

SALLY MALAY MINING LIMITED

QUARTERLY REPORT FOR THE PERIOD ENDED 31 MARCH 2004



HIGHLIGHTS DURING QUARTER

- Company admitted to S&P/ASX 300 Indices List and Market Capitalisation exceeds \$100 million
- Open pit mining commenced
- Plant construction progressing with commissioning on schedule for August 2004
- 7,000t of nickel hedged at US\$10,880/t and matching currency at US\$0.6885
- US\$5 million loan from Jinchuan drawn down
- All conditions precedent for senior debt satisfied and first drawdown 1 April
- Drilling on Copernicus North scheduled to commence late April/early May
- Feasibility study on Copernicus orebody (241,000 tonnes at 1.5% Ni) commenced
- Closing cash balance of \$10.56 million

SALLY MALAY PROJECT

The March 2004 quarter has seen significant progress on the construction phase of the Sally Malay Project and the Project remains on schedule for commissioning in August 2004, despite the site receiving up to twice the average rainfall during the wet season.

PROJECT CONSTRUCTION UPDATE

Project Infrastructure

The contract for power supply and distribution has been awarded and generating equipment is being prepared for delivery to site in May. Work on the Tailings and Water storage facilities will commence in April.

Process Plant

Significant progress was made on construction of the Process Plant during the quarter. Structural steel and equipment installation commenced in January and all major equipment items including SAG mill, flotation cells, thickeners and associated items have been delivered to site.

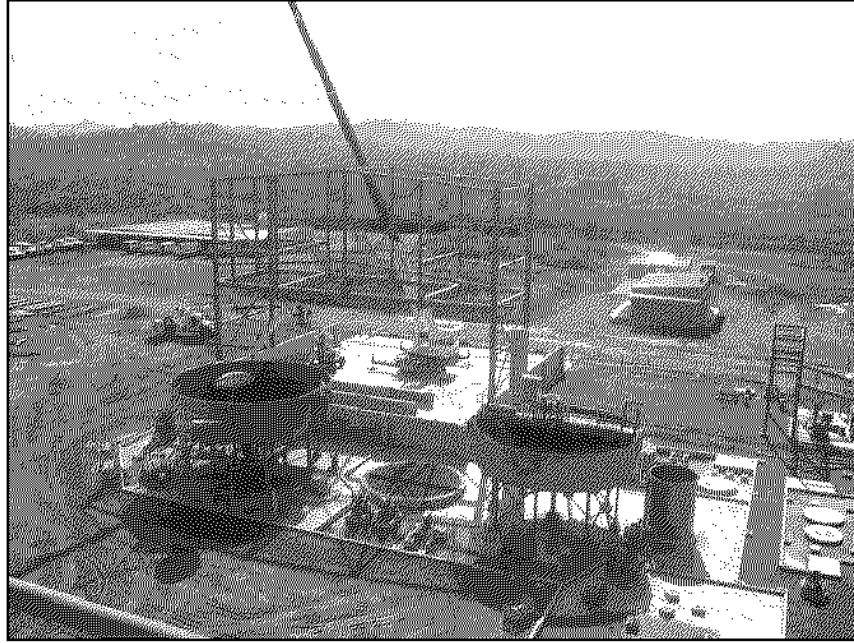


Figure 1: Process Plant takes shape (thickeners and filler shed in foreground)

Open Pit Mining

Open pit mining commenced during February. Roche Mining has two hydraulic excavators on site and six 90 tonne dump trucks. Mining activity is currently focused on waste stripping to provide access to ore for Plant commissioning in August.



Figure 2: Open Pit Mining Operations

Concentrate Logistics

Tenders for the haulage of concentrate from the Project site to Wyndham Port have been received and are under evaluation.

Upgrade of the Wyndham Port Storage facility, where the concentrate will be stored prior to shipment to Jinchuan in China, commenced during the quarter and will be ready to receive concentrate in August this year.

Ocean freight rate quotations for shipments to China have been received from various ship owners and negotiations for a long term contract of affreightment were progressed during the quarter. Under the terms of the offtake agreement, Jinchuan are required to pay all shipping costs ex. Wyndham.

Development Timetable

The development schedule for the Project remains on track as follows:

✘	Open pit mining commenced	February 2004
✘	Dam construction commences	April 2004
✘	Plant commissioning commences	August 2004
✘	Concentrate production commences	August 2004
✘	1st concentrate shipment to China	September 2004

FINANCING

Project Financing and Hedging

The US\$5 million subordinated loan from Jinchuan was fully drawn down during the quarter. The funds were received on 9 February and converted to A\$6.85 million at US\$0.7302. These funds were utilised for project construction costs prior to drawdown of the Senior Bank Facility.

Following satisfaction of all conditions precedent, the first draw down of the Senior Bank facility with Macquarie Bank and Standard Bank London occurred on 1 April 2004. Further drawdown of funds will occur as required. The Company has a total of A\$50 million in senior debt available, should it be required.

The Company embarked on an extensive nickel and currency hedging program during the March 2004 quarter and secured very attractive average nickel prices and exchange rates for the hedge. A detailed summary of tonnages hedged and A\$/US\$ exchange rates obtained are provided in the table below.

Table 1: Nickel & Matching FX Hedging

Calendar year	2004	2005	2006	2007	2008	2009	Total
Forecast Production Contained Ni	3,060	8,280	7,353	7,612	7,517	7,989	41,811
Ni hedged (t)	768	2,510	2,178	1,544	Nil	Nil	7,000
Hedge Price (US\$/t)	\$10,888	\$10,888	\$10,888	\$10,888			\$10,888
A\$US\$ FX rate (US\$)	\$0.6885	\$0.6896	\$0.6876	\$0.6878			\$0.6885
Ni unhedged (t)	2,292	5,770	5,175	6,068	7,517	7,989	34,811
% unhedged	75%	70%	70%	80%	100%	100%	83%

EXPLORATION

Copernicus Joint Venture (Sally Malay Exploration earning 60%)

Copernicus

A Feasibility Study on the Copernicus orebody (joint venture with Thundelarra Exploration) has commenced and is expected to be completed in June 2004. The study expects to confirm the viability of mining the current resource via an open pit and processing ore through the Sally Malay plant which is 35km to the north. The current resource at Copernicus is reported as 241,000 tonnes at 1.5% nickel, 0.8% copper and 0.059% cobalt using a 1% nickel cut-off.

Subject to a positive Feasibility Study, the plan would be to commence mining late 2005 with ore processed early 2006 as ore production at Sally Malay moves underground and there is spare capacity in the plant.

Copernicus North

The Company has previously reported a massive sulphide intersection at the Copernicus North EM anomaly grading 2.75% nickel, 1.36% copper and 0.083% cobalt over 3 metres. A 3,000 metre reverse circulation drilling program (12-15 holes) on the prospect is scheduled to commence towards the end of April. The drilling program and data from a planned down hole electromagnetic survey will delineate the broad extent of Copernicus North mineralisation and identify areas for follow up drilling.

Copernicus North is an exciting new nickel-copper sulphide discovery which has the potential to significantly increase the resources within the Copernicus Joint Venture tenement.

REGIONAL OPPORTUNITIES

No activity during the quarter.

CORPORATE

Milestones

During the March 2004 quarter, Standard & Poors announced that Sally Malay Mining Limited had been added to the S&P/ASX 300 Indices List effective 18 March 2004. Companies included in the S&P/ASX lists for the first time normally receive increased coverage from fund managers, some of whom are required to hold a certain weighting of each stock in an index. Furthermore, there may be more liquidity in, and demand for, a stock in an indices list. The Company is delighted to have been admitted to S&P/ASX 300 and achieve a market capitalisation in excess of A\$100 million.

Appointments

Project Personnel

Mr Richard Jordinson commenced his position as Operations Manager for the Project during February. Richard is a Mining Engineer who was previously employed as the General Manager of Western Metals' Lennard Shelf Operations. With his strong management credentials and extensive underground operating experience, Richard has been an important addition to the Project team and will lead an experienced site operating team.

Mr Tom Krt has been employed as Community Relations, Environment and Occupational Health & Safety Manager and Mr Steve Kelleher has accepted the position of Manager – Process. In addition, several other positions in the Project Team were filled during the quarter. The Company would like to take this opportunity to welcome all new Project personnel and look forward to a long and successful relationship with these new members of our team. Recruitment and mobilisation of Project personnel is ongoing.

Corporate Personnel

Mr Andrew Maslen was appointed as Business Development Manager (on contract) for the Company during the quarter. Andrew has significant experience in corporate development and will be investigating opportunities for the Company to grow through acquisitions, mergers and other appropriate means. We would like to welcome Andrew to the Sally Malay corporate team.

New Equity

A total of \$178,750 was raised from 725,000 unlisted options being exercised and converted to ordinary shares during the quarter. Exercise of the options included 500,000 options @ \$0.20, and 225,000 options @ \$0.35.

Options

The Company issued 1,000,000 options, exercisable at \$0.93 with an expiration date of 31 March 2008, to Standard Bank London as consideration for the reduction in the minimum nickel hedging requirements from 9,274 tonnes to 7,000 tonnes.

A further 400,000 options were issued at \$0.93 with an expiration date of 30 September 2007, to Mr Richard Jordinson as part of the Company's management incentive program.

Cash Balance

The Company's consolidated cash balance was \$10.56 million at the end of the quarter.

Research

The following companies are now covering the Company with detailed research:

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|--------------------------------|------------------------|
| ➤ CorporateFile.com.au | ➤ Paterson Ord Minnett |
| ➤ Euroz | ➤ Shaw Stockbroking |
| ➤ Macquarie Financial Services | ➤ Wilson HTM |

Research published about the Company is available on our website www.sallymalay.com.

Yours faithfully,
SALLY MALAY MINING LIMITED



PETER HAROLD
Managing Director

The geological information in this release is based on and accurately reflects information compiled by Mr John Hicks who has 25 years experience in base metal exploration. The metallurgical information in this release is based on information compiled by Mr Keith Liddell who is a Fellow of the Australasian Institute of Mining & Metallurgy.

For further information contact:

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