



SALLY MALAY MINING LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2007



SIGNIFICANT EVENTS DURING QUARTER

CORPORATE

- Cash and receivable increase to over \$140M
- All senior bank debt and Jinchuan subordinated debt repaid in full and ahead of schedule
- Company included in S&P/ASX 200 Index

SALLY MALAY

- Quarterly Ni production increased 8% to 1,950 tonnes Ni while full year production was 8,010 tonnes Ni
- 70% increase in Ni shipped during quarter to 2,247 tonnes Ni contained
- The Paste Plant on schedule for commissioning during the December 2007 quarter

LANFRANCHI

- Ni production increased 16% to 1,330 tonnes Ni in ore for quarter with full year production of 5,215 tonnes Ni which is a 92% increase on the previous year's production
- Winner on track to produce first ore during the December 2007 quarter

EXPLORATION

- Two zones of significant new mineralization discovered at Sally Malay, best intersections include 17.7m @ 1.98%Ni and 8.58m @ 1.17%Ni
- Copernicus Feasibility Study completed with a Mining Reserve of 784,000t @ 1.1%Ni, 0.67%Cu & 0.05%Co
- Latest Copernicus drilling results indicate the resource is likely to expand and extend at depth
- Best intersection at Copernicus from latest drilling was 13m at 1.84% Ni, 1.03% Cu & 0.05% Co
- At Lanfranchi, Deacon remains open up and down plunge
- Northern Dome exploration commences and all holes intersected ultramafic sequences below the Lunnon Basalt, providing strong support to the overturning concept

SALLY MALAY PROJECT

Operating Statistics

Table 1 – Sally Malay Project Operating Statistics

Area	Details	Units	3 mths ending 30 June 2007	3 mths ending 31 March 2007	2006/07 Full Year
Mining	Underground ore	dmt	170,014	172,874	722,553
	Ni grade	%	1.31	1.23	1.27
	Cu grade	%	0.54	0.54	0.52
	Co grade	%	0.07	0.06	0.06
Milling	Ore	dmt	174,593	176,773	731,484
	Ni grade	%	1.28	1.20	1.26
	Cu grade	%	0.53	0.54	0.52
	Co grade	%	0.07	0.06	0.06
	Ni Recovery	%	87.3	86.1	87.1
	Cu Recovery	%	96.1	96.6	96.6
	Co Recovery	%	90.0	90.8	91.2
Concentrate Production	Concentrate	dmt	23,990	22,490	98,299
	Ni grade	%	8.13	8.05	8.15
	Ni metal contained	dmt	1,950	1,810	8,010
	Cu grade	%	3.69	4.09	3.75
	Cu metal contained	dmt	886	921	3,688
	Co grade	%	0.44	0.45	0.44
	Co metal contained	dmt	105	101	430

Area	Details	Units	3 mths ending 30 June 2007	3 mths ending 31 Mar 2007	2006/07 Full Year
Concentrate Shipments	Concentrate	dmt	28,005	16,034	97,022
	Ni grade	%	8.03	8.23	8.15
	Ni metal contained	dmt	2,247	1,320	7,906
	Cu grade	%	3.46	4.39	3.73
	Cu metal contained	dmt	968	705	3,620
	Co grade	%	0.43	0.41	0.44
	Co metal contained	dmt	120	67	426

Note: June 2007 quarter Concentrate Shipments contain prior quarter weight & assay adjustments to reconcile to 2006/07 shipments.

Mining

Sally Malay had a solid quarter with improved head grade and metallurgical recovery which saw an 8% increase in Ni metal produced and a corresponding reduction in mine cash costs. We finished the year mining 722,553t at 1.27% Ni for a total of 8,010t Ni contained. Decline development remains on target to allow the commencement of the Deeps drilling in late 2007.

Process Plant

Sally Malay plant recoveries improved during the quarter with the higher head grade and averaged 87.3% which is 12% above the original feasibility study figure of 78%.

Concentrate Shipments

Four concentrate shipments were made during the quarter totalling 28,005dmt at an average grade of 8.03% Ni for 2,247t of contained Ni which is a 70% increase on the March quarter metal shipped.

Paste Plant

The construction of the paste plant is on track for a December 2007 quarter commissioning. The paste plant will allow increase mining flexibility, remove the need to leave behind ore pillar (which will increase the mining reserve) and will consume tailings increasing the life of the existing tailings dam.

Figure 1: Paste plant construction at July 2007



Financial Statistics

Table 2 – Sally Malay Project Financial Statistics

Area	Units	3 months ending 30 June 2007	3 months ending 31 Mar 2007	2006/07 Full Year
Nickel Produced	lbs	4,299,670	3,990,759	17,660,064
Mining Costs	A\$ per lb	2.03	2.20	2.02
Milling Costs	A\$ per lb	0.93	1.01	1.00
Concentrate Haulage	A\$ per lb	0.18	0.19	0.17
Administration	A\$ per lb	0.72	0.68	0.53
Less Capitalised Site Costs	A\$ per lb	(0.66)	(0.52)	(0.50)
Total Cash Cost at Mine Gate	A\$ per lb	3.20	3.56	3.22
Smelting/shipping Costs	A\$ per lb	10.39	9.90	8.88
By-product Credits	A\$ per lb	(3.57)	(3.51)	(3.23)
Total C1 Cash Costs	A\$ per lb	10.02	9.95	8.87
Total C1 Cash Costs	US\$ per lb	8.21	7.88	7.05
Royalty Cost	A\$ per lb	0.71	0.67	0.60
Depreciation/ Amortisation Costs	A\$ per lb	1.55	1.56	1.53
Net Finance Costs/Other	A\$ per lb	0.11	0.11	0.11
Total C3 Costs	A\$ per lb	12.39	12.29	11.11
Total C3 Costs	US\$ per lb	10.15	9.73	8.83
Net Nickel Revenue (inc hedging)	A\$ per lb	19.62	16.64	14.62

Note: Net Nickel Revenue is a notional cash figure based on Ni metal produced (including actual hedge book deliveries).

LANFRANCHI JOINT VENTURE (SALLY MALAY 75%)

Operating Statistics (100%)

Table 3 – Lanfranchi Project Operating Statistics

Area	Details	Units	3 months ending 30 June 2007	3 months ending 31 Mar 2007	2006/07 Full Year
Mining	Ore mined	dmt	60,864	52,030	229,614
	Ni grade	%	2.19	2.21	2.27
	Ni metal contained	dmt	1,330	1,149	5,215
	Cu grade	%	0.20	0.19	0.20
Ore Delivered	Ore delivered	dmt	57,558	52,095	230,933
	Ni grade	%	2.22	2.21	2.25
	Ni metal contained	dmt	1,278	1,156	5,189
	Cu grade	%	0.20	0.19	0.20

Production

The Lanfranchi JV mined 60,864 tonnes of ore averaging 2.19% Ni during the quarter for 1,330t Ni contained. This was 17% increase in production on the previous quarter although the grade was slightly below budget. For the full year the Lanfranchi JV produced 5,215t Ni contained which was within our forecast range and is a 92% increase on the previous year which was very pleasing and demonstrates the ability of the operations to increase production levels.

Mine site cash costs in the June quarter were lower than the March quarter due to an increase in ore mined. Smelter and royalty costs were higher than the previous quarter as a result of the continued increase in the nickel price.

Winner High-grade Orebody

A section of deep weathering was encountered early in the quarter temporarily slowing the Winner decline development but advance rates returned to budget during May once the ground conditions improved. Ore delivery to surface from Winner is on track to commence during the December 2007 quarter.

Financial Statistics (100%)

Table 4 – Lanfranchi Project Financial Statistics

Area	Units	3 months ending 30 June 2007	3 months ending 31 Mar 2007	2006/07 Year to Date
Nickel Produced	lbs	2,932,424	2,533,990	11,497,093
Mining Costs	A\$ per lb	1.77	1.89	1.80
Ore Haulage	A\$ per lb	0.10	0.08	0.09
Administration	A\$ per lb	0.69	0.91	0.80
Total Cash Cost at Mine Gate	A\$ per lb	2.56	2.88	2.69
Smelting	A\$ per lb	11.95	11.05	9.98
By-product Credits	A\$ per lb	(0.35)	(0.29)	(0.35)
Total C1 Cash Costs	A\$ per lb	14.16	13.64	12.33
Total C1 Cash Costs	US\$ per lb	11.60	10.80	9.80
Royalty Cost	A\$ per lb	0.57	0.54	0.48
Depreciation/Amortisation	A\$ per lb	1.73	1.53	1.62
Net Finance Costs/Other	A\$ per lb	0.11	0.05	0.06
Total C3 Costs	A\$ per lb	16.57	15.76	14.49
Total C3 Costs	US\$ per lb	13.57	12.48	11.52
Net Nickel Revenue	A\$ per lb	25.21	24.02	21.29

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).

EXPLORATION

Kimberley Regional

Sally Malay Tenements (100% owned)

Sally Malay Mine

The infill resource definition drill programme between the 100 and 500 Faults was completed during the quarter and a new 3D resource block model is now being developed using the latest resource definition drill data. The positive results of this latest resource estimation work are expected to be released during the September quarter 2007.

New zone of Massive Sulphide Mineralisation Discovered

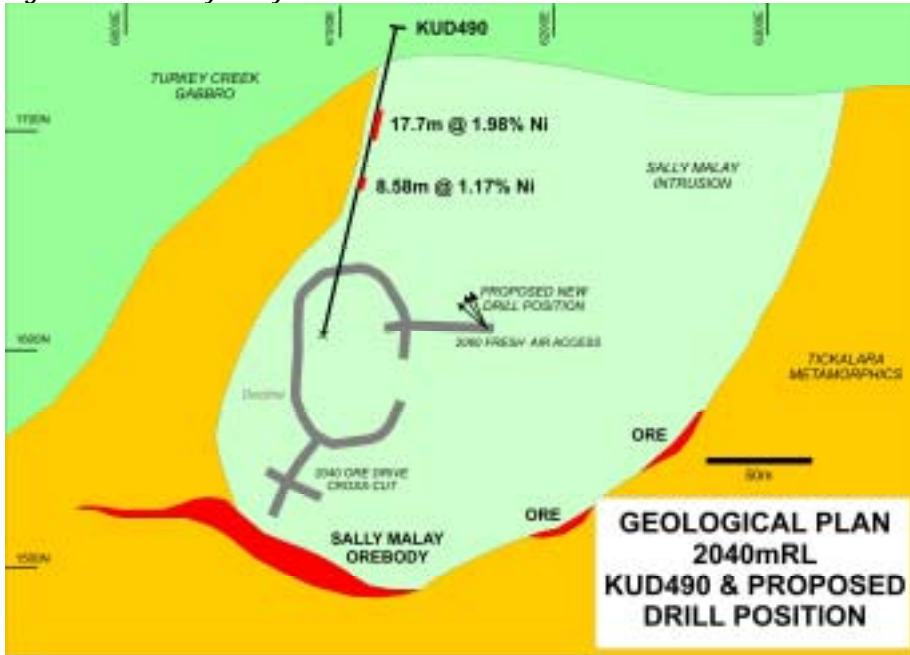
Continued mine development of the deeper levels at Sally Malay has enabled further exploration drilling of the Sally Malay intrusive. This drilling has returned a significant new massive sulphide intercept in drillhole KUD490 approximately 150m from the main orebody, between the 100 and 500 faults, within 50-60 metres of existing decline development. KUD490 was one of five holes drilled to test the western and northern contact of the Sally Malay intrusive. KUD490 paralleled the contact of the Sally Malay intrusive with the Tickalara metamorphics (see Figure 2) and intersected disseminated, matrix and massive sulphide mineralisation. Two separate zones of mineralisation were intersected as summarised in Table 5.

Table 5 – Sally Malay Basal Contact Drilling

Hole ID	Northing	Easting	RL(m)	Downhole Width(m)	Ni%	Cu%	Co%
KUD490	1608	6092	2072	8.58	1.17	0.50	0.06
				17.7	1.98	0.22	0.10

Follow-up drilling from the 2060 Fresh Air Access was completed during the quarter with an additional seven drill holes completed. Assays are still awaited for these seven holes. Visual examination of the cores indicate four of the seven holes contain low to moderate grade mineralisation over horizontal widths ranging between 1.5 to 9.0m. Further drilling is planned once all the data is received and assessed.

Figure 2 – Plan Sally Malay Intrusion 2040mRL



Joint Ventures

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

Planning for further testwork and analysis of the bulk ore sample is ongoing.

Copernicus JV (Sally Malay 60%)

Copernicus Feasibility Study

The Copernicus open pit and underground feasibility study was finalised during the quarter and estimated a Probable Reserve of 784,000 tonnes at 1.1% Ni for the combined open pit and underground development based on the following assumptions:

- Open pit mining to be undertaken by contractor and the ore trucked to the Sally Malay mill for treatment;
- Underground mining to be owner/operator utilising JV owned equipment and Sally Malay personnel;
- Copernicus ore will be batch treated through the Sally Malay mill;
- Copernicus concentrate will be sold to Jinchuan under the same payment terms and conditions as the Sally Malay concentrate; and
- Copernicus concentrate will be produced, stockpiled, trucked and shipped to China separately;

The Copernicus Feasibility Study (open pit and underground) assumes production occurs over a four year period with concentrate production commencing in the June quarter 2008. Based on an average metallurgical recovery of 76% for nickel the Copernicus Project would produce 6,500t Ni, 4,750t Cu and 220t Co of contained metal in concentrate. The Project Economics showed a range of NPVs from A\$7M to \$150M depending on the nickel price assumptions made. The Feasibility Study assumed the following development timetable:

Table 6: Proposed Copernicus Development Timetable

Activity	Period
Lodge Miscellaneous License for haul road	September Qtr 2007
Submit NOI and Clearing Application	September Qtr 2007
Issue Open pit and haul road construction & tender	September Qtr 2007
Award open pit mining contract	December Qtr 2007
Mobilise contractor for haul road	March Qtr 2008
Mobilise contractor for open pit	March Qtr 2008
Commence open pit mining and commence treating ore at Sally Malay	June Qtr 2008
Decision point for commencement of underground mining	Mid 2008
Commence underground development (if approved)	Late 2008

Copernicus Exploration

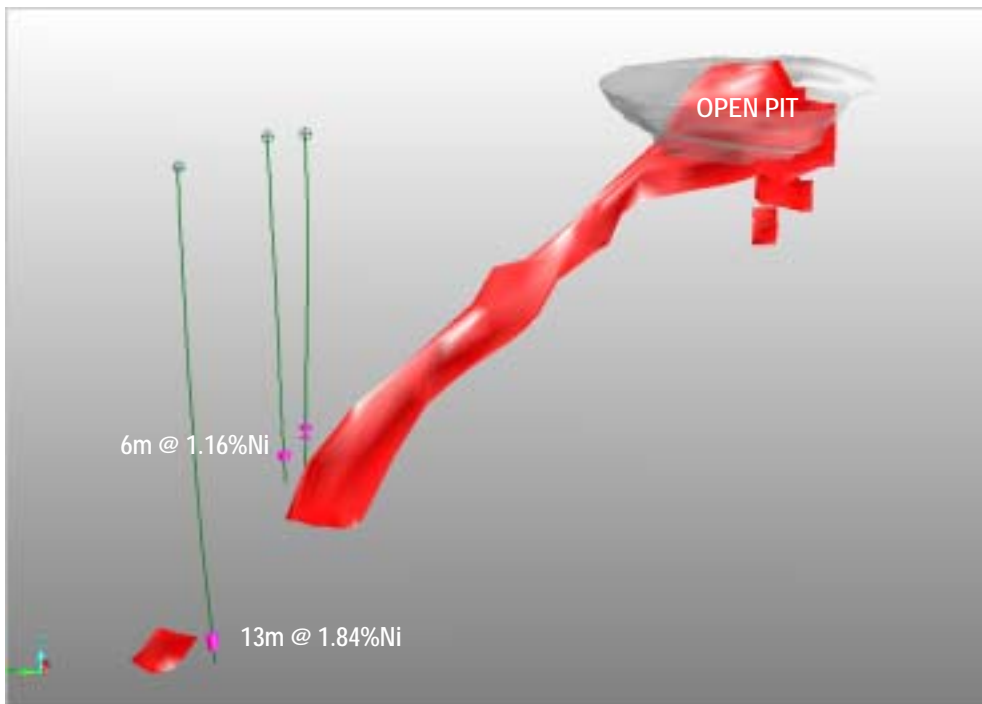
Three reverse circulation drill holes were completed at Copernicus to test EM anomalies located outside the current Copernicus resource. All holes have intersected the mineralised Copernicus pyroxenite with intersections ranging from 1m to 13m in width. The results of the three holes are summarised in Table 7.

Table 7 – Summary of Copernicus Drill Results

Hole No	North	East	Dip	From-To	Interval	Ni %	Cu %	Co %
CORC091	103170	55265	90	274-280	6	1.16	0.56	0.05
CORC092	103140	55290	90	250-254	4	0.35	0.68	0.01
				260-261	1	0.78	0.81	0.07
CORC093	103255	55165	90	406-419	13	1.84	1.03	0.05

The strong matrix style mineralization intersected in CORC093 corresponds with a weak EM anomaly. This EM anomaly was considered to be a low order target but given the strong mineralisation discovered in CORC093 other weak EM targets surrounding the Copernicus pyroxenite now require further investigation. Hole CORC093 returned one of the deepest intersections in the Copernicus pyroxenite and provides encouragement that the mineralization continues at depth (see Figure 3). More drilling is planned to test the depth extensions to Copernicus before the end of the 2007 field season.

Figure 3: Copernicus RC drilling of EM targets outside current resource area



Melon Patch (Sally Malay earning 70%)

Ground checking of EM anomalies was completed in May on tenements E80/1685, ELA80/3747 and E80/3677. One small, weak (early time) anomaly on E80/3677 which appears to be related to a cross-cutting shear zone and is considered worthy of further work. Gossanous outcrop and float from the structure reported anomalous nickel and copper values and a soil sampling programme completed over the structure returned a similar small Ni/Cu soil anomaly. A ground survey will be completed over this anomaly in the September quarter.

Lanfranchi Joint Venture (Sally Malay 75%)

Deacon

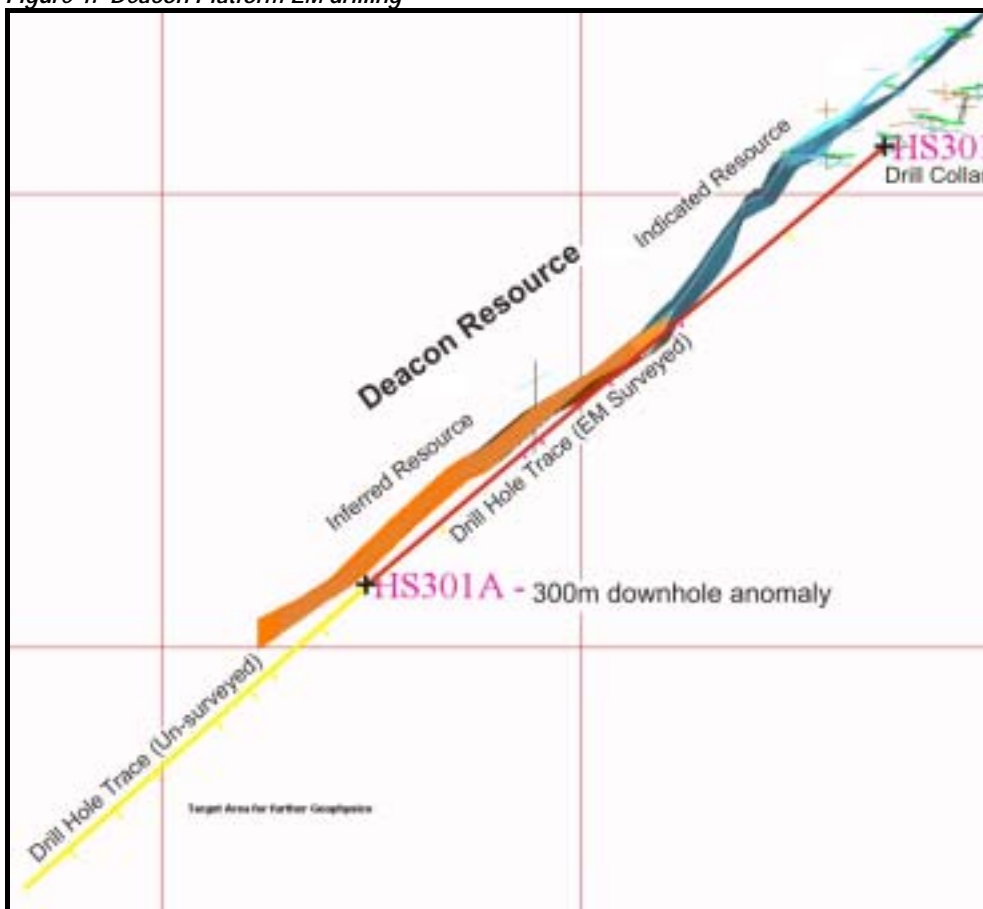
The drilling focus during the quarter shifted to the up-plunge portion of the Deacon channel structure, between Helmut and the currently defined top of the Deacon resource at approximately 514000mN. An initial eleven hole programme comprising 2,030 metres was completed from Stockpile 5, off the Helmut South Decline at -444mRL.

The aim of this programme was to define the general shape and direction of the channel structure to determine an appropriate position for the development of a dedicated hanging wall drill drive to facilitate resource definition drilling of the up-plunge extent of Deacon.

No significant mineralisation was encountered about the ultramafic/basalt contact in any of the Stockpile 5 drill holes, although broad intervals of highly altered, iron sulphide rich basalt were intersected in several drill holes. Assays are awaited for these zones. The Stockpile 5 drilling indicates an abrupt shift in the orientation and shape of the Deacon/Helmut channel structure occurring at about 514000mN (the previously defined northern limit of the Deacon mineralisation).

The Stockpile 5 drill location was marginally suitable to target the extrapolated position of the up-plunge extent of Deacon due to the oblique nature of the drilling. The interpreted deviation in the Deacon mineralisation or ultramafic/mafic contact from the projected trend produced a highly problematic scenario and indeterminate results. Therefore, a detailed assessment of the Stockpile 5 drilling is required before any definitive comments can be made about the up-plunge extent of the Deacon mineralisation and before a dedicated drill drive can be positioned.

Figure 4: Deacon Platform EM drilling



A 500m platform EM hole (HS301A) below Deacon from near the base of the Helmut South decline was completed during the quarter however due to technical difficulties, only the top 300m of the hole was EM surveyed. The results indicate a very strong geophysical conductor to the bottom of the hole. The extent of the geophysical survey remained within the lower limits of the inferred resource. Due to the strength of the EM conductor, two parallel EM drill holes are planned to commence shortly and are designed to test the area 200m beyond the current base of the Deacon resource.

Schmitz

A programme of deep EM holes were completed from the Schmitz hanging wall drill drive during the quarter. Four holes targeted the down plunge continuation of the Schmitz orebody and a fifth drill hole was drilled to test the projected Skinner position further to the west. Very thin zones of "Schmitz-like" mineralisation were intersected in SMT111 and SMT112. Drill holes SMT113 and 114, further down plunge, were essentially barren. SKN105 intersected some weak disseminated mineralisation in the projected down plunge Skinner position. Assay results are pending.

Lanfranchi

A resource definition drill programme has commenced to evaluate the next 100 vertical metres of down-plunge continuations of the Lanfranchi orebody. The programme, which will be undertaken from an extended 15K hanging wall drill drive (Figure 5), will comprise 40-60 drill holes for approximately 5,000 drill metres. The programme is anticipated to outline additional nickel tonnes to the Lanfranchi Project resource inventory.

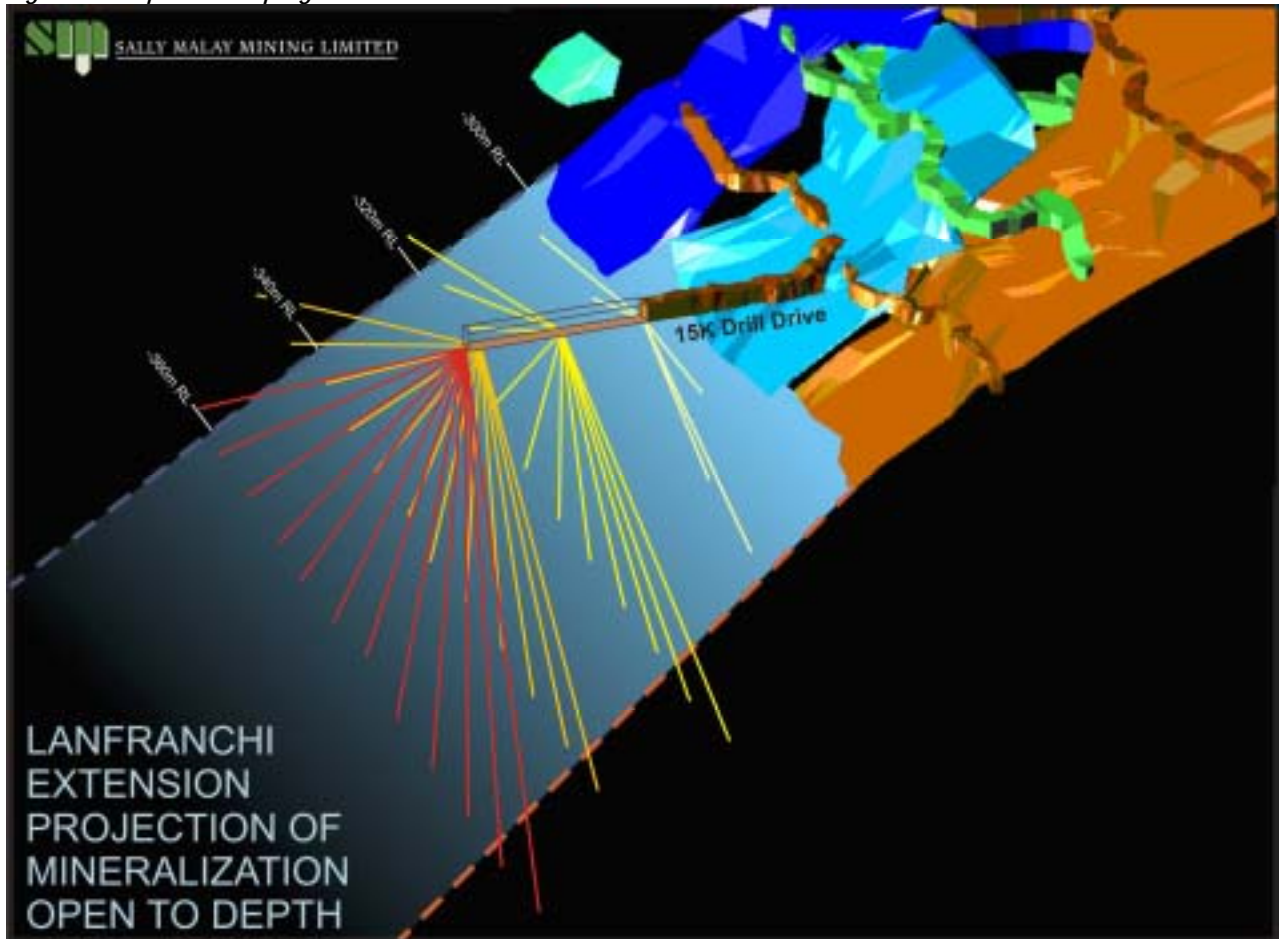
To date 26 holes (LAN123–148), comprising 2,437 drill metres have been completed with assay results received from the first ten holes as summarized in Table 8. The best result was returned from LAN127 grading 5.37% Ni over 24.1 metres (true thickness projected to be approximately 5 to 6 meters thick; due to oblique angle of drilling). The results to date are in alignment with the historical nature (grades and thickness) of the Lanfranchi Orebody and provide continued evidence for the mineralisation at Lanfranchi to continue in a similar fashion.

Table 8: Summary of Lanfranchi Drill results

Hole Id	Target RL	Azimuth	Dip	Depth	From	To	Drill Intercept	Ni %
LAN123	-300	301	-42.5	35.0	29.90	31.33	1.43	9.06
LAN124	-300	32	-39.0	59.1	42.00	45.00	3.00	1.61
LAN125	-300	47	-20.9	81.5	75.70	77.45	1.75	7.66
LAN126	-300	250	-26.7	59.0	35.00	38.00	3.00	1.04
LAN127	-300	244	-14.1	107.1	68.80	92.90	24.10	5.37
LAN128	-320	57	-63.3	51.2	37.00	38.70	1.70	4.64
LAN129	-320	57	-45.5	68.1	63.00	65.00	2.00	2.15
LAN130	-320	57	-33.2	85.2	78.00	78.87	0.87	0.51
LAN131	-320	57	-25.8	123.0				NSG
LAN132	-320	57	-21.0	154.4				NSG

Notes: NSR – no significant result; RL – Mine Level measured in vertical metres; All other lengths measured in metre

Figure 5: Proposed drill program for Lanfranchi



Northern Tramways

Surface drilling to explore the northern side of the Tramways Dome for possible overturned channel structures commenced during the quarter. The initial programme will test a 2km wide section of the Northern Tramways area between 390000mE and 392000mE. This area is believed to most likely contain the overturned continuation of the Schmitz and Helmut channel structures. The programme consists of 17 to 20 drill holes for 8,000 to 9,000 drill metres and will cost approximately \$1.2 million.

As at the end of June 2007 five drill holes (TD8030 to 8034) between 390600mE and 391400mE had been completed. All five holes intersected ultramafic sequences below the Lunnon Basalt, providing strong support to the overturning concept. Several thin zones of weak disseminated mineralisation were encountered in some of the holes, but not about the contact between the footwall basalt and ultramafics. Assay results for all five holes are pending.

Down-hole EM surveys will be completed as the programme progresses to identify potential areas of mineralised sulphides.

CORPORATE

Cash Position, Corporate Debt & Hedging

Cash on hand at the end of the quarter was \$120 million and receivables relating to concentrate sales amounted to \$21 million, giving a total of \$141 million in short term liquid assets at the end of the quarter. A final repayment of \$5 million in June was made to fully extinguish the Senior Bank debt and an additional principal repayment of US\$5 million plus capitalised interest of US\$0.35 million was made to Jinchuan in June to extinguish the subordinated debt 12 months ahead of schedule. The Company is now debt free with the exception of approximately \$13 million of finance leases.

Hedging

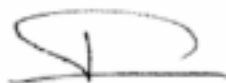
The Company continued to deliver into its nickel and currency hedge book during the quarter. The Sally Malay Group metal and currency hedge book as at 30 June 2007 is summarised in Table 9.

Table 9: Group Hedge Book as at 30 June 2007

Commodity	Quantity 30 June 2007	Average Price/Rate 31 June 2007	Quantity 31 Mar 2007	Average Price/Rate 31 Mar 2007
Nickel Fwds (delivery Jul 2007-May 2009)	4,600t	US\$19,828/t US\$8.99/lb	4,825t	US\$20,282/t US\$9.20/lb
Bought Nickel Put Options (delivery Jul 2007 to June 2008)	2,850t	US\$25,000/t US\$11.34/lb	3,380t	US\$25,000/t US\$11.34/lb
Sold Nickel Call Options (delivery Jul 2007 to June 2008)	844t	US\$35,123/t US\$15.93/lb	1,444t	US\$24,415/t US\$11.07/lb
Currency - matched with Ni	US\$91.2 million	US\$0.7568	US\$97.9 million	US\$0.7577
Currency - unmatched	US\$7.7 million	US\$0.6847	US\$15.5 million	US\$0.6847
Currency - total	US\$98.9 million	US\$0.7512	US\$113.4 million	US\$0.7477

Excluding the 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 FY2007/08 and FY2008/09, the Company, on a group basis is approximately 30% hedged, which means approximately 70% of payable nickel production until June 2009 will attract the spot nickel price.

Yours faithfully,
SALLY MALAY MINING LIMITED



PETER HAROLD
Managing Director

About Sally Malay

Sally Malay is an established Western Australian based nickel sulphide producer with two underground mines, Sally Malay (100%) in the Kimberley and Lanfranchi (75% and operator) 42km south of Kambalda. In 2006/07 our operations produced over 13,000t Ni and will continue to ramp-up to over 20,000t Ni in 2008/09 assuming Deacon and Copernicus are developed in 2008. 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 **20,000t Ni per year for the next 10 years.**

The information in this report that relates to Mineral Resources and Ore Reserves 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 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 Mining Studies and Ore Reserves has been provided by Chris Williams and Jon Bayley who are full-time employees of Sally Malay Mining Limited.

For further information contact:
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