

Statement of Chairman and Chief Executive

INTRODUCTION

I joined the board of Sallies as non-executive Chairman on 16 February 2007. Shortly thereafter the blasting contractor at Witkop, the operational core of your company, refused to blast as a result of protracted non-payment of his invoices. I record this incident to illustrate the dire financial circumstances which Sallies faced early in C2007. A 25-for-100 rights offer at 60 cps, raising almost R75 million, was completed on 2 July 2007 and this was expected to restore your company to financial health.

It became apparent thereafter, however, that the financial information systems had deteriorated to the extent that management did not know its production costs and as a result, uneconomical cut off grades were being implemented in the pits. Re-building these information systems exposed the central problem of the company. It was selling fluorspar at prices below its unit cost of production. As a consequence, Sallies shareholders were subsidising its customers.

On 1 October 2007, subsequent to the resignation of the previous incumbent, I accepted the executive challenge as CEO. Johann Blerch, a financial specialist, who joined Sallies as a non-executive director concurrently with me in February 2007, also accepted an executive role as Commercial Director at the beginning of October 2007. We believe that the most pressing challenges at Sallies have been identified and are being actively addressed. Shareholders will be kept transparently informed of progress.

SUMMARY

Sallies made a loss before taxation of R47 million during F2007 (F2006: R39 million). Of this, Witkop accounted for R34 million for the full year and Buffalo accounted for R13 million between 1 August 2006 and 30 June 2007. These losses were a function of poor operating performances combined with uneconomical prices achieved. Even had operations delivered against budgets, the C2007 price levels would have been lower than the unit production costs.

According to unreviewed, unaudited management accounts, the group lost R25 million during H1 F2008.

As I write, major shareholders have provided bridging finance during December 2007 and January 2008, are expected to provide further short-term finance, and have underwritten a rights offer to raise R75 million.

Future profits will depend upon

- (i) a sustainable operating turnaround at Witkop which delivers higher product volumes than in F2007 whilst maintaining product specifications and tight control of costs and capex;
- (ii) successful re-engineering for the Buffalo project; and
- (iii) fluorspar prices which are significantly higher than existing contracts.

Our core objective is to deliver growth in value to shareholders. This must be founded on reliable operating performance and sensible pricing. At Witkop the ore body is low grade and highly variable. An experienced management team has been assembled, and they are committed to establishing a track record of consistent operating performance. At Buffalo, our consulting metallurgists and engineers will present their conclusions on re-engineering the project early in C2008.

MARKETING

Sales of all grades of fluorspar by Witkop increased by 6% to 98 705 dry metric tonnes ("DMT") between F2006 and F2007. Sales from Buffalo were 16 088 dry metric tonnes.

Witkop achieved sub USD180 per dry metric tonne prices during the financial year. Because it is a newcomer to the market, and both its specifications and delivery credentials must be established, Buffalo sold its output at a discount to the Witkop prices. Existing and potential customers were appraised of our price targets at the annual fluorspar conference in Frankfurt early in November 2007. Against a background of China, the world's largest producer, progressively withdrawing low priced product for export in order to add value in domestic forward integration, it is clear that the market has tightened. Sallies has already sold substantial volumes of acid grade fluorspar for export in C2008 at prices significantly higher than those achieved in C2007.

In support of our marketing drive we have made special efforts to guarantee specifications and delivery.

OPERATIONS

Safety, health, environment

I am pleased to record that no operational fatalities occurred in F2007. At year end the accumulated fatality free shifts for Witkop and Buffalo were 6 072 and 1 137 respectively. No disabling injuries occurred at either operation during the year. We will benchmark our safety performance against industry standards and set new objectives for health and environmental management in due course.

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Reserves, resources, and mining rights.

The competent persons' report by RSG Global dated May 2006 stated that, as of August 2005, proven and probable reserves at Witkop were 34.7 million tonnes at a grade of 14.6% and that measured, indicated and inferred resources were 52.8 million tonnes at a grade of 13.8%. Our consulting geologist has completed certain work on the impact of mining since 2005 and the sterilisation of reserves below dumps, and therefore the reserve/resource estimates need to be updated.

After protracted delays, it seems that the final stages of conversion of old order mining rights at Witkop to new order rights and the establishment of new order mining rights at Buffelshoek, could have been reached. We hope to finalise these rights as soon as practicable. The new order mining rights to process tailings at Buffalo must still be separated from the rights attributable to the vendors of Buffalo and an application to secure a prospecting right over the ore deposit at Buffalo is in progress.

Production

Production of all grades of fluorspar at Witkop increased from 92 677 wet metric tonnes in F2006 to 117 841 wet metric tonnes in F2007 (27%). Production at Buffalo between August 2006 and June 2007 was 16 340 wet metric tonnes excluding some 4 500 wet metric tonnes purchased from the previous owners of Buffalo. These production volumes were significantly below budget.

At Witkop the initial challenge to increasing output is to create mining flexibility in the pits by increasing waste stripping and re-establishing mineable reserves. This will ensure that economic cut off grades can be implemented and that the optimum blend of ore required by the plant to achieve good recoveries can be delivered. In addition, ore losses and dilution must be minimised by effective supervision of good drilling and loading standards. Accurate drilling and blasting is required to optimise fragmentation, in order that the crusher performs to expectations. The mining team is planning to fully implement these improvements to the effectiveness of mining by July 2008.

During October a private metallurgical consultant audited the Witkop plant and during November the representative of a mid tier consulting engineering company repeated that audit. Both concluded that there is no short-term, low capital cost opportunity to meaningfully increase capacity at the Witkop plant. Increases in fluorspar volumes must originate in the pits and at the crushing section, primarily from improved planning and control.

During October and November, the consultants referred to above similarly visited Buffalo and the consulting company was subsequently retained to re-engineer the processing of dumps 5 and 6. Initial conclusions from this exercise are expected during Q3 F2008.

The majority of the additional funding requirement, referred to above, is scheduled to strengthen the mining fleet and plant infrastructure at Witkop and to establish the capacity to treat dumps 5 and 6 at Buffalo.

FINANCE

The rights offer referred to above proposes to raise the R75 million via the 24-for-100 rights issue of convertible debentures (CDs) convertible at 50 cents on or before 31 December 2012 on the basis of one CD for one new share.

All shareholders will be entitled to follow their rights during this issue.

HUMAN RESOURCES

Casper Badenhorst, Witkop's recently appointed General Manager, has moved swiftly to appoint a qualified geologist, experienced in fluorspar, to manage mineral resources and in addition he has strengthened the mining team.

Gerrit Bleeker, who was appointed as General Manager of Buffalo on 23 October 2007, has similarly moved rapidly to recover production from its low point of October 2007 towards break even until the re-engineering is complete.

The general managers are actively supported by the Group Finance, Engineering, Plant Operations, Quality Control and Human Resource managers.

It is apparent from the strike related to working on public holidays during F2007 and the wage strike during F2008 and subsequent interactions at Witkop, that management does not yet enjoy the industrial peace which is so vitally important to the future of the company. The F2008 wage strike resulted in production losses of about 8 600 DMT worth about R10 million. A programme of consultation and communication with union representatives and the workforce, facilitated by a capable, experienced professional, began in January 2008.

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OTHER CHALLENGES

Honeywell

On Monday, 14 January 2008, the Arbitral Tribunal in Zurich dealing with the Honeywell arbitration gave its preliminary, non-binding assessment on the evidence it heard at the witness hearings during the last week of September 2007. Its most important conclusions were:

- (I) that the termination of the Witkop contract with Honeywell, by Sallies, was legal according to Swiss law;
- (II) that the foundation upon which Honeywell based its USD6.9 million claim against Sallies is unsustainable in Swiss law.

Honeywell must now motivate the legal grounds for a change in the basis of their claim by 4 February 2008 and Sallies must respond to their argument by 25 February 2008.

If a change in the basis of the claim is accepted by the Tribunal, Honeywell can present evidence supporting a revised claim by 7 April 2008. Sallies will then have the opportunity to respond to this in due course.

Rare earths

Monazite is the most important rare earth occurrence at Buffalo. The consulting engineering team responsible for the Buffalo re-engineering have been tasked to propose a plant design which will extract rare earths concurrently with fluor spar. Discussions with the principals of a rare earth processing company are scheduled to take place during February 2008.

Exploration

Notwithstanding the management focus on current operations, Sallies is pursuing an exploration agreement for a significant, high grade fluor spar deposit.

OUTLOOK

Certain existing major shareholders and a prospective new major shareholder have once again resolutely stepped into the breach to financially support the company. The new management group is committed to delivery of operating improvements and is addressing the identified priorities. Prices achieved in the export contracts agreed to date for C2008 delivery indicate that the market is moving rapidly towards the sharply higher levels required by your company.

The environment for mining companies in South Africa is becoming increasingly challenging on several fronts. Disruptions to electricity supply are disastrous for extraction plants. According to current projections by Eskom, the national electricity supplier, regular interruptions in power supply will be experienced over the next five years, whilst current capacity is being upgraded, expanded or maintained. This could have a negative impact on the company's ability to achieve its production targets. In addition, it is vitally important that a partnership is established with all stakeholders to ensure that issues such as safety management and the security of tenure of mining rights does not place unwarranted burdens on management or abnormal risks on shareholders.

Sallies has, as yet, no clear competitive edge, and it is incumbent upon management to develop such an edge and establish a track record for mining low grade, variable fluor spar deposits.

In conclusion, I wish to thank our shareholders and bankers, my fellow directors, management and staff and all other stakeholders for their support during F2007.



TG Dale

Chairman and Chief Executive

30 January 2008