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SAL - Sallies suspends operations at Witkop

26 Jun 2009

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Sallies Limited

(Incorporated in the Republic of South Africa)

(Registration number 1903/001879/06)

Share code: SAL & ISIN: ZAE000022588

("Sallies" or "the company")

Sallies Suspends operations at Witkop

In the "Outlook" section of the release of the reviewed consolidated results for Sallies for the six months ended 31st December 2008, it was stated that the future of the company was closely aligned to that of the world economy. It was further stated that management was determined to protect its hard won cash resources and would consider production cutbacks and mothballing at Witkop Fluorspar Mine ("Witkop"). This strategy is designed to maximise the timeframe over which both Witkop and Buffalo Fluorspar Mine ("Buffalo") could survive the world recession and still be able to exploit a market turnaround.

Many international acid grade fluorspar consumers have been de-stocking since November 2008 and since their current production levels are a fraction of those before October 2008, they still maintain sufficient stocks to continue operations. As a result, new demand for acid grade fluorspar has collapsed and despite concerted efforts by management and its marketing agent, Witkop has been unable to secure future orders.

Because the fixed component of costs in mining businesses in general is high, a cutback of production normally results in escalation of unit costs. This has been confirmed in the specific case of Witkop by in-depth analyses, and thus a reduction of output as opposed to a suspension of production does not appear to be a viable option for Witkop.

As a result of these combined circumstances, the Directors of Sallies have decided to give notice to employees and their representative unions, that the company wishes to initiate the 60 day consultation period required by The Labour Relations Act 66 of 1995, with regard to contemplated retrenchments, with effect from Monday 29th June 2009.

Since the company has produced sufficient fluorspar to honour its contracts until the end of calendar 2009, there appears to be no other viable option but for production to be suspended with immediate effect in order to conserve cash. This decision will not prejudice either the consultation process or the financial obligations of the company to its employees and creditors. Once the company has consulted with its employees and their representatives, it seems probable that Witkop will be mothballed until the market recovers.

This regrettable development comes at a time when future operating prospects were improving. The recently acquired exploration rig at Witkop is providing management with invaluable information for ore reserve management which, together with the significant improvements in the standards of operations in the pits and at the plant, has resulted in recent production levels at all time highs. The promising work on phosphorous reduction and alternative sources of feed at Buffalo will continue and when the international market for acid grade fluorspar recovers, Sallies will be able to re-start either or both operations to exploit the market position it has recently created.

In the interim, management is actively pursuing opportunities for corporate activity precipitated by the world recession.

Johannesburg

26 June 2009

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