

## ASX and Media Release

11 February 2011

### **PERILYA APPROVES DEVELOPMENT OF POTOSI / SILVER PEAK MINES AT BROKEN HILL**

#### **Highlights:**

- **Development of Potosi and Silver Peak mines to increase Broken Hill production**
- **Relatively low-cost development**
- **Potosi Inferred Mineral Resource contains 1.6 million tonnes at 14.1 per cent zinc, 3.4 per cent lead and 46 grams per tonne silver**
- **Silver Peak Inferred Mineral Resource contains 0.39 million tonnes at 4.9 per cent zinc, 9 per cent lead and 77 grams per tonne silver**
- **The three mining areas within the project (Potosi North, Potosi Extended and Silver Peak) only represent approximately 50 per cent of the targeted mineralised zones along strike.**

Perilya Limited (ASX:PEM) announced today that its Board has formally approved the development of the Potosi/Silver Peak mine, located two kilometres from Broken Hill. This follows completion of a development study and receipt of all necessary state and local government approvals for the project to proceed.

The Potosi project which originally commenced development in March 2007, was put on care and maintenance in September 2008 due to rapidly falling commodity prices at the time and uncertainty in global financial markets. This decision by the Board to re-commence the development is therefore a welcome development for both Perilya and the city of Broken Hill.

The Potosi mine is located on the Northern outskirts of the Broken Hill city municipal area and is an underground operation accessed by a decline that extends 1400m from a portal located in a previously mined open pit. The existing decline face is 140 m below surface.

The mine development will commence during the first half 2011 and will initially target mining approximately 1.6 million tonnes of ore at an average grade of 8.3% zinc, 3.1% lead and 38 grams/tonne of silver.

Capitalising on existing infrastructure and a highly experienced mining workforce at Broken Hill, the Potosi/Silver Peak project has relatively competitive fundamentals in the current metal price environment and is expected to increase combined metal production (zinc and lead) from Broken Hill by approximately 30,000 tonnes in its first full year of production ramping up to approximately 45,000 tonnes per annum in subsequent years.

Ore mined from the Potosi/Silver Peak operation will be trucked to Southern Operations concentrator for processing.

The Potosi/Silver Peak project development will require approximately 18 months prior to the stoping operation which, under the initial plan, will continue for approximately an additional 40 months.

There is very good potential to extend the life of this project with possible extensions identified along strike to the north and also down dip.

Managing Director and CEO, Paul Arndt, said that *“the Potosi/Silver Peak mine development presents Perilya with significant near term upside exposure to the relatively stable zinc price at a low development cost whilst adding additional feed to the Broken Hill Southern Operations concentrator.”*

He added that *“although mining operations could not be supported in 2008 by the commodity prices that prompted the closure later that year, studies continued through 2009 and 2010 that focused on planning a viable operation that could add additional feed to the Broken Hill Southern Operations concentrator and culminated with an initial concept plan that was presented to the Board early in 2010. Further optimization of these concepts progressed and a Development Approval was sought from the Broken Hill City Council (BHCC) in March 2010.”*

*“The new mining plan differs significantly from the earlier plans developed in 2006. Exploratory diamond drilling conducted immediately prior to the decision to place the operation on care and maintenance confirmed the existence of mineralization between the Potosi North and the Potosi extended area. This area of mineralisation has been incorporated in the current plan. The incorporation of Silver Peak deposit and a production plan based around higher mining rates also contributes significantly to the economics of the project.*

*The development of Potosi and other projects we are examining in the region re-affirm Perilya’s long term commitment to Broken Hill”*

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#### **About Perilya**

*Perilya Limited is an Australian base metals mining and exploration company. Perilya is the operator of the Broken Hill zinc, lead, silver mine in NSW Australia and the Flinders zinc silicate project in South Australia and, following the highly successful takeover of former TSX listed GlobeStar Mining Corporation, the Cerro de Maimón copper, gold & silver mine in the Dominican Republic.*

*The Company’s operations at the iconic Broken Hill mine went through a resizing in 2008 which has resulted in significant improvement in productivity, profitability and cashflows resulting in an extension to the life of mine of in excess of 10 years.*

*In addition to its mining operations, the Company has an active exploration and development program which includes exploration and development programs in the Broken Hill region NSW Australia and in the Flinders region of South Australia in the vicinity of its Beltana zinc silicate project. The Company also has extensive exploration programs underway on its Dominican Republic mining and exploration concessions that include a laterite nickel project and highly prospective copper, gold & silver targets near its Cerro de Maimón mine.*

*The Company is reviewing options for the development of the Mount Oxide Copper and Cobalt Project in the Mount Isa region in Queensland. In addition, the Company has a 60% interest in the Moblan lithium project located in Quebec, Canada, which is currently undergoing a development study (the remaining 40% is held by SOQUEM, which is an investment company owned by the Quebec Government in Canada).*

*Perilya is owned 52% by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd, (China’s third largest zinc producer).*

*For more details, visit [www.perilya.com.au](http://www.perilya.com.au)*

### Executive Summary

The Potosi/Silver Peak development project (the “**Project**”) is an underground operation assessed by a decline that extends 1400m from a portal located in a previously mined open pit. The existing decline face is 140 m below surface.

The Potosi deposit, located two kilometres north of the existing North Mine at Broken Hill, currently contains an Inferred Mineral Resource of 1.6 million tonnes at 14.1 per cent zinc, 3.4 per cent lead and 46 grams per tonne silver. The Potosi Mineral Resource includes two mining zones – Potosi North and Potosi Extended. In addition, the adjacent Silver Peak deposit, which will be developed simultaneously with the Potosi deposit as a combined project, contains an Inferred Mineral Resource of 0.39 million tonnes at 4.9 per cent zinc, 9.0 per cent lead and 77 grams per tonne of silver (*refer Table 1 on page 5 for JORC classifications*).

In September 2008 falling commodity prices prompted the cessation of operations at the Potosi underground mine. At that time the mine was placed on care and maintenance. Although mining operations could not be supported by the commodity prices that prompted closure in 2008, studies continued through 2009. These studies focused on planning a viable operation that could add additional feed to the underutilized Broken Hill Southern Operations concentrator and culminated with an initial concept plan that was presented to the Perilya board in early 2010. Further optimization of these concepts progressed and a Development Approval was sought from the Broken Hill City Council (BHCC) in March 2010.

As a result of additional exploratory drilling conducted immediately prior to the decision to place the operation on care and maintenance in 2008, the new mine plan differs significantly from the earlier plans developed in 2006. The 2008 exploratory diamond drilling program confirmed the existence of mineralization between the Potosi North and the Potosi extended area. This extension of mineralisation has been incorporated in the current mine plan.

The decision has been made to develop a second decline access into the mine and to link this access with the existing decline. This second decline will be developed adjacent to the Silver Peak deposit, which is located to the north of the Potosi zone. A separate decline access to be developed at the Silver Peak mine will provide both a second means of egress and a ventilation connection for the joint development. The ore defined within the Silver Peak deposit has been incorporated into the current mine plan.

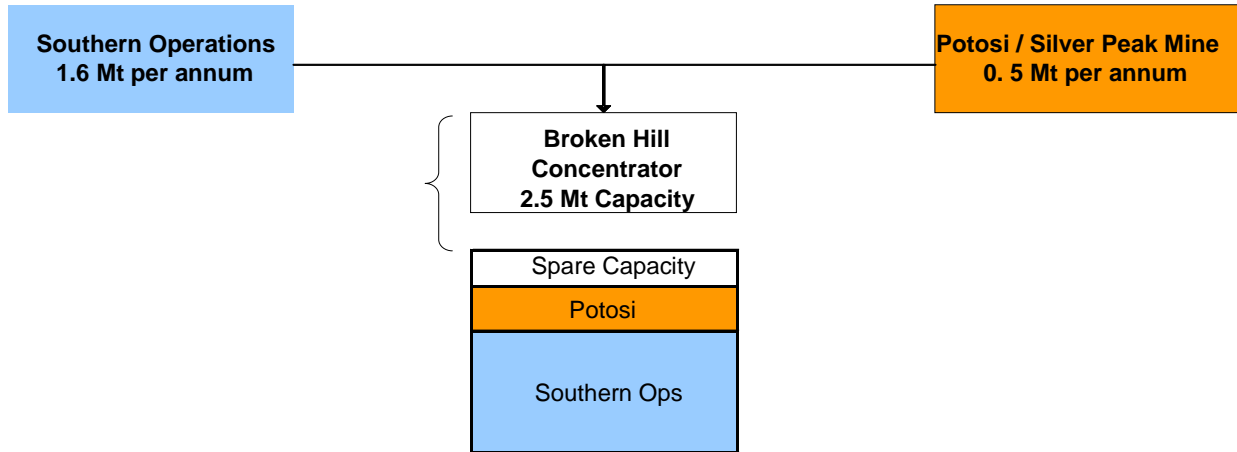
Whilst ore reserves for the Potosi and Silver Peaks areas have not yet been determined, a mining study undertaken by Perilya assumes production of approximately 1.6 million tonnes at 8.3 per cent zinc, 3.1 per cent lead and 38 grams per tonne silver, representing a conservative conversion of the contained metal within the current inferred mineral resource model. There is potential to increase in the assumed production physicals through additional exploration, resource infill drilling and increased understanding of the Potosi/Silver Peaks deposit.

With the granting of a development approval by the Broken Hill City Council in December 2010, all regulatory approvals have now been received for the Project with development commencing during the June 2011 quarter.

Following an approximately 18 month development period, the Project is expected to commence production in late 2012 and produce approximately 30,000 tonnes combined of contained zinc and lead in concentrate during 2013, ramping up to an expected annual production of approximately 45,000 tonnes combined of contained zinc and lead in concentrate (based on the inferred mineral resource described in Table 1).

The Project has a number of aspects to it that will complement and strengthen the operating and financial performance of Broken Hill. Its location offers the opportunity to realise a number of synergies through shared services and support and the Potosi/Silver Peak material will be processed utilising spare capacity at the Broken Hill concentrator (*Figure 1*).

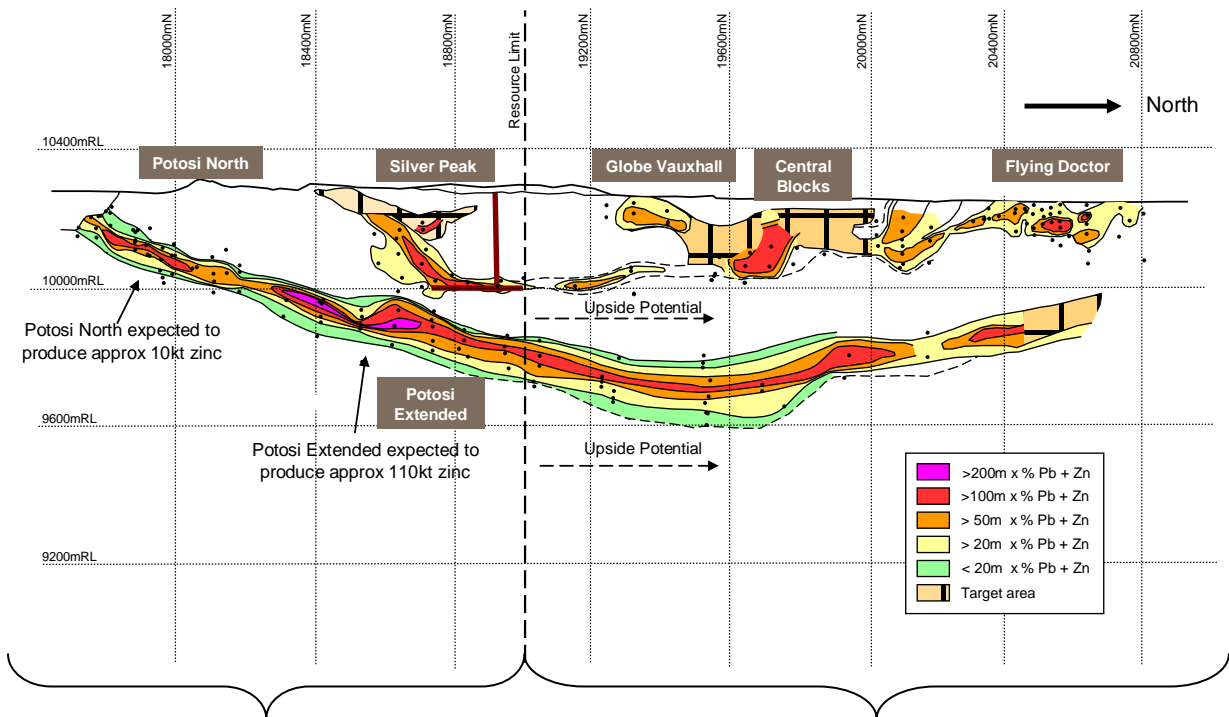
Figure 1 - Proposed Concentrator Throughput at Broken Hill



The operating cost forecasts for Project are expected to be similar to the current costs at the Broken Hill Southern Operations. Both the general and administrative costs and the processing costs will be marginal, given the supplementary nature of the project to the existing Broken Hill operations.

The mineralised zone is approximately three kilometres in strike length, from the Potosi North resource to the Flying Doctor prospect (Figure 2). Potosi North and Potosi Extended represents only approximately 50 per cent of the targeted mineralised zones along strike. The northern half of the mineralised zone will be tested as part of the development of Project.

Figure 2 – Project Project Strike Length



Current Inferred Mineral Resource of 1.6 Mt @ 14.1% Zn, 3.4% Pb and 46 g/t Ag in the Potosi north and Extended zones and 4.9% Zn, 9.0% lead and 77 g/t Ag in Silver Peak.

~ 50% of the strike length of the mineralisation has only been sparsely drilled to date.

## Potosi/Silver Peak Development Project Information Sheet

### Project Summary

Table 1 – Mineral Resource

	Status	Tonnes	Zn (%)	Pb (%)	Ag (g/t)
Potosi	Inferred	1,600,000	14.1	3.4	46
Silver Peak	Inferred	390,000	4.9	9.0	77
<b>TOTAL</b>		<b>1,990,000</b>	<b>12.3</b>	<b>4.5</b>	<b>52</b>

Table 2 – Project Physicals Summary

Mining:	
<b>Mining Type:</b>	Underground
<b>Assumed Mining Production:</b>	1.6 million tonnes @ 8.3% Zn, 3.1% Pb & 38 g/t Ag
<b>Mining Rate:</b>	450 - 500 kt per annum
<b>Capital Development</b>	5,133m
<b>Operating Development</b>	12,097m
<b>Development Capital:</b>	approximately \$57.8 million
Processing:	
<b>Plant:</b>	Broken Hill Concentrator
<b>Throughput:</b>	Sufficient capacity at Broken Hill facility to enable Project ore to be treated at marginal costs.

### Background

The Potosi/Silver Peak project is situated two kilometres north of Broken Hill, within the Perilya owned Consolidated Mining Lease 5 (CML5). It is parallel to the main Broken Hill Line of Lode.

Figure 3 - Site Location



## Potosi/Silver Peak Development Project Information Sheet

Pasminco originally mined the Potosi deposit as an open pit to a depth of 95 metres between 1996 and 2000 yielding 625,000 tonnes at 7.8 per cent zinc and 1.6 per cent lead. The potential for underground mining was considered, but in times of low metal prices it was deemed uneconomic.

In today's zinc and lead price environment, and with relatively low pre-production capital requirements, the Project provides a relatively low risk opportunity for Perilya to access a significant source of additional material for the Broken Hill concentrator.

### Geology

The Potosi/Silver Peak deposits comprises several narrow, ribbon like lenses that can be traced almost continuously from near the base of the Potosi Pit to north of the Flying Doctor, as shown in *Figure 2* above. The mineralisation is typically high grade mainly zinc lodes (with lesser lead lodes).

The mineralisation displays characteristics of being stratiform and structurally emplaced. The mineralised lodes are typically high grade with very sharp host rock contacts. There is no discernable halo of low-grade mineralisation.

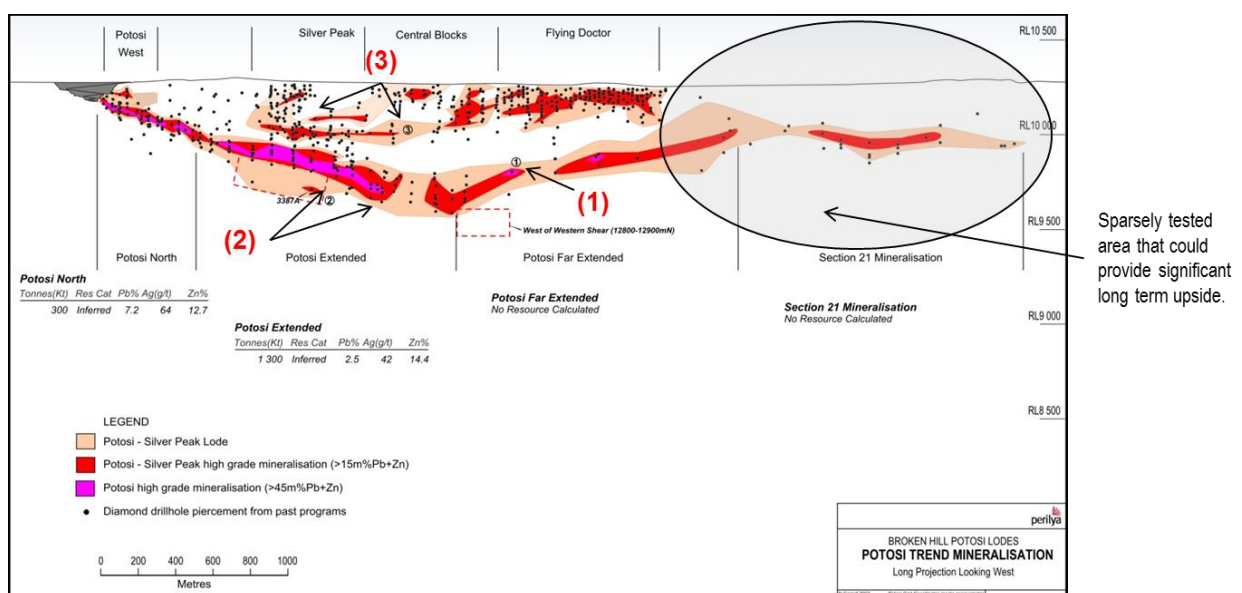
### Mineral Resources

The Potosi/Silver Peak Mineral Resource estimate as at 31 December 2010 is shown in *Table 1* above:

Potential to define additional mineralisation between the Potosi North and Potosi Extended zones and further north of the Potosi Extended area exists.

Three primary areas have been identified that could potentially add to the project life at comparable grade and cost/development. They are the Potosi Far Extended area (1), down-dip of Potosi Extended (2) and Silver Peak/Central Blocks (3) – See *Figure 4*

**Figure 4 Upside Potential**



## Potosi/Silver Peak Development Project Information Sheet

### **Mining**

Mining will be undertaken from the current decline from the existing Potosi pit to develop the Potosi North zone.

The mining method in the current mine plan will be a modified AVOCA method which will see the ore extracted in a “bottom up” sequence with stoping operations conducted from the backfilled stope that has previously been mined. The mining plan includes a single crown pillar to effect early ore production.

Geotechnical parameters include:

- Stope width - 3m to 15m
- Stope height - maximum of 25m (floor to floor)
- Stope length - maximum of 35m
- Ground Support – Use of in-cycle ground support for all development
- Backfill requirement - Waste rock will be used for backfill, sourced either from development or from surface waste rock stockpiles



### **Crushing and Transport**

Ore will be hauled by underground truck to the surface stockpile pad, located near the site entrance. A portable crushing unit will be brought to site to crush the ore.

The crushed material from the Project will be trucked to the Southern Operations where it will be processed in the Southern operations concentrator providing additional feed to significantly increase utilisation.



### **Processing**

Ore from the Project will be processed at the concentrator which has an annual capacity of approximately 2.5 million tonnes, and is currently operating on a roster of 10 days on/4 days off.

The metallurgical characteristics of the Potosi and Silver Peak deposits are very similar to those of the existing Broken Hill operations, which ensure a low marginal cost of processing this ore.

Process recoveries and concentrate grade for Potosi/Silver Peak material are expected to be similar to those currently achieved for Southern ore feed.

## Potosi/Silver Peak Development Project Information Sheet

### Marketing

Given the development time-line, all metals produced from the Project will not be bound to any current concentrate off-take agreement and are therefore available to sell into the spot market or form part of new frame contracts as the Company deems fit. This provides the Company with the flexibility to maximise sales returns from the Project in a period of anticipated global decline in supply for zinc.

### Capital Cost Estimate

Capital costs for development of the Project are estimated at \$57.8 million. The major capital items are summarised as follows:

**Table 3 – Major Project Capital Items**

	Potosi/Silver Peak Combined
Surface Infrastructure	\$1.0
Underground Infrastructure	\$6.3
Mine Development	\$30.0
Plant & Equipment	\$20.5
<b>TOTAL (\$M)</b>	<b>\$57.8</b>

### Permitting

All necessary environmental and development permits for the Project development have been received and the specific licence conditions are confirmed. Furthermore, as an active mining lease there are no outstanding Native Title claims or applications.

Development approval was granted by the Broken Hill City Council on 17 December 2010. Whilst not prohibitive to the Project commencing, Perilya's objects to some of the conditions attaching to the approval around changes to and maintenance of the existing gazetted public haulage road. Accordingly, based on legal advice from its planning lawyers, Perilya has given notice to the Broken Hill City Council that it will appeal those conditions attached to the approval in the Land & Environment Court. Notwithstanding this process, all parties are in favour of the development of a new by-pass road for the purposes of hauling ore from the Project to Perilya's Southern Operations. Once the new by-pass road is completed, the conditions and outcome of the appeal will be academic. All parties are working both cooperatively and expeditiously towards the completing the necessary processes for the development and completion of the proposed by-pass road in a time frame that will see it completed in time for the bulk, if not all, of the ore to be hauled via the proposed by-pass road. Perilya has offered to make a financial contribution to the development of this by-pass road. Commencement of the development of the Potosi/Silver Peak project is not conditional upon the outcome of the appeal.

### Financing

Project funding, including all capital, development and resource drilling requirements, will be sourced from Perilya's existing cash reserves (including its working capital facilities) and operating cashflow capability.

**Infrastructure**

The existing surface infrastructure includes:

- Potosi Open Pit;
- Potosi decline development extending 1,400m from the portal located in the existing open pit (decline face is 140m below surface);
- Site office;
- Transformer near gate to site;
- Raw water line to site (disconnected); and
- Access road to the Barrier Highway and North Mine

**Figure 4: Perilya Broken Hill Mines Mineral Resource areas in relation to the lease boundaries and the city of Broken Hill**

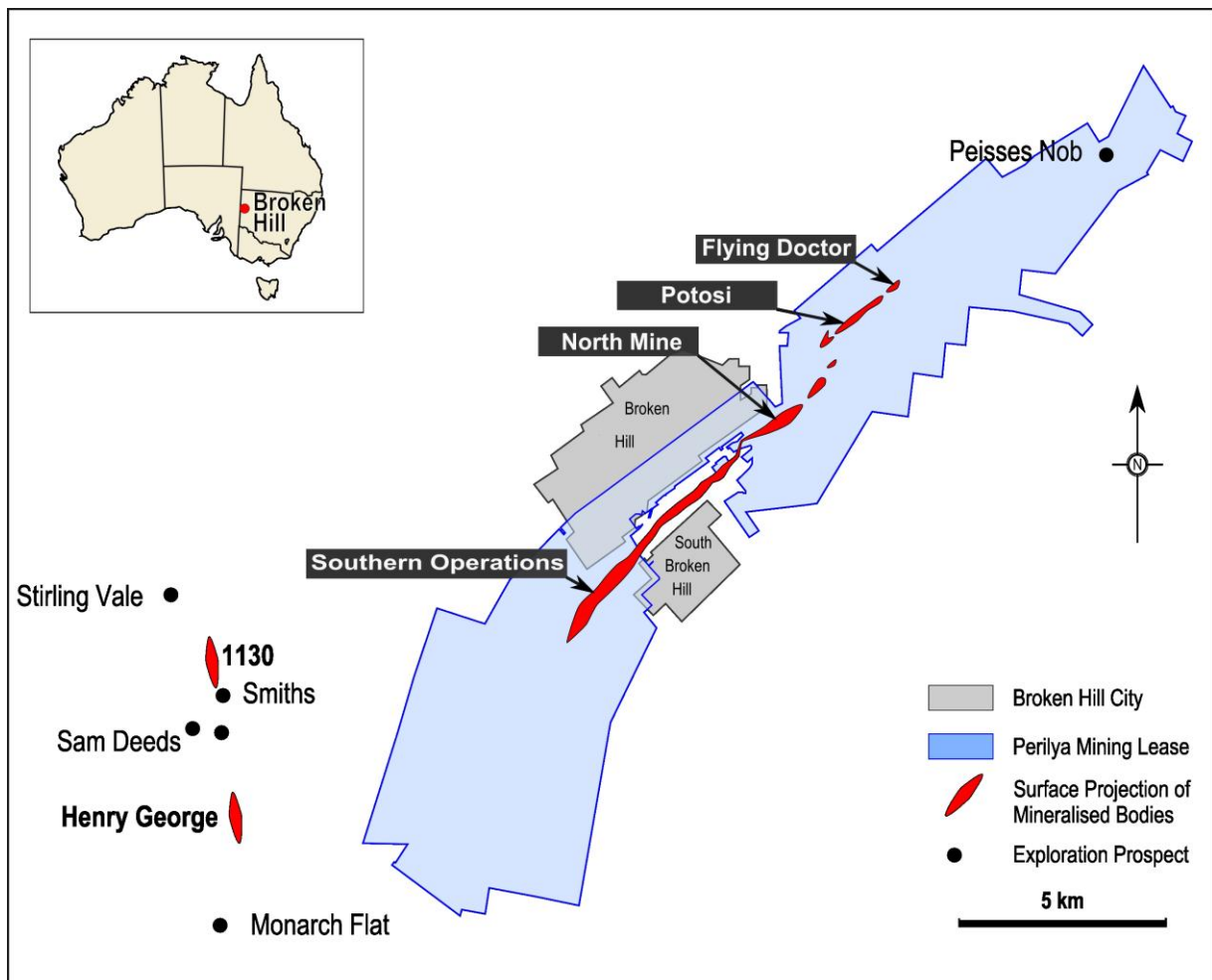
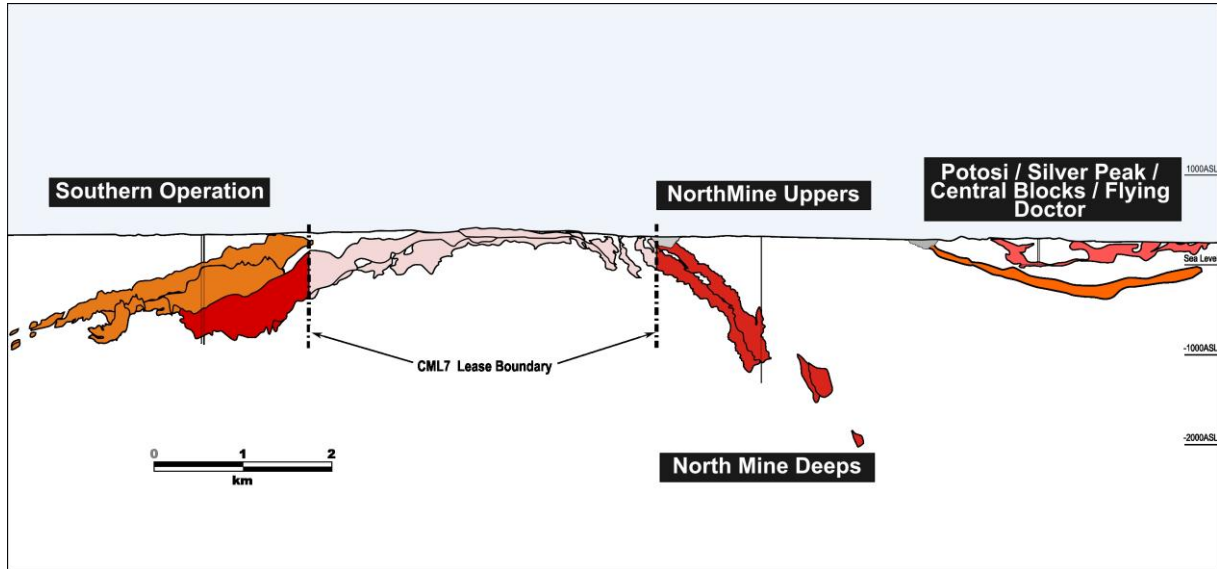


Figure 5: Long Projection of the Mineral Resources and Ore Reserve locations along the main mineralisation trend within Broken Hill



### COMPETENT PERSON STATEMENT

The information in this report that relates to Mineral Resources for Silver Peak Uppers and Potosi is based on information compiled by Mr Noel Carroll who is a full-time employee of Perilya and is a member of the Australian Institute of Geoscientists. Mr Carroll has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Carroll consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

### Notes:

- All Mineral Resources figures reported represent estimates at 30 June 2010.
- Rounding, conforming to the JORC Code, may cause some computational discrepancies.
- Mineral Resources are reported in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The Joint Ore Reserves Committee Code – JORC).

### FORWARD LOOKING STATEMENTS

This Release contains forward looking statements that are subject to risk factors associated with an underground mining business.

Where the company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward looking statements. Such risks include, but are not limited to metals price volatility, currency fluctuations, production performance, increased production costs and variances in ore grade or recovery rates from those assumed in mining plans, project delay or advancement, environmental risks, approvals and cost estimates, as well as political and operational risks in the countries and states in which we sell product to, shipping risks and governmental regulation and judicial outcomes.

The company does not undertake any obligation to release publicly any revisions to any forward looking statement to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

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