



Sally Malay Mining Limited

ACN 09 5 792 288



Annual Report 2003

Company Directory

Directors

Keith Liddell

Peter Harold

Alasdair Cooke

Michael Bohm

Secretary

Trevor Eton

Registered Office

Level 22, Allendale Square

77 St George's Terrace

Perth WA 6000

Telephone: (08) 9225 0999

Facsimile: (08) 9421 1008

Email: info@sallymalay.com

Website: www.sallymalay.com

Auditors

Ernst & Young

Central Park

152 St George's Terrace

Perth WA 6000

Bankers

Commonwealth Bank

150 St George's Terrace

Perth WA 6000

Share Registry

Computershare Investor Services

Level 2/45 St George's Terrace

Perth WA 6000

Solicitors

Blakiston & Crabb

1202 Hay Street

West Perth WA 6005

Corrs Chambers Westgarth

150 George's Terrace

Perth WA 6000

Gadens Lawyers

Level 31

44 St George's Terrace

Perth WA 6000

Hollingdales

216 George's Terrace

Perth WA 6000

Wright Legal

1/103 Colin Street

West Perth WA 6005

Tax Advisors

Wiltax Consulting Pty Ltd

3 Grangewood Place

West Pennant Hills NSW 2125

Ernst & Young

Central Park

152 St George's Terrace

Perth WA 6000



Contents

Mission Statement	2
Highlights for 2002-2003	2
The Origins of the Sally Malay Name	3
Chairmans' Report	4
Review of Principal Activities	5
The Sally Malay Project	5
Exploration Activities	13
Corporate Activities	15
Directors' Report	16
Corporate Governance Statement	22
Directors' Declaration	26
Independent Audit Report	27
Financial Report and Disclosures	28
Additional Shareholder Information	53

Mission Statement

Sally Malay's ultimate goal is to build a major mining company and provide attractive shareholder returns through a combination of dividend streams and capital growth.

We aim to achieve this goal by successfully developing the Sally Malay Project and using the cashflow generated from the Project to:

- Explore, discover and develop further orebodies on our leases;
- Become the pre-eminent nickel sulphide miner and concentrate producer in the Kimberley region;
- Acquire advanced exploration projects and use our in-house expertise to take these projects through feasibility study, financing and into development; and
- Acquire operating projects that can be enhanced by our focused and experienced management team.

In striving to achieve the ultimate goal the Company will, at all times, maintain good corporate governance and operating in a safe and environmentally responsible manner.



Highlights for 2002-2003

- Delivery of the Bankable Feasibility and Optimisation Studies confirming that the Sally Malay Project is technically and financially robust;
- The Alliance with Roche Mining which secured \$2.5 million in equity in return for the right to negotiate the lump sum process plant contract and the open pit contract for the Sally Malay Project;
- Receiving all necessary statutory approvals to allow Project construction to commence;
- Securing \$47 million in Project Financing from Macquarie Bank and Standard Bank;
- Signing the life-of-mine offtake agreement for sale of Sally Malay concentrate to Jinchuan in China;
- Signing the US\$5 million Project financing with Jinchuan;
- Total equity raisings of \$14.5 million in a difficult market;
- Securing additional nickel resources and associated prospective ground in close proximity to the Sally Malay plant through the Copernicus/Salk joint venture; and most importantly.

Commencing the construction of the Sally Malay Project in August 2003 and on schedule for commissioning in the third quarter of 2004 when nickel prices are expected to be very strong.



The Origins of the Sally Malay Name

The origins of the Company and Sally Malay Project name can be traced back to an Aboriginal/Afghan stockman born on 24 December 1924 at the Sally Malay bore, about 12 kilometres from the Sally Malay orebody. Sally was named after his father, Sallay Mahomet, an Afghan cameleer and hawker who travelled between Wyndham and various East Kimberley and Northern Territory stations. He traded with the Lee Tongs, an old Chinese family in Wyndham whose store still stands on the main road to the Wyndham port. Sallay used the area near Fletcher Creek as a depot when he was passing through. He was a friend of Joe Bridge's who owned Mabel Downs Station at the time, the station on which the Sally Malay orebody is located.

Sallay was a Pushtun speaker who arrived in the district in 1917. Together with his friend Andramin Khan, they ran strings of up to seventy-two camels transporting goods from Wyndham to the stations and were given some land at Wave Hill Station in the Northern Territory on which to run the camels. The two Afghans strictly observed Islamic traditions in matters of worship and the killing of animals for food.

In the 1940's Sallay moved to the Northern Territory property, Inverway and for a while he had a store for passing drovers, stockmen and Aborigines. He fitted out an old truck with drawers, containing items such as tea, sugar, tobacco, hats, soap, clothing, cards and knives. Sales were made in cash or dog scalps, which were worth about two pounds each. His truck was his sleeping quarters, and his beloved wind up gramophone and records. His two passions in life were gambling and listening to Indian music.

A stockman in the area remembered that Sallay would go out and meet passing drovers and sell them his wares. A game of cards often followed with the boss drover. If Sallay lost at cards he would follow the mob until he won back his losses. Sometimes he was still with the mob when it was eighty miles or more from Inverway.

Sallay's son, Sally and his mother, Juno returned to Bedford Downs Station when Sally was about 12 years old. Paddy Quilty, the owner of Bedford Downs, took responsibility for Sally and prevented him from being taken by officials to the government property Moola Bulla, which was for children of mixed descent. On Bedford Downs Sally learnt the skills of a stockman and worked with Frank Bridge running camps on Bedford Downs, then Landsdowne and Mornington stations. Sally worked at Tablelands and Mt House Stations during the 1960's and between 1968 and 1975 he worked on Bedford Downs again. Sally was married twice. He had a son and a daughter with his first wife Nora. Nora now lives in Turkey Creek. He had eight daughters and two sons with his second wife, Julie who died in 1975. A well-respected stockman, Sally moved with his family to Halls Creek in the mid 1970s and remained there until he died in 1989. He is buried in the Halls Creek cemetery.

(Researched and compiled by Sarah Hay, November 2002)

Chairman's Report

Dear Shareholders,

I am delighted to report to you that the Company has succeeded in achieving the primary goal we set ourselves when the Company was established, which was the development of the Sally Malay Project. The Project is now well into the construction phase and based on the present schedule, will be commissioned during July/August 2004, at a time when nickel prices are still expected to be strong.

The decision to commit to development of the Sally Malay Project in August 2003 was made possible by the Company achieving the following milestones during the year:

- Delivery of the Bankable Feasibility and Optimisation Studies;
- Securing bank and customer debt facilities totalling \$55 million;
- Finalising the life-of-mine offtake agreement with Jinchuan and Sino Mining;
- Raising in excess of \$14.5 million in equity;
- Receiving all necessary statutory approvals; and
- Negotiating the lump sum EPC contract with Roche for the plant and associated infrastructure;

Once the Sally Malay Project is operational, it will generate substantial free cashflow over the initial Project life of 5½ years and there are opportunities to increase the returns over that period and beyond through the following avenues:

- Nickel prices remaining firm until 2006 as forecast by most analysts;
- Improvement in metal recoveries in the plant and the possible application of new technologies;
- Increasing the resource base of the Sally Malay deposit through successful exploration of the "Sally Malay Deeps";
- Discovery of additional nickel sulphide resources on our leases or on joint venture ground; and
- Treatment of 3rd party ore through our plant.

Once again the rapid and successful progress the Company has made this year is a tribute to the dedication and diligent efforts of our staff and the contractors engaged by the Company and I thank them all for their efforts in taking the Project into the development phase.

On behalf of the Board, I thank our shareholders and other stakeholders for their ongoing support and look forward to commissioning the Sally Malay Project on schedule during the third quarter of 2004 and to growing the Company into a respected mining house.



Keith S Liddell
Chairman



Review of Principal Activities



Figure 1 - Sally Malay Plant site earthworks, September 2003

During the year ended 30 June 2003, the Company's funds and management efforts were primarily focused on advancing the development of the Sally Malay Nickel/Copper/Cobalt Project (the "Project") and exploring for additional nickel sulphide resources on our own leases and in joint venture with another landholder in the Kimberley.

The Sally Malay Project

"In the development phase and on schedule for commissioning in July 2004"

Overview

The Sally Malay Project is located 240 kilometres south of Kununurra in the East Kimberley district of

Western Australia. The Bankable Feasibility Study on the Project was completed in August 2002 and immediately following Roche Mining Pty Limited ("Roche") commenced the Optimisation Study, which was completed in January 2003 and confirmed the Project was technically and financially robust. Project financing and concentrate offtake arrangements were finalised in July 2003 and construction of the Sally Malay process plant and associated infrastructure commenced in August 2003. Construction is now well advanced and based on the current schedule, commissioning of the process plant will commence in July 2004 with the first shipment of nickel concentrate in August 2004.

Processing Plant

Based on metallurgical testwork from the Bankable Feasibility Study and from testwork by previous owners the Company decided to adopt a convention process flowsheet for the Project comprising single stage crushing, grinding via a SAG mill, flotation, thickening and filtering to produce a bulk nickel/copper/cobalt concentrate (see figure 2). The plant has a design throughput rate of 750,000 tonnes of ore per annum. The Company has negotiated a lump sum EPC contract with Roche for the construction of the plant and associated infrastructure which is based on Roche delivering a “fit-for-purpose” plant for the contracted capital cost, plus agreed margin and contingency.

Mining

The Sally Malay orebody is a single lens of massive sulphide mineralisation, up to 250 metres long and 40 metres thick that outcrops at surface. The orebody is truncated by a fault approximately 100 metres below the surface and another fault located approximately 500 metres below the surface, which is the limit of the current reported mineral resource, although the mineralisation is known to continue at depth.

Given that sulphide mineralisation occurs within 20 metres of the surface, a combination of open pit and underground mining methods will be adopted. Roche will commence open pit mining operations during the 1st quarter of 2004 and current planning indicates that the open pit will be approximately 100 metres in depth

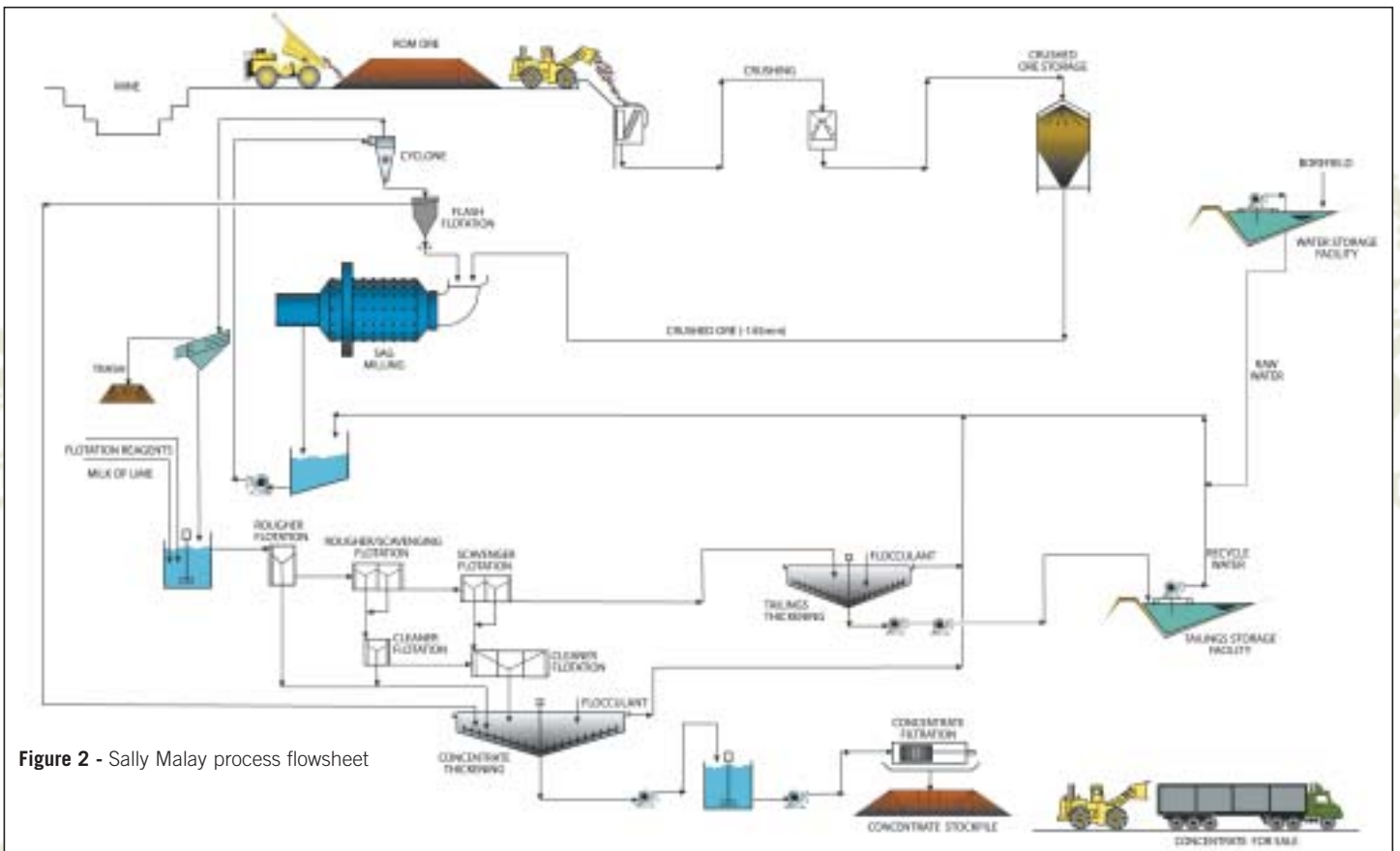


Figure 2 - Sally Malay process flowsheet



(taken from ramp entry point) producing in excess of 850,000 tonnes of ore over a 15 month period.

Underground development is scheduled to start during the first 12 months of open pit mining. This will allow decline development to advance to the first stoping level and ore production to ramp up to full capacity as the open pit nears completion. The majority of underground ore will be produced using the sub-level open stoping method, which is a highly mechanised and low cost conventional mining method. The narrower eastern sections of the orebody, will be extracted by up-hole bench stoping, another mechanised mining method.

Concentrate

The Project will produce a bulk nickel/copper/cobalt concentrate with the metallurgical recoveries and specifications shown in Figure 4, based on the metallurgical testwork by the Company and that of previous owners. The Sally Malay concentrate is unique in that it has significant levels of copper and cobalt (which will provide a significant by-product credit stream), a very low MgO content and contains no penalty elements. Consequently the Sally Malay concentrate is a very attractive feed for sulphide smelters, such as Jinchuan in China, which can recover the copper and cobalt.

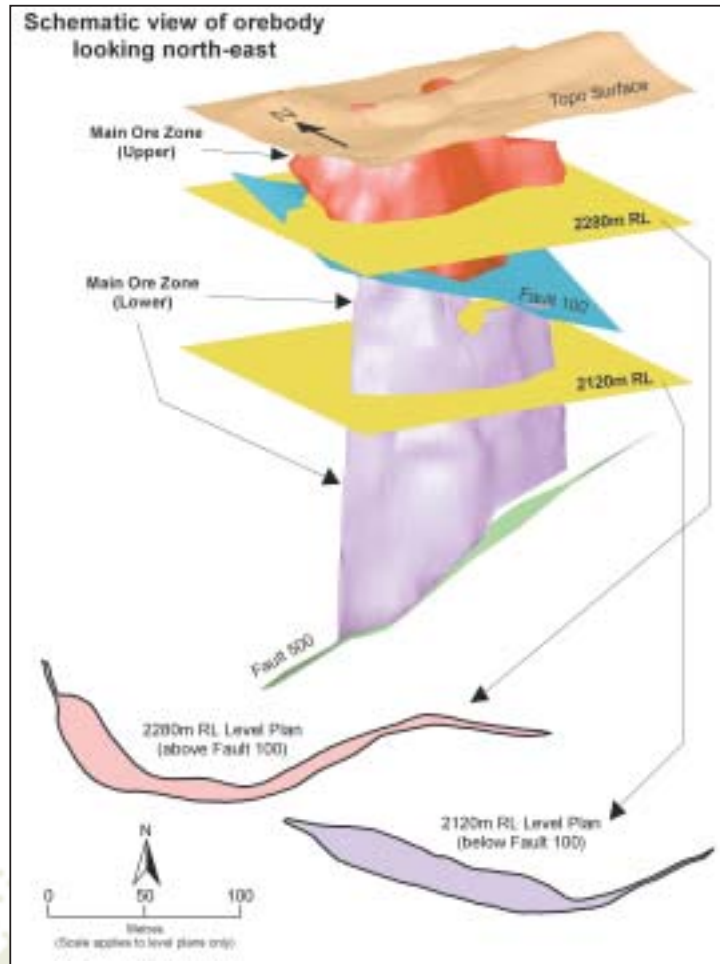


Figure 3 - Schematic of the Sally Malay orebody looking north-east

Element/Physical Characteristics	Recovery to concentrate	Range	Typical
Nickel	76 - 78%	9 - 12%	11 - 12%
Copper	98%	4 - 6%	5 - 6%
Cobalt	69 - 71%	0.5 - 1.0%	0.5%
Sulphur		30 - 35%	34%
Iron		40 - 45%	41%
Magnesia		<0.5%	<0.5%
Arsenic		<10ppm	<10ppm
Cl + F		<150ppm	100ppm
Moisture Content		8 - 10%	9%

Figure 4 - Sally Malay Ni/Cu/Co concentrate specifications

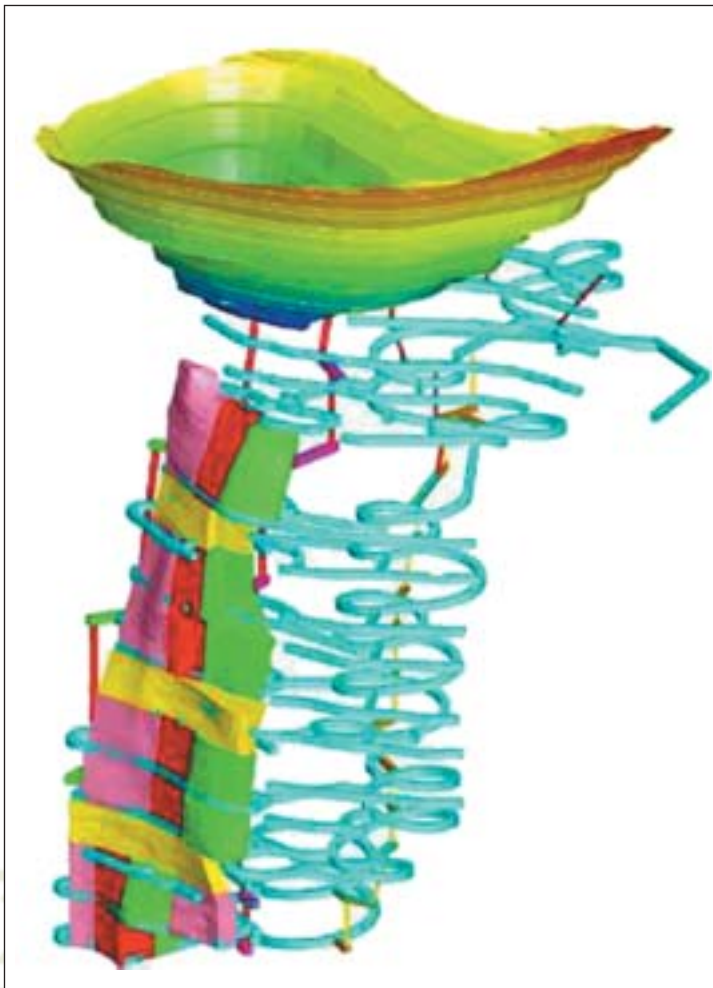


Figure 5 - Schematic of the proposed sub-level open stoping mining method

Proposed Production Schedule

Once commissioned, the Project will ramp up rapidly to full production and is forecast to produce metal in concentrate at the rates outlined in Figure 6.

Personnel

The Project will source as much labour as practical from the local communities. Personnel with specialist skills will be employed on a fly-in/fly-out basis, with all site personnel to be housed in a 120 person village. Recruitment of senior personnel has commenced and will ramp up as the Project nears commissioning.

Statutory Approvals

All Government approvals necessary for the construction of the Project have been obtained.

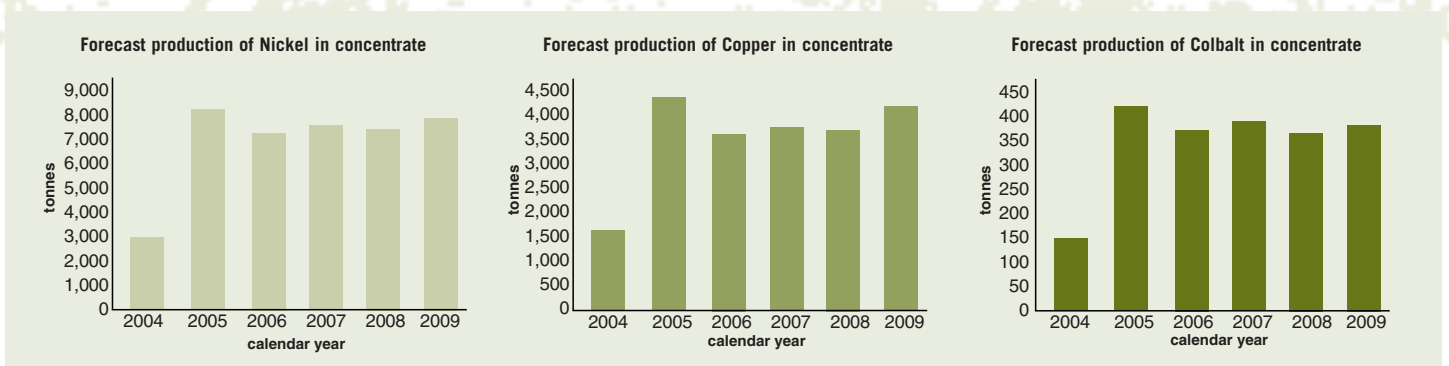


Figure 6 – Annual contained metal production forecasts for the Sally Malay Project



Assumptions	Corporate Base Case	September 2003 Metal Prices & A\$/US\$	Higher Metal Prices & A\$/US\$ Scenario
Metal & Currency			
Nickel (US\$/lb)	3.60	4.90	5.50
Copper (US\$/lb)	0.75	0.84	0.85
Cobalt (US\$/lb)	8.50	10.75	10.00
A\$/US\$	0.65*	0.69	0.70
Net Revenue (A\$M)	429	502	550
Operating Costs (A\$M)	(185)	(190)	(192)
EBITDA (no hedging) (A\$M)	244	312	358
EBIT (A\$M)	126	202	249
NPV using 7.5% discount rate (A\$M)	50	100	128
NPV per share (116 million shares)	\$0.43	\$0.86	\$1.10
IRR (geared)	51%	70%	87%

* The A\$/US\$ rate used in the Corporate Base Case is US\$0.65 and utilises the forward points on the currency which are attractive due to the interest rate differential between the US and Australia.

Figure 7 – Project Economics

Native Title and Aboriginal Heritage

The Company's mining leases were all granted in 1987 and pre-date the Native Title Act. In relation to Aboriginal Heritage, the Company has worked closely with the local traditional owners and the Kimberley Land Council (KLC). A full site clearance of the mine and major infrastructure areas has been undertaken which confirmed that no heritage sites will be impacted upon by the Project operations. The Company maintains a close liaison with the traditional owners, land council and local communities.

Development Schedule

The Company had planned to have been in production in early 2004, however some delays were experienced in receiving statutory approvals and finalising the project financing, which delayed the commencement of construction. In addition the Company decided to wait until the end of the "wet" season before commencing construction of the Tailings and Water Storage facilities to mitigate risk. These factors have resulted in the following revised development schedule, which the Company is now on track to achieve:

- Earthworks commenced – August 2003
- 120 person village operational – November 2003
- Open pit mining commences – 1st quarter 2004
- Dam construction commences – 2nd quarter 2004
- Plant commissioning commences – 3rd quarter 2004

Project Economics

The Project economics are robust at the Company's medium term metal prices and currency forecasts (the Corporate Base Case). The Project economics are significantly enhanced by higher metal prices, as shown in Figure 7, even after taking into consideration the possibility of a stronger A\$.

These forecasts are based on the initial 5½ year project life and exclude any benefits that could be derived from one or more of the following avenues:

- improved metal recoveries;
- additional resources from Sally Malay Deeps or on the Company's leases;
- treatment of joint venture and third party ore through the Sally Malay plant; and
- the possible production of an added value intermediate product at a later date.

Concentrate Customer

All the production from the Sally Malay orebody will be processed in China under the terms of the Life-of-Mine Concentrate Sales Agreement executed in Shanghai in July 2003. The buyer is Sino Nickel Pty Limited, a joint venture between Jinchuan Group Limited ("Jinchuan") and Sino Mining International Limited ("Sino"). The package of terms agreed with the Chinese are very competitive in world terms and the Company is delighted to have Jinchuan, China's largest nickel producer, as its partner. The Sally Malay concentrate will be shipped from Wyndham to Jinchuan's smelter/refinery in Gansu province, northwest China for treatment.

Project Financing

The project has been financed through a combination of bank debt, customer debt and equity.

Bank Financing

Macquarie Bank Limited ("Macquarie") and Standard Bank London Limited ("Standard") have agreed to provide a loan facility (the "Facility") of up to \$47 million to finance the construction of the Sally Malay Project and the Facility Agreement has been executed. The major features of the Facility are as follows:

- Total funds of up to \$47 million will be available for drawdown;
- Additional \$2 million in environmental bonds; and
- Credit limits for 9,260 tonnes of nickel and associated currency hedging;

In addition, Macquarie has agreed to extend the terms of the Feasibility Financing Facility whereby the Company will not be required to repay the \$2.75 million already drawn down, until March 2008.



Figure 8 – The Official Signing Ceremony in Shanghai – 18 July 2003



Customer Financing

Jinchuan has agreed to provide up to US\$5 million of Project financing at an attractive interest rate margin above LIBOR. In addition, the loan will be subordinated to the \$47 million senior loan facility to be provided by Macquarie and Standard. The provision of the US\$5 million by Jinchuan underpins the Project financing, and demonstrates Jinchuan's level of commitment to the Project.

Equity

The balance of the funds required for the Project development and corporate overheads have been sourced via private placements and through the Alliance with Roche.

Alliance with Roche Mining

Roche Mining Pty Limited and the Company entered into an Alliance Agreement in April 2003, whereby Roche agreed to contribute \$2.5 million in equity into the Company via the subscription for 10,660,000 ordinary shares at \$0.235 per share. In return, the Company committed to negotiate the following contracts with Roche relating to the Project:

- Engineering and Construction of the process plant and associated infrastructure;
- Open pit mining, earthworks and dam construction contracts; and
- Plant maintenance contract.

The Company is delighted to have Roche as a major shareholder and believes the Alliance will be of great benefit to both parties.

Geology & Mineralisation

The Sally Malay sulphide orebody comprises pyrrhotite, pentlandite and chalcopyrite mineralisation. The mode of sulphide occurrence



Figure 9 – Plant Earthworks – September 2003

varies from disseminated/matrix to stringer to massive sulphide. The nickel tenor of the Sally Malay sulphide mineralisation is uniform throughout the deposit. Typically, 100% massive sulphide will assay between 3.5% and 4.0% nickel, with the disseminated/matrix style sulphide mineralisation typically assaying between 0.2% and 0.6% nickel. The depth of weathering at Sally Malay is consistently shallow, rarely exceeding a vertical depth of 20 metres.

The orebody remains open at depth below the 500 metre fault, and has been displaced approximately 170 metres to the north-west. Drilling by the Company and previous owners confirms the mineralisation below the 500 metre fault is similar to the Sally Malay orebody mineralisation, however the density of drill hole intersections below this fault do not permit reliable modelling of the mineralisation and it is excluded from the current resource.

Resources & Reserves

The Company reports a measured, indicated and inferred resource of 3.74 million tonnes at 2.16 % Nickel Equivalent ("Ni Eq"), comprising 1.74% Ni, 0.72% Cu, and 0.09% Co above a 0.2% Ni Eq cut-off, containing approximately 65,000 tonnes of nickel, 27,000 tonnes of copper and 3,350 tonnes of cobalt. Snowden Mining Industry Consultants Pty Ltd ("Snowden") confirmed the resource in January 2002.

Cut off Grade (% Ni Eq)	Category	Tonnes (Thousands)	Nickel Grade (%)	Copper Grade (%)	Cobalt Grade (%)	Ni Eq Grade* (%)
0.2	Measured	711	1.58	0.66	0.09	1.96
	Indicated	2,688	1.77	0.73	0.09	2.19
	Inferred	337	1.87	0.83	0.10	2.33
	Total	3,736	1.74	0.72	0.09	2.16
0.5	Measured	711	1.58	0.66	0.09	1.96
	Indicated	2,496	1.88	0.76	0.10	2.32
	Inferred	337	1.87	0.83	0.10	2.33
	Total	3,544	1.82	0.75	0.10	2.25
1.0	Measured	711	1.58	0.66	0.09	1.96
	Indicated	2,355	1.97	0.78	0.10	2.42
	Inferred	337	1.87	0.83	0.10	2.33
	Total	3,403	1.88	0.76	0.10	2.32

* Nickel equivalent grade (%) = nickel grade (%) + cobalt grade (%) x 1.91 + copper grade (%) x 0.33

Figure 10 - Mineral Resource Estimate (January 2002)

Reserves

The Project Ore Reserves were calculated by Snowden at a cut-off grade of 0.64% Ni Eq for the open pit and 0.75% Ni Eq for the underground and are summarised in Figure 11.

Classification	Ore (t, 000)	Ni (%)	Cu (%)	Co (%)
Open Pit				
Proved Ore Reserve	627	1.49	0.64	0.08
Probable Ore Reserve	55	1.50	0.56	0.08
Underground				
Proved Ore Reserve	121	1.27	0.47	0.07
Probable Ore Reserve	2,334	1.60	0.64	0.08
Total Proved and Probable Ore Reserve	3,137	1.57	0.63	0.08
Inventory derived from open pit Inferred	46	1.57	0.79	0.09
Inventory derived from underground Inferred	234	1.52	0.67	0.0
Total inferred inventory	280	1.53	0.69	0.08
Total inventory scheduled	3,417	1.56	0.64	0.08

Figure 11 – Sally Malay Ore Reserve Estimate (January 2002)



Exploration Activities

Sally Malay Orebody – the "Deeps"

Drilling by the previous owners intersected mineralisation below the main fault zone at 500 metres below surface ("500 Fault"), and the Company conducted its own three-hole diamond drilling program into the Sally Malay Deeps during the June quarter of 2003. The drilling intersected Sally Malay-style massive sulphide mineralisation in all three holes. The assays from the intersections confirm that the Sally Malay intrusion and mineralised basal norite unit continue at depth, below the 500 Fault. The results from the Deeps drilling program are in Figure 12, and confirm the grade is consistent with the resource above the 500 Fault. The assay results compare favourably with the reported resource of 3.74Mt which has an average grade of 1.74% Ni, 0.72% Cu and 0.09% Co with a Ni Eq. grade of 2.16%, apart from the deeper SMD147B mineralised zone (785.7m to 797.0m). This mineralised zone relates to the basal peridotite unit, and consequently, cannot be directly correlated with the other mineralised zones which all occur in the basal norite unit that is consistent with the orebody above the 500 Fault.

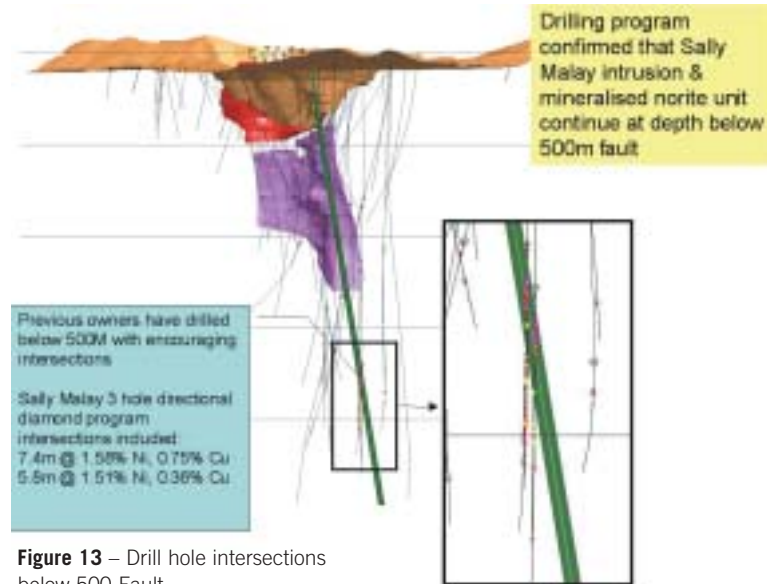


Figure 13 – Drill hole intersections below 500m Fault

Discovery of additional ore in the Deeps could lead to an increase in the currently reported Sally Malay resource which could extend the Project life. This is an attractive prize, and the Company plans to undertake further drilling on the Sally Malay Deeps at a later date, most likely after underground mining has commenced, and is confident of adding to the current reported resources from the Deeps.

Hole Number	From (metres) downhole	To (metres) downhole	Width (metres)	Ni Grade (%)	Cu Grade (%)	Co Grade (%)	Ni Eq. Grade
SMD147	752.0	759.4	7.40	1.58	0.74	0.08	1.93
including	755.0	759.4	4.4	2.06	0.98	0.10	2.51
SMD147A	791.2	793.2	2.0	2.29	0.41	0.10	2.56
SMD147A	806.2	811.9	5.75	1.51	0.36	0.07	1.72
SMD147B	770.2	775.0	4.80	0.62	0.58	0.04	0.86
SMD147B	785.7	797.0	11.30	0.73	0.31	0.06	0.92

Notes: 1. Ni Eq.% = Ni% + (Cu% x 0.32) + (Co% x 1.43) 2. All intersections are downhole widths

Figure 12 – Drill hole intersections below 500m Fault

Hole #	From (m)	To (m)	Interval (m)	Ni (%)	Cu (%)	Co (%)
TN4	42	44	2	0.12	0.05	0.01
TN5	36	38	2	0.24	0.14	0.04
TN6	39	42	3	0.61	0.12	0.08

Figure 14 – Best assay intercepts from Three Nuns Prospect drilling

Company Leases

The Company's leases are contiguous and cover approximately 37km². A number of prospects were identified by previous owners, through geochemical and geophysical surveys and transient array electromagnetic ("TEM") imaging. The Company undertook a detailed helicopter borne electromagnetic survey ("EM") survey at 75 metre line spacing in June 2002 which identified a number of priority targets. Three high priority prospects - Three Nuns, Sally Malay East and North East Cluster were then drill tested. Drilling at Three Nuns intersected mineralisation, the best hole being 3 metres from 39 metres grading 0.61% Ni, 0.12% Cu and 0.08% Co. (See figure 14).

The EM conductor has been determined to be sourced by a thin, localised horizon of pyrrhotite/pentlandite mineralisation located at the base of the Three Nuns gabbroic intrusion. While these drill results do not support the presence of a near surface open-pit resource, the fact that nickeliferous sulphide mineralisation is developed on the basal contact of the Three Nuns intrusion is significant and will be followed up with deeper exploration. The remaining EM conductors tested at Sally Malay East and North East Cluster can be attributed to unmineralised graphite (± pyrrhotite) rich horizons within otherwise typical Tickalara Metamorphic rock types and no further work is planned on them.

Joint Ventures - Copernicus and Salk North Prospects

The Company has been actively seeking opportunities in the vicinity of the Sally Malay Project and was able to secure a joint venture with Thundelarra Exploration Ltd ("Thundelarra") over its Copernicus resource and its Salk North nickel-copper prospect during the year. Under the Copernicus/Salk North joint venture the Company has following rights:

- earn 60% interest in the Mining Lease that has been lodged over the prospects by completing a bankable feasibility study on mining the resource and processing it through the Sally Malay plant;
- earn up to 100% if Thundelarra dilutes and converts its remaining interest to an agreed net smelter return; and
- manage the JV and drilling on the prospects.

The Copernicus resource and Salk North prospect are only 35 kilometres south of the Company's Sally Malay Project and Copernicus has an Indicated Resource of 220,000t at a grade of 1.5% nickel and 0.8% copper using a 1% nickel cut-off grade containing approximately 3,300 tonnes of nickel. The Company has since undertaken additional drilling which has demonstrated the orebody is open to the south, at depth. Ground EM is planned prior to a follow up drilling program in late 2003. The Company will then undertake a study to determine the economics of open pit mining of Copernicus and trucking the ore to the Sally Malay plant, subject to the mineralogy of the ore being amenable to the Sally Malay flowsheet.

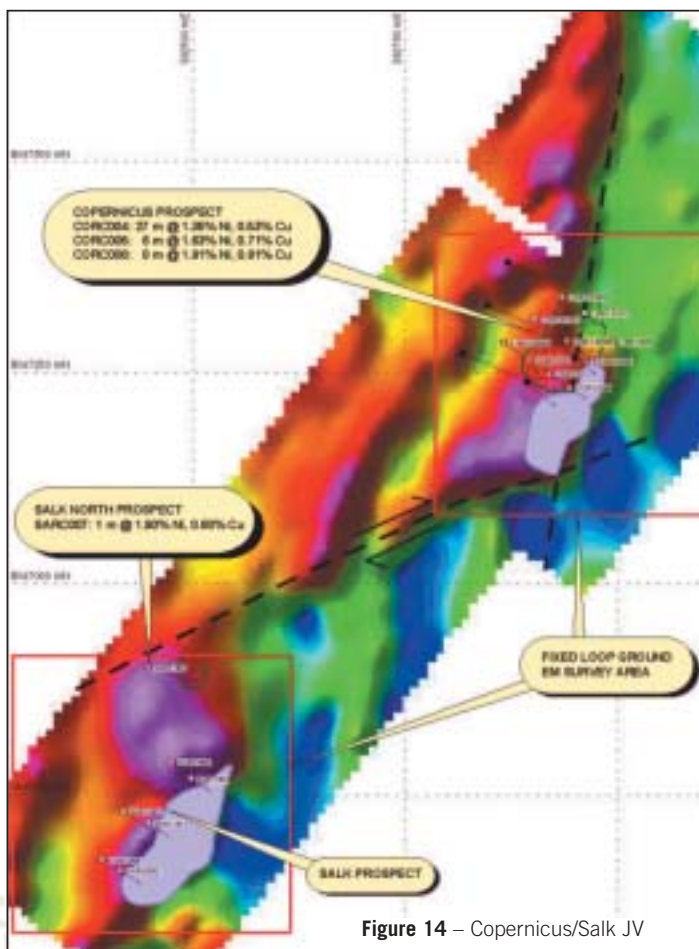


Figure 14 – Copernicus/Salk JV

Small discrete orebodies, such as Copernicus, represent ideal sources of feed to supplement production from underground at Sally Malay and utilise some or all of the 150,000 tonnes per annum of potential spare plant capacity that will be available after the Sally Malay open pit is exhausted in mid 2005.

Improved Metallurgical Recoveries - Intermediate Product

The concept of producing an intermediate product at Sally Malay from low grade concentrate is attractive and scoping studies on

two technologies were undertaken during the year. The results were positive and the Company is planning to commence a feasibility study, early in 2004, utilising the GeoCoat technology.

The ability to produce an intermediate product such as a mixed nickel/cobalt sulphide or carbonate precipitate from a low grade concentrate stream in addition to producing conventional concentrate could result in between 1,500-2,000 tonnes per annum of additional contained nickel production, which would significantly enhance project economics.

Corporate Activities

Opportunities to grow the Company

The Company has a small team of experienced and dedicated professionals with a strong focus on project development together with a strong network of contractors who are available to assist our team in assessing new opportunities. Now that the Sally Malay Project has moved into the development phase, we are actively seeking other opportunities that will allow us to grow the company into a profitable and respected mining house.

Directors' Report

The directors present their report together with the financial report of Sally Malay Mining Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2003.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Keith S Liddell - Executive Chairman (45 Years)

*B.Sc, M.Sc, CP (Metallurgy) & CP (Management) (Australia), C Eng (UK),
Pr Eng (South Africa), FIE Aust, FSAIMM, MIMM*

Mr Liddell is a metallurgical engineer with over 20 years experience in engineering of plant and equipment, process development, project management and corporate management of resource projects and companies. Mr Liddell was previously an executive director of Aquarius Platinum Limited (Aquarius), a leading platinum mining company that successfully developed the Kroondal Platinum Mine in South Africa. Mr Liddell is a non-executive director of Australian Mines Ltd, a non-executive director of Avon Resources Limited and executive chairman of Mineral Securities Limited (Director since 2 February 2001).

Peter J Harold - Managing Director (40 Years)

B.AppSc (Chem), AFAICD

Mr Harold is a process engineer with over 17 years corporate experience in the minerals industry specialising in financing, marketing, business development and general corporate activities. Mr Harold has extensive experience with the development and operation of both sulphide and laterite nickel projects having been responsible for metals marketing and various corporate functions relating to the Cawse nickel laterite project and the Silver Swan and Mt Keith nickel sulphide projects (Director since 16 March 2001).

Alasdair C Cooke - Non-Executive Director (38 Years)

B.Sc (Hons)

Mr Cooke is a geologist with 16 years experience in the resource exploration industry throughout Australia and internationally. He has wide experience as an independent consultant specialising in structural geology and resource studies as well as having worked in the areas of commercial strategy and risk management. Mr Cooke founded Mitchell River Exploration Pty Ltd (MRE), a private mineral exploration company with interests in nickel-copper-platinum group metal exploration projects in Australia and Africa and is the Managing Director of Exco Resources NL (Director since 2 February 2001).

Michael A Bohm - Executive Director - Operations (40 Years)

B.AppSc (Mining Eng.), MAUSIMM

Mr Bohm is a mining engineer with over 18 years operational experience in the minerals industry, having worked in both open-pit and underground hard-rock mining environments in the gold, nickel and diamond sectors of the industry. He has extensive experience in project management and operations management, having held senior operational roles with Ashton Mining Limited (Appointed 12 March 2003).

COMPANY SECRETARY

Trevor R Eton - Chief Financial Officer (43 Years)

B.A (Hons) (Econ), PostGradDip (Man), AFAIM

Mr Eton is an accountant and was appointed company secretary on 12 March 2003. Prior to joining the Company, he was company secretary and group financial controller of MPI Mines Limited for 10 years. Mr Eton has over 20 years experience in corporate finance within the minerals industry.



DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Directors' Meeting	Remuneration Committee
Number of meetings held:	9	1
Number of meetings attended:		
Keith S Liddell	9	1
Peter J Harold	9	1
Alasdair C Cooke	9	1
Michael A Bohm	3	-

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the course of the financial year consisted of exploration, evaluation and development of mineral deposits. A detailed review of the consolidated entity's principal activities is contained in the Review of Principal Activities section of this Annual Report.

STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial period were as follows:

- Fully paid ordinary share capital of the Company increased during the year, to provide funds for the development of the Sally Malay Project, as follows:
 - 31 December 2002 - cash issue of 8,874,000 shares at 23.5 cents per share;
 - 10 January 2003 - cash issue of 276,000 shares at 23.5 cents per share;
 - 27 February 2003 - cash issue of 1,488,298 shares at 23.5 cents per share;
 - 7 March 2003 - cash issue of 6,500,00 shares at 26.0 cents per share;
 - 21 May 2003 - cash issue of 2,130,000 shares at 23.5 cents per share, representing the first and second tranches of 1,065,000 shares per tranche under the Deed of Alliance dated 30 April 2003 between the Company and Roche Mining Pty Limited;
- On 30 August 2002, the Company issued 2,347,418 unlisted options expiring 30 August 2005 to Macquarie Bank Limited, exercisable at 42.6 cents each. This represented the second tranche of options under the \$3 million pre-financing facility with Macquarie Bank Limited dated 16 April 2002;
- On 20 February 2003, the Company issued 2,659,574 unlisted options expiring 16 December 2005 to Macquarie Bank Limited, exercisable at 28.2 cents each. This represented the third tranche of options under the \$3 million pre-financing facility with Macquarie Bank Limited dated 16 April 2002;
- On 2 March 2003, the Company announced it had agreed terms for a 60:40 joint venture with Thundelarra Exploration Ltd ("Thundelarra") on Thundelarra's Copernicus and Salk North nickel-copper prospects in the East Kimberley region;
- On 27 June 2003, the Company announced that it had placed, subject to shareholder approval, 20,185,000 fully paid ordinary shares at 29.0 cents per share with local and institutional investors; and
- On 30 June 2003, the Company transferred the Sally Malay Project mining tenements and assets to its wholly owned entity, Kimberley Nickel Mines Pty Ltd.

RESULTS AND DIVIDENDS

The consolidated entity's loss after tax for the financial year ending 30 June 2003 was \$1,292,769 (2002: loss \$593,593).

No dividends have been paid or declared by the Company during the year ended 30 June 2003.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its mining and exploration activities.

The consolidated entity's management monitors compliance with the relevant environmental legislation. The directors are not aware of any breaches of the legislation during the period covered by this report.

CORPORATE

The Company is limited by shares and is domiciled in Australia.

EMPLOYEES

At the end of the financial year, the consolidated entity had six full time employees (2002: three).

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the end of the financial year, the Company and/or its wholly owned entities:

1. On 7 July 2003, signed Senior Financing Facility documents with Macquarie Bank Limited and Standard Bank London;
2. On 7 July 2003, signed Heads of Agreement for Copernicus-Salk Joint Venture with Thundelarra Exploration Ltd;
3. On 15 July 2003, issued for cash the third tranche of 1,065,000 shares, at an issue price of 23.5 cents a share, to Roche pursuant to the 30 April 2003 Deed of Alliance between the Company and Roche;
4. On 17 July 2003, signed the Life-of-Mine Concentrate Sales Agreement with Sino Nickel Pty Ltd;
5. On 17 July 2003, signed a US\$5 million Project Financing Agreement with Jinchuan Group Limited;
6. On 15 August 2003, obtained shareholder approval at a General Meeting of the Company for the issue for cash at 29 cents a share of 20,185,000 fully paid ordinary shares to local and overseas institutional investors;
7. On 15 August 2003, issued for cash at 29 cents a share, of 6,899,138 fully paid ordinary shares to overseas institutional investors;
8. On 15 August 2003, the terms of the \$3 million Feasibility Financing Facility with Macquarie Bank Limited were revised whereby the repayment date was extended from 31 December 2003 to 31 March 2008; and

The detailed review of these events is contained in the Review of Principal Activities section of this Annual Report.

Other than the items noted above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.



LIKELY DEVELOPMENTS

The consolidated entity will continue with the development of the Sally Malay Project.

Further information about likely developments in the operations of the Company and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Company.

DIRECTORS' AND EXECUTIVE OFFICERS'

Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the managing director and the executive team. Due to the size of the consolidated entity, the Remuneration Committee consists of all directors. Any changes to directors' remuneration must be approved by shareholders. The remuneration of senior executives is determined by the chairman and non-executive directors based on recommendations provided by the managing director. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages.

Emoluments' of directors and executives of the company and the consolidated entity

Details of the nature and amount of each major element of the emoluments of each director and executive officer of the Company and the consolidated entity for the financial year are as follows:

	Base fee	Bonus	Non-cash benefits	Super- annuation	Issued Share Options (A)	Total	Number of Issued Share Options
	\$	\$	\$	\$	\$	\$	
Directors							
Keith S Liddell	84,000	32,000	-	-	26,532	142,532	350,000
Alasdair C Cooke	25,000	4,800	-	-	-	29,800	-
Peter J Harold	145,295	45,000	5,220	18,105	-	213,620	-
Michael A Bohm	160,172	15,000	5,220	14,415	34,387	229,194	450,000
Executive Officers (excluding Directors)							
Trevor R Eton	58,243	-	-	5,340	8,672	72,255	400,000

(A) All executive options expire on 10 September 2006 and each executive option entitles the holder to purchase one ordinary share in the Company. The estimated value disclosed above is calculated at the date of grant using the Black-Scholes model. The ability to exercise the executive options is conditional on certain vesting periods. Details of the vesting periods and of executive options granted during the year are set out in note 18 of the financial statements.

Directors' interests

The relevant interest of each director in the share capital as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Name of Director	Ordinary shares	Options over ordinary shares
Keith S Liddell	8,662,669*	350,000
Peter J Harold	1,980,159**	-
Alasdair C Cooke	4,743,000***	-
Michael A Bohm	150,000	450,000

* The 8,425,532 ordinary shares in which Mr Keith S Liddell has a relevant interest are owned by Mineral Securities Limited, a company of which Mr Liddell is a director. The 237,137 ordinary shares in which Mr Liddell has a beneficiary interest are owned by the Liddell Investment Trust.

** The 1,975,000 ordinary shares in which Mr Harold has a beneficiary interest are owned by Winton Vale Pty Ltd.

*** The 2,743,000 ordinary shares in which Mr Cooke has a beneficiary interest are owned by Glenlaren Pty Ltd (2,650,000 shares) and Hartree Pty Ltd (93,000 shares).

SHARE OPTIONS

At the date of this report total unissued ordinary shares of the Company under option are:

Expiry date	Exercise price (\$)	Number of shares
16 April 2005	0.436	2,000,000
30 August 2005	0.426	2,347,418
16 December 2005	0.282	2,659,574
10 September 2006	0.350	850,000
10 September 2006	0.415	350,000
12 September 2006	0.200	4,050,000

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has agreed to indemnify the current directors and company secretary, Mr Trevor R Eton, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities including costs and expenses.



INSURANCE PREMIUMS

The Company has paid insurance premiums of \$18,563 (2002: \$14,541) in respect of Director's and Officer's liability and legal expenses' insurance contracts, for current directors and officers of the Company. The insurance premiums relate to:

1. Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever the outcome their outcome; and
2. Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

TAX CONSOLIDATION

As at the date of this report, it is the not the intention of the company and its wholly owned entities to form a tax consolidated group.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Sally Malay Mining Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

Peter Harold
Managing Director

Perth, 30 September 2003

Corporate Governance Statement

The Board of Directors of Sally Malay Mining Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Sally Malay Mining Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with Australian Stock Exchange ("ASX") Corporate Governance Council ("CGC") recommendations, unless otherwise stated.

Board of Directors

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

Board processes

The Board is responsible for the overall Corporate Governance of the consolidated entity including the strategic direction, establishing goals for management and monitoring the achievement of these goals. Due to the size of the Board and the consolidated entity, issues of nomination and remuneration of directors and business risk management are considered by the full Board. The Board has also established a framework for the management of the Company and its controlled entities including a system of internal control, a business risk management process and the establishment of appropriate ethical standards. The agenda for meetings is prepared by the managing director. Standard items include the managing director's report, financial reports, project reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions.

Composition of the Board

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report in this report.

The composition of the Board is determined using the following principles:

- The Board currently comprises four directors. This number may be increased where it is required due to a commercial alliance, or felt that additional expertise is required in specific areas, or when an outstanding candidate is identified;
- The Board should comprise directors with a broad range of expertise with an emphasis on exploration, mining and project development related experience; and
- Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the managing director) are subject to re-election at least every three years. The tenure of executive directors is linked to their holding of executive office.

The Board reviews its composition as required to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate expertise and experience are considered. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

The performance of all directors is reviewed by the chairman each year. Directors whose performance is unsatisfactory are asked to retire.



In regard to the CGC corporate governance recommendation on the majority of directors, and the chairman, being independent, the Board believes that the size of the consolidated entity and the fact that the consolidated entity is still very much in a growth and development phase, the strategy and objectives of the Company are best served at this time by persons who have been associated with the Company since incorporation, irrespective as to their degree of independence.

Conflict of interest

In accordance with the Corporations Law and the Company's constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice at the Company's expense. A copy of the advice received by the director is made available to all other members of the Board.

Remuneration Committee

The role of the Remuneration Committee is to review remuneration packages and policies applicable to the managing director and directors themselves. Due to the size of the consolidated entity, the remuneration committee consists of all directors. The remuneration of senior executives is determined by non-executive directors based on recommendations provided by the managing director. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages.

Further details of directors' remuneration are set out in the Directors' Report and Note 19 to the financial statements.

Audit Committee

Due to the size of the consolidated entity, the audit committee consists of all directors. The Board has determined there is no benefit at this time of having a formal operating charter.

Nomination Committee

Due to the size of the current size of the Board and the small management team, the Board has determined there is no benefit at this time of establishing a nomination committee.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under the following headings:

Financial reporting

There is a comprehensive budgeting system with a budget approved by the directors. The Board reviews all final draft financial reports with the managing director, the chief financial officer and auditors and recommendations on their adequacy to the Board prior to their release to members and other public forums. There is regular communication between management and external auditors.

Pursuant to the CGC's corporate governance recommendation, the managing director and chief financial officer are required to state in writing to the Board that the Company's and consolidated entity's financial reports present a true and fair view, in all material aspects, of the Company's and consolidated entity's financial condition and that operational results are in accordance with relevant accounting standards.

Continuous disclosure

The Company has a policy that all shareholders and investors have equal access to the Company's information. All material and price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Law and ASX Listing Rules. All material announcements provided to the ASX are posted to the Company's web site.

Reviewing all statutory, regulatory or tender reports submitted to or made by the Company and its controlled entities, and to report or recommend to the Board as appropriate.

The Company has appointed an officer who is in charge of overseeing the continuous disclosure practices of the Company and its controlled entities. That person's responsibilities include:

- Ensuring compliance with continuous disclosure requirements;
- Overseeing and coordinating the disclosure of information to the ASX, analysts, brokers, shareholders, the media and public; and
- Educating directors and staff of the Company's and consolidated entity's disclosure policies and procedures and raising awareness of the principles of the underlying continuous disclosure.

The Company's and its controlled entities adopted policies on continuous disclosure include the following:

- The Company should keep to a minimum the number of directors and staff authorised to speak on the Company's behalf;
- The officer responsible for disclosure should be made aware of information to be disclosed in advance, including information to be presented at private briefings;
- Price sensitive information should be publicly released through the stock exchange before disclosing it to analysts or other outside the Company;
- Announcements should be posted on the Company's website following its announcement to the ASX;
- Documents used for external briefings should be given to the ASX for immediate release and posted on the Company's website;
- Only information that has been (or is based on information that has been) publicly released through the ASX should be disclosed to analysts, shareholders or others outside the Company;
- If price sensitive information is leaked or inadvertently disclosed, an announcement should be made to the ASX and posted on the Company's website; and
- If the Company becomes aware of a significantly widespread rumour which could be expected to have a material effect on the price or value of the Company's securities, an announcement should be made to the ASX which addresses the rumour (where commercially feasible).



Trading in Company securities by directors', officers' and employees'

The Company has established rules for the trading in Company securities by directors', officers' and employees' to ensure compliance with Section 1002G of the Corporations Law (on insider trading) and Part 2D.1 of the Corporations Law (on the proper duties in relation to the use of inside information). The managing director has been appointed to ensure that the following rules for the trading in Company securities are strictly adhered to by all directors', officers' and employees:

- Trading in Company securities is only permitted following the notification of the intention to trade with the managing director;
- Trading in Company securities is prohibited at any time when in possession of unpublished information, which if generally available, might materially affect the price or value of those securities, or for a period of 2 business days following the making of a public announcement in relation to that inside information ("the due notice period");
- Active trading in Company securities, which involves frequent and regular trading in those securities with a view to derive profit related income from that activity, is prohibited; and
- Only in exceptional circumstances, can approval be obtained in advance from the managing director, to trade outside the due notice period.

Business risk management

The Board examines and considers areas of significant business risk and implements policy to minimise exposure to these risks. Areas of risk which are considered at Board meetings include:

- Asset protection/development;
- Performance of activities;
- Organisational behaviour;
- Human resources;
- Workplace safety;
- The environment; and
- Continuous disclosure obligations.

Comprehensive practices are established such that:

- Capital expenditure above a certain size require Board approval;
- Financial exposures are controlled;
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations; and
- Business transactions are properly authorised and executed.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance and reputation of the Company and its controlled entities.

The Role of Shareholders

The Board of directors aims to ensure that the shareholders are informed of all major developments affecting the Company's and its controlled entities state of affairs. Information is communicated to shareholders as follows:

- The full annual financial report is distributed to all shareholders and contains relevant information about the operations of the Company during the year, changes to the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law;
- The quarterly report and cash flow statement contains a review of the operations and a statement of cash flow respectively of the Company during the period;
- Proposed major changes in the Company, which may impact on share ownership rights, are submitted to a vote of shareholders; and
- Notices of all meetings of shareholders.

Annual reports, quarterly reports and material ASX announcements are posted on the Company's web site at www.sallymalay.com.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

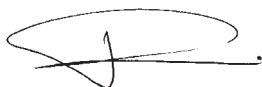
Directors Declaration

In accordance with a resolution of the directors of Sally Malay Mining Limited ("the Company"), I state that:

In the opinion of the directors:

- a) The financial statements and the notes of the Company and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Peter Harold

Director

Perth, 30 September 2003



■ Central Park
152 St Georges Terrace
Perth WA 6000
Australia
GPO Box M939
Perth WA 6043

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

Independent audit report to the members of Sally Malay Mining Limited

Scope

The financial report and directors responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Sally Malay Mining Limited ("the Company") and the Consolidated Entity, for the year ended 30 June 2003. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the Consolidated Entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Company.

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Sally Malay Mining Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Sally Malay Mining Limited and the Consolidated Entity at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.


Ernst & Young

Y W Tidy
Partner
Perth
Date: 30 September 2003

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

Statement of Financial Position
As at 30 June 2003

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
REVENUES FROM ORDINARY ACTIVITIES	2	399	399	78
Borrowing costs	2	(368)	(367)	(31)
Corporate and marketing expenses		(1,135)	(1,135)	(628)
Exploration and evaluation expenses		(87)	-	-
Other expenses from ordinary activities	2	(102)	(185)	(13)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,293)	(1,288)	(594)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	3	-	-	-
LOSS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED	14	(1,293)	(1,288)	(594)
Share issue costs	13	(150)	(150)	(277)
TOTAL EXPENSES ATTRIBUTE TO MEMBERS OF SALLY MALAY MINING LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(150)	(150)	(871)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED		(1,443)	(1,438)	(871)
Basic loss per share (cents per share)	22	1.9	-	1.2
Diluted loss per share (cents per share)	22	1.9	-	1.2

The statement of financial performance should be read in conjunction with the accompanying notes.



Statement of Financial Position As at 30 June 2003

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
CURRENT ASSETS				
Cash assets		4,286	4,286	219
Receivables	4	246	94	159
TOTAL CURRENT ASSETS		4,532	4,380	378
NON-CURRENT ASSETS				
Receivables	5	-	8,304	-
Plant and equipment	6	450	183	91
Deferred exploration, evaluation and development expenditure	7	8,630	-	5,009
TOTAL NON-CURRENT ASSETS		9,080	8,487	5,100
TOTAL ASSETS		13,612	12,867	5,478
CURRENT LIABILITIES				
Payables	9	1,216	532	387
Provisions	10	69	69	12
Interest- bearing liabilities	11	10	-	-
TOTAL CURRENT LIABILITIES		1,295	601	399
NON-CURRENT LIABILITIES				
Interest- bearing liabilities	12	2,806	2,750	700
TOTAL NON-CURRENT LIABILITIES		2,806	2,750	700
TOTAL LIABILITIES		4,101	5,236	1,099
NET ASSETS		9,511	9,516	4,379
EQUITY				
Contributed equity	13	11,398	11,398	4,973
Accumulated Losses	14	(1,887)	(1,882)	(594)
TOTAL EQUITY		9,511	9,516	4,379

The statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
Year ended 30 June 2003

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees		(969)	(883)	(351)
Receipts from other parties		286	286	-
Interest received		57	57	75
Borrowing costs paid		(346)	(346)	(31)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	15(a)	(972)	(886)	(307)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash outflow for short term deposits		-	-	(35)
Proceeds from sale of plant and equipment		53	53	-
Payment for plant and equipment		(394)	(192)	(103)
Payments for exploration, evaluation and development		(3,092)	(3,092)	(5,009)
Advances to related parties		-	(288)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(3,433)	(3,519)	(5,147)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from the issue of ordinary shares		4,690	4,690	5,250
Payment of share issue expense		(150)	(150)	(277)
Proceeds from application for ordinary shares		1,885	1,885	-
Proceeds from borrowings		2,050	2,050	2,240
Hire purchase payments		(3)	(3)	-
Repayment of borrowings		-	-	(1,540)
NET CASH FLOWS FROM FINANCING ACTIVITIES		8,472	8,472	5,673
NET INCREASE IN CASH HELD		4,067	4,067	219
Opening cash		219	219	-
CLOSING CASH CARRIED FORWARD	15(b)	4,286	4,286	219

The statement of cash flows should be read in conjunction with the accompanying notes.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

b) Change in accounting policy

Employee benefits

The consolidated entity has adopted the revised Accounting Standard AASB 1028 “Employee Benefits”, which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. There was no change to consolidated retained losses or employee benefit liabilities as a result of the revised policy.

c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and money markets investments readily convertible to cash within 2 working days net of outstanding bank overdrafts.

d) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Sally Malay Mining Limited (the parent company) and all entities that Sally Malay Mining Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date that the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transaction, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

f) Deferred exploration, evaluation and development expenditure

Costs arising from exploration and evaluation activities are carried forward for each area of interest, provided such costs are expected to be recouped through successful development or, by sale or, where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Costs arising from development activities are carried forward when the right of tenure is current and the costs are expected to be recouped through successful exploitation of the area of interest or, alternatively, by its sale.

Costs are carried forward in respect of an area of interest in either the exploration and evaluation phase or the development phase until such time as the area of interest becomes a producing area. Amortisation is not charged on costs carried forward in respect of areas of interest in the exploration and evaluation or development phase until production commences.

When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

g) Joint Venture Operations

Interest in unincorporated joint ventures are recognised by including in the respective classifications, the share of the individual assets employed and share of liabilities and expenses incurred from the date joint control commences to the date joint control ceases.

Interest in the joint venture partnership is carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

h) Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the consolidated entity.

i) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

Hire purchase liability is determined in accordance with the requirements of AASB 1008 "Leases".

j) Plant and Equipment

Items of plant and equipment are initially recorded at cost and depreciated as outlined below. The cost of plant and equipment constructed for and by the consolidated entity, where applicable, includes the cost of materials and direct labour. The proportion of overheads and other incidental costs directly attributable to its construction are also capitalised to the cost of plant and equipment.

Costs incurred on plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Where these costs represent separate components of a complex asset, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs incurred on plant and equipment that do not meet the criteria for capitalisation are expensed as incurred.



Depreciation and amortisation

Items of plant and equipment, excluding plant and equipment under hire purchase, are depreciated on a diminishing value basis over their estimated useful lives. Items of plant and equipment under hire purchase are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives used for each class of asset are as follows:

Plant and equipment	2003	2002
Office equipment	between 3 and 4 years	between 3 and 4 years
Office furniture and fixtures	5 years	5 years
Motor vehicles	5 years	-
Plant and equipment under hire purchase	5 years	-

k) Plant and Equipment under Hire Purchase

Plant and equipment under hire purchase are capitalised at the present value of the minimum rental payments and recorded at the inception of the hire purchase agreement. A liability of equal value is also recognised.

Capitalised hire purchase assets are amortised over the shorter of the estimated useful life of the assets and the terms of the relevant agreement. Minimum rental payments are allocated between interest expense and reduction of the hire purchase liability with the interest expense calculated using the interest rate implicit in the relevant agreement and recognised directly in net profit.

The cost of improvements to or on plant and equipment under hire purchase is capitalised, disclosed as hire purchase asset improvements, and amortised over the unexpired period of the relevant agreement or the estimated useful lives of the improvements, whichever is the shorter.

l) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

m) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising as a result of ordinary shares issued at balance date are recognised directly in equity as a reduction of the share proceeds received.

n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Control of the right to receive the interest payment.

Government grants and/or rebates

Satisfied the legislated expenditure and turnover tests.

o) Taxes

Income taxes

Tax effect accounting has been adopted. The income tax expense in the statement of financial performance has been determined after adjusting for income and expenditure that are not assessable or allowable for taxation purposes.

Future income tax benefits are not brought to account unless:

- a) In the opinion of the Directors, realisation of the benefits is virtually certain;
- b) Expected future assessable income is derivable of a nature and of an amount sufficient to enable the benefit to be realised;
- c) The conditions of deductibility imposed by tax legislation can continue to be complied with; and
- d) No changes in tax legislation adversely affect Sally Malay Mining Limited in realising the benefit.

The income tax expense has been calculated using 30%. Details are shown in Note 3.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

p) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on



remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave and long service leave benefits are recognised against profits on a net basis in their respective categories.

The value of the equity-based compensation scheme described in note 18 is not being recognised as an employee benefits expense.

q) Superannuation Fund

The Company contributes to an employee superannuation fund which is an accumulation fund. Contributions are charged against income as they are made.

r) Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

s) Earnings per Share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) Comparatives

Consolidated entity

As a result of the incorporation of wholly owned entities during the year, there are no comparatives of the consolidated entity for the previous year.

	CONSOLIDATED	THE COMPANY	
	2003 \$'000	2003 \$'000	2002 \$'000
2. LOSS FROM ORDINARY ACTIVITIES			
(a) Revenues from non- operating activities			
Interest			
Other persons/corporations	60	60	75
Proceeds from disposal of plant and equipment	53	53	3
Government R&D tax offset rebate (net of costs)	268	263	-
Other sundry revenue	18	18	-
Total revenues from ordinary activities	399	399	78
(b) Borrowing costs			
Interest paid/payable	144	144	5
Finance charges on hire purchase assets	1	-	-
Facility costs	223	223	26
	368	367	31
(c) Other expenses from ordinary activities			
Depreciation	47	46	10
Amortisation	3	-	-
Cost of plant and equipment sold	52	52	3
Forgiveness of loan to controlled entity	-	87	-
	102	185	13
(d) Losses/(gains)			
Net loss/(gain) on disposal of plant and equipment	(1)	(1)	-
3. INCOME TAX			
The prima facie tax, using tax rates applicable in the country of operation, on operating loss and extraordinary items differs from the income tax provided in the financial statements as follows:			
Prima facie tax benefit on loss from ordinary activities:	388	386	178
Tax effect of permanent differences	(90)	(116)	(2)
Under provision of previous year	17	17	-
Future income tax benefit not brought to account	(315)	(287)	(176)
Income tax expense attributable to ordinary activities	-	-	-



	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
3. INCOME TAX				
Income Tax Losses				
Future income tax benefit arising from tax losses not brought to account at balance date as realisation is not regarded as virtually certain.		2,190	1,147	1,146
Future income tax benefits have not been brought to account as the virtual certainty of these benefits being realised cannot be assured and will be brought to account over future years as and when the virtual certainty criteria are met (refer Note 1).				
Tax Consolidation				
As at balance date, it is not the intention of the company and its wholly owned entities to form a tax consolidated group.				
4. RECEIVABLES (CURRENT)				
Short term deposits		36	36	35
Other receivables		210	58	124
		4(a)	246	159
<i>(a) Terms and conditions</i>				
Terms and conditions relating to the above financial instruments.				
(i) Short-term deposits have an average maturity of 30 days and have a floating interest rate which has averaged 4.39% for the year (2002: 4.40%)				
(ii) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days				
5. RECEIVABLES (NON-CURRENT)				
Receivable from controlled entity		23	8,304	-

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
6. PLANT & EQUIPMENT				
Plant and equipment - at cost		255	232	101
Accumulated depreciation		(50)	(49)	(10)
		<u>205</u>	<u>183</u>	<u>91</u>
Plant and equipment under hire purchase - at cost		69	-	-
Accumulated amortisation		(3)	-	-
		<u>66</u>	<u>-</u>	<u>-</u>
Capital works in progress - at cost		179	-	-
Total plant and equipment - net book value		<u>450</u>	<u>183</u>	<u>91</u>
Reconciliation				
<i>Plant and equipment</i>				
Carrying amount at beginning of the year		91	91	-
Additions		214	191	103
Disposals		(53)	(53)	(2)
Depreciation expense		(47)	(46)	(10)
Carrying amount at the end of the year		<u>205</u>	<u>183</u>	<u>91</u>
Plant and equipment under hire purchase				
Additions		69	-	-
Amortisation expense		(3)	-	-
Carrying amount at the end of the year		<u>66</u>	<u>-</u>	<u>-</u>
Capital works in progress				
Additions		179	-	-
Carrying amount at the end of the year		<u>179</u>	<u>-</u>	<u>-</u>
7. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE				
Exploration, evaluation and development costs carried forward in respect of mining areas of interest				
Pre-production - at cost		<u>8,630</u>	<u>-</u>	<u>5,009</u>

The ultimate recoupment of costs carried forward for exploration, evaluation and development phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the exploration, evaluation and development phases are not being charged pending the commencement of production.



8. INTEREST IN SUBSIDIARIES

Name	Percentage of equity interest held by the consolidated entity		Investment	
	2003	2002	2003	2002
	%	%	\$	\$
Kimberley Nickel Mines Pty Ltd	100	-	1	-
Sally Malay Exploration Pty Ltd	100	-	1	-
			2	-

All controlled entities were incorporated in Australia during the financial year.

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
9. PAYABLES (CURRENT)				
Trade creditors	9(a)	491	141	205
Other creditors and accruals	9(a)	725	391	182
		1,216	532	387
<i>(a) Terms and conditions</i>				
Terms and conditions relating to the above financial instruments.				
Creditors are non-interest bearing and are normally settled on 30 day terms.				
10. PROVISIONS (CURRENT)				
Employee benefits	18	45	45	12
Audit fees		13	13	-
Indirect taxes		11	11	-
		69	69	12
11. INTEREST-BEARING LIABILITIES (CURRENT)				
Hire purchase liability		10	-	-

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
12. INTEREST-BEARING LIABILITIES (NON - CURRENT)				
Hire purchase liability		56	-	-
Borrowings secured by mortgage				
- Bank loan		2,750	2,750	700
		<u>2,806</u>	<u>2,750</u>	<u>700</u>
<p>Bank loan is repayable by 31 March 2008. Until 31 December 2003 interest is charged at the bank bill swap bid rate plus 1.5%, thereafter at the bank bill swap bill rate plus 5.0%.</p> <p>The loan is secured by a registered second ranking fixed and floating charge over all the assets and undertakings of the Company and a second ranking Mining Act Mortgage over certain tenements held by the Company.</p>				
13. CONTRIBUTED EQUITY				
<i>(a) Issued and paid up capital</i>				
Ordinary shares fully paid		9,513	9,513	4,973
<i>(b) Other contributed equity</i>				
Application for 6,500,000 ordinary shares issued subsequent to balance date	13(c)	1,885	1,885	-
		<u>11,398</u>	<u>11,398</u>	<u>4,973</u>
<i>(c) Subsequent event</i>				
<p>On 15 August 2003, the placement of 6.5 million ordinary shares at 29 cents per share were approved by shareholders and issued by the Company.</p>				
		Number of Shares	2003 \$'000	Number of Shares
			2003 \$'000	2002 \$'000
<i>(d) Movements in shares on issue</i>				
Balance at beginning of year	61,000,000	4,973	-	-
Issued during the period				
• Private placements and public offering	19,268,298	4,690	46,000,000	2,250
• Less transaction costs	-	(150)	-	-
• Public equity raising	-	-	15,000,000	3,000
• Less transaction costs	-	-	-	(277)
Balance at end of year	<u>80,268,298</u>	<u>9,513</u>	<u>61,000,000</u>	<u>4,973</u>



(e) Share options issued over ordinary shares

	No. of Options	Exercise Price	Expiry Date
Balance at beginning of year	6,500,000		
Issued during the period	350,000	0.415	10 September 2006
	2,347,418	0.426	30 August 2005
	2,659,574	0.282	16 December 2005
	400,000	0.350	10 September 2006
Balance at end of year	<u>12,256,992</u>		

(f) Terms and conditions of contributed equity

(i) Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(ii) Share options

2003- Balance at end of year		
No of Options	Exercise Price \$	Expiry Date
2,000,000	0.436	16 April 2005
2,347,418	0.426	30 August 2005
2,659,574	0.282	16 December 2005
850,000	0.350	10 September 2006
350,000	0.415	10 September 2006
<u>4,050,000</u>	0.200	12 September 2006
<u>12,256,992</u>		
2002 - Balance at end of year		
No of Options	Exercise Price \$	Expiry Date
2,000,000	0.436	16 April 2005
450,000	0.350	10 September 2006
<u>4,050,000</u>	0.200	12 September 2006
<u>6,500,000</u>		

Sally Malay Mining Limited Annual Report 2003

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
14. ACCUMULATED LOSSES				
Balance at beginning of year		594	594	-
Net loss attributable to members of Sally Malay Mining Limited		1,293	1,288	594
Balance at end of year		<u>1,887</u>	<u>1,882</u>	<u>594</u>
15. STATEMENT OF CASH FLOWS				
<i>(a) Reconciliation of the operating loss after tax to the net cash flows from operations</i>				
Operating loss after income tax		(1,293)	(1,288)	(594)
Adjusted for:				
Depreciation of non-current assets		47	46	10
Amortisation of non-current assets		3	-	-
Finance charges on capitalised hire purchase		1	-	-
Profit on sale of non-current assets		(1)	(1)	-
Forgiveness in loan to controlled entity		-	87	-
Changes in assets and liabilities				
(Increase)/decrease in receivables		(86)	66	(122)
Increase/(decrease) in payables		300	147	387
Increase in employee entitlements		33	33	12
Increase in other provisions		24	24	-
Net cash flows used in operating activities		<u>(972)</u>	<u>(886)</u>	<u>(307)</u>
<i>(b) Reconciliation of cash</i>				
Cash balance comprises:				
- cash assets		<u>4,286</u>	<u>4,286</u>	<u>219</u>
<i>(c) Financing facility available</i>				
At balance date the following financial facility had been negotiated and was available				
- bank loan		<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Facilities used at balance date:				
- bank loan	12	<u>2,750</u>	<u>2,750</u>	<u>700</u>



	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
16. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:				
Not later than 1 year				
		255	-	-
(b) Mineral tenement expenditure commitments				
The consolidated entity has certain expenditure obligations with respect to mineral tenements and minimum expenditure requirements on areas as follows:				
Not later than one year				
• Joint venture operations		264	-	-
• Other		430	-	428
Later than one year and not later than five years				
• Joint venture operations		56	-	-
• Other		1,722	-	1,712
Later than five years				
• Joint venture operations		14	-	-
• Other		430	-	428
		2,916	-	2,568
(c) Hire Purchase rental commitments				
Not later than one year				
		15	-	-
Later than one year and not later than five years				
		15	-	-
Later than five years				
		50	-	-
Total minimum hire purchase rentals				
		80	-	-
Less future hire purchase finance charges				
		(14)	-	-
		66	-	-
Hire Purchase liabilities provided for:				
Current	11	10	-	-
Non-current	12	56	-	-
		66	-	-

	Notes	CONSOLIDATED	THE COMPANY	
		2003 \$'000	2003 \$'000	2002 \$'000
17. CONTINGENT LIABILITIES				
Details of contingent liabilities which, although the probability of future payments is considered remote, the directors consider should be disclosed				
<i>Controlled entities</i>				
(i) Under the terms of a Deed of Cross Guarantee with Macquarie Leasing Pty Ltd, the Company has agreed to become a covenantor with Kimberley Nickel Mines Pty Ltd in regard to indebtedness and liabilities resulting from the hire purchase of mobile equipment.				
			6	-
(ii) The Company has guaranteed the bank facilities of controlled entities				
			-	-
<i>Other persons</i>				
The Company has entered into agreements with directors and executives of the company for termination benefits on loss of office				
			188	-
18. EMPLOYEE BENEFITS				
The aggregate employee benefit liability is comprised of:				
		45	45	12
<i>Executive unlisted option scheme</i>				
The Company has a policy to grant unlisted options over the ordinary shares of Sally Malay Mining Limited to executive directors and executive officers as a performance incentive. Each issue of options to executives is subject to director and shareholder approval. The options are issued for nil consideration and cannot be transferred. The options expiry date is 10 September 2006. As at balance date, 4 (2002: 3) executives were eligible to participate in the executive unlisted option scheme.				



Information in respect to the number of options granted under the executive unlisted option scheme is as follows:

	Notes	2003		2002	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	18(a)	450,000	0.350	-	-
Granted	18(b)	750,000	0.380	450,000	0.350
Balance at end of year	18(c)	<u>1,200,000</u>	<u>0.369</u>	<u>450,000</u>	<u>0.350</u>
Exercisable at end of year		225,000	0.350	-	-

(a) Options held at the beginning of the reporting period

The following table summarises information about options held by directors and executive officers as at 1 July 2002:

Number of options	Grant date	Vesting date	Expiry date	Exercise price \$
225,000	1 March 2002	1 March 2003	10 September 2006	0.350
<u>225,000</u>	1 March 2002	1 March 2004	10 September 2006	0.35
<u>450,000</u>				

(b) Options granted during the reporting period

The following table summarises information about options granted by the Company to directors and executive officers during the year:

2003				
Number of options	Grant date	Vesting date	Expiry date	Exercise price \$
175,000	3 July 2002	18 June 2003	10 September 2006	0.415
175,000	3 July 2002	18 June 2004	10 September 2006	0.415
200,000	18 March 2003	1 February 2004	10 September 2006	0.350
<u>200,000</u>	18 March 2003	1 February 2005	10 September 2006	0.350
<u>750,000</u>				
2002				
225,000	1 March 2002	1 March 2003	10 September 2006	0.350
<u>225,000</u>	1 March 2002	1 March 2004	10 September 2006	0.350
<u>450,000</u>				
(c) Options held as at the end of the reporting period				
225,000	1 March 2002	1 March 2003	10 September 2006	0.350
225,000	1 March 2002	1 March 2004	10 September 2006	0.350
175,000	3 July 2002	18 June 2003	10 September 2006	0.415
175,000	3 July 2002	18 June 2004	10 September 2006	0.415
200,000	18 March 2003	1 February 2004	10 September 2006	0.350
<u>200,000</u>	18 March 2003	1 February 2005	10 September 2006	0.350
<u>1,200,000</u>				

Sally Malay Mining Limited Annual Report 2003

	CONSOLIDATED	THE COMPANY	
	2003	2003	2002
	\$'000	\$'000	\$'000
19. REMUNERATION OF DIRECTORS			
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:	<u>466,979</u>		
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Sally Malay Mining Limited, directly or indirectly, from the entity or any related party:		466,979	205,064
The number of directors of Sally Malay Mining Limited whose income (including superannuation contributions) falls within the following bands is:		No.	No.
\$20,000 - \$29,999		1	1
\$80,000 - \$89,999		1	1
\$90,000 - \$99,999		-	1
\$140,000 - \$149,999		1	-
\$210,000 - \$219,999		1	-
20. REMUNERATION OF EXECUTIVES			
Remuneration received or due and receivable by executive officers of the consolidated entity, in respect of the financial year, whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:	<u>585,346</u>		
Remuneration received or due and receivable by executive officers of Sally Malay Mining Limited, in respect of the financial year, whose remuneration is \$100,000 or more, from Sally Malay Mining Limited or any related party, in connection with the management of the affairs of Sally Malay Mining Limited or any of its subsidiaries, whether as an executive officer or otherwise:		585,346	-
The number of executives of the consolidated entity whose remuneration falls within the following bands is:		No.	No.
\$140,000 - \$149,999	1	1	-
\$210,000 - \$219,999	1	1	-
\$220,000 - \$229,999	1	1	-



	CONSOLIDATED	THE COMPANY	
	2003 \$'000	2003 \$'000	2002 \$'000
21. AUDITORS' REMUNERATION			
Amounts received or due and receivable by Ernst & Young for:	\$	\$	\$
• An audit or review of the financial report of the Company and any other entity in the consolidated entity	17,150	17,150	25,500
• other services in relation to the Company and any other entity in the consolidated entity			
(i) financial statements preparation	1,500	1,500	3,000
(ii) independent accountant's report	-	7,500	-
(iii) project financing assistance	19,000	19,000	-
(iv) tax compliance	47,266	47,266	-
	<u>84,916</u>	<u>84,916</u>	<u>36,000</u>

	CONSOLIDATED	THE COMPANY
	2003 \$'000	2002 \$'000
22. LOSS PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
Net loss used in calculating basic and diluted loss per share	1,293	594
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic and diluted loss per share	68,311,985	48,610,895
Options on issue are not considered to be dilutive as the impact of including them would be to decrease the loss per share.		
Since the end of the financial year, 28,149,138 ordinary shares have issued pursuant to the raising of \$7.9 million in August 2003 and of the 30 April 2003 Deed of Alliance between the Company and Roche Mining Pty Limited.		

23. RELATED PARTY DISCLOSURES

Directors

The Directors of Sally Malay Mining Limited during the financial period were:

K S Liddell (appointed 2 February 2001)
 P J Harold (appointed 16 March 2001)
 A C Cooke (appointed 2 February 2001)
 M A Bohm (appointed 12 March 2003)

Director related entity transactions

Consulting and field equipment/ administration services provided by Hartree Pty Ltd, a Company in which Mr A C Cooke is a Director, for the period aggregated \$29,800 (2002: \$44,455) and \$18,678 (2002: \$35,977) respectively. These were provided under normal commercial terms and conditions.

Office/administrative services provided by Mitchell River Group Pty Ltd, a Company in which Mr A C Cooke is a Director, for the period aggregated \$11,877 (2002: nil).

Consulting, equipment purchases and office/administrative services provided by Mineral Securities Ltd, a Company which Mr K Liddell is a Director, for the period aggregated \$116,000 (2002: nil), \$52,311 (2002: \$57,406), and \$28,556 (2002: \$39,789) respectively. These were provided under normal commercial terms and conditions.

Consulting services provided by Liddell Associates Trust, an entity in which Mr K S Liddell is a trustee and beneficiary, under normal terms and conditions for the period aggregated nil (2002: \$81,046).

Equity instruments of directors

Interest at balance date

Interests in the equity instruments of Sally Malay Mining Limited held by the directors and their director-related entities:

	Ordinary Shares Fully Paid 2003	Ordinary Shares Fully Paid 2002	Options over Ordinary Shares 2003	Options over Ordinary Shares 2002
K S Liddell	8,662,669	8,200,000	350,000	-
P J Harold	1,980,159	1,975,000	-	-
A C Cooke	4,743,000	4,456,250	-	-
M A Bohm	150,000	150,000	450,000	450,000
	<u>15,535,828</u>	<u>14,781,250</u>	<u>800,000</u>	<u>450,000</u>

K S Liddell is a director and shareholder in Mineral Securities Limited which owns 8,425,532 ordinary shares (2002: 8,000,000) and is a beneficiary of the Liddell Investment Trust which owns 237,137 ordinary shares (2002: nil).

During the year, Mineral Securities Limited and the Liddell Investment Trust acquired 425,532 and 237,137 shares respectively, in a private placement of shares in February 2003. In addition, S J Liddell, the wife of Mr Liddell, disposed of 200,000 shares, on-market. On 3 July 2002, Mr Liddell was granted 350,000 unlisted options at an exercisable price per share of 41.5 cents (see note 18 for further details).

P J Harold is a director and shareholder in Winton Vale Pty Ltd, which owns 1,975,000 (2002: nil).

A C Cooke is a director and shareholder in Hartree Pty Ltd, which owns 93,000 (2002: nil) ordinary shares, and has an indirect interest in Glenlaren Pty Ltd, which owns 2,650,000 ordinary shares (2002: 2,506,250).



During the year, Hartree Pty Ltd and Glenlaren Pty Ltd acquired 93,000 and 143,640 shares respectively, on-market. In addition, Mr A C Cooke acquired 50,000 shares, on-market.

During the year, Mr P J Harold acquired 5,159 shares, on-market. P J Harold has a right to purchase an additional 2 million shares at a price of 1 cent per share from certain existing shareholders on the following terms:

- 1,000,000 shares at the completion of 24 months service; and
- 1,000,000 shares following the finalisation of sufficient financing for the development of the Sally Malay Project.

There have been no other transactions concerning equity instruments during the financial year with Directors and Director-related entities.

Wholly-owned group transactions

Inter-company balances

Inter-company balances are interest free. The aggregate amount receivable from a wholly-owned entity at balance date was \$8,304,000.

Ultimate Parent

The parent entity of the consolidated entity, Sally Malay Mining Limited, is the Ultimate Parent entity.

24. INTEREST IN JOINT VENTURE

On 2 March 2003, the Company announced that it had signed a letter of agreement in relation to a proposed unincorporated joint venture (The "Copernicus-Salk Joint Venture") with Thundelarra Exploration Ltd ("Thundelarra") on Thundelarra's 100% owned Copernicus and Salk North nickel-copper prospects ("the Prospects") in East Kimberley, Western Australia. Under the letter of agreement, a wholly-owned entity, Sally Malay Exploration Pty Ltd, may earn an interest of 60% in the Prospects by (1) the payment of \$75,000 for the reimbursement of past expenditure, and, (2) contributing \$250,000 on expenditure associated with a bankable Feasibility Study by 7 January 2005. During the year ended 30 June 2003, Sally Malay Exploration Pty Ltd, had expensed \$86,986 in costs in relation to the proposed joint venture.

25. SUBSEQUENT EVENTS

Subsequent to the end of the financial year, the Company and/or its wholly owned entities has announced the following major events:

1. the execution of a Senior Financing Facility;
2. the establishment of the Copernicus-Salk Joint Venture;
3. the execution of a Life-of-Mine Concentrate Sales Agreement;
4. the raising of \$7.9 million from the issue of 27.1 million ordinary shares (refer note 13(c)); and
5. the revision of the \$3 million Feasibility Financing Facility.

Other than the items noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

26. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies.

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset and financial liability, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Notes	Accounting Policies	Terms and Conditions
(i) Financial assets Cash	4,15	Cash on hand and in bank and term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Interest bearing deposits have an average effective interest rate of 4.4% (2002:4.6%).
Other receivables	4	Other receivables are carried at nominal amount.	Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
(ii) Financial liabilities Trade creditors	9	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company.	Trade liabilities are normally settled on 30 (2002: 30) day terms.
Hire purchase liabilities	11,12,16	Liabilities are for future amounts to be paid in the future (excluding future finance charges).	Hire purchase liabilities have an average effective fixed interest rate of 7.0%.
Borrowings	12	Borrowings are measured at the principal amount.	Borrowings are interest bearing and have repayment terms.



(b) Interest rate risk

2003	Weighted Average Effective Interest %	Floating Interest \$'000	Fixed Interest \$'000	Non-interest bearing \$'000	Total \$'000
Financial Assets					
Cash at Bank	4.4	4,286	-	-	4,286
Receivables		-	-	246	246
Total Financial assets		4,286	-	246	4,532
Financial Liabilities					
Trade creditors		-	-	491	491
Other creditors		-	-	725	725
Hire purchase liabilities	7.0	-	66	-	66
Bank loan	6.3	2,750	-	-	2,750
Total Financial liabilities		2,750	66	1,216	4,032
2002					
	Weighted Average Effective Interest %	Floating Interest \$'000	Non-interest bearing \$'000	Total \$'000	
Financial Assets					
Cash at Bank		4.6	219	-	219
Receivables		-	-	159	159
Total Financial assets			219	159	378
Financial Liabilities					
Trade creditors		-	-	205	205
Other creditors		-	-	182	182
Bank loan	6.7		700	-	700
Total Financial liabilities			700	387	1,087

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in portion to each class of recognised financial asset, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material risk exposure to any single debtor or group of debtors, under financial instruments entered into by it.

(d) Net fair values

Methods and assumptions used in determining net fair value.

For assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The Company has no financial assets where carrying amount exceeds net fair values at balance date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial statements.

27. SEGMENT INFORMATION

Sally Malay Mining Limited operates in one business segment - mineral exploration and nickel mining development and in one geographical area - Australia.



Additional Shareholder Information

Stock Exchange Listing

Sally Malay Mining Limited shares are listed on the Australian Stock Exchange Limited. The Company's ASX code is SMY.

Substantial Shareholders (Holding Not Less Than 5%)

As at 19 September 2003

Name of Shareholder	Total Number of Voting Share in Sally Malay Mining Limited in which the Substantial Shareholders and its Associates Hold Relevant Interests	Percentage of Total Number of Voting Shares (%)
ANZ Nominees Limited	10,001,584	9.23
National Nominees Limited	8,926,475	8.23
Mineral Securities Limited	8,425,532	7.77
Craig Burton	8,762,500	8.08

Class of Shares and Voting Rights

At 19 September 2003 there were 1,181 holders of 108,417,436 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- a. each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- b. on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- c. on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited)."

There are no voting rights attached to the options in the Company. Voting rights will be attached to the unissued ordinary shares when options have been exercised.

Sally Malay Mining Limited Annual Report 2003

Distribution of Shareholders

As at 19 September 2003

Number of Shares Held	Number of Shareholders	Number of Fully Paid Shares
1 - 1,000	11	5,920
1,001 - 5,000	165	573,545
5,001 - 10,000	301	2,692,996
10,001 - 100,000	615	21,319,348
100,001 and over	89	83,825,627
Total	1,181	108,417,436

Listing of 20 Largest Shareholders

As at 19 September 2003

Name of Ordinary Shareholder	Number of Shares Held	Percentage of Shares Held
1. ANZ Nominees Limited	10,001,584	9.23
2. National Nominees Limited	8,926,475	8.23
3. Mineral Securities Limited	8,425,532	7.77
4. Sampala Investments Pty Ltd	4,862,500	4.48
5. AMP Life Limited	4,770,113	4.40
6. WM Clough Pty Ltd	4,381,250	4.04
7. Roche Mining Pty Limited	3,195,000	2.95
8. Cogent Nominees Pty Limited	2,835,692	2.62
9. Glenlaren Pty Ltd	2,650,000	2.44
10. Mr Alasdair Campbell Cooke	2,000,000	1.84
11. Winton Vale Pty Ltd	1,975,000	1.82
12. Ms Katrina Lee Burton	1,950,000	1.80
13. Mr Craig Ian Burton	1,950,000	1.80
14. Allundy Pty Ltd	1,850,000	1.71
15. WF Asian Smaller Companies Fund Limited	1,724,138	1.59
16. Yandal Investments Pty Ltd	1,500,000	1.38
17. RBC Global Services Australia Nominees Pty Limited	1,377,160	1.27
18. Mr Graham Woolford	1,206,346	1.11
19. Government Superannuation Office	1,034,501	0.92
20. Muffet Pty Ltd	1,000,000	0.92
Total	67,615,291	62.35



Unquoted Equity Securities

As at 19 September 2003

Securities	Number of Securities	Exercise Price	Expiry Date	Number of Holders
Options	2,000,000	0.436	16 April 2005	1
Options	2,347,418	0.426	30 August 2005	1
Options	2,659,574	0.282	16 December 2005	1
Options	850,000	0.35	10 September 2006	2
Options	350,000	0.415	10 September 2006	1
Options	4,050,000	0.20	12 September 2006	3

Cash Usage

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

Schedule of Tenements

As at 19 September 2003

Licence No.	Licence Type	Approval Date	Expiry Date	Area (km2)	Equity (%)
M80/179	Mining	16 June 1987	16 June 2029	240	100%
M80/180	Mining	16 June 1987	16 June 2029	960	100%
M80/181	Mining	16 June 1987	16 June 2029	960	100%
M80/182	Mining	16 June 1987	16 June 2029	600	100%
M80/183	Mining	16 June 1987	16 June 2029	960	100%

This page has been left blank intentionally.

