



# SALLY MALAY MINING LIMITED

## QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2006



### SIGNIFICANT EVENTS DURING QUARTER

#### CORPORATE

- Total liquid assets increase to \$86 million and senior debt reduced to \$11 million
- Unaudited NPAT for 2006/07 December half-year exceeds \$20 million

#### SALLY MALAY

- Project produced 2,330t Ni for the quarter a 21% increase on the previous quarter
- Over 2,800t Ni contained shipped from Wyndham during the quarter, a new record

#### LANFRANCHI

- Project produced 1,465t Ni in ore a 15% increase on the previous quarter, following ramp up of Helmut South
- Development of the high-grade Winner orebody (132,370t at 4.1% Ni) underway with box cut completed
- Mining of the Schmitz Extension orebody (96,803t at 2.52% Ni) scheduled to commence mid 2007

#### EXPLORATION

- Massive sulphides intersected down-plunge Lanfranchi, best results are 9.6m at 7.9% Ni and 32m at 5.2% Ni
- Best intersections at Deacon include 30.5m at 4.5% Ni and 32.85m at 3.88% Ni
- Two zones of massive sulphide at Deacon returned high-grade nickel of 3.6m at 10.4% Ni and 5.1m at 9.7% Ni
- The maximum true thickness of Deacon is estimated at 30 metres and this together with the high-grade nature of the mineralisation confirms that Deacon is shaping up as a significant new Ni resource
- Copernicus Resource increases to 852,000t ore at 1.24% Ni following completion of major drill programme
- Copernicus open pit mining could commence late 2007/early 2008

### SALLY MALAY PROJECT

#### Operating Statistics

Table 1 – Sally Malay Project Operating Statistics

Area	Details	Units	3 mths ending 31 Dec 2006	3 mths ending 30 Sep 2006	2006/07 Year to Date
Mining	Underground ore	dmt	198,490	181,175	379,665
	Ni grade	%	1.33	1.21	1.28
	Cu grade	%	0.54	0.47	0.51
	Co grade	%	0.07	0.06	0.06
Milling	Ore	dmt	199,082	181,036	380,118
	Ni grade	%	1.33	1.22	1.28
	Cu grade	%	0.54	0.48	0.51
	Co grade	%	0.07	0.06	0.06
	Ni Recovery	%	87.7	87.1	87.4
	Cu Recovery	%	96.8	96.5	96.7
Concentrate Production	Concentrate	dmt	28,497	23,322	51,819
	Ni grade	%	8.18	8.23	8.20
	Ni metal contained	dmt	2,330	1,920	4,250
	Cu grade	%	3.65	3.61	3.63
	Cu metal contained	dmt	1,039	842	1,881
	Co grade	%	0.44	0.44	0.44
	Co metal contained	dmt	123	102	224

Area	Details	Units	3 mths ending 31 Dec 2006	3 mths ending 30 Sep 2006	2006/07 Year to Date
<b>Concentrate Shipments</b>	Concentrate	dmt	34,379	18,604	52,983
	Ni grade	%	8.17	8.23	8.19
	Ni metal contained	dmt	2,808	1,530	4,338
	Cu grade	%	3.72	3.60	3.68
	Cu metal contained	dmt	1,278	669	1,947
	Co grade	%	0.46	0.44	0.45
	Co metal contained	dmt	158	81	239

### **Mining**

New record ore production was achieved from underground operations during the quarter at the Sally Malay Project. The mine and mill head grade also increased to 1.33% Ni, up 10% on the previous quarter. As a result the Project produced 2,330t of contained Ni in concentrate for the quarter compared to 1,920t Ni for the previous quarter. Copper production was up significantly at 1,039t contained, a 23% increase on the last quarter. Underground mining rates increased during the quarter with over 198,000t trucked mainly due to increased tonnes being sourced from the initial stopes on the 2245 west level and the commencement of stoping on the 2190 level. Stoping from the 2245 level is scheduled for completion early in the March quarter after which time stoping will be restricted to a single level. Importantly, the Project remains on track to meet the 2006/07 fiscal budget of 8,600t Ni contained.

### **Process Plant**

Sally Malay plant recoveries continued to exceed design with an average of 88% achieved for Ni during the quarter against a design of 78%.

### **Concentrate Shipments**

Six concentrate shipments were made during the quarter totaling 34,379dmt at an average grade of 8.17% Ni for 2,808t of contained Ni, a new quarterly record at a time of unexpectedly high nickel prices.

### **Financial Statistics**

*Table 2 – Sally Malay Project Financial Statistics*

Area	Units	3 months ending 31 Dec 2006	3 months ending 30 Sep 2006	2006/07 Year to Date
<b>Nickel Produced</b>	lbs	5,136,765	4,232,870	9,369,635
Mining Costs	A\$ per lb	1.96	2.00	1.98
Milling Costs	A\$ per lb	0.86	1.16	0.99
Concentrate Haulage	A\$ per lb	0.20	0.13	0.17
Administration	A\$ per lb	0.40	0.37	0.38
Less Capitalised Site Costs	A\$ per lb	(0.25)	(0.43)	(0.33)
<b>Total Cash Cost at Mine Gate</b>	<b>A\$ per lb</b>	<b>3.17</b>	<b>3.23</b>	<b>3.19</b>
Smelting/shipping Costs	A\$ per lb	8.08	7.36	7.76
By-product Credits	A\$ per lb	(3.09)	(2.86)	(2.99)
<b>Total C1 Cash Costs</b>	<b>A\$ per lb</b>	<b>8.16</b>	<b>7.73</b>	<b>7.96</b>
<b>Total C1 Cash Costs</b>	<b>US\$ per lb</b>	<b>6.38</b>	<b>5.87</b>	<b>6.13</b>
Royalty Cost	A\$ per lb	0.54	0.50	0.52
Depreciation/ Amortisation Costs	A\$ per lb	0.79	1.59	1.16
Net Finance Costs/Other	A\$ per lb	0.11	0.26	0.18
<b>Total C3 Costs</b>	<b>A\$ per lb</b>	<b>9.60</b>	<b>10.08</b>	<b>9.82</b>
<b>Total C3 Costs</b>	<b>US\$ per lb</b>	<b>7.50</b>	<b>7.65</b>	<b>7.56</b>
<b>Net Nickel Revenue (inc hedging)</b>	<b>A\$ per lb</b>	<b>11.39</b>	<b>11.41</b>	<b>11.40</b>

Note: Net Nickel Revenue is a notional cash figure based on Ni metal produced (including actual hedge book deliveries). Net Nickel Revenue in the quarter was reduced 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). Under specific hedge accounting, the losses on nickel hedges originally designated against 2007 production are required to be deferred and bought to account in the month originally specified for delivery.

**LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)**

**Production**

The Lanfranchi JV produced 61,173t of ore during the quarter at an average grade of 2.39% Ni for 1,465t Ni contained. This was a 10% increase in tonnes mined compared to the previous quarter and a 15% increase in contained nickel. This equates to an annualised rate of approximately 240,000t of ore which, if sustained, should see the project achieve budget nickel tonnes for the 2006/2007 fiscal year.

In general, ground conditions have deteriorated somewhat on some levels resulting in rehabilitation of a number of drives, with extra bolts and mesh required. More attention will be required in the ground support area in future which could impact on development metres. The high-grade footwall lode encountered in the Helmut South 4420 level continued to make a contribution to production during the quarter via small scale airleg mining.

**Operating Statistics (100%)**

**Table 3 – Lanfranchi Project Operating Statistics**

Area	Details	Units	3 months ending 31 Dec 2006	3 months ending 30 Sep 2006	2006/07 Year to Date
<b>Mining</b>	Ore mined	dmt	61,173	55,547	116,720
	Ni grade	%	2.39	2.29	2.34
	Ni metal contained	dmt	1,465	1,272	2,736
	Cu grade	%	0.20	0.20	0.20
<b>Ore Delivered</b>	Ore delivered	dmt	61,631	56,264	117,895
	Ni grade	%	2.39	2.28	2.34
	Ni metal contained	dmt	1,473	1,283	2,756
	Cu grade	%	0.20	0.20	0.20

**Financial Statistics (100%)**

**Table 4 – Lanfranchi Project Financial Statistics**

Area	Units	3 months ending 31 Dec 2006	3 months ending 30 Sep 2006	2006/07 Year to Date
<b>Nickel Produced</b>	<b>lbs</b>	<b>3,230,430</b>	<b>2,800,249</b>	<b>6,030,679</b>
Mining Costs	A\$ per lb	1.43	2.18	1.78
Ore Haulage	A\$ per lb	0.10	0.10	0.10
Administration	A\$ per lb	0.79	0.82	0.80
<b>Total Cash Cost at Mine Gate</b>	<b>A\$ per lb</b>	<b>2.32</b>	<b>3.10</b>	<b>2.68</b>
Smelting	A\$ per lb	8.90	8.21	8.58
By-product Credits	A\$ per lb	(0.35)	(0.39)	(0.37)
<b>Total C1 Cash Costs</b>	<b>A\$ per lb</b>	<b>10.87</b>	<b>10.92</b>	<b>10.89</b>
<b>Total C1 Cash Costs</b>	<b>US\$ per lb</b>	<b>8.50</b>	<b>8.28</b>	<b>8.39</b>
Royalty Cost	A\$ per lb	0.43	0.39	0.42
Depreciation/Amortisation	A\$ per lb	1.30	1.68	1.48
Net Finance Costs/Other	A\$ per lb	0.04	0.05	0.05
<b>Total C3 Costs</b>	<b>A\$ per lb</b>	<b>12.64</b>	<b>13.04</b>	<b>12.84</b>
<b>Total C3 Costs</b>	<b>US\$ per lb</b>	<b>9.88</b>	<b>9.89</b>	<b>9.88</b>
<b>Net Nickel Revenue</b>	<b>A\$ per lb</b>	<b>19.24</b>	<b>17.08</b>	<b>18.24</b>

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 unit cash costs were lower than the September quarter due to an increase in tonnes mined and higher average nickel grade. Smelter and royalty costs were again higher than the previous quarter as a result of the continued increase in the nickel price.

## Winner High-grade Orebody

The development of the high-grade Winner orebody commenced in November 2006 and significant progress was made on the boxcut during the quarter. Decline development commenced on schedule in late January 2007.



*Figure 1 – Winner box cut (early January 2007)*

The high-grade Winner orebody is located approximately 1km north of the main Lanfranchi workings and up-dip of the Schmitz orebody. The orebody is located 155m vertical below surface and 170m above the existing Schmitz development. The Indicated Resource is 110,551t at 5.56% Ni at a 1%Ni cut-off and contains 6,147t Ni with a Mining Reserve of 132,369t at 4.1% Ni containing 5,426t Ni.

The proposed mining method for Winner is cut and fill with paste backfill which is similar to the method used at Helmut South and will ensure high ore recovery rates and maximum flexibility to deal with unexpected changes in the geometry of the orebody. It will also allow maximum flexibility to mine additional ore outside the current resource base, if it is discovered during the mining phase. The duration of the overall Winner project is expected to be 29 months, based on four months for surface works (completed) and 25 months of decline development and mining.

## Schmitz Extension Orebody

Current reserves of the Schmitz Extension orebody are 96,803t at 2.52% Ni for 2,438t Ni contained, using a mechanised cut and fill mining method. A jumbo has been purchased and mining is planned to commence in the June 2007 quarter with first ore production scheduled in the second month of the project and an overall project life of 23 months. The plan is to mine the Schmitz Extension concurrently with Winner during 2007.

## EXPLORATION

### *Kimberley Regional*

Sally Malay Tenements (100% owned)

#### Sally Malay Resource - infill drilling

Infill resource definition drilling continued during the December quarter with the aim of delineating the Sally Malay orebody between the 100 and 500 Faults. A further twenty-four drill holes were completed for 3,896 drill metres. Drilling focused on the eastern half of the mine from 6170mE to 6270mE, between 2070mRL and down to the 500 Fault. This programme is scheduled to run for six months and will culminate in a revised resource and reserve statement for the Sally Malay orebody. Intersections and assay results received during the reporting period are summarised in table 5.

**Table 5 - Sally Malay – infill resource definition programme**

Hole ID	Northing	Easting	RL	Downhole Width(m)	Ni%	Cu%	Co%
KUD355	1484.2	6115.8	2047.6	19.47	1.46	0.83	0.08
KUD356	1470.9	6104.8	1976.9	9.94	0.74	0.51	0.04
KUD357	1484.8	6117.1	2031.7	23.15	1.56	0.67	0.08
KUD363	1521.7	6031.0	2058.7	23.48	2.19	0.73	0.11
KUD364	1486.7	6072.1	2010.8	8.49	1.99	0.39	0.11
KUD365	1506.2	6028.6	1956.4	61.35	1.67	0.84	0.08
KUD372	1484.1	6132.8	2055.1	35.73	0.86	0.63	0.05
KUD374	1504.7	6196.1	2068.5	1.32	1.31	0.02	0.02
KUD375	1532.5	6223.5	2070.1	10.29	1.28	0.25	0.07
KUD376	1513.6	6119.3	2085.5	18.74	1.67	0.57	0.08
KUD377	1484.3	6141.3	2022.1	4.00	2.21	0.29	0.13
KUD386	1488.6	6169.7	2026.8	10.66	1.32	0.37	0.07
KUD388	1514.2	6214.4	2032.1	1.89	0.70	1.44	0.04
KUD389	1536.6	6229.9	2047.7	2.51	1.02	0.28	0.06
KUD392	1496.9	6184.3	2029.6	6.37	0.70	0.29	0.04
KUD395	1544.3	6246.1	2072.3	1.04	0.72	0.45	0.05
KUD406	1509.0	6199.3	2025.7	2.38	1.20	0.39	0.07
KUD407	1566.3	6260.1	2046.4	5.72	1.62	0.26	0.10
KUD408	1518.8	5967.9	1971.9	5.25	1.88	2.87	0.19
KUD409	1520.0	5982.0	1947.0	2.16	1.20	1.64	0.06
KUD410	1510.1	6023.1	1934.7	59.17	1.54	0.67	0.08

### Joint Ventures

#### **Panton PGM Project (Platinum Australia 100%, Sally Malay earning 50% of 1<sup>st</sup> 1.5Mt ore)**

Mining of the bulk high-grade ore sample from underground at Panton was successfully completed during the quarter. Approximately 50t of ore was mined and stockpiled on site with 10-15t of ore transported to Perth for metallurgical testwork. Limited sampling of the stockpile returned an average grade of 6.29 g/t (Pt+Pd+Au). Engineering and metallurgical studies will be ongoing during the March 2007 quarter.

#### **Copernicus JV (Sally Malay 60%)**

After the completion of a major RC drilling programme, an Updated Mineral Resource Estimate for the Copernicus Project of 852,000t at 1.24% Ni containing 10,600t Ni was calculated. Copernicus is a small magmatic Ni-Cu-Co sulphide deposit located 35km south of the Sally Malay nickel mine. The Copernicus deposit is hosted by a mineralised pyroxenite unit within a small layered gabbro complex. It outcrops at surface and has been traced continuously down plunge to the north to a vertical depth of 325m where-upon it appears to terminate. Another small isolated zone of mineralization occurs further down plunge between a vertical depth of 400 and 460m.

The Mineral Resource was estimated in conjunction with Resource Evaluations Pty Ltd following the completion of an RC drilling programme at Copernicus in 2006.

**Table 6 - Mineral Resource Summary – Copernicus Deposit December 2006 Estimate (Undiluted, 0.5% Ni Cut-off)**

Class	Tonnes	Ni %	Cu %	Co %	Ni Tonnes	Cu Tonnes	Co Tonnes
Measured	373,000	1.13	0.6	0.05	4,220	2,430	185
Indicated	454,000	1.35	0.8	0.04	6,130	3,570	180
Inferred	25,000	1.00	0.4	0.02	250	100	5
<b>Total</b>	<b>852,000</b>	<b>1.24</b>	<b>0.72</b>	<b>0.04</b>	<b>10,600</b>	<b>6,100</b>	<b>370</b>

Notes:

*The resource estimate is based on a 3D Surpac block model utilising a block size of 10m NS x 5m EW x 10m vertical with 2.5m x 1.25m x 2.5m sub-cells. The model contains 12 surface diamond holes and 52 surface RC holes, comprising a total of 9,054m of drilling. All holes have been accurately located using DGPS technology and down hole gyroscopic and Eastman survey instruments. Grade interpolation is by Ordinary Kriging (Ni & Cu) and Inverse Distance (Co) techniques using an oriented search ellipse based on the geometry of the mineralisation.*

*The Mineral Resource is largely classified as Measured or Indicated due to the good continuity of the mineralisation, the adequate drill hole spacing and the confidence gained from QA/QC checks and data validation. A small zone of isolated mineralisation between 400 and 460m below the surface has been classified as Inferred due to uncertainties in continuity of grade and extent.*

The termination of the Copernicus mineralisation at 325m below surface coincides with the presence of a second (un-mineralised) younger pyroxenite intrusion which appears to cut and truncate the Copernicus pyroxenite. Down-hole geophysical (electro-magnetic) data from drill holes about this area indicates that the Copernicus mineralisation may have been off-set by this second pyroxenite intrusion. Further drilling is planned in 2007 to test this possible off-set position with the potential for increasing the resource.

A Notice of Intent to mine the Copernicus open pit deposit and process the ore through the Sally Malay mill is currently being prepared. The Company is in the process of re-optimising the open pit using the latest resource model and undertaking mining studies to determine the Mining Reserve of the underground portion of the resource. This work should be completed during the 1st quarter of 2007. Subject to granting of the mining lease and receiving all necessary approvals mining of the open pit could commence in late 2007 or early 2008.

**Wills Creek (Sally Malay earning 70%)**

Sally Malay has withdrawn from the joint venture with Navigator Resources Limited effective 31 December 2006.

**Melon Patch (Sally Malay earning 70%)**

In July 2006, the Company entered into a joint venture with Pathfinder Exploration Pty Ltd and Earth Australia Minerals Pty Ltd to explore for Ni-Cu-Co on several tenements around Melon Patch bore. 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 Hoist EM survey was completed over the area in late December 2006 and will be interpreted by our consultant geophysicists in January 2007.

**Lanfranchi Joint Venture (Sally Malay 75%)**

**New Deacon Orebody**

Excellent drill results are being returned from the resource delineation drill programme at Deacon which was discovered in October 2006 in the vicinity of the Helmut South orebody at Lanfranchi. A dedicated drill drive on the 5445 level is being utilised, allowing a significant drilling programme to be conducted from an optimal orientation.

The current drill programme is designed to follow-up the broad zones of matrix and massive nickel sulphide intersected in October 2006 and to define the extensions to the mineralisation. Drilling to date has been extremely positive with Deacon shaping up to add significant resource and mine life at Lanfranchi. Best intersections at Deacon to date include 30.5m at 4.5% Ni and 32.85m at 3.88% Ni. A well defined channel structure is emerging as drilling continues and is evident in the 3D image (see Figure 2). Metallurgical data collected to date indicates that the mineralisation is very similar in nature to Helmut South and therefore any ore mined from this deposit should attract favourable treatment terms.

The estimated true widths of the mineralisation intersected in the drill holes is up to 30 metres and the thickness and grade of the massive sulphide mineralisation is impressive with the best intersection returning 4m at 9.68% Ni in hole HS245. Two zones of high tenure massive sulphide have been intersected and thicknesses intersected are similar to the thicker, better mineralised zones encountered at Helmut South and therefore provide further confidence that Deacon is a significant zone of mineralisation which will significantly add to the Company's nickel resource inventory.

The assay results for the drill holes completed at Deacon to date are summarised in Table 7.

**Table 7- Deacon Mineralised Zone- Additional Resource Drilling Results**

Drill Hole	Pierce Point North	Pierce Point East	Pierce Point RL	From	To	Interval (m)	True Width (m)	Ni%
HS236	513862	391589	-607	121.9	139	17.10	12.78	4.12
	Including			132.60	136.60	4.00	3.00	6.86
HS237	513906	391618	-568	130	142.8	12.8	8.77	1.74
HS238	513915	391590	-567	NSR				
HS239	513798	391590	-638	117	129.1	12.1	11.35	2.18
HS240	513808	391594	-649	112.5	145.35	32.85	29.5	3.88
	Including massive sulphide			140.45	144.05	3.60	3.23	10.14
HS241	513762	391596	-649	122.75	132.7	9.95	8.25	2.7
HS242	513762	391603	-666	121	142.9	21.9	20.75	2.75
	Including			134	142.9	8.90	8.43	3.29
HS245	513808	391630	-655	94	124.5	30.5	25.0	4.5
	Including			103.7	124.5	20.8	17.5	5.55
	Including massive sulphide			106.45	111.5	5.05	4.00	9.68
	Including massive sulphide			122.75	124.5	1.75	1.42	7.17
HS246	513796	391584	-619	112.25	120.15	7.90	7.50	1.88
HS247	513762	391623	-655	116	130.4	14.4	10.75	4.62
	Including			123.8	129.1	5.30	3.00	7.72
HS248	513763	391588	-628	117.1	122.0	4.90	4.50	1.56
HS251	513860	391617	-605	108.00	119.00	11.00	9.16	2.25
	Including			111.07	118.15	7.08	5.90	2.78

Note: NSR – no significant result, barren basalt contact. The calculated pierce points are the footwall position of each intersection

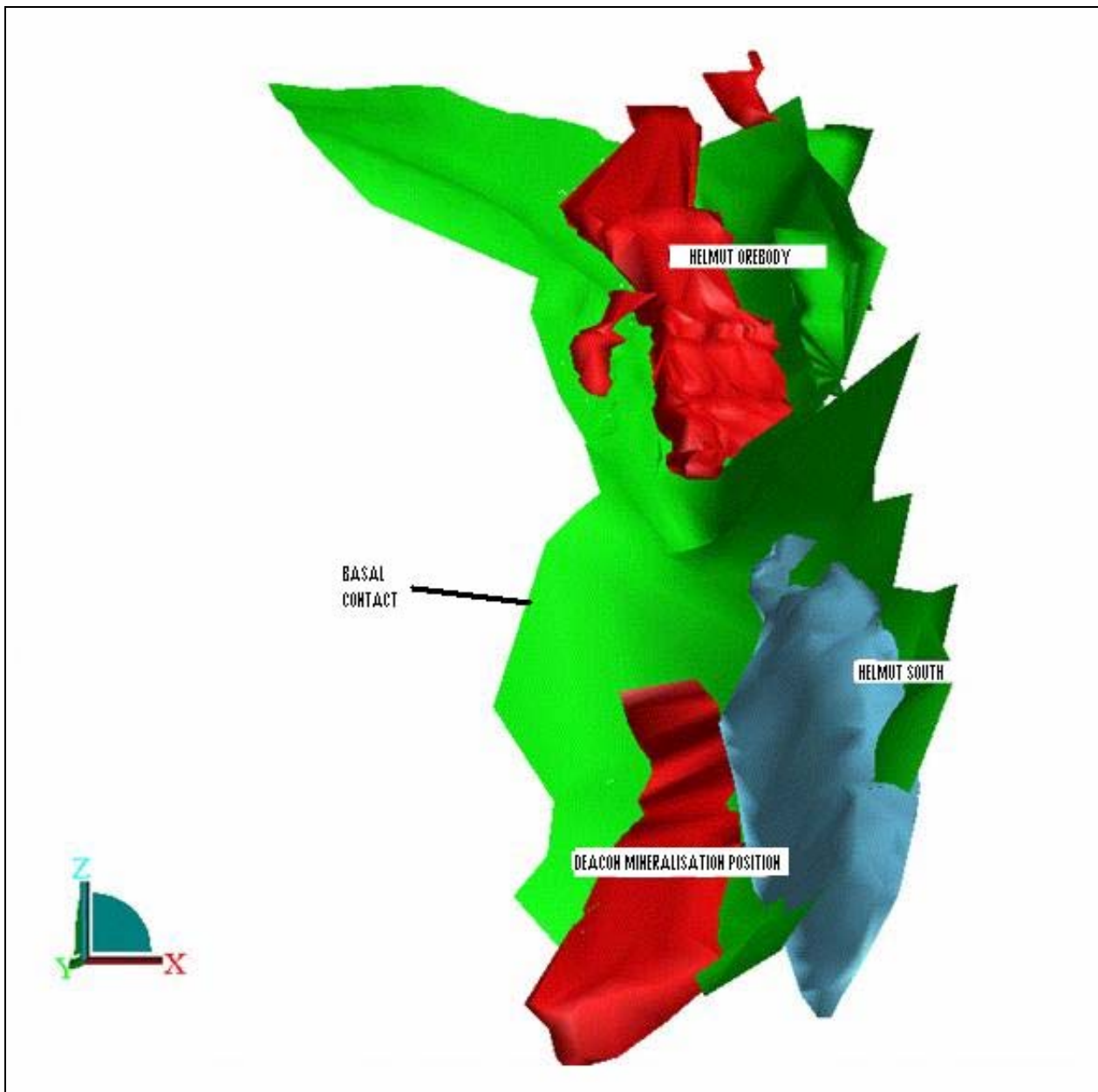


Figure 2 Deacon mineralisation (*indicative shape only*) relative to Helmut and the currently active mining area Helmut South

### Platform EM Drilling

During the quarter, contact parallel EM platform holes were drilled in the footwall of the down-plunge extensions of the Lanfranchi, Schmitz and Skinner orebodies. The Lanfranchi two platform EM holes were completed with drill-hole LAN120 intersecting several broad zones of mineralisation. The better mineralised zones returned intersections of 9.61m at 7.9% Ni and 30m at 5.2% Ni. Both holes were surveyed by Geoforce Pty Ltd during the quarter and identified significant conductors within 10m of the drill holes. The response amplitudes of LAN120 are 10 times that of LAN121 indicating stronger conductors, and therefore increased sulphide content and/or thickness in this area.

The Schmitz platform hole, SMT110 was drilled to a depth of 549m and detected a single moderate conductor between 120 to 160m. The conductor is interpreted to be due to disseminated/matrix mineralisation situated 30m above and east of the hole. This will be followed up by further drilling later in 2007.

The Skinner platform hole SKN104 was also surveyed by Geoforce Pty Ltd. There were no anomalous responses and based on this and results from other holes below Skinner, future exploration needs to focus on the area south of the area tested.

## Geoferrret Plate F Drilling

Two surface diamond drill holes (TD8021 & TD8022) were drilled to test the highest priority target detected by the Geoferrret EM survey (Plate F). There was no significant sulphide mineralisation intersected in the holes. Mafic volcanics with minor thin sediments were encountered plus komatiitic rocks with several intercalated porphyries and significant cherty black shale in TD8022. The black shale, which more or less coincided with the down-hole target depth of the Geoferrret anomaly, produced a strong in-hole TEM response. In TD8021, DHTM identified the Geoferrret anomaly to be located off-hole some 25-30 metres. Based on the in-hole TEM response, the Geoferrret EM anomaly appears related to black shales. This conclusion is also supported by the airborne VTEM data collected in October. However the fact remains that the off-hole response detected in TD8021 is a considerably better anomaly than the in-hole shale response detected in TD8022. Therefore the off-hole response in TD8021 still remains to be explained and is yet to be fully tested.

## CORPORATE

### *Cash Position, Corporate Debt & Hedging*

Cash on hand at the end of the quarter was \$46 million and receivables relating to metal sales amounted to \$40 million, giving a total of \$86 million in short term liquid assets at the end of the quarter. Senior Bank debt decreased to \$11 million via a scheduled \$6.5 million repayment during the quarter.

Unaudited net profit after tax (NPAT) will exceed \$20 million for the 2006/07 half-year to 31 December 2006 compared to a \$7.6million NPAT for the 2005/06 December half year.

### *Hedging*

The Company has continued to deliver into its nickel hedge book during the quarter while taking advantage of the unprecedented nickel prices to undertake limited new nickel hedging at very attractive prices. In November, 450t Ni of our share of Lanfranchi production was sold forward between January and June 2006 at an average price of US\$30,268/t (US\$13.73/lb) including matching A\$/US\$ exchange rate contracts at an average rate of US\$0.7715. In December, 730t of European style nickel put options were purchased at a strike price of US\$25,000/t (US\$11.34/lb) to protect revenue should prices pull back dramatically but giving the Company full exposure to higher spot prices. The Sally Malay Group metal and currency hedge book as at 31 December 2006 is summarised in Table 8.

**Table 8- Hedging Book as at 31 December 2006**

Commodity	Quantity 31 Dec 2006	Average Price/Rate 31 Dec 2006	Quantity 30 Sept 2006	Average Price/Rate 30 Sept 2006
Nickel Fwds (inc 1,000t call options) (delivery Jan 2007-May 2008)	3,925t	US\$15,139/t <b>US\$6.87/lb</b>	5,170t	US\$11,943/t <b>US\$5.42/lb</b>
Nickel Put Options (delivery Feb 2007 to June 2007)	730t	US\$25,000/t US\$11.34/lb	-	-
Copper (delivery Oct 2006-Dec 2006)	nil	nil	225t	US\$4,829 <b>US\$2.19/lb</b>
Currency - matched with Ni	US\$62.5 million	US\$0.7362	US\$58.8 million	US\$0.7235
Currency - unmatched	US\$6.2 million	US\$0.6758	US\$8.4 million	US\$0.6758
Currency - total	US\$68.7 million	US\$0.7311	US\$67.2 million	US\$0.7176

Notes:

Cherish (75% Lanfranchi) hedge book is:

- (1) nickel forwards of 450t at an average price of US\$30,268/t for delivery January 2007-June 2007
- (2) 130t nickel put options at a strike price of US\$25,000/t exercisable between March 2007-June 2007

The decision made in the September 2006 quarter to pre-deliver into the low priced nickel hedges put in place in January 2004 resulted in an additional 820t of nickel hedges being pre-delivered in the December quarter (originally scheduled to be delivered in 2007) at an average delivery price of US\$8,476/t. This decision will allow the Company to benefit from the higher nickel spot prices expected during 2007. The mark-to-market losses on these early deliveries are required under specific hedge accounting rules to be deferred and bought to account at the time of the original designation against future production, in the second half of 2007.

Excluding the recently bought nickel put options (which will only be exercised by the Company if the US\$ nickel price falls below US\$25,000/t) and based on forecast production for the rest of FY2006/07, the Company, on a group basis is approximately 50% hedged which means approximately 50% of payable nickel production until June 2007 will attract the spot nickel price.

On a Group basis (and excluding the nickel put options), we are forecasting to deliver approximately 1,825t of Ni hedges in the first half of 2007, which would reduce the Ni hedge book to 2,100t by the end of June 2007. From July 2007 onwards, our Ni hedge delivery commitments reduce significantly to approximately 200t per month through until mid 2008, while our production is forecast to increase significantly from mid 2007 with the addition of the high-grade ore from Winner (from August 2007) and possibly Deacon and the Copernicus Open Pit.

### ***New Non-Executive Director***

John Rowe joined the Board as a non-executive director on 5 December 2006. John holds a BSc (Hons) in Mining Geology from the Royal School of Mines, Imperial College, London University and has had a distinguished 36 year career in the mining industry.

Yours faithfully,  
SALLY MALAY MINING LIMITED



**PETER HAROLD**  
Managing Director

### **About Sally Malay**

Sally Malay is an emerging Western Australian based nickel sulphide producer with two underground mines, Sally Malay (100% owned) in the Kimberley and Lanfranchi (75% and operator), 40km south of Kambalda. In 2006/07, our operations are forecast to produce close to 14,000t Ni (12,700t on an equity basis) and will continue to ramp-up to over 22,000t Ni in 2007/08 (18,000t on an equity basis) assuming the Copernicus orebody is developed in 2007. We have a significant exploration portfolio in the Kimberley and at Lanfranchi and are ramping up our exploration activities in order to grow our resource base and increase the mine life of our operations targeting +10 years at Sally Malay and +5 years at Lanfranchi.

*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 Copernicus Mineral Resources has been either completed by or reviewed by Mr Paul Payne of Resource Evaluations Pty Ltd. Mr Payne is a member of The Australasian Institute of Geoscientists and 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 Payne 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:**  
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