



Perilya Limited ABN 85 009 193 695

# quarterly

# report

For the three months ended 30 September 2004

## Highlights for the Quarter

- Broken Hill production in line with forecast.
- Development of the Flinders zinc project anticipated in early 2005.
- The Daisy-Milano evaluation continues to be positive with production on track to commence in the current quarter.
- Successful listing of Strike Oil Limited.
- Regional exploration at Broken Hill returned positive results.

## Managing Director's Report

### **The program to reduce dependence on the South Mine at Broken Hill and to improve operating margins was initiated during the quarter.**

Under the plan we are progressively reducing production at the South Mine and increasing production from the higher grade North Mine. The optimum production level is being determined through a comprehensive process of evaluating alternative ore volume/ head grade / production cost combinations.

The impact of this program has not been reflected in the September quarter results because of mine scheduling issues associated with a seismic event that occurred late in the previous quarter. As forecast at the time, this event caused a decline in production of approximately 10%. The rescheduling resulted in reduction in both the tonnes and grade of ore available for mining.

Permitting approvals for the development of the Potosi mine at the Broken Hill operation are anticipated in the current quarter and will contribute towards enhanced future mining flexibility and head grade improvement.

It is pleasing to report that the safety performance at Broken Hill has continued to improve which in turn is reflecting an improvement in the overall quality of the operation.

An improvement in operating performance and quality from the implementation of the new mining regime is expected to deliver significant rewards in the second half of the year.

The potential of the Broken Hill region exploration targets developed by our geologists has been above our initial expectation. Drilling will be initiated in October to November, and a discovery, even if quite modest, holds the potential for early cash flow and to significantly impact on the overall Broken Hill Operation.

At the promising Mount Oxide copper project, with Native Title agreements settled, we are now in a position to commence drilling as soon as a suitable drill rig becomes available.

During the quarter Strike Oil Limited was successfully listed on the Australian Stock Exchange. Through Perilya's 20% shareholding in Strike Oil, shareholders have a significant exposure to the energy sector at a time of increasing oil prices. Strike Oil will be involved in the drilling of 3-5 wells in the Carnarvon Basin, Western Australia, over the coming six months. Success in any of these wells holds the potential to substantially add to the value of Perilya's asset base.

Development of the Daisy-Milano gold and Flinders zinc projects continued during the quarter with initial production anticipated in the December quarter 2004 and first half of 2005 respectively.

## Base Metals

### Broken Hill Operation

The Broken Hill Operation experienced a decline in production of approximately 10% compared to the previous quarter due to scheduling issues associated with a significant seismic event that occurred late in the previous quarter. The rescheduling caused a reduction in both tonnes and grade available for mining. Throughput is planned to improve in the December quarter with a significantly improved second half expected due to increased tonnages coming from the higher grade South East A Lode at the South Mine and increased production from the North Mine.

Development continues at the North Mine, with decline development now accessing ore blocks on the 7 level. The quantity of ore from the North Mine as a percentage of total concentrate feed was 8% for the quarter. This percentage will increase towards 15% over the next few months.

Underground equipment performance continues to improve with solid progress in development advance and production drilling.

Further improvements were implemented in the concentrator. Circuit rationalisation continued with the regrind circuit now redundant and a further reduction of plant in the grinding circuit planned for the December quarter expected to contribute to a reduction in operating costs. Slightly lower concentrate grades and lead and zinc recoveries were in line with the lower head grades.

Permitting for the Potosi Mine continued with approval expected in the December quarter.

Unit costs were contained and increased by only 8% on the previous quarter to US\$0.39 / lb associated with the lower throughput.

Production Results	Previous Quarter	Current Quarter
Ore Treated 000's tonnes	546	497
Zinc grade %	7.0	6.7
Lead grade %	3.4	3.0
Silver grade %	34	34
Zinc concentrate 000's tonnes	69.7	60.1
Contained zinc 000's tonnes	34.8	30.1
Recovery %	90.9	90.1
Lead concentrate 000's tonnes	21.9	17.2
Contained lead 000's tonnes	15.6	12.3
Recovery %	85.0	82.9
Cash cost / lb zinc US\$/lb	0.36	0.39

### Development

#### *Flinders project (Zinc)*

The Flinders project covers 10,000 square kilometres in the northern Flinders Ranges, South Australia.

Work on the recommencement of the Beltana open pit continued during the quarter. Approvals for the restart of mining from the South Australian authorities are well progressed and expressions of interest are being sought from mining contractors. As the ore is to be direct shipped to smelters, negotiations have begun with road and rail freight companies for the transport of ore to ports that are suitable for bulk ore carriers. It is anticipated that all necessary approvals and contracts will be in place by early 2005.

The conversion of the exploration leases to mining leases has commenced on tenements covering the Reliance and Aroona resources in the Flinders area.

From an exploration perspective, seven diamond holes have been completed at the Reliance and Tom Thumb prospects since commencement of the program in May. No significant willemite mineralisation has been intersected; however several zones of strong hematite alteration and associated geochemistry were encountered, including 78 metres at 2.9 % zinc in BTD195 at Reliance. This mineralisation is located 120m south of the expected target position and represents a new mineralised position that requires further drill testing.

At Tom Thumb, a narrow zone of lead mineralisation and wide zone of hematite brecciation in BTD 197 are positive indicators of a strengthening mineralised system. RC drilling will be undertaken to test the plunge of the Tom Thumb mineralisation, and to test surface resource positions.

## Base Metals (continued)

### Exploration

#### *Broken Hill (Zinc, Lead, Silver)*

Soil sampling continued in the Broken Hill district during the quarter and a total of 34,000 soil samples have now been completed. This work has identified numerous untested anomalies and prospect mapping has been completed. RAB drilling has commenced on 14 of these anomalies to advance these targets, prior to reverse circulation drilling.

Detailed evaluation of the exploration potential around North Mine has commenced. Databases have been validated with drill hole geology added, and level plan mapping will be integrated in order to assess the exploration potential of the North Mine environment.

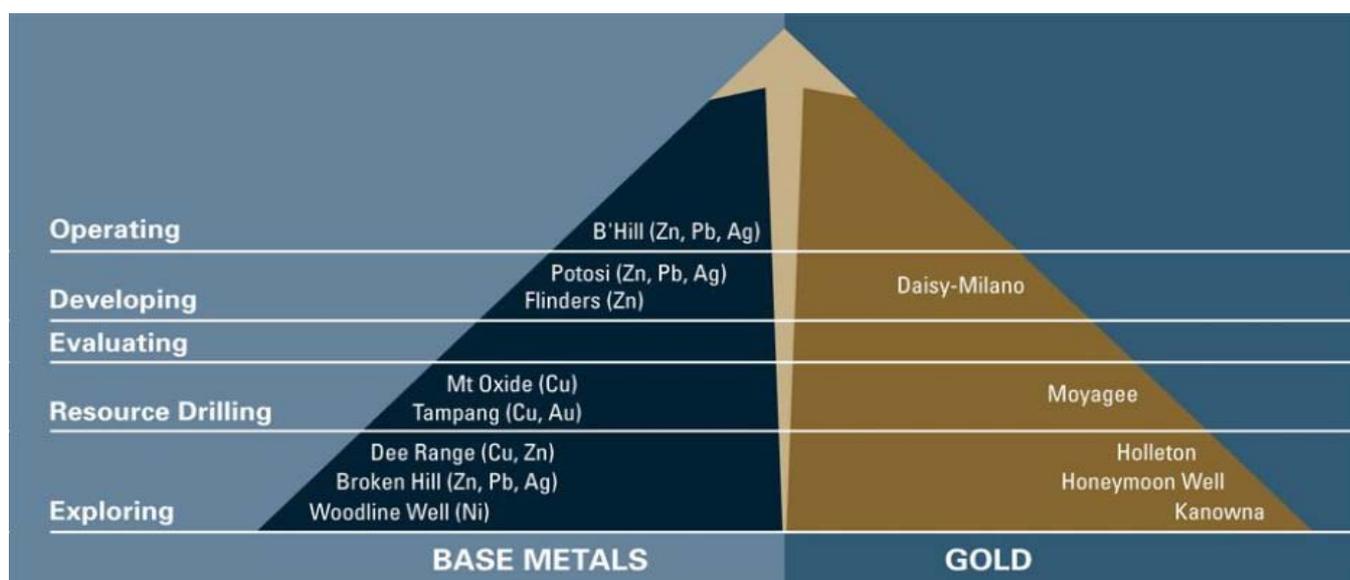
Negotiations with Platsearch were completed allowing Perilya to acquire a majority interest in ground along the Globe Vauxhall shear zone in the vicinity of the old Coultra copper mine. The Coultra copper mine is a copper rich quartzite hill in an area of extensive cover. Historic shallow RAB drilling intersected strong copper and lead-zinc anomalies in the area, which are open north and south for at least 3 kilometres.

#### *Mount Oxide project (Copper)*

Mount Oxide is located 15 kilometres to the north of the Mount Gordon copper mine in Queensland.

Drilling below the old Mount Oxide open pit has defined an inferred resource of 2.8 million tonnes at 2.9% copper. This mineralisation is open in a number of positions.

Preparation continues for an 18 hole drilling programme to test for extensions to mineralisation, as well as for supergene enriched and primary copper mineralisation beneath the Mara Breccia. Timing of this drill programme is dependant on drill rig availability.



## Gold

### Development

#### *Daisy-Milano project*

The Daisy-Milano project is located near Kalgoorlie in Western Australia. Perilya has an 18 month option, expiring in May 2005, to acquire the Daisy-Milano mine and surrounding tenements.

Decline development and infrastructure upgrades continued during the quarter. Decline development had reached 261 metres below surface, 40 vertical metres above 11 level, the lowest historical working level. As forecast, the decline is anticipated to reach the 11 level by mid November. A smooth transition from contactor mining to dry hire of equipment occurred at the end of the quarter. Upgrades to all services are now complete.

The diamond drilling program continued during the quarter with results showing significant high grade ore zones amenable to mining in the upper levels. The proposed deep drilling to enable optimal decline design commenced and is scheduled for completion in early November.

Production from the upper levels of the mine will commence in the current quarter as planned.

### Exploration

#### *Honeymoon Well project*

The Honeymoon Well project covers approximately 10 kilometres of strike length of the Agnew-Wiluna greenstone belt between Mount Keith and Wiluna, Western Australia.

Further drilling was undertaken on the Capital prospect with significant intercepts of 4 metres at 20.6 g/t gold from 134 metres in HJVRC015 on the Central Zone and 10 metres at 28.8 g/t gold from 171 metres in HJVRC015 on the Eastern Zone. However, initial interpretation has demonstrated that these high grade zones have limited continuity. The results of this drill programme are now being fully interpreted and follow up will be planned over the coming quarter.

#### *Holleton project*

The Holleton project is located on the southern extension of the Mt Hampton gneiss dome, about 70 kilometres south west of Marvel Loch in Western Australia.

Reverse circulation drilling tested the Calzoni prospect for the continuation of mineralisation comprising 19.1 metres @ 3.15g/t gold intersected in previous hole DDDH 001. Six holes were completed with five holes intersecting broad calc-silicate sulphide alteration. However, results were disappointing with the best intercept being 50 metres at 0.46 g/t gold (including 10 metres at 1.27 g/t). No further work is planned for the Calzoni prospect at present, but RAB drilling is proposed to test a number of gold soil anomalies in the coming quarter.

#### *Moyagee project*

The Moyagee project is located within the Mt Magnet - Meekatharra Greenstone Belt in the Murchison Province of Western Australia.

A programme of 10,000 metres of aircore drilling is proposed for the coming quarter to test the extension of the Lena shear system under lake sediments to the north of the Lena resource.

## Investments

#### *Strike Oil Limited*

Strike Oil Limited, an independent oil and gas exploration company incorporated in 1997, was listed on the Australian Stock Exchange on 5 August 2004.

A total of \$12 million was raised from the public and through a priority allocation extended to Perilya shareholders. These monies together with existing cash reserves of around \$5 million will fund an intensive nine well drilling program on the company's permits in the Carnarvon and Cooper/Eromanga Basins.

Perilya currently holds 20.65% of the shares on issue in Strike Oil Limited.



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## Corporate

### Insurance claim finalised

During the quarter the Company agreed with the underwriters a net \$2.4 million claim for the skip jam failure at Broken Hill that occurred in January 2004.

### Cash and debt position

At 30 September 2004, cash and short term deposits totalled approximately \$32 million. The Company also holds listed investments totalling approximately \$15 million (\$10 million as at 30/6/04). Borrowings, including convertible notes, totalled approximately \$38 million.

The reduction in cash holdings of approximately \$9 million in the quarter was used for the development at Daisy-Milano (\$4 million), production and price linked payments forming part of the purchase price of the Broken Hill Operation (\$2 million), exploration (\$1 million) plus interest and corporate activities. Broken Hill provided a small positive cash flow.

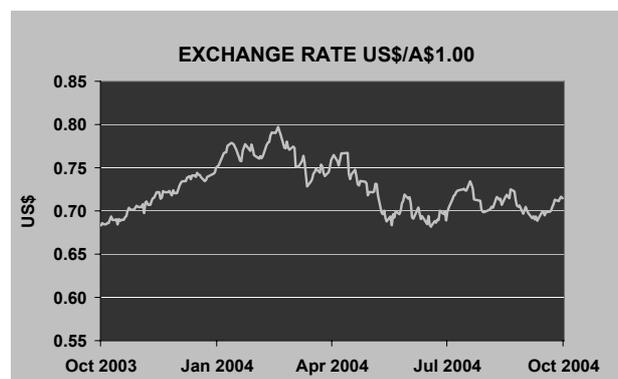
## Market Conditions

Higher zinc, lead and silver prices during the quarter were offset by a corresponding increase in the value of the Australian Dollar against the US Dollar. The LME zinc cash settlement price averaged US\$979 per tonne for the quarter and closed on 30 September 2004 at US\$1,079 per tonne, up from US\$967 per tonne on 30 June 2004.

The LME lead cash settlement price increased during the quarter from US\$868 per tonne on 30 June 2004 to close at US\$964 per tonne on 30 September 2004, averaging US\$931 per tonne for the quarter.

Spot silver prices traded between US\$5.87 per ounce and US\$6.82 per ounce during the quarter, closing on 30 September 2004 at US\$6.66 per ounce up from US\$5.91 per ounce on 30 June 2004.

The Australian dollar appreciated against the US dollar during the quarter from US\$0.6889 per A\$1.00 at 30 June 2004 to US\$0.7147 per A\$1.00 at 30 September 2004. Since the end of the quarter the Australian dollar has traded around US\$0.7300 per A\$1.00.





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## PERILYA LIMITED

### Board of Directors:

Phillip Lockyer	Non-Executive Chairman
Timothy Clifton	Managing Director
Colin McIntyre	Non-Executive Director
Guy Travis	Non-Executive Director
Peter Harley	Non-Executive Director

### Capital Structure:

Ordinary Shares	164,020,332
Unlisted Options	10,195,000

### Major Shareholders:

Acorn Capital	10.0%
Golden Prospect PLC	5.3%

### Shareholder Enquiries

Alan Knights	Chief Financial Officer
John Traicos	Company Secretary

### Principal & Registered Office:

Level 2, 31 Ventnor Avenue  
West Perth Western Australia 6005

### Contact Details:

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Facsimile:	(61 8) 9423 1787

### Share Registry:

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Perth Western Australia 6000

Telephone:	(61 8) 9323 2000
Facsimile:	(61 8) 9323 2033
Email:	perth.services@computershare.com.au

### Stock Exchange Listing

Australian Stock Exchange  
ASX Code: **PEM**