



NOTICE OF ANNUAL GENERAL MEETING

Date of Meeting 20 November 2007 • Time of Meeting 4.00pm (Perth time) • Place of Meeting Fremantle Room, Parmelia Hilton Hotel, Mill Street, Perth, Western Australia

INCLUDING EXPLANATORY MEMORANDUM

(NOTE: A PROXY FORM IS SEPARATELY INCLUDED WITH THIS NOTICE)



SALLY MALAY MINING LIMITED



SALLY MALAY MINING LIMITED

ABN 47 095 792 288

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of the shareholders of Sally Malay Mining Limited ABN 47 095 792 288 ("Company") will be held in the Fremantle Room, Parmelia Hilton Hotel, Mill Street, Perth, Western Australia on Tuesday, 20 November 2007 at 4.00pm (Perth time) for the purpose of transacting the following business.

AGENDA

BUSINESS

The accompanying Explanatory Memorandum containing information in relation to each of the following Resolutions forms part of this Notice of Annual General Meeting and should be read in conjunction with it.

ORDINARY BUSINESS

Item 1 - 2007 ACCOUNTS

"To receive and adopt the Annual Financial Report of the Company, which includes the financial statements of the Company for the year ended 30 June 2007, together with the notes to the financial statements, the Directors' declaration and the reports by the Directors and Independent Auditors."

Item 2 - ELECTION OF DIRECTORS

To consider and, if thought fit, pass the following resolutions as separate ordinary resolutions:

Resolution 1 – Election of Mr John Rowe as a Non-Executive Director

"That, for all purposes, Mr John Rowe, who was appointed to the Board of Directors since the last Annual General Meeting of the Company, is elected as a Non-Executive Director".

Resolution 2 – Election of Mr Brian Phillips as a Non-Executive Director

"That, for all purposes, Mr Brian Marshall Phillips, who was appointed to the Board of Directors since the last Annual General Meeting of the Company, is elected as a Non-Executive Director".

Item 3 - REMUNERATION REPORT

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Resolution 3 – Remuneration Report

"That, pursuant to and in accordance with section 250R(2) of the Corporations Act 2001, the Remuneration Report as included in the Directors' Report of the Company for the year ended 30 June 2007 set out in the Company's Annual Financial Report be adopted."

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company.

Item 4 - REMUNERATION OF NON-EXECUTIVE DIRECTORS

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Resolution 4 – Non-Executive Directors' Remuneration

"That, for the purposes of ASX Listing Rule 10.17, Clause 7.5(a) of the Company's Constitution and for all other purposes, the aggregate remuneration paid to the Non-Executive Directors of the Company be increased from \$400,000 to \$600,000 per annum."

Voting Exclusion: The Company will disregard any votes cast on this resolution by a Director and any associate of a Director. However the Company need not disregard a vote cast on Resolution 4 if:

- a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions of the proxy, or
- b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

Item 5 - EMPLOYEE SHARE PLAN

To consider and, if thought fit, pass the following resolutions as separate ordinary resolutions:

Resolution 5 – Approval of the Sally Malay Mining Limited Employee Share Plan

"That approval is given for all purposes under the Corporations Act (including section 260C(4)) and the ASX Listing Rules (including Exception 9(b) of Listing Rule 7.2 of the ASX Listing Rules) for:

- a) the adoption of the Sally Malay Mining Limited Employee Share Plan ("Plan"), as tabled at the meeting and signed by the Chairman for identification, a summary of which is contained in the Explanatory Memorandum; and
- b) the grant of performance rights, and the subsequent issue of shares in the Company, to Participants under the terms of the Plan."

Voting Exclusion: The only Director eligible to participate in the Plan is the Managing Director, Mr Peter Harold. Mr Harold is the only executive director of the Company at present. The Company will disregard any votes cast on this resolution by Mr Harold or any associate of Mr Harold unless:

the vote is cast as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form specifying how the proxy is to vote; or

the vote is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6 – The Issue of Performance Rights over Shares to Peter John Harold under the Plan

“That, subject to Resolution 5 being passed, approval is given for all purposes under the ASX Listing Rules (including Listing Rule 10.14) and for all other purposes for:

- a) the grant of 500,000 Performance Rights for no consideration to Mr Peter John Harold, or his nominee (the “Relevant Performance Rights”); and
- b) the issue of Shares on the exercise of any of the Relevant Performance Rights,

on the terms set out in the Explanatory Memorandum.”

Voting Exclusion: The Company will disregard any votes cast on this resolution by Mr Peter Harold or any associate of Mr Harold unless:

- (a) the vote is cast as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form specifying how the proxy is to vote; or
- (b) the vote is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By Order of the Board



Mr Trevor Eton
Company Secretary

Dated: 15 October 2007

REMUNERATION REPORT

Shareholders who have elected not to receive the Company’s annual report (which includes the remuneration report) may obtain a copy of the remuneration report by contacting Vera Waldby at the Company on (08) 9225 0999 or, alternatively, by downloading a copy from the Company’s website at www.sallymalay.com.

EMPLOYEE SHARE PLAN

Shareholders may obtain a copy of the full terms of the proposed Sally Malay Mining Limited Employee Share Plan by contacting Vera Waldby at the Company on (08) 9225 0999.

INTERDEPENDENT RESOLUTION

Resolution 6 is dependent on Resolution 5 being passed and will not be given effect to unless Resolution 5 is passed by the requisite majority.

PROXIES

A separate Proxy Form is included with this Notice of Meeting which gives instructions for the completion and lodgement of the Proxy Form. The Proxy Form is to be returned direct to Computershare Investors Services in accordance with the lodgement instructions given on the Form and may be lodged either by mail, in the envelope provided, or by facsimile at the number quoted. Proxy Forms must reach Computershare at least 48 hours prior to the meeting, that is by 4.00pm (Perth time) on 18 November 2007.

A shareholder entitled to attend and vote at the above meeting may appoint not more than two proxies to attend and vote at this meeting. Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion of the shareholder’s voting rights. If two proxies are appointed and the appointment does not specify the proportion or number of votes

that the proxy may exercise, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half the votes. A proxy may, but need not be, a shareholder of the Company.

BODIES CORPORATE

A body corporate may appoint an individual as its representative to attend and vote at the meeting and exercise any other powers the body corporate can exercise at the meeting. The appointment may be a standing one. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

VOTING ENTITLEMENTS

In accordance with regulation 7.11.37 of the Corporations Regulations 2001, the Board has determined that, for the purposes of voting at the meeting, shareholders are those persons who are registered holders of Shares as at 10.00am (Perth time) on 19 November 2007.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the Company's shareholders to provide information about the items of business contained in the accompanying Notice of Annual General Meeting of the Company.

The Directors recommend that shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

All of the resolutions to be voted on are ordinary resolutions. Ordinary resolutions require a simple majority of votes cast by shareholders entitled to vote on the resolution.

BUSINESS OF THE MEETING

ITEM 1 - ANNUAL ACCOUNTS

The Corporations Act requires the Company to lay its Financial Report, Directors' report and Auditor's report for the last financial year before the Annual General Meeting.

No resolution is required for this item, but shareholders will be given the opportunity to ask questions and to make comments on the reports.

The Company's Auditor will also be present at the meeting and shareholders will be given the opportunity to ask the Auditor questions about the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies adopted by the Company and the independence of the Auditor.

ITEM 2 - ELECTION OF DIRECTORS (RESOLUTIONS 1 and 2)

ASX Listing Rule 14.4 and Clause 7.3(f) of the Company's Constitution require that any Director appointed by the Board, either to fill a casual vacancy or as an addition to the Board, must not hold office (without re-election) past the next Annual General Meeting following his or her appointment. Mr Rowe

and Mr Phillips were appointed by the Board since the last Annual General Meeting on 30 November 2006.

Mr Rowe was appointed as a Non-Executive Director of the Board on 5 December 2006 and retires from office in accordance with this requirement and, being eligible, offers himself for re-election. Mr Rowe makes no recommendation in relation to Resolution 1.

Mr Rowe holds a BSc (Hons) in Mining Geology from the Royal School of Mines, Imperial College, London University and has had a distinguished career over a 36 year period in the mining industry. Until August 2006, John was General Manager Business Development with LionOre Australia responsible for assessing new business, divesting assets and negotiating nickel ore and concentrate sales contracts.

Prior to joining LionOre, John spent 12 years with MPI Mines in various group executive roles including Director/Executive General Manager Mineral Inventory and Group Executive – Acquisitions & Resource Management. John's role at MPI Mines included responsibility for all geological activities including exploration, mine geology and project evaluation. During the time John was at MPI Mines, he was involved in the evaluation, development and production of the high grade Silver Swan nickel sulphide project as well as the 100,000oz/annum Stawell Gold Mine in Victoria. MPI Mines was subsequently taken over by LionOre in December 2004.

John started his career with Metals Exploration as a mine geologist at the Nepean Nickel Mine in the early 1970's. For the next six years he was a senior geologist with Consolidated Goldfields before joining Agnew Mining as Chief Geologist of the Agnew Nickel Mine. He then moved back to Metals Exploration as Chief Geologist at North Kalgurli Mines before taking on various senior executive roles with Metals Exploration. He had a short stint with R&I Gold Bank in the technical division before setting up his own geological consultancy in the early 1990's. He joined MPI Mines in mid 1993. John is currently a Director of Westonia Gold Mines and Perseverance

Corporation Limited, and is the Principal of John Rowe and Associates, which provides geological and business development advice to the mining industry.

Mr Phillips was appointed as a Non-Executive Director of the Board on 27 March 2007 and retires from office in accordance with this requirement and, being eligible, offers himself for re-election. Mr Phillips makes no recommendation in relation to Resolution 2.

Mr Phillips is a mining engineer, graduating from the Western Australian School of Mines in Kalgoorlie in 1966 and is a Fellow of the AUSIMM and has had extensive mining industry experience in operational and management roles in precious and base metals over a 40 year period. Brian is currently a Director of Perseverance Corporation Limited, Chairman of Indophil Resources NL and Chairman of Tawana Resources NL. Until January 2007, he was Chairman of Leviathan Resources Limited prior to its takeover by Perseverance.

Brian started his career with Gold Fields Group in Tasmania, the United Kingdom and Western Australia. In 1981, he joined Metals Exploration Limited and for the next seven years was a director of Metals Exploration, North Kalgurli Mines Limited and Gold Mines of Kalgoorlie Limited. After a period running a privately owned mining services company, Brian became a director of MPI Mines Limited in 1992 and from October 2002 was its Managing Director until the takeover of MPI by LionOre in 2004. He is a former non-executive Director of the Australian Gold Council and past President of the Victorian Minerals and Energy Council.

With these retirements, Clause 7.3(a) of the Company's Constitution, which requires that one third of Directors must retire at each Annual General Meeting, is also satisfied.

ITEM 3 – REMUNERATION REPORT (RESOLUTION 3)

Pursuant to Section 250R(2) of the Corporations Act, a resolution adopting the Remuneration Report contained within the Directors' Report must be put to the vote.

The Remuneration Report details the Company's policy on the remuneration of non-executive Directors, executive Directors and senior executives and is set out on pages 27 to 35 of the 2007 Directors' Report (being a section of the 2007 Annual Report).

Shareholders are advised that, pursuant to Section 250R(3) of the Corporations Act, this resolution is advisory only and does not bind the Directors or the Company.

The Board unanimously recommends that Shareholders vote in favour of adopting the Remuneration Report.

ITEM 4 – REMUNERATION OF NON-EXECUTIVE DIRECTORS (RESOLUTION 4)

Non-Executive Directors' fees and payments are reviewed annually by the Board of Directors. On 12 October 2007, the Board agreed to seek shareholder approval to increase the aggregate remuneration of Non-Executive Directors of the Company from \$400,000 to \$600,000 per annum (effective 1 October 2007).

ASX Listing Rule 10.17 provides that an entity must not increase the total amount of Directors' fees payable by it or any of its controlled entities without the approval of holders of its ordinary securities. The rule does not apply to the salary of an Executive Director. This requirement is also reflected in Clause 7.5(a) of the Company's Constitution.

The maximum aggregate remuneration that may be paid to the Company's Non-Executive Directors and the Non-Executive Chairman for their services as Directors is currently set at \$400,000 per annum. Resolution 4 seeks Shareholder approval to increase the maximum aggregate remuneration by \$200,000 to \$600,000 per annum.

The Company is rapidly growing into one of the top nickel producers in Australia with two producing mines at Sally Malay and Lanfranchi (75%). Since the last annual general meeting, the market capitalisation of the Company has increased by A\$700 million to A\$1 billion and the Company is now included in the ASX/S&P 200 Index. Due to its increasing size, complexity and

level of activities, the time and effort that is required from our Directors is increasing.

During the 2007 financial year, the Company held 9 Board meetings, including meetings held at site at Sally Malay and Lanfranchi. It also held 6 meetings of sub-committees of the Board. Non-Executive Directors were members of both the Remuneration Committee and the Audit Committee.

The proposed maximum aggregate remuneration has been determined after consideration of the above factors and after reviewing the remuneration paid by similar companies listed on the ASX. The Board believes that the proposed increase in aggregate remuneration is appropriate for the Company and is in line with the remuneration paid by similar sized companies. This increase will also leave the Company with sufficient capacity to accommodate any increase in the number of Non-Executive Directors, when this is considered appropriate, and enabling the Company to be competitive in attracting and retaining directors of the necessary qualifications and experience. The Directors stress that it is not intended to distribute all of the maximum aggregate amount of \$600,000, if approved, in the current financial year. For the financial year ended 30 June 2007, the total amount paid to all Non-Executive Directors was \$366,210.

ITEM 5 – THE SALLY MALAY MINING LIMITED EMPLOYEE SHARE PLAN (RESOLUTION 5)

Background

The Company currently has in place an Employee Incentive Scheme called the "2004 Sally Malay Mining Limited Employee Share Option Plan" ("Current Plan"). Since August 2004, three separate tranches of unlisted employee options have been issued to employees under the Current Plan with the final unvested tranche ("Tranche 3") of three million unlisted options having been granted to senior executives of the Company in January 2007 at an exercise price of \$2.20 per option, with full vesting over the options available on 31 December 2008.

Excluding the senior executives of the Company, most

employees do not have unlisted options under the Current Plan. These employees are therefore not being incentivised through equity to be retained or rewarded for their ongoing service to the Company. The ability to retain and attract employees in the buoyant Western Australian mining industry is crucial if the Company is to implement its growth strategies going forward. To this end, the Directors are committed to identifying long-term equity incentives which may help to retain and incentivise all of the Company's employees.

It is the Board's view that the continuation of the Current Plan is no longer appropriate given that any future unlisted employee options that may be granted would be likely to have, in comparison to earlier tranches, a high exercise price which may be unattractive to employees. More importantly, the Current Plan is not consistent with market practice amongst companies of similar size to the Company. Companies in the ASX /S&P 200 Index are now putting in place equity incentive plans that have vesting which is dependent on pre-set performance hurdles being met. These plans are more aligned with shareholders' expectations of linking remuneration to long-term Company performance and generally offer less share capital dilution than the traditional unlisted employee option plans. Based on these views, the Board resolved on 12 October 2007, to establish a new long-term employee incentive scheme. Pursuant to the non mandatory Recommendation 9.4 of the Principles of Good Corporate Governance and Best Practice Recommendations of the ASX Corporate Governance Council, the Board is seeking shareholder approval to implement the new scheme.

The Sally Malay Mining Limited Employee Share Plan ("Plan")

The Plan provides a means of attracting and retaining key employees and rewarding existing employees for their ongoing service to the Company. All permanent full-time and part-time employees, as well as the Managing Director (subject to any necessary approvals) will be eligible to participate in the Plan. The grant of rights over shares ("Performance Rights") to Eligible Persons under the Plan is designed to provide meaningful incentives to those persons to pursue the optimal performance of

the Company and its subsidiaries, which benefits all shareholders and Performance Rights holders.

Under the proposed Plan, the Board may offer to Eligible Persons the opportunity to apply for such number of Performance Rights in the Company as the Board may decide based on an assessment of their contribution to the Company. Any offer will be on the terms set out in the Plan Rules. A summary of the Plan Rules is set out in Schedule 1 of this Explanatory Memorandum. As it is a new plan, the Company has not yet granted any Performance Rights under the Plan.

Requirements for approval

Shareholder approval of the Plan is sought for all purposes under the Corporations Act and the ASX Listing Rules. If approval is given, the following consequences will ensue:

1. Performance Rights granted under the Plan and Shares issued on the exercise of those Performance Rights will be excluded under ASX Listing Rule 7.2 exception 9 from the calculation of the maximum number of new securities that can be issued by the Company without Shareholder approval in any 12 month period under ASX Listing Rule 7.1 for a period of 3 years from the date of this approval.
2. Under the terms of the Plan, the Company may be regarded as providing financial assistance to Participants to acquire shares in the Company for the purposes of section 260A of the Corporations Act. Under Section 260C(4) of the Corporations Act, the Company may provide such financial assistance under an employee share scheme which has been approved by the Company in a General Meeting. The Company therefore seeks Shareholder approval of the Plan.

For the reasons outlined in this paragraph, the Board (other than the Managing Director) recommends that Shareholders vote in favour of Resolution 5. As it proposed that the Managing Director, Mr Peter Harold, will participate in the Plan, Mr Harold does not make a recommendation on this Resolution.

ITEM 6 – THE ISSUE OF PERFORMANCE RIGHTS OVER SHARES TO PETER JOHN HAROLD UNDER THE PLAN (RESOLUTION 6)

Background

The Board recognises that stability of leadership is imperative if the growth opportunities presented by the recent increase in resource and reserves at both the Sally Malay Project and the Lanfranchi Project are to be fully maximised. Hence the Board has reviewed the long term “at risk” incentive component of the Company’s Managing Director, Peter Harold remuneration to ensure the appropriate incentives are in place to retain Mr Harold’s services over the coming years.

Consistent with the Company’s reward strategy to align business and individual performance, the Board resolved on 12 October 2007, subject to shareholder approval, to grant 500,000 rights over Shares (“Performance Rights”) pursuant to the Plan, at zero cost, to Mr Harold as part of his overall remuneration package. Under the Plan, there is a vesting condition on these Performance Rights so that Shares in the Company will only be issued to Mr Harold after performance targets are met and only after the third anniversary of the date of issue of the Performance Rights, as detailed in Schedule 1 of the Explanatory Memorandum. The establishment of the Plan proposed in Resolution 5 and the issue of Performance Rights to Mr Harold will assist in achieving the Board’s objective of retaining Mr Harold for the foreseeable future, as well as provide the appropriate link to shareholder goals of company performance and increased shareholder value.

The Board, other than Mr Harold, unanimously recommends that the shareholders approve the granting of the Performance Rights to Mr Harold.

Issue of Performance Rights over Shares under the Plan

Under the ASX Listing Rules, the Company must obtain Shareholder approval in order to grant Performance Rights and issue Shares on exercise of those Performance Rights to Mr Harold or his nominee pursuant to the Plan.

It is proposed that Mr Harold will be granted 500,000 Performance Rights. The maximum number of Shares that would be issued to Mr Harold if all of these Performance Rights were exercised is 500,000 Shares. However, Mr Harold’s entitlement to exercise any or all of the Performance Rights will be subject to the Plan Rules and dependent (amongst other things) upon the performance of the Company relative to a group of selected peers over a 3 year period commencing at the time of issue (“Performance Period”), as detailed in Schedule 1 of this Explanatory Memorandum. The peer group comprises those companies within the S&P / ASX 300 Resources Index. The peer group is to be ranked in terms of total shareholder return (“TSR”), which is the percentage increase in the share price plus reinvested dividends over the Performance Period adjusted for bonus issues, subdivisions and consolidations of capital.

Forfeiture of entitlement to Personal Allotment

Mr Harold will forfeit any Performance Rights (including any Performance Rights which have yet to be granted) immediately if:

- his employment with the Company ceases and the Board has not decided there is a “Qualifying Reason”;
- he is dismissed for breach of his employment contract; or
- he commits any act of fraud or defalcation in relation to the affairs of the Company.

A ‘Qualifying Reason’ is death, disability, ill health or redundancy. Where the Managing Director ceases employment because of a Qualifying Reason, the Board will decide what percentage of vested Performance Rights will be converted to Shares (if any).

However, the Board will maintain an absolute discretion to convert Performance Rights to Shares under the Plan where it would be unfair not to convert the Performance Rights to Shares.

Additional information for ASX Listing Rule purposes

Additional information required by the ASX Listing Rules in relation to Resolution 6 is provided below:

- (a) the maximum number of Performance Rights to be granted to Mr Harold is 500,000;
- (b) Mr Harold will not be required to pay any amount on the grant or exercise of the Performance Rights;
- (c) no loan will be provided to Mr Harold for him to acquire Performance Rights under the Plan or to acquire Shares on exercise of the Performance Rights;
- (d) any Shares issued to Mr Harold under the Plan will be published in each annual report of the Company relating to the period in which the Plan have been issued, and the report will confirm that approval for the issue of those Shares was obtained under Listing Rule 10.14; and
- (e) the proposed grant of Performance Rights to Mr Harold will be made no later than 3 months after the date of the Annual General Meeting or such other date as approved by ASX.

Enquiries

Shareholders are invited to contact the Mr Trevor Eton, Company Secretary, on (08) 9225 0999 if they have any queries in respect to the matters set out in these documents.

GLOSSARY

“**ASX**” means ASX Limited;

“**ASX Listing Rules**” means the listing rules of ASX;

“**Bid Period**” in relation to a takeover bid in respect of Ordinary Shares in the Company, means the period referred to in the definition of that expression in section 9 of the Corporations Act provided that where a takeover bid is publicly announced prior to the service of a bidder’s statement on the Company in relation to that takeover bid, the Bid Period shall be deemed to have commenced at the time of that announcement.

“**Board**” means the board of Directors;

“**Change of Control Event**” means a shareholder, or a group of associated shareholders, becoming entitled to sufficient shares in the Company to give it or them the ability, and that ability is successfully exercised, in general meeting, to replace all or a majority of the Directors.

“**Constitution**” means the Company’s constitution;

“**Company**” or “Sally Malay” means Sally Malay Mining Limited ABN 47 095 792 288;

“**Corporations Act**” means Corporations Act 2001 (Cth);

“**Directors**” means Directors of the Company;

“**Directors’ Report**” means the Directors’ Report for the year ended 20 June 2007 as set out in the Company’s 2007 Annual Financial Report;

“**Eligible Person**” means full-time or part-time employees or Managing Director of the Company.

“**Expiry Date**” shall be 5 years from the issue date, or such other period, as determined by the Directors;

“**Explanatory Memorandum**” means this information attached to the Notice, which provides information to Shareholders about the resolutions contained in the Notice;

“**Holder**” means the registered holder of a Performance Right issued under the Plan and includes, if a holder dies or becomes subject to a legal disability, the legal personal representative of the holder.

“**Notice**” means the notice of meeting which accompanies this Explanatory Memorandum;

“**Participant**” means a person who participates in the Plan;

“**Peer Group**” means those companies within the ASX 300 Resource Index;

“**Performance Period**” means a 3 year period commencing at the time of issue;

“**Performance Right**” means the right to receive an Ordinary Share in the Company;

“**Permitted Nominee**” a nominee nominated by an Eligible Person to accept the offer of Performance Rights;

“**Plan**” means the Sally Malay Mining Limited Employee Share Plan proposed to be established, subject to approval under Resolution 5;

“**Plan Rules**” means the rules of the Plan a summary of which are outlined in Schedule 1 of this Explanatory Memorandum;

“**Related Body Corporate**” has the meaning given to that term in the Corporations Act;

“**S&P**” means Standard and Poor’s rating agency, a division of The McGraw-Hill Companies, Inc;

“**Share**” means a fully paid Ordinary Share issued in the capital of the Company;

“**Shareholder**” means a shareholder of the Company;

“**TSR**” means total shareholder return;

SCHEDULE 1

SUMMARY OF THE SALLY MALAY MINING LIMITED EMPLOYEE SHARE PLAN

Administration

The Directors will administer the Sally Malay Mining Limited Employee Share Plan (“Plan”) as a Board, or through a Committee of the Board. From time to time, employees and the Managing Director (subject to any necessary approvals) of the Company may be invited to apply for rights to Ordinary Shares (“Performance Rights”) in the Company, at the absolute discretion of the Directors.

Eligibility

Performance Rights may only be offered under the Plan to Eligible Persons or their Permitted Nominees.

Participation

Eligible Persons are invited by the Directors to apply for Performance Rights by completing and returning an Application Form to the Directors for the whole or any lesser number of Performance Rights offered. Upon receipt of the Application Form and, if applicable, the Directors resolving to allow the participation of a Permitted Nominee, then the Eligible Person or the Permitted Nominee will be taken to have agreed to be bound by the Rules of the Plan and will be granted Performance Rights and becomes a “Holder”.

Number of Performance Rights and Share Limit

The Directors may from time to time in their absolute discretion grant such number of Performance Rights as they determine, provided that the number of Shares to be received on exercise of those performance rights when aggregated with:

(a) the number of Shares which would be issued were each outstanding offer or Performance Right, being an offer made

or Performance Right acquired pursuant to the Plan or any other security granted under another Company employee incentive scheme extended only to employees or Directors of the Company, exercised; and

(b) the number of Shares issued during the previous 5 years pursuant to the Plan or any other employee share scheme extended only to employees or Directors of the Company;

but disregarding any offer made, Performance Rights acquired or share issued by way of or as a result of an offer under the Plan to a person situated outside Australia; or an offer under the Plan that did not need disclosure to investors because of section 708 of the Corporations Act; or an offer made under a disclosure document, must not exceed 5% of the total number of issued Shares as at the time of the offer under the Plan.

Performance Rights Terms

(a) Performance Rights are to be granted for no consideration and are not transferable except with prior approval of the Board.

(b) Holders will not be required to pay any consideration for Shares issued to them on exercise of their Performance Rights.

(c) Subject to paragraphs (g) and (h) below, the Performance Rights may only be exercised before the Expiry Date by notice in writing to the Company. The notice must be accompanied by the Performance Rights certificate.

(d) Not more than 14 days after the exercise of a Performance Right, the Company must allot and issue to the Holder the Shares the subject of the Performance Rights.

(e) All Shares issued on the exercise of the Performance Rights are subject to the constitution of the Company and rank equally in every way with the Company’s then issued Shares. The Company must apply to ASX for, and will use its best endeavours to obtain, quotation for the Shares to be issued to the Holder on exercise of the Performance Rights.

(f) Performance Rights may only be exercised so as to result in the holding of a marketable parcel (within the meaning of the ASX Listing Rules) unless the Directors agree.

(g) A Holder may only exercise Performance Rights (provided the performance hurdles detailed in (h) have been met) as set out in the following vesting table, or as otherwise determined by the Directors at the time of grant:

Time frame	Percentage of Performance Rights that may be converted
At date of grant	Nil
After 3 years of date of grant	100%

(h) A Holder will be entitled to exercise Performance Rights, subject to the vesting condition set out in (g), dependent upon the performance of the Company relative to a group of selected peers over a 3 year period commencing at the time of grant (“Performance Period”). The peer group comprises those companies within the S&P / ASX 300 Resources Index. The peer group is to be ranked in terms of total shareholder return (“TSR”), which is the percentage increase in the Share price plus reinvested dividends over the Performance Period adjusted for bonus issues, subdivisions and consolidations of capital.

Shares will be allotted to a Holder provided that the TSR ranking of the Company [at the end of the vesting period over the Performance Period] is at or above the 50th percentile of the peer group. At the 50th percentile, a Holder will be entitled to 50% of the Shares, increasing proportionately to 100% at the 75th percentile, summarised as follows:

TSR	% of Personal Allotment Issued to Holders
Up to 50th percentile	0%
At or above the 50th percentile but below the 75th percentile	50% to 99% (pro rata on a straight-line basis)
At or above the 75th percentile	100%

- (i) All Performance Rights shall lapse if:
- (i) they have not been converted by the Expiry Date;
 - (ii) the performance-based vesting conditions (hurdles) in (h) have not been achieved;
 - (iii) any Eligible Person ceases to be an Eligible Person for any reason prior to the date on which the Performance Rights become exercisable in accordance with (g) above (“the Vesting Date”) unless the Directors determine otherwise;
 - (iv) any Eligible Person ceases to be an Eligible Person for any reason after the Vesting Date and before the last date on which the Performance Rights are able to be exercised, in which case any Performance Rights shall lapse on the day which is 30 business days after the day on which the Holder ceases to be an Eligible Person;
 - (v) Notwithstanding [(i)(ii)(iii)], in the event of the death or serious injury or incapacity of a Holder (whether resulting from that persons employment with the Company or any of its related bodies corporate or otherwise) before the Expiry Date, the Holder or the legal personal representative of the Holder (as the case may be) shall, with the consent of the Directors, be permitted to exercise any unexercised Employee Options subject to (g) and (h).
- (j) Notwithstanding (i) and subject to the ultimate discretion of the Directors, all Performance Rights may be exercised during a Bid Period or at any time after a Change of Control Event has occurred or at any time after or a court orders that a meeting be held in accordance with section 411(1) of the Corporations Act concerning a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with another company.

Adjustments

The following adjustments may be made in respect of Performance Rights:

- (a) In the event of a pro-rata issue by the Company to the holders of Ordinary Shares during the currency of, and prior to the exercise of any Performance Rights, the quantum of each Performance Right will be adjusted in accordance with the ASX Listing Rules;
- (b) If the Company makes a pro-rata bonus issue to shareholders and a Performance Right is not exercised before the record date to determine entitlements to that bonus issue, the number of Shares to be issued on exercise of the Performance Right is the number of Shares before that bonus issue plus the number of Shares which would have been issued to the Participant if the Performance Right had been exercised before that record date;
- (c) In the event of any reorganisation (including reconstruction, consolidation, subdivision, return or cancellation) of the issued capital of the Company before the expiry of any Performance Right, the Performance Right shall be reorganised in accordance with the provisions set out in the ASX Listing Rules (regardless of whether the Company is a listed entity). In all other respects the terms and conditions of the conversion of the Performance Rights shall remain unchanged.

Amendments

Subject to the ASX Listing Rules and the limitations on the number of Performance Rights that may be granted, the Plan Rules may be amended from time to time by a resolution of the Directors provided however that the Plan Rules cannot be amended to increase any existing benefits or adversely affect any existing rights accruing to Holders except that if any amendment is to be made which would adversely affect the rights of Holders in respect of any Performance Rights then held by them, the Directors must obtain the consent of Holders who between them hold not less than 75% of the total number of those Performance Rights held by all those Participants before making the amendment.

Duration of the Plan

Subject to the ASX Listing Rules the Plan shall take effect immediately following its adoption by the Directors and may be terminated or suspended at any time by resolution of the Directors but any such termination shall not affect the rights of any of the then existing Holders.



SALLY MALAY MINING LIMITED