

SALLIES

REVIEWED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008



PROFITABILITY RE-ESTABLISHED AFTER SIX YEARS

- Turnaround progresses
- Higher sales volumes and prices
- Drilling programme begins
- Buffalo impairment

CONDENSED CONSOLIDATED INCOME STATEMENT

R'000	Six months ended 31 Dec 08 Reviewed	Six months ended 31 Dec 07 Audited	% change	Year ended 30 Jun 08 Audited
Revenue – mining	149 608	72 876	105	168 117
Cost of sales	(99 334)	(75 857)	(31)	(147 549)
Profit from mining activities	50 274	(2 981)	1 786	20 568
Less: Depreciation	(3 416)	(7 500)	54	(15 501)
Less: Amortisation of mining rights	(1 053)	(1 073)	2	(2 023)
Operating profit/(loss) from mining	45 805	(11 554)	496	3 044
Profit on disposal of plant, property and equipment	-	-		(323)
Legal fees	(2 435)	(1 593)	(53)	(3 861)
Other administrative expenses	(13 995)	(11 751)	(19)	(23 927)
Investment income	425	10	4 150	31
Finance costs	(4 661)	(2 476)	(88)	(11 368)
Net foreign exchange gains/(losses)	(3 782)	1 733	(318)	4 794
Profit/(loss) before notional interest, share based payments, the Buffalo impairment	21 357	(25 631)	183	(31 610)
Notional interest on convertible debentures ¹	(1 495)	-		(322)
Share based payments	(6 853)	-		(10 466)
Profit before Buffalo impairment	13 009	(25 631)	151	(42 398)
Impairment of assets of Buffalo Fluorspar Mine	(74 592)	-		-
Net loss before and after tax	(61 583)	(25 631)	(140)	(42 398)
Issued shares ('000)	642 220	631 181	2	634 981
Further shares to be issued if all the debentures were to be converted	144 244	-		151 483
Weighted average shares issued ('000)	639 255	630 502	1	631 272
Weighted average shares issued for diluted earnings per share ('000)	639 255	634 053	4	639 178

RECONCILIATION OF EARNINGS

Net loss attributable to ordinary shareholders

CONDENSED CONSOLIDATED BALANCE SHEET

R'000	31 Dec 08 Reviewed	31 Dec 07 Audited	30 Jun 08 Audited
ASSETS			
Non-current assets	101 445	149 940	161 804
Investment properties	3 167	-	3 167
Restricted investment	2 064	-	1 635
Property, plant and equipment ²	86 039	139 765	146 827
Goodwill	10 175	10 175	10 175
Current assets	97 495	54 265	92 561
Inventories	42 678	31 485	46 390
Accounts receivable	40 002	16 543	18 002
Taxation pre-paid	2 789	2 789	2 789
Cash and cash equivalents	12 026	3 448	25 380
Total assets	198 939	204 205	254 365
EQUITY AND LIABILITIES			
Capital and reserves	88 932	127 372	140 785
Share capital and premium	301 890	282 467	299 013
Other reserves	18 044	724	11 191
Accumulated loss	(231 002)	(155 819)	(169 419)
Non-current liabilities	83 553	23 824	87 880
Long-term loan	5 446	8 643	7 957
Provision for environmental rehabilitation	21 474	15 181	20 783
10% convertible debentures ³	56 633	-	59 140
Current liabilities	26 454	53 009	25 700
Accounts payable and provisions	21 665	24 940	21 105
Short-term loan	-	21 726	-
Current portion of long-term liabilities	4 789	6 343	4 595
Total equity and liabilities	198 939	204 205	254 365
Current asset/current liability ratio	3,7	1,0	3,6
Net asset value per share (cents)	12,3	20,2	22,2

² The reduction in the property, plant and equipment over the six months is due to the impairment of the fixed assets of Buffalo.

³ There are 144 244 008 unsubordinated unsecured convertible debentures with a nominal value of R0,50 each in issue with a total nominal value of R72 122 004. Each debenture is convertible into ordinary shares on a one-for-one basis at the election

Adjusted earnings per share (R00)	639 255	634 000	4	639 178
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RECONCILIATION OF EARNINGS

Net loss attributable to ordinary shareholders for basic earnings per share	(61 583)	(25 631)	(140)	(42 398)
Impairment of Buffalo fixed assets	68 072	-	-	-
Reversal of impairment of fixed assets	-	-	-	(2 205)
Profit on disposal of assets (net of tax)	-	-	-	323
Net profit attributable to ordinary shareholders for headline earnings per share	6 489	(25 631)	125	(44 280)

PROFIT/(LOSS) PER SHARE (cents)

Basic				
- undiluted (cents)	(9,6)	(4,1)	(135)	(6,7)
- diluted (cents)	(9,6)	(4,0)	(141)	(6,6)
Headline				
- undiluted (cents)	1,0	(4,1)	125	(7,0)
- diluted (cents)	1,0	(4,0)	125	(6,9)

¹ Notional additional interest on the convertible debentures accrued in accordance with IAS 39 in order to account for the difference between the deemed fair interest rate (18,5%) and the actual interest payable to debenture holders (10%).

CONDENSED SEGMENTAL REPORT

R'000	Witkop	Buffalo	Sallies	Group
Six months ended 31 December 2007				
Revenue	62 417	10 460		72 877
Operating profit/(loss) from mining	(3 336)	(8 218)		(11 554)
Net loss before and after tax	(10 191)	(11 172)	(4 267)	(25 631)
Total assets	85 246	75 950	43 008	204 205
Total liabilities	(40 859)	(12 815)	(23 159)	(76 833)
Six months ended 31 December 2008				
Revenue	136 845	12 763		149 608
Operating profit/(loss) from mining	43 853	1 952		45 805
Profit/(loss) before notional interest, share based payments and the Buffalo impairment	32 110	(1 637)	(9 116)	21 357
Profit/(loss) before Buffalo impairment	31 372	(1 829)	(16 534)	13 009
Impairment of assets of Buffalo Fluorspar Mine		(74 592)		(74 592)
Net loss before and after tax	32 425	(76 421)	(17 587)	(61 583)
Total assets	152 902	11 448	34 590	198 939
Total liabilities	(35 340)	(12 606)	(62 063)	(110 008)

COMMENTARY**ANALYSIS OF RESULTS**

At the mining operating level there was a R57,4 million turnaround between H1 F2008 (R11,6 million loss) and H1 F2009 (R45,8 million profit), and at the profit or loss before notional interest, share-based payments and the Buffalo impairment level the turnaround was R50,2 million from a loss of R28,8 million to a profit of R21,4 million.

MARKETING

Witkop sold 60 251 dmt during H1 F2009, up 15% on the 52 445 dmt of H1 F2008. Due to closure during October 2008, sales at Buffalo at 5 930 dmt for H1 F2009 were 41% lower than the 10 126 dmt of H1 F2008.

Sales during the period were characterised by timeous delivery of high specification material. This strengthens customer relationships.

Average international market prices for acid grade fluorspar for C2008 improved sharply to USD301/dmt FOB, with prices breaking the USD400/dmt prior to the October 2008 world financial crisis. Witkop has sold production forward into C2009 but the future outlook for prices and volumes is at present opaque.

OPERATIONS

I am delighted to record that no fatal accidents occurred during this review period.

Witkop produced 62 638 wmt during H1 F2009, up 10% on the 56 837 wmt of H1 F2008. Specific management focus on optimising feed grades, the "run time" of plant and machinery and the cost effectiveness of the plant is facilitating ongoing improvements to output.

MINERAL RESERVES AND RESOURCES

The mineral reserves and resources as tabled in the 2008 annual financial statements have not changed

² The reduction in the property, plant and equipment over the six months is due to the impairment of the fixed assets of Buffalo.

³ There are 144 244 008 unsubordinated unsecured convertible debentures with a nominal value of R0,50 each in issue with a total nominal value of R72 122 004. Each debenture is convertible into ordinary shares on a one-for-one basis at the election of the debenture holder. Debentures not converted are to be repaid on 31 December 2012. In view of the hybrid nature of the debentures a portion of the nominal value of the debentures outstanding is included under share capital and premium.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 Dec 08 Reviewed	Six months ended 31 Dec 07 Audited	Year ended 30 Jun 08 Audited
R'000			
Net cash inflows/(outflows) from operating activities	6 552	(24 483)	(38 561)
Net cash (outflows) from investing activities	(17 589)	(5 064)	(21 295)
Net cash inflows/(outflows) from financing activities	(2 317)	61 849	114 090
Net (decrease)/increase in cash and cash equivalents	(13 354)	32 302	54 234
Cash and cash equivalents at beginning of period	25 380	(28 854)	(28 854)
Cash and cash equivalents at end of period	12 026	3 448	25 380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium	Portion of convertible debentures deemed to be equity	Share based payment reserve	Accumulated loss	Total
R'000					
Balance at 30 June 2007	210 108		724	(130 188)	80 644
Movement in capital and reserves	72 359				72 359
Loss for the period				(25 631)	(25 631)
Balance at 31 December 2007	282 467		724	(155 819)	127 372
Restatement of investment properties				3 167	3 167
Movement in capital and reserves	(1 414)	17 960	10 467		27 013
Loss for the period				(16 767)	(16 767)
Balance at 30 June 2008	281 053	17 960	11 191	(169 419)	140 785
Conversion of debentures and share-based payments	2 877		6 853		9 730
Loss for the period				(61 583)	(61 583)
Balance at 31 December 2008	283 930	17 960	18 044	(231 002)	88 932

SOUTH AFRICAN REVENUE SERVICES

Witkop Fluorspar Mine (Pty) Limited is currently involved in disputes with the SARS regarding the 2000 to 2003 years of assessment. SARS has disallowed the deduction of certain inter company expenditure and rejected the timing of revenue recognised.

If Witkop is successful in the disputes, provisional payments amounting to R6,7 million (excluding interest) will be refunded to the group. If unsuccessful in all of the disputes, the total amount payable by Witkop will amount to approximately R0,7 million (excluding interest). Taxation pre-paid of R2 789 000 is currently carried in the consolidated balance sheet of Sallies.

SHARE OPTIONS

Since 30 June 2008, the board has cancelled the outstanding options of Mr IJ Marais, and has granted options over 19 400 000 ordinary shares to management and directors at strike prices between 58,06 and 64 cents per share. Options over 57 906 298 ordinary shares and 9 241 510 convertible debentures are now outstanding.

Shareholders will shortly be asked to formally approve the granting of options over 4 004 505 convertible debentures to each of Messrs Blerch and Dale accruing to them as a result of the rights offer of convertible debentures completed during May 2008, and the granting of options to directors.

For purposes of determining the share based payment charge to the income statement, the options granted were valued using the American Binomial Method using the volatility of the Mining Index. This method takes no cognisance of the conditions prevailing in the markets served by the group and other fundamentals of the group. Currently the prices of the Sallies Limited ordinary shares and convertible debentures are trading significantly below the strike prices of the options (between 58,06 and 64 cents per ordinary share and 50 cents

MINERAL RESERVES AND RESOURCES

The mineral reserves and resources as tabled in the 2008 annual financial statements have not changed materially.

Currently the mineral reserves and resources are based on a surface borehole grid at 25m and 50m spacings drilled prior to 2002. Early in C2009, a new reverse circulation exploration drill rig was delivered to Witkop. Drilling will start during March 2009 and the first phase of an intensive programme of in-fill drilling should be completed by the end of F2010.

EXPLORATION

Sallies hires a capable consultant fluorspar exploration geologist to investigate local and Southern African targets with the objective of securing resources which are more cost competitive.

OUTLOOK

Hydrofluoric acid (HF) cannot be produced without acid grade fluorspar. This acid is feedstock principally for the production of refrigerant gases (which drive fridges, freezers and air conditioners) and aluminium tri-fluoride (without which aluminium cannot be cost effectively produced). HF is also vital for other small, but rapidly growing niche markets.

Witkop has a large mineral resource of high quality (albeit low grade) fluorspar and a strong reputation amongst a broad, international client base, as a reliable business partner.

The future of Sallies is therefore closely aligned to that of the world economy.

The remaining hard rock resources at Buffalo are uneconomical at today's price/cost ratio, hence the Buffalo impairment. However, research into reducing the phosphorus content in the final product from the tailings dams continues.

Your company is in a better liquidity position than it has been for many years and management is determined to protect this hard won position. Given the state of world markets and a downturn in fluorspar demand, cash conservation strategies, including production cutback and mothballing, are being evaluated.

THE IMPAIRMENT OF BUFFALO ASSETS

Following the mothballing of Buffalo Fluorspar Mine during October 2008, its fixed assets and slimes dams were fully impaired and its stores were written down to net realisable value during H1 F2009. The total charge arising from this impairment is R74,6 million. In addition, losses of R31,8 million have been accounted for since 1 August 2006 when the assets constituting the Buffalo Fluorspar Mine were acquired.

Buffalo carries a provision for environmental rehabilitation of R12 million. The cost of keeping Buffalo mothballed will be of the order of R250 000 per month.

HONEYWELL

Honeywell has submitted an alternative claim of USD4,5 million plus interest and costs to the Zurich based arbitral tribunal (original claim USD6,9 million plus interest and costs). Sallies has opposed this claim and has submitted a counter claim of USD3,8 million plus interest and costs. Costs of approximately USD850 000 and USD1 170 000 have been submitted by Honeywell and Sallies respectively. The directors anticipate that the arbitral tribunal will hand down their ruling on the dispute between Honeywell, Sallies and Witkop to the International Chamber of Commerce during March 2009 and that the ICC will forward the final award to the parties during April. Sallies has accounted for its own expenses as incurred but has made no provision for a possible award to Honeywell.

TERMINATION OF THE SOLVADIS AGENCY AGREEMENT

Solvadis was appointed as the European agents for Witkop on 1 November 1999 and for Buffalo on 29 September 2006. The agency was terminated with effect from 31 December 2008 by giving the 12 months notice required in the agreement. In December 2008 Solvadis claimed some \$500 000 as compensation for the termination of the agreement in terms of the Swiss Code of Obligations. This claim is being contested by Sallies and no provision has been made for it in the accounts.

were valued using the American Binomial method using the volatility of the mining index. This method takes no cognisance of the conditions prevailing in the markets served by the group and other fundamentals of the group. Currently the prices of the Sallies Limited ordinary shares and convertible debentures are trading significantly below the strike prices of the options (between 58,06 and 64 cents per ordinary share and 50 cents per convertible debenture).

BASIS OF PREPARATION

The interim report is prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 Interim Financial Reporting, the Companies Act of South Africa and the JSE Listings Requirement. The interim results incorporate accounting policies that are consistent with those used in preparing the financial results for the year ended 30 June 2008.

MODIFIED REVIEW OPINION

The interim results have been reviewed by the company's auditors and their modified review report is available for inspection at the company's registered office. They have drawn attention to the disclosure made by the directors regarding the Honeywell arbitration.

BOARD OF DIRECTORS

Dr FJP (Fred) Roux was appointed non-executive chairman with effect from 1 July 2008. Messrs DGJ (Dennis) Kerrison and S (Sandile) Swana were appointed directors on 14 November 2008. Sandile was also appointed to chair the audit committee.

DIVIDENDS

No dividends were declared in the period under review.

By order of the board

Tom Dale

Chief Executive Officer

Zeerust
23 March 2009

Directors: Dr Fred Roux (*Chairman*), Tom Dale (*Chief Executive Officer*), Johann Blerch (*Commercial Director*), Barney Esterhuizen, Dennis Kerrison, Jürgen Kögl, Sandile Swana

Registered office: Witkop Fluorspar Mine, Farm Wintershoek, Zeerust, 2865 (Private Bag X1315, Zeerust, 2865)

Auditors: BDO Spencer Steward
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(PO Box 95436, Waterkloof, 0145)

Transfer secretaries: Computershare Investor Services (Proprietary) Limited
(Registration number 2004/003647/07)
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Sponsor: Bridge Capital Advisors (Proprietary) Limited
2nd Floor, 27 Fricker Road, Illovo Boulevard, Illovo, 2196

SALLIES LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1903/001879/06)
JSE share code: SAL ISIN: ZAE00022588
("Sallies" or "the company" or "the group")

