

Quarterly Report

for the three months ended 30 September 2006

- Operations generated A\$42.6 million and cash on hand increased to A\$168.9 million
- Broken Hill productivities responding to business improvement initiatives
- Development of Potosi Mine at Broken Hill to commence in early 2007
- Flinders project on track for development decision in December 2006
- Expressions of interest received from selected parties regarding divestment of gold assets

Broken Hill

The September quarter saw further increases in ore production from the Broken Hill mines and a six per cent increase in the concentrator throughput.

Zinc metal production was down on recent quarters due to scheduled lower zinc grades. However, the higher plant throughput and lead production coupled with higher metal prices resulted in similar cash costs to the June quarter, delivering a nine per cent increase in cash operating margin to US\$ 0.73/lb zinc.

The Board has approved the development of the Potosi Mine capitalising on the existing infrastructure and spare processing capacity at Broken Hill.

Daisy Milano

There was a significant up-lift in performance due to the introduction of the Mine Improvement Plan. Gold production was above expectation at 10,877 ounces from 35,679 tonnes of ore at 9.48 grams per tonne and at a cash cost of \$497 per ounce.

Flinders Zinc project

A feasibility study commenced on the direct shipping of Beltana ore and is due for completion in December 2006. The project will involve direct shipment of high grade zinc ore from the Beltana deposit through Port Pirie, where most of the infrastructure is already in place, to suitable smelters in Asia. Beltana, with its short lead time and low development costs, enables Perilya to take full advantage of the prevailing high zinc prices.

Mount Oxide Copper project

A 5,000 metre drilling programme commenced in September 2006, comprising a combination of infill and step-out holes. Three diamond holes have been completed to date with assay results pending. Mineralised intersections confirm both the recent geological interpretation, which resulted in a 23 per cent increase in the resource estimate to 100,000 tonnes of contained copper, and potential depth extensions.

Corporate

Perilya has received expressions of interest from selected parties regarding divestment of its Australian gold assets, including the Daisy Milano gold mine. Cash and receivables were \$201.3 million at 30 September 2006 and debt was \$6.8 million.

A handwritten signature in black ink, appearing to read "Len Jubber".

Len Jubber
Chief Executive Officer
24 October, 2006

Broken Hill

Operations

The operations performed consistently during the quarter. Total ore mined and processed continued to increase in line with improvements in operating efficiencies. The lower zinc ore grades were associated with the mining schedule and were in line with the ore reserve model. Little mining was conducted in the high grade pillars area.

The milling rate equated to an overall concentrator capacity of 2.8 million tonnes per annum compared to the current rate of 2.2 million tonnes per annum. This spare capacity enables the low cost development of the recently approved nearby Potosi mine. The installation of the Outokumpu in-stream analysis system in the concentrator is nearing completion and is expected to be operational by the end of the December quarter, enabling more responsive management of concentrate specifications.

The direct operating costs continue to be contained, with the higher operating costs per pound resulting from the lower zinc production. The net cash cost was similar to the previous quarter whilst the cash operating margin increased a further 9% following the increase in both zinc and lead spot prices.

Extensional drilling in the Southern Operations continued the historical track record of ore replacement with programs successfully testing both southern and down dip extensions of the Eastern E lode. Resource extension drilling will be increased with the addition of a third underground drill rig.

The operation achieved a record 132 days lost time injury free period by the end of September.

Development of Potosi Mine

The Perilya Board has formally approved the development of the Potosi mine, located two kilometres from Broken Hill. This follows completion of a pre-feasibility study and receipt of draft State and local government approvals for the project to proceed.

The development of an exploration decline from the base of the Potosi open pit to initially access approximately 194,000 tonnes of high grade material from Potosi North is expected to commence early in the March quarter 2007, with first ore delivery expected in the September quarter 2007.

Capitalising on existing infrastructure and a highly experienced mining workforce at Broken Hill, the project has very competitive fundamentals and is expected to increase zinc production from Broken Hill by approximately 10,000 tonnes in the first year and by 35,000 tonnes in subsequent years.

The resource is open in a number of directions and there is good potential for the addition of further resources with the planned drill program. The company is targeting an ultimate resource for the Potosi project of at least 4 million tonnes at grades of 10-12 per cent zinc, 3-5 per cent lead and 40-50 grams per tonne silver.

Potosi presents Perilya with near term upside exposure to the high zinc price at a low development cost. The decline development and the concurrent exploration program will be largely, if not totally, self funded through ore mined en route.

Potosi is a potentially significant stand alone mine that will provide a third source of ore, thereby de-risking the overall Broken Hill operations, presenting the opportunity to increase production, extend overall mine life and decrease cash costs.

Mining of Potosi North and the results of the initial underground drilling program will enhance our geological interpretation and confirm the operating assumptions, enabling completion of the full feasibility study for the development of the Potosi Extended deposit.

North Mine Deeps Pre-Feasibility Study

A pre-feasibility study is examining the opportunity for re-opening the North Mine below the 26 level (North Deeps) with an estimated Mineral Resource of 2.6 million tonnes at 9.3 per cent zinc, 11.4 per cent lead, and 180 grams per tonne of silver.

Logging, re-assaying and additional sampling of earlier drilling programs is in progress. Water quality testing is also planned to commence in October 2006.

A program of interviews for eye witness accounts of issues affecting previous mining activities in the North Deeps area has been commissioned with AMC Consultants, commencing October 2006, with a view to capturing the knowledge and experience of those who were directly involved in mining the deeper levels of North Mine in the past. This information will assist in finalising the scope for further studies.

Expressions of interest for providing independent engineering support have been received and current project scheduling sees the pre-feasibility study being completed by March 2007. The feasibility study is scheduled for completion late in calendar year 2007.

Near Mine Exploration

A 4,600 metre drilling program to test the potential for zinc lodes parallel to the historic lead lodes of the North Mine commenced in October. This followed the target generation workshop summarised below.

Regional Exploration

Flying Doctor - 11 RC holes were drilled for a total of 733 metres. Best assays include PTC0107 which returned 7 metres at 8.6 per cent Pb/Zn, 65.5ppm silver (from 22 metres to 30.6 metres).

Pinnacles - 65 Rotary Air Blast (RAB) holes were drilled for 4,339 metres on 4 different prospects (results pending). RAB drilling at the 11:30 ("eleven thirty") prospect produced some encouraging NITON results (not assayed) including 3 metres at 16.2 per cent zinc (from 33 metres to 36 metres).

Exploration Target Generation

A three day exploration workshop was held in Broken Hill bringing together geologists with extensive Broken Hill knowledge and experience. Seventeen geologists who have previously worked in the district, attended and contributed significantly to the geological review and subsequent exploration target generation. Its aims were to:

- suggest geological architecture and mineral genesis models directly applicable to mineral exploration in the Broken Hill district
- identify exploration methods best suited to Broken Hill
- help define and prioritise under-explored mineral exploration targets.

Broken Hill

Quarterly Production & Cash Costs

	Sept Qtr 2006	Jun Qtr 2006
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PRODUCTION STATISTICS

Ore

Southern Operation (kt)	484.8	464.0
North Mine (kt)	51.2	55.1
Total Ore Mined (kt)	536.0	519.1
Total Ore Treated (kt)	557.6	526.0

Zinc

Grade (%)	6.0	7.5
Recovery (%)	90.6	93.1
Concentrate (kt)	61.0	73.2
Contained Zinc (kt)	30.2	36.7
Payable Zinc (kt)	25.3	30.8
Concentrate Inventory (kt)	18.9	27.6

Lead

Grade (%)	4.2	4.5
Recovery (%)	88.0	89.1
Concentrate (kt)	28.4	28.6
Contained Lead (kt)	20.6	20.9
Payable Lead (kt)	19.6	19.8
Concentrate Inventory (kt)	1.10	-

Silver

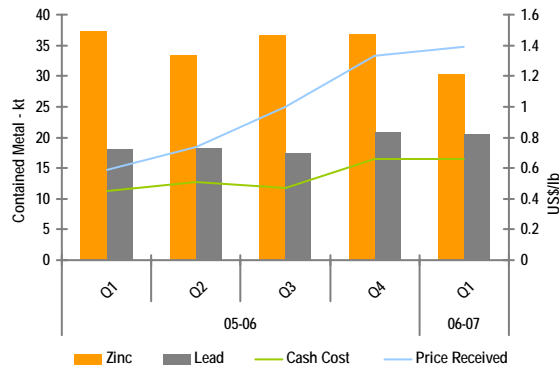
Grade (g/t)	43.6	43.3
Recovery (%)	73.9	75.9
Contained Silver (Moz)	0.578	0.538

CASH COST & OPERATING MARGIN (US\$/lb zinc)

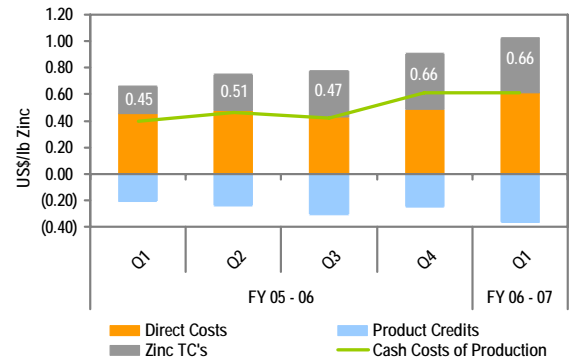
Average Price Received	1.39	1.33
Direct Cash Costs	0.61	0.49
By-product credits	(0.37)	(0.25)
Zinc treatment charges	0.42	0.42
Net Cash Cost	0.66	0.66
Cash Operating Margin	0.73	0.67

Broken Hill

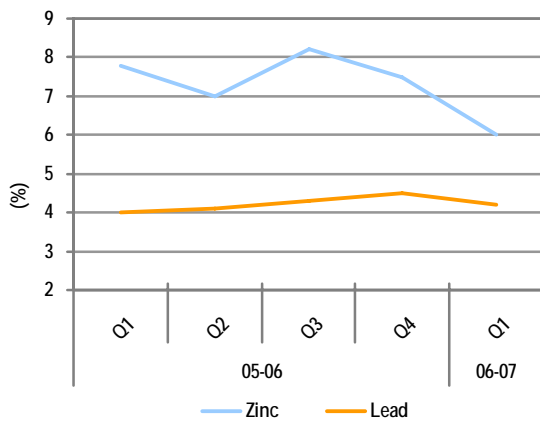
Metal Produced and Cash Operating Costs



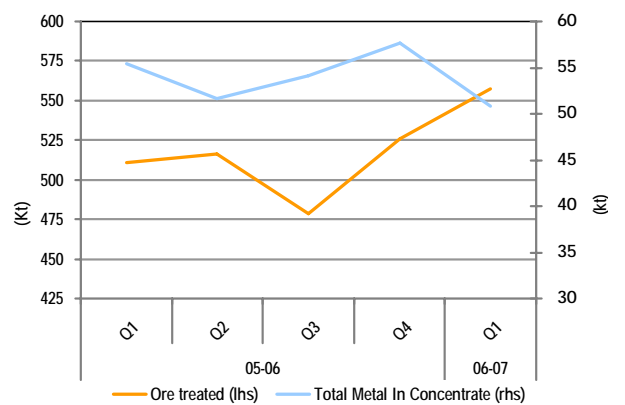
Net Cash Cost /lb Zinc



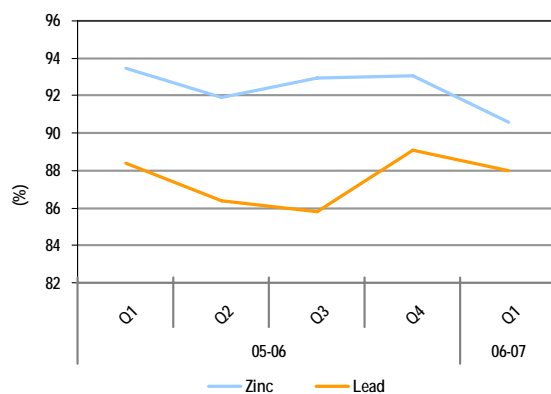
Ore Grades



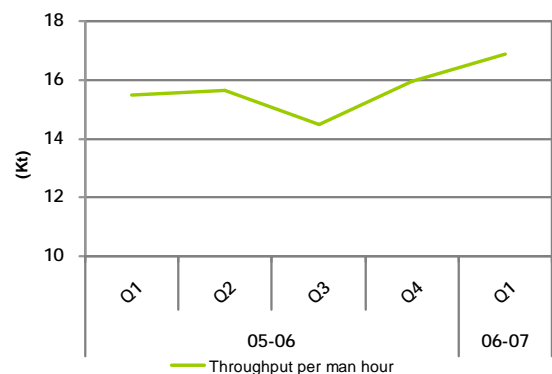
Total Ore Treated & Metal Produced



Metal Recovery



Concentrator Productivity (per man hour)



Daisy Milano

Operations

Daisy Milano achieved a significant up-lift in performance in the September quarter due to the introduction of the Mine Improvement Plan. Gold production was above expectation at 10,877 ounces from 35,679 tonnes of ore at 9.48 grams per tonne at a cash cost of \$497 per ounce produced.

Ore processing was restricted to one campaign at the Greenfields plant. The campaign produced 9,452 ounces from 33,018 tonnes of ore at 9.06 grams per tonne. Total gold sold was 10,529 ounces, including carry over from the previous quarter's campaign.

The operation increased ore development rates and more importantly increased the ore derived from stope production. The increase in mine grade was attributable to the extraction of a number of high grade air leg targets, the extraction of long hole open stopes in the centre of the orebody, the separation of low grade from the run of mine (ROM) ore, improved delivery and quality of technical information and the reduction of dilution in the ore development program.

Infill drilling was completed early in the quarter and confirmed the presence of visible gold in both the hangingwall and footwall structures on the 17 and 18 levels. Interpretation of the drilling program has strengthened understanding of the orebody structure, resulting in greater adherence to developing the economic veins.

Ore development on the 17 level progressed through the dolerite dyke confirming the continuation of the ore south of this major geological feature.

The main decline was extended a further 83.2 metres to midway between the 19 and 20 level. The decline will be moved into the hanging wall to maintain efficient access to the orebody.

The next mill campaign will take place in February 2007 due to scheduling constraints at the Greenfields plant.

Quarterly Production and Cash Costs

	Sept Qtr 2006	Jun Qtr 2006
Total Mined (t)		
Ore Mined (t)	35,679	31,473
Ore Grade (g/t)	9.48	6.39
Contained Gold (Oz)	10,877	6,465
Ore Stockpiles (t)	6,283	3,481
Gold Recovery (%)	98.2	98.0
Gold Sales (oz)	10,529	6,021
Cash Cost of production (A\$/oz)	497	630

Project Development

The Feasibility Study / Life of Mine Plan has been completed and will be presented to the Board in November. The Study indicates the opportunity for additional up-lift in performance.

Corporate

On 29 September 2006 Perilya announced that it had sought expressions of interest from selected parties regarding a possible divestment of its Australian gold assets, including the Daisy Milano mine.

Flinders Zinc Project

The Flinders project comprises 6,095 square kilometres of tenements in the northern Flinders Ranges in South Australia. The project has an overall Mineral Resource of 951,000 tonnes at 31.0 per cent zinc.

A feasibility study for the Beltana deposit, with a Mineral Resources of 365,200 tonne at 31.2% zinc, commenced during the quarter with GRD Minproc Limited appointed to manage the technical aspects of the study. The project will involve direct shipment of high grade ore from the Beltana deposit for shipping through Port Pirie. The study is due for completion in December 2006. Flinders provides Perilya with an outstanding opportunity for the timely development of a niche product to take full advantage of the prevailing high zinc prices and tight market conditions with the potential to generate a substantial return on a (relatively) low investment.

Current plans are for mining to start in the March quarter 2007 with first shipment of ore in the September quarter 2007. Permitting and approvals processes have commenced.

The operations are expected to include open pit mining, crushing and stockpiling, and ore haulage to Port Pirie to meet contracted shipping schedules. Mining over a 12-15 month period will extend pit depth approximately 20-30 metres (90 – 100 metres below surface) below the existing abandoned pit.

As most of the infrastructure required for the project is already in place, limited up front capital is required. The project will be funded internally.

The Beltana feasibility study will provide a platform for evaluating the viability of direct ore shipping from further deposits along the line of strike and the potential to beneficiate lower grade ore to economic levels. In addition, a regional exploration program will be established to explore the surrounding tenements.

Mount Oxide Copper Project

The 100% owned Mount Oxide project is located in the Mt Isa region in Queensland.

A 5,000 metre drilling programme commenced in September 2006, comprising a combination of infill and step-out holes. Three diamond holes have been completed with assay results still outstanding.

The purpose of the drilling is to both confirm the geological interpretation and target depth extensions. Although no results have been received, alteration and visible mineralisation confirm the geological interpretation and potential depth extensions.

A regional exploration programme over the 747 square kilometres will start in 2007.

Corporate

Cashflow

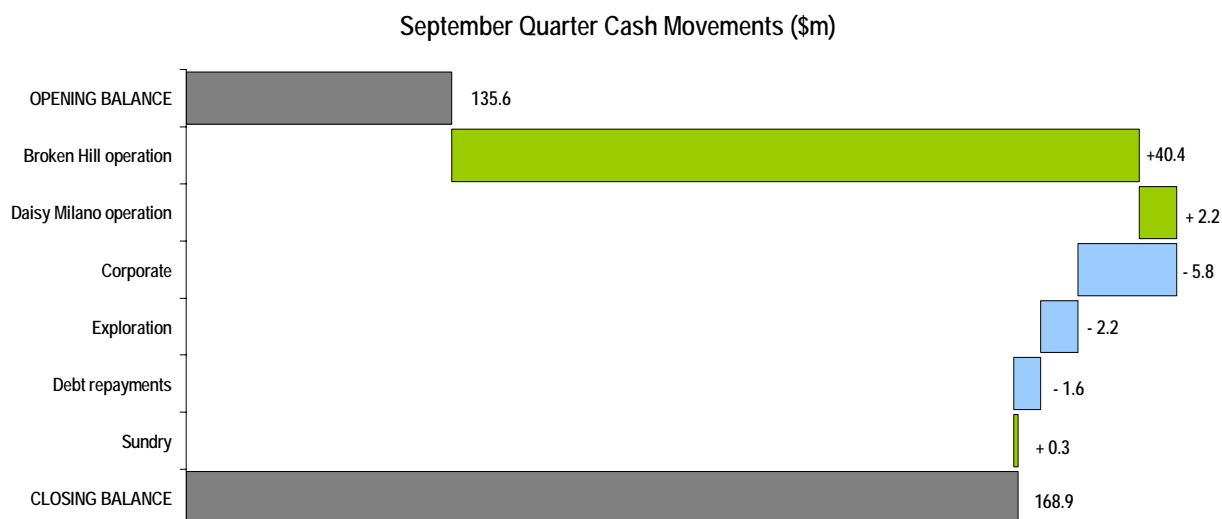
Operating cashflow generated from Broken Hill for the quarter was \$49.6 million. Free cash flow (after capital expenditure) was \$40.4 million. This was lower than the previous quarter due to an extra shipment made in the June quarter 2006.

The Daisy Milano operation generated a positive cashflow of \$2.2 million as a result of improving mine productivities and head grades.

The Corporate costs include a one-off allocation of shares as part of the introduction of the Perilya Employee Share Acquisition Plan, as announced on 19 September 2006.

Total borrowings were reduced to \$6.8 million (compared to \$7.1 million in the June quarter). The borrowings comprise finance leases for mobile plant and equipment.

At 30 September 2006, cash and short term deposits totalled \$168.9 million (June quarter - \$135.6 million). This figure includes \$10.8 million of deposits supporting environmental rehabilitation bonds. The net cash balance increased by \$33.3 million during the quarter. Cash and receivables at the end of September were \$201.3 million (June quarter \$161.3 million).



Forward Sales

Perilya has entered into Australian dollar denominated forward sales contracts for approximately 22.5 per cent of forecast zinc sales and 37.5 per cent of forecast lead sales out to September 2008. This represents less than 10 per cent of the current reserves at Broken Hill. As a result, the Company remains exposed to the spot market price for over 90 per cent of its reserves.

The Company also hedges its open sales positions, referred to as "Quotational Period (QP) Hedging". This common practice of securing the sale price on a shipment by shipment basis eliminates the short term price risk that exists during the quotation period of each sale. As at 23 October, 2006 the Company had QP Hedging in place for 6,400 tonnes of zinc at \$4,903 per tonne and 9,500 tonnes of lead at \$1,733 per tonne.

All of the hedging contracts have been entered into on an unsecured basis and are not subject to any margin calls. The contracts are also compliant with the hedge effectiveness requirements of the Australian Equivalent of International Financial Reporting Standards (AIFRS).

A summary of the Company's forward sales, including QP hedging, is shown in the table below.

Forward Sales (as at 23 October 2006)

	2006/07	2007/08	2008/09
<u>Zinc</u>			
Tonnes	28,164	24,000	4,185
Price (A\$/t)	3,356	2,451	3,458
<u>Lead</u>			
Tonnes	30,913	30,156	4,142
Price (A\$/t)	1,556	1,424	1,412

Divestment of Gold Business

Perilya has sought expressions of interest from selected parties regarding a possible divestment of its Australian gold business, including the Daisy Milano gold mine.

The decision to explore divestment options follows a review of Perilya's gold assets in the context of Perilya's base metal growth strategy. These projects are not considered material in Perilya's current asset base nor congruent with its base metals strategy. It is considered that greater potential exists to maximise their value to shareholders through divestment.

Perilya expects to conclude its decision on whether to divest these assets before the end of the 2006.

Listed Investments

The market value of listed equity investments at 30 September 2006 was \$12.6 million. This is an increase of \$6.8 million from the June quarter which was a result of the listing of Platmin Resources on the Toronto Stock Exchange on 25 August 2006.

Corporate Branding

Perilya has repositioned its corporate brand to reflect the significant cultural change taking place within the company.

Elements of the original logo have been retained in recognition of Perilya's rich 18 year history and past achievements, but combined with new design elements that reflect the vibrancy and renewal of Perilya today.

Employee Share Acquisition Plan

Perilya Limited announced on 19 September 2006 that it had implemented an Employee Share Acquisition Plan to foster employee ownership in Perilya.

The share plan is aimed at retaining and attracting employees and, when coupled with our capability building initiative, strengthening the individual commitment towards positioning Perilya for sustainable growth.

Almost 60 per cent of employees elected to purchase additional Perilya shares via monthly salary sacrifice. The employee share plan now ranks in Perilya's top 20 shareholders, with the plan currently holding approximately 1 per cent of the share capital in Perilya.

Annual General Meeting

The 2006 Annual General Meeting of members will be held at the Conference Suite, Level 8, Exchange Plaza Building, 2 The Esplanade, Perth, Western Australia 6000, on Wednesday 29 November 2006 at 3.00 pm (WST).

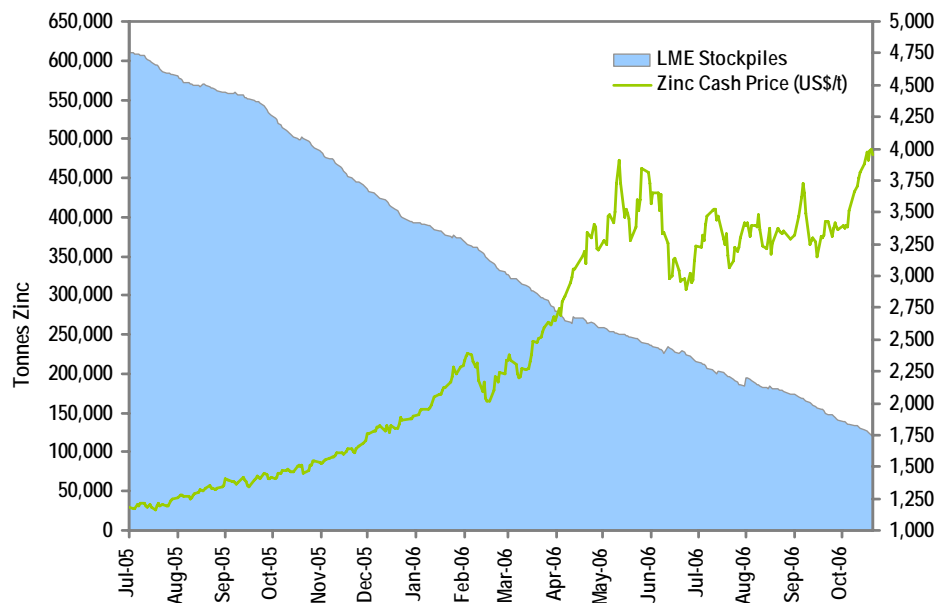
Commodity Market Outlook

Perilya is very well positioned to capitalise on the current strong metal prices underpinned by favourable supply and demand fundamentals.

London Metal Exchange (LME) stockpiles of zinc are the lowest in over a decade, having fallen by 80 per cent since 30 June 2005. Closing LME stockpiles of zinc as at 23 October 2006 were 119,900 tonnes, which represents approximately 4 days global consumption.

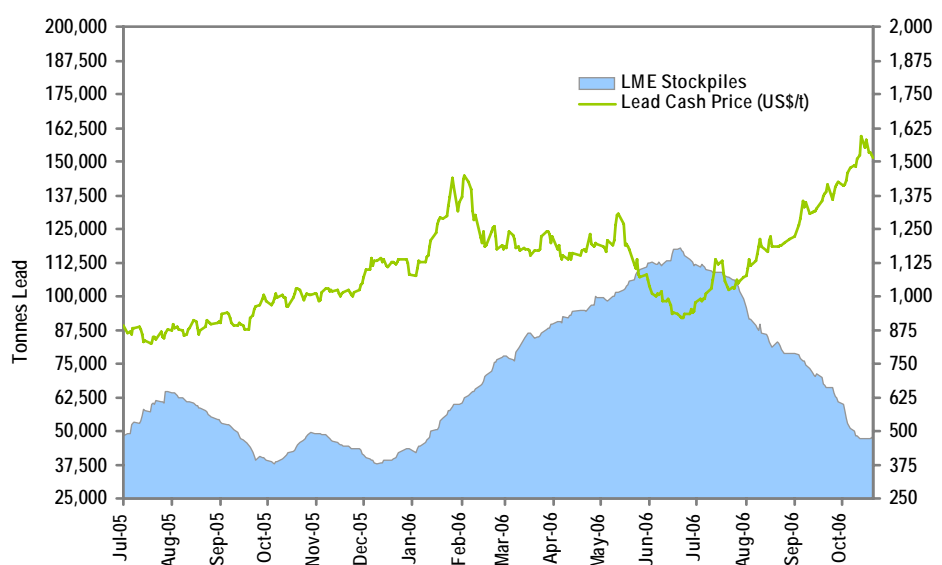
Zinc LME Stocks (LHS) vs Cash Price (RHS)

The zinc inventory levels are fast approaching critical levels which, at an equivalent level, saw a dramatic increase in nickel prices.



Lead LME Stocks (LHS) vs Cash Price (RHS)

Lead inventory has declined rapidly over the past 4 months due to short term production constraints.



Company Profile

Perilya is an Australian resource company, and the third largest ASX listed zinc producer.

As one of Australia's largest base metal miners, we own and operate the tenth largest zinc mine in the world, the Broken Hill mine in New South Wales. Our base metal exploration interests include projects located throughout Australia and in Malaysia.

Corporate Details

Board of Directors:

Patrick O'Connor	Non-Executive Chairman
Len Jubber	CEO & Managing Director
Chang Keun Choi	Non-Executive Director
Peter Harley	Non-Executive Director
Phil Lockyer	Non-Executive Director
Guy Travis	Non-Executive Director

Capital Structure:

Ordinary Shares	191,352,239
Unlisted Options	8,165,000

Major Shareholders:

Young Poong/Korea Zinc, Ltd	10.34%
Acorn Capital Limited	6.52%
Barclays Global Investors Australia Ltd	6.09%
Delta Partners LLC / Charles Jobson	5.82%

Australian Stock Exchange Listing

ASX Code:	PEM
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Media Relations:

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	BASE METALS	GOLD
OPERATING	1 Broken Hill (Zn, Pb, Ag)	2 Daisy Milano
DEVELOPING	3a Potosi, BH (Zn, Pb, Ag)	
EVALUATING	3b North Mine Deeps, BH (Zn, Pb)	
	4 Flinders (Zn, Mn)	
RESOURCE DRILLING	5 Mt Oxide (Cu)	7 Moyagee
EXPLORING	6 Tampang (Cu)	6 Tampang
	8 Dee Range (Cu, Zn)	10 Holleton
	9 Woodline Well (Ni)	11 Honeymoon Well
		12 Kanowna