

Quarterly Activities Report

for the three months ended 31 December 2008

HIGHLIGHTS

The three months ended 31 December 2008, represented a significant transitional period for Perilya's Broken Hill Operations:

Corporate

- Share placement to raise \$45.5 million in cash and strategic alliance with Zhongjin Lingnan, China's third largest zinc producer to be put to shareholders for approval on 5 February 2009, with FIRB approvals in progress.
- Cash on hand at 31 December 2008 of \$19.0 million (31 October 2008: \$10.9 million) including \$10.0 million deposit received from Zhongjin Lingnan. No corporate debt.
- Independent expert values Perilya (post Zhongjin Lingnan transaction) at 28 cents to 30 cents per share.
- CBH withdrew its unsolicited takeover offer (on 21 January 2009).

Broken Hill

- Implementation of new operating plan completed.
- Quarterly combined metal production of 25,800 tonnes of contained zinc and lead exceeded new plan targets.
- Continuous improvement in productivity (tonnes mined per employee) and costs achieved throughout the quarter.
- Pillars development expected to increase average grades in the March quarter in line with longer-term range leading to further unit cost improvement.
- Resource and Ore Reserves update completed leading to an increase in the Life of Mine to approximately 8 to 9 years.
- Net cash costs per pound of payable zinc down 39% from prior quarter. Unit mining and processing costs in line with plan.
- Current negotiations on treatment charges are signalling strong movements in favour of miners.

Beltana

- Positive cash flow contribution from sales of 24,018 tonnes of DSO ore during the quarter.

Mount Oxide Copper Project

- A resource update is in progress and expected to show both an increase in contained tonnes of copper and an improved resource confidence level as a result of the drill program completed.

CEO's COMMENTS

"The December quarter experienced further major turbulence in the financial and commodity markets and this was reflected in significant falls in metal prices for both zinc and lead.

I am pleased to report that against this backdrop the resizing of the Broken Hill Operations to a lower cost and production profile has been fully implemented during the quarter. This new operating plan builds on major productivity improvements already achieved and has enabled Perilya to significantly reduce our historically high fixed costs and puts the Broken Hill Operations in a strong position to endure these difficult economic and market conditions.

The effort of all employees at Broken Hill in bringing this new plan into operation and the achievement of a number of productivity improvements is a credit to the strength of the Broken Hill Operations. Having said this the Board and management recognises that there is further work required to enhance productivity and lower the cost basis in order to be operating on a cash positive basis in the current low metal price environment.

The Board and management have also acted pro-actively in response to the turbulence in world markets through the introduction of a strong strategic partner. After discussions with a number of companies the selection of Zhongjin Lingnan, China's third largest zinc producer, and the proposed \$45.5 million share placement, brings cash and a strong partner to Perilya which will both help put the Company in the best possible position to weather a prolonged period of low metal prices.

Zhongjin Lingnan is an ideal strategic partner and one that shares our confidence in Perilya's production plan which has been re-sized in response to the current market challenges. Zhongjin Lingnan conducted a due diligence on Perilya's Broken Hill Operations and is supportive of the current operating plan and committed to the long-term future of Broken Hill.

I encourage all shareholders to consider and support this important transaction and to register your proxy vote for the Extraordinary General Meeting on 5 February, 2009."



Paul Arndt
Managing Director and CEO

27 January 2009

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BROKEN HILL OPERATIONS

Mining Operations

Implementation of the resizing of the Broken Hill Operations to focus on a lower production and cost profile was completed during the quarter.

Key indicators for the December quarter showed:

- Mining rates 120% above plan
- Development advance 17% above plan
- Milling throughput 138% above plan
- Combined metal production 9% above plan
- Net cash costs per pound of payable zinc down 39% compared to the previous quarter

These operational and productivity improvements together with lower cost parameters will ultimately assist in re-positioning the Broken Hill Operation significantly down the industry total cost curve. Full benefit of the improved grade from the high-grade pillars is expected to be achieved in the March quarter. Early mill runs for January are confirming this with average combined grades of 10.5 % being achieved.

Resources and Reserves – Update Completed

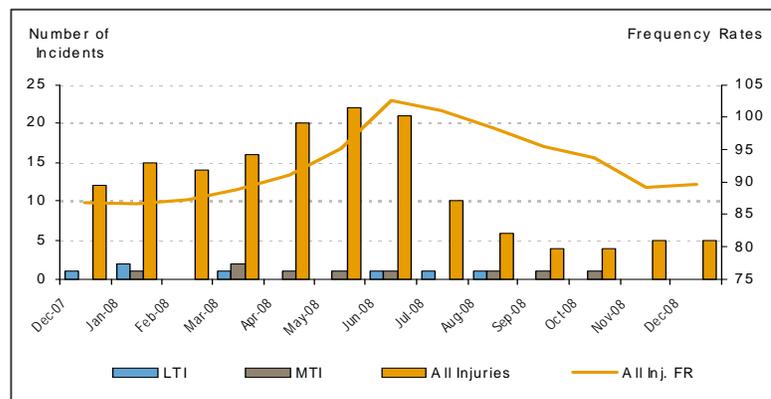
On 7 November 2008, Perilya reported an increase in its Mineral Resources of 6% to 19.36 million tonnes containing 9.4% zinc, 7.3% lead and 90.8 g/t of silver and Ore Reserves of 10.02 million tonnes containing 6.1% zinc, 4.5% lead and 46.7 g/t of silver, as at 30 June 2008.

The Ore Reserves and the associated mining plan establish a production life at the Southern Operations of approximately 8 to 9 years, under conservative price assumptions. In addition, material outside of the reported Ore Reserve has increased with Mineral Resources identified that are capable of conversion to Ore Reserves at a later date providing further opportunity to extend the life of mine at Broken Hill. The Ore Reserves were estimated using conservative price and operating cost assumptions, including long-term metal prices of US\$0.65 cents per pound for both zinc and lead, US\$2.22 per ounce silver, and an AUD/USD exchange rate of 72 cents, which are lower than the then market consensus metal prices for the next 4 years.

The Company maintains a pipeline of opportunities including, the North Mine, North Mine Deeps, Potosi, Flying Doctor and the Pinnacles region, which all have Mineral Resources, that can be brought into production quickly should metal prices improve.

Safety

Broken Hill's safety performance continues to show a reduction in the number of lost time injuries. Our twelve month average LTIFR has now fallen 38% to 4.1 and our AIFR has shown significant improvement with the twelve month AIFR reducing from 95.6 to 89.6.



Production and Sales

During the quarter a total of 357,700 tonnes of ore was mined from activities at the Southern Operation.

Combined grades for production during the quarter were lower than the prior quarter due to the transition to the new operating plan and a delay in accessing the high-grade pillar areas due to intercepting void areas. Under the new operating plan grades are expected to increase to around 12% combined zinc/lead for future production ore as high-grade pillars production is advanced. When this production ore is combined with development ore the mill feed is expected to average 11% combined zinc/lead long-term.

Production Statistics - Tables

Table 1: Broken Hill Quarterly Production

	Dec Qtr 2008	Sept Qtr 2008
Ore		
Total Ore Mined (kt)	357.7	431.1
Total Ore Treated (kt)	388.6	450.5
Zinc		
Grade (%)	4.5	5.9
Concentrate (kt)	32.8	48.7
Contained Zinc (kt)	15.8	24.3
Payable Zinc (kt)	13.2	20.4
Lead		
Grade (%)	3.2	2.8
Concentrate (kt)	14.0	14.7
Contained Lead (kt)	10.0	10.4
Payable Lead (kt)	9.5	9.9
Silver		
Grade (g/t)	32.7	29.1
Contained Silver (Moz)	0.297	0.310
Cash Cost & Operating Margin (US\$/lb zinc)		
Average Price Received	0.57	0.87
Direct Cash Costs	0.86	1.34
By-Product Credits *	(0.22)	(0.24)
Zinc Treatment charges	0.19	0.26
Net Cash Costs	0.83	1.36
Cash Operating Margin	(0.26)	(0.49)

(*) Silver and Lead production net of treatment charges, freight and handling.

Net Cash Costs of Production

During the quarter the Broken Hill Operations net cash costs of production were reduced by 39% on the previous quarter. Although site costs reduced significantly and on a unit basis were in line with plan, there was a further decline in metal prices during the quarter, in particular lead prices, which combined with the current high treatment charges, resulted in net cash operating costs of US\$0.83 per pound of payable zinc (30 September 2008 Quarter: US\$1.36 per pound). December was the

strongest production and cost performance month with direct cash costs of approximately US\$0.68 cents and net cash costs of approximately US\$0.76 cents per pound of payable zinc.

The Company continues to remain focussed on cost saving initiatives and productivity improvements. The transition to the new operating plan was successfully completed during the quarter with significant reductions in fixed and variable operating costs, capital expenditure and development expenditure. The full impact of these cost reductions together with expected higher grades, significantly lower treatment charges (from 1 January 2009) and freight costs, are expected to be realised in the March 2009 Quarter.

Treatment charges for the 2009 calendar year are currently under negotiation. Early indications are signalling strong movements in favour of miners. As treatment charges are one of the major input costs, this will positively impact Perilya's overall operating costs from 1 January 2009. Terms for treatment charges are expected to be finalised during the March 2009 Quarter.

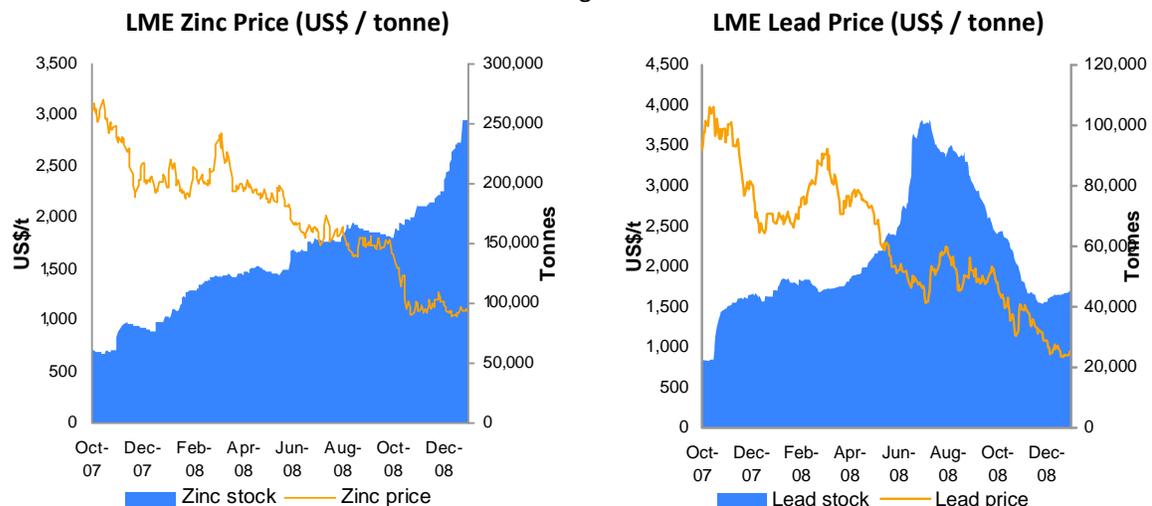
The Company has previously announced that it expects net cash costs of production to be in the order of US\$0.60 – US\$0.65 per pound of payable zinc from the March 2009 quarter onwards. These projections assumed a lead price of US\$0.65 per pound. The current lead price is approximately US\$0.50 per pound which, given Broken Hill's significant lead production, will reduce the value of the operations by-product credits and consequently increase the cash costs of production. The Company continues to look at further initiatives to reduce operating costs to mitigate this adverse impact to meet its targeted cash costs. Revised expected net cash costs of production will be confirmed when the current negotiation of treatment charges are concluded and it is expected that these will be commented upon in the March 2009 Quarterly Report.

Revenues and units costs for the quarter reflect the Company's move to spot prices, with no hedging other than QP hedging.

Markets

During the quarter zinc prices continued to fall on growing negative sentiment resulting from the deteriorating global financial and economic markets. Zinc prices fell by 32% and lead by 47% during the quarter. A weakening of the AUD during the quarter has helped offset some of the fall in metal prices.

Despite the current weak demand for all metals Perilya believes the zinc and lead market fundamentals remain sound over the medium to longer term.



Exploration & Development – Broken Hill

No significant exploration was conducted this quarter.

North Mine

Perilya is continuing the feasibility study of the North Mine, including the North Mine Deeps project.

FLINDERS ZINC PROJECT

Beltana Mine - Sales

During the quarter metal sales for Beltana ore were 24,018 tonnes for a total of 7,153 tonnes of contained zinc. The Company is pleased to note that all of its customers have honoured their contractual commitments during these difficult economic times, and continue to show interest in further purchases of the Company's zinc silicate.

At the end the December quarter a total of 214,810 tonnes of zinc silicate ore are stockpiled at an average grade of 31% zinc, for a total of approximately 66,300 tonnes of contained zinc.

Reliance Deposit (70-85% owned)

Reliance Deposit pit optimisation, feasibility studies and the permitting process are in progress for when metal prices improve. No exploration activities were conducted.

MOUNT OXIDE COPPER AND COBALT PROJECT

Drilling Program

A program of 55 diamond drill holes for 16,044 meters was completed during the 2008 field season targeting potentially open pittable mineralisation to the north and at depth of the Mount Oxide deposit.

To reduce expenditure the project was put on "care and maintenance" in November 2008.

Resource Update

A resource update is in progress and is due for completion in early February 2009.

Future Activity

With the support of Zhongjin Lingnan transaction (see Corporate commentary below), the Company will be able to retain the Mount Oxide exploration asset. However, as announced on 28 December 2008, without support for the Zhongjin Lingnan transaction the Mount Oxide assets may pass to Zhongjin Lingnan for \$15.0 million in cash (which was based on an alternative offer from a third party) pursuant to the terms of a Call Option Agreement (announced on 29 December 2008).

The Board remains confident that the Zhongjin Lingnan transaction will receive all relevant approvals and accordingly, the Mount Oxide exploration asset will remain a major development project for the future.

The Company will upon completion of the Zhongjin Lingnan transaction review options for the development of the Mount Oxide Copper Project in the June 2009 Quarter.

CORPORATE

Capital Raising and Strategic Alliance with Shenzhen Zhongjin Lingnan Nonfemet

On 9 December 2008, Perilya announced it had signed a Share Subscription Agreement with major Chinese metals and mining company Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd (“Zhongjin Lingnan”), to raise A\$45,464,560. Under the terms of the agreement, Zhongjin Lingnan will subscribe for 197,672,000 fully paid ordinary shares in Perilya at an issue price of A\$0.23 per share, to acquire 50.1% of the Company.

The share placement will assist Perilya to weather the current commodity price environment and introduces a strong and committed strategic partner (with a market capitalisation of approximately A\$2 Billion) to underpin ongoing operations at the Broken Hill Operations.

Under the agreement, the Perilya Board will be restructured to allow for a new Board with three Zhongjin Lingnan representatives and three existing Board members. Paul Arndt will continue as Managing Director and Chief Executive Officer.

Zhongjin Lingnan and Perilya have further agreed to enter into good faith negotiations for potential lead and zinc concentrate off-take sales agreements for up to 50% of the Company’s concentrates on commercial and arms-length terms upon expiry of existing agreements. By only committing up to 50% of its off-take to Zhongjin Lingnan, Perilya will have the opportunity to fully maximise the value it receives for the sale of its various off-take products by allowing Perilya to gain competitive tension in the pricing of its treatment charges in the open market. After the share placement any off-take agreements with Zhongjin Lingnan will be conducted on arm’s length commercial terms and be subject to Shareholder approval (where required by any applicable law or Listing Rule). Any vote on a future off-take arrangement with Zhongjin Lingnan will exclude any votes cast by Zhongjin Lingnan.

The Zhongjin Lingnan transaction is subject to shareholder approval on 5 February 2009 and the approval of the Foreign Investment Review Board (“FIRB”). All relevant Chinese approvals have been received.

The Perilya Board encourages Perilya shareholders to support the proposed Zhongjin Lingnan transaction at the Extraordinary General Meeting scheduled for Thursday, 5 February 2009.

CBH Resources – Withdrawal of Unsolicited Takeover Offer

Subsequent to the end of the quarter, on 21 January 2009, CBH advised Perilya that it would withdraw its bid. CBH’s actions follow a decision by the Takeovers Panel on 21 January 2009, not to conduct proceedings on an application from CBH in relation to the affairs of Perilya and its Zhongjin Lingnan transaction. The reasons for the Panel’s decision are set out in full on the Panel’s website, www.takeovers.gov.au.

Cash and Investments at 31 December 2008

At 31 December 2008, the Company held cash, deposits and investments totalling \$66.3 million represented by:

- free cash of \$19.0 million, inclusive of \$10.0 million deposit received from Zhongjin Lingnan (30 September 2008: \$22.3 million; 31 October 2008: \$10.8 million);
- secured cash deposits of \$24.7 million supporting performance bonds required under various mining licences at Broken Hill;

- commercial paper of \$17.0 million (written down value); and
- other investments of \$5.6 million (estimated market value).

During the quarter the Company converted \$5.6 million of commercial paper into \$3.3 million in cash and realised \$0.8 million in listed investments. Following completion of the Zhongjin Lingnan transaction the Company will review its program on divestment of investments in commercial paper and listed securities.

The proceeds from the Zhongjin Lingnan transaction will strengthen Perilya's balance sheet and be used to underpin ongoing operations at the Broken Hill Operation into the future.

Debt

Perilya has no corporate debt (being debt other than equipment finance in the ordinary course of business). Pursuant to the terms of the Zhongjin Lingnan Subscription Agreement a deposit amount of \$10.0 million was received on 28 December 2008, which is repayable if the share placement to Zhongjin Lingnan is not completed.

At 31 December 2008, the Company had \$12.1 million in operating debt solely related to mobile equipment financing which is payable over a five year period.

Board Changes during the Quarter

Following the Company's Annual General Meeting on 25 November 2008, Non-Executive Director Mr Evert van den Brand retired and Company Secretary, Darryl Edwards, resigned with Paul Marinko appointed as his replacement.

Financial Results - Update

Perilya has continued to report in a transparent way and included in its Notice of Extraordinary General Meeting dated 5 January 2009, were details on the Company's operating and financial performance and balance sheet (based on unaudited management accounts) for the 4 months of trading to 31 October 2008. The results reflected the significant one-off costs associated with the resizing of the Broken Hill Operation and the current low metal price environment.

The Company's audit reviewed results for the 6 months ended 31 December 2008, are expected to be released by 28 February 2009. The results will reflect the significantly lower metal price environment compared to the previous comparative period and the one-off costs associated with re-sizing in September 2008.

Importantly, Perilya believes that it has already taken the hard decisions by providing for the impairment of its mining properties and exploration and development activities at 30 June 2008. The write-downs at 30 June 2008 were an appropriate reflection of the resized operation and current metal price environment. The write-downs also improved Perilya's fiscal transparency and have today proven to be prudent in light of the current economic climate.

As set out in the Company's Notice of Meeting and Explanatory Memorandum dated 5 January 2009, if the Zhongjin Lingnan transaction is not implemented and in the absence of alternatives, Perilya will need to raise comparable funding by 31 March 2009 to ensure that it continues to operate as a going concern. In the current capital market this would likely result in the raising at a significant discount to the current market price to Perilya shares and well below the proposed issue price of New Shares to Zhongjin Lingnan and a significant dilution to existing Shareholders.

Further, in the absence of alternative capital raisings, Perilya may need to sell one or more of its assets (other than in the ordinary course of business and at distressed values or values different to those in its financial statements).

Independent Experts Valuation (at 24 December 2008 and Supplemental dated 19 January 2009)

Included in the Company's Notice of Meeting and Explanatory Memorandum dated 5 January 2009, was an Independent Expert's Report ("IER") by Ernst & Young Transaction Advisory Services Limited ("Ernst & Young"). The IER reported a fair value for Perilya, pre the Zhongjin Lingnan Transaction of 33 cents to 38 cents per share and subsequently on 19 January 2009 Ernst & Young issued a supplementary IER which detailed a fair value post the Zhongjin Transaction, of between \$110 million to \$118 million or **28 cents to 30 cents per share**.

The Supplementary IER included the following table:

<i>Summary of Values (\$000's)</i>	Low	Mid	High
Fair market value per share before the Proposed Transaction (\$)	0.33	0.35	0.38
Number of shares on issue	196,883	196,883	196,883
Fair Market Value of Perilya before the Proposed Transaction	65,544	69,836	74,130
<i>Adjustments</i>			
Cash raised from issue of the Placement Shares	45,465	45,465	45,465
Expected transaction costs	(950)	(950)	(950)
Fair Market Value of Perilya after the Proposed Transaction	110,059	114,351	118,645
Number of shares on issue	196,883	196,883	196,883
Issue of the Placement Shares	197,672	197,672	197,672
Total Number of shares on issue after the Proposed Transaction	394,555	394,555	394,555
Fair market value per share after the Proposed Transaction (\$)	0.28	0.29	0.30

Source: Ernst & Young Transaction Advisory Services Analysis

Investors should refer to the full IER and the supplemental IER before considering an investment in Perilya.

ATTRIBUTION STATEMENTS

The information in this report that relates to Mineral Resources and Ore Reserves for the Broken Hill Operation, has been 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.

CORPORATE DETAILS

Board of Directors:

Patrick O'Connor	Non- Executive Chairman
Paul Arndt	Managing Director/CEO
Peter Harley	Non-Executive Director
Phil Lockyer	Non-Executive Director
Karen Field	Non-Executive Director

Principal & Registered Office:

First Floor, Building E
661 Newcastle Street, Leederville
Perth Western Australia 6007
ABN : 85 009 193 695

Capital Structure:

Ordinary Shares	196,882,640
Unlisted Options	8,700,000
Performance Rights	151,800

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth
Western Australia 6000

Major Shareholders:

AXA Asia Pacific Holdings Ltd	9.60%
UBS Nominees Limited	5.75%

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

Australian Stock Exchange Listing

ASX Code: PEM

Company Secretary:

Paul Marinko +61 8 6330 1000

Contact Details:

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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 have recently been resized in a bid to improve productivity and to ensure operations are sustainable in the event of a prolonged period of low metal prices.

The Company continues to sell zinc silicate from its Beltana stockpiles in South Australia and evaluating development of nearby deposits including the Reliance deposit.

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

For more details, visit www.perilya.com.au