SALLY MALAY MINING LIMITED

QUARTERLY REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2006

SIGNIFICANT EVENTS DURING QUARTER

- Cash on hand of $35 million and trade receivables of $17 million. Senior debt down to $17 million
- Sally Malay Project produced 1,920t Ni for the quarter, 21% increase on the previous quarter
- Lanfranchi Project mined 55,547t ore and produced 1,270t Ni for the quarter, a 5% increase on the previous quarter
- Lanfranchi JV approved development of the high grade Winner orebody (132,370 tonnes at 4.1% Ni)
- New nickel sulphide mineralisation discovered adjacent to the Helmut South resource (named “Deacon”)
- Best intersections at Deacon include 111m at 2.9% Ni and 91m at 2.3% Ni
- Massive sulphide on the basal contact at Deacon returned 6.21m at 7.55% and Ni 2.34m at 5.81% Ni
- Significant intercepts reported in the 4420 zone of Helmut South including 12m at 3.17% Ni and 11m at 3.29% Ni
- Drilling confirms Copernicus hosts a significant underground sulphide resource
- Best intersections from Copernicus include 24m at 2.46% Ni, 14m at 1.54% Ni and 14m at 1.81% Ni

SALLY MALAY PROJECT

Record ore production was achieved from underground operations during the quarter at the Sally Malay Project. The Project produced 1,920t of contained Ni in concentrate during the quarter compared to 1,584t Ni for the previous quarter. Copper production was up 25% on last quarter to 842t contained. Operations at the Sally Malay Project remain on track to produce budget of 8,600t of contained Ni this fiscal year.

Operating Statistics

Table 1 – Sally Malay Operating Statistics

Area	Details	Units	3 mths ending 30 Sep 2006	3 mths ending 30 June 2006	2006/07 Year to Date
Mining	Underground ore	dmt	181,175	140,955	181,175
	Ni grade	%	1.21	1.32	1.21
	Cu grade	%	0.47	0.56	0.47
	Co Grade	%	0.06	0.05	0.06
Milling	Ore	dmt	181,036	140,425	181,036
	Ni grade	%	1.22	1.33	1.22
	Cu grade	%	0.48	0.52	0.48
	Co Grade	%	0.06	0.06	0.06
	Ni Recovery	%	87.1	88.1	87.1
	Cu Recovery	%	96.5	92.0	96.5
	Co Recovery	%	91.6	98.6	91.6
Concentrate Production	Concentrate	dmt	23,322	18,237	23,322
	Ni grade	%	8.23	8.69	8.23
	Ni metal contained	dmt	1,920	1,584	1,920
	Cu grade	%	3.61	3.70	3.61
	Cu metal contained	dmt	842	675	842
	Co grade	%	0.44	0.57	0.44
	Co metal contained	dmt	102	104	102

Area	Details	Units	3 mths ending 30 Sep 2006	3 mths ending 30 June 2006	2006/07 Year to Date
Concentrate Shipments	Concentrate	dmt	18,604	26,959	18,604
	Ni grade	%	8.23	8.73	8.23
	Ni metal contained	dmt	1,530	2,352	1,530
	Cu grade	%	3.60	4.31	3.60
	Cu metal contained	dmt	669	1,163	669
	Co grade	%	0.44	0.47	0.44
	Co metal contained	dmt	81	127	81

Underground Mining

The underground mine continued to ramp up to forecast production rates during the quarter with over 180,000t trucked, even though production in the first two weeks of the quarter was hampered by haulage fleet availability. Recovery of the remnant open pit resource continued from underground during the quarter. Evaluation of near surface extensions to the main ore zone are ongoing and have the potential to increase production rates in the near term.

Process Plant

Sally Malay plant recoveries continued to exceed design with an average of 87% achieved for Ni during the quarter against a design of 78%.

Concentrate Shipments

We made three shipments in the September quarter totalling 18,604dmt at an average grade of 8.23% Ni for 1,530t of contained Ni. This quarter we made two shipments in October totalling 10,309tdmt and we have three more shipments scheduled in the December quarter. Total shipments should be close to 30,000dmt for this quarter containing approximately to 2,400t Ni, subject to mine production and ship availability.

Financial Statistics

Table 2 – Sally Malay Financial Statistics

Area	Units	3 months ending 30 Sep 2006	3 months ending 30 June 2006	2006/07 Year to Date
Nickel Produced	lbs	4,232,870	3,493,441	4,232,870
Mining Costs	A$ per lb	2.00	2.23	2.00
Milling Costs	A$ per lb	1.16	1.14	1.16
Concentrate Haulage	A$ per lb	0.13	0.09	0.13
Administration	A$ per lb	0.37	0.44	0.37
Less Capitalised Site Costs	A$ per lb	(0.43)	(0.98)	(0.43)
Total Cash Cost at Mine Gate	A$ per lb	3.23	2.92	3.23
Smelting/shipping Costs	A$ per lb	7.36	5.89	7.37
By-product Credits	A$ per lb	(2.86)	(3.20)	(2.86)
Total C1 Cash Costs	A$ per lb	7.73	5.61	7.73
Total C1 Cash Costs	US$ per lb	5.87	4.23	5.87
Royalty Cost	A$ per lb	0.50	0.35	0.50
Depreciation/ Amortisation Costs	A$ per lb	1.59	1.36	1.59
Net Finance Costs/Other	A$ per lb	0.26	0.24	0.26
Total C3 Costs	A$ per lb	10.08	7.56	10.08
Total C3 Costs	US$ per lb	7.65	5.70	7.65
Net Nickel Revenue (inc hedging)	A$ per lb	11.41	9.93	11.41

Note: Net Nickel Revenue is a notional figure based on Ni metal produced (including hedging). Net Nickel Revenue in the quarter was lower than budget as a result of an increase in the tonnes of out-of-the money nickel hedges that were delivered into. These nickel hedges were put in place as a precondition of the 2003 Senior Bank Debt Facility (refer to Corporate Section of this report for further details).

LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)

Production

The Lanfranchi JV produced a record 55,547t of ore during the quarter at an average grade of 2.29% Ni for 1,272t Ni contained. This was a 19% increase in tonnes mined compared to the previous quarter and a 5% increase in contained nickel due to marginally lower grades compared to the previous quarter (2.3% vs. 2.6%Ni). This equates to an annualised rate of approximately 220,000t of ore which is close to forecast of 240,000t and was achieved despite a paste line blockage which occurred in August. A surface drill was engaged to drill through the paste in the vertical section of the paste line and high pressure pipe cleaning equipment was used to clean the underground paste reticulation system. This process took about three weeks to complete and during this time mine design was varied to mine without using paste fill. The paste line is now fully operational and the vertical section has been lined to minimise the potential for blockages occurring again in this section of the pipe.

The Helmut South orebody has now been exposed on five levels and the associated vent return airways have been driven to all levels. The high-grade footwall lode encountered in the Helmut South 4420 level has been quantified further with significant intercepts of 12m at 3.17% Ni and 11m at 3.29% Ni. Small scale airleg mining in the Lanfranchi remnants continued to make a contribution to production during the quarter.

Operating Statistics (100%)

Table 3 – Lanfranchi Operating Statistics

Area	Details	Units	3 months ending 30 Sep 2006	3 months ending 30 June 2006	2006/07 Year to Date
Mining	Ore mined	dmt	55,547	46,593	55,547
	Ni grade	%	2.29	2.60	2.29
	Ni metal contained	dmt	1,272	1,212	1,272
	Cu grade	%	0.20	0.23	0.20
Ore Delivered	Ore delivered	dmt	56,264	46,413	56,264
	Ni grade	%	2.28	2.60	2.28
	Ni metal contained	dmt	1,283	1,208	1,283
	Cu grade	%	0.20	0.23	0.20

Financial Statistics (100%)

Table 4 – Lanfranchi Financial Statistics

Area	Units	3 months ending 30 Sep 2006	3 months ending 30 June 2006	2006/07 Year to Date
Nickel Produced	lbs	2,800,249	2,671,118	2,800,249
Mining Costs	A$ per lb	2.18	1.49	2.18
Ore Haulage	A$ per lb	0.10	0.09	0.10
Administration	A$ per lb	0.82	0.73	0.82
Total Cash Cost at Mine Gate	A$ per lb	3.10	2.31	3.10
Smelting	A$ per lb	7.94	5.87	7.94
By-product Credits	A$ per lb	(0.39)	(0.38)	(0.39)
Total C1 Cash Costs	A$ per lb	10.65	7.80	10.65
Total C1 Cash Costs	US$ per lb	8.08	5.88	8.08
Royalty Cost	A$ per lb	0.39	0.27	0.39
Depreciation/Amortisation	A$ per lb	1.68	1.23	1.68
Net Finance Costs/Other	A$ per lb	0.05	0.06	0.05
Total C3 Costs	A$ per lb	12.77	9.36	12.77
Total C3 Costs	US$ per lb	9.69	7.05	9.69
Net Nickel Revenue	A$ per lb	17.08	12.07	17.08

Note: Net Nickel Revenue is a notional figure based on Ni metal produced for 100% of the 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).

Mine cash costs were above budget in the quarter due to the mining of more ore, one-off paste line rectification costs and lower Ni grade. Smelter and royalty costs were significantly higher than the September quarter as a result of the sharp increase in the nickel price.

EXPLORATION

Kimberley Regional

Sally Malay Tenements (100% owned)

Sally Malay Resource - infill drilling

During the quarter the Company commenced a major underground diamond drill programme to infill the Sally Malay Resource between the 100 and 500 Faults. This programme is scheduled to run for six months and will culminate in a revised resource and reserve statement for the Sally Malay orebody. The initial drilling results have been very positive as summarised in Table 6.

Table 6- Sally Malay Infill Resource Drilling

Hole ID	North	East	RL	Downhole Width(m)	Ni%	Cu%	Co%
KUD324	1534.7	6023.7	2100.57	7.01	2.72	1.44	0.13
KUD325	1540.3	5986.7	2099.5	9.54	3.13	0.85	0.16
KUD326	1508.5	6067.5	2073.6	13.16	2.28	0.64	0.12
KUD327	1520.5	6040.8	2073.4	30.32	1.71	0.76	0.09
KUD328	1528.6	6003.9	2068.4	18.17	0.9	0.5	0.05
KUD337	1526.35	5992.92	2039.43	7.31	1.32	1.24	0.07
KUD338	1503.8	6015.8	2023.2	14.49	2.45	1.02	0.12
KUD339	1502.45	6049.69	2036.78	23.95	1.15	1.06	0.05
KUD340	1494.5	6082.2	2048.7	30.07	0.92	0.69	0.05
KUD345	1529.43	5965.30	2039.37	3.30	1.62	1.50	0.07
KUD346	1523.78	5976.41	2004.49	5.20	1.46	3.39	0.07
KUD347	1508.90	5995.85	1989.69	12.32	2.20	0.68	0.11
KUD348	1500.679	6037.685	2004.041	26.82	1.65	0.74	0.08
KUD349	1494.104	6068.867	2006.569	10.04	0.96	0.36	0.05

North East Magnetic Anomaly

Two 300m deep surface RC holes were drilled to test the NE Magnetic Anomaly. Assay results for both holes are pending, however it is clear from the drill chips that neither hole intersected any significant zones of mineralisation or rock types related to the Sally Malay intrusion. The source of the NE Anomaly appears to be a magnetic unit within the Turkey Creek Gabbro. This interpretation is supported by the two underground drill holes that were drilled previously into the western end of the NE Magnetic Anomaly from the Sally Malay Decline. The NE Magnetic Anomaly is now considered to have been adequately explained and does not warrant further work.

Joint Ventures

Panton PGM Project (Platinum Australia 100%, Sally Malay earning 50% of 1st 1.5Mt ore)

Statutory approval was received to commence low impact mining operations at Panton in September to obtain a bulk ore sample and decline rehabilitation commenced shortly afterwards. Bu late October 230m of decline had been rehabilitated with 20m remaining to be completed before mining of the bulk sample of ore can commence. Bulk sampling is expected to be completed by mid December with a 10t high grade ore parcel scheduled to be delivered to Perth for metallurgical testwork.

Copernicus JV (Sally Malay 60%)

Work progressed on the open pit project during the quarter with ongoing preparation of the Notice of Intent which is due for completion in Q4 2006. Subject to receiving all necessary statutory approvals, including granting of a mining lease, the Copernicus JV is hopeful of commencing open pit operations during 2nd half of 2007.

Drilling of Copernicus Deeps to a depth of 500m below surface was completed during the quarter with 29 holes drilled (CORC062-090) for a total of 8,310m. The objective of the drill programme was to delineate the Copernicus Deeps orebody in sufficient detail to enable the estimation of the Mineral Resources prior to determining an Ore Reserve. The Mineral Resource estimate for the Deeps is expected to be completed in Q4 2006.

Drilling has extended the resource to approximately 300m below surface with the majority of holes intersecting mineralised Copernicus pyroxenite, with intersections ranging from 2m to 26m in thickness. Only a few holes below 300m intersected mineralisation and down-hole EM is underway to assist in planning the next drill programme. Assay results for all 29 holes from the recent programme are tabulated below.

Table 7- Copernicus Deeps drill results

Hole No	North	East	Dip	From-To	Interval	Ni %	Cu %	Co %
CORC062	102908	55400	90	96-99	3	1.69	2.31	0.05
CORC063	102928	55400	90	109-110	1	0.3	0.19	0.01
CORC064	102915	55375	90	122-136	14	1.54	0.92	0.05
CORC065	102957	55375	90	134-137	3	1.29	0.75	0.04
CORC066	102963	55350	90	158-169	11	1.39	1.85	0.05
			Including	158-162	4	2.95	1.09	0.09
CORC067	102938	55350	90	146-149	3	0.54	0.45	0.02
CORC068	102958	55325	90	170-173	3	0.70	0.45	0.03
CORC069	103009	55325	90	186-210	24	2.46	1.16	0.08
			Including	187-205	18	3.03	1.16	0.09
CORC071	103053	55298	90	218-232	14	1.81	0.97	0.06
			Including	218-228	10	2.29	1.22	0.09
CORC072	103090	55300	90	234-245	11	0.76	0.77	0.03
CORC073	103045	55272	90	237-250	13	NSR		
CORC074	103104	55248	90	274-292	18	1.05	1.28	0.04
			Including	283-292	9	1.36	1.16	0.05
CORC075	102895	55375	90	119-121	2	0.54	0.42	0.02
CORC076	103203	55196	90			NSR		
CORC077	103176	55192	90			NSR		
CORC078	103150	55242	90	283-286	3	1.14	1.17	0.04
CORC079	103300	55143	90			NSR		
CORC080	103079	55240	90			NSR		
CORO081	103003	55350	90	165-166	1	0.56	0.42	0.02
CORO082	103260	55144	90	417-425	8	1.49	0.90	0.04
CORO083	102825	55325	90			NSR		
CORO084	103230	55142	90			NSR		
CORO085	103175	55225	90			NSR		
CORO086	103150	55225	90			NSR		
CORO087	103315	55095	90	503-504	1	0.40	0.40	0.02
CORO088	102774	55465	90	23-27	4	0.77	0.33	0.03
CORO089	103270	55094	90			NSR		
CORO090	103350	55093	90			NSR		

Note: NSR – no significant result, barren basalt contact.

Wills Creek (Sally Malay earning 70%)

Drilling to test targets identified within the Wills Creek JV ground was completed during the quarter. Eight holes (WCRC021-028) totalling 850m were drilled. Five of the eight holes were completed as a traverse of holes across the Palamino Prospect, the other three holes tested specific EM targets. The Palamino traverse of holes targeted a geochemical anomaly that was coincident with the Palamino pyroxenite. No significant mineralisation was observed in any of the five holes. Two of the three EM targeting holes intersected graphite bearing calc-silicates in the interpreted position of the anomalies, the other hole intersected magnetite rich Tickalara Metamorphics in the nominated position of the EM anomaly. Other targets are currently being evaluated.

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 Project (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 Q4 2006.

Lanfranchi Joint Venture (Sally Malay 75%)

Winner

The Lanfranchi JV (Sally Malay 75% & operator, Brilliant Mining 25%) has approved development of the Winner high grade orebody. Winner is located approximately 1km north of the main Lanfranchi workings and up-dip of Schmitz. The orebody is located 155m vertical below surface and 170m above the existing Schmitz development. The JORC Indicated Resource is 110,551t at 5.56% Ni at a 1%Ni cut-off and contains 6,147t Ni.

A feasibility study was completed during the quarter and a Mining Reserve of 132,369t at 4.1% Ni containing 5,426t Ni was estimated. Access to the orebody will be via a separate decline from a new box-cut position 2.6km north of the current Lanfranchi office/workshop complex. The tender for the box-cut has been awarded and the contractor has mobilised to site. A decline will then be driven in fresh rock commencing in February 2007 utilising Lanfranchi JV personnel and equipment. The mining method proposed is cut and fill with paste backfill which is a similar method used at Helmut South and will ensure high ore recovery rates and maximum flexibility to deal with unexpected changes in geometry and an ability to mine additional ore outside the current resource base, if it is later discovered. The duration of the overall project is expected to be 29 months, based on four months for surface works and 25 months of decline development and mining.

New Deacon Orebody

Excellent drill results were returned from the latest resource delineation drill programme completed in the vicinity of the Helmut South orebody at Lanfranchi (Sally Malay 75%). The drill programme was initially designed to define the northern limits of the Helmut South resource on the 5750 Level (-915m RL). Most importantly, drill holes HS212 and 215 that were collared from the 5200 Level (-860mRL) stockpile encountered broad zones of matrix nickel sulphide mineralisation well outside the previously defined limits of the Helmut South orebody. This new mineralised zone has been named “Deacon”. Three follow-up holes were drilled into Deacon from ore drive positions on the 5310 and 5140 Levels with best results including 90.9 metres grading 2.29% Ni and 111.0 metres grading 2.90% Ni (see Figure 1). The assay results for these drill holes are summarised in the table below.

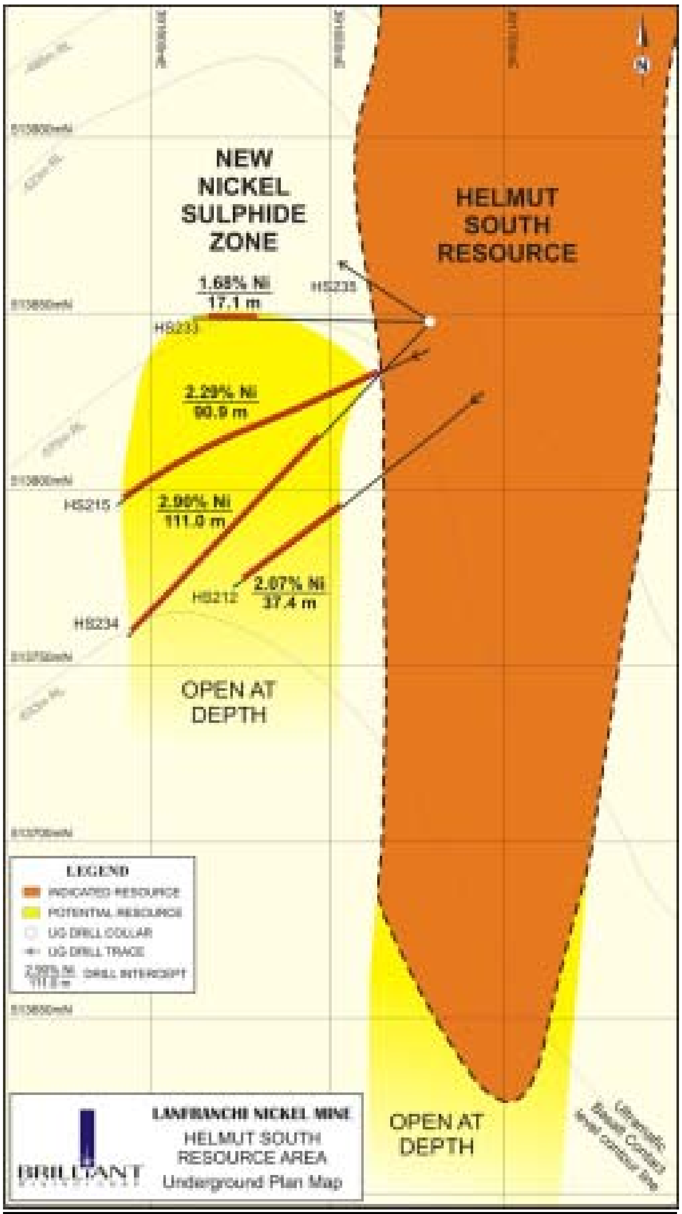
Table 8- Lanfranchi Project – Helmut South – Additional Resource Potential

Drill Hole	Northing	Easting	RL	Dip/Brg	From	To	Interval (m)	Ni%
HS212	513933	391765	5200	-27/230	117.59	155.00	37.4	2.07
HS215	513933	391765	5200	-26/241	122.09	213.00	90.9	2.29
Including					192.00	213.00	21.0	3.24
Including	Massive sulphide on basal contact				209.48	211.82	2.34	5.81
HS233	513897	391680	5310	-37/270	61.92	79.00	17.08	1.68
HS234	513897	391680	5310	-47/224	67.00	178.00	111.0	2.90
Including					132.00	143.00	11.0	4.29
Including	Massive sulphide on basal contact				169.07	175.28	6.21	7.55
HS235	513933	391680	5140	-18/290	NSR			

Note: NSR – no significant result, barren basalt contact. It should also be noted that the drill positions and orientations of the five holes completed in this drill program were not optimal to test the thickness of the mineralisation and that each mineralised interval is expected to have a considerable down plunge component. A dedicated drill drive will be developed in the next few months to provide an improved orientation to conduct drill delineation on this new zone which is open to depth.

The Lanfanchi JV is particularly encouraged by the fact that the mineralisation intersected at Deacon is outside the previously defined limits of the Helmut South orebody and that two of the holes (HS215 and HS234) contain significant massive sulphide mineralisation in addition to the broad zones of matrix mineralisation.

Figure 1 - Lanfranchi Project – New Discovery – Deacon Orebody



Schmitz Extension

Mine planning work on the Schmitz Extension mining reserves of 86,049t at 2.92% Ni for 2,512t Ni contained (assuming mechanized, longhole stoping) continued during the quarter. This could be mined concurrent with Winner next year.

Overturned Tramways Dome Model

The highest priority conductor detected by the Geo-ferret EM survey (Plate F), with a geophysical response indicative of sulphide mineralisation, is currently being drill tested.

CORPORATE

Cash Position, Corporate Debt & Hedging

Cash on hand at the end of the quarter was $35 million and receivables relating to nickel sales amounted to $17 million, giving a total of $52 million in short term liquid assets at quarter end. Senior Bank debt decreased to $17 million via a scheduled $6 million repayment during the quarter. The cash sweep mechanism has been deferred by our bankers to allow us to bring forward the delivery of out-of-the-money nickel hedges.

Hedging

The Company has continued to deliver into its Ni hedge book during the quarter and in doing so has reduced Ni hedging volumes by 20%. The Sally Malay Group metal and currency hedge book as at 30 September 2006 was as follows:

Table 9- Hedging Book as at 30 September 2006

Commodity	Quantity 30 September 2006	Average Price/Rate 30 September 2006	Quantity 30 June 2006	Average Price/Rate 30 June 2006
Nickel (inc 1,000t call options) (delivery Oct 2006-May 2008)	5,170	US$11,943/t US$5.42/lb	6,468	US$11,418/t US$5.18/lb
Copper (delivery Oct 2006-Dec 2006)	225t	US$4,829 US$2.19/lb	450t	US$4,829 US$2.19/lb
Currency - matched with Ni	US$58.8 million	US$0.7235	US$69.5 million	US$0.7217
Currency – unmatched	US$8.4 million	US$0.6758	US$10.5 million	US$0.6758
Currency - total	US$67.2 million	US$0.7176	US$80.0 million	US$0.7157

Note: Cherish (75% Lanfranchi) nickel hedges total 366t at an average price of US$11,672/t for delivery Oct 2006-Dec 2006

It is the management and the Board's view that the current historically high nickel price environment may continue well into 2007 and beyond, and therefore the Company sought and obtained the approval of our senior bank debt providers to bring forward the delivery of some of the Sally Malay Project nickel hedges. These hedges were a precondition of the A$46million senior debt facility and were put in place in late 2003 when nickel prices were at much lower levels than the current spot price. The decision to pre-deliver resulted in an additional 475t of nickel hedges being delivered in the September quarter (originally scheduled to be delivered in 2007) at an average delivery price of US$9,266/t. Based on forecast production for the rest of FY2006/07, the Company on a group basis is approximately 50% hedged (which is down from 60% as at the end of June 2006) which means approximately 50% of payable nickel production in FY2006/07 will attract the spot nickel price. On a Group basis, we are forecasting to deliver approximately 1,830t of Ni hedges in the December quarter (including pre-deliveries) which would reduce the Ni hedge book to 3,340t by the end of December 2006. From January 2007 onwards, our Ni hedge delivery commitments reduce significantly to approximately 200t per month (inclusive of Ni call options) until mid 2008 while our production is forecast to increase materially from mid 2007 with the addition of the high grade Winner orebody and possibly the Copernicus Open Pit.

Yours faithfully,
SALLY MALAY MINING LIMITED

PETER HAROLD
Managing Director

The information in this 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.

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