

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 SIX MONTHS ENDED 31 DECEMBER 2010

HIGHLIGHTS

- Although both the Company's mines remained on care and maintenance during the period under review, tasks were prioritised and completed to facilitate an orderly and efficient recommencement of production at Witkop.
- Post 31 December 2010 working capital facility of US\$8 million raised.
- Post 31 December 2010 Sallies announced that Witkop would recommence mining and production.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 December 2010 Reviewed	Six months ended 31 December 2009 Not reviewed	Year ended 30 June 2010 Audited
R'000			
Revenue – mining	16 862	44 582	60 815
Net foreign exchange losses	(1 456)	(1 207)	(1 091)
Cost of sales	(13 584)	(43 548)	(59 929)
Profit/(loss) from mining activities	1 822	(173)	(205)
Less: Depreciation	(7 157)	(8 750)	(19 451)
Operating loss from mining	(5 335)	(8 923)	(19 656)
(Loss)/profit on disposal of plant, property and equipment	(25)	130	(611)
Administrative expenses	(21 833)	(10 984)	(17 927)
Investment income	135	84	320
Finance costs on borrowings	(652)	(445)	(6 432)
Interest on convertible debentures	(3 657)	(3 648)	(7 224)
Loss before Honeywell, share- based payments and Buffalo impairment	(31 367)	(23 786)	(51 530)
Honeywell award interest provision	-	(235)	(464)
Notional interest on convertible debentures	(1 836)	(1 389)	(3 204)
Share based payments	(631)	(2 078)	(920)
Loss before Buffalo impairment	(33 834)	(27 488)	(56 118)
Buffalo impairment	-	-	(6 464)
Net loss before and after taxation:	(33 834)	(27 488)	(62 582)
Total comprehensive loss for the period	(33 834)	(27 488)	(62 582)
Issued shares (000)	704 556	640 220	640 220

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2010 Reviewed	31 December 2009 Not reviewed	30 June 2010 Audited
R'000			
ASSETS			
Non-current assets	99 001	93 621	102 561
Investment properties	3 143	3 133	3 143
Restricted investment	3 341	2 226	2 779
Property, plant and equipment	82 342	78 087	86 464
Goodwill	10 175	10 175	10 175
Current assets	41 826	82 376	72 609
Inventories	24 275	42 658	31 576
Trade and other receivables	14 745	8 323	13 543
Taxation pre-paid	2 789	2 789	2 789
Cash and cash equivalents	17	28 606	24 701
Total assets	140 827	175 997	175 170
EQUITY AND LIABILITIES			
Capital and reserves	13 553	73 879	35 672
Share capital and premium	295 872	284 787	284 787
Portion of convertible debentures deemed to be equity	17 102	17 102	17 102
Share based payment reserve	19 577	22 060	18 947
Accumulated loss	(318 998)	(250 070)	(285 164)
Non-current liabilities	112 646	81 607	109 053
Long-term loan	1 320	2 576	1 287
Provision for environmental rehabilitation	48 257	19 611	46 532
Portion of convertible debentures deemed to be equity	63 069	59 420	61 234
Current liabilities	14 628	20 511	30 445
Trade and other payables	13 304	17 522	27 805
Current portion of long-term liabilities	1 324	2 989	2 640

Total comprehensive loss for the period			
Issued shares (000)	724 556	642 220	642 220
Weighted average shares issued (000)	683 388	642 220	642 220
Weighted average shares issued for diluted earnings per share (000)	683 388	642 220	642 220
RECONCILIATION OF EARNINGS			
Net loss attributable to ordinary shareholders for basic earnings per share	(33 834)	(27 488)	(62 582)
(Profit)/loss on disposal of property, plant and equipment	25	(130)	611
Buffalo impairment	-	-	6 464
Net loss attributable to ordinary shareholders for headline earnings per share	(33 809)	(27 618)	(55 507)
PER SHARE (cents)			
Loss per share	(4,7)	(4,3)	(9,8)
Diluted loss per share	(5,0)	(4,3)	(9,8)
Headline loss per share	(4,7)	(4,3)	(8,7)
Diluted headline loss per share	(4,9)	(4,3)	(8,7)

CONDENSED CONSOLIDATED STATEMENT 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
Balance at 31 December 2009	642	284 145	17 102	22 060	(250 070)	73 879
Share based payments				(3 114)		(3 114)
Loss for period					(35 094)	(35 094)
Balance at 30 June 2010	642	284 145	17 102	18 946	(285 164)	35 671
Share based payments				631		631
Shares issued	82	11 003				11 085
Loss for period					(33 834)	(33 834)
Balance at 31 December 2010	724	295 148	17 102	19 577	(318 998)	13 553

COMMENTARY FOR SIX MONTHS ENDED 31 DECEMBER 2010

ANALYSIS OF RESULTS

Sallies incurred a loss of R5,3 million from mining activities for the six months to December 2010 compared to a loss of R8,9 million for the same period last year. Turnover decreased from R44,6 million for the six months to December 2009 to R16,9 million for the six months to December 2010.

OPERATIONS

The international demand for acid grade fluorspar remained flat for the period and no significant export orders were secured. Consequently, both of the company's mines were kept on care and maintenance for the period under review. The plant at Witkop Fluorspar Mine (Proprietary) Limited ("Witkop") was operated for two short periods in order to satisfy local orders and a single export

	14 628	20 511	30 445
Current liabilities			
Trade and other payables	13 304	17 522	27 805
Current portion of long-term liabilities	1 324	2 989	2 640
Total equity and liabilities	140 827	175 997	175 170
Current asset/current liability ratio	2,9	4,0	2,4
Net asset value per share (cents)	1,9	11,5	5,6

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 December 2010	Six months ended 31 December 2009	Year ended 30 June 2010
R'000	Reviewed	Not reviewed	Audited
Net cash (outflows) from operating activities	(31 178)	(1 988)	(2 770)
Net cash (outflows)/inflows from investing activities	(3 308)	1 954	470
Net cash inflows/(outflows) from financing activities	9 802	(2 392)	(4 030)
Net (decrease) in cash and cash equivalents	(24 684)	(2 425)	(6 330)
Cash and cash equivalents at beginning of period	24 701	31 031	31 031
Cash and cash equivalents at end of period	17	28 606	24 701

ABBREVIATED SEGMENTAL ANALYSIS

R'000	Witkop North West	Buffalo Limpopo	Other	Consolidated
Six months ended 31 December 2009				
External revenue	41 432	3 150	-	44 582
Segmental (loss)	(15 960)	(958)	(10 570)	(27 488)
Total assets	163 289	4 549	8 159	175 997
Total liabilities	(16 046)	(11 915)	(74 157)	(102 118)
Year ended 30 June 2010				
External revenue	57 665	3 150	-	60 815
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)	(85 806)	(139 499)
Six months ended 31 December 2010				
External revenue	16 862	-	-	16 862
Segmental (loss)	(29 499)	(2 613)	(1 722)	(33 834)
Total assets	135 024	4 567	2 696	140 827
Total liabilities	(35 660)	(22 207)	(69 407)	(127 274)

in all material respects. Subsequently, notification has been received from SARS that they do not intend appealing the judgement.

As a consequence provisional payments amounting to R6,7 million (excluding interest) will be refunded to the group. Taxation pre-paid of R2,8 million is currently carried in the consolidated statement of financial position of Sallies.

The dispute with SARS with regard to Sallies' VAT as previously advised to shareholders has been successfully resolved in Sallies' favour.

BASIS OF PREPARATION

The international demand for acid grade fluorspar remained flat for the period and no significant export orders were secured. Consequently, both of the company's mines were kept on care and maintenance for the period under review. The plant at Witkop Fluorspar Mine (Proprietary) Limited ("Witkop") was operated for two short periods in order to satisfy local orders and a single export order. The conservation of cash together with the disposal of surplus assets remained a key strategy. The stock of acid grade fluorspar at the beginning of the period was disposed of at cost during the period in order to generate cash. Local sales of metgrade fluorspar were at a similar level to the same period last year.

In order to have the necessary capacity to recommission the mines key staff were retained at Witkop and the production facilities were maintained in anticipation thereof.

The company is pleased to record that no lost time, disabling or fatal accidents occurred during this review period.

MINERAL RESERVES AND RESOURCES

The mineral reserves and resources as tabled in the 2010 annual financial statements have not changed materially.

NEGOTIATIONS WITH BEE PARTNER

The Extra Ordinary Shareholders' meeting held in January 2011 approved all the resolutions needed to finalise the BEE transaction.

OUTLOOK

Hydrofluoric acid (HF) cannot be produced without acid grade fluorspar. This acid is the feedstock principally used for the production of refrigerant gases (which drive fridges, freezers and air conditioners) and aluminium tri-fluoride (without which aluminium cannot be cost effectively produced). HF is also vital for other small, but rapidly growing niche markets.

Witkop has the rights to a large fluorspar mineral resource of high quality (albeit low grade) and is now well positioned to regain its reputation as a preferred reliable supplier of high quality acid grade fluorspar to the international market.

Sallies announced on 19 January 2011 that it had secured a US\$8 million Working Capital Facility from London listed Maghreb Minerals plc ("Maghreb"), a company controlled jointly by Firebird Global Master Fund Limited and Firebird Global Master Fund II Limited (together "Firebird" being Sallies' controlling shareholder). At the same time, Maghreb announced that Firebird had concluded a conditional agreement to dispose of its shareholding in Sallies to Maghreb. Sallies announced, on 14 February 2011, that Witkop would recommence mining and production to meet export orders for acidgrade Fluorspar. The company is continuing to work to secure further orders.

It is not expected that sales of sufficient magnitude will be achieved during the remainder of the current financial year to eliminate the losses made to 31 December 2010.

GOING CONCERN

The ability of Sallies to continue as a going concern is dependent on the resumption of profitable operations which depends on the achievement of further export orders.

Given this outlook, 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.

HONEYWELL

The dispute with Honeywell was finally resolved during the period by the issue of 82 million company shares in full and final settlement.

SOUTH AFRICAN REVENUE SERVICES ("SARS")

Sallies and Witkop were involved in disputes with the SARS regarding the 2000 to 2003 years of assessment. SARS had disallowed the deduction of certain inter company expenditure and rejected the timing of revenue recognised. These issues were heard in the Tax Court in November 2010 and in a written judgement handed down in January 2011, the judge ruled in Sallies' and Witkop's favour

The dispute with SARS with regard to Sallies' VAT as previously advised to shareholders has been successfully resolved in Sallies' favour.

BASIS OF PREPARATION

The reviewed consolidated results contain the information required by IAS 34: Interim Financial Reporting as well as the AC 500 Standards as issued by the Accounting Practices Board, the South African Companies Act and the Listing Requirement of the JSE Limited. They incorporate accounting policies that are in accordance with International Financial Reporting Standards and are consistent with those used in preparing the financial results for the year ended 30 June 2010.

MODIFIED REVIEW REPORT

BDO South Africa Inc. has issued a modified review report on the reviewed consolidated results of the company for the six months ended 31 December 2010.

They have drawn attention to the disclosure made by the directors regarding the ability of the group to continue as a going concern. Their review was conducted in accordance with ISRE 2410 "Review of Interim Financial Information performed by the independent auditor of the company". The modified review report is available for inspection at the company's registered office.

BOARD OF DIRECTORS

Patrick Cooke was appointed Acting Chief Executive Officer with effect from 14 February 2011.

DIVIDENDS

No interim dividends have been declared for the period.

By order of the board

Nicholas Davidoff

Non-executive Chairman

Johannesburg

4 March 2011

Directors:

Nicholas Davidoff (Chairman)*, Andrew Kamau*^, Jürgen Kögl*

Patrick Cooke (Acting CEO, Financial Director and COO)

Sandile Swana*^, Stephen Morris*^

* *Non-executive* ^ *Independent*

Registered office:

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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

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Sponsor:

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