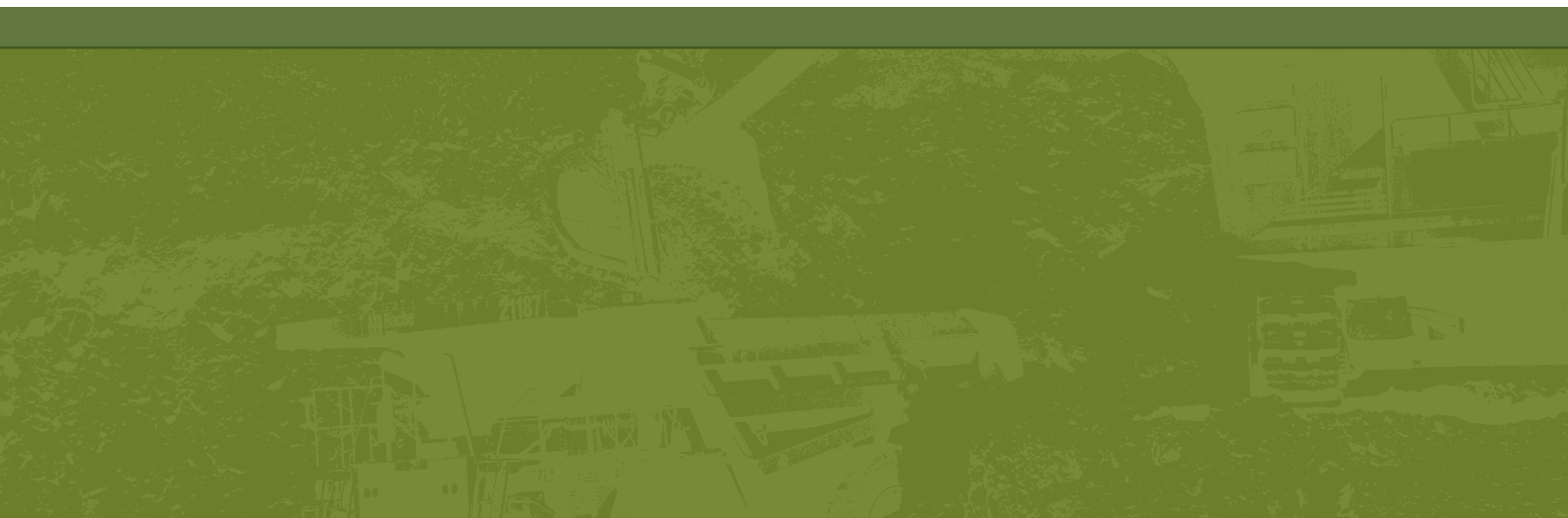




Sally Malay Mining Limited



Annual Report 2004

04



# Company Directory

## **Board of Directors:**

Keith S Liddell  
*Executive Chairman*

Peter J Harold  
*Managing Director*

Michael A Bohm  
*Executive Director - Operations*

Alasdair C Cooke  
*Non-Executive Director*

Robert A Logan  
*Non-Executive Director*

Christopher D J Langdon  
*Non-Executive Director*

Gregory J Heaney  
*Alternate to Robert A Logan*

## **Senior Management:**

Trevor R Eton  
*Chief Financial Officer & Company Secretary*

J Andrew Maslen  
*Business Development Manager*

## **Sally Malay Project:**

Richard Jordinson  
*Operations Manager*

Christopher J Williams  
*Manager - Mining*

Stephen G Kelleher  
*Manager - Process*

John P Shinnick  
*Manager - Administration*

## **Registered Office:**

Level 22, Allendale Square  
77 St. George's Terrace  
PERTH WA 6000  
Telephone: +61 8 9225 0999  
Facsimile: +61 8 9421 1008  
Email: [info@sallymalay.com](mailto:info@sallymalay.com)  
Website: [www.sallymalay.com](http://www.sallymalay.com)

## **Australian Business Number:**

47 095 792 288

## **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

### **Gadens Lawyers**

Level 31/44 St. George's Terrace  
Perth WA 6000

### **Hollingdales**

216 St. George's Terrace  
Perth WA 6000

### **Wright Legal**

Level 1/88 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

### **KD Johns & Co.**

15 Ord Street  
West Perth WA 6005

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Mining at the Sally Malay Project

## Mission Statement

**Our ultimate goal is to build a significant mining company and provide attractive shareholder returns through a combination of dividend streams and capital growth, while at all times maintaining good corporate governance and operating in a safe and environmentally responsible manner.**

**Our short term goals are to:**

- Ramp the Sally Malay Nickel Project up to nameplate capacity;
- Settle the Lanfranchi acquisition and re-commission the mine;
- Explore, discover and develop further orebodies on our leases;
- Become the pre-eminent nickel sulphide miner and concentrate producer in the Kimberley region;
- Become a significant nickel producer in the Kambalda region;
- Acquire advanced exploration projects and use our expertise to take these projects through feasibility study, financing and into development;
- Acquire operating projects that can be enhanced by our focused and experienced management team; and
- Identify corporate opportunities where a friendly merger would unlock additional value for shareholders.



## Milestones

### 2001

- Feb Purchase of Sally Malay Project for \$1.7 million
- Sept Successful IPO raises \$3.0 million at \$0.20

### 2002

- Apr Macquarie Bank provides \$3 million feasibility financing
- Jul Sino Mining & Jinchuan sign Heads of Agreement for Sally Malay offtake
- Aug Bankable Feasibility Study completed
- Dec \$5 million new equity raised at \$0.235 & Alliance signed with Roche Mining

### 2003

- Mar Copernicus JV signed with Thundelarra
- July Macquarie Bank and Standard Bank London provide \$52 million project financing
- July Life-of-mine offtake agreement signed with Sino Mining and Jinchuan
- Aug \$7.8 million new equity raised at \$0.29 via private placement
- Nov \$10 million new equity raised at \$0.67 via private placement
- Dec Successful Share Purchase Plan raises \$5 million new equity at \$0.64
- Dec New nickel mineralisation discovered at Copernicus North
- Dec Company's market capitalisation exceeds \$100 million

### 2004

- Feb Nickel hedge program implemented with 7,000 tonnes nickel hedged at US\$10,880 per tonne
- Feb US\$/A\$ currency hedging program implemented with nickel hedging matched at US\$0.69
- Feb Open pit mining commences at Sally Malay
- Feb US\$5 million in project financing received from Jinchuan
- Mar Company admitted to S&P/ASX 300 index
- Apr First drawdown of project financing facility after all conditions precedent satisfied
- June Company agrees to acquire Lanfranchi Mine from WMC Resources (in JV with Donegal Resources) for \$26 million
- Aug First ore treated through Sally Malay plant
- Sept First cargo of nickel concentrates departs Wyndham for Jinchuan in China
- Oct \$10 million new equity raised at \$0.80 via private placement

# Chairman's Report



Dear Shareholders,

With the successful commissioning of the Sally Malay Project during August and our first shipment of nickel concentrates departing Wyndham in September it is with great pleasure that I report our Company has made a smooth transition from project developer to nickel producer.

The primary goal we set ourselves when the Company was established in 2001 was the development of the Sally Malay Project and it is very rewarding to see that goal achieved in a relatively short space of time. We can expect significant cashflow from the Sally Malay Project which will be used initially to retire debt and then as soon as prudent to provide a return of value to our shareholders.

In addition to the development of the Sally Malay Project, we set ourselves a higher target which was to create a significant mining house and I am happy to report that with the acquisition of the WMC Resources Lanfranchi Nickel mine and associated Tramways tenements we are on the verge of achieving this goal. The Lanfranchi mine was operated by WMC for 15 years and produced in excess of 100,000 tonnes of contained nickel until it was shut down in 2002, pending sale, as part of WMC's Kambalda rationalisation. We were the successful bidders in a keenly contested tender and in conjunction with our partners Donegal Resources (25%) should have the acquisition completed during October and be back in production by the end of 2004. Our resource base totals 74,000 tonnes of nickel, including reserves of 27,600 tonnes nickel, on 37 mining leases that cover 50 square kilometres of highly prospective nickel ground.

With the successful commissioning of the Sally Malay Project and the purchase of the Lanfranchi Nickel mine the Company is now a significant player in the Australian nickel sulphide arena. We will look to continue to grow the business and increase returns to shareholders by:

- Producing significant cashflow from the Sally Malay and Lanfranchi projects;
- Maximise metal recoveries at Sally Malay;
- Making new discoveries on our leases or on joint venture ground;
- Identifying and acquiring new projects; and
- Maximising our margins by controlling our costs and striving for continual operating efficiencies.

The rapid and successful growth of our Company is a tribute to the dedication and diligent efforts of the staff and contractors engaged by the Company and I thank all of them for their efforts in this regard.

On behalf of the Board, I thank our shareholders and other stakeholders for their ongoing support and look forward to the Sally Malay Project ramping up to full production and the re-commissioning of the Lanfranchi mine during the 4th quarter of 2004. We are now well on our way towards becoming a significant mining house.

A handwritten signature in black ink, appearing to read 'K. Liddell'.

**Keith S Liddell**  
Chairman



## Review of Principal Activities

During the year ended 30 June 2004, the Company's funds and management efforts were focused on the following activities:

- advancing the development of the Sally Malay Project;
- purchase of the Lanfranchi Nickel Mine from WMC Resources;
- exploring for additional nickel sulphide resources; and
- identifying and progressing opportunities to grow the business.

### The Sally Malay Project “Successful commissioning in August 2004”



Figure 1 - Sally Malay process plant

#### Overview

The Company's namesake project, the Sally Malay Project, is located 240 kilometres south of Kununurra in the East Kimberley district of Western Australia. The nickel sulphide orebody contains 3.74 million tonnes of ore grading 1.74% Ni, 0.72% Cu and 0.09% Co. Since inception the Company's primary aim has been to construct a mine and processing plant at Sally Malay and finally unlock the value of the orebody first discovered in the early 1970's. With the successful commissioning of the Sally Malay process plant in August this year it has taken the Company exactly 31/2 years to achieve that goal.

#### Mining

The Sally Malay orebody is a single lens of massive sulphide mineralisation, up to 250 metres long and 40 metres thick in places. The orebody outcrops at surface with fresh sulphide mineralisation occurring 20 metres below 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.

## Open pit

A combination of open pit and underground mining methods are being used to extract the ore. Our open pit mining contractor, Roche Mining, mobilised to site in January and commenced mining operations in March of this year. Following the waste pre-strip first ore was delivered to the ROM pad in July. Current planning indicates that the open pit will be approximately 100 metres in depth (taken from ramp entry point) producing in excess of 850,000 tonnes of ore over a 21 month period.



Figure 2 - Sally Malay open pit operations

## Underground

Once open pit mining is completed ore production will be from underground via a decline with sub-level open stoping, which is a highly mechanised and low cost conventional mining method, being the main mining method. The narrower eastern sections of the orebody will be extracted by up-hole benching.

Following an internal study of “contractor” versus “owner operator” the Board endorsed the management recommendation to adopt the “owner operator” strategy for the underground mining phase for the following reasons:

- Improved safety and productivity through direct supervision of the workforce;
- Access to an experienced underground workforce based in Broome;
- Improved ability to control dilution and ore loss;
- Savings in mining costs by eliminating the contractor’s margin;

- Utilising existing management with significant experience in underground mining in the Kimberley; and
- Utilise new equipment from a reputable supplier who will also maintain the equipment.

The Company moved quickly to employ experienced personnel and secure equipment in a tight market and chose Sandvik to supply its Tamrock and Toro branded equipment. The drilling jumbo and first truck arrived on site during August and the portal excavation commenced in September this year. Decline development is on track for first ore production during 1st quarter 2006.



Figure 3 - Commencement of underground portal

## Processing Plant

Based on metallurgical testwork from the Feasibility Study the Company chose a conventional 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. To minimise time and cost overrun risks the Company contracted Roche/JR to design and construct a 750,000 tonnes per annum plant and associated infrastructure on a lump sum/EPC basis.

Roche/JR commenced plant construction during 3rd quarter 2003 and the plant treated first ore on the 8 August 2004. Since then the plant has been ramped up to full production, which is nominally 95 tonnes per hour through the crusher. The construction cost came in on budget with only a small portion of the contingency being required.

# The Sally Malay Project (100% owned)

## Concentrate

The process plant produces a bulk nickel/copper/cobalt concentrate with the following range of metallurgical recoveries and specifications:

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 concentrate specifications

The Sally Malay concentrate is unique in the following ways:

- high levels of copper and cobalt which provide a significant by-product credit stream;
- very low MgO content and high iron content; and
- no penalty elements.

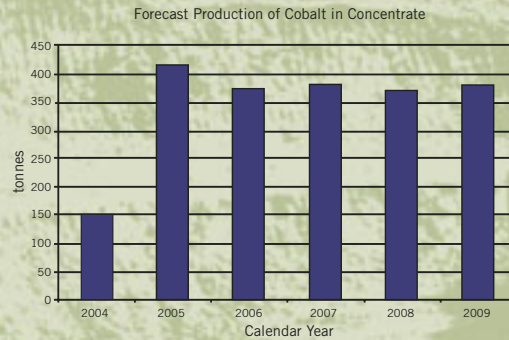
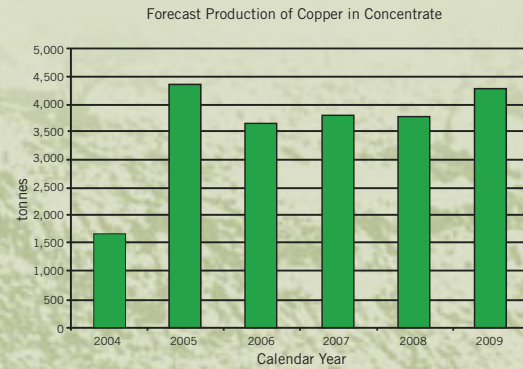
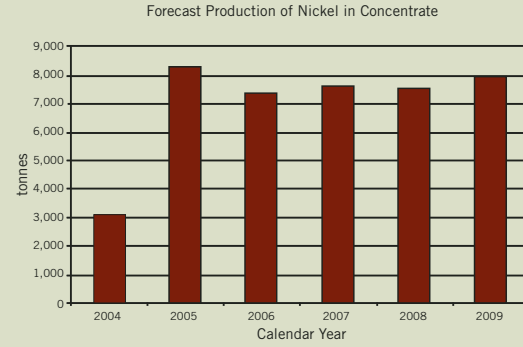
Consequently the Sally Malay concentrate is considered a premium feed for nickel sulphide smelters.



**Figure 5** - Float cells in action

## Proposed Production Schedule

Following the successful commissioning it is expected that the project will ramp up rapidly to full production. Forecast production of metal contained in concentrate is as follows:



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

## Concentrate Customer

Sino Nickel Pty Limited, a joint venture between Jinchuan Group Limited (“Jinchuan”) and Sino Mining International Limited (“Sino”) have contracted to purchase 100% of the output from the Sally Malay Project under a Life-of-Mine Concentrate Sales Agreement. 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.



**Figure 7** - Concentrate in the Sally Malay site storage shed

## Logistics

The Sally Malay concentrate is trucked to Wyndham where it is stockpiled in an existing concentrate storage shed. The Company has entered into a Contract of Affreightment with the specialised bulk shipping company, Spliethoff, to ship our concentrates from Wyndham to Xingang in China on a regular basis. From Xingang port the concentrates are railed to Jinchuan’s smelter/refinery in Gansu province, northwest China for treatment. We receive payment for 90% of the estimated value of each cargo within 10 days of the vessel sailing from Wyndham which minimises the working capital in concentrate stockpiles. The first cargo of 2,700 wet tonnes of Sally Malay concentrates departed Wyndham en route to China in September and we are expecting to increase shipments to between 7-9,000 wet tonnes on a monthly basis.

## Project Financing

The Sally Malay 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 provided a project loan facility incorporating:

- Loan funds of up to \$47 million, of which \$42 million were drawn by early October 2004;
- \$2 million in environmental bonds; and
- Credit limits for 9,260 tonnes of nickel and associated currency hedging.

### Customer Financing

Jinchuan has provided a US\$5 million subordinated loan to be repaid after the bank debt has been repaid.

### Equity

The balance of the project funding has been from shareholder’s equity.



**Figure 8** - Open pit mining trucks parked at the ‘GO’ line

## Geology & Mineralisation

The Sally Malay sulphide orebody comprises pyrrhotite, pentlandite and chalcopyrite mineralisation. The mode of sulphide occurrence 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 Sally Malay Project (100% owned)

## Resources & Reserves

The Sally Malay Project has 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
	<b>Total</b>	<b>3,736</b>	<b>1.74</b>	<b>0.72</b>	<b>0.09</b>	<b>2.16</b>
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
	<b>Total</b>	<b>3,544</b>	<b>1.82</b>	<b>0.75</b>	<b>0.10</b>	<b>2.25</b>
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
	<b>Total</b>	<b>3,403</b>	<b>1.88</b>	<b>0.76</b>	<b>0.10</b>	<b>2.32</b>

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

Figure 9 - 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.

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

Figure 10 - Sally Malay Ore Reserve Estimate (January 2002)

## Safety

Safety remains the highest priority for the Company and all personnel on site. During the plant construction phase the safety focus was on identifying hazards and the strict implementation of safety procedures. In spite of this focus on safety there were two lost time injuries during the year:

- one involving a subcontractor during the plant construction period; and
- one involving a Roche Mining maintenance fitter.

Both incidents were fully investigated and changes to procedures and system responses were made as appropriate. In both cases the persons involved were back to their normal duties within a few days. Since operations commenced at Sally Malay, management has made significant progress in developing and implementing the following safety systems:

- emergency response procedures;
- ordering and delivery of appropriate safety and emergency response equipment;
- hazards identification and procedures for the operation of the plant; and
- procedures to ensure all personnel are competent to operate equipment on site or complete competency based training prior to using equipment;

Safety performance will continue to be of prime importance and focus.

## People & Community

The workforce at Sally Malay is currently around 160 people which will reduce to 145 when the mine is fully operational. The Project will source as much labour as practical from the local communities while the Company is committed to employing the majority of the permanent employees and contractors from the Kimberley region and northern Australia.

The Company is committed to provide opportunities to Aboriginal people to participate in:

- apprenticeships;
- work experience; and
- training programmes.

There is a continual focus on improving and upgrading management and supervisory skills. A program will be undertaken to establish core values for everyone living and working at Sally Malay. An individual's behaviour in terms of how they live and work by these agreed values will be reviewed annually and will become an important part of the annual performance review process.

## Environmental Management & Statutory Requirements

The Company targets to exceed the standards of environmental protection and management set out in the Sally Malay Project licenses and lease conditions. Monitoring programs are in place and plans exist to rehabilitate disturbed areas once mining operations have ceased.

The operations have been carefully planned to minimise impact on the Kimberley environment. Approximately 80% of the orebody will be accessed from underground thereby minimising surface disturbance. All Government approvals necessary for the construction and operation of the Project have been obtained.



Figure 11 - Surveying in the Sally Malay pit



# The Lanfranchi Nickel Project (Sally Malay 75%)

**“74,000 tonnes of nickel in resource”**



**Figure 12 - Lanfranchi Portal**

## Overview

In late 2003 WMC Resources Limited (“WMC”) tendered for sale the last of its remaining Kambalda sulphide nickel assets, being the Lanfranchi Mine and the associated Tramways Tenements (the “Lanfranchi Project”). The Tramways Tenements contain significant nickel resources identified by extensive exploration campaigns conducted by WMC and remain highly prospective for further nickel discoveries. The Tramways Tenements host the Lanfranchi Mine, which has produced over 100,000 tonnes of nickel over 15 years of underground mining.

In June 2004, following a long and protracted sale process, the Lanfranchi Joint Venture (“LJV”), Sally Malay 75% and Donegal Resources 25%, agreed to purchase the Tramways tenements from WMC. The LJV plans to fast track the settlement of the Lanfranchi purchase and re-commission the mine before the end of 2004. The successful recommissioning of the Lanfranchi Project will provide the Company with a second nickel mining operation.

## Location



**Figure 13 - Location of Lanfranchi**

The Lanfranchi Project is located 42 kilometres south of the Kambalda Nickel Concentrator. The Tramways Tenements comprise approximately 5,000 hectares of highly prospective ground on 37 Mineral leases.

## Resources

During the LJV's initial due diligence, an inferred resource of 1.16 million tonnes averaging 2.61% nickel from four deposits was identified. Subsequent to the LJV being the successful bidder, Golder Associates Pty Ltd ("Golder") prepared a JORC compliant resource classification which substantially increased the known resource base as detailed in Figure 14.

Deposit	Indicated			Inferred			Total		
	Tonnes (000's)	Grade %	Metal (Tonnes)	Tonnes (000's)	Grade %	Metal (Tonnes)	Tonnes (000's)	Grade %	Metal (Tonnes)
Helmut South	744	2.92	21,719	30	1.66	496	774	2.87	22,215
Winner	89	4.62	4,118	13	3.58	462	102	4.48	4,580
Lanfranchi Ext	99	3.04	3,002	35	4.25	1,476	134	3.35	4,478
Lanfranchi Rem	117	2.23	2,612				117	2.23	2,612
Schmitz Rem	98	4.07	4,011	10	4.86	487	108	4.15	4,498
Helmut Rem	100	1.50	1,497	87	1.37	1,193	187	1.44	2,690
Martin	44	3.88	1,722	6	3.50	208	50	3.84	1,930
Edwin				33	4.85	1,601	33	4.85	1,601
Ham				73	1.16	847	73	1.16	847
Cruikshank	866	1.32	11,449	489	1.34	6,532	1,355	1.33	17,981
Gigantus	273	1.68	4,576	442	1.33	5,865	715	1.46	10,441
<b>Total</b>	<b>2,430</b>	<b>2.25</b>	<b>54,706</b>	<b>1,218</b>	<b>1.57</b>	<b>19,167</b>	<b>3,648</b>	<b>2.02</b>	<b>73,873</b>

Figure 14: Golder Associates Resource Classification (August 2004)

The Golder Resource report demonstrates the size of the resource base at Lanfranchi/Tramways and further supports the LJV view that there is enormous potential to increase the existing resource base through further exploration success.

## Reserves

Following detailed mine planing by the LJV, the reported Probable Ore Reserves of three of the orebodies that the LJV proposes to mine is as follows:

Deposit	Ore dmt	Nickel Grade %	Nickel Tonnes
Helmut South	772,944	2.65	20,512
Winner	98,788	3.98	3,931
Lanfranchi	125,807	2.51	3,153
	<b>997,540</b>	<b>2.77</b>	<b>27,597</b>

Figure 15: Lanfranchi JORC Classified Probable Ore Reserves



# The Lanfranchi Nickel Project (Sally Malay 75%)

## Re-commissioning Plan

The Lanfranchi mine has extensive surface and underground facilities that are in excellent condition and there will be minimal costs incurred to recommission these facilities. The condition of the mine will permit a fast restart of mining operations. It is planned that mine development will commence four to eight weeks after settlement of the Lanfranchi acquisition, which is now expected to occur at the end of October 2004. Mining contractors will carry out mining development and ore production and it is proposed that simultaneous development of Winner and Helmut will occur in order to develop as many stope blocks and ore headings as possible. Lanfranchi has remnant ore reserves that will allow early access to ore for production.

The indicative development schedule for the Project is as follows:

- Completion of purchase October 2004
- Mine ramp-up November/December 2004
- First ore to surface Late December 2004

Environmentally, the Lanfranchi Project is a low impact mining project with all mining occurring via underground methods. The mine has a total area of disturbance of approximately 40 hectares.

## Purchase Price

The total acquisition cost is \$26 million to be paid according to the following schedule:

- \$21 million payable in five instalments over 2004;
- \$4 million payable in March 2006; and
- \$1 million to be paid two months following delivery of 500,000 tonnes of ore.

## Financing

The Company will finance its share of the LJV purchase price and working capital requirements with a mixture of debt, equity and cashflow from its operations. The Company has raised sufficient equity to complete the purchase during October without requiring additional debt.

Sally Malay plans to increase its existing corporate debt facility and has already received offers from a number of banks, including its existing financiers. Bank due diligence has been completed and it is envisaged that debt financing will be in place by end November.

## Ore Processing

WMC will purchase the forecast production from the Tramways Tenements under a long term Ore Tolling and Concentrate Purchase Agreement on attractive terms.

## Lanfranchi Joint Venture

The LJV captures synergies between the Kambalda operating experience of Donegal and the corporate and project development experience of Sally Malay. Donegal, through its principals Ian and Leigh Junk, has a strong history of developing and managing underground nickel projects at Kambalda. Donegal was involved in the successful bid for the Miitel and Wannaway Projects, and played roles in the successful planning, development and operation of these projects. Donegal has developed an industry reputation for its mining engineering skills and will provide the LJV with hands-on operating experience and local Kambalda knowledge that will ensure timely and cost effective development of the assets.

## Benefits to Sally Malay

The Lanfranchi acquisition presents an opportunity for Sally Malay to diversify its exposure with two nickel producing operations. The acquisition will give Sally Malay two geographically separate nickel projects with independent offtake agreements (Jinchuan and WMC). The acquisition will increase the potential for further nickel discoveries for Sally Malay shareholders through the highly prospective ground within the Tramways Tenements.

Other benefits for Sally Malay include:

1. Long term ore tolling and concentrate purchase agreement with WMC;
2. Key infrastructure ( power, water, roads and communications) already established;
3. Low capital requirements;
4. No milling or metallurgical risk;
5. Cashflow from Lanfranchi commencing in January 2005.

# Exploration Activities

## 1. SALLY MALAY

### Sally Malay Orebody - the "Deeps"

Drilling programs by the Company and previous owners has intersected Sally Malay-style massive sulphide mineralisation below the main fault zone at 500 metres below surface. Due to the Company's focus on developing the open pit mine and constructing the processing plant at Sally Malay no additional exploration work was undertaken on the Sally Malay "Deeps" during 2004.

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. It is anticipated that further exploration will be undertaken during 2005 from drill positions located off the main Sally Malay decline, which is currently under development.

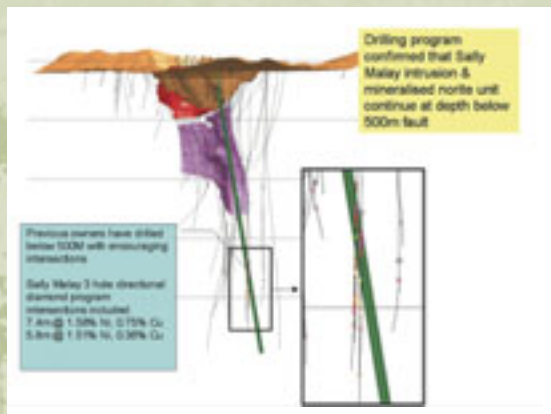


Figure 16- Drill-hole intersections below 500m Fault

### Other Kimberley Leases

Agreements with third parties were concluded during the year to acquire additional exploration leases at Corkwood and Koondooloo Yard. Both these leases are strategically located in the Kimberley region within 20 kilometres of the Sally Malay plant. The Corkwood tenement contains an existing resource of 260,000t at a grade of 0.64% nickel and 0.25% copper using a 0.3% nickel cut-off grade and some untested EM targets that warrant follow-up exploration.

## 2. COPERNICUS AND COPERNICUS NORTH (Sally Malay earning 60%)

The Company has continued exploration activities on the Copernicus JV tenement (Sally Malay earning 60% from Thundelarra Exploration) located 35 kilometres south of the Sally Malay processing plant. Drilling on the Copernicus resource in late 2003 led to a revised open pit resource estimate of 359,000t at a grade of 1.3% nickel, 0.7% copper and 0.05% cobalt, using a 0.5% nickel cut-off grade. The resource is classified as Indicated. In 2004 the Company commenced a Feasibility Study to determine the economics of open pit mining the Copernicus resource and trucking the ore to the Sally Malay plant. The study will be completed in late 2004.

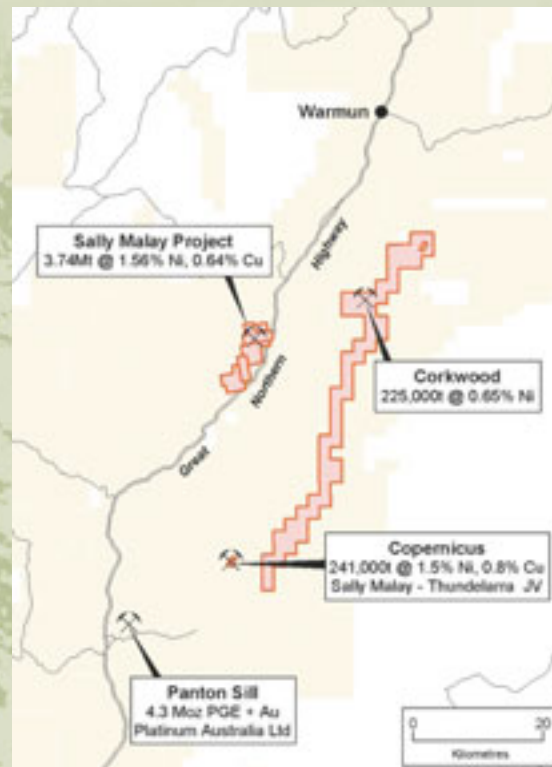


Figure 17- Kimberley Tenements

## Copernicus North

A fixed and moving loop ground EM survey was conducted over the JV tenement in late 2003. The EM survey identified a strongly conductive anomaly called Copernicus North located at depth immediately to the north of the Copernicus open pit resource.

In 2004 the Company completed a program of wide-spaced RC drill holes over the Copernicus North anomaly to identify the source of the anomaly and broadly define its extent. Twelve RC drill holes, totalling 2,811 metres were completed as part of the program. The results were as follows:

Hole No.	From (m)	To (m)	Interval (m)	Ni%	Cu%	Co%
CORC038	157	158	1	0.49	0.50	0.01
CORC039	199	216	17	1.36	0.87	0.05
(including)	199	211	12	1.63	0.96	0.06
CORC040	213	215	2	1.1	0.98	0.04
CORC051	260	274	14	1.45	1.16	0.05
(including)	261	273	12	1.55	1.17	0.05
CORC052	298	305	7	0.96	0.62	0.04
(including)	302	305	3	1.42	0.59	0.05

Figure 18 - Drill-hole intersections into Copernicus North

Pyroxenite hosted, Copernicus style Ni, Cu, Co mineralisation was encountered in five of the twelve Copernicus North drill holes and that mineralisation appears to be contiguous with the open pit resource and remains open down plunge to the north.

Geophysical down-hole EM (“DHTEM”) surveys were subsequently performed in all Copernicus North drill holes. The technique can be used to help delineate the overall extent of the mineralisation by providing reliable estimates of the distance to mineralisation in drill holes that failed to intersect mineralisation. Strong off-hole EM anomalies were detected in all of the Copernicus North drill holes that failed to intersect mineralisation. The Company believes the Copernicus North mineralisation is potentially a significant discovery and has committed to undertake further exploration to determine the down plunge extent of the mineralisation once it has earned its equity in the tenement.

## 3. LANFRANCHI/TRAMWAYS (Sally Malay 75%)

The Tramways Tenements offer excellent potential for additional discoveries. The LJV conducted a thorough review of the WMC exploration and geophysical data, including a fractal graphics assessment of the Project. There are numerous areas of high potential and the greatest exploration focus will be on up-dip and down-dip continuations of known mineralisation. There is also good potential for new shoots to be found. The Lanfranchi Shoot itself exceeds one kilometre of developed and well understood mineralisation. To date no other shoots in the immediate area have been tested to this extent.

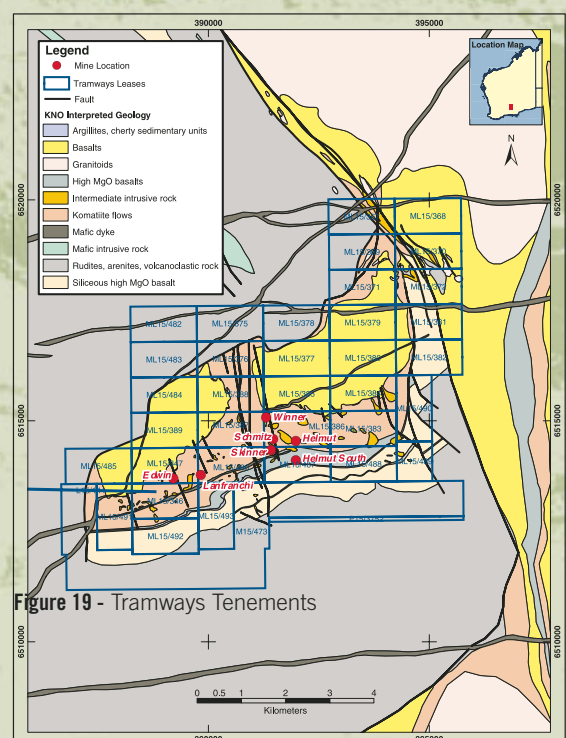


Figure 19 - Tramways Tenements

### **Schmitz down-plunge extension**

While Schmitz has been mined out to the porphyry intrusion at the southern boundary, there is an EM anomaly to the south of this porphyry. WMR underground drilling determined that nickel mineralisation continues beyond the porphyry. The EM anomaly has not been fully tested and geophysical data is highly promising.

### **Helmut South down-plunge and up plunge extensions**

There is no drilling closing off the current Helmut South Shoot down plunge and there is potential for the development of another shoot. In addition there is potential for an up-dip extension that has not been fully drill tested.

### **Martin Shoot down-plunge extension**

No drill testing to date and good potential for additional mineralisation.

### **Lanfranchi Shoot down-plunge**

More mineralisation of the same tonnes per vertical metre and grade is likely to exist.

### **Winner up-plunge extension**

Given the assumed geological structure of Winner, it is likely there is more tectonically controlled mineralisation to the north. There is also potential for some mineralisation to exist between Schmitz and Winner.

### **Exploration Program**

The LJV proposes to undertake an exploration program commencing in January 2005 with the focus on several targets that can be accessed and exploited in a short time frame.

## **Business Development**

### **Opportunities to grow the Company**

Sally Malay is constantly reviewing and analysing opportunities to grow and develop the business through asset acquisitions, joint ventures and mergers. Sally Malay's objective is to grow the business, on an incremental basis, through the careful selection of opportunities that are expected to add value to Sally Malay shareholders. These opportunities need not necessarily be restricted to nickel projects.

The Sally Malay team has a broad cross section of expertise in areas such as mine design and management, commodity marketing, finance, geology and project development, all skills that can be readily applied to other opportunities within the minerals industry, both in Australia and abroad.



# Community, Environment and OH&S

## Community Relations, Environmental and Occupational Health and Safety Policies

Sally Malay is committed to maintaining a harmonious relationship with our employees, neighbours, traditional owners, and the wider community. The Company believes that responsible environmental, occupation health and safety management and superior environmental health and safety performance is integral to an efficient and successful company.

These objectives will be achieved through leadership and the use of reliable systems and policies which support effective decision making.

## Community Relations

To ensure we have a harmonious relationship with indigenous people, we will strive to value and respect human rights, provide open and transparent communication and participate in community activities and initiatives. We will endeavour to acknowledge and respect the culture and aspirations of indigenous people while at all times protect their cultural heritage. We will seek to identify and facilitate opportunities for employment, training and business relationships in the regions in which we operate.

## Environmental and Occupational Health & Safety

To enable the responsible environmental, occupational health and safety management and policy objectives are achieved, we will strive to identify, assess and control environmental and health and safety risks to employees, contractors and the broader community. We will integrate our environmental, health and safety policies into all aspects of the Company's activities including exploration, project development, mine operation, acquisitions, divestments and closures.

Sally Malay Mining will select appropriately qualified and capable people who demonstrate a high level of awareness and commitment towards proactive environmental, occupational health and safety management. Training will be provided to enable employees, contractors and suppliers to work in a safe and responsible manner and to ensure they are able to manage their activities in accordance with this policy.

Regular audit and assessment programs will be initiated, and recommendations for improvement with prompt follow-up action will be embraced.

Employees and the community will be consulted on concerns, aspirations and values for environmental, health and safety related to the development, operation and closure aspects of the Company's projects.

The Company will demonstrate commitment to reporting of environmental and occupational health and safety performance by communicating openly about environmental and workplace hazards, risks or incidents and ideas for improvement to enable effective decision making and action, and by complying with all applicable legal and regulatory requirements.

# Director's 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 2004.

## 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 (46 Years)**

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

Mr Liddell is a metallurgical engineer and resource company manager with over 24 years experience in the engineering of plant and equipment, process development, project management, risk planning and corporate management of resource projects and companies. Mr Liddell was previously an executive director of Aquarius Platinum Limited, a leading platinum mining company that successfully developed the Kroondal Platinum Mine in South Africa. Mr Liddell is non-executive chairman of Australian Mines Limited, an executive director of Tianshan Goldfields Limited, non-executive director of Avon Resources Limited and Ivanhoe Nickel & Platinum Ltd and executive chairman of Mineral Securities Limited.

(Director since 2 February 2001).

### **Peter J Harold - Managing Director (41 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).

### **Michael A Bohm - Executive Director - Operations (41 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. (Director since 12 March 2003).

### **Alasdair C Cooke - Non-Executive Director (39 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. Mr Cooke is a non-executive director of Albidon Limited and is the Managing Director of Exco Resources NL.

(Director since 2 February 2001).

### **Robert A Logan - Non-Executive Director (56 Years)**

*M.EngSc, BE (Civil), Dip Civil Eng.*

Mr Logan is a civil engineer with over 30 years experience in the contracting industry, gaining experience in various engineering disciplines throughout the Philippines, Malaysia, Indonesia, Indochina and the USA. Mr Logan is the Chief Executive of Roche Mining Pty Limited which is a division of Downer EDI Limited.

(Appointed 8 October 2003).

### **Christopher DJ Langdon - Non-Executive Director (41 Years)**

*B.Com (Econ)*

Mr Langdon has over 20 years of corporate finance and management experience and has had extensive experience in investment banking in Australia and overseas working for Wardley Australia Limited, James Capel & Co. and Samuel Montagu & Co. specialising in cross border corporate advisory. He is the Chief Executive Officer of HJ Langdon & Co., a family owned business based in Melbourne involved in the food industry and has held and holds directorships in a number of successful companies in the media and tourism industry.

(Appointed 4 August 2004).

### **Gregory J Heaney - Alternate Non-Executive Director to Robert A Logan (42 Years)**

*B.Com FCPA GAICD CFTP*

Mr Heaney is an accountant with over 20 years experience in financial management and is the Chief Financial Officer for Roche Mining Pty Limited. (Appointed 8 October 2003).

## COMPANY SECRETARY

### **Trevor R Eton - Chief Financial Officer (44 Years)**

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

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

(Company Secretary since 12 March 2003).

# Director's Report

## 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
<b>Number of meetings held:</b>	<b>8</b>	<b>2</b>
<b>Number of meetings attended:</b>		
Keith S Liddell	7	2
Peter J Harold	8	-
Alasdair C Cooke	5	1
Michael A Bohm	8	-
Robert A Logan	7	2
Gregory J Heaney	-	-

On 4 August 2004, the directors approved the formation of an Audit Committee. Previously, the role of an Audit Committee had been performed by the full Board of directors. The Audit Committee consists of Christopher Langdon (Chairman), Robert Logan and Alasdair Cooke.

## PRINCIPAL ACTIVITIES

The principal activities 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 and construction of the Sally Malay Project and other corporate activities, as follows:
  - 16 July 2003 - cash issue of 1,065,000 shares at 23.5 cents per share, representing the third tranche of shares under the Deed of Alliance dated 30 April 2003 between the Company and Roche Mining Pty Limited;
  - 19 August 2003 - cash issue of 25,359,138 shares at 29.0 cents per share;
  - 9 September 2003 - cash issue of 1,725,000 shares at 29.0 cents per share;
  - 1 October 2003 - cash issue of 500,000 shares at 20.0 cents per share following the exercise of unlisted share options;

- 8 October 2003 - cash issue of 7,465,000 shares at 23.5 cents per share, representing the fourth, fifth and final tranches under the Deed of Alliance dated 30 April 2003 between the Company and Roche Mining Limited;

- 22 October 2003 - cash issue of 2,525,000 shares at 20.0 cents per share and the issue of 225,000 shares at 35.0 cents per share following the exercise of unlisted share options;

- 10 December 2003 - cash issue of 14,930,000 shares at 67.0 cents per share and the issue of 200,000 shares at 29.0 cents per share and 127,500 shares at 67.0 cents per share in lieu of share brokerage fees;

- 12 December 2003 - issue of 525,000 shares at 20.0 cents per share following the exercise of unlisted share options;

- 24 December 2003 - cash issue of 8,297,409 shares at 64.0 cents per share representing the acceptance by shareholders to a Share Purchase Plan held in December 2003;

- 8 January 2004 - issue of 500,000 shares at 20.0 cents per share following the exercise of unlisted share options;

- 15 March 2004 - issue of 225,000 shares at 35.0 cents per share following the exercise of unlisted share options;

- 29 June 2004 - issue of 2,000,000 shares at 43.6 cents per share following the exercise of unlisted share options;

- On 7 July 2003, execution of a Senior Financing Facility with Macquarie Bank Limited and Standard Bank of London;
- On 7 July 2003, signed the Heads of Agreement for the Copernicus-Salk Joint Venture with Thundelarra Exploration Ltd;
- On 17 July 2003, signed a US\$5 million Project Financing Agreement with Jinchuan Group Limited;
- On 17 July 2003, signed the Life-of-Mine Concentrate Sales Agreement with Sino Nickel Pty Ltd;
- On 24 October 2003, issued 1,000,000 unlisted options to Macquarie Bank Limited and 500,000 unlisted options to Standard Bank of London exercisable at 43.0 cents each, as a result of improved project financing terms;
- On 31 December 2003, repaid in full the Feasibility Financing Facility which had been drawn down to \$2.75 million;

- On 8 January 2004, announced the completion of nickel and United States currency hedging with 7,000 tonnes of nickel hedged at an average forward hedge price of US\$10,888 per tonne with matched United States currency (US\$76.5 million) at an average forward hedge rate of US\$0.6885 and unmatched United States currency (US\$27.5 million) at an average forward hedge rate of US\$0.6758. Significant exposure to higher nickel prices remaining with 83% of forecast nickel production unhedged;
- On 9 February 2004, drawdown of US\$5 million subordinated loan from Jinchuan Group Limited;
- On 16 March 2004, the Company issued 1,000,000 unlisted options exercisable at 93.0 cents as compensation for Standard Bank of London's reduced margin income associated with a reduction in the minimum hedged tonnage level by 25% from 9,276 to 7,000 tonnes;
- On 19 March 2004, the Company was added to the Standard & Poor's (S&P)/ASX 300 index of listed companies;
- On 1 April, 2004, first drawdown against the Senior Financing Facility with Macquarie Bank Limited and Standard Bank of London including the granting of 5 x 200 tonne lots (total 1,000 tonnes) European Style Call Nickel Call Options at a strike price of US\$9,352 per tonne with expiry dates between 28 February 2007 and 29 June 2007 as facility fees;
- On 28 April 2004, proposed the implementation of an employee share option plan (2004 Sally Malay Mining Limited Employee Share Option Plan) as a means of attracting and retaining key employees and rewarding existing employees for their service to the company;
- On 18 June 2004, Sally Malay Mining Limited and Donegal Resources Pty Ltd announced the formation of the Lanfranchi Joint Venture (Sally Malay 75% and Donegal 25%) to acquire the Lanfranchi Mine and Tramways tenements from WMC Resources Limited.

## RESULTS AND REVIEW OF OPERATIONS

The consolidated entity's loss after tax for the financial year ending 30 June 2004 was \$2,709,784 (2003: loss \$1,292,769).

A review of operations is contained in the Review of Principal Activities section of the Annual Report.

## DIVIDENDS

No dividends have been paid or declared by the Company during the year ended 30 June 2004.

## 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.

## HEDGING POLICY

The Company has a policy of limiting the exposure to nickel price risk and currency risk through hedging, namely:

- For nickel price risk, by hedging no less than required by the Company's financiers and no more than 60% of the payable nickel forecast to be produced over the life of a project;
- For currency risk, firstly, sufficient hedging on a shipment by shipment basis to match the net United States dollar proceeds from nickel hedging, and, secondly, no more than 40% of forecast unhedged United States dollar proceeds for periods not exceeding three years from the implementation date.

At the date of this report, nickel and currency hedging has been put in place for the Sally Malay Project only. To date, derivatives used to implement the Company's hedging policy has been limited to nickel flat forward sale contracts in United States dollars and United States currency forward sale contracts.

The current hedging policy also allows for the use of nickel call options in United States dollars, up to 2,000 nickel tonnes at any one time, for a maximum term of two years from the implementation date.

None of the existing nickel and United States currency forward sale contracts that have been entered into by the consolidated entity are subject to margin calls.

## CORPORATE

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

## EMPLOYEES

At the end of the financial year, the consolidated entity had twenty four full time employees (2003: six).



## Director's Report

### EVENTS SUBSEQUENT TO BALANCE DATE

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

1. Appointed Mr Christopher Langdon as a Non-Executive Director of the Company, Chairman of the Company's Audit Committee and as a member of the Remuneration Committee on 4 August 2004;
2. Successfully commissioned the Sally Malay Process Plant during July and August 2004;
3. On 24 August 2004, obtained Shareholder approval at a General Meeting of the Company to implement the 2004 Sally Malay Mining Limited Employee Share Option Plan.

The detailed review of these events is contained in the Review of Principal Activities section of the 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 production of concentrate at the Sally Malay Project.

The consolidated entity will progress the acquisition and development of the Lanfranchi Mine and Tramways tenements.

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' EMOLUMENT AND INTERESTS

#### Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the managing director and the senior executive team. The Remuneration Committee consists of Robert Logan, Keith Liddell and Alasdair Cooke. The remuneration of executive directors is determined by reference to relevant employment market conditions and of the attainment of defined company goals. 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 element of the emolument of each director of the Company and each of the five executive officers of the Company and the consolidated entity receiving the highest emolument 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
<b>Directors</b>							
Keith S Liddell	84,000	-	-	-	65,205	149,205	350,000
Alasdair C Cooke	25,000	-	-	-	-	25,000	-
Peter J Harold	223,400	30,000	5,059	37,432	-	295,891	-
Michael A Bohm	200,571	25,000	5,468	18,062	-	249,101	-
Robert A Logan	-	-	-	-	-	-	-
Gregory J Heaney	-	-	-	-	-	-	-
<b>Executive Officers (excluding Directors)</b>							
Trevor R Eton	156,587	20,000	-	13,680	37,376	227,643	400,000
Richard Jordinson	92,812	-	-	8,358	31,613	132,778	400,000

(A) Each executive option entitles the holder to purchase one ordinary share in the Company. The estimated fair value disclosed above is calculated at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. For those options granted before 1 July 2003, the values in the table represent the incremental increase for the current reporting period. The ability to exercise the executive options is conditional on certain vesting periods. The following factors and assumptions were used in determining the fair value of the options on grant date:

Grant Date	Number	Expiry Date	Fair value per option	Exercise Price \$	Expected volatility	Risk free interest rate
3 July 2002	350,000	10 Sept 2006	18.63 cents	0.415	50%	5.95%
18 March 2003	400,000	10 Sept 2006	11.09 cents	0.35	50%	5.38%
4 March 2004	400,000	30 Sept 2007	30.35 cents	0.93	50%	5.62%

(B) Details of the vesting periods and of executive options granted during the year are set out in note 22 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
	Direct	Indirect	
Keith S Liddell	-	7,862,669	350,000
Peter J Harold	582,813	2,595,785	2,000,000
Alasdair C Cooke	707,813	2,758,626	-
Michael A Bohm	457,813	-	1,500,000
Robert A Logan	-	-	-
Christopher DJ Langdon	-	25,000	-
Gregory J Heaney	-	-	-

During the financial year, option holders have exercised the option to acquire 6,500,000 fully paid ordinary shares in Sally Malay Mining Limited at a weighted average exercise price of \$0.283. Since the end of the financial year, no further options have been exercised.



# Director's Report

## 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 \$23,265 (2003: \$18,563) in respect of Directors' and Officers' liability insurance for current directors and officers of the Company. The insurance premium relates to:

1. Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever 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.

## 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
30 August 2005	0.426	2,347,418
16 December 2005	0.282	2,659,574
10 September 2006	0.350	400,000
10 September 2006	0.415	350,000
30 September 2007	0.930	400,000
31 March 2008	0.430	1,500,000
31 March 2008	0.930	1,000,000
24 August 2008	0.750	4,500,000
20 September 2008	0.750	2,735,000

## 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 intention of the company and its wholly owned entities, subject to further work and the finalisation of tax consolidation legislation relating to public company losses, to form a tax consolidated group from 1 July 2003.

## 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, 29 September 2004*

# 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") "Principles of Good Corporate Governance and Best Practice Recommendations" (the 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 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 Director's Report of this report.

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

- The Board currently comprises seven 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 due to the size of the consolidated entity and the fact that the consolidated entity is still in a growth and development phase, the strategy and objectives of the Company are best served at this time by a majority of persons who have been associated with the Company since incorporation, irrespective as to their degree of independence. As the Company grows into the production phase proper, the composition of the Board will change to reflect the need for different skills at the Board level. This change has already begun with the appointment of an independent director in August 2004 and the formation of an Audit Committee also in August 2004.

## 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.



# Corporate Governance Statement

## **Remuneration Committee**

The Remuneration Committee consists of all non-executive directors. The role of the Remuneration Committee is to review remuneration packages and policies applicable to the managing director, other executive directors and officers. The remuneration of executive directors is determined by reference to relevant employment market conditions and of the attainment of defined company goals. The remuneration of senior executives is determined by the Remuneration Committee 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 23 to the financial statements.

## **Audit Committee**

The Audit Committee consists of all non-executive directors. The role of the Audit Committee is to oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The Audit Committee is also to review the effectiveness of the internal financial control and risk management system; recommendation and the appointment and assessment of the performance of the external auditor, the Company's process for monitoring compliance with laws and regulations affecting financial reporting and, if applicable, its code of business conduct. The Audit Committee operates under an Audit Committee charter that is reviewed by the committee and is re-approved or changed by the full Board on an annual basis.

## **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, and in certain instances, the Audit Committee, has instigated an internal control framework that can be described under the following headings:

## *Financial reporting*

There is a comprehensive budgeting system with final budget approval by the directors. The Audit Committee reviews all final draft external financial reports with the auditors and makes recommendations on their adequacy to the Board prior to their release to members and other public forums. There is regular communication between the Audit Committee, 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 Audit Committee and 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.

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:

- 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.
- 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 and its controlled entity's adopted policies on continuous disclosure including 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 others 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, and in certain instances the Audit Committee, examines and considers areas of significant business risk and implements policies 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 requires 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 entity's 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](http://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 2004 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

**P.J. Harold**

*Director*

*Perth, 29 September 2004*



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Perth WA 6843

## Independent audit report to 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 2004. 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

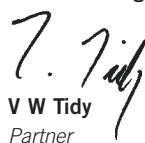
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. 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 2004 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

  
V W Tidy  
Partner

Perth

Date: 29 September 2004

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



# Sally Malay Mining Limited Statement of Financial Performance

Year Ended 30 June 2004

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	726	399	679	399
Borrowing costs	2	(571)	(368)	(238)	(367)
Corporate and marketing expenses		(1,669)	(1,135)	(1,614)	(1,135)
Exploration and evaluation expenses		(541)	(87)	(534)	-
Other expenses from ordinary activities	2	(654)	(102)	(477)	(185)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>(2,709)</b>	<b>(1,293)</b>	<b>(2,184)</b>	<b>(1,288)</b>
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	3	-	-	-	-
<b>LOSS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED</b>	18	<b>(2,709)</b>	<b>(1,293)</b>	<b>(2,184)</b>	<b>(1,288)</b>
Share issue costs	17(b)	(800)	(150)	(800)	(150)
<b>TOTAL EXPENSES ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED AND RECOGNISED DIRECTLY IN EQUITY</b>		<b>(800)</b>	<b>(150)</b>	<b>(800)</b>	<b>(150)</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED</b>		<b>(3,509)</b>	<b>(1,443)</b>	<b>(2,984)</b>	<b>(1,438)</b>
Basic loss per share (cents per share)	25	2.2	1.9		
Diluted loss per share (cents per share)	25	2.2	1.9		

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

# Sally Malay Mining Limited Statement of Financial Position

Year Ended 30 June 2004

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>CURRENT ASSETS</b>					
Cash assets		9,035	4,286	7,116	4,286
Receivables	4	2,153	246	949	94
Hedge Receivable	9	206	-	-	-
Inventory	5	6	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>11,400</b>	<b>4,532</b>	<b>8,065</b>	<b>4,380</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	6	-	-	24,029	8,304
Plant and equipment	7	53,506	450	161	183
Deferred exploration, evaluation and development expenditure	8	13,448	8,630	-	-
Hedge Receivable	9	697	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>67,651</b>	<b>9,080</b>	<b>24,190</b>	<b>8,487</b>
<b>TOTAL ASSETS</b>		<b>79,051</b>	<b>13,612</b>	<b>32,255</b>	<b>12,867</b>
<b>CURRENT LIABILITIES</b>					
Payables	11	6,797	1,240	353	556
Provisions	13	121	45	69	45
Interest- bearing liabilities	15	5,993	10	-	-
Deferred hedge gains	9	206	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>13,117</b>	<b>1,295</b>	<b>422</b>	<b>601</b>
<b>NON-CURRENT LIABILITIES</b>					
Payables	12	1,482	-	-	-
Interest- bearing liabilities	16	32,450	2,806	-	2,750
Deferred hedge gains		696	-	-	-
Provisions	14	34	-	31	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>34,662</b>	<b>2,806</b>	<b>31</b>	<b>2,750</b>
<b>TOTAL LIABILITIES</b>		<b>47,779</b>	<b>4,101</b>	<b>453</b>	<b>3,351</b>
<b>NET ASSETS</b>		<b>31,272</b>	<b>9,511</b>	<b>31,802</b>	<b>9,516</b>
<b>EQUITY</b>					
Contributed equity	17	35,868	11,398	35,868	11,398
Accumulated Losses	18	(4,596)	(1,887)	(4,066)	(1,882)
<b>TOTAL EQUITY</b>		<b>31,272</b>	<b>9,511</b>	<b>31,802</b>	<b>9,516</b>

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

# Sally Malay Mining Limited Statement of Cash Flows

Year Ended 30 June 2004

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Payments to suppliers and employees		(1,819)	(969)	(1,769)	(883)
Receipts from other parties		258	286	258	286
Interest received		376	57	335	57
Borrowing costs paid		(411)	(346)	(261)	(346)
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	19(a)	<b>(1,596)</b>	<b>(972)</b>	<b>(1,437)</b>	<b>(886)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash inflow for short term deposits		36	-	36	-
Proceeds from sale of plant and equipment		-	53	-	53
Payment for plant and equipment		(37,745)	(394)	(44)	(192)
Payments for exploration, evaluation and development		(6,503)	(3,092)	-	(3,092)
Payments for mineral properties		(2,350)	-	-	-
Advances to related parties		(760)	-	(760)	(288)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(47,322)</b>	<b>(3,433)</b>	<b>(768)</b>	<b>(3,519)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the issue of ordinary shares		23,623	4,690	23,623	4,690
Payment of share issue expense		(657)	(150)	(657)	(150)
Proceeds from application for ordinary shares		-	1,885	-	1,885
Payments to controlled entities		-	-	(15,181)	-
Proceeds from borrowings		34,397	2,050	-	2,050
Hire purchase payments		(936)	(3)	-	(3)
Finance lease payments		(10)	-	-	-
Repayment of borrowings		(2,750)	-	(2,750)	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>53,667</b>	<b>8,472</b>	<b>5,035</b>	<b>8,472</b>
<b>NET INCREASE IN CASH HELD</b>		<b>4,749</b>	<b>4,067</b>	<b>2,830</b>	<b>4,067</b>
<b>Opening cash</b>		<b>4,286</b>	<b>219</b>	<b>4,286</b>	<b>219</b>
<b>CLOSING CASH CARRIED FORWARD</b>	19(b)	<b>9,035</b>	<b>4,286</b>	<b>7,116</b>	<b>4,286</b>

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

# Notes to and forming part of the Financial Statements

## 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. All accounting policies are consistent with those applied in the previous year.

### b) 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 market investments readily convertible to cash within 2 working days net of outstanding bank overdrafts.

### c) 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 transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### d) 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.

### e) 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.

### f) Foreign Currency

#### *Translation of foreign currency transactions*

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract. Except for

# Notes to and forming part of the Financial Statements

certain specific hedges, all resulting exchange differences arising on the statement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

#### *Specific hedges*

Where a sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the sale. Exchange gains or losses arising on the hedge transaction after that date are taken to the net profit.

#### **g) Derivatives**

The consolidated entity is exposed to changes in interest rates, commodity prices and foreign exchange rates from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: United States dollars nickel flat forward sales contracts, United States currency nickel call options and United States denominated forward currency sale contracts. Derivative financial instruments are not held for speculative purposes.

At the balance date, the consolidated entity had outstanding United States dollars nickel flat forward sale contracts and United States denominated forward currency sale contracts. The accounting policy for these instruments is outlined in note (h).

#### **h) Hedges**

##### *Anticipated transactions*

Transactions are designed as a hedge of the anticipated specific sale of goods or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when the anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Statement of Financial Performance.

The net amounts receivable or payable under forward currency contracts and the associated deferred gains or losses are recorded on the Statement of Financial Position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the forward currency rates current at reporting date.

#### **i) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges of borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that take more than twelve months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the costs of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate to the extent that they relate to the qualifying asset.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

#### **j) 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.

#### **k) 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.

#### **l) Interest-bearing liabilities**

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

Finance lease liability and hire purchase liability is determined in accordance with the requirements of AASB 1008 "Leases" (refer to Note m).

**m) Investments**

Investments in controlled entities are carried at the lower of cost and recoverable amount.

**n) 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*

	2004	2003
Office equipment	Between 3 and 4 years	Between 3 and 4 years
Office furniture and fixtures	5 years	5 years
Motor vehicles	5 years	5 years
Plant and equipment under hire purchase	Between 4 and 5 years	5 years
Plant and equipment under finance lease	Between 4 and 5 years	-

**o) Plant and Equipment under Finance Lease or Hire Purchase**

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

Capitalised finance lease or 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 finance lease or 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 finance lease or hire purchase is capitalised, disclosed as finance lease or 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.

**p) 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.

**q) 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.



## Notes to and forming part of the Financial Statements

### r) 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.

### s) 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. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax.

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:

- Where 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.

Cash flows are included in the Statement of Cash Flows on a net basis and the GST component of cash flows are not shown in the Cash Flows.

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

### t) 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 22 is not being recognised as an employee benefits expense.

### u) Superannuation Fund

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

**v) 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.

**w) 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.

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>2. LOSS FROM ORDINARY ACTIVITIES</b>					
<b>(a) Revenues from non- operating activities</b>					
Interest					
Other persons/corporations		452	60	406	60
Proceeds from disposal of plant and equipment		-	53	-	53
Government R&D tax offset rebate (net of costs)		271	268	270	268
Other sundry revenue		3	18	3	18
<b>Total revenues from ordinary activities</b>		<b>726</b>	<b>399</b>	<b>679</b>	<b>399</b>
<b>(b) Borrowing costs</b>					
Interest paid/payable		88	144	88	144
Finance charges on finance lease		4	-	-	-
Finance charges on hire purchase assets		179	1	-	-
Facility costs		300	223	150	223
		<b>571</b>	<b>368</b>	<b>238</b>	<b>367</b>
<b>(c) Other expenses from ordinary activities</b>					
Depreciation – plant and equipment		72	47	66	46
Amortisation – finance lease and hire purchase assets		582	3	-	-
Cost of plant and equipment sold		-	52	-	52
Forgiveness of loan to controlled entity		-	-	411	87
		<b>654</b>	<b>102</b>	<b>477</b>	<b>185</b>
<b>(d) Losses/(gains)</b>					
Net loss on disposal of plant and equipment		-	(1)	-	(1)
<b>Losses</b>		<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>



# Notes to and forming part of the Financial Statements

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>3. INCOME TAX</b>					
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:		813	388	655	386
Tax effect of permanent differences		71	(90)	(52)	(116)
Tax losses not recognised		(135)	-	(135)	-
Future income tax benefit not brought to account		(941)	(315)	(660)	(287)
Under provision of previous year		192	17	192	17
<b>Income tax expense attributable to ordinary activities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income Tax Losses</b>					
Future income tax benefit arising from tax losses not brought to account at balance date as realisation is not regarded as virtually certain.		<b>2,444</b>	<b>2,190</b>	<b>2,156</b>	<b>1,147</b>
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).					
<b>Tax Consolidation</b>					
As at balance date, it is the intention of the company and its wholly owned entities, subject to further work and the finalisation of tax consolidation legislation relating to public company losses, to form a tax consolidated group from 1 July 2003. The impact of entry into tax consolidations has not been reflected in these financial statements as no final decision has been made.					



	Notes	CONSOLIDATED		THE COMPANY	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
<b>4. RECEIVABLES (CURRENT)</b>					
Short term deposits		-	36	-	36
Related Party		760	-	760	-
Other receivables		1,393	210	189	58
	4(a)	<b>2,153</b>	<b>246</b>	<b>949</b>	<b>94</b>

**(a) Terms and conditions**

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 4.74% for the year (2003: 4.39%).
- (ii) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Related Party represents a receivable from Donegal Resources Pty Ltd, a co-venturer in the Lanfranchi Joint Venture (see note 27).

	Notes	CONSOLIDATED		THE COMPANY	
		2004	2003	2003	2004
		\$'000	\$'000	\$'000	\$'000
<b>5. INVENTORY</b>					
Spares for production phase		6	-	-	-
<b>6. RECEIVABLES (NON-CURRENT)</b>					
Receivable from controlled entities	26	-	-	24,029	8,304
<b>7. PLANT &amp; EQUIPMENT</b>					
Plant and equipment – at cost		299	255	276	232
Accumulated depreciation		(122)	(50)	(115)	(49)
		<b>177</b>	<b>205</b>	<b>161</b>	<b>183</b>
Plant and equipment under hire purchase – at cost		4,136	69	-	-
Accumulated amortisation		(573)	(3)	-	-
		<b>3,563</b>	<b>66</b>	-	-
Plant and equipment under finance lease – at cost		63	-	-	-
Accumulated amortisation		(12)	-	-	-
		<b>51</b>	-	-	-
Capital works in progress – at cost		49,715	179	-	-
<b>Total plant and equipment – net book value</b>		<b>53,506</b>	<b>450</b>	<b>161</b>	<b>183</b>

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2003 \$'000	2004 \$'000
<b>7. PLANT &amp; EQUIPMENT Cont</b>					
<b>(a) Assets pledged as security</b>					
Included in the balances of plant and equipment are assets over which first mortgages have been granted as security over bank loans (see note 15 & 16). The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The mortgage also requires plant and equipment that form part of the security to be fully insured at all times.					
Assets under lease and hire purchase are pledged as security for the associated lease liabilities.					
The value of assets pledged as security are:					
Plant and equipment		177	205	-	-
Plant and equipment under hire purchase		3,563	66	-	-
Plant and equipment under finance lease		51	-	-	-
Capital works in progress		49,715	179	-	-
<b>(b) Reconciliation</b>					
<b>Plant and Equipment</b>					
Carrying amount at beginning of the year		205	91	183	91
Additions		44	214	44	191
Disposals		-	(53)	-	(53)
Depreciation expense		(72)	(47)	(66)	(46)
<b>Carrying amount at the end of the year</b>		<b>177</b>	<b>205</b>	<b>161</b>	<b>183</b>
<b>Plant and equipment under hire purchase</b>					
Carrying amount at beginning of the year		66	69	-	-
Additions		4,067	-	-	-
Amortisation expense		(570)	(3)	-	-
<b>Carrying amount at the end of the year</b>		<b>3,563</b>	<b>66</b>	-	-
<b>Plant and equipment under financial lease</b>					
Additions		63	-	-	-
Amortisation expense		(12)	-	-	-
<b>Carrying amount at the end of the year</b>		<b>51</b>	-	-	-
<b>Capital works in progress</b>					
Carrying amount at beginning of the year		179	-	-	-
Additions		40,849	179	-	-
Borrowing costs capitalised		3,019	-	-	-
Transfer from pre production phase		5,668	-	-	-
<b>Carrying amount at the end of the year</b>		<b>49,715</b>	<b>179</b>	-	-

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2003 \$'000	2004 \$'000
<b>8. DEFERRED EXPLORATION EVALUATION AND DEVELOPMENT EXPENDITURE</b>					
Exploration, evaluation and development costs carried forward in respect of mining areas of interest					
<b>Pre-production - at cost</b>					
Exploration and evaluation phases		1,135	6,238	-	-
Development phases		8,168	597	-	-
Lanfranchi mineral reserves – at cost		2,254	-	-	-
Other mineral reserves – at cost		1,891	1,795	-	-
		<b>13,448</b>	<b>8,630</b>	-	-

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

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>9. HEDGE RECEIVABLE</b>					
The net mark to spot value of foreign exchange contracts held as at the reporting date were:					
Current		206	-	-	-
Non Current		697	-	-	-
		<b>903</b>	-	-	-
The net mark to market values of foreign exchange and commodity contracts held as at the reporting date were:					
Forward foreign exchange contracts – current		(15)	-	-	-
Forward foreign exchange contracts – non- current		(3,056)	-	-	-
Forward commodity contracts - current		(11,322)	-	-	-
Forward commodity contract – non current		(7,960)	-	-	-
		<b>(22,353)</b>	-	-	-

In accordance with AASB 1012 “Foreign Currency Translation”, the net mark to spot values of forward foreign exchange contracts of \$903,000 and the related deferred gain has been recognised in Statement of Financial Position at 30 June 2004. This amount differs from the mark to market values stated above. The net mark to market values of forward commodity contracts at 30 June 2004 has not been recognised in the Statement of Financial Position.

# Notes to and forming part of the Financial Statements

Name	Percentage of equity interest held by the consolidated entity		Investment	
	2004 %	2003 %	2004 \$	2003 \$
<b>10. INTEREST IN SUBSIDIARIES</b>				
Kimberley Nickel Mines Pty Ltd	100	100	1	1
Sally Malay Exploration Pty Ltd	100	100	1	1
Cherish Metals Pty Ltd	100	-	2	-
			<b>4</b>	<b>2</b>

Cherish Metals Pty Ltd was incorporated during the financial year. All subsidiaries are incorporated in Australia.

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>11. PAYABLES (CURRENT)</b>					
Trade creditors	11(a)	1,745	491	289	141
Other creditors and accruals	11(a)	5,021	725	48	391
Audit fees		19	13	4	13
Indirect taxes		-	11	-	11
Directors Fees		12	-	12	-
		<b>6,797</b>	<b>1,240</b>	<b>353</b>	<b>556</b>

(a) Terms and conditions

Terms and conditions relating to the above financial instruments.

Creditors are non-interest bearing and are normally settled on 30 day terms.

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>12. PAYABLES (NON CURRENT)</b>					
		<b>1,482</b>	-	-	-

Represents premium cost of 5 by 200 tonne lots (total 1,000 tonnes) European Style Nickel Call Options granted on 1 April 2004 at a strike price of US\$9,352 per tonne with expiry dates between 28 February 2007 and 29 June 2007

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>13. PROVISIONS (CURRENT)</b>					
Employee benefits	22	<b>121</b>	<b>45</b>	<b>69</b>	<b>45</b>
<b>14. PROVISIONS (NON CURRENT)</b>					
Employee benefits	22	<b>34</b>	-	<b>31</b>	-
<b>15. INTEREST – BEARING LIABILITIES (CURRENT)</b>					
Lease liability	16	7	-	-	-
Hire Purchase liability	16	786	10	-	-
Borrowings secured by mortgage-Bank loans	16	5,200	-	-	-
		<b>5,993</b>	<b>10</b>	-	-

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 -	2003 \$'000
<b>16. INTEREST – BEARING LIABILITIES (NON CURRENT)</b>					
Lease liability		50	-	-	-
Hire purchase liability		2,648	56	-	-
Borrowings secured by mortgage					
- Bank loans		22,350	2,750	-	2,750
- Customer subordinated loan		7,402	-	-	-
		<b>32,450</b>	<b>2,806</b>	<b>-</b>	<b>2,750</b>

#### Terms & Conditions relating to the above financial instruments

- (i) Finance lease has a lease term of 4 years with the option to purchase the asset at the completion of the lease term for the assets residual value. The discount rate implicit in the lease is 8.00%. Secured lease liabilities are secured by a charge over the leased asset.
- (ii) Hire purchases have an average term of 4.5 years. The average discount rate implicit in the hire purchase liability is 7.83% (2003: 7.0%). Secured hire purchase liabilities are secured by charge over the leased asset.
- (iii) Bank loans are repayable from 31 December 2004. The final scheduled instalment is due on 31 March 2008. Interest is charged at the bank bill swap bid (BBSB) rate plus 2.5%.  
Bank loans are secured by a registered first and second ranking fixed and floating charge over all assets (except lease and hire purchase assets) and undertaking of the company and a first and second ranking Mining Act mortgage over certain mining tenements held by the company.
- (iv) The Customer subordinated loan is denominated in United States currency and is repayable following the full extinguishment of the bank loans detailed in (iii). The final scheduled instalment is due on 31 December 2008. Interest is charged and capitalised at US LIBOR plus 4% pa. Principal and interest payable are translated to Australian currency at the rates of exchange ruling at the dates of the transactions.

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 -	2003 \$'000
<b>17. CONTRIBUTED EQUITY</b>					
<b>(a) Issued and paid up capital</b>					
Ordinary shares fully paid		35,868	9,513	35,868	9,513
<b>(b) Other contributed equity</b>					
Application for 6,500,000 ordinary shares issued subsequent to balance date			1,885	-	1,885
		<b>35,868</b>	<b>11,398</b>	<b>35,868</b>	<b>11,398</b>

	Number of Shares	2004 \$'000	Number of Shares	2003 \$'000
<b>(c) Movements in shares on issue</b>				
<b>Balance at beginning of year</b>	<b>80,268,298</b>	<b>9,513</b>	<b>61,000,000</b>	<b>4,973</b>
<b>Issued during the period</b>				
• Private placements and public offering	59,169,047	25,315	19,268,298	4,690
• Exercise of unlisted options	6,500,000	1,840	-	-
• Less transaction costs	-	(800)	-	(150)
• Public equity raising	-	-	-	-
• Less transaction costs	-	-	-	-
<b>Balance at end of year</b>	<b>145,937,345</b>	<b>35,868</b>	<b>80,268,298</b>	<b>9,513</b>

# Notes to and forming part of the Financial Statements

	Notes	No. of Options	Exercise Price \$	Expiry Date
<b>(d) Share options issued over ordinary shares</b>				
<b>Balance at beginning of year</b>		<b>12,256,992</b>		
Issued during the period		400,000	0.930	30 September 2007
		1,500,000	0.430	31 March 2008
		1,000,000	0.930	31 March 2008
<b>Total issued during period</b>		<b>2,900,000</b>		
<b>Exercised during the period</b>				
		4,050,000	0.200	
		450,000	0.350	
		2,000,000	0.436	
Total exercised during period		<b>6,500,000</b>		
<b>Balance at end of year</b>		<b>8,656,992</b>		
<b>(e) Terms and conditions of contributed equity</b>				
<b>(i) Ordinary shares</b>				
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.				
<b>(ii) Share options</b>				
2004 – Balance at end of year		2,347,418	0.426	30 August 2005
		2,659,574	0.282	16 December 2005
		400,000	0.350	10 September 2006
		350,000	0.415	10 September 2006
		400,000	0.930	30 September 2007
		1,500,000	0.430	31 March 2008
		1,000,000	0.930	31 March 2008
		<b>8,656,992</b>		
2003- Balance at end of year		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
		4,050,000	0.200	12 September 2006
		<b>12,256,992</b>		

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>18. ACCUMULATED LOSSES</b>					
Balance at beginning of year		1,887	594	1,882	594
Net loss attributable to members of Sally Malay Mining Limited		2,709	1,293	2,184	1,288
<b>Balance at end of year</b>		<b>4,596</b>	<b>1,887</b>	<b>4,066</b>	<b>1,882</b>
<b>19. STATEMENT OF CASH FLOWS</b>					
<b>(a) Reconciliation of the operating loss after tax to the net cash flows from operations</b>					
Operating loss after income tax		(2,709)	(1,293)	(2,184)	(1,288)
<b>Adjusted for:</b>					
Depreciation of non-current assets		72	47	66	46
Amortisation of non-current assets		582	3	-	-
Finance charges on capitalised finance lease		4	-	-	-
Finance charges on capitalised hire purchase		179	1	-	-
Profit on sale of non-current assets		-	(1)	-	(1)
Forgiveness of loan to controlled entity		-	-	411	87
<b>Changes in assets and liabilities</b>					
(Increase)/decrease in receivables		(78)	(86)	(130)	66
Increase/(decrease) in payables		237	300	352	147
Increase in employee entitlements		110	33	56	33
Increase/(decrease) in other provisions		7	24	(8)	24
<b>Net cash flows used in operating activities</b>		<b>(1,596)</b>	<b>(972)</b>	<b>(1,437)</b>	<b>(886)</b>
<b>(b) Reconciliation of cash</b>					
Cash balance comprises:					
- cash assets		<b>9,035</b>	<b>4,286</b>	<b>7,116</b>	<b>4,286</b>
<b>(c) Financing facility available</b>					
At balance date the following finance facilities had been negotiated and were available					
- bank loans		49,000	3,000	-	3,000
<b>Facilities used at balance date:</b>					
- bank loans	15 & 16	<b>27,550</b>	<b>2,750</b>	-	<b>2,750</b>
<b>(d) Non-Cash Financing and Investing Activities</b>					
Plant and equipment		1,504	-	-	-
Plant and equipment under hire purchase		4,067	66	-	-
Plant and equipment under finance lease		63	-	-	-
		<b>5,634</b>	<b>66</b>	-	-



# Notes to and forming part of the Financial Statements

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>20. EXPENDITURE COMMITMENTS</b>					
<b>(a) Capital expenditure commitments</b>					
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:					
Not later than 1 year					
		<b>25,870</b>	<b>255</b>	-	-
<b>(b) Mineral tenement expenditure commitments</b>					
<ul style="list-style-type: none"> <li>The consolidated entity has certain expenditure obligations with respect to mineral tenements and minimum expenditure requirements on areas as follows:</li> </ul>					
<b>Not later than one year</b>					
<ul style="list-style-type: none"> <li>Joint venture operations</li> </ul>					
		35	264	-	-
<ul style="list-style-type: none"> <li>Other</li> </ul>					
		549	430	-	-
<b>Later than one year and not later than five years</b>					
<ul style="list-style-type: none"> <li>Joint venture operations</li> </ul>					
		139	56	-	-
<ul style="list-style-type: none"> <li>Other</li> </ul>					
		2,195	1,722	-	-
<b>Later than five years</b>					
<ul style="list-style-type: none"> <li>Joint venture operations</li> </ul>					
		35	14	-	-
<ul style="list-style-type: none"> <li>Other</li> </ul>					
		549	430	-	-
		<b>3,502</b>	<b>2,916</b>	-	-
<b>(c) Hire Purchase rental commitments</b>					
Not later than one year					
		1,025	15	-	-
Later than one year and not later than five years					
		3,000	15	-	-
Later than five years					
		-	50	-	-
Total minimum hire purchase rentals					
		4,025	80	-	-
Less future hire purchase finance charges					
		(591)	(14)	-	-
		<b>3,434</b>	<b>66</b>	-	-
<b>Hire Purchase liabilities provided for:</b>					
Current					
	15	786	10	-	-
Non-current					
	16	2,648	56	-	-
		<b>3,434</b>	<b>66</b>	-	-
<b>(d) Finance Lease</b>					
Not later than one year					
		11	-	-	-
Later than one year and not later than five years					
		60	-	-	-
Later than five years					
		-	-	-	-
Total minimum hire purchase rentals					
		71	-	-	-
Less future hire purchase finance charges					
		(14)	-	-	-
		<b>57</b>	-	-	-
<b>Finance lease liabilities provided for:</b>					
Current					
	15	7	-	-	-
Non-current					
	16	50	-	-	-
		<b>57</b>	-	-	-

	Notes	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>21. CONTINGENT LIABILITIES</b>					
Details of contingent liabilities which, although the probability of future payments is considered remote, the directors consider should be disclosed					
<b>Controlled entities</b>					
(i) Under the terms of Deeds of Cross Guarantees with several finance institutions, the Company has agreed to become a covenantor with Kimberley Nickel Mines Pty Ltd in regard to indebtedness and liabilities resulting from the lease and hire purchase of mobile equipment and mine buildings					
				3,491	66
(ii) The Company has guaranteed the bank facilities of controlled entities					
				1,919	-
<b>Other persons</b>					
The Company has entered into agreements with directors and executives of the company for termination benefits on loss of office					
				230	188
<b>22. EMPLOYEE BENEFITS</b>					
The aggregate employee benefit liability is comprised of:					
Provisions (current)					
		121	45	69	45
Provisions (non-current)					
		34	-	31	-
		<b>155</b>	<b>45</b>	<b>100</b>	<b>45</b>

The following table summarises information about options held by directors and executive offers at the end of the year:

	Notes	2004		2003	
		Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
<b>Balance at beginning of year</b>	<b>22(a)</b>	<b>1,200,000</b>	<b>0.369</b>	<b>450,000</b>	<b>0.350</b>
Granted	22(b)	400,000	0.930	750,000	0.380
Less Exercised	22(d)	450,000	0.350	-	-
<b>Balance at end of year</b>	<b>22(c)</b>	<b>1,150,000</b>	<b>0.572</b>	<b>1,200,000</b>	<b>0.369</b>
<b>Exercisable at end of year</b>		<b>550,000</b>	<b>0.391</b>	<b>225,000</b>	<b>0.350</b>

As at balance date, all employee options were granted as part the employee's employment service contract and not as part of an employee share option incentive scheme.

**22. EMPLOYEE BENEFITS (Cont'd)****(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 2003:

Number of options	Grant date	Vesting date	Expiry date	Exercise price \$
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
200,000	18 March 2003	1 February 2005	10 September 2006	0.350
<b>1,200,000</b>				

**(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:

**2004**

Number of options	Grant date	Vesting date	Expiry date	Exercise price \$
200,000	4 March 2004	2 February 2005	30 September 2007	0.930
200,000	4 March 2004	2 February 2006	30 September 2007	0.930
<b>400,000</b>				

**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
200,000	18 March 2003	1 February 2005	10 September 2006	0.350
<b>750,000</b>				

**(c) Options held as at the end of the reporting period**

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
200,000	18 March 2003	1 February 2005	10 September 2006	0.350
200,000	4 March 2004	2 February 2005	30 September 2007	0.930
200,000	4 March 2004	2 February 2006	30 September 2007	0.930
<b>1,150,000</b>				

**(d) Options exercised during the reporting period**

Number of options	Grant date	Vesting date	Expiry date	Exercise price \$
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
<b>450,000</b>				

## 23. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Details of Specified Directors and Specified Executives

#### (i) Specified Directors

K S Liddell (appointed 2 February 2001)	Chairman (executive)
P J Harold (appointed 16 March 2001)	Managing Director
A C Cooke (appointed 2 February 2001)	Director (non-executive)
M A Bohm (appointed 12 March 2003)	Director – Operations
R A Logan (appointed 8 October 2003)	Director (non-executive)
G J Heaney (appointed 8 October 2003)	Director (alternate)

#### (ii) Specified Executives

T R Eton (appointed 1 February 2003)	Chief Financial Officer & Company Secretary
R Jordinson (appointed 2 February 2004)	Operations Manager – Sally Malay Project

### (b) Direct and Indirect Shareholding in Sally Malay Mining Limited of Specified Directors and Specified Executives

Ordinary Shares	Balance 1 July 2003	On Exercise of Options	Net Change - Other	Balance 30 June 2004
<b>Specified Directors</b>				
K S Liddell	8,662,669	-	(800,000)	7,862,669
P J Harold	1,980,159	-	1,198,439	3,178,598
A C Cooke	4,743,000	-	(1,276,561)	3,466,439
M A Bohm	150,000	450,000	(142,187)	457,813
<b>Specified Executives</b>				
No shareholding	-	-	-	-
	<b>15,535,828</b>	<b>450,000</b>	<b>(1,020,309)</b>	<b>14,965,519</b>

### (c) Unlisted Option holdings in Sally Malay Mining Limited of Specified Directors and Specified Executives

Unlisted Options	Balance 1 July 2003	Granted as Remuneration	Options Exercised	Balance 30 June 2004
<b>Specified Directors</b>				
K S Liddell	350,000	-	-	350,000
M A Bohm	450,000	-	(450,000)	-
<b>Specified Executives</b>				
T R Eton	400,000	-	-	400,000
R Jordinson	-	400,000	-	400,000
	<b>1,200,000</b>	<b>400,000</b>	<b>(450,000)</b>	<b>1,150,000</b>

### (d) Remuneration of Specified Directors and Specified Executives

#### (i) Remuneration Policy

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the executive directors and the senior executive team. The remuneration of executive directors is determined by reference to relevant employment market conditions and of the attainment of defined company goals. The remuneration of senior executives is determined by the Remuneration Committee 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.

# Notes to and forming part of the Financial Statements

## 23. DIRECTOR AND EXECUTIVE DISCLOSURES (Cont'd)

(ii) Remuneration of Specified Directors and Specified Executives

	Primary			Post-employment	Equity	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Options \$	
<b>Specified Directors</b>						
<b>2004</b>						
K S Liddell	84,000	-	-	-	65,205	149,205
A C Cooke	25,000	-	-	-	-	25,000
P J Harold	223,400	30,000	5,059	37,432	-	295,891
M A Bohm	200,571	25,000	5,468	18,062	-	249,101
R A Logan	-	-	-	-	-	-
G J Heaney	-	-	-	-	-	-
<b>Total</b>	<b>532,971</b>	<b>55,000</b>	<b>10,527</b>	<b>55,494</b>	<b>65,205</b>	<b>719,197</b>
<b>2003</b>						
K S Liddell	84,000	32,000	-	-	26,532	142,532
A C Cooke	25,000	4,800	-	-	-	29,800
P J Harold	145,295	45,000	5,220	18,105	-	213,620
M A Bohm	56,230	15,000	1,600	5,061	3,136	81,027
<b>Total</b>	<b>310,525</b>	<b>96,800</b>	<b>6,820</b>	<b>23,166</b>	<b>29,668</b>	<b>466,979</b>
<b>Specified Executives</b>						
<b>2004</b>						
T R Eton	156,587	20,000	-	13,680	37,376	227,643
R Jordinson	92,812	-	-	8,353	31,613	132,778
<b>Total</b>	<b>249,399</b>	<b>20,000</b>	<b>-</b>	<b>22,033</b>	<b>68,989</b>	<b>360,421</b>
<b>2003</b>						
T R Eton	58,243	-	-	5,340	8,672	72,255
<b>Total</b>	<b>58,243</b>	<b>-</b>	<b>-</b>	<b>5,340</b>	<b>8,672</b>	<b>72,255</b>

### (e) Director related entity transactions

Consulting and administration services provided by Hartree Pty Ltd, a Company in which Mr A C Cooke is a Director, for the year aggregated \$27,914 (2003: \$29,800) and nil (2003: \$18,678) 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 year aggregated \$2,609 (2003: \$11,877).

Consulting, equipment purchases and office/administrative services provided by Mineral Securities Ltd, a Company which Mr K S Liddell is a Director, for the year aggregated \$92,400 (2003: \$116,000), \$129,735 (2003: \$52,311), and \$19,894 (2003: \$28,556) respectively. These were provided under normal commercial terms and conditions.

Construction services provided by Roche Mining Pty Limited, a Company in which Mr R A Logan is a Director, for the year aggregated \$28,119,435 (2003: nil). Roche Mining Pty Ltd has a substantial shareholding in the Company of 10,660,000 shares (2003: 3,195,000 shares).

	Notes	CONSOLIDATED		THE COMPANY	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>24. AUDITORS' REMUNERATION</b>					
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					
• other services in relation to the Company and any other entity in the consolidated entity		19,064	17,150	19,064	17,150
(i) other assurance services		-	1,500	-	1,500
(ii) Project due-diligence		30,000	-	30,000	-
(iii) project financing assistance		-	19,000	-	19,000
(iv) tax compliance		15,000	47,266	15,000	47,266
		<b>64,064</b>	<b>84,916</b>	<b>64,064</b>	<b>84,916</b>

	2004	2003
	\$'000	\$'000
<b>25. LOSS PER SHARE</b>		
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
<b>Net loss used in calculating basic and diluted loss per share</b>	<b>2,709</b>	<b>1,293</b>
	<b>Number of Shares</b>	<b>Number of Shares</b>
Weighted average number of ordinary shares used in calculating basic and diluted loss per share	125,608,149	68,311,985
Options on issue are not considered to be dilutive as the impact of including them would be to decrease the loss per share.		
There have been no further ordinary shares issued since the end of the financial year.		

## 26. RELATED PARTY DISCLOSURES

### 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 \$24,028,605 (2003:\$8,304,000).

#### Ultimate Parent

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

## 27. ACQUISITION OF LANFRANCHI MINE AND TRAMWAYS TENEMENTS

On 18 June 2004, the Company announced that it has entered into a conditional agreement with WMC Resources Limited ("WMR") to acquire the Lanfranchi Mine and the associated Tramways Tenements. These assets will be purchased via an unincorporated joint venture, the Lanfranchi Joint Venture ("LJV"), with Donegal Resources Pty Ltd ("Donegal").

The Lanfranchi Mine and the associated Tramways Tenements contain significant nickel inventories identified by extensive exploration campaigns conducted by WMR and remain highly prospective for further nickel discoveries. The Lanfranchi Mine nickel deposits produced over 100,000 tonnes of nickel over 15 years of underground mining. The Lanfranchi Mine was closed in February 2002 and placed on care and maintenance pending sale as part of WMR's divestment of its Kambalda properties.

The LJV has identified a total resource of 3.65 million tonnes at a grade of 2.02% Nickel (73,873 tonnes nickel) in four deposits including an indicated resource of 2.43 million tonnes at a grade of 2.25% Nickel (54,706 tonnes nickel). WMR will purchase the entire production from the Tramways Tenements under a long term Ore Tolling and Concentrate Purchase Agreement with attractive terms.

As at 30 June 2004, the Company entity had made a \$3 million refundable deposit to WMR on behalf of the LJV. The Company has booked a \$750,000 receivable from Donegal for Donegal's 25% share of the deposit (refer note 4).

## 28. 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. Appointment of new Non Executive Director – Christopher David James Langdon;
2. Lanfranchi / Tramways Resource Upgrade to 73,873 tonnes Nickel (see note 27);
3. Approval of the 2004 Sally Malay Mining Limited Share Option Plan.

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.

## 29.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
<b>(i) Financial assets</b>			
Cash	19	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 4.5% (2003:4.4%).
Other receivables	4, 6	Other receivables are carried at nominal amount.	Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
<b>(ii) Financial liabilities</b>			
Trade creditors	11	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 (2003: 30) day terms.
Hire purchase liabilities	15, 16, 20	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 7.8% (2003: 7.0%).
Finance Leases	15, 16, 20	Liabilities are for future amounts to be paid in the future (excluding future finance charges).	Lease liabilities have an effective fixed interest rate of 8.0%
Borrowings	15, 16	Borrowings are measured at the principal amount.	Borrowings are interest bearing and have repayment terms.

# Notes to and forming part of the Financial Statements

## (b) Interest rate risk

2004

	Weighted Average Effective Interest Rate %	Floating Interest \$'000	Fixed Interest \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial Assets</b>					
Cash at Bank	4.5	9,035	-	-	9,035
Receivables		-	-	2,153	2,153
Hedge receivable		-	-	903	903
<b>Total Financial assets</b>		<b>9,035</b>	<b>-</b>	<b>3,056</b>	<b>12,091</b>
<b>Financial Liabilities</b>					
Trade creditors		-	-	1,745	1,745
Other creditors		-	259	4,762	5,021
Deferred hedge gains		-	-	903	903
Bank loans	8.3	18,550	9,000	-	27,550
Customer Loan	5.1	7,402	-	-	7,402
Finance Lease	8.0	-	57	-	57
Hire Purchase Liabilities	7.8	-	3,434	-	3,434
<b>Total Financial liabilities</b>		<b>25,952</b>	<b>12,750</b>	<b>7,410</b>	<b>46,112</b>

2003

	Weighted Average Effective Interest Rate %	Floating Interest \$'000	Fixed Interest \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial Assets</b>					
Cash at Bank	4.4	4,286	-	-	4,286
Receivables		-	-	246	246
<b>Total Financial assets</b>		<b>4,286</b>	<b>-</b>	<b>246</b>	<b>4,532</b>
<b>Financial Liabilities</b>					
Trade creditors		-	-	491	491
Other creditors		-	-	725	725
Hire purchase liabilities	7.0	-	66	-	66
Bank loan	6.3	2,750	-	-	2,750
<b>Total Financial liabilities</b>		<b>2,750</b>	<b>66</b>	<b>1,216</b>	<b>4,032</b>

## (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) Hedging Instruments**

##### *Hedges of specific commitments*

The economic entity has entered into forward foreign exchange and commodity contracts at the reporting date designed as hedges of anticipated future receipts from sales to occur over the next four years that will be denominated in United States currency.

These hedges have been treated as specific, in accordance with UIG 33, as the approximate value of the purchase and the entities with which the transactions will be entered is presently known. Under the forward foreign exchange contracts, the economic entity has agreed to sell US\$104 million between October 2004 and October 2008, at an effective exchange rate of US\$0.6845. Under the commodity contracts, the economic entity has agreed to sell 7,000 tonnes nickel between October 2004 and October 2008 at an effective nickel price of US\$10,888 per tonne.

#### **(e) Net fair values**

Methods and assumptions used in determining net fair value.

##### **Recognised financial instruments**

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.

##### **Unrecognised financial instruments**

*Foreign exchange and commodity hedge agreements:* The fair value of foreign exchange and commodity hedge contracts is determined as the difference in present value of the future hedge cash flows.

### **30.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS**

Sally Malay Mining Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of the International Financial Reporting Standards (IFRS). The company has allocated internal resources to isolate key areas that will be impacted by the transition to IFRS. As Sally Malay Mining Limited has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Sally Malay Mining Limited prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Sally Malay Mining.

##### *Classification of Financial Instruments*

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost, financial assets held to maturity – measured at amortised cost, financial assets held for trading – measured at fair value with fair value changes charged to net profit or loss, financial assets available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on the balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

## 30. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (Cont'd)

### *Hedge Accounting*

Under AASB 139 *Financial Instruments: Recognition and Measurement* in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged:
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This will result in a change in the entity's current accounting policy which applies hedge accounting to its sale of commodities under forward foreign exchange contracts only (matched and unmatched). Under the new policy hedge accounting will be applied to both forward foreign exchange contracts and forward nickel contracts. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

### *Impairment of Assets*

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and its value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that the impairment of assets will be recognised sooner and that the amount of write downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

### *Share based payments*

Under AASB 2 *Share based Payments*, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

### *Income taxes*

Under AASB 112 *Income Taxes*, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that effect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact of the adoption of this standard.

### *Extractive Industries: exploration and evaluation activities*

Under the proposal in exposure draft IASB ED6, the Company will be permitted to continue to apply some of the principles of AASB 1022 until the comprehensive project on extractive industries is finalised by the AASB and IASB. This will result in costs incurred in the exploration and evaluation phase of operations to be allowed to be carried forward on the Statement of Financial Position after 1 January 2005. However, these assets will now have to be assessed for impairment, on the initial application of the standard and annually, and this may result in the write down or off of exploration and evaluation costs currently carried forward under AASB 1022.

## 31. 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 29 September 2004

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	41,394,762	28.36
Roche Mining Pty Ltd	10,660,000	7.30
Mineral Securities Limited	7,625,532	5.23

### Class of Shares and Voting Rights

At 29 September 2004, there were 2,290 holders of 145,937,345 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:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- 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
- 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.

### Unmarketable Shares

At 29 September 2004, the number of parcels of shares with a value of less than \$500 was 31.

#### *Distribution of Shareholders*

As at 29 September 2004

Number of Shares Held	Number of Shareholders	Number of Fully Paid Shares
1 – 1,000	127	91,585
1,001 – 5,000	615	2,016,770
5,001 – 10,000	549	4,544,973
10,001 – 100,000	929	27,491,306
100,001 and over	70	111,792,711
<b>Total</b>	<b>2,290</b>	<b>145,937,345</b>

## Additional Shareholder Information

### Listing of 20 Largest Shareholders

As at 29 September 2004

Name of Ordinary Shareholder	Number of Shares Held	Percentage of Shares Held
1. ANZ Nominees Limited	41,394,762	28.36
2. Roche Mining Pty Limited	10,660,000	7.30
3. Mineral Securities Limited	7,625,532	5.23
4. Westpac Custodian Nominees Limited	6,572,110	4.50
5. National Nominees Limited	5,856,339	4.01
6. Citicorp Nominees Pty Limited < CFS W/Sale GBL RES Fund A/C >	5,100,000	3.49
7. Mr Craig Ian Burton	4,007,813	2.75
8. Glenlaren Pty Ltd	2,657,813	1.82
9. Health Super Pty Ltd	2,157,301	1.48
10. Ms Katrina Lee Burton	2,000,000	1.37
11. Macquarie Bank Limited	2,000,000	1.37
12. Winton Vale Pty Ltd < The Harold Super Fund A/C >	1,582,813	1.08
13. JP Morgan Nominees Australia Limited	1,549,815	1.06
14. Elise Nominees Australia Limited	1,413,617	0.97
15. Muffet Pty Ltd	1,300,000	0.89
16. Permanent Trustee Australia Limited	1,138,435	0.78
17. Allnutt Ventures Family Trust	1,000,000	0.69
18. Citicorp Nominees Pty Limited	883,731	0.57
19. WM Clough Pty Limited	830,000	0.57
20. Mr Alasdair Campbell Cooke	707,813	0.49
<b>Total</b>	<b>100,387,894</b>	<b>68.78</b>

### Unquoted Equity Securities

As at 29 September 2004

Securities	Number of Securities	Exercise Price \$	Expiry Date	Name of Holders
Options	2,347,418	0.426	30 August 2005	Macquarie Bank Limited
Options	2,659,574	0.282	16 December 2005	Macquarie Bank Limited
Options	400,000	0.35	10 September 2006	Trevor Eton
Options	350,000	0.415	10 September 2006	Keith Liddell
Options	400,000	0.93	30 September 2007	Richard Jordinson
Options	1,000,000	0.43	31 March 2008	Macquarie Bank Limited
Options	500,000	0.43	31 March 2008	Standard Bank Limited
Options	1,000,000	0.93	31 March 2008	Standard Bank Limited
Options	1,000,000	0.75	24 August 2008	Trevor Eton
Options	1,500,000	0.75	24 August 2008	Michael Bohm
Options	2,000,000	0.75	24 August 2008	Peter Harold
Options	2,735,000	0.75	20 September 2008	Various staff

### 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 29 September 2004

Project Name	Licence Type	Approval Date	Expiry Date	Area (ha)	Equity (%)
<b>SALLY MALAY PROJECT</b>					
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%
<b>CORKWOOD</b>					
E80/2360	Exploration	30 April 2002	29 April 2007	19,600	100%
<b>KOONDOLLOO</b>					
E80/2789	Exploration	16 May 2003	15 May 2009	2,900	100%



