

Chairman's statement

SYNOPSIS

Since the acquisition of Witkop by Sallies in 1999, the company has had a volatile business history as a fluorspar producer and the current reporting period has been no different. Concerted efforts by management to build a sound business and deliver value to shareholders were thwarted by the 2008 global financial crisis. As a consequence, operations were suspended at Witkop and at Buffalo in the financial year to 30 June 2009.

The fluorspar market for acid grade material recovered during the second half of the current financial year and in March 2011 Witkop was recommissioned. Buffalo remains on care and maintenance and there is no plan to recommission the plant in the foreseeable future.

In this year's annual report, in line with best practice pursuant to the recommendations of King III, the group reports its sustainability progress using the Global Reporting Initiative's (GRI) G3 Guidelines. The information disclosed is in terms of the GRI Content Index in order to qualify for a GRI Application Level C report.

SALE BY FIREBIRD OF ITS CONTROLLING SHAREHOLDINGS IN SALLIES

On Friday, 9 September 2011, Firebird Global Master Fund Limited and its affiliate, Firebird Global Master Fund II Limited (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, formerly known as Maghreb Minerals Plc ("Fluormin").

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.

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.

The Offer is classified as an affected transaction in terms of the Act and the Takeover Regulations prescribed in terms of Section 120 of the Act. Accordingly, a committee comprising independent directors of Sallies ("Independent Committee") has appointed an independent expert, as required in terms of Section 114(2) of the Act, read with Regulation 90 (1) and Regulation 110 of the Regulations, for the purposes of providing a fairness opinion on the terms of the Offer. The opinions of the independent expert and the Independent Committee will be included in the circular to be distributed to Sallies Security Holders. The Independent Committee comprises Andrew Kamau, Jürgen Kögl, Stephen Morris and Sandile Swana.

NEGOTIATIONS 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 both Witkop and Buffalo which will pay a dividend equal to the after tax interest cost of its loan to those companies. 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. 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.

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. All of calendar year 2011's production is sold out with sales into Europe, North America, India, Japan and China.

OPERATIONS

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

Witkop

The Witkop mine was placed on care and maintenance in June 2009. During the care and maintenance period, the plant and mining fleet were maintained and were ready for the resumption of mining operations in March 2011. Of significance was the rebuilding of the primary crusher. Redundant piping and electrical cabling was stripped from the production plant and disposed of. The management of the slimes dams was outsourced which contract includes their rehabilitation and the planting of grass to control the dust.

The labour necessary to recommission the Witkop mine was recruited in terms of a recall agreement entered into by Witkop 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.

Since commencement of operations, Witkop had produced 28 446 wet metric tonnes ("wmt") of acid grade fluorspar 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 dry metric tonne ("dmt").

It is also pleasing to report that since recommencing operations the mine has been inspected by a number of the Department of Mineral Reserves' inspectors who have expressed their satisfaction with the operation.

Buffalo

The Buffalo operation has been mothballed since October 2008. Empirical test work to reduce phosphorous levels in the fluorspar produced from the tailings dams is not conclusive and the decision to re-open in order to treat material from these tailings dams has not been made.

Test work on extracting fluorspar from the aggregate dumps produced from the heavy medium separation circuits originally in use at the property and owned by the original vendor of Buffalo to Sallies, has proved positive. Negotiations to form a joint venture to process this material are ongoing.

FINANCE

At 30 June 2011 near cash was R10 million (F2010: R25 million). Mining revenue reduced from R60.8 million in 2010 to R55.5 million in 2011. Operating loss from mining for F2011 is R12.8 million compared to R19.7 million in 2010. The loss before taxation is R52.4 million (F2010: R62.6 million).

The Swiss Arbitral Tribunal awarded Honeywell International Inc. ("Honeywell") US\$1 243 824 plus interest at 5% per annum from 19 January 2006 until paid in full in settlement of a dispute concerning a fluorspar supply contract. 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 issue was a specific issue of shares for cash and was 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 given in Witkop's favour following which 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 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. The facility is unsecured, denominated in Rand, pays interest at 10% per annum and is repayable by December 2012 or earlier at Sallies' discretion.

SIGNIFICANT POST YEAR-END EVENT

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 equities 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 convertible 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.

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

Nicholas Davidoff
Chairman
Johannesburg
30 September 2011

