

# Perilya Limited ABN 85 009 193 695

## Quarterly Report

For the three months ended March 2004

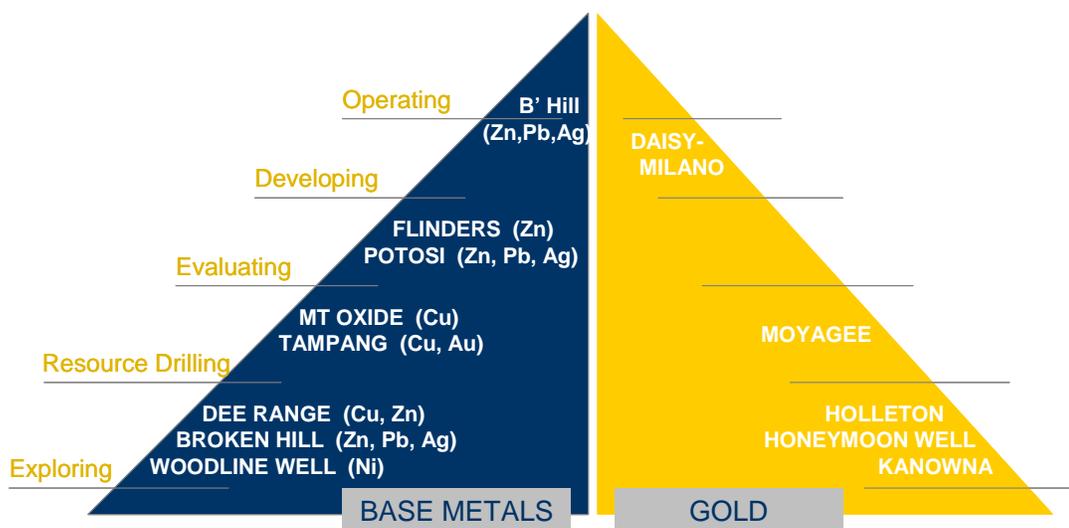
### HIGHLIGHTS

- Broken Hill throughput at target levels
- Daisy-Milano evaluation continuing positively
- Project evaluations underway at Potosi and Flinders
- Favourable final NSW WorkCover determination
- \$19m from sale Independence Group shares
- Comet Ridge Ltd IPO oversubscribed

### MANAGING DIRECTOR'S REPORT

The implementation of our strategy to become a significant diversified mining company with a base metals division and a gold division continued during the quarter. The strategy includes:

- the acceleration of the evaluation of our exploration projects
- the evaluation and development of the Daisy-Milano Gold Project with the aim of full scale production from this, our second mining operation in the second half of calendar 2004
- the use of the Broken Hill zinc, lead and silver operation as the foundation to support the Company's growth.



Perilya had a very satisfying quarter, highlighted by the swift recovery in production at Broken Hill, the positive progress at the Daisy-Milano Gold Project near Kalgoorlie and the commencement of project evaluations at Potosi (Broken Hill) and the Flinders Project ( South Australia).

Production at Broken Hill returned immediately to target levels of 200,000 tonnes per month of ore treated following 19 days downtime in January due to the skip jamming in the haulage shaft. Concentrate production was impacted by the lead and zinc grades averaging below the reserve grades which is principally due to mine development in the Southern Operation being behind plan and requiring ore to be mined from lower grade stopes. However, the continuing improvement in underground development, assisted by the equipment replacement programme, and the sourcing of greater volumes of higher grade North Mine ore, will improve the lead and zinc head grades in the June quarter and beyond and produce the strong cash flows expected from the operation.

The evaluation and development of the Daisy-Milano Project progressed positively during the quarter with decline development scheduled to reach the 11 level, the deepest level mined to date, for completion in the second half of calendar 2004.

In addition to our primary strategic goals of stabilising and improving the Broken Hill operations and achieving balance and strength through a second mining operation in gold at Daisy-Milano, we are accelerating the evaluation of our key exploration projects to secure the timely development of potential production. Project evaluations are underway at the Potosi project (lead and zinc) in Broken Hill and at the high grade Flinders Zinc Project (South Australia). Drill target definition has commenced at the Mount Oxide copper project in Queensland and at the Woodline Well nickel project near Windarra, Western Australia. At the Honeymoon Well Gold Project, located between Mt Keith and Wiluna, Western Australia, drilling commenced at the Capital prospect with additional target definition continuing.

The \$19 million proceeds from sale of the Independence Group shares during the quarter provide support for these evaluation and development programs.

At the end of March we received the final determination from the NSW WorkCover Authority which confirmed that Perilya does not have any obligation to pay up to \$10 million additional workers compensation premium for the 2002/03 year.

## **BASE METALS**

### **Broken Hill**

The Broken Hill Operation recovered quickly from the 19 day downtime during January following the skip jamming in the ore haulage shaft. An independent engineering assessment of the haulage and services shaft has been completed and a comprehensive inspection and maintenance program commenced. Ore treated for the quarter totalled 477,000 tonnes, which allowing for the downtime, was in line with the 200,000 tonnes monthly target.

Concentrate production was however impacted by the lead and zinc head grades. Mining over the quarter has been from areas of the Southern Operation with ore grades lower than the average mine reserve grade. The Southern Mine currently provides in excess of 90% of the ore feed.

The development within the Southern Operation has been behind plan which has led to reduced flexibility in accessing certain areas of the mine. The catch up of the development progressed during the quarter aided by the equipment replacement program. Two of the three development jumbos and four of the five new loaders are now fully commissioned and the three new production drill rigs and the fifth loader will be commissioned in the June quarter.

The mine schedule for the June quarter, and flowing into the next financial year, includes better grades from the Southern Operation and an increased percentage of ore being sourced from the North Mine which has both higher lead and zinc grades.

The unit operating costs, details of which will be included in the full year financial results, increased as a consequence of the reduced concentrate production.

Production Results	June 2003 Quarter	September 2003 Quarter	December 2003 Quarter	March 2004 Quarter
Ore treated 000' tonnes	575	567	518	477
Zinc grade %	8.8	7.9	8.0	6.8
Lead grade %	3.3	2.8	3.5	3.0
Silver grade g/t	35	31	37	33
Zinc concentrate 000' tonnes	89.5	82.3	72.6	57.7
Zinc metal 000's tonnes	45.3	40.7	36.3	24.0
Recovery %	89.6	90.0	87.2	88.9
Lead concentrate 000's tonnes	24.9	19.4	20.7	17.3
Lead metal 000's tonnes	16.7	13.1	14.0	11.2
Recovery %	87.1	83.8	78.2	82.0

### **Potosi Project (Zinc, Lead & Silver)**

The feasibility study for the development of the Potosi zinc, lead and silver project, three kilometres north of the North Mine at Broken Hill, commenced during the quarter. A mining operation at Potosi will increase the sources of ore feed to the Broken Hill concentrator thus reducing the dependency on the Southern Operation and increase the life of the Broken Hill Operation. Subject to successful completion of the feasibility study, production is expected in the second half of the 2004/05 year.

### **Flinders Project (Zinc)**

The Flinders Project covers 10,000 square kms in the northern Flinders Ranges, South Australia and has good potential for the discovery of additional high grade zinc mineralisation.

Drilling commenced late in the quarter to test down plunge extensions of high grade zinc mineralisation intersected in previous programmes at Tom Thumb, Reliance and Third Plain.

The current activities are to establish the extent of the mineralisation so we can determine whether to direct sell the ore, which we could do now, or process the ore to produce a more valuable product.

### **Mt Oxide Project (Copper)**

The Mt Oxide Project, located 25 kilometres north of the Mt Gordon copper mine in north west Queensland, has an inferred resource of 2.8 million tonnes at 2.9% copper, located below the old Mount Oxide open pit.

Mapping undertaken in the December quarter of 2003 demonstrated the potential to add substantially to this resource and it is proposed that drilling will commence in the June quarter.

### **Woodline Well Project (Nickel)**

The Woodline Well Project is located 14 km to the south-west of Windarra near Laverton, Western Australia, and covers an ultramafic suite similar to that which hosts the Windarra nickel sulphide deposit. Drilling in the 1970's produced drill intercepts of 3.1m at 2.3% Nickel and 6.2m at 3.0 % Nickel that have not been followed up.

A ground electromagnetic survey is planned early in the June quarter with drilling proposed later in the quarter.

## **GOLD**

### **Daisy-Milano Project**

Following successful completion of diamond drilling in the last quarter, which produced high grade gold intercepts including 6.1m at 66.0 grams per tonne gold and 6.0m at 15.6 grams per tonne gold, work commenced on advancing the decline from the 7 level (150m below surface) to the 11 level (300m below surface), the deepest level mined to date. It is anticipated the decline development will be completed in the second quarter of 2004/05.

Exploration development was undertaken during the quarter in the upper levels. The Stanley Drive was developed for 20m along strike of previously indicated mineralisation. Grab samples from the development averaged 14.8 grams per tonne gold. Diamond drilling occurred around the 5 level confirming extensions to the 6 level north ore zone.

In April, access to the North Shaft to upgrade the ventilation circuit, and to the South Shaft for secondary egress will occur, thereby eliminating the current restrictions on the number of underground employees. Services infrastructure was significantly upgraded during the quarter including electrical reticulation to cater for 1,000 volts throughout the mine. The North Shaft was refurbished and stripped of non essential services and upper level accesses sealed, in anticipation of the shaft being used as the primary exhaust.

### **Daisy-Milano area**

Exploration drilling is planned to test other targets on the Daisy-Milano leases. The Costello target, which has produced intercepts of 6.8m at 10.2 grams per tonne gold and 5.0m at 16.8 grams per tonne gold from previous drilling, will be drilled to test the mineralisation along strike and down dip.

### **Honeymoon Well Project**

The Honeymoon Well Project covers approximately 10km of strike length of the Agnew-Wiluna greenstone belt between Mt Keith and Wiluna, 20km south of Agincourt's Wiluna Gold mine. Perilya is earning a 70% interest in gold and associated minerals from MPI Nickel, by the expenditure of \$4 million over 5 years.

The project objective is to discover a major gold deposit similar to others along this greenstone belt. Drilling commenced at the Capital Prospect late in the quarter to follow up on mineralisation intersected by previous explorers.

## **CORPORATE**

### **Sale of Independence Group NL shares**

During the quarter Perilya sold its remaining holdings of Independence Group NL shares for a total consideration of \$19 million.

### **Broken Hill Workers Compensation Decision**

The final determination from the NSW WorkCover Authority was received in the quarter, stating that the predecessor provisions, which could have required Perilya to pay up to an additional \$10 million in workers' compensation premiums for the 2002/03 year, do not apply.

### **Priority Issue of Comet Ridge Ltd**

Comet Ridge Ltd., the new energy company formed by Strike Oil NL ( Perilya has a 36% interest in Strike Oil ) to exploit the coal seam gas potential in the eastern states of Australia, raised \$5 million from its Initial Public Offer. In excess of 30% of the float was taken up by Perilya shareholders. Perilya Limited itself retains 16% of the Comet Ridge Ltd shares. The trading of the Comet Ridge shares on the ASX commenced on the 19<sup>th</sup> April 2004 with the ASX code COI.

## **MARKET CONDITIONS**

Base metal prices continued to climb during the quarter. The LME zinc cash settlement price was US\$1,086 per tonne on 31 March 2004 and the lead price was US\$829 per tonne.

The rise in prices, driven mainly by China's strong demand, is being offset in part by increased sea freight costs which have doubled in the past twelve months from around US\$22 per tonne of concentrate from Australia to South East Asia to around US\$40 per tonne. The increase in demand for raw materials by China is also driving this increase in shipping costs.

Since the end of the quarter there has been a decline of the zinc and lead prices to around US\$1,000 per tonne and US\$700 per tonne respectively.

Silver has outperformed the other metals over the quarter reaching US\$7.96 per ounce, up from US\$5.96 per ounce on 31 December 2003. Silver prices are at their highest since February 1998. The rally has been backed by significant inflows of speculative funds, which have bought future contracts equal to almost a year's supply of silver. Perilya produces just over 2 million ounces of silver per annum which is included in, and paid for as part of, the lead concentrate.

The Australian dollar continued to appreciate against the US dollar during the quarter. At 31 March the exchange rate was US\$0.7589 per A\$1.00 up from US\$0.7500 per A\$1.00 on 31 December 2003.

Since the end of the quarter the Australian dollar has declined to around 0.7450.

