

# Quarterly Activities Report

for the three months ended 30 September 2010

## HIGHLIGHTS

Following an evaluation and due diligence period in the course of the quarter Perilya entered into a pre-bid agreement with Globestar Mining Corporation, a TSX listed company and formally launched a take over bid on 25 October. The proposed acquisition is in line with Perilya's growth strategy and provides diversification into copper and gold, as well as potential exposure to lithium and nickel.

Within existing operations the three months ended 30 September 2010 witnessed another quarter of improved mine safety from the Broken Hill. The continued improvement in safety performance is demonstrated with the All Injury Frequency Rate dropping to 17.0 (compared with 35.1 at the corresponding time last year), a new record for Perilya's Broken Hill operations.

The period also saw an improved performance on costs with C1 cash costs for the quarter dropping to US\$0.40/lb of payable zinc, well below guidance of US\$0.50-0.55/lb of payable zinc. Highlights for the quarter include:

### Corporate

- Closing cash balance of \$114.7 million (\$119.4 million at 30 June 2010).
- Significant increase in exploration activity with programs at Broken Hill, Flinders project and an expanded drilling program at Mt Oxide supporting the development study continued during the quarter.
- Post September Perilya launched a friendly takeover bid for Globestar Mining, a TSX listed company, with operating and exploration assets in the Dominican Republic, and an advanced lithium project in Canada.

### Broken Hill

- Net cash costs (C1) for the quarter were US\$0.40/lb of payable zinc was well below market guidance of US\$0.50-US\$0.55/lb of payable zinc, despite lower grades than plan due to some areas of poorer performing stopes in the period, (Quarter ended June 2010: US\$0.44/lb).
- Cash operating margin of US\$0.54/lb of payable zinc was higher than the previous quarter of US\$0.44/lb of payable zinc due to higher metal prices, lower net cash costs and lower treatment charges.
- Production levels for the quarter were slightly below market guidance with combined metal production of 26,736 tonnes of contained zinc and lead (against a guidance of 30,000 tonnes contained zinc/lead).
- The North mine drilling program completed during the previous quarter combined with the results of metallurgical test work have provided encouragement to continue testing the resource with an aim to proceed with more drilling and mining trials.
- Continued improvement in safety performance for the quarter with the All Injury Frequency Rate dropping to another record low in the Company's history at Broken Hill.
- Exploration continued on the Southern Extensions program targeting deep downhole electromagnetic geophysical targets. No significant mineralization has been intersected from the holes drilled to date, however additional diamond drilling is ongoing to fully evaluate the geophysical responses. Drilling to further evaluate previous high-grade drill intercepts in the Potosi Far Extended area was also initiated during the quarter.

## Flinders

- Last shipment of 9,666 tonnes of Beltana DSO (at a grade of 36.1%, containing 3,489 tonnes of zinc) occurred in the quarter.
- Exploration drilling focussed on infill and extensional programs at the Aroona and Beltana mines as well as regional work aimed at identifying new target areas for future exploration.

## Mount Oxide Copper Project

- An intensive drilling program continued during the quarter to support the resource definition and study program. Drilling continues to receive encouraging assay results confirming similar resource grades and widths, plus positioning of mineralisation seen in the current block model.
- The Mt Oxide evaluation study continued with a development decision expected to be presented to the Board in the second quarter of 2011. This timing allows a larger number of drilling results from the current drilling campaign to be incorporated into the study program.

## MD/CEO's COMMENTS

The launch of the takeover bid for Globestar Mining Corporation (“**Globestar**”) is the culmination of an intensive period of Merger and Acquisition activity as we have sought an appropriate set of assets to compliment the Broken Hill operations. Globestar gives Perilya an additional strongly cash accretive long life operating asset with exposure to copper and gold, as well as an exciting suite of exploration/development projects.

As we look forward from today shareholders have the prospect of:

- potential expansions at Broken Hill through the possible development of Potosi and/or North Mine as well as the deep drilling at the Southern Mine
- with strengthening zinc prices possible next developments in the Flinders region of direct shipped zinc silicate ore
- positive outcomes from the Mount Oxide copper mine study
- a new copper/gold/silver operating asset in the Dominican Republic
- potential new lithium and nickel projects in Canada and the Dominica Republic respectively
- other early stage exploration projects

All of these projects provide upside to the continued solid performance of the Broken Hill operations where the Company achieved another new record on safety performance, which is highlighted by the All Injury Frequency Rate dropping to 17.0 (compared with 35.1 at the corresponding time last year), another new record for Perilya’s Broken Hill operations. These results are a reflection of the strong focus and delivery in terms of safety performance by our entire team at Broken Hill.

The September quarter saw the continuation of the very good performances on mining production, with highlights including 393,000 tonnes of ore mined (13% above plan), milling throughput being 17% above plan, and development advance being 39% above plan. Combined metal production of 26,737 tonnes was less than the market guidance of 30,000 tonnes.

In July the haulage shaft winder ropes were changed and various repairs were made to the haulage shaft and winder system in both July and August. The rope change was required ahead of the scheduled time as a result of the over-budget production that has been achieved throughout the last 12 months. The reduction in hoisting time and the continued development rates reduced head grades over the quarter.

The Company has continued to maintain a very tight control on costs within the mine gate. C1 cash costs for the quarter were US\$0.40/lb of payable zinc, again well below targeted C1 cash costs of US\$0.50 – US\$0.55/lb of payable zinc.

The Company is continuing to drill the geophysical significant targets that potentially could be extensions of the Broken Hill Southern Operations mineralization at depth. As expected Drilling of the deep target is slow with the first hole N4970A aimed to test a deeper geophysical target at a depth of approximately 2,000m passing approximately 15m below the lower edge of the modelled conductor and failed to intersect any significant sulphides. Subsequent downhole EM surveys have confirmed that the source of the strong geophysical anomaly lies above the hole. Follow-up drilling is underway with the hole scheduled for completion in the December quarter.

Going forward, the strengthening Australian dollar is expected to have an adverse impact on cash costs. This will be partially offset by stronger lead and silver by-products and continued cost control. With the volatility in metal prices a broader range of guidance of US\$0.50 – US\$0.60/lb of payable zinc is provided. Annualised production is expected to be maintained around 120,000 t of contained zinc and lead from our Broken Hill operations.



Paul Arndt  
Managing Director and CEO  
29 October 2010

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## BROKEN HILL OPERATIONS

### Mining Operations

The September quarter showed a continuation of the good results highlighted in the June Quarterly Report. The overall performance in terms of metal produced was below market guidance, largely due to bringing forward the scheduled haulage shaft maintenance (due to higher than budgeted production during the previous 12 months) combined with an overachievement in mine development meant that both the tonnage and the grades processed during the quarter resulted in a metal production that was below expectations.

Sustained improvements to safety, development rates, long term rehabilitation schedules and pillar mining operations have continued from previous quarters and provide confidence in the sustainability of the changes evident at the Broken Hill operations. Safety performance, mining, processing, and development performances all continue to exceed expectations.

The September quarter continued to reinforce the sustainability of the improvements seen in the over the previous 12 to 18 months. Mine development advance (measured as a combination of advance and rehabilitation) continued to exceed planned performance. Productivity measured in terms of tonnes hoisted per man shift showed a slight dip during the quarter with the delays experienced with the hoisting system however the trend to increased productivity is still evident.

Concentrator operations continued to match the mine production treating a total of 407,000 tonnes over the quarter. This compares with the June quarter when 420,000 tonnes of run of mine ore were treated.

The September quarter saw variation in the recovery of zinc and lead. Silver and lead recovery was below plan. The variation in silver and lead recovery relates to reduced head grades. Zinc recovery exceeded plan. Lead recoveries were 85%, zinc recoveries were 88% and silver recoveries were 70%. These recoveries were above expectations when adjusted for the head grade.

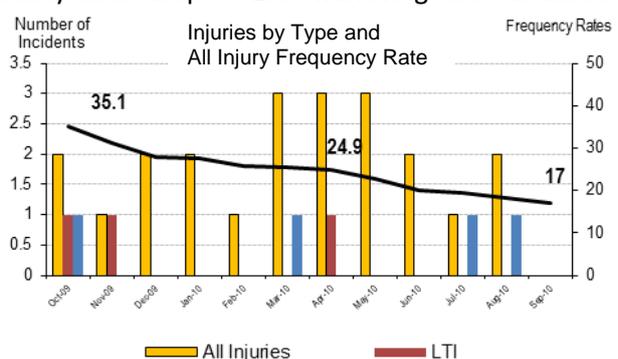
Key performance indicators for the June quarter showed:

- Mining rates exceeded plan by 13%;
- Development advance was 39% above plan;
- Milling throughput was 17% above plan;
- Combined metal production of 26,737 tonnes fell short of market guidance; and
- Average net cash costs per pound of payable zinc at US\$0.40 was well below targeted cash costs of US\$0.50-US\$0.55/lb of zinc.

### Safety

The September quarter continued the positive trends in both lead and lag indicators. The improved safety performance has seen the All Injury Frequency Rate drop to 17.0 mirroring the sustained compliance with proactive safety processes as reflected in the lead indicators of safety performance within the Perilya Broken Hill Operations. There were no lost time injuries recorded during the quarter resulting in a reduction of the LTIFR to 3.2. There were 2 medically treated injuries recorded for the period and only 1 minor injury.

The proactive behaviours including safety interactions, “Take Time Take Charge”, and



hazard reporting, continued to show sustained improvement in both quality and participation. Over the last three months the number of hazards identified through all safety related processes has been maintained at a high level with over 90% being closed out as controlled or eliminated.

A major leadership development initiative has progressed in our Broken Hill operations with a series of workshops aimed at developing a culture to deliver 'Safe Reliable Production'. Eighty two line managers supported by the senior management continue to progress through a series of structured workshops during the quarter to build leadership skills and impact directly on safety and production.

### Production and Sales

During the quarter 393,000 tonnes of ore was mined from the Southern Operation, which was 13% above plan; an excellent achievement given the shaft delays experienced during the quarter

The combined grade of ore processed this quarter was 7.6% (zinc & lead) which, whilst down on the long term plan, was a reflection of the continued development advance (and hence the unplanned greater proportion of lower grade ore won from development) which affected the overall grade processed

### Production Statistics - Tables

**Table 1: Broken Hill Quarterly Production**

	Sep Qtr 2010	Jun Qtr 2010
<b>PRODUCTION STATISTICS</b>		
<b>Ore</b>		
Total Ore Mined (kt)	409.2	418.0
Total Ore Treated (kt)	406.8	419.8
<b>Zinc</b>		
Grade (%)	4.2	4.7
Concentrate (kt)	31.4	35.0
Contained Zinc (kt)	15.1	17.2
Payable Zinc (kt)	12.6	14.4
<b>Lead</b>		
Grade (%)	3.3	3.9
Concentrate (kt)	16.2	20.0
Contained Lead (kt)	11.6	14.2
Payable Lead (kt)	11.0	13.5
<b>Silver</b>		
Grade (g/t)	35.2	41.6
Contained Silver (Moz)	0.320	0.394
<b>CASH COST &amp; OPERATING MARGIN (US\$/lb zinc)</b>		
<b>Average Price Received</b>	<b>0.94</b>	<b>0.88</b>
Direct Cash Costs	1.30	1.05
By-product credits (*)	(1.09)	(0.90)
Zinc treatment charges	0.19	0.29
<b>Net Cash Cost</b>	<b>0.40</b>	<b>0.44</b>
<b>Cash Operating Margin</b>	<b>0.54</b>	<b>0.44</b>

(\*) Silver & Lead production net of treatment charges, freight & handling and realised lead/silver hedging gains and losses

## Net Cash Costs of Production

The C1 net cash costs of production of US\$0.40/lb of payable zinc for the period was well ahead of the target range of US\$0.50 - \$US0.55/lb of payable zinc despite lower grades than plan due to some areas of poorer performing stopes during the period.

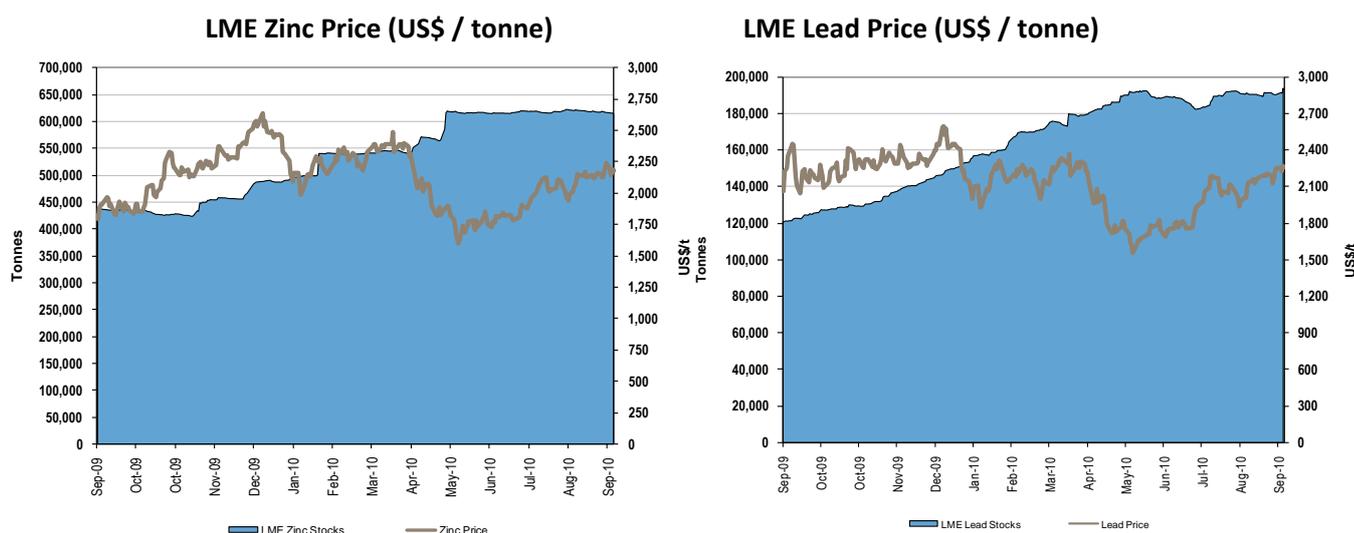
The cash margin increased on the previous quarter to US\$0.54/lb of payable zinc through a combination of higher metal prices, lower Net Cash Costs and lower treatment charges.

## Markets

Zinc and Lead prices rebounded strongly during the quarter from their June lows of US\$1,595/tn, US\$1,559/tn to US\$2,176/tn and US\$2262 respectively.

The AUD/USD exchange rate fluctuated between 0.8366 and 0.9675 over the September quarter, with an average of 0.9034 (June 10 quarter average of 0.8822).

Perilya believes that the zinc and lead market fundamentals remain sound and expect gains in the medium term based on strong EM demand, some supply constraints and the prospect for physically backed ETFs.



## Exploration & Development – Broken Hill, Southern Operations

Exploration diamond drilling continued on the Southern Extensions project targeting downhole electromagnetic (EM) anomalies along the Line of Lode downplunge of mineralization at the Southern Operations. N4270C, targeting a shallower anomaly at a vertical depth of approximately 900m, intersected only weak pyrrhotite mineralization through the target horizon with only weak base-metal mineralization. N4970A aimed to test the deeper geophysical target at a depth of 2,000m passed approximately 15m below the lower edge of the modelled conductor and failed to intersect any significant sulphides. Subsequent downhole EM surveys confirmed that the source of the strong geophysical anomaly lies above the hole. Follow-up drilling is underway with the hole scheduled for completion in the December quarter.

## Broken Hill, North Mine

No additional drilling was completed on the Junction North project. Interpretation of the results of the previously completed programs is ongoing and follow-up drilling being planned. A program of diamond drilling testing for Zinc Lode type mineralization at the North Mine is also planned for the December quarter.

### **Broken Hill, Potosi Mine**

Drilling to test areas surrounding previously encountered high-grade intercepts in drillhole 3444 downplunge of the Potosi mineralization commenced late in the quarter. Two holes have been completed, both of which intersected mineralization but of lower grade than seen in 3444. Additional drilling to the north is planned for the December quarter.

## **FLINDERS ZINC PROJECT**

### **Beltana Mine - Sales**

During the quarter all remaining Beltana ore of 9,666 tonnes (at an average grade of 36.1% for a total of 3,489 tonnes of contained zinc) was sold.

### **Reliance Deposit (70-85% owned)**

With the improvement in terms being received for zinc silicate, the Company is continuing its study into the potential development of the Reliance Deposit.

### **Flinders Ranges Exploration**

Exploration in the Flinders region concentrated on infill and extensional drilling on the remaining resources at the former producing Aroona Mine. Results have confirmed the high grade nature of the remaining mineralization but have also highlighted structural variation from the existing geological interpretation. Additional drilling to identify extensions of the mineralization to the northwest and southeast is planned for the December quarter. A program of drilling aimed at defining remnant ore below the existing open cut at the Beltana Mine was also initiated during the quarter. Heavy rains in early September however caused stability issues on the west wall of the pit and forced deferral of the program until a detailed geotechnical assessment of the pit can be completed.

Regionally, field work concentrated on identifying new target areas for future exploration through geological mapping and handheld XRF soil surveying. Priority targets have been developed around the former Mt. Bayley copper mine as well as along the Beltana-Aroona trend to the northwest of the Aroona Mine. Drilling in these areas as well as along prospective stratigraphy south of the Beltana pit is planned for the December quarter.

## **MOUNT OXIDE COPPER PROJECT**

The Mt Oxide Copper Project study program progressed during the quarter. Activities focussed on diamond drilling to improve the confidence of the resource, investigate the potential to increase the size and quality of the mineral resource, plus obtain samples for metallurgical and environmental test work.

Activities during the quarter included baseline environmental monitoring, selection of a conceptual open pit layout, commencement of metallurgical testwork, assessment of preferred infrastructure sites, evaluation of water and power supply options, appraisal of copper concentrate transport logistics and consultation with project stakeholders. These work streams will be progressed further in the December quarter.

Drilling continues to receive encouraging assay results confirming similar resource grades and widths, plus positioning of mineralisation seen in the current block model. Drilling in the December quarter will investigate untested areas along the northern margins of the resource where rugged topography has previously restricted effective drilling testing of the resource. In this area an underground diamond drill rig on surface will allow drilling of shallow angled holes. The study program is now being extended so that a larger component of drilling results can be fully incorporated into the study program. Consequently the Company now expects to make a

development decision on the Mt Oxide Copper Project in the second quarter of the 2011 calendar year.

Perilya's request for a voluntary Environmental Impact Statement (EIS) was granted by the Queensland Government. The EIS will also form the basis for Commonwealth Government environmental approvals which will reduce the overall approval timeframe. Good progress was made with the approval process with project information issued for public comment to finalise the terms of reference for the EIS.

The Mount Oxide mineral resource estimate currently comprises 17.9 million tonnes at an average grade of 1.3% copper for 224,000 tonnes of contained copper. This resource is to a vertical depth of only 450 metres and is open at depth. The mineral resource also includes 0.06% cobalt (9,400 tonnes of contained cobalt) and 10g/tonne of silver (5,700,000oz of contained silver). Importantly, the larger part of the mineral resource (63%) is in the Indicated Mineral Resource category.

The 13,000 metre resource definition drilling program commenced in late May will continue with two diamond drill rigs late into the December quarter.

## **CORPORATE**

### **Cash and Investments at 30 September 2010**

At 30 September 2010, the Company held cash, deposits and investments totalling \$141.7 million (30 June 2010: \$148.4 million), represented by:

- Free cash of \$114.7 million, (30 June 2010: \$119.4 million);
- Secured cash deposits of \$24.7 million supporting performance bonds required under various mining licences at Broken Hill; and
- Commercial paper and other investments of \$2.3 million (written down value).

Perilya generated a negative cashflow for the period due to an increase in capital expenditure and exploration at Broken Hill and Flinders, the re-commenced exploration drilling activities at Mt Oxide and the ongoing development study of the Mt Oxide project.

During the quarter work continued on the upgrade of the Port Pirie infrastructure, which is being undertaken to enable Perilya to export its lead product and therefore access better treatment charges in the spot lead market. This project is expected to be commissioned in early 2011.

In addition to focusing on internal exploration and development projects, the Company has continued to undertake significant M&A activity with the Company reviewing a number of potential acquisition opportunities, targeting operating and/or late stage development assets, with the application of appropriate resources to support this M&A activity. Pursuant to this strategy, post the September quarter Perilya launched a friendly takeover bid for Globestar Mining Corporation, a TSX listed company, with operating and exploration assets in the Dominican Republic, and an advanced lithium project in Canada.

Cash consideration of \$2.3m was received from the divestment of commercial paper during the quarter. Management is in the process of assessing opportunities to sell the remaining commercial paper in hand.

### **Debt**

At 30 September 2010 Perilya has US\$49.5 million of corporate debt (being debt other than equipment finance in the ordinary course of business) which solely comprises US\$49.5 million funding for the termination of the silver sale agreement. Perilya also has approximately \$4.5 million in operating debt solely related to mobile equipment financing which is payable over a three to five year period.

## Hedging Policies

During the quarter Perilya entered into additional zinc hedging for 14,500 tonnes of forecast production for the period from October 2010 to February 2011 in accordance with its policy of hedging approximately 70% of payable metal production out 6 months.

As previously announced the company had entered into additional lead hedging for 30,000 tonnes of forecast production for the period July 2010 to June 2011 at an average forward price of A\$2,829 per tonne. This represents approximately 50% of anticipated payable lead production for that period.

## Hedging Contracts Summary (as at 30 September 2010)

		Quarter Ending					Y/E	TOTAL POSITIONS
		Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Dec-12	
<b>ZINC:-</b>								
Tonnes	Tns	10,500	6,000	-	-	-	-	<b>16,500</b>
Price	A\$/tn	2,371	2,385	-	-	-	-	<b>2,376</b>
<b>LEAD:-</b>								
Tonnes	Tns	7,500	7,500	7,500	-	-	-	<b>22,500</b>
Price	A\$/tn	2,829	2,829	2,829	-	-	-	<b>2,829</b>
<b>SILVER:-</b>								
Ounces	Ozs	285,000	285,000	285,000	195,000	195,000	780,000	<b>2,025,000</b>
Price	US\$/oz	15.78	16.39	16.39	15.50	15.50	18.33	<b>16.88</b>

## Financial Results

During the quarter, Perilya released its financial results for the 6 month period to 30 June 2010. Key financial highlights include:

- A net profit after tax of \$18.5 million;
- Free cash on hand of \$119.4 million;
- Cash in-flow from operations of \$23.5 million for the period.
- Combined zinc and lead production of 60,000 tonnes (contained) produced at an average C1 cash operating cost at Broken Hill of US\$0.48/lb of payable zinc.

As previously communicated, the Financial Results for the period to 31 December 2009 were for a transitional period of 6 months (from 1 July 2009 to 31 December 2009) as a result of Perilya changing its financial year end to December 31 to align its financial year end date with that of its majority shareholder, Zhongjin Lingnan. Perilya will now report to ASIC and the ASX as normal with respect to a 31 December financial year end.

### Competent Persons Attribution Statement:

*The information in this quarterly report that relates to exploration results for the Flinders region and Mt Oxide is based on information compiled and/or reviewed by Mr Martin Jones who is a full time employee of Perilya and is a member of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Mr Jones 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 Jones consents to the inclusion in this quarterly report of the matters based on the information in the form and context in which it appears.*

## CORPORATE DETAILS

### Board of Directors:

Zhang Shuijin	Non- Executive Chairman
Patrick O'Connor	Non- Executive Deputy Chairman
Paul Arndt	Managing Director/CEO
Wang Wen	Non-Executive Director
Peter Harley	Non-Executive Director
Minzhi Han	Non-Executive Director

### Capital Structure:

Ordinary Shares	526,075,563
Unlisted Options	7,189,721
Performance Rights	53,900

### Major Shareholders:

Shenzhen Zhongjin Lingnan	
Nonfemet Co. Ltd	52.00%
L1 Capital Pty Ltd	5.01%

### Australian Stock Exchange Listing

ASX Code:	PEM
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### Company Secretary:

Paul Marinko	+61 8 6330 1000
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### Contact Details:

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### Share Registry

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## COMPANY PROFILE

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 and the Flinders zinc silicate project in South Australia.

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.

The Company has an active exploration and development program which includes exploration and development programs in the Broken Hill region and in the Flinders region in South Australia in the vicinity of its Beltana zinc silicate project.

The Company is reviewing options for the development of the Mount Oxide Copper and Cobalt Project in the Mount Isa region in Queensland.

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)