



SALLY MALAY MINING LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2006



SIGNIFICANT EVENTS DURING QUARTER

- Heavily oversubscribed private placement at \$1.25/share raises \$20 million in new equity
- Cash on hand in excess of \$30 million and senior debt down to \$24 million
- Sally Malay produced 1,584t Ni for quarter, below budget due to difficult ground conditions and fleet availability
- Helmut South Ni production of 1,206t Ni was a 51% increase on previous quarter
- New Winner resource of 110,500t at 5.56% Ni is a 33% increase on previously reported resource
- Schmitz Extension resource of 85,500t @ 4.43% Ni and mining reserve reported
- Strong high-priority conductor detected on northern edge of Tramways Dome structure by Geoferrret EM system

SALLY MALAY PROJECT

Ore production at Sally Malay was again below budget for the quarter predominately due to difficulties experienced with footwall ground conditions and fleet availability in June. The Project produced approximately 7,500t of contained Ni in FY2005/06 compared to the original budget of 8,700t however, given that over 1,000t of Ni was left in the bottom of the open pit following the wall slip in January 2006, the final figure of 7,490t for FY2005/06 which is 86% of original budget is a satisfactory outcome. The budget for FY2006/07 is approximately 8,600t of contained Ni.

Operating Statistics

Table 1 – Sally Malay Operating Statistics

| Area | Details | Units | 3 mths ending 30 June 2006 | 3 mths ending 31 Mar 2006 | 2005/06 Year to Date |
|-----------------------------------|--------------------|--------|-------------------------------|------------------------------|-------------------------|
| Mining | Open Pit - Waste | bcm | - | 530 | 612,503 |
| | Open Pit – Ore | bcm | - | 212 | 120,490 |
| | Open Pit – Ore | tonnes | - | 10,400 | 431,372 |
| | Underground ore | tonnes | 140,955 | 110,296 | 305,535 |
| | Ni grade | % | 1.32 | 1.14 | 1.17 |
| | Cu grade | % | 0.56 | 0.59 | 0.53 |
| | Co Grade | % | 0.05 | 0.04 | 0.06 |
| Milling | Ore | tonnes | 140,425 | 159,657 | 760,163 |
| | Ni grade | % | 1.33 | 1.14 | 1.16 |
| | Cu grade | % | 0.52 | 0.59 | 0.52 |
| | Co Grade | % | 0.06 | 0.04 | 0.06 |
| | Ni Recovery | % | 88.1 | 83.6 | 84.6 |
| | Cu Recovery | % | 92.0 | 93.6 | 93.9 |
| | Co Recovery | % | 98.6 | 87.6 | 92.7 |
| Concentrate Production | Concentrate | tonnes | 18,237 | 18,708 | 88,041 |
| | Ni grade | % | 8.69 | 8.21 | 8.51 |
| | Ni metal contained | tonnes | 1,584 | 1,535 | 7,490 |
| | Cu grade | % | 3.70 | 4.68 | 4.25 |
| | Cu metal contained | tonnes | 675 | 875 | 3,742 |
| | Co grade | % | 0.57 | 0.32 | 0.46 |
| | Co metal contained | tonnes | 104 | 60 | 410 |

| Area | Details | Units | 3 mths ending 30 June 2006 | 3 mths ending 31 Mar 2006 | 2005/06 Year to Date |
|------------------------------|--------------------|-------------------|-------------------------------|------------------------------|-------------------------|
| Concentrate Shipments | Concentrate | Dry metric tonnes | 26,959 | 10,904 | 87,898 |
| | Ni grade | % | 8.73 | 8.13 | 8.45 |
| | Ni metal contained | tonnes | 2,352 | 887 | 7,426 |
| | Cu grade | % | 4.31 | 4.36 | 4.22 |
| | Cu metal contained | tonnes | 1,163 | 475 | 3,713 |
| | Co grade | % | 0.47 | 0.45 | 0.46 |
| | Co metal contained | tonnes | 127 | 49 | 408 |

Note: The June 2006 quarterly physicals include adjustments to reflect reconciled project to date values.

Process Plant

Sally Malay Plant recoveries continued to exceed budget throughout the quarter. Planned maintenance has been scheduled to occur when low ore stocks allow for a shutdown, resulting in improved plant availability. Installation of a particle size instrument has also improved grind sizing management. As ore is now sourced 100% from underground, 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.

Underground Mining

The underground mine continued to accelerate production rates during the quarter with over 140,000t trucked. Production in the later part of the quarter was hampered by difficulties experienced with footwall ground conditions and haulage fleet availability. Increased structural mapping to improve ground support design and placement is being undertaken to avoid further complications. Recovery of the remnant open pit resource commenced from underground in late June. Evaluation of near surface extensions to the main ore zone are ongoing and have the potential to increase production rates in the near term. Production for the 1st half of FY2006/07 is targeting between 65-80,000t/month.

Financial Statistics

Table 2 – Sally Malay Financial Statistics

| Area | Units | 3 months ending 30 June 2006 | 3 months ending 31 March 2006 | 2005/06 Year to Date |
|---|--------------------|---------------------------------|----------------------------------|-------------------------|
| Payable Nickel Produced | lbs | 3,493,441 | 3,384,974 | 16,514,147 |
| Mining Costs | A\$ per lb | 2.23 | 2.08 | 2.22 |
| Milling Costs | A\$ per lb | 1.14 | 1.15 | 1.06 |
| Concentrate Haulage | A\$ per lb | 0.09 | 0.19 | 0.13 |
| Administration | A\$ per lb | 0.44 | 0.53 | 0.37 |
| Less Capitalised Site Costs | A\$ per lb | (0.98) | (0.40) | (1.28) |
| Total Cash Cost at Mine Gate | A\$ per lb | 2.92 | 3.55 | 2.50 |
| Smelting/shipping Costs | A\$ per lb | 5.89 | 3.90 | 4.49 |
| By-product Credits | A\$ per lb | (3.20) | (2.65) | (2.55) |
| Total C1 Cash Costs | A\$ per lb | 5.61 | 4.80 | 4.44 |
| Total C1 Cash Costs | US\$ per lb | 4.23 | 3.53 | 3.32 |
| Royalty Cost | A\$ per lb | 0.35 | 0.27 | 0.30 |
| Open Pit/Underground Amort | A\$ per lb | 0.41 | 0.42 | 0.77 |
| Depreciation/Other Amortisation | A\$ per lb | 0.95 | 1.20 | 0.91 |
| Net Finance Costs/Other | A\$ per lb | 0.24 | 0.27 | 0.23 |
| Total C3 Costs | A\$ per lb | 7.56 | 6.96 | 6.65 |
| Total C3 Costs | US\$ per lb | 5.70 | 5.12 | 4.97 |
| Net Nickel Revenue (inc hedging) | A\$ per lb | 9.93 | 8.72 | 8.76 |

LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)

Production

The Lanfranchi JV produced a record 46,416t of ore during the quarter at an average grade of 2.6% Ni for 1,206t Ni contained. This was a 44% increase in tonnes mined compared to the previous quarter while nickel contained increased by 51%. These figures reflected a continuing improvement in operational performance in all areas.

Paste filling of drives is now a routine part of the operation demonstrating greater reliability of the system and better understanding of operating conditions and constraints. The Helmut South orebody has now been exposed on four levels while the decline access has advanced to within 100m of the next level and the associated vent return airways have been driven to all levels. The high-grade footwall lode encountered in the Helmut South 4420 level was a bonus in terms of tonnes and grade and the geological continuity of this area, up-dip towards the previously mined Helmut orebody, will be tested in the next quarter. Small scale airleg mining in the Lanfranchi remnants continued to make a contribution to production.

Operating Statistics (100%)

Table 3 – Lanfranchi Operating Statistics

| Area | Details | Units | 3 months ending 30 June 2006 | 3 months ending 31 March 2006 | 2005/06 Year to Date |
|----------------------|--------------------|--------|---------------------------------|----------------------------------|-------------------------|
| Mining | Ore mined | tonnes | 46,593 | 30,966 | 107,701 |
| | Ni grade | % | 2.60 | 2.43 | 2.53 |
| | Ni metal contained | tonnes | 1,212 | 754 | 2,722 |
| | Cu grade | % | 0.23 | 0.21 | 0.22 |
| Ore Delivered | Ore delivered | tonnes | 46,413 | 32,241 | 107,133 |
| | Ni grade | % | 2.60 | 2.49 | 2.51 |
| | Ni metal contained | tonnes | 1,208 | 802 | 2,691 |
| | Cu grade | % | 0.23 | 0.21 | 0.22 |

Financial Statistics (100%)

Table 4 – Lanfranchi Financial Statistics

| Area | Units | 3 months ending 30 June 2006 | 3 months ending 31 March 2006 | 2005/06 Year to Date |
|-------------------------------------|--------------------|---------------------------------|----------------------------------|-------------------------|
| Payable Nickel Produced | lbs | 2,671,118 | 1,661,843 | 6,000,535 |
| Mining Costs | A\$ per lb | 1.49 | 2.02 | 1.94 |
| Ore Haulage | A\$ per lb | 0.09 | 0.10 | 0.09 |
| Administration | A\$ per lb | 0.73 | 0.79 | 0.80 |
| Total Cash Cost at Mine Gate | A\$ per lb | 2.31 | 2.91 | 2.83 |
| Smelting | A\$ per lb | 5.87 | 4.68 | 5.05 |
| By-product Credits | A\$ per lb | (0.38) | (0.27) | (0.30) |
| Total C1 Cash Costs | A\$ per lb | 7.80 | 7.32 | 7.58 |
| Total C1 Cash Costs | US\$ per lb | 5.88 | 5.38 | 5.66 |
| Royalty Cost | A\$ per lb | 0.27 | 0.21 | 0.23 |
| Depreciation/Amortisation | A\$ per lb | 1.23 | 2.01 | 1.46 |
| Net Finance Costs/Other | A\$ per lb | 0.06 | 0.09 | 0.08 |
| Total C3 Costs | A\$ per lb | 9.36 | 9.63 | 9.35 |
| Total C3 Costs | US\$ per lb | 7.05 | 7.08 | 6.99 |
| Net Nickel Revenue | A\$ per lb | 12.07 | 9.19 | 10.15 |

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).

Additional Reserves

Work continued on increasing the reserve base at Lanfranchi with a view into increasing annual Ni production and extending mine life. Full details of the work on these projects during the quarter are covered in Exploration section.

EXPLORATION

Kimberley Regional

Sally Malay Tenements (100% owned)

Limited underground drilling was carried out during the quarter due to lack of available drill rigs and drilling positions.

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

Initial metallurgical test work has confirmed that the Sally Malay grinding and flotation circuits will be able to treat Panton ore in the initial stages of processing. Recovery of PGM's will require a separate circuit incorporating the Panton Process. Further metallurgical testwork is required and will necessitate re-entry into the Panton Exploration Decline in order to recover a 500t, high grade bulk sample. The 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.
- Sally Malay has acquired the Panton Camp and has installed caretakers. This season's exploration activities in the Kimberley will be based out of Panton along with the bulk sampling operations.
- Australian Contract Mining has been selected as Sally Malay's preferred contractor to carry out the rehabilitation of the Panton Exploration Decline and recovery of the bulk sample by developing along the orebody. The approval process is well advanced and activities are expected to commence in mid August, extending over an eight week period.
- 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%)

Work progressed on the open pit development and planning for the drilling of the Copernicus Deeps following the resolution of the dispute between the Company and Thundelarra Exploration Ltd (THX) whereby:

- THX confirmed that Sally Malay Exploration Pty Limited (SME), being a wholly owned subsidiary of Sally Malay, has earned a 60% interest in the Copernicus Project; and
- SME agreed to contribute the first \$3,500,000 to expenditure on the Copernicus Project over the next four years.

Preparation of the Notice of Intent (NOI) for the Copernicus Open Pit development commenced, with several environmental surveys already completed. It is envisaged the NOI report will be completed in Q4 2006.

Drilling of the Copernicus Deeps commenced in July with nine holes completed as at 18 July. The objective of the drill programme is to delineate the Copernicus Deeps in sufficient detail to enable the estimation of the Mineral Resources prior to eventually determining the Ore Reserve. All nine holes drilled intersected mineralised Copernicus pyroxenite, with intersections ranging from 2m to 26m in thickness. Assay results are pending.

Wills Creek (Sally Malay earning 70%)

A FLEM (Fixed loop electro-magnetic) survey was completed during the quarter over parts of the Wills Creek Sill (WCS), approximately 8 km NE of Copernicus. Two anomalies were identified immediately to the west of the WCS and we plan to drill test both anomalies in Q3 2006, subject to approval of ground disturbance applications. Additional drilling planned in Q3 2006 includes a fence of holes across a coincident Ni-Cu soil anomaly and outcropping pyroxenite unit at Palamino and a single hole to test a modeled FLEM conductor, also at Palamino.

Melon Patch (Sally Malay earning 70%)

An agreement was reached during the quarter with Pathfinder Exploration Pty Ltd to explore several tenements located 5km NW of Copernicus. These tenements contain rock types similar to the Panton Sill (located 15km to the SW) and are considered to be prospective for both Panton and Copernicus style mineralisation. A HoistEM survey is scheduled to be flown over the tenements in Q3 2006.

Lanfranchi Joint Venture (Sally Malay 75%)

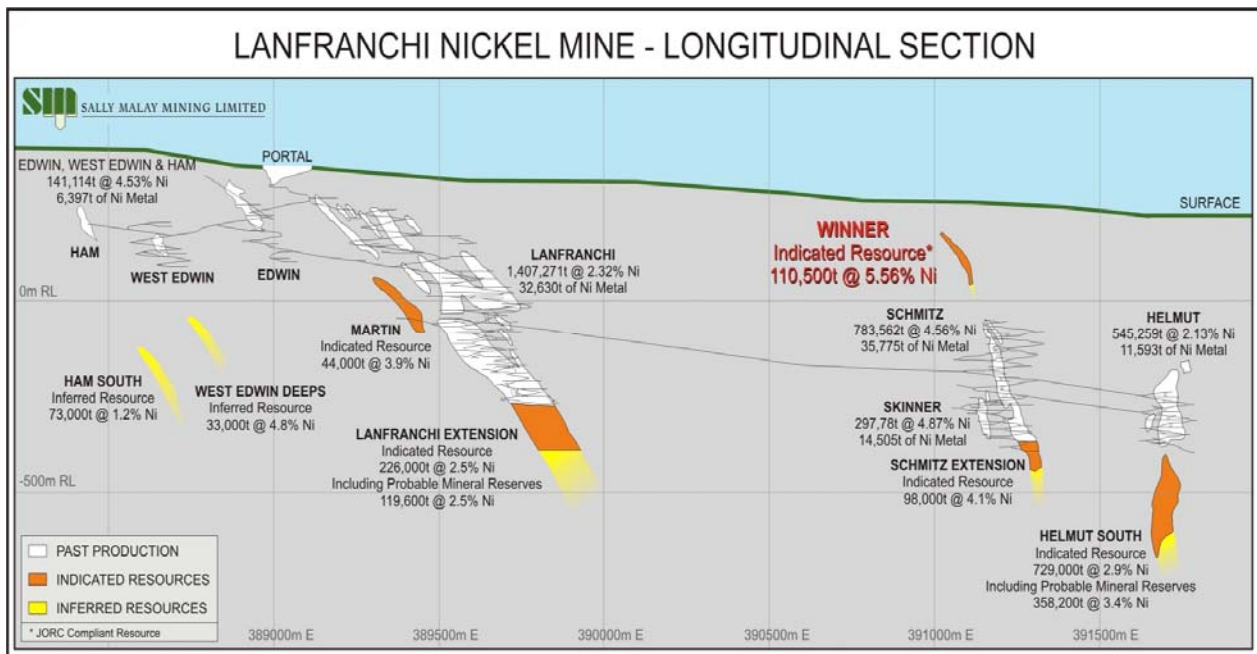
Winner

Based on the 12-hole programme undertaken by the Lanfranchi JV and drilling by previous owners an updated, JORC-compliant, resource estimate of **110,500t at 5.56% Ni for 6,100t Ni contained** was reported by BM Geological Services Pty Ltd for the Winner resource during the quarter. Winner is a high-grade shoot of massive sulphide mineralisation located up-dip of the Schmitz orebody extending continuously over a length of approximately 150m between a depth of 150m and 250m below the surface.

Work has commenced on a detailed mine plan, ore reserve estimate and project financial analysis. It is anticipated that this work will be completed during Q3 2006 and if the outcome is positive could result in development of the Winner orebody commencing as early as 2007, subject to the Lanfranchi Joint Venture making a final decision to proceed.

Schmitz Extension

Work continued on mine planning and reserve estimation of the Schmitz Extension resource during the quarter and Donegal Resources (our Lanfranchi JV partner) calculated a mining reserve of either **90,021t at 3.22% Ni for 2,896t Ni contained** assuming airleg mining, or **86,049t at 2.92% Ni for 2,512t Ni contained** assuming mechanised (longhole stoping) mining. The Feasibility Study confirmed that mining this reserve (via either mining method) was economic at Ni prices lower than the current spot price and based on current thinking the reserve could be mined during 2007, subject to the Lanfranchi JV making a final decision to proceed.



Overturned Tramways Dome Model

In order to test for buried sulphide deposits along the northern edge of the "Tramways Dome", where evidence exists of a possible overturned basal contact, the Lanfranchi JV conducted a deep penetrating electromagnetic survey using the BHP Billiton proprietary system called Geoferrret. Three transmitter loops (1,000m x 500m) covering a total area of 1.52km² and 2.85km strike length were surveyed to trial the technique. The key results of the survey were as follows:

- One strong high-priority conductor with a geophysical response indicative of sulphide mineralisation was detected near the western edge of the survey area beneath Loop 3.
- The presence of a large buried conductor (Plates A and B) likely interpreted to be a sulphidic sediment layer was identified beneath Loops 1 and 2.
- The steep dip and orientation of these conductors support the existence of an overturned contact thereby supporting the "Tramways Dome" geological interpretation and significantly expanding the potential of the Tramways tenements.

Subject to the availability of a suitable drill rig, drill testing the conductors to confirm their source, orientation and stratigraphic position is planned for the near future.

CORPORATE

Cash Position & Corporate Debt

The cash on hand at the end of the quarter was \$31 million while Senior Bank debt decreased by \$9 million to \$24 million via scheduled repayments and the cash sweep mechanism.

Hedging

The Company has continued to deliver into its hedge book during the quarter. In May, the Board approved an active Hedging Policy allowing additional nickel hedging to a maximum 24 month forward horizon on up to 50% of payable contained nickel metal provided the forward nickel price achieved, when matched with US\$ forward currency contracts, is A\$8/lb or better. The metal and currency hedge book as at 30 June 2006 was as follows:

| Commodity | Quantity | Average Price/Rate |
|--|------------------|------------------------------------|
| Nickel (delivery July 2006-May 2008) | 6,468 | US\$11,418/t US\$5.18/lb |
| Copper (delivery July 2006-Dec 2006) | 450t | US\$4,829 US\$2.19/lb |
| Currency - matched with Ni | US\$69.5 million | 0.7217 |
| Currency - unmatched | US\$10.5 million | 0.6758 |
| Currency - total | US\$80.0 million | 0.7157 |

Based on forecast production for FY2006/07 the Company is approximately 60% hedged in terms of forecast payable nickel metal which means 40% of payable nickel production will attract the spot nickel price. In light of the exceptionally high spot nickel price the Company is continuing to study opportunities to produce extra payable nickel from both operations to take advantage of this high nickel price environment.

New Equity

The Company raised \$20 million (before transaction costs) of new equity during the quarter via a heavily oversubscribed private placement at \$1.25 per share mostly to local and overseas based institutional investors.

General Meeting

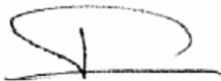
A General Meeting of the Company's shareholders is set down for 3pm on 21 August 2006. This meeting has been called to ratify the \$20 million placement and to approve the issue of 120,000 shares to the non-executive directors who participated in the placement.

Resignation of Non-executive Director

It was with regret that the Company recently announced the resignation of Edward Jewell-Tait as a non-executive director, effective from 30 June 2006. Edward has accepted a senior executive role with the Commonwealth Bank in Sydney and was unable to continue as a member of the Board. Edward's input on the Board, especially in commercial and finance/treasury matters, had been invaluable to the Company since he joined the Board late last year.

The Company will review the current board structure over the coming months and will look to bring on another non-executive director with the right skill set at an appropriate time.

Yours faithfully,
SALLY MALAY MINING LIMITED



PETER HAROLD
Managing Director

The information in this Public Report that relates to Exploration Results is based on information compiled by Mr John Hicks. Mr Hicks is a full-time employee of Sally Malay Mining Limited. Mr Hicks has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Hicks consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Information in this report relating to the Lanfranchi Winner Mineral Resource and the Lanfranchi Schmitz Extension Mineral Resource/Reserves has been either completed by or reviewed by Mr Andrew Bewsher of BMGS (BM Geological Services Pty Ltd). Mr Bewsher is a member of The Australasian Institute of Geoscientists and has sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Bewsher consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

For further information contact:
Peter Harold, Managing Director
Sally Malay Mining Limited
Telephone 61-8-9225-0999
www.sallymalay.com