

# 6. POTENTIAL INVESTMENT IN SALLIES

## 6.1 Introduction

During 2004, Washington was presented with an opportunity to invest in the share capital of Sallies, a fluorspar producer listed on the JSE, South Africa. To ensure that adequate due diligence can be undertaken and appropriate commercial advice obtained, Washington has secured the right to invest by way of option agreements, with a final decision to be made once the Company has been listed on the ASX.

Washington has the right to acquire 26,572,961 shares in Sallies. There are, as at the date of this Prospectus, approximately 257 million Sallies shares on issue. Accordingly, based on the current issued capital of Sallies, Washington has the right to acquire approximately 10% of the issued capital of that company. Washington considers this an investment of merit primarily due to:

- the potential for an increase in fluorspar demand due to the expanding Chinese economy, and

- the recent appointment to Sallies of a specialist management team focused on an aggressive reduction in costs and expanding production and international sales.

Washington has its option rights through seven (7) option agreements, details of which can be found in the description of material contracts in Section 12.4(a) of this Prospectus.

## 6.2 The Witkop Mine

Sallies' sole asset is the Witkop fluorspar mine near Zeerust in the North West Province of South Africa (Figure 12).

Fluorspar, an essential component of the flux used in aluminium smelting, is also the source of the fluorine in hydrofluorocarbons, which are used as refrigerants and propellants in aerosols. In addition, fluorspar is utilised in non-stick cooking pots (such as Du Pont's Teflon), in fireproof plastics and, in small quantities, in a host of other everyday products.

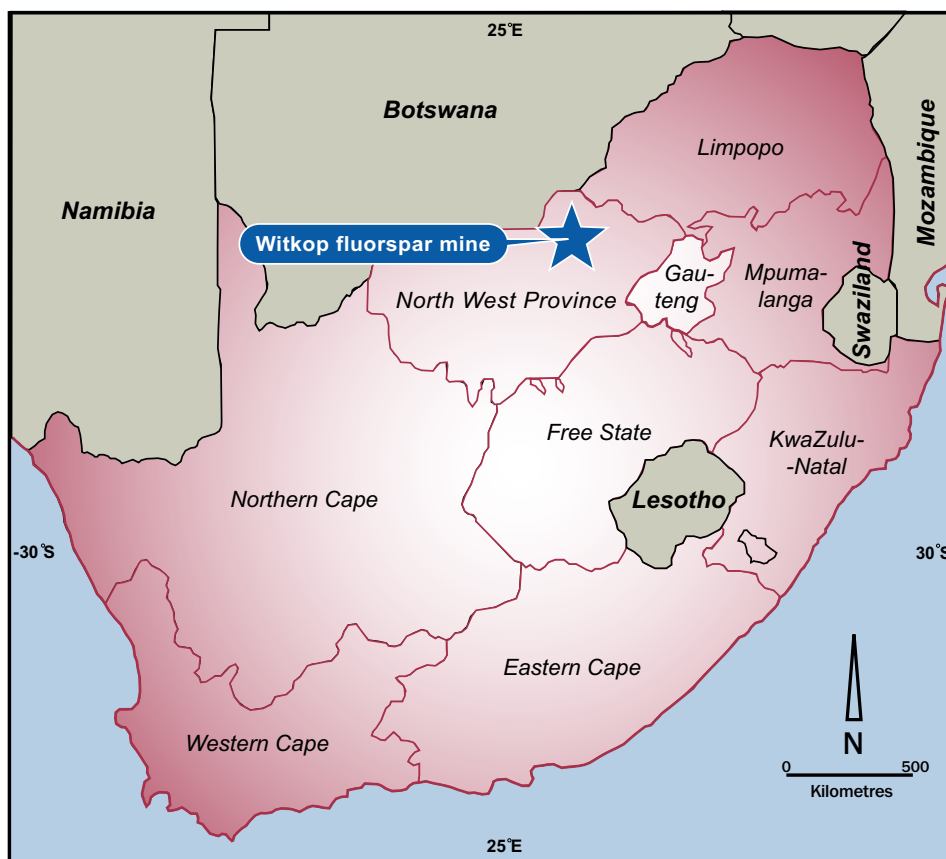


Figure 12. Location of the Witkop fluorspar mine in South Africa.

South Africa, the world's largest fluorspar producer, controls 10% of known fluorspar resources.

Sallies acquired Witkop as a producing mine in 2000, for ZAR 74.75 million, by corporate takeover. Since then, Sallies has disposed of all other assets acquired in that takeover. At the time of Sallies' acquisition, output at Witkop was about 103 kt of fluorspar per annum, the mine having historically supplied about 2.5% of the world's acid-grade fluorspar. At prevailing production rates, its projected mine life at the time was 17 years, with most of its product sold to the United States.

Today, the expanding Chinese economy provides much of the potential upside for buoyancy in the fluorspar market, and Sallies' recent successful expansion into European markets may also be of long-term strategic benefit.

To assess the commercial potential of an investment in Sallies, Washington has commissioned an expert – Venmyn Rand, a South African company specialising in the provision of advisory services to the mining industry – to evaluate Sallies and determine the risks involved in such an investment.

### 6.3 Risks

During the term of its options to acquire Sallies stock, Washington – with assistance from Venmyn Rand – will assess the key areas of risk and potential reward associated with an investment in Sallies. Those areas will include the following.

- Operating performance.
- Expansion ramp-up.
- Resource sustainability.
- Hedging.
- Exchange-rate impact.
- Fluorspar market trends.

The resource currently mined at Witkop does not comply with the JORC Code. As a resource assessment to a JORC-compliant standard is beyond the scope of the review, Washington will make a subjective judgement on the basis of information available in the public domain.