

Quarterly Activities Report

for the three months ended 31 December 2009

HIGHLIGHTS

The three months ended 31 December 2009 were highlighted by higher metal production and strongly accretive cashflow from operations. The Company has also seen a continued improvement in safety performance with the All Injury Frequency Rate dropping to 27.8, a new record for Perilya's Broken Hill operations. December also saw the Company successfully complete its 1 for 3 rights issue raising approximately \$55.2 million before transaction costs. Highlights for the quarter include:

Corporate

- Positive cashflow from operations of **\$16.1 million**.
- Closing cash balance of **\$116.7 million (\$46.2 million at 30 Sep, 2009)**, boosted by the completion of a 1 for 3 Rights Issue, raising approximately \$55.2 million before costs.
- An increase in exploration activity with programs at Mt Oxide, Broken Hill and the Flinders projects, with a focus on near term development targets.

Broken Hill

- Net cash costs (C1) for the quarter were **US\$0.49/lb** of payable zinc which, despite appreciation of the USD/AUD exchange rate, were ahead of targeted cash costs of US\$0.50-US\$0.55/lb of zinc (and well ahead of the comparative period last year of US\$0.83/lb of zinc).
- Cash operating margin of US\$0.58/lb of zinc was 32% higher than the previous quarter of US\$0.44/lb zinc.
- Production levels for the quarter were ahead of market guidance with quarterly combined metal production of **35,400 tonnes** of contained zinc and lead (against a market guidance of 30,000 tonnes of contained zinc and lead). Quarterly metal production was the highest since June 2008.
- Drilling program continuing on the North Mine mineral sands project.
- 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.
- Feasibility study for mining of Potosi and the Silver Peak mine continuing with the Company anticipating being in a position to make a development decision during the March quarter.

Flinders

- Positive cash flow contribution from sales of 43,085 tonnes of Beltana DSO during the quarter, at an average grade of 33.0%, containing 14,215 tonnes of zinc, an increase of 18.8% on the previous quarter.
- Exploration drilling program is currently underway in the region.
- Feasibility study on proposed Reliance open pit project underway.

Mount Oxide Copper Project

- Continuation of the targeted exploration drilling program and EM Survey program during the quarter.

MD/CEO's COMMENTS

During the quarter the Company completed a 1 for 3 rights issue, which was underwritten by UBS and the Company's major shareholder, Zhongjin Lingnan Mining (HK) Company Limited (**Zhongjin Lingnan**), raising approximately \$55.2 million before transaction costs. The offering was overwhelmingly supported by shareholders with the Company receiving applications for 110,679,816 shares raising approximately \$46.5 million. The remaining 20,841,107 shares being offered under the rights issue were allocated between the underwriters, with Zhongjin Lingnan taking an allocation of 9,995,217 shares and 10,845,890 shares allocated to institutional sub-underwriters via UBS.

The funds raised will be used by the Company to evaluate and progress as appropriate the existing base metals development opportunities within its portfolio. These include:

- satellite ore deposits close to Perilya's Broken Hill operations;
- the Reliance project in the Flinders Ranges, South Australia; and
- the Mount Oxide project in Queensland, where Perilya has delineated a resource of over 220,000 tonnes of contained copper.

Whilst these projects are at various stages of progress, from exploration through to feasibility, it is anticipated that in the coming months some of these projects will go before the Perilya Board for development decisions.

The Company experienced another very strong cashflow accretive quarter from operations which, coupled with the funds raised via the rights issue, places the Company on a very sound footing to pursue both internal growth opportunities as appropriate and external opportunities that may present themselves.

The December quarter represented a very strong performance on production, highlights include 423,300 tonnes of ore mined (28% above plan), milling throughput being 31% above plan, tonnes hoisted per man shift increasing 10% on the September quarter and combined metal production at 35,400 tonnes of contained zinc and lead, which was 18% above market guidance.

During the quarter, the Company was able to maintain a very tight control on costs within the mine gate with direct cash costs slightly below those achieved in the September quarter. C1 cash costs of US\$0.49/lb remained under target of US\$0.50 – US\$0.55/lb, notwithstanding a higher exchange rate and higher zinc treatment charges (due to the higher zinc metal prices) than those of the prior quarter. Going forward, based on current prices, Perilya expects to produce in the range of 120,000 to 130,000 t of contained Zinc and Lead from our Broken Hill operations at a C1 cash cost of US\$0.50 – US\$0.55/lb.



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Managing Director and CEO
28 January 2010

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BROKEN HILL OPERATIONS

Mining Operations

The December quarter showed a continuation of the good results highlighted in the September Quarterly Report. The performance improvements demonstrated in previous quarters have continued and provide confidence in the sustainability of the changes apparent in the Broken Hill operations and in the expectations created by the Broken Hill Operating Plan.

The December quarter saw improvements in mine development, both in terms of advance achieved and in the adherence to planned development activities. Mine development advance (measured as a combination of advance and rehabilitation) improved 27% over the September quarter. Productivity measured in terms of tonnes hoisted per man shift also increased over the December quarter with the average increasing to 377 tonnes per man shift, an increase of 10% over the previous quarter.

Concentrator operations continued to match the increased mine production treating a total of 432,000 tonnes over the quarter. This compares favourably with the September quarter when 345,000 tonnes of run of mine ore were treated (The September quarter was negatively affected by regional power supply interruptions).

The December quarter also saw a significant improvement in concentrator performance in recovery of metals, with recoveries of lead 87.9% (up 2.6% over previous quarter), silver 77.6% (up 7.4% over previous quarter) and zinc 89.0% (up 1.1% over previous quarter). These results represent the highest recoveries for lead since 1st quarter 2006/7 and the highest recoveries for silver since 4th quarter 2004/5. Changes in the reagent strategy have contributed to the increased recoveries and provide the Company with confidence that these improvements are sustainable.

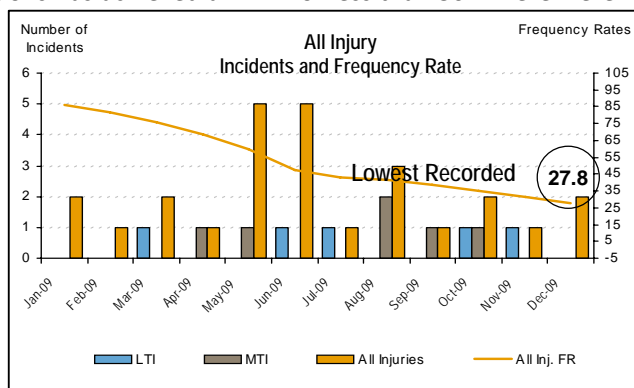
Key performance indicators for the December quarter showed:

- Mining rates exceeded plan by 28%;
- Development advance was 18% above plan;
- Milling throughput was 31% above plan;
- Combined metal production of 35,400 tonnes was 18% in excess of market guidance; and
- Average net cash costs per pound of payable zinc at US\$0.49 ahead of targeted cash costs of US\$0.50-US\$0.55/lb of zinc.

Safety

The December quarter continued the positive trends in both lead and lag indicators. This continued improvement in safety performance has seen the All Injury Frequency Rate drop to 27.8 and this is the first time that Perilya Broken Hill Operations has achieved an AIFR of less than 30. There were 2 lost time injuries recorded during the quarter. This resulted in the LTIFR rising to 4.8. There were no medically treated injuries recorded for the period.

Safety interactions, “Take Time Take Charge”, hazard reporting, incident notification and investigations continued to show sustained improvement in both quality and participation. In particular there was a substantial increase in Hazard identification reports and safety



Interactions. The incidence of equipment damage continues to reduce. The proactive aspects of the Perilya Broken Hill safety management plan are becoming more embedded in the Broken Hill mining culture.

Regular auditing of the Broken Hill operations' mine safety management plan elements continue. Audits were carried out on explosives storage, Contractor management and "corrective action" completion. A review of Major Hazards was conducted along with identification of critical controls. It is planned to continue this work in the New Year. An external audit of the Perilya Mine Safety Management System is planned during the March quarter.

Industry and Investment NSW has produced a draft of guidelines around fatigue management in particular referencing shift rosters. The Broken Hill Operations will review Shift Rosters in line with these guidelines.

Production and Sales

During the quarter 423,300 tonnes of ore was mined from the Southern Operation, which was 28% above plan.

The combined grade of ore processed this quarter was 9.3% (zinc & lead) which, whilst slightly down on the long term plan, was a reflection of the individual stopes that were being mined in the schedule combined with additional lower grade material produced from mine development.

Production Statistics - Tables

Table 1: Broken Hill Quarterly Production

	Dec Qtr 2009	Sept Qtr 2009
PRODUCTION STATISTICS		
Ore		
Total Ore Mined (kt)	423.3	349.7
Total Ore Treated (kt)	432.1	345.0
Zinc		
Grade (%)	4.9	5.4
Concentrate (kt)	38.0	33.9
Contained Zinc (kt)	18.7	16.4
Payable Zinc (kt)	15.7	13.7
Lead		
Grade (%)	4.4	4.2
Concentrate (kt)	23.2	17.9
Contained Lead (kt)	16.7	12.5
Payable Lead (kt)	15.9	11.8
Silver		
Grade (g/t)	45.5	53.8
Contained Silver (Moz)	0.491	0.419
CASH COST & OPERATING MARGIN (US\$/lb zinc)		
Average Price Received	1.07	0.82
Direct Cash Costs	1.00	1.01
By-product credits ⁽¹⁾	(0.98)	(0.90)
Zinc treatment charges	0.47	0.27
Net Cash Cost	0.49	0.38
Cash Operating Margin	0.58	0.44

⁽¹⁾ Silver and Lead production net of treatment charges, freight and handling and realised lead/silver hedging gains and losses

Net Cash Costs of Production

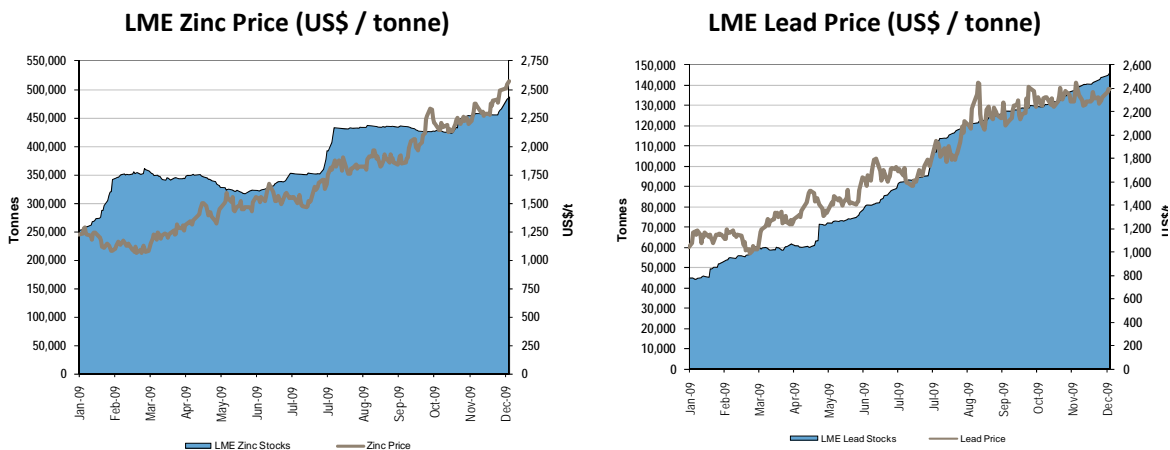
The C1 net cash costs of production of US\$0.49/lb of payable zinc for the period remained lower than the target range of US\$0.50 - \$US0.55/lb of zinc. This was an excellent result considering there was a 9% appreciation in the AUD/USD exchange rate during the quarter and a US\$0.20/lb increase in zinc treatment charges (as a result of the higher spot zinc price).

The cash margin improved 31% to US\$0.58/lb payable zinc through a combination of increases in both zinc and lead prices and excellent cost control at the Broken Hill operation.

Markets

Zinc prices had a strong quarter in US\$ terms, rising by approximately 34% whilst lead prices had a positive, but more modest quarter rising by approximately 5%. The quarter also saw a strengthening in the AUD/USD exchange rate, with the increases in metal prices in AUD terms being marginally less at 32% for zinc and 3% for lead.

Whilst current demand for all metals appears to be improving as the global economy recovers from the financial crisis of 2008/9, it still remains relatively weak. Notwithstanding this, Perilya continues to believe that zinc and lead market fundamentals remain sound over the medium to longer term.



Exploration & Development – Broken Hill, Southern Operations

No significant exploration was conducted this quarter around Southern Operations. However, the Company is currently developing an exploration programme for commencement during the March quarter.

Broken Hill, North Mine

Perilya is continuing the feasibility study of the North Mine, including the North Mine Deeps project. The Stage 1 drilling program of the North Mine Zinc-Sands project was completed during the quarter and following a review of the results of that program, in December the Board approved the Stage 2 drilling program. It is anticipated that this program will commence during the March quarter. This program is aimed at following up areas of potential economic significance identified during the Stage 1 drilling program in the North Mine.

FLINDERS ZINC PROJECT

Beltana Mine - Sales

During the quarter metal sales for Beltana ore were 43,085 tonnes for a total of 14,215 tonnes of contained zinc, generating positive cashflows for the Company.

The remaining stockpiles of Beltana DSO are expected to be sold by the end of 1st half of 2010.

Reliance Deposit (70-85% owned)

With the improvement in terms received for zinc silicate, the Company is currently undertaking a feasibility study for the development of the Reliance Deposit.

Exploration has recommenced at the Company's Flinders tenements with drilling initially conducted north of the Moolooloo deposit. Some broad zones of zinc mineralisation have been intercepted to date. The exploration program will continue over the coming months with an air magnetic program to assist targeting and further drilling to test a number of targets.

MOUNT OXIDE COPPER PROJECT

Drilling Program

During the quarter the Company re-commenced its exploration drilling program at Mount Oxide to investigate the resource potential and improve the confidence around the western areas of the old pit, with these areas having previously remained untested due to drilling limitations. A track mounted underground drill rig was used which enabled holes to be drilled at shallow angles. Drilling immediately north of the old pit has demonstrated good potential for additional tonnes & higher grades within the 'optimised pit shell'. A strategy for potentially developing Mt Oxide will be reviewed during the March quarter.

To investigate the potential for higher grade copper zones to continue at depth below the current resources a down-hole EM program was conducted on a number of deep drill holes. Some of the drill holes tested had significant high grade copper intercepts, however only very minor EM responses were returned over these intervals with interference or shielding effects caused by the surrounding carbonaceous shales and haematite. In light of the geology of the region, the down-hole EM is proving to be an unreliable tool on this deposit and the Company is pursuing other methodologies in exploring the excellent potential for continuation of high grade copper mineralisation below the existing resources.

CORPORATE

Rights Issue

In December, the Company announced the successful completion of its 1 for 3 non-renounceable rights issue. The rights issue closed on 14 December 2009 after receiving applications for 110,679,816 shares, raising \$46,485,522.72 (before fees).

The rights issue gave all shareholders an opportunity to participate in the future growth of the company and it was particularly pleasing to see the very high level of uptake from our existing shareholder base indicating very good support for the company.

As set out in the rights issue offer document dated 17 November 2009, the shortfall of 20,841,107 shares under the rights issue (raising \$8,753,264.94 before fees) was allocated as follows:

- 9,995,217 shares via Zhongjin Lingnan, in accordance with its obligations under the underwriting agreement between Zhongjin Lingnan and Perilya; and
- the remainder of shares to a panel of institutional sub-underwriters via UBS on the terms of its underwriting agreement with Perilya.

With a materially stronger lead/zinc price environment than earlier in 2009 and with Perilya's sustained strong production performance over the previous 12 months, Perilya is now well placed to evaluate and progress as appropriate the existing base metals development opportunities within its portfolio. These include:

- satellite ore bodies close to Perilya's Broken Hill operations;
- the Reliance project in the Flinders Ranges, South Australia; and
- the Mount Oxide project in Queensland, where Perilya has delineated a resource of over 220,000 tonnes of contained copper

Whilst these projects are at various stages of progress, from exploration through to feasibility, it is anticipated that in the coming months some of these projects will go before the Perilya board for development decisions. Subject to the outcomes of those decisions the funds raised will also contribute to any development capital requirements.

Cash and Investments at 31 December 2009

At 31 December 2009, the Company held cash, deposits and investments totalling **\$151.5 million** (30 September 2009: \$81.6 million) an increase of 85.7% over the previous quarter, represented by:

- Free cash of \$116.7 million, (30 September 2009: \$46.2 million), representing a positive cash-flow of **\$16.1 million** from operations for the quarter (not including funds raised via the Rights Issue net of transaction costs);
- Secured cash deposits of \$24.7 million supporting performance bonds required under various mining licences at Broken Hill;
- Commercial paper of \$8.7 million (written down value); and
- Other investments of \$1.4 million (estimated market value).

Cashflow for the quarter was strong, with an increase in free cash of 34% to \$62.3 million (not including funds raised via the Rights Issue net of transaction costs) brought about by the positive cashflows generated from Broken Hill and the continued sale of zinc silicate material from the Beltana stockpiles. In addition, the Company's 1 for 3 rights issue during the quarter successfully raised approximately \$55.2 million (\$54.4 million after costs).

Debt

At 31 December 2009 Perilya has US\$50 million of corporate debt (being debt other than equipment finance in the ordinary course of business) which solely comprises US\$50 million funding for the termination of the silver sale agreement. Perilya also has approximately \$4.6 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 continued with its policy of hedging approximately 70% of payable metal production out 6 months. As announced on 13 January, 2010 the company had entered into additional lead hedging for 30,000 tonnes (previously reported in error as 31,200 tonnes) of forecast

production for the period July 2010 to June 2011 at an average forward price of A\$2,830 per tonne. The program was commenced late in the December quarter and was finalised in early January 2010. This represents approximately 50% of anticipated payable lead production for that period.

At current production rates and combined with our exposure to the silver price, the additional lead hedging should enable the Company to be able to achieve a consistent by-product credit of at least US\$1.00/lb (based on current spot metal prices and exchange rate) from its Broken Hill operation.

Hedging Contracts Summary (as at 31 December 2009)

		Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	TOTAL
		Qtr	Qtr	Qtr	Qtr	Qtr	Qtr	Qtr	Qtr	POSITIONS
ZINC:-										
Tonnes	Tns	11,830	11,500	-	-	-	-	-	-	23,330
Price	A\$/tn	2,138	2,650	-	-	-	-	-	-	2,391
LEAD:-										
Tonnes	Tns	9,000	6,500	312	312	312	312	-	-	16,748
Price	A\$/tn	2,544	2,608	2,800	2,800	2,800	2,800	-	-	2,588
SILVER:-										
Ounces	Ozs	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	1,560,000
Price	US\$/Oz	14.60	14.60	14.60	14.60	15.50	15.50	15.50	15.50	15.05

(*) The 312 tonnes of lead per quarter (Sep 10 to Jun 11) represent the first contracts of the new lead hedging program noted above. The total program of 30,000 tonnes was not completed until early January, 2010.

Accounting Treatment for Lead & Silver Hedging

On 30 December 2009 the Company announced that there is some uncertainty within the Accounting Profession with respect to the ability to treat the hedging of different revenue streams derived from the sale of a single concentrate product as effective hedging under AASB 139. The Company is reviewing the accounting treatment of its lead and silver contracts with its auditors.

Financial Results / Change in Financial Year

During the September quarter, the Australian Securities and Investments Commission ("ASIC") granted relief to enable Perilya to change its financial year end date from 30 June to 31 December. The change of year end enables Perilya to align its financial year end date with that of its majority shareholder, Zhongjin Lingnan.

The grant of ASIC relief means that the financial year just completed is a transitional one from 1 July 2009 to 31 December 2009 (i.e. six months). Thereafter, Perilya will report to ASIC and the ASX as normal with respect to a 31 December financial year end.

The Financial Results for the period to 31 December 2009 (6 months) are expected to be released the week ending 26 February, 2010.

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

Principal & Registered Office:

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ABN : 85 009 193 695

Share Registry

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Telephone: +61 8 9323 2000

Facsimile: +61 8 9323 2033

Email: perth.services@computershare.com.au

Capital Structure:

Ordinary Shares	526,075,563
Unlisted Options	8,650,000
Performance Rights	135,400

Major Shareholders:

Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd	52.00%
Paradice Investment Management Pty Ltd	5.43%

Australian Stock Exchange Listing

ASX Code: PEM

Company Secretary:

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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 were resized in late 2008 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 Project in the Mount Isa region in Queensland.

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