

# 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")



## REVIEWED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2010

### CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

R'000	%	Year ended	Year ended
		30 June 2010	30 June 2009
	Change	Reviewed	Audited
Revenue – mining	(76)	60 815	251 928
Net foreign exchange losses	88	(1 091)	(9 259)
Cost of sales	58	(59 929)	(144 406)
<b>(Loss)/Profit from mining activities</b>	<b>(100)</b>	<b>(205)</b>	<b>98 263</b>
Less: Depreciation	(15)	(19 451)	(16 862)
Amortisation of mineral rights	100	-	(1 850)
<b>Operating (loss)/profit from mining</b>	<b>(125)</b>	<b>(19 656)</b>	<b>79 551</b>
(Loss)/Profit on disposal of plant, property and equipment	(338)	(611)	257
Administrative expenses	35	(17 927)	(27 650)
Investment income	(71)	320	1 087
Finance costs on borrowings	(289)	(6 432)	(1 654)
Interest on convertible debentures	-	(7 224)	(7 207)
<b>(Loss)/Profit before Honeywell, share-based payments and Buffalo impairment</b>	<b>(216)</b>	<b>(51 530)</b>	<b>44 384</b>
Honeywell settlement award provision	100	-	(9 626)
Honeywell award interest provision	72	(464)	(1 658)
Notional interest on convertible debentures	(11)	(3 204)	(2 892)
Share based payments	90	(920)	(8 779)
<b>(Loss)/Profit before Buffalo impairment</b>	<b>(362)</b>	<b>(56 118)</b>	<b>21 429</b>
Buffalo impairment	91	(6 464)	(74 592)
<b>Net loss before and after taxation</b>	<b>(18)</b>	<b>(62 582)</b>	<b>(53 163)</b>
<b>Total comprehensive loss for the period</b>	<b>(18)</b>	<b>(62 582)</b>	<b>(53 163)</b>
Issued shares (000)		642 220	642 220
Weighted average shares issued (000)		642 220	640 725
Weighted average shares issued for diluted earnings per share (000)		642 220	640 725
<b>RECONCILIATION OF EARNINGS</b>			
Net loss attributable to ordinary shareholders for basic earnings per share	(18)	(62 582)	(53 163)
Loss/(Gain) on disposal of plant and equipment	(338)	611	(257)
Impact of the impairment of Buffalo fixed assets	91	6 464	68 072
<b>Net (loss) profit attributable to ordinary shareholders for headline earnings per share</b>	<b>(479)</b>	<b>(55 507)</b>	<b>14 652</b>
<b>LOSS PER SHARE (cents)</b>			
Loss per share (cents)	(18)	(9,8)	(8,3)
Diluted loss per share (cents)	(18)	(9,8)	(8,3)
Headline (loss)/profit per share (cents)	(378)	(8,7)	2,3
Diluted headline (loss)/profit per share (cents)	(378)	(8,7)	2,3

### CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Portion of convertible debentures deemed to be equity		Share based payment reserve	Accumulated loss	Total
			to be equity	to be equity			
<b>Balance at 30 June 2008</b>	635	280 418	17 960	11 191	(169 419)	140 785	
Debentures converted to shares	7	3 727	(858)	-	-	2 876	
Share based payments	-	-	-	8 790	-	8 790	
Comprehensive loss for period	-	-	-	-	(53 163)	(53 163)	
<b>Balance at 30 June 2009</b>	<b>642</b>	<b>284 145</b>	<b>17 102</b>	<b>19 981</b>	<b>(222 582)</b>	<b>99 288</b>	
Share based payments	-	-	-	(1 035)	-	(1 035)	
Comprehensive loss for period	-	-	-	-	(62 582)	(62 582)	
<b>Balance at 30 June 2010</b>	<b>642</b>	<b>284 145</b>	<b>17 102</b>	<b>18 946</b>	<b>(285 164)</b>	<b>35 671</b>	

## COMMENTARY FOR THE YEAR ENDED 30 JUNE 2010

### SYNOPSIS

During the decade since the acquisition of Witkop Fluorspar Mine ("Witkop") by Sallies in 1999, the company has had a volatile business history as a fluorspar producer and the current reporting period must rank with the most turbulent eras of its history. Sadly, concerted management efforts to build a sound business and deliver value to shareholders have been thwarted by the 2008 global financial crisis. As a result, shareholders will again have to look to the future for returns from their investment.

In tandem with the general market collapse, demand for acid grade fluorspar evaporated as inventories were run down and consequently, in order to conserve cash for as long as possible, operations at Witkop were suspended on Friday, 26 June 2009. Operations at the Buffalo Fluorspar Mine ("Buffalo"), Sallies' other principle asset, were suspended in October 2008. In the event that Witkop were to be re-opened an injection of substantial working capital would be required.

### FIREBIRD ACQUIRES CONTROL OF SALLIES

On Tuesday, 4 August 2009, Firebird Global Master Fund, Limited and its affiliate, Firebird Global Master Fund, Limited II, New York-based specialist hedge funds, (collectively "Firebird"), which had been a minority holder of Sallies ordinary shares since 2007, announced that they had bought their holding up to 63% at a price of 18 cps and intended acquiring the shares they did not yet hold via an offer to minorities at 18 cps. This offer was made on Tuesday, 2 September 2009 and was extended to the holders of convertible debentures ("CDs"), again at 18 cents per CD. The directors commissioned an independent assessment of this offer and your Board recommended that the holders of ordinary shares should accept the offer, whereas the CD holders should not.

Subsequent to the share acquisitions mentioned above, Firebird voted against certain resolutions that were placed before shareholders at a Special General Meeting convened on Friday, 14 August 2009. The resolutions, relating to the revised Articles of Association, authority for the company to purchase its own shares and convertible debentures and the modification of the share options of Messrs Dale and Biersch, were not approved.

### NEGOTIATIONS WITH AFRICAN RENAISSANCE INVESTMENTS (PROPRIETARY) LIMITED ("ARI")

ARI is Sallies' BEE partner. It is a wholly owned subsidiary of African Renaissance Holdings Limited, a company which is owned and managed by historically disadvantaged South Africans as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002).

During Q3 of F2006 Sallies entered into an agreement with ARI in terms of which Sallies sold to ARI a 30% undivided right to "the entire business undertaking in respect of the area over which Witkop holds old order mining rights..." This sale was subject to the fulfillment or waiver of certain conditions precedent. Some shortcomings had been identified in the structure of the transaction and the transaction has been restructured as announced to shareholders subsequent to year end on SENS.

See Significant Post Year-End Events below.

### MARKETING

Witkop completed the delivery of the last remaining export orders received prior to the mothballing of the operation during the year. No new export orders were received for either Buffalo or Witkop acid grade fluorspar.

Witkop sold 6 617 dry metric tonnes ("dmt") (2009: 6 995 dmt) into the domestic market during the year. No domestic sales were achieved by Buffalo. Post year end Witkop received an order for 5 500 wet metric tonnes ("wmt") which is expected to be delivered in October 2010. It will be necessary to commence production at Witkop for a short while to manufacture acid grade to supplement the stock on hand to complete this order.

The markets for acid grade fluorspar remain challenging with the spot price currently in a range of between US\$280 and US\$300 per wmt. The decision to commence production at the company's mines is dependent *inter alia* upon the US\$ price of acid grade, the Rand to US\$ exchange rate and the receipt of orders of sufficient volume and regularity. As of the date of this report these conditions are not met and the operations will remain on care and maintenance for the foreseeable future.

### OPERATIONS

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

### Witkop

Consultation on retrenchments commenced on Monday, 29 June 2009. These matters were completed during the first quarter of F2010 and Witkop remains on care and maintenance.

Notarisation of new order mining rights for both Wintershoek (existing operations) and Buffelshoek (possible future operations) took place in June 2008. Registration of the rights for Buffelshoek was effected during F2009 and the registration of the rights for Wintershoek took place during F2010.

### Buffalo

The Buffalo operations have been mothballed since October 2008. Empirical test work to reduce phosphorous levels in the fluorspar produced from tailings dams 5 and 6 is showing encouraging results. Should these tests show that the phosphorous content can be reduced to levels comparable to Witkop, Buffalo could re-open in order to treat material from these tailings dams.

Test work on extracting fluorspar from the fines in the aggregate dumps produced from the heavy medium separation circuits originally in use at the property, is in progress. If the results from this work are positive and negotiations with the owners, Roalberg Stone, to secure this feed succeed, Buffalo could process this material in preference to that from tailings.

### FINANCE

At 30 June 2010, net near cash was R25 million (F2009: R31 million). Operating loss from mining for F2010 was less than R1 million (F2009: profit R98 million). The loss before providing for the award to Honeywell International Inc ("Honeywell"), interest thereon, IFRS adjustments and the impairment of Buffalo assets was R52 million (F2009: profit R44 million), and the loss after taxation was R63 million (F2009: R53 million). During the year under review the group reassessed its environmental liability due to changes in the requirements from the Department of Mineral Resources (DMR). The reassessment was performed by Digby Wells & Associates, environmental solutions provider. The assessment of both the Buffalo and Witkop liability on closure of the mine was based on the Minerals and Petroleum Resources Development Act, Act 28 of 2002 as well as relevant Regulations and guidelines.

The Swiss Arbitral Tribunal dealing with the Honeywell arbitration awarded Honeywell US\$1 243 824 (18% of their original claim) plus interest thereon at 5% per annum from 19 January 2006 to repayment, comprising a total of US\$1 922 000 if paid by 30 June 2010. On 19 May 2009 Sallies lodged an application for a review of this award which application was unsuccessful. The Honeywell award and interest thereon is fully provided for in the financial statements. Subsequent to year end Sallies and Honeywell have agreed to settle this award and interest through the issue of Sallies shares at 13.5 cents per share. See Significant Post Year-End Events below.

Sallies has had a longstanding dispute with South African Revenue Service ("SARS") over VAT refunds of R3,2 million. Subsequent to year end this matter was resolved and Sallies has received the majority of the VAT refunds due to it. Witkop is involved in various disputes with SARS over the refund of R6,7 million in income tax. Should Witkop be unsuccessful in all its disputes with SARS, SARS would have a claim against Witkop for R0,7 million before interest. This in turn would result in a charge to Witkop's income statement of R3,5 million before interest as Witkop carries R2,8 million pre-paid income tax on its balance sheet. This matter has been set down to be heard by the Tax Court in November 2010. No dividend is proposed or declared for F2010 (F2009: nil).

### HUMAN RESOURCES

A small core team of technical and managerial specialists has been retained on site with the objectives of managing the responsibilities of a "mothballed mine" and retaining the core skills required for planning for the future and rapidly rebuilding the organisation, if and when this becomes appropriate.

### OPERATIONS OUTLOOK

Witkop operates on a low grade highly variable deposit and as a result is a medium/high cost producer which is highly geared to the Rand fluorspar price. During the year the operational mining equipment and plant has been maintained and serviced and the operation can commence production within a relatively short period should the market environment improve.

If the tests at Buffalo succeed in reducing the high phosphorous content in the fluorspar from tailings dams 5 and 6, or if fluorspar can be profitably extracted from the aggregate dump fines, initial calculations suggest that Buffalo could re-enter the market as a low/medium cost producer.

The market for acid grade fluorspar remains challenging. Although the price has improved during the year there is still no firm commitment to place orders of large enough volume to warrant recommissioning either plant.

In conclusion we thank all stakeholders in Sallies – shareholders, regulatory bodies, suppliers, our few directors and most importantly, managements, employees and their representatives at the operations – for their unstinting and selfless support during the year.

### SIGNIFICANT POST YEAR-END EVENTS

Sallies, Witkop and Buffalo have entered into a collection of interrelated agreements in terms of which ARI will become a 26% beneficial shareholder in each of Witkop and Buffalo subject to *inter alia* shareholder approval. ARI will subscribe for shares in Witkop at an aggregate price of R83 million which funds Witkop will advance to ARI. This funding will be repaid from future dividends which will only be declared once all funds advanced by Sallies to Witkop have been repaid. ARI have undertaken that 31% of any funds received by it from Witkop will be distributed to the community from which Witkop draws its employees.

ARI will acquire from Sallies 26% of its shares in Buffalo at par for cash. Similarly, ARI have undertaken that 31% of any funds received by it from Buffalo will be distributed to the community from which Buffalo draws its employees.

Sallies will subscribe for preference shares in both Witkop and Buffalo which preference shares shall pay a dividend based on the after tax interest costs on the funds lent to Witkop and Buffalo respectively by Sallies.

As reported previously, the Swiss Arbitral Tribunal awarded Honeywell US\$1 243 824 plus interest at 5% per annum. Honeywell and Sallies have entered into an agreement to settle the award and interest by the issue of Sallies shares. The shares will be issued at a price of 13,5 cents per share and the liability converted into Rands at an exchange rate of R7,2881 to the US\$ which equates to the issue of 82 335 700 ordinary shares. This issue is a specific issue of shares for cash and is permissible in terms of the general authority granted by Sallies shareholders.

### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	30 June 2010 Reviewed	30 June 2009 Audited
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>102 561</b>	<b>104 292</b>
Investment properties	3 143	3 167
Restricted investment	2 779	1 932
Property, plant and equipment	86 464	89 018
Goodwill	10 175	10 175
<b>Current assets</b>	<b>72 609</b>	<b>114 546</b>
Inventories	31 576	64 022
Trade and other receivables	13 543	12 974
Taxation pre-paid	2 789	2 789
Cash and cash equivalents	24 701	34 761
<b>Total assets</b>	<b>175 170</b>	<b>218 838</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	<b>35 671</b>	<b>99 288</b>
Share capital and premium	284 787	284 787
Portion of convertible debentures deemed to be equity	17 102	17 102
Share based payment reserve	18 946	19 981
Accumulated loss	(285 164)	(222 582)
<b>Non-current liabilities</b>	<b>109 053</b>	<b>81 148</b>
Long-term loan	1 287	3 926
Provision for environmental rehabilitation	46 532	19 192
Portion of convertible debentures deemed to be equity	61 234	58 030
<b>Current liabilities</b>	<b>30 446</b>	<b>38 402</b>
Trade and other payables	27 806	30 642
Bank overdraft	-	3 730
Current portion of long-term liabilities	2 640	4 030
<b>Total equity and liabilities</b>	<b>175 170</b>	<b>218 838</b>
Current asset/current liability ratio	2,5	3,0
Net asset value per share (cents)	5,7	15,5

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

R'000	Year ended 31 June 2010 Reviewed	Year ended 31 June 2009 Audited
Net cash (outflows)/inflows from operating activities	(2 770)	39 802
Net cash inflows/(outflows) from investing activities	470	(29 556)
Net cash (outflows) from financing activities	(4 030)	(4 595)
Net (decrease)/increase in cash and cash equivalents	(6 330)	5 651
Cash and cash equivalents at beginning of period	31 031	25 380
<b>Cash and cash equivalents at end of period</b>	<b>24 701</b>	<b>31 031</b>

### ABBREVIATED SEGMENTAL ANALYSIS

R'000	Witkop NW Province	Buffalo Limpopo	Other	Consolidated
<b>Year ended 30 June 2009</b>				
External revenue	235 036	16 892	-	251 928
Segmental profit/(loss)	61 580	(77 688)	(37 055)	(53 163)
Total assets	204 556	6 345	7 937	218 838
Total liabilities	(33 439)	(11 563)	(74 548)	(119 550)
<b>Year ended 30 June 2010</b>				
External revenue	57 665	3 150	-	60 815
Inter segmental revenue	-	-	73 707	73 707
Segmental (loss)/profit	(105 419)	(10 575)	53 412	(62 582)
Total assets	169 147	3 326	2 697	175 170
Total liabilities	(33 668)	(20 025)	(65 806)	(139 499)

### BASIS OF PREPARATION

The reviewed financial information of the group for the year ended 30 June 2010 has been presented in accordance with, and containing the information required by IAS34: Interim Financial Reporting. The results have been prepared in accordance with accounting policies of the group that comply with International Financial Reporting Standards and the Listings Requirements of the JSE Limited and have been consistently applied throughout the group, to all periods presented (with the exception of the adoption of the revised IAS 1 – Presentation of Financial Statements).

### GOING CONCERN

The dump retreatment operation at Buffalo was placed on care-and-maintenance on 10 October 2008. Witkop ceased mining and processing on 26 June 2009.

At present the operations at Buffalo and Witkop only employ key staff required to:

- deliver the remaining export orders;
- process in-stock fluorspar for the local market;
- keep the mothballed operations in a condition to ensure that a restart of operations can be done efficiently if and when needed;
- rebuild the organisation if and when the international market for acid grade fluorspar recovers.

Witkop will recommence production once it is able to attract sufficient orders at economic prices. Buffalo is evaluating alternative sources of feedstock and new production processes which could improve the quality of its end product and reduce the cost thereof to levels that could enable it to operate profitably, even at the depressed prevailing price levels for acid grade fluorspar in the international markets.

The monthly costs of keeping the operations mothballed are consuming the group's working capital. The group will need to replenish its working capital if and when it recommences production. Such recommencement could create as many as 300 new jobs and it is reasonable to expect that the working capital could be borrowed, provided that the feasibility study, which will shortly be prepared by the remaining staff, confirms its viability.

As disclosed under the Significant Post Year-End Events note above, Sallies has agreed to issue shares to Honeywell in settlement of the award and the interest liability and has concluded an agreement to dispose of the properties in Springs for an estimated R3,5 million.

The 10% interest on the 144 million unsecured unsubordinated convertible debentures of R0,50 each in issue is payable at the end of June and December at R3,6 million per payment and, if not converted earlier, the convertible debentures are repayable in an amount of R72 million on 31 December 2012. Unless the group can fund these payments from profits earned from recommenced operations, fresh equity will have to be raised to meet these obligations.

Against this background, the directors are of the opinion that the Sallies group is a going concern for the foreseeable future as it has adequate cash resources to meet all its commitments until at least the end of F2011.

### MINERAL RESOURCES AND MINERAL RESERVES

#### Witkop Fluorspar Mine

The mineral resources for the Witkop Fluorspar Mine have been estimated by Peter Siegfried, Principal Geological Consultant with GeoAfrica Prospecting Services cc. Peter is a geologist registered with the Australian Institute of Mining and Metallurgy (registration number 221116). Written representation was obtained from him that the summary below has been defined according to the guidelines of the SAMREC Code and may be published.

The mineral reserve was undertaken by Coffey Mining. The Competent Person is Dr Steven Rupprecht (Pr.Eng.).

	30 June 2010		30 June 2009	
	Tonnage (mt)	CaF <sub>2</sub> (%)	Tonnage (mt)	CaF <sub>2</sub> (%)
Summary of Mineral Resources				
Measured resources	19,97	11,60	16,90	15,50
Indicated resources	33,11	13,80	29,00	14,10
Inferred resources	2,27	31,50	22,40	13,00
	55,35	13,73	68,30	14,10

	30 June 2010		30 June 2009	
	Tonnage (mt)	CaF <sub>2</sub> (%)	Tonnage (mt)	CaF <sub>2</sub> (%)
Summary of Mineral Reserves				
Probable reserves	16,10	10,30	1,05	29,3
Proved reserves	-	-	19,80	11,9
	16,10	10,30	20,85	12,78

Mineral Resources are reported inclusive of mineral reserves.

Note: Mineral resources are estimates for which uncertainties are conveyed through rounding of the figures presented in the table.

The majority of the decrease in Inferred resource was due to the previous interpretation in which assumptions were made regarding the presence of fluorite which does not exist. The Indicated and Measured resources have both increased using a tighter borehole spacing and hence better confidence in the original data.

The revision of the mineral reserve is part of a process that included a revised mineral resource estimate completed in January 2010 and a new mine plan in May 2010. In addition the current economic situation and the suspension of operations at Witkop have been considered in classifying the mineral reserve as probable.

Material factor that could impact this statement is *inter alia*, that Witkop, in the period March to September 2009, implemented a reverse circulation drill programme with the state of the art sampling equipment to drill in between the original 25m x 50m grid in the current mining area.

As the results of this programme are analysed the conclusions will be incorporated in the Witkop geological model. Further in-fill drilling will be done when the mine re-opens.