.78	0.10
SMD081B	32.83	2.36	1.15	0.11
SMD081C	23.96	3.03	1.22	0.14
SMD083	4.00	2.17	1.06	0.10
SMD147	7.40	1.58	0.74	0.08
SMD147A	5.75	1.51	0.36	0.04
SMD147B	4.80	0.62	0.31	0.06

DRILL DATA WEST OF OREBODY

Hole	Interval (m)	Ni (%)	Cu (%)	Co (%)
KUD45	13.20	2.57	0.93	0.13
KUD56	10.40	1.20	0.37	0.14
(including)	3.64	3.06	0.95	0.12
KUD200	23.10	3.15	1.22	0.16
KUD201A	13.30	2.64	1.60	0.12
KUD202	2.22	3.05	1.29	0.15
KUD202	4.10	3.46	0.31	0.17
KUD203	3.80	3.28	0.72	0.17
KUD203	4.50	3.07	1.48	0.15
KUD210	14.90	2.23	0.84	0.10
KUD211	19.80	3.07	1.05	0.15
KUD221	9.65	2.84	1.00	0.15

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

Preliminary Metallurgical test work has confirmed that further work is required to incorporate the Panton Process in the Sally Malay processing facilities. Next stages of the Project are:

- A scoping study for the treatment of Panton Ore using the Sally Malay treatment facility, incorporating the Panton Process. This study will include capital and operating costs estimates and should be completed by the end of July 2006.
- During the scoping study, a small parcel of high grade Panton Ore (10t) will be mined and processed through a small Pilot plant. Timing of the pilot test work is dependant on Sally Malay plant availability.
- Assuming a positive outcome for the scoping study and Pilot Plant test work, a decision will be made to process a larger parcel of ore (+2,500t) at the Sally Malay Plant. The current plan is to complete this large scale test work by the end of this calendar year.

Copernicus JV (Sally Malay 60%)

On 13 April the Company and Thundelarra Exploration Ltd (“THX”) announced they had signed a formal deed settling their dispute (“Dispute”) in relation to the Copernicus Project. Under the deed:

- THX confirmed that Sally Malay Exploration Pty Limited (“SME”), being a wholly owned subsidiary of SMY, has earned a 60% interest in the Copernicus Project;
- SME agrees to contribute the first $3,500,000 to expenditure on the Copernicus Project over the next 4 years. In the first year not less than $1,000,000 must be contributed to expenditure of which not less than $500,000 must be contributed to expenditure on drilling of the area known as the “Copernicus Deeps” prospect;
- After the first year SME must contribute not less than $500,000 to expenditure before it is able to withdraw from the joint venture.
- THX issued 2,500,000 shares to SMY at an issue price of $0.20 per share to raise $500,000;
- THX granted 2,500,000 unlisted options to SMY to subscribe for shares in THX at an exercise price of $0.40 per option. The options may be exercised at any time in the next 3 years;
- SMY and THX have agreed to release each other from any further claims in relation to the Dispute and agreed to formerly discontinue the current action in the Supreme Court of Western Australia with no order for costs.

The deed also sets out the detailed terms of the joint venture between SME (60%) and THX (40%) moving forward and the basis, in principle, upon which Sally Malay (through its wholly owned subsidiary, Kimberley Nickel Mines Pty Ltd) agrees to treat THX’s share of any ore that may be mined from the possible Copernicus open pit mine. No decision to develop and mine the open pit has been made at this time.

Some of the other important elements of the joint venture are as follows:

- THX has the right, should it elect to dilute its interest in the open pit and that interest dilutes to 20%, to transfer its interest in the open pit only (retaining a 40% interest in the Copernicus Deeps) to SME in return for a tonnage based royalty. The royalty will be A$3.50 per tonne of ore mined from the open pit provided that if the average US$ nickel price over any quarter is US$11,023 per tonne (US$5.00 per pound) or more the royalty for that quarter will increase to A$5.00 per tonne;
- SME has the right to make a decision to develop and mine the open pit at any time. Any decision to develop and mine any other part of the Project (including the Copernicus Deeps) will require a unanimous decision; and
- THX has granted SME a right of first refusal should THX wish to deal with its interest in any tenements within an 80 km radius of the SMY plant - this right does not however apply to any tenements that are the subject of the joint venture between THX and Lion Ore.

Work on progressing the open pit development and drilling the Copernicus Deeps has already commenced.

Lanfranchi Joint Venture (Sally Malay 75%)

Lanfranchi in-Mine - Schmitz (Skinner) Extension

The nine hole drill programme targeting the down plunge continuation of the Schmitz orebody which started in late 2005 was completed during the quarter. The programme followed on from an earlier two-hole programme completed in late 2005, which intersected 6.78m grading 5.13% Ni approximately 50 metres down plunge from the previously deepest tier of holes drilled by WMC Resources. The results from the seven holes completed during the quarter are summarised in Table 7:

Table 7: Schmitz Extension 2006 Drill Results

Drill Hole	From (m)	To (m)	Interval (m)	True Thickness (m)	Ni (%)	Comments
SMT-103	187.60	189.24	1.64	1.54	6.60	Fpo contact ore zone
SMT-104	190.00	190.90	0.90	0.84	4.80	Fpo contact ore zone
SMT-105	188.76	190.39	1.63	1.51	6.60	Fpo contact ore zone
SMT-106A	216.31	218.44	2.13	1.40	6.07	Fpo contact ore zone
SMT-106A	240.41	244.03	1.62	1.00	5.35	Min. below porphyry
SMT-107	208.53	210.46	1.93	1.25	8.39	Fpo contact ore zone
SMT-108	244.62	248.00	3.38	2.10	2.61	Min. below porphyry
(including)	245.43	248.00	2.57	1.60	3.09	Min. below porphyry
SMT-109	308.10	310.49	2.39	1.30	3.43	Min. below porphyry

The initial three drill holes (SMT-103, 104 & 105) targeted the Schmitz orebody over a strike length of 45 metres (about -460mRL) approximately 20m down-plunge from the previous deepest drilling by WMC Resources. The second tier of drill holes (SMT-106A, 107 & 108), targeted the ore body 25 – 30m down plunge from the first tier of drill holes, over a strike length of 35 metres. Drill hole SMT-109 which was targeted 50 metres down plunge of the second tier of drill holes, intersected the ore body 100 metres down plunge from the second tier drill holes. The "*Fpo contact ore zone*" intersected in drill holes SMT-103, 104, 105, 106 & 107 was located on the upper contact of a porphyry dyke, which appears to intrude along the Kambalda Komatiite-Lunnon Basalt contact in this part of the Schmitz ore body. The remaining intersections "*Min. below porphyry*" intersected the mineralization below the porphyry dyke in the classical Kambalda Komatiite–Lunnon Basalt contact position.

The drilling undertaken to date by the Lanfranchi JV confirms that the Schmitz orebody continues down plunge for at least 150 metres below the previous deepest drilling conducted by WMC Resources and 330 metres below where WMC Resources ceased mining in 2002. The mine geologists have determined an indicated resource of **79,523t at 4.26% Ni for 3,389t Ni contained**. This new zone is called the Schmitz Extension. Work has now commenced on determining an ore reserve, detail mine plan and economic analysis for this newly defined Schmitz Extension. It is anticipated that this work will be completed during Q2 2006 and if the outcome is positive this could result in production from Schmitz Extension commencing during 2nd half 2006, subject to the Lanfranchi JV making a decision to proceed.

CORPORATE

Cash Position & Corporate Debt

The cash on hand at the end of the quarter of $10.6 million was lower than anticipated due to the lower production from Sally Malay as a result of the pit wall slippage. In addition, Senior Bank debt was reduced by $4.75 million to $32.5 million via a scheduled repayment on 31 March. Further early pre-payments of $1.3 million each are due to be paid on 28 April 2006 and 31 May 2006 as a result of the cash sweep mechanism. The Company anticipates to have repaid 50% of the Senior Bank debt by 30 June 2006.

Hedging

The Company has continued to deliver into its hedge book and has reduced the nickel hedging to approximately 10% of the Company's current reserve base. The metal and currency hedge book as at 31 March 2006 was as follows:

Commodity	**Quantity**	**Average Price/Rate**
Nickel (delivery Apr 2006-Apr 2008)	6,526t	US$10,328/t **US$4.68/lb**
Copper (delivery Apr 2006-Dec 2006)	750t	US$4,829/t **US$2.19/lb**
Currency - matched with Ni	US$64.1 million	0.7109
Currency - unmatched	US$12.6 million	0.6758
Currency - total	US$76.7 million	**0.7051**

The Company forward sold 750t of copper in February 2006 for delivery between April and December 2006 at an average price of US$4,829/t (US$2.19/lb). The Sally Malay Project produces approximately 3,500t contained copper per annum in concentrate.

New Equity/Options

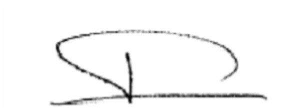
The Company allotted a total of 560,000 new shares during the quarter, following the exercise of the same number of unlisted options. The weighted average exercise price of the unlisted options was $0.54 per option.

On 3 March 2006, the Company agreed to issue a second tranche of unlisted employee options under the existing 2004 Sally Malay Employee Share Option Plan. Under tranche two, Sally Malay Group employees are to be allotted a total of 1,795,000 unlisted employee options at an exercise price of $0.85 per option. The unlisted options expire on 20 September 2008 and have vesting terms of 50% vesting on 20 September 2006 and the balance vesting on 20 September 2007.

2005/06 Full Year Profit (NPAT) Indication

Based on the revised forecast for Sally Malay production (8,000t Ni contained) and assuming an average nickel price of US$6.85/b (A$9.30/lb), which is well below the current spot price and an exchange rate of US$/A$ 0.74 for the remainder of the 2005/06 financial year, the Company is anticipating a full year NPAT in the vicinity of $15 million.

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 that five years experience in the field of the activity being reported on.

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