

# SALLIES

## SALLIES LIMITED

(Incorporated in the Republic of South Africa)  
 (Registration number 1903/001879/06)  
 JSE share code: SAL ISIN: ZAE000022588  
 ("Sallies" or "the Company" or "the Group")



## CONDENSED AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2011

### HIGHLIGHTS

- Loss per share reduced by 33% to 6,6 cents per share (F2010: 9,8 cents per share)
- Witkop back in production and 32 027 wet metric tons ("wmt") of acid grade fluorspar produced for the year
- 15 076 dry metric tons ("dmt") exported at average prices in excess of US\$357 per dmt

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 30 June 2011 Audited	Year ended 30 June 2010 Audited
<b>R'000</b>		
Revenue – mining	56 071	60 815
Net foreign exchange losses	(775)	(1 091)
Cost of sales	(52 222)	(59 929)
<b>Profit/(loss) from mining activities</b>	<b>3 074</b>	<b>(205)</b>
Less: Depreciation	(15 769)	(19 451)
<b>Operating loss from mining</b>	<b>(12 695)</b>	<b>(19 656)</b>
Loss on disposal of plant, property and equipment	-	(611)
Administrative expenses	(29 095)	(18 174)
Investment income	2 017	320
Finance costs on borrowings	(1 467)	(6 432)
Interest on convertible debentures	(7 216)	(7 224)
Restricted investments fair value adjustment	716	247
<b>Loss before Honeywell, share-based payments and Buffalo impairment</b>	<b>(47 740)</b>	<b>(51 530)</b>
Honeywell award interest provision	-	(464)
Notional interest on convertible debentures	(3 797)	(3 204)
Share based payments	-	(920)
<b>Loss before Buffalo impairment</b>	<b>(51 537)</b>	<b>(56 118)</b>
Buffalo impairment	-	(6 464)
<b>Net loss before taxation</b>	<b>(51 537)</b>	<b>(62 582)</b>
Taxation	5 269	-
<b>Net loss after taxation</b>	<b>(46 268)</b>	<b>(62 582)</b>
<b>Total comprehensive loss for the period</b>	<b>(46 268)</b>	<b>(62 582)</b>
Issued shares (000)	724 556	642 220
Weighted average shares issued (000)	704 479	642 220
Weighted average shares issued for diluted earnings per share (000)	704 479	642 220

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2011 Audited	30 June 2010 Audited
<b>R'000</b>		
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>96 019</b>	<b>102 561</b>
Investment properties	1 349	3 143
Restricted investment	4 095	2 779
Property, plant and equipment	80 400	86 464
Goodwill	10 175	10 175
<b>Current assets</b>	<b>75 511</b>	<b>72 609</b>
Inventories	51 428	31 576
Accounts receivable – trade	12 237	12 160
Accounts receivable – other	1 638	1 383
Taxation pre-paid	-	2 789
Cash and cash equivalents	10 208	24 701
<b>Total assets</b>	<b>171 530</b>	<b>175 170</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	<b>611</b>	<b>35 671</b>
Share capital and premium	295 873	284 787
Portion of convertible debentures deemed to be equity	17 102	17 102
Share based payment reserve	19 068	18 946
Accumulated loss	(331 432)	(285 164)
<b>Non-current liabilities</b>	<b>148 454</b>	<b>109 053</b>
Long-term loan	34 747	1 287
Provision for environmental rehabilitation	48 676	46 532
Portion of convertible debentures deemed to be debt	65 031	61 234
<b>Current liabilities</b>	<b>22 465</b>	<b>30 446</b>
Trade and other payables	21 178	27 806

issued shares (UUU)	724 556	642 220
Weighted average shares issued (000)	704 479	642 220
Weighted average shares issued for diluted earnings per share (000)	704 479	642 220

**RECONCILIATION OF EARNINGS**

Net loss attributable to ordinary share-holders for basic earnings per share	(46 268)	(62 582)
(Gain) on disposal of plant and equipment	43	611
Fair value of investment properties adjustment	1 627	-
Impact of the impairment of Buffalo fixed assets	-	6 464

<b>Net loss attributable to ordinary share-holders for headline earnings per share</b>	<b>(44 598)</b>	<b>(55 507)</b>
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**LOSS PER SHARE (cents)**

Loss per share (cents)	(6,6)	(9,8)
Diluted loss per share (cents)	(6,6)	(9,8)
Headline loss per share (cents)	(6,3)	(8,7)
Diluted headline loss per share (cents)	(6,3)	(8,7)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Portion of convertible debentures deemed to be equity	Share based payment reserve	Accumulated loss	Total
<b>R'000</b>						
<b>Balance at 30 June 2009</b>	642	284 145	17 102	19 981	(222 582)	99 288
<b>Total other comprehensive loss</b>	-	-	-	-	(62 582)	(62 582)
Transactions with owners:						
Share-based payments	-	-	-	(1 035)	-	(1 035)
<b>Total transactions with owners</b>	-	-	-	(1 035)	-	(1 035)
<b>Balance at 30 June 2010</b>	642	284 145	17 102	18 946	(285 164)	35 671
<b>Total other comprehensive loss</b>	-	-	-	-	(46 268)	(46 268)
Transactions with owners:						
Share-based payments	-	-	-	122	-	122
Shares issued	83	11 003	-	-	-	11 086
<b>Total transactions with owners</b>	83	11 003	-	122	-	11 208
<b>Balance at 30 June 2011</b>	725	295 148	17 102	19 068	(331 432)	611

**COMMENTARY FOR THE YEAR ENDED 30 JUNE 2011****INTRODUCTION**

As advised to shareholders previously the Company's two subsidiaries ceased operation in the prior financial years and were placed on care and maintenance. In March this year the Witkop Fluorspar mine recommenced operations and had produced and exported high quality acid grade Fluorspar by year end.

The Company announced on SENS on 28 December 2010 that its controlling shareholders had entered into a conditional transaction to dispose of their investment in the Company to Maghreb Minerals Plc subsequently renamed Fluormin Plc ("Fluormin") and that shareholders should exercise caution in dealing in their Sallies shares pending receipt of the mandatory offer by Fluormin to Sallies' minority ordinary shareholders and debenture holders.

**MARKETING**

During F2011, Sallies entered into a marketing agreement with FluorOne Trading Limited, B.V.I. ("FluorOne"), under which FluorOne exclusively represents Sallies for sales of Fluorspar outside South Africa. Orders have been received for all of calendar year 2011's production with sales into Europe, North America, India, Japan and China.

**OPERATIONS**

No fatal accidents occurred at either operation during the review period.

**Witkop**

Portion of convertible debentures deemed to be equity

<b>Current liabilities</b>	<b>22 465</b>	<b>30 446</b>
Trade and other payables	21 178	27 806
Current portion of long-term liabilities	1 287	2 640
<b>Total equity and liabilities</b>	<b>171 530</b>	<b>175 170</b>
Current asset/current liability ratio	3,4	2,5
Net asset value per share (cents)	0,1	5,7

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year ended 30 June 2011	Year ended 30 June 2010
<b>R'000</b>	<b>Audited</b>	<b>Audited</b>
<b>Net cash (outflows) from operating activities</b>	<b>(36 513)</b>	<b>(2 770)</b>
<b>Net cash (outflows)/inflows from investing activities</b>	<b>(10 088)</b>	<b>470</b>
<b>Net cash inflows/(outflows) from financing activities</b>	<b>32 108</b>	<b>(4 030)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(14 493)</b>	<b>(6 330)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>24 701</b>	<b>31 031</b>
<b>Cash and cash equivalents at end of year</b>	<b>10 208</b>	<b>24 701</b>

**ABBREVIATED SEGMENTAL ANALYSIS**

<b>R'000</b>	<b>Witkop NW Province</b>	<b>Buffalo Limpopo</b>	<b>Other</b>	<b>Group</b>
<b>Year ended 30 June 2010</b>				
External revenue	57 665	3 150	-	60 815
Inter segmental revenue	-	-	73 707	73 707
Segmental profit/(loss)	(105 419)	(10 575)	53 412	(62 582)
Total assets	169 147	3 326	2 697	175 170
Total liabilities	(33 668)	(20 025)	(85 806)	(139 499)
<b>Year ended 30 June 2011</b>				
External revenue	51 736	4 135	-	56 071
Inter segmental revenue	-	-	16 558	16 558
Segmental loss	(41 043)	(3 281)	(1 944)	(46 268)
Total assets	169 334	717	1 479	171 530
Total liabilities	(303 678)	(121 312)	254 076	(170 919)

**SIGNIFICANT POST YEAR-END EVENTS**

On Friday, 9 September 2011, Firebird Global Master Fund Limited and its affiliate, Firebird Global Master Fund Limited II (collectively: "Firebird"), which held about 67% of Sallies ordinary shares and about 58% of Sallies convertible debentures, announced that they had sold their holdings to Fluormin Plc.

As a result of Fluormin's holding of Sallies ordinary shares and Sallies convertible debentures surpassing 35% in each case, Fluormin is required, in terms of Section 123 of the Companies Act, No. 71 of 2008 (the "Act"), to extend a mandatory offer to the remaining Sallies Security Holders (the "Offer"). Fluormin has decided to implement the Offer in terms of Section 114 of the Act.

The Offer is to be effected, subject to certain conditions, by way of a scheme of arrangement under the provisions of Section 114 of the Act in respect of Sallies' ordinary shareholders (the "Share Scheme") and Sallies' convertible debenture holders whereby Sallies shareholders may receive 0,0277 Fluormin ordinary shares for every one Sallies share held, or a cash consideration of 14 cents per Sallies share. Sallies convertible debenture holders may receive 0,0646 Fluormin ordinary shares for every one Sallies debenture held, or a cash consideration of 50 cents per debenture.

Should the Share Scheme be successfully implemented, Sallies will become a wholly-owned subsidiary of Fluormin and the listing of its shares and convertible debentures on the JSE Limited will be terminated. Should the transaction

for all of calendar year 2011's production with sales into Europe, North America, India, Japan and China.

#### OPERATIONS

No fatal accidents occurred at either operation during the review period.

##### Witkop

During the year all the mining equipment and mining vehicles were maintained and placed in a state of readiness for when the mine would be recommissioned. The primary crusher was rebuilt and modified to handle greater volume and to increase throughput. Redundant piping and electrical cabling was stripped from the production plant and disposed of. The management of the slimes dams has been outsourced which contract includes their rehabilitation and the planting of grass to control the dust.

In March the mine was recommissioned and had produced 32 027 wmt of acid grade by year end. 11 089 wmt of acid grade were transported to Durban by rail and exported at average prices in excess of US\$387 per dmt.

##### Buffalo

The Buffalo processing facility remained on care and maintenance for the whole year. Test work continued during the year to reduce the phosphorous levels in the tailings dams together with the test work on extracting fluor spar from the fines in the aggregate dumps. However there are no plans to recommence operations in the near future.

#### FINANCE

At 30 June 2011 near cash was R10 million (F2010: R25 million). Mining Revenue reduced from R60,8 million in 2010 to R56,0 million in 2011. Operating loss from mining for F2011 is R12,7 million compared to R19,7 million in 2010. The loss before taxation is R51,5 million (F2010: R62,6 million).

The Swiss Arbitral Tribunal awarded Honeywell US\$1 243 824 plus interest at 5% per annum from 19 January 2006. This award was settled during the current year through the issue by the company of 82 335 700 ordinary shares at an issue price of 13,5 cents per share. This was a specific issue of shares for cash in terms of the general authority granted by Sallies' shareholders.

The dispute with the South African Revenue Service ("SARS") over Value Added Tax of R3,2 million was resolved and payment received. Witkop was involved in a dispute with SARS over the refund of R6,7 million in income tax. This matter was heard in the Tax Court and judgement was given in Witkop's favour and the refund plus accrued interest was received. The portion of the refund previously not accounted for as a receivable, due to the contingent nature thereof, is shown as a tax credit in the condensed consolidated statement of comprehensive income.

In order to finance the recommissioning of Witkop, the Company entered into a Working Capital Funding agreement with Fluormin (via its local subsidiary) for the Rand equivalent of US\$8 million of which the Rand equivalent of US\$5 million had been drawn down at year end and appears in the statement of financial position as the long-term loan. The facility is unsecured, denominated in Rand, pays interest at 10% per annum and is repayable by December 2012 or earlier at Sallies' discretion.

As at year end, Witkop had arranged a guarantee for its rehabilitation obligations in favour of the Department of Mineral Resources ("DMR") in an amount of R2,2 million. This guarantee expired on 31 July 2011 and is being replaced on a phased basis to an estimated amount of R25 million by 30 June 2012. A covering first bond will be registered over the Witkop properties as security. The monthly contribution to the restricted investment policies will be increased accordingly.

No dividends have been declared for the current financial year.

There have been no material changes in reserves.

#### HUMAN RESOURCES

The labour necessary to recommission the Witkop mine was recruited in terms of a recall agreement with the two trade unions recognised by the mine. Preference in this process was given to previously employed workers who were medically fit to perform the task for which they were being hired. At 30 June 2011 there were 208 persons employed at Witkop. The recalling of the workers has given Witkop an opportunity to build a healthy workforce where the racial and gender complexion begins to reflect the demographics of the country as required by law and Witkop's mining rights.

#### AGREEMENTS WITH AFRICAN RENAISSANCE HOLDINGS LIMITED ("ARH")

ARH is Sallies' BEE partner. It is majority owned and managed by historically disadvantaged South Africans as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002).

Sallies, Witkop and Buffalo entered into a collection of interrelated agreements in terms of which ARH will become a 26% beneficial shareholder in each of Witkop and Buffalo. ARH will subscribe for shares in Witkop at an aggregate consideration of R83 million. Sallies has subscribed for preference shares in Witkop which will pay a dividend equal to the after tax interest cost of its loan to Witkop. When the loan including accrued interest has been fully repaid and Witkop is generating profits, dividends will be declared on the ordinary shares. ARH have undertaken to distribute 31% of funds received by it to the communities from which Witkop draws its employees. ARH will acquire its 26% shareholding in Buffalo at par for cash, with no need for financial assistance. The preference share owned by Sallies will pay a dividend equal to the after tax interest cost of its loan to Buffalo and, similar to the Witkop agreements, ARH will receive dividends from the profits generated by Buffalo, 31% of which will be distributed to the communities from which the employees are drawn.

0,0646 Fluormin ordinary shares for every one Sallies debenture held, or a cash consideration of 50 cents per debenture.

Should the Share Scheme be successfully implemented, Sallies will become a wholly-owned subsidiary of Fluormin and the listing of its shares and convertible debentures on the JSE Limited will be terminated. Should the transaction in terms of Section 114 of the Act fail, Fluormin will still be liable to make an unconditional mandatory offer in terms of Section 123 of the Act.

On 23 June 2011, Sallies entered into a loan agreement with TSC Investments Limited ("TSC") whereby Sallies borrowed US\$2 800 000, which, under certain circumstances, one of which was the announcement of a mandatory offer by Fluormin to acquire the remaining shares in Sallies that it does not own, was convertible into ordinary shares in Sallies. The mandatory offer was announced on 9 September 2011 whereupon the loan was converted to 183 059 337 ordinary shares in Sallies at 11 cents per share in accordance with the terms of the agreement, which had been approved by shareholders on 6 September 2011.

On 6 September 2011 Sallies shareholders approved, by special resolution, the authority of the directors to authorise the company to provide direct or indirect financial assistance to related or inter-related companies as required in terms of Section 45 of the Companies Act.

#### BASIS OF PREPARATION

These audited results are a summary of the consolidated financial statements and are prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of IAS 34 – Interim Financial Reporting, the AC 500 Standards as issued by the Accounting Practices Board or its successor, the Listings Requirements of the JSE Limited and the requirements of the South African Companies Act on a basis consistent with the prior financial year, being 30 June 2010.

#### GOING CONCERN

The processing facility at Buffalo was placed on care and maintenance in October 2008 and remains as such. Witkop suspended operations in June 2009 but following recommissioning in March 2011 has produced 32 027 wmt of acid grade fluor spar of which 11 089 wmt have been exported. Witkop's forward order book is robust with all production sold until the third quarter of F2012.

10% interest on the 144 million unsecured unsubordinated convertible debentures of R0,50 each in issue becomes payable at the end of June and December at R3,6 million per payment and, if not converted earlier, the debentures are repayable in an amount of approximately R72 million on 31 December 2012. The cash flow to 30 June 2012 indicates that the Company will have funds to pay these interest costs.

The Directors are of the opinion that the Sallies group is a going concern for the foreseeable future as it has adequate resources to meet all its commitments until at least 30 June 2012. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

#### PROSPECTS

Cash generated from profitable trading during the remainder of F2012 will be applied to repaying the long-term loan. It is considered that Fluormin's mandatory offer is likely to succeed in which case the delisting of Sallies could occur before 30 June 2012.

#### AUDIT OPINION

The financial results have been audited by the Group's external auditors, BDO South Africa Incorporated. A copy of their unqualified audit report is available for inspection at the Company's registered office.

By order of the board

#### N Davidoff

*Non-executive Chairman*  
30 September 2011

#### Directors

N Davidoff (Chairman), PR Cooke (Financial director and acting CEO), J Kögl, SP Morris, S Swana, AN Kamau.

The above directors held office throughout the financial year and are in office at the date of this report.

RB Phiri was appointed a non-executive director as of 20 September 2011 and is in office at the date of this report.

#### Registered office:

Block C, Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, Pretoria

#### Auditors:

BDO South Africa Incorporated  
Block C, Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, Pretoria 0081  
(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