

# ASX and Media Release

19 December 2006

## BOARD APPROVAL FOR FLINDERS HIGH GRADE ZINC OXIDE PROJECT IN SOUTH AUSTRALIA

- Extension of the Beltana open pit in 2007 with first direct ore shipment in early 2008
- IRR of 84 per cent and pre tax cashflows of \$50.6 million (at an average US\$1.25/lb zinc price) on high grade Beltana ore alone
- Further opportunities within the overall Flinders project provide significant upside potential

Perilya Limited (ASX:PEM) announced today that it had gained Board approval to proceed with the development of the 100 per cent owned Beltana zinc mine as the first phase of advancement of its Flinders project in South Australia. The Beltana mine has been approved by the Board based on the favourable returns generated by the mining and direct shipment of 150,000 tonnes of high grade zinc ore.

The feasibility study recently completed shows the Beltana project has a pre-tax net cashflow of \$50.6 million (assuming an average US\$1.25/lb zinc price and US\$0.78 exchange rate) with an IRR of 84 per cent. At the prevailing zinc price of US\$2.00/lb, the project would be expected to generate pre-tax net cash flows in excess of \$130 million.

Chief Executive Officer, Len Jubber, stated that the Beltana mine provides Perilya with a low cost entry into a significant zinc oxide resource at historically high spot prices.

The high grade tenor of the project and the tightness of the zinc market at present provides Perilya with the opportunity of identifying a market for an additional 242,000 tonnes of lower grade material that is contained within the existing mine design. All of this material, grading between 14 and 26 per cent zinc, will be stockpiled separately on site. Investigation into the beneficiation of the lower grade material through ore sorting or other means has commenced.

The Flinders project is located 470 kilometres north of Adelaide in South Australia covering 4,138 square kilometres and comprises several high-grade zinc oxide prospects in close proximity to Leigh Creek, a well established mining community. The total Mineral Resources for the Flinders project is currently estimated at 966,000 tonnes at 31 per cent zinc containing almost 300,000 tonnes of zinc metal.

Development of the Beltana mine will comprise a 12 month open cut mining and on-site crushing program which, subject to regulatory approvals, is expected to commence in the second quarter of 2007. Most of the project infrastructure is already in place and the project development will be funded internally.

The project will involve direct shipment of high grade zinc oxide ore through Port Pirie to smelters in Asia. The first ore shipment is expected early in 2008 with sales continuing over a two to three year period thereafter. Contained zinc sales for 2008 financial year are forecast at 15,000 tonnes increasing to 20,000 tonnes in subsequent years.

"The Beltana mine entails extending the existing 65 metre deep pit a further 30 metres providing a short lead time and low capital cost route to approximately 57,400 tonnes of contained zinc and will enable us to take further advantage of the prevailing high zinc prices," said Mr Jubber.

"The commercialisation of the Flinders project will provide significant additional value to our shareholders" said Mr Jubber.

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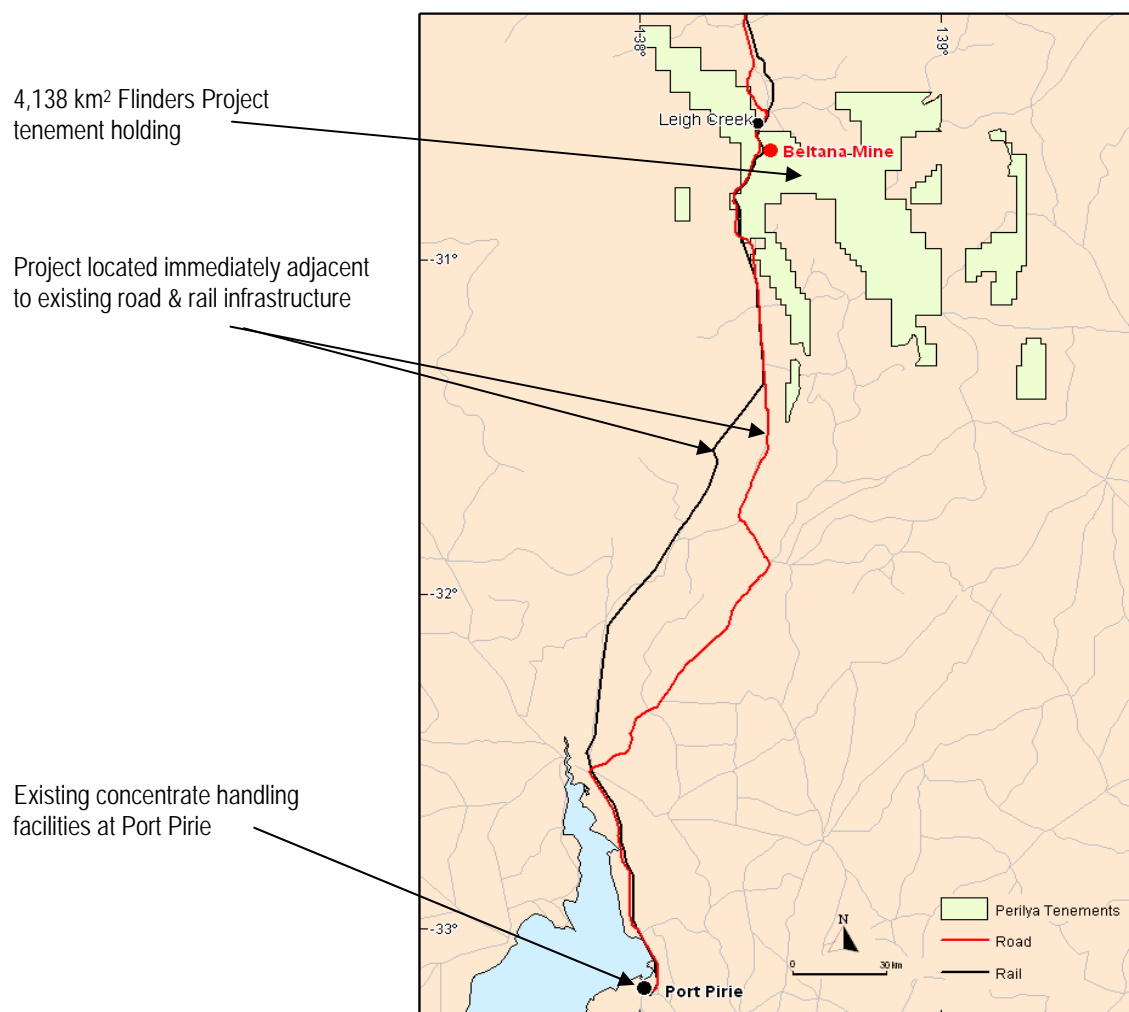
## Flinders Zinc Project, South Australia

### Overview

The Beltana mine is part of the Flinders project, which covers 4,138 square kilometres of the northern Flinders Ranges in South Australia, 250 km north of Port Pirie and 470 km north of Adelaide.

The project comprises exploration licences and mining leases under five separate joint ventures (Perilya earning between 85 and 90 per cent) as well as exploration licences and mining leases held 100 per cent by Perilya.

**Figure 1: Project Location & Infrastructure**



### Geology & Mineralisation

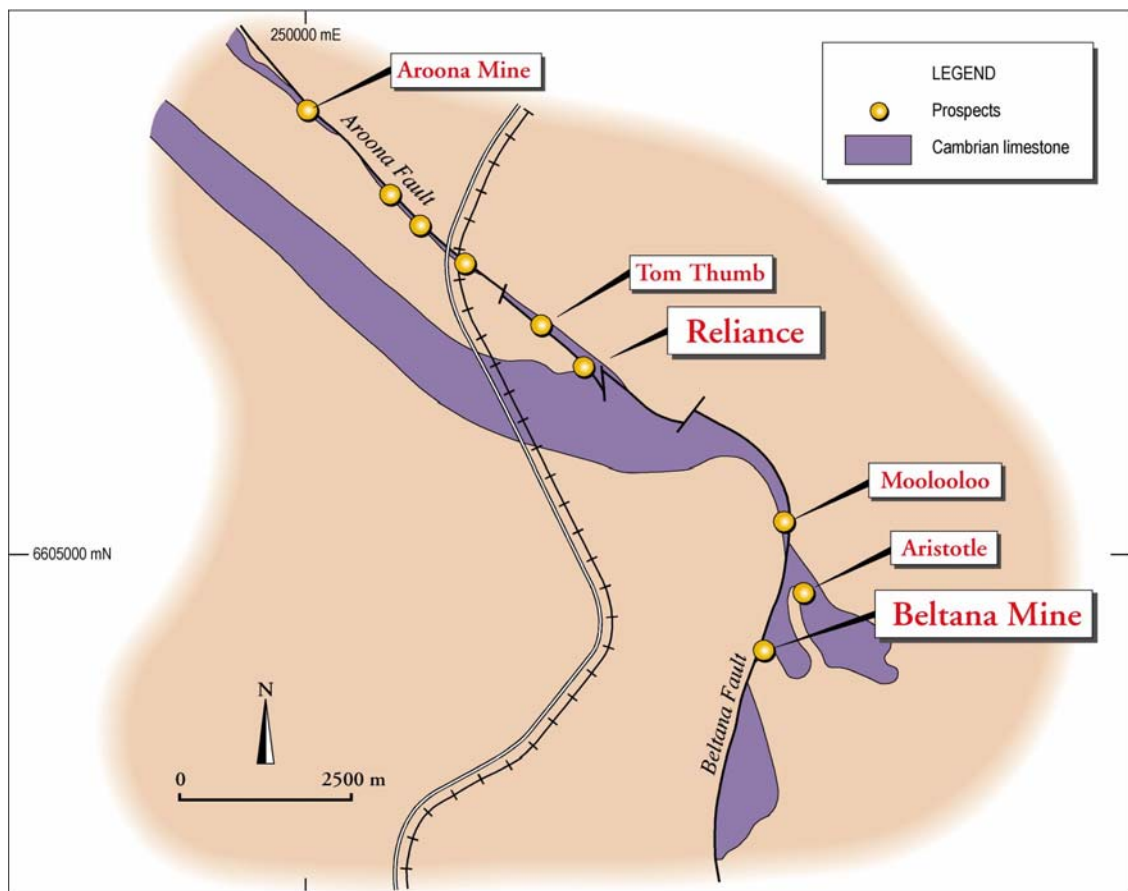
The Flinders project is located in the northern part of the Adelaide Geosyncline, a deep sedimentary basin of Late Proterozoic to Middle Cambrian age. Lithologies include siltstone, sandstone, limestone, dolomite and black shale. Zinc mineralisation within the project area is hosted within the Wilkawillina Limestone and the Woodendina Formations.

The Beltana and Aroona zinc oxide deposits were found during exploration for large scale carbonate hosted lead-zinc sulphide deposits in the 1960s. The Beltana – Aroona trend (15 km) is the largest known willemite alteration zone in the world. The primary mineralisation is a high-grade zinc silicate. There has been only limited modern exploration along this trend.

To date Perilya's exploration has targeted extensions to high grade zinc oxide mineralisation adjacent to the Beltana and Aroona open pits, and along strike within the prospective lithological and structural zones that host the deposits.

Future exploration at Flinders will focus on discovering further high grade zinc mineralisation within the extensive tenement holdings.

Figure 2: Flinders Prospects



### Mineral Resource Estimate

Total resources in all categories in the Flinders project area currently total 966,000 tonnes at 31 per cent zinc containing almost 300,000 tonnes of zinc. The high grade nature of the mineralisation provides the opportunity to produce a direct shipping product thereby obviating the need for onsite processing and tailings storage.

Table 1: Flinders Mineral Resource Estimate as at November 2006

	Indicated			Inferred			Total		
	kt	% Zn	Cont. Zn (kt metal)	kt	% Zn	Cont. Zn (kt metal)	kt	% Zn	Cont. Zn (kt metal)
<b>Beltana</b>	373	32.7	122	3	18.6	1	376	32.6	123
<b>Reliance</b>	-	-	-	355	29.5	105	355	29.5	105
<b>Other</b>	118	30.6	36	117	29.8	35	235	30.2	71
<b>TOTAL:</b>	<b>491</b>	<b>32.2</b>	<b>158</b>	<b>475</b>	<b>29.5</b>	<b>141</b>	<b>966</b>	<b>30.9</b>	<b>299</b>

*The information in this report that relates to Mineral Resources is based on information compiled by Ms Michelle Wild and Mr Jeffrey Ion. Ms Wild is employed by Wildfire Resources Pty Limited and Mr Ion is a full-time employee of Perilya Limited. Both are Members of The Australian Institute of Mining and Metallurgy.*

*Estimation of Mineral Resources used a 10 per cent zinc cut-off grade. A combination of Inverse Distance Weighting interpolation techniques inside three-dimensional wireframe models, or sectional estimation methods, was used.*

## BELTANA PROSPECT

### Overview

The Beltana prospect is situated 20 kilometres south of the township of Leigh Creek. It has a Mineral Resource of 375,600 tonnes at 32.6 per cent zinc below the previously mined pit.

Perilya plans to resume open pit mining operations to recover approximately 57,400 tonnes of contained zinc from the estimated ore reserve of 150,000 tonnes at 38.3 per cent zinc. State Government approvals are expected during the 1<sup>st</sup> quarter of 2007 whereupon major contracts will be awarded.

### Ore Reserve Estimate

**Table 2: Beltana Ore Reserve Estimate as at 14 December 2007**

	Probable		
	kt	% Zn	Cont. Zn (kt metal)
Beltana	150	38.3	57.4

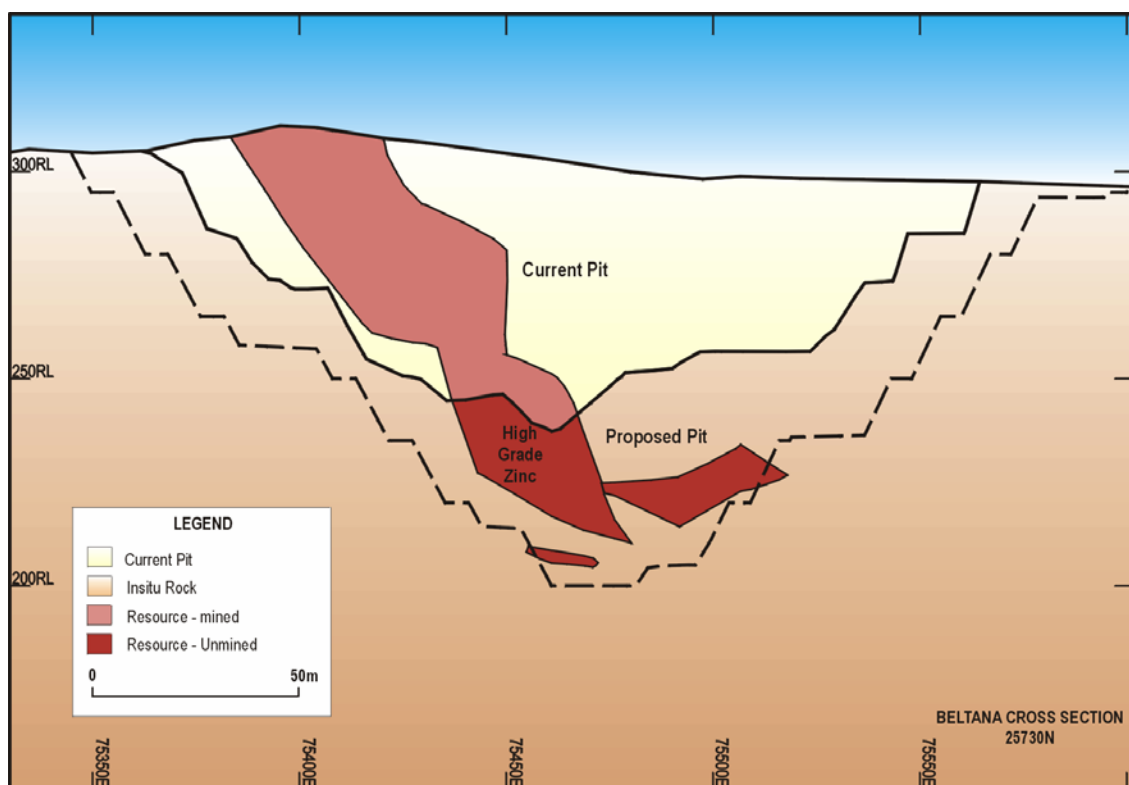
*The information in this report that relates to Ore Reserves is based on information compiled by Mr Wayne Loxton. Mr Loxton is the consultant Project Manager and is employed by Loxton Nominees Pty Ltd. Mr Loxton is a Member of The Australian Institute of Mining and Metallurgy.*

### Mining & Crushing

Mining activities will be undertaken by a contractor and will commence with a dewatering program followed by a cut back of the existing pit. The main pit will be deepened by approximately 30 metres to 95 metres below surface. The mine will then be developed to the south to access additional, lower grade material.

The 4 to 6 week establishment period is aligned with the mining contractor's mobilisation schedule. The short pre-production period is a result of being able to utilise the existing services and infrastructure (e.g. power, security fences, office facility and access roads). The mining period is scheduled for approximately 12 months.

**Figure 3: Cross Section of Beltana Open Pit**



Due to the high grade nature of the project, selective mining techniques will be used to mine the direct shipping ore (DSO). Flitch height will be restricted to 2.5 metres in ore zones. The primary objective of the ore mining phase is to minimise dilution and maximise ore recovery.

Ore will be hauled by truck to the surface ROM pad, located near the pit exit. A portable crushing unit supplied and operated by the mining contractor will be brought to site to crush the DSO to 100 per cent passing 20 mm. The crushed DSO will be stockpiled on site in readiness for road transport to Port Pirie.

### Transport

The DSO will be transported to Port Pirie by road. It will be stockpiled at Port Pirie utilising existing storage facilities which will be extended as part of the capital cost of the project.

The opportunity to reduce operating costs by utilising the existing rail infrastructure that is in place between Leigh Creek and Port Pirie is currently being investigated.

### Processing

Beltana has been designed as a direct shipping ore project and therefore does not require processing and tailings storage facilities on site. The high grade ore will be shipped from Port Pirie to appropriate smelters in Asia where it will be processed into zinc metal.

### Direct Shipping Ore – Offtake Arrangements

Perilya is expecting to finalise a Zinc Ore Purchase Agreement early in 2007.

### Infrastructure

The project benefits significantly from its close proximity to Leigh Creek (which services the Leigh Creek coal fields) and other services. The town has the capacity to provide accommodation and messing facilities for the Beltana operation and other services commensurate with a small mining town.

Existing site facilities are adequate for the level of operation contemplated and will allow rapid start up. No other facilities are required apart from equipping pit dewatering bores. Grid power is connected to site and is currently in use.

### Operating Costs

Total mining and crushing costs are expected to be \$66 per tonne of ore shipped with road transport costs from Beltana to Port Pirie forecast to be \$40 per tonne of ore. The treatment costs of \$410 per tonne of DSO are based on the industry consensus view of the likely 2007 treatment charges. The treatment costs also include freight, handling and royalties.

The cash costs of production are forecast at approximately US\$ 0.63 per pound (at spot zinc prices of US\$ 1.25 per pound). These costs are higher than Broken Hill as there are no by-product credits available with this material.

**Table 3: Summary of Operating Costs for Beltana Project**

	TOTAL \$/t DSO
Mining & Crushing	66
Transport to Port Pirie	40
Treatment	410
<b><i>Total Operating Costs per Tonne of DSO</i></b>	<b>516</b>

### Capital Costs

The project capital for Beltana is \$14.4 million. The capital expenditure includes \$5.6 million for an extension to the existing storage facilities at Port Pirie. This will provide both storage capacity for the DSO material and a longer term benefit of additional flexibility for the marketing and storage of Broken Hill concentrates. The pre-strip at the Beltana pit will require approximately \$16.7 million in working capital.

The project will be funded from Perilya's existing cash reserves.

**Table 4: Summary of Capital Costs for Beltana project**

	TOTAL \$m
Preproduction Costs	2.7
Plant and Equipment	2.4
Storage Shed Extension at Port Pirie	5.6
Other Port Infrastructure (modifications)	3.7
<b>Project Capital</b>	<b>14.4</b>
Pre-Strip	16.7
<b>TOTAL CAPITAL</b>	<b>31.1</b>

### Permitting

Permitting of the mining activities is at an advanced stage and is expected to be concluded by the South Australian government in the March quarter 2007. The Beltana project is essentially an extension to previously existing mining operations.

### Further Value Add Opportunities

A number of opportunities exist to significantly enhance the value derived from the Beltana prospect and the Flinders project in general.

### Intermediate (lower grade) Products

Along with the high grade material produced, the Beltana pit will also produce over 242,000 tonnes of intermediate material at an average grade of over 21 per cent zinc. This material has a very low incremental mining cost and will be stockpiled at the mine in anticipation of identifying potential markets and customers for these products.

The feasibility study for Beltana has been approved on the basis of the high grade reserves only and makes no allowance for the upside potential associated with the intermediate products.

**Table 5: Intermediate (lower grade) Products**

	kt	% Zn	Cont. Zn (kt metal)
Product A	149	20.5	30.5
Product B	46	26.3	12.3
Product C	21	14.2	3.0
Product D	26	24.1	6.3
<b>Total Intermediate Products</b>	<b>242</b>	<b>21.5</b>	<b>52.0</b>

### Beneficiation

Gravity separation and ore sorting are two beneficiation techniques currently under review to upgrade the lower grade run-of-mine material to provide additional DSO products.

### Other Resources & Regional Exploration

The project has a further 590,000 tonnes of Mineral Resources at 29.8 per cent zinc which could potentially be developed as well as a number of promising exploration targets.

### Higher Zinc Prices

The current spot price of zinc is 60 per cent higher than the average price assumed in the Beltana feasibility study. This provides significant upside to the value of the Beltana project and the broader resources within the Flinders region.

Figure 4: Existing Beltana Open Pit



Figure 5: Existing Beltana Camp and Office Infrastructure



Figure 6: Arial View of Proposed Site Layout

