

Chairman's statement

SYNOPSIS

During the decade since the acquisition of Witkop Fluorspar Mine ("Witkop" or "WFM") 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 principal 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"), holders of Sallies shares since 2007, announced that they had brought their holding up to 63% at a price of 18 cps and intended acquiring additional shares 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 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 Blerch, 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) ("MPRDA").

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 fulfilment 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

During the year Witkop completed the delivery of the last remaining export orders received prior to the mothballing of the operation. No new export orders were accepted 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 will be delivered in October 2010. Production at Witkop was restarted 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 USD280 and USD300 per wmt. The decision to commence production at the company's mines is dependent *inter alia* upon the USD price of acid grade, the Rand to USD 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, Rooiberg 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: R35 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 R56 million (F2009: R21 million profit), and the loss after taxation was R63 million (F2009: R53 million).

The Swiss Arbitral Tribunal dealing with the Honeywell arbitration awarded Honeywell USD1 243 824 (18% of their original claim) plus interest thereon at 5% per annum from 19 January 2006 to repayment, comprising a total of USD1 520 191 if paid by 30 June 2010. On 19 May 2009 Sallies lodged an application for a review of this award which appeal 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 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.

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 fellow 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 has 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 has 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 USD1 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 USD 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.

Nicholas Davidoff
Chairman

Johannesburg
25 October 2010