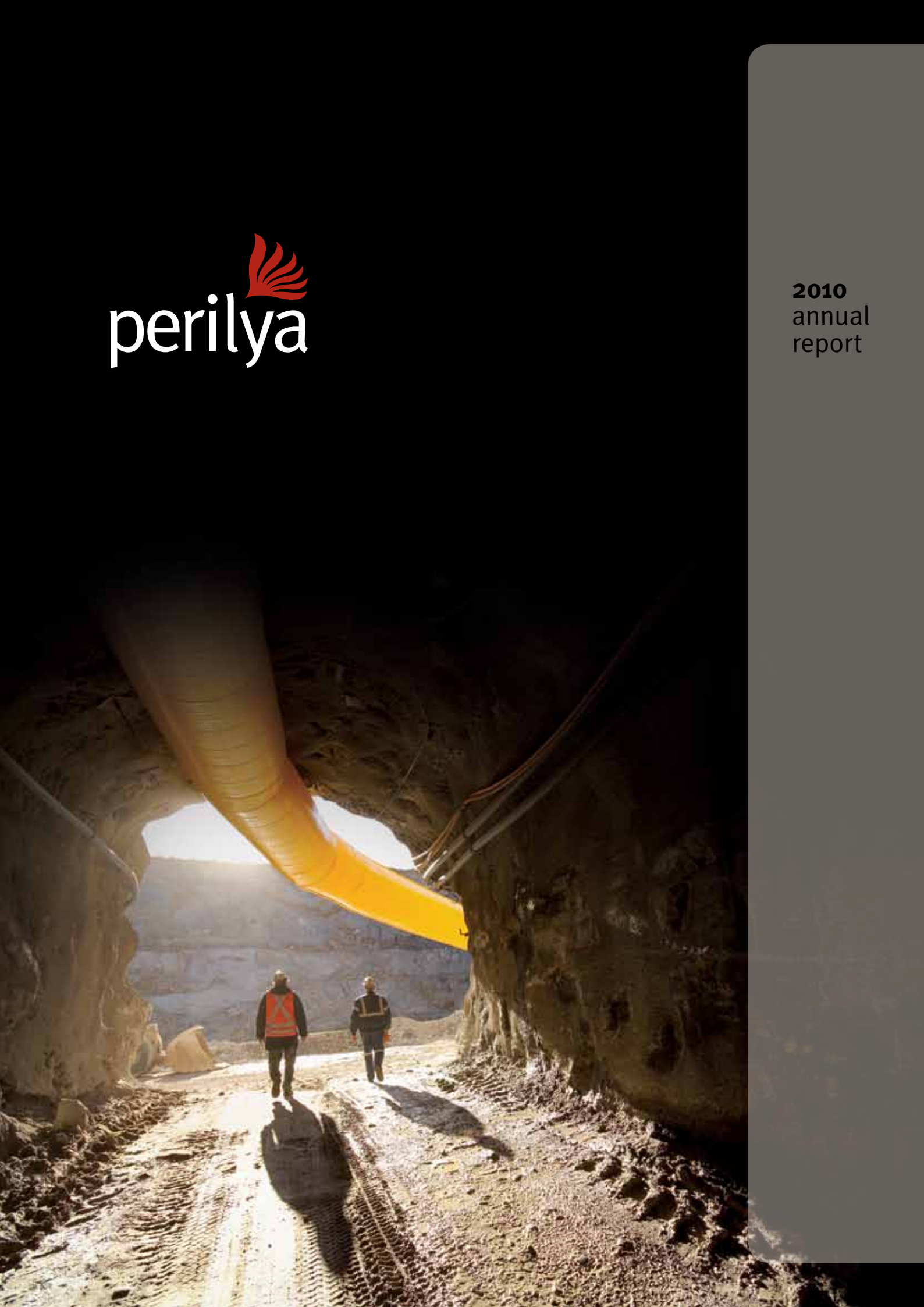




2010
annual
report



02	CHAIRMAN'S LETTER
04	CEO'S REVIEW
06	OPERATIONS REVIEW
16	FINANCIAL PERFORMANCE
18	RESOURCES & RESERVES
22	FIVE-YEAR PERFORMANCE SUMMARY
23	FINANCIAL STATEMENTS

Perilya Limited
 ABN: 85 009 193 695

Annual General Meeting

The annual general meeting of Perilya Limited will be held at 10:30am on 6th May 2011 in the Conference Suite, Level 8, Exchange Plaza, 2 The Esplanade, Perth, Western Australia 6000.

our
 international
 operations

- | | | |
|----------|-------------------------------|--|
| 1 | BROKEN HILL | A SOLID FOUNDATION WITH 2.8MTPA CONCENTRATOR. LOM PLAN 10+ YEARS BASED ON RESERVES |
| 2 | FLINDERS | OPTIONALITY – CASHFLOW POSITIVE |
| 3 | MT OXIDE | POTENTIAL COPPER PROJECT |
| 4 | CERRO DE MAIMÓN | COPPER, GOLD AND SILVER MINE. |
| 5 | MOBLAN LITHIUM PROJECT | |
| 6 | RANAU (50%) | EARLY STAGE COPPER/GOLD PROJECT IN MALAYSIA |



Perilya is an Australian base and precious metals mining and exploration company, which owns and operates the iconic Broken Hill zinc, lead, silver mine in NSW Australia and, with the successful takeover of GlobeStar Mining Corporation in December, the Cerro de Maimón copper, gold & silver mine in the Dominican Republic.

Since its resizing in 2008, the Broken Hill operation has significantly improved its productivity, profitability and cashflow. The Reserve and Resource update in June 2010 extended the mine life to a little over 10 years life. Looking forward, the anticipated metal production for Broken Hill is approximately 120,000 tonnes of combined zinc and lead with expected C1 cash costs for 2011 of approximately US\$0.50 - 0.60/lb of payable zinc forecast.

In the Pan-Pacific area, Perilya has an active exploration and development program in the Broken Hill region and in the Flinders region in South Australia. Perilya is also undertaking a comprehensive development study on its Mount Oxide copper project located in the Mount Isa region, Queensland. In addition, the company is seeking to recommence exploration once licenses have been renewed on its 50% interest in its copper/gold project in the state of Sabah, Malaysia.

In January 2011, Perilya successfully acquired 100% of the TSX-listed GlobeStar Mining Corporation. This acquisition gives Perilya immediate access to the low cost Cerro de Maimón copper, gold and silver mine in the Dominican Republic which has a seven year mine life. The Maimón mine is forecast to produce 9,300 tonnes of saleable copper, 15,000 ounces of gold and 340,000 ounces of silver annually at a cash cost of approximately US\$0.80/ lb of copper.

Perilya is actively exploring for copper and gold in its Dominican mineral concessions, encompassing more than 328 square kilometres. Perilya also owns lateritic nickel resources in the Dominican Republic and holds a 60% interest in the Moblan Lithium Project in Quebec, Canada.

Perilya is 52% owned by Shenzhen Zhongjin Lingnan Nonfermet Co. Ltd, which is China's third largest zinc producer.

02





CHAIRMAN'S
LETTER

Dear Shareholder,

On behalf of the Board of Directors I am pleased to present to you the 2010 Annual report and Financial Statements for Perilya Limited. The Company's performance over the last twelve months represents an outstanding result on all fronts including safety, operational performance, financial performance and strategic growth.

Each year your Board reviews the period just gone and, in light of that review, adjusts where necessary the short and long term strategic goals of the Company to ensure that they remain appropriate in the circumstances. With the implementation of significant changes within the organisation and our operations during late 2008 through 2009, it was important during 2010 for the Company to not only consolidate this platform, but to build on these improvements. You may recall that at the commencement of 2010 I said that "we start the new financial year with the exciting challenge to build on this strong platform of growth that we have developed and I have every confidence in Paul Arndt and his team to successfully meet that challenge". I went on to outline five key areas that the Board had identified where Management should focus its attention and deliver on to ensure maximum benefit for our shareholders. Those areas were:

- Building on the strong platform we had developed with our restructure and evaluating and implementing growth options internally and through external acquisitions where appropriate in the base and precious metals sectors;
- Continuing the efficient and safe mining at Broken Hill;
- Maintaining our focus on cost control and increasing the profit margins of our operations;
- Extending the life of our Broken Hill mine; and
- Leveraging the surplus value of surplus capacity of the infrastructure at Broken Hill through the strategic development of additional ore sources in the region.

I am pleased to say that with the highly successful takeover of GlobeStar Mining Corporation in December, the attainment of new all-time records in terms of safety performance at Broken Hill, maintenance of C1 cash costs well below market guidance, improved operating cash margins on our zinc sales, the Broken Hill mine life extension announced in December and the announcement post end of the year of the Board's decision to approve the re-opening and development of the Potosi/Silver Peak mines, Paul and his team has again delivered on all of these goals.

Over the past eighteen months the Company has been actively looking for a suitable acquisition to complement the Broken Hill operations and to diversify the Company's cashflow. The GlobeStar acquisition delivers all of this and more with its strong existing mining operations and cashflow coupled with a highly prospective suite of exploration and development projects that further complement Perilya's existing suite of projects. I congratulate Paul and his team for a identifying and executing a highly successful takeover of GlobeStar, which has delivered to Perilya geographic and product diversification whilst being earnings per share accretive.

The Acquisition also demonstrates Perilya's ability to successfully operate in other parts of the world, with different types of mines and products and across a range of languages and jurisdictions so as to become a truly global organisation. I am confident that this positions Perilya well going forward to acquire or develop, where appropriate, further projects anywhere in the world through our expanded strategic relationships and skill base.

With our Australian operations, importantly, through our expansion in the Broken Hill region and the potential development in the Flinders region of direct shipped zinc silicate ore we are bringing on line further zinc production at a time when the world is heading toward a supply deficit. This ensures that Perilya is well positioned to benefit from that future supply deficit in line with the Company's long term strategic plan.

Our focus over the ensuing 12 months will be to integrate the new acquisition and implement an active near mine exploration programme with a view to extending the life and/or size of the Maimón mine. There will also be a number of potential decisions around development projects and, through the strong support of our major shareholder, Zhongjin Lingnan, we will continue to actively look for further acquisition opportunities. 2010 has been a very active and exciting year for Perilya and we expect to build on the momentum created throughout 2011.

On behalf of the Board, I thank Paul Arndt, the management team and all employees past and present for their outstanding efforts during the period and our shareholders for their support of the Company.

Zhang Shuijian
CHAIRMAN



CHIEF EXECUTIVE
OFFICER'S REVIEW

04

This year has been a very significant one in the progress of Perilya.

In last year's report we signalled the pursuit of an external acquisition as being a key objective. I am pleased to confirm that we have met this objective through the acquisition of GlobeStar, a Canadian publically listed company, in the later part of the year. This acquisition has secured for Perilya another cash generating operating asset, with diversification into both copper and gold, as well as a geographic spread that complement our Broken Hill assets. Additionally as part of the acquisition we have secured a number of good development projects, including a Lithium project in Canada, a Nickel Laterite project in the Dominican Republic and a number of high potential copper/gold targets in the Dominican Republic.

Together with the solid performance of the Broken Hill operation, the replenishment of mined material through our 2010 reserve and resource work, the development decision announced for the Potosi mine post the end of the year, the Mount Oxide copper project and exploration and studies in the Flinders region and the North Mine at Broken Hill we find ourselves in an extremely strong position, both with respect to the operating assets and our internal pipeline of prospective projects at various stages.

Over this period we have seen an ongoing push to maintain safe operations and this is reflected in us achieving a new record at Broken Hill, having experienced over 300 days without a lost time injury.

This past year has seen us complete our contractual obligations for off-take to Nyrstar and invest in export facilities to enable us to safely export lead concentrate, taking advantage of spot terms in overseas markets. By the end of this year we will be released from long term arrangements for zinc concentrate enabling us to take advantage of Chinese markets at a time when zinc concentrate is forecast to become increasingly in demand.

Looking forward the focus for the coming year will be around ensuring steady operations at Broken Hill, maximising the potential of the newly acquired Cerro de Maimón mine in the Dominican Republic through a focus on near mine drilling and optimisation work around existing infrastructure, combined with the disciplined progression of the various development projects in our portfolio. We will also continue to look for external acquisition opportunities that we believe will enhance the value to our shareholders.

The journey over the past three years has seen Perilya grow both in size and capability, through firstly the effective restructure of Broken Hill, the strengthening of our financial position through the introduction of Zhongjin to our register and the completion of the silver buy back transaction, followed by the successful acquisition of the GlobeStar assets providing us with a much broader revenue base and an experienced Latin American team. The capabilities engendered in this process position us well to recognise and take advantage of opportunities as they arise.

From the perspective of our markets for our products we are at or near historical highs for silver, gold and copper, with significant unhedged exposure. In our core metals of zinc and lead, the medium term forecasts are extremely bullish, as a number of current major mines close in the next few years and we are confident we will see future rises in prices, particularly for zinc.

I would like to recognise the significant support of the Board and to thank all Perilya employees for their hard work in the past 12 months. I look forward to all stakeholders sharing in our success throughout the year ahead.

Paul Arndt

CHIEF EXECUTIVE OFFICER



05

operations review

“By approaching opportunities with a fresh set of eyes, using innovative approaches to tap into the rich seam of past knowledge, and introducing new practices and technologies, we believe that we can unlock the considerable latent value at Broken Hill.”

Paul Arndt
Managing Director & CEO

OPERATIONS IN AUSTRALIA



- 1 BROKEN HILL
- 2 FLINDERS
- 3 MT OXIDE

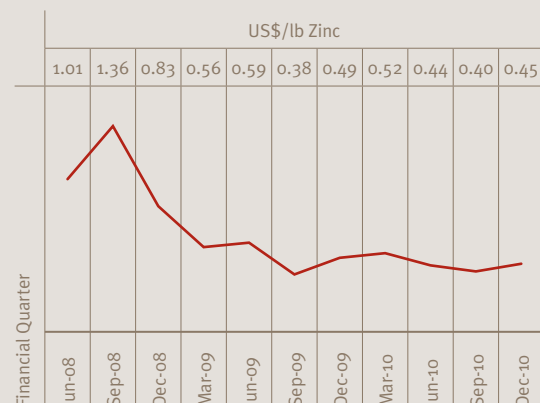
Broken Hill Operation

Perilya's Broken Hill Operation in NSW comprises an underground mining operation, known as the Broken Hill Southern Operation, which forms part of the Historic Broken Hill Line of Lode and a number of satellite mines and deposits. The Broken Hill ore body is “world class”, having produced more than 200 million tonnes of ore over the 120 years since mining commenced in 1885. This long history in mining has endowed Perilya with well-developed infrastructure that has the capacity and flexibility to operate at higher volumes and with a range of ore sources.

Despite Broken Hill's long history, many areas still remain relatively under explored – creating new and exciting opportunities for Perilya. Perilya now manages approximately 1,042 square kilometres of prospective terrain which includes the mine leases, incorporating the Southern Operations, the North Mine, the Potosi Trend, the Flying Doctor deposit, the Silver Peak mine and the historic Little Broken Hill and Pinnacles areas.

Since October 2008 mining operations have been limited to the Southern Operations with the mining operations at North Mine and Potosi having remained on care and maintenance since a decision in July of 2008 to reduce the scale of the Broken Hill operations in response to falling metal prices. The focus of the resized operation was to significantly reduce on a sustained basis Broken Hill's C1 cash costs, ensuring the operations are well positioned to both benefit from expected increases in metal prices as global economic conditions improve and withstand periods of weak metals prices. With C1 cash costs for 2010 of US\$0.44 (well below our target range of US\$0.50-US\$0.55 per pound of payable zinc) Broken Hill operations is now well positioned to achieve these goals.

C1 CASH COSTS



OPERATIONS IN AUSTRALIA

With the resized Southern Operations having proved successful now over a sustained period, Perilya has sufficient confidence in its operating plans and strategies to pursue the potential development of its suite of projects in the region. In line with this strategy, post end of the period, Perilya announced its decision to approve the development of the Potosi & Silver Peak mines, located two kilometres from Broken Hill. This decision followed the completion of a development study and receipt of all necessary state and local government approvals for the project to proceed.

In early 2011 Perilya achieved a significant milestone – its first nine years of successful operation of its Broken Hill Mine. The company has brought a new lease of life to the historic Broken Hill mine since acquiring it in June 2002, increasing production and extending its life to more than ten years based on existing reserves.

During these nine years, Perilya Broken Hill has mined approximately 16 million tonnes of ore and shipped over 860,000 tonnes of zinc metal and 490,000 tonnes of lead metal.

Further increasing ore reserves and extending the mine life at Broken Hill to beyond 10 years are important cornerstones in the company's strategy for sustainable growth.

The Broken Hill operation produces two products, a zinc concentrate and a lead concentrate. Concentrates from Broken Hill are a premium coarse-grained product, being of low complexity and containing a grade of approximately 50 per cent zinc in the zinc concentrate and 70 per cent lead in the lead concentrate.

In the 12 months to 31 December 2010 the Southern operations has continued mining remnant material from the southern portion of the Broken Hill Line of Lode. In total some 1,636,692 tonnes were mined during this period.

Mining Techniques

Perilya has introduced significant changes and improvements in the operations at Broken Hill. An underground equipment replacement program has resulted in improved productivity, while the concentrator was simplified to improve recoveries and concentrate quality.

Mining is principally conducted using a longhole open stope method with variations developed for extraction of the secondary resource located in the previously worked pillars area.

Longhole stoping currently accounts for 70 per cent of underground production, with pillar extraction and development ore contributing approximately 30 per cent of the total. The ventilation system comprises ten ventilation shafts with three surface exhaust fans and one surface intake fan.

The proprietary techniques and operating approaches developed through operating a large, complex remnant mine not only enables Perilya to extract full value from Broken Hill, but also provides a competitive advantage for developing other challenging ore bodies.

Ore mined from the underground mine is crushed underground and hoisted to the surface to be treated in the concentrator which is situated at the heart of the Company's Southern Operation. The concentrator has a name plate capacity of approximately 2.5mtpa, and has the capacity and flexibility to operate at lower and higher volumes and with a variety of ore types. To manage the current excess capacity efficiently, the Company processes the mined ore on a campaign basis. Shift rosters in the concentrator are organised to match this form of operation.

Lead and Zinc concentrates are railed from Broken Hill to Port Pirie. During the period, Lead concentrates were placed in the Nyrstar smelter at Port Pirie. Zinc concentrates are exported through our bulk loading facility at Port Pirie. During the period, Perilya commenced and, in March 2011, completed a significant upgrade of its storage shed and ship-loader at Port Pirie. The upgrade, which includes a negative pressure, sophisticated dust filtration storage and handling system, allows Perilya to now export Lead concentrate from Port Pirie. This has given the Company the ability to access new overseas markets for its Lead concentrate allowing it to benefit from higher spot prices and lower treatment charges, particularly into the Chinese market. The financial benefits of these changes will be seen commencing from the second quarter 2011.

Perilya is fortunate to be part of a skilled and experienced mining community that is supportive and has a strong sense of identity. The company has an experienced and settled residential workforce, one that blends younger professional and technical expertise with mature Broken Hill mining experience – a workforce that is committed and eager to embrace new ideas and technologies.

Southern Operations

Perilya's strategy at Broken Hill during the past twelve months was to ensure the consolidation and sustainability of the significant safety, productivity and cost improvements that occurred as a result of Perilya's strategic resizing in late 2008. With this in mind, in the period to December 2010 the operations at Broken Hill have concentrated on three core strategies.

1. **Safe Production.** It has been the aim of Perilya management to ensure that the Broken Hill operations are as productive as can be reasonably achieved in a safe and sustainable manner. During this period, the total tonnage mined from the Broken Hill mine was 18% more than plan whilst at the same time operations achieved a new all-time record safety performance with the All Injury Frequency Rate dropping to a record low of 17.2.
2. **Ongoing Cost Control.** It has been the aim of Perilya management to progress a continuous process of improvements. Unit costs of production for the January to December 2010 period were maintained at \$0.44lb of payable zinc, the same level achieved in the 6 month period to December 2009. This was an outstanding performance given the upward pressure on costs as the World economic recovery started to take effect.

OPERATIONS IN AUSTRALIA

08

	12 MONTHS TO DECEMBER 2010	6 MONTHS	12 MONTHS TO JUNE 09
	DEC 2010	12/2009	08/09
Production Statistics			
Ore			
Total Ore Mined (kt)	1,636.7	773.0	1,526.5
Total Ore Treated (kt)	1,637.5	777.1	1,590.0
Zinc			
Grade (%)	4.4	5.1	5.3
Concentrate (kt)	129.9	71.9	154.3
Contained Zinc (kt)	63.6	35.1	75.3
Payable Zinc (kt)	53.1	29.4	63.0
Lead			
Grade (%)	3.7	4.3	3.7
Concentrate (kt)	71.2	41.1	68.9
Contained Lead (kt)	51.3	29.2	48.1
Payable Lead (kt)	48.7	27.7	45.8
Silver			
Grade (g/t)	38.0	49.2	39.6
Contained Silver (Moz)	1.577	0.910	1.515
Cash Cost & Operating Margin (Us\$/Lb Zinc)			
Average Price Received	0.97	0.93	0.66
Direct Cash Costs	1.21	1.01	0.98
By-product credits (*)	(1.05)	(0.94)	(0.36)
Zinc treatment charges	0.28	0.35	0.23
Net Cash Cost	0.44	0.42	0.85
Cash Operating Margin	0.53	0.51	(0.19)

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

3. Expansion of the existing Broken Hill business. Building on the strong platform achieved as a result of the Company's resizing in late 2008, the strategy for expansion of the Broken Hill business revolves around the ability to take advantage of the under-utilised capacity of the Southern operations concentrator. Work has continued to focus on the resources present at both the North and Potosi operations that are currently under care and maintenance. In December 2010 Development approval for the Potosi operation was received from the Broken Hill City Council and post the end of this reporting period the Perilya board has approved the capital expenditure for this project.

Mining Operations

Productivity measured in terms of tonnes hoisted per man shift continued its upward trend during the period. The average for the year was 360 tonnes per man shift, which is an improvement of 6% over the same period last year.

The average of combined mine development and access rehabilitation achieved in calendar year 2010 was 1,180 metres per month. This represents an improvement of 22% over the corresponding period in the previous calendar year.

Key performance indicators for the period include:

- Development advance was 30% above plan;
- Combined metal production of 114.9Kt of zinc & lead was slightly below market guidance of 120Kt of combined zinc and lead, due to lower head grades than plan;
- 1,637,000 tonnes of ore mined from the Southern Operation, which was 18 per cent above plan;
- The combined grade of ore processed of 8.1 per cent (zinc and lead), was less than plan; and
- At years end, the average net C1 cash cost for 2010 was US\$0.44 per pound of payable zinc, which was ahead of market guidance for C1 cash costs of US\$0.50-US\$0.55 per pound of payable zinc.

These results continue to demonstrate the sustainability of the Broken Hill Operation with this stable profile providing a strong platform for expansion through internal development projects in the region, including the Potosi & Silver Peak mines and potentially the North mine.

Metal Production and Sales

Production for the year ending 31 December 2010 was slightly below market guidance with approximately 63,600 tonnes of contained zinc and 51,300 tonnes of contained lead produced. Market guidance for the period was anticipated production of 120,000 tonnes of combined zinc and lead).

During the year, the average price received per pound of zinc was US\$0.97 (31 December 2009: US\$0.93 per pound of zinc).

North Mine

The Broken Hill North Mine remains a significant opportunity. The North Mine project has known mineralogy, an existing local mining workforce that can be expanded to accommodate the project and is in close proximity to Perilya's existing infrastructure.

The North Mine project has known high grade mineralisation with potential for a significant ongoing mining operation at Broken Hill, an existing local mining workforce that can be expanded to accommodate the project and is in close proximity to Perilya's existing infrastructure.

The North Mine and North Mine Deeps developments were placed on care and maintenance in September 2008.

An active exploration and project assessment program is underway with studies ongoing on both the North Mine Deeps project and North Mine Upper areas between the 12 and 23 levels showing significant additional mineral inventory, which has the potential to increase the North Mine resource in the future. A development decision is anticipated during 2011.

With the buy-back of the Company's silver in July 2009, the opportunity now exists to review the potential re-establishment of operations at the North Mine in the near future. The high silver grades of the mine coupled with the current high silver price make this study and the potential re-opening particularly significant.

Potosi / Silver Peak Mines

Perilya announced in February 2011 that its Board had formally approved the development of the Potosi & Silver Peak mines, located two kilometres from Broken Hill. This followed completion of a development study and receipt of all necessary state and local government approvals for the project to proceed.

"The Potosi/Silver Peak mine development presents Perilya with significant near term upside exposure to the relatively stable zinc price at a low development cost whilst adding additional feed to the Broken Hill Southern Operations concentrator."

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

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

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

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

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

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

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

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

Flying Doctor

Flying Doctor is located approximately ten kilometres north of Perilya's Broken Hill Southern Operation and five kilometres north of the Company's Northern Operations.

Subject to approvals and metal prices, Flying Doctor has the potential to strengthen Perilya's Broken Hill production profile, providing an additional source of ore feed to the Broken Hill concentrator for up to four years.

Pinnacles Region

The Pinnacles Region, located approximately 10 kilometres southwest of the Broken Hill mill, shows great promise for the discovery of a large mineralised system. This region includes deposits known as Henry George and 11:30, as well as mineral targets at Sam Deeds and Esmeralda.

These deposits have potential to be developed as open pit operations that can be integrated into the Company's current operations. The area also holds potential for a larger Broken Hill-style system as there has been minimal deep drilling below 100 metres on the deposits, and the strongest alteration identified in the deeper portions of the mineralised systems.

With additional and mineral targets present at Sam Deeds and Esmeralda, these are considered worthy of exploration in the future.

Exploration – Broken Hill

Perilya holds over one thousand square kilometres of prospective terrain around Broken Hill, including exploration licences over the historic Little Broken Hill and Pinnacles areas, as well as mine leases incorporating the Southern Operation, North Mine and Potosi Mine.

The Broken Hill ore body is one of the largest base metal deposits in the world and key ore indicators of Broken Hill-style mineralisation observed throughout Perilya's tenement holding show that this ground is still highly prospective for additional discoveries.

The North Mine remains a significant opportunity, with studies completed on both the North Mine Deeps project and North Mine Upper areas between the 12 and 23 levels showing significant potential to increase the North Mine resource in the future. Exploration activity at the North Mine included analysis of data obtained from the Junction North drilling program undertaken during 2010. The results of metallurgical test work conducted during the December quarter provide encouragement to progress to bulk sample trials. Analysis of drill results has also progressed to a mining scoping study on the hard rock resources identified from the program. A detailed mining study is due for completion during the course of 2011.

At the Southern Operations, exploration diamond drilling was undertaken on the Southern Extensions project targeting down-hole electromagnetic (EM) anomalies along the Line of Lode down-plunge of mineralization at the Southern Operations. The first hole targeting this anomaly, N4970A, passed approximately 15m below the lower edge of the modelled conductor and failed to intersect any significant sulphides although subsequent down-hole EM and magneto-metric resistivity (MMR) surveys confirmed that the source of the strong geophysical anomaly was located above the hole. Additional drilling is currently underway to further evaluate the target with increased mineralization and alteration being encountered in follow-up drill-hole N4970B. Current drill-hole N4970C has yet to reach target depth but is projected to intersect the central portion of the modelled plate and is scheduled for completion in the first half of 2011.

Flinders Project

Beltana Mine and Sales

During the year the company sold the last of its zinc silicate ore from existing stockpiles, with ore sales of 39,068 tonnes for a total of 13,813 tonnes of contained zinc delivered to clients in Taiwan and Korea.

Drilling in the Flinders Ranges during the period included:

- in-fill reverse circulation (RC) drilling around recently identified zinc silicate mineralization at the North Moolooloo prospect area. Encouraging results were returned from the north end of the prospect where thicker and higher grade intercepts than expected were returned. Additional potential for the zone still exists to the north where drilling along the target horizon is sparse. Drilling is on-going with a potential resource estimate scheduled for completion in the first half of 2011.

- A program of extensional drilling at the former Aroona Mine was also completed during the period aimed at increasing the remaining resource tonnage. Higher zinc grades than predicted by the current resource model were intersected at the northwest end of the deposit although increases to the overall tonnage are expected to be minor. An updated resource estimate is anticipated to be completed in the first half of 2011.
- 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.

Priority targets have also been developed around the former Mt. Bayley copper mine as well as along the Beltana-Aroona trend along strike of the Aroona Mine. Drilling in these areas as well as along prospective stratigraphy south of the Beltana pit commenced in the December quarter.

Regionally, field work concentrated on identifying new target areas for future exploration through geological review, mapping and handheld XRF soil surveying over Perilya's extensive tenement holdings in area.

With the improvement in terms received for zinc silicate, the Company is continuing with a feasibility study on the potential development of the Reliance Deposit.

Mount Oxide

The Mount Oxide Copper Project comprises 795 square kilometres of tenements and is located in the Mount Isa region of northern Queensland within the Western Succession area that hosts several major sediment-hosted breccia copper deposits. The Mount Oxide deposit is located in a proven mineralised system in the highly prospective Mount Isa region.

The project lies 25 kilometres north of the Mount Gordon mine operated by Aditya Birla Limited and was mined intermittently between 1912 and 1971 by way of a small open pit and underground operation.

The deposit is a chalcocite-dominated system associated with strong silica-hematite alteration and copper mineralisation. The mineralisation is hosted in a sedimentary package associated with a strong structural control along the northeast trending Mount Oxide fault and associated cross cutting faults.

A new resource definition drilling program was undertaken in 2010 which was generally infill drilling and targeting potential open pitable mineralisation around the historic Mount Oxide open pit. The program also enabled the Company to upgrade the existing Inferred and Indicated Resource to Measured status where appropriate. The program included approximately 10,200 metres of diamond and reverse circulation drilling. Additional drilling was undertaken for environmental, geotechnical and metallurgical test work to support the project's development study.

OPERATIONS IN AUSTRALIA

Assay results from the drilling program included several significant high grade copper intersections at depth. These results support the continuity of higher copper and silver grades at depth and demonstrating the potential for future resource and reserve growth.

An evaluation study was initiated in 2010 to determine the technical and economic viability of the Mount Oxide project. The study program incorporates geological modelling, geotechnical data collection and analysis, mine design and optimisation, metallurgical test-work, process flow-sheet development, infrastructure layout and design, economic evaluation and stakeholder consultation. Baseline data collection and assessment is being performed as part of a comprehensive environmental impact statement (EIS). Cultural heritage and legacy environmental impacts are significant considerations for the project and activities are structured to understand, assess and consult in relation to the potential impacts of a mining development.

The evaluation study has focused on the concept of an open pit mine, standalone ore processing facility and associated infrastructure. The results of the 2010 drilling program will be included in an updated resource model so that preliminary findings are available in the first quarter of 2011. These findings will be used to better define the preferred project development scenario.

The company remains confident in Mount Oxide's potential as a near term development project and has invested over \$9 million on detailed drilling and evaluation activities over the past 18 months.

Resource

The Mount Oxide mineral resource estimate currently comprises 17.9 Mt at an average grade of 1.3% copper for 224,000 tonnes of contained copper. This resource is to a vertical depth of 450 metres. 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).

It is anticipated that a new mineral resource estimate based on the results of the 2010 drilling program will be announced during the first half of 2011.

OPERATIONS IN THE AMERICAS



In December 2010 Perilya successfully acquired 97.77% of the common shares of Globestar Mining Corporation (GlobeStar), a TSX listed company with operating and exploration assets in the Dominican Republic and a lithium project in Canada. Perilya completed the compulsory acquisition of the remaining 2.23% of the outstanding common shares of GlobeStar and as of 10 January 2011 held 100% of the issued shares of GlobeStar. The acquisition was in line with Perilya's growth strategy and provides diversification into copper and gold as well as potential exposure to lithium and nickel.

GlobeStar's main operating asset is the Cerro de Maimón copper, gold and silver mine located in the Dominican Republic. Due to completion of the acquisition occurring at the end of the 2010 financial year, the operating results for Cerro de Maimón do not form part of the Company's financial results for 2010. Production at Cerro de Maimon during 2010 comprised approximately 20.168 million pounds of payable copper, 15,900 ounces of payable gold and 652,200 ounces of payable silver. Looking forward, the Cerro de Maimón mine is forecast to produce around 9,300 tonnes of saleable copper, 15,000 ounces of gold and 340,000 ounces of silver at a cash cost of approximately US\$0.80/lb of copper.

Cerro de Maimón

Location and Access

The Cerro de Maimón property is located in the municipality of Maimón, in Monseñor Nouel Province, approximately 70 km northwest of Santo Domingo, the capital of the Dominican Republic. The operation is approximately 4 km east of the town of Maimón which is home to around 25,000 people.

The town is centrally located in a mining district with operations based on two major mineral deposits, the Falcondo nickel mine/smelter complex and the Pueblo Viejo gold operation of Barrick Gold/Goldcorp Inc., both within 15 km of Maimón. Cerro de Maimón can be reached via the paved Maimón-Cotui road southeast from Maimón for a distance of about 2 km and a further 2 km along a sealed road that leads directly to the operation.

Geology and Mineralisation

The Cerro de Maimón deposit is a typical volcanic-hosted exhalative massive sulphide body (VMS type). It contains sulphide ores with recoverable copper, gold and silver overlain by a gold and silver rich oxide cap.

OPERATIONS IN THE AMERICAS

12

Mineralisation occurs in three types: a near-surface gold/silver rich oxide cap, a supergene enriched sulphide zone where the unaltered massive sulphide has been preferentially enriched in copper, and the unaltered massive sulphide mineralisation deeper in the deposit below the effect of weathering and where the copper to zinc ratio approaches 1:1. The oxide cap comprises goethite enriched in gold and silver and averages 30 m in thickness. Mineralisation in the sulphide material consists of massive to semi-massive rounded to angular pyrite with interstitial chalcopyrite and sphalerite. Bornite, tennantite, tetrahedrite and galena occur as trace minerals. Gangue minerals include quartz, sericite, chlorite, minor calcite and barite. Secondary copper minerals, including chalcocite and covellite, partially replace the primary sulphide minerals. Supergene enrichment has locally raised the copper content to as much as 10%. Copper grades in the unweathered sulphide mineralisation are generally between 2% and 3%.

Reserves

The Cerro de Maimón ore body contains 4.8 Mt of proven and probable ore grading 2.54% copper, 0.96 grams per tonne gold and 34.9 grams per tonne silver. The oxide body contains 1.2 Mt of proven and probable ore grading 1.86 grams per tonne gold and 34.5 grams per tonne silver.

Operations

Cerro de Maimón is an operating copper/gold mine in the Dominican Republic. Cerro de Maimón hosts approximately 6 Mt of open pit copper/gold ore reserves as reported in a National Instrument 43-101 compliant technical report dated August 2007 by independent consultants. The Cerro de Maimón property and surrounding 3,391 ha exploitation concession was acquired from Falconbridge Dominicana (Falcondo) in April 2002. Falcondo currently retains a 1% Net Smelter Royalty from mine production. The Dominican Secretary of State of Environment and Natural Resources granted the Environmental License for mining the Cerro de Maimón deposit in 2004 in what was the first mine development approval under the Dominican environmental Law 64-00.

There is potential for expanding the mineral resource through both depth and strike extensions and discovery of satellite deposits in Perilya's 100% owned Maimón Concessions that surround the Cerro de Maimón deposit. The Maimón Concession covers approximately 85% of the Maimón massive sulphide belt.

Construction of the approximately \$69 million open pit mine, processing facilities and related infrastructure began in December 2006 and was completed in October 2008. The operation has separate processing facilities for the sulphide and oxide ores. Copper is recovered from the sulphide ores with co-product gold and silver. The oxide ore is treated to recover a gold-silver precipitate.

Mining activities are performed by a contractor using a fleet of articulated trucks, rigid body trucks and hydraulic excavators. The mined ore is trucked to the appropriate sulphide and oxide ore stockpiles. Waste rock is classified on the basis of geochemical

properties and transported to one of several purpose built storage facilities on the property.

The sulphide and oxide plants share a primary crushing and conveying system. The two-stage crushing system reduces the ore to minus 20 mm prior to the ore being stacked on separate coarse ore stockpiles.

Sulphide ore is processed through a 1,300 tonne per day flotation circuit using large capacity circular flotation cells followed by a re-cleaner flotation column. A 12' x 14' ball mill is used for primary grinding to produce a 80% passing 150 micron feed to the flotation rougher cells. A second 11' x 13' ball mill regrinds the rougher flotation concentrate to 80% passing 35 microns. The overflow from the regrind cyclone passes directly to the cleaner cells before passing to the flotation column. The concentrate from the flotation column is then thickened and filtered to reduce the final concentrate moisture content to about 6%.

The copper concentrate is trucked to the port of Río Haina on the southern coast of the Dominican Republic where it is blended, loaded and shipped to overseas customers.

Oxide ore is processed at a rate of 700 tonnes per day through a 8' x 15' ball mill followed by conventional agitated cyanide leaching, counter current decantation thickening and Merrill-Crowe gold and silver recovery.

Tailings and potentially acid generating (PAG) waste rock are separately deposited in an engineered and lined co-disposal facility that is designed to prevent acid rock drainage into the surrounding environment.

Perilya's practices concurrent reclamation at the Cerro de Maimón property. As soon as an affected area is ready for reclamation, previously reserved topsoil is replaced and the area is re-planted with native species grown in the Company's nursery. At mine closure all infrastructure will be removed and affected areas covered with topsoil and re-vegetated.

There has been extensive cooperation with local government and communities since 2005 in order to meet environmental and sustainable development objectives. Activities include:

- Over 85% percent of employees at Cerro de Maimón reside within the local Monseñor Nouel Province. Perilya is committed to employment and training people from local communities.
- The Fundación Mina Cerro de Maimón (the Cerro de Maimón Mine Foundation) was established as a non-profit foundation dedicated to improving education and healthcare in the nearby villages of El Copey and Las Martinez. Perilya provides funding for this foundation and the communities participate in decisions on distribution of the funds.
- Improvements to the main access road through the villages of El Copey and Los Martinez.
- Sponsorship of training in agriculture, accounting, computer skills, concrete block-laying and cookery and nutrition in the local communities.
- Provision of direct support to churches and schools in El Copey and Los Martinez.
- Delivery of food baskets to families in need at Christmas time.

OPERATIONS IN THE AMERICAS

Exploration

With the successful completion of the GlobeStar takeover in the December quarter the Company is now reviewing the exploration and development programs for 2011. Recent GlobeStar's exploration programs were focused on identifying and profitably developing high grade copper and gold deposits with a primary focus on its mineral exploration tenements that cover more than 328 km² in the Dominican Republic. Perilya holds laterite nickel resources in the Dominican Republic and a 60% interest in the Moblan Lithium Project in Quebec Canada.

Cerro de Maimón Mine Exploration



Mineralisation beneath the Cerro de Maimón open pit is open and has not been closed off down dip or down plunge. On several sections past drilling has also intersected a relatively untested mineralised footwall lens. A diamond drilling program commenced in June 2010 to increase existing sulphide resources and reserves and to obtain bulk sulphide material for metallurgical testing. The drilling program covered 650 m along strike and up to approximately 270 m depth and confirmed the down dip and south east continuity of the Cerro de Maimón mineralization beyond the known reserves. This drill program was completed in December 2010 and results from the 26 diamond drill holes will be incorporated into an updated resource/reserve estimate scheduled for completion in the first half of 2011.

The drilling program will recommence in January 2011 to investigate the deposit's depth potential especially to the south east, assess the relatively untested footwall area and continue infill drilling. Geophysical data has been reprocessed using alternative analytical methods and further analysis is underway to identify additional drill targets. Down-hole geophysical methods will be applied on drill holes at regular intervals to further assist drill targeting.

The south eastern extension of the Cerro de Maimón massive mineralised sulphide package, away from the mine environs, extends for approximately 2 km and has not been drill tested. Evaluation of this zone will continue. Field mapping and soil geochemistry to the south east of the Cerro de Maimón open pit was conducted in the December Quarter. Detailed alteration and structural mapping, plus integration of the geochemical data into the Cerro de Maimón three dimensional geological model, will further assist drill targeting.

Other 2010 field activities included diamond drilling on several prospective targets away from the Cerro de Maimón mine and within the Bayaguana Concessions. A number of mineralised structures were drill tested with some success. A review will be carried out to assess the findings from all exploration conducted to date and prioritise future work.

Other Exploration

Cumpié Hill Nickel Laterite Deposits

The Cumpié Hill deposit is located 4 km from the Cerro de Maimón Mine and has a NI 43-101 compliant estimated indicated and inferred mineral resource of 6.2 Mt grading 1.5% nickel at a cut-off grade of 1.0% nickel containing an estimated 200 million pounds of contained nickel. Minimal work was performed in 2010 however the Company will evaluate development options for the Cumpié Hill nickel laterite deposit in 2011.

Moblan West Lithium Deposit (60% Owned)

The Moblan West lithium deposit, located in central Quebec, is 60% owned by the Company and 40% owned by SOQUEM Inc. ("SOQUEM"). Drilling has delineated a near-surface 40-metre thick pegmatite sill that hosts an Inferred mineral resource of 5.3 Mt grading 1.51% lithium oxide (Li₂O) at a cut-off grade of 0.43% Li₂O. Included in this resource is a higher-grade inferred mineral resource estimate of 2.1 Mt grading 1.85% Li₂O at the same cut-off grade.

In May 2010 a 99 hole diamond drill program was completed for a total drill length of 13,379 m. The program included two phases of infill drilling (at 50 m and 25 m spacing) and two additional deep holes that targeted the continuity of mineralization along dip of the known pegmatite sill.

An updated resource estimate is underway with completion expected late in the next quarter.

OPERATIONS IN MALAYSIA

14



Ranau, Malaysia (50%)

The Ranau Project is located in the Malaysian State of Sabah on the island of Borneo. The project is a 50:50 joint venture between Perilya and Mamut Copper Mining, a wholly owned subsidiary of Mega First Sdn Bhd and a Malaysian-listed company. Exploration permitting currently underway with JV partner (Mega First Corporation)

The project covers a region of porphyry copper gold mineralisation where number of high quality exploration targets exist including a partly tested porphyry system named Bongkud.

Site visit and meetings with JV partners and Government officials were undertaken during the 2010 to progress the licence renewal and a plan is being developed for recommencement of exploration activities.

Subject to permitting, the Company plans to commence to investigate the potential to expand the Bongkud resource both at depth and along strike, plus explore for the potential for epithermal low sulphidation mineralisation.

Other Non-Core Assets

Perilya's other non-core assets include a current 76 per cent interest in the Kanowna West Gold Joint Venture. The Kanowna West Project covers an area of 25 square kilometres and is located 17 kilometres north of Kalgoorlie, Western Australia, four kilometres west of the Kanowna Belle gold mine. Under the joint venture and farmin agreement with the Company's joint venture partner, Barrick Gold, Barrick could earn up to 60% of the project by spending \$750,000 on exploration expenditure within three years.

Health and Safety

Perilya continues to develop an organisational culture that proactively drives development of the highest standards of occupational health and safety management across its operations. The Company is engaging all personnel to accept the responsibility for ensuring a safe workplace for themselves and their workmates.

Perilya's HSE strategy is focused on visible leadership, encouraging responsible behaviour and empowering employees with responsibility for health, safety and the environment. Not only are the Board and Management involved in regular safety reviews and interactions with employees but structured safety interventions have been targeted at the operational leadership groups down to supervisor level..

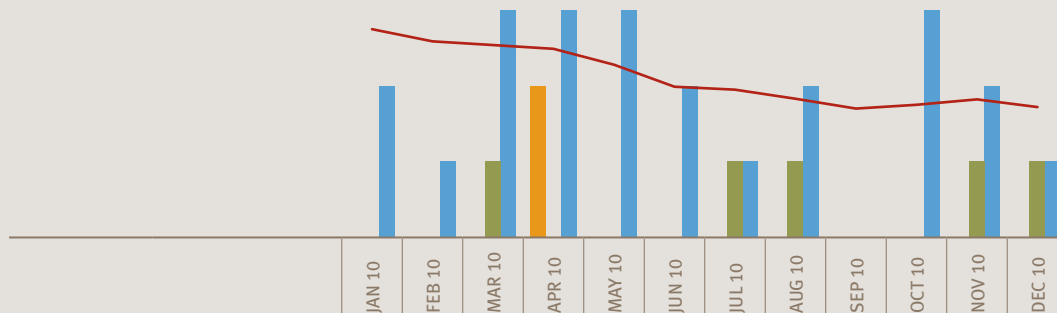
The Company's Broken Hill Operation continued to see positive trends in both lead and lag indicators over the year and the All Injury Frequency Rate has steadily fallen to the lowest level in the Company's seven year history at Broken Hill.

The improved safety performance is being driven by leaders who have been engaged and motivated by Safety Interventions and Leadership Development Programmes. Evidence of the leadership commitment is the increasing number of safety interactions, widespread use of the personal risk tool, "Take Time, Take Charge" and a focus on both the quality and quantity of hazard reporting, incident notification and investigations. The implementation of these processes has been underpinned by a series of internal and third party audits.

The impact on reduced incidents and injuries is also reflected in a significant reduction in equipment damage incidents, resulting in lower numbers and severity of incidents, reduced interruption to operations and lower repair costs.

ALL INJURY INCIDENTS AND FREQUENCY RATE

LTI	<i>Number of incidents</i>	0	0	0	2	0	0	0	0	0	0	0	0
MTI	<i>Number of incidents</i>	0	0	1	0	0	0	1	1	0	0	1	1
All Injuries	<i>Number of incidents</i>	2	1	3	3	3	2	1	2	0	3	2	1
All Injuries	<i>Frequency Rate</i>	27.5	25.9	25.4	24.9	22.8	19.9	19.5	18.3	17.0	17.5	18.2	17.2

**Environment**

Perilya is committed to operating in a responsible manner to reduce the impact of its mining and processing operations on the environment, while maintaining environmental biodiversity and facilitating the rehabilitation of areas mined and or occupied.

The Company records all environmental incidents and corrective actions taken in consultation with the local community and the Environmental Protection Agency.

The main environmental issues identified at Perilya's operations relate to water use, greenhouse gas emissions, dust control, noise control, land rehabilitation and biodiversity.

In line with Perilya's commitment to sustainable production and minimising any impact of its operations on the environment, Perilya commenced in December, and completed in March 2011, a significant upgrade of its storage and handling facilities at Port Pirie. The upgrade includes a state of the art dust filtration system and a negative pressure storage and handling system to allow for the safe storage and handling of both our Lead and Zinc concentrates.

Energy Efficiency Opportunity Reports

Recently, both federal and state governments have legislated formalised energy efficiency programs for large energy consuming businesses. As a part of the Federal Government's Energy Efficiency Opportunities program, Perilya is obligated to publically report the outcomes of these assessments.

Perilya's Energy Efficiency Opportunities Public Report for 2010 is available on its website. The Energy Efficiency Opportunities Public Report for 2011 is not due until after the end of the 2011 calendar year.



financial performance

Perilya recorded a net profit after tax of \$74.2 million for the 12 months to 31 December 2010, consolidating on the previous financial year profit of \$28.5 million for the 6 months ended December 2009 continuing the turnaround in performance from the net loss after tax of \$75.1 million 12 months to 30 June 2009.

Highlights for the 12 months to December 2010 included the following:

- Broken Hill metal price increased per pound of payable zinc from US\$0.95 to US\$0.97 over the prior 12 month period.
- Cash costs at Broken Hill were US\$0.44 for the 12 months to 31 December 2010 the same as the in previous 6 months due to higher lead and silver prices and tight cost control over mine site expenditure.
- Positive cash flow and earnings in the period from both the Broken Hill Operation.
- Continuous improvement at the Broken Hill Operations in operating costs and productivity (tonnes mined per employee) achieved throughout the period.
- Lower effective tax expense, due to the recognition of previously un-booked tax assets; this has only been possible due to the positive financial results from the Company's core assets.

Sales

Sales revenues from zinc, lead and silver concentrates was \$243.7 million for the 12 months to December 2010 (compared to \$151.7 million for the previous 6 months ended 31 December 2009). During the financial year an average US dollar price of US\$0.97 per pound of payable zinc was realised, compared to the previous 6 months US\$0.95 per pound of payable zinc.

Costs

Total cash costs of production were maintained at US\$0.44 per pound of payable zinc which was well below market guidance. Depreciation and amortisation costs were \$27.8 million for the 12 months to December 2010, compared to \$16.6 million for the previous 6 months ended 31 December 2009, reflecting a reduction in amortisation due to the extension in the LOM of the Broken Hill operation announced during the year.

Cash Flow

Closing free cash on hand as at 31 December 2010 was \$90.5 million (31 December 2009: \$116.7 million). During the year, cash generated from operating activities were \$50.7 million for the 12 months to December 2010, compared with \$50.4 million cashflow (before hedge book closure, redundancies, tax and interest) for the previous 6 months ended 31 December 2009.

Cash and Investments at 31 December 2010

At 31 December 2010, the Company held cash, deposits and investments totalling \$117.4 million, represented by:

- free cash of \$90.5 million;
- secured cash deposits of \$24.6 million supporting performance bonds required under various mining licences at Broken Hill;
- commercial paper of \$1.5 million (written down value); and
- other investments of \$.8 million (estimated market value).

Market conditions

Current demand for all metals are strengthening globally. Perilya continues to believe that zinc and lead market fundamentals remain sound over the medium to longer-term.

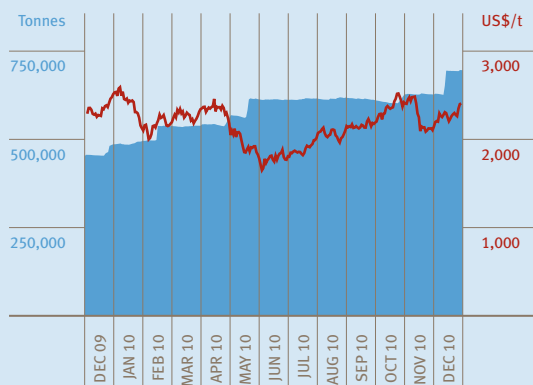
Zinc

During the period, the zinc price averaged US\$2,161 per tonne or US\$0.97 per pound, down 19 per cent on the previous 6 months of US\$2,570 per tonne or US\$1.17 per pound. By year-end, zinc process closed at US\$2,432 per tonne or US\$1.10 per pound on the back of improved economic forecasts and world stimulus programs.

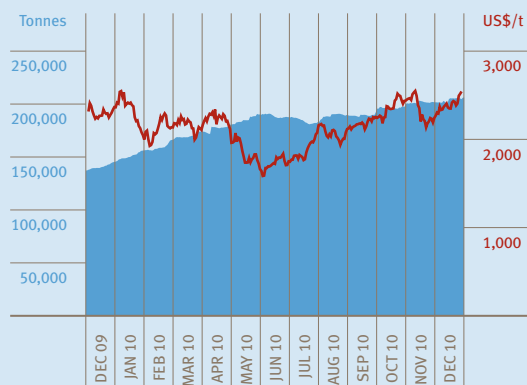
Lead

The lead price, after dropping to a low of US\$1,559 per tonne in June 2010, averaged US\$2,148 per tonne or US\$0.97 per pound, a drop of 10 per cent on the comparative period of US\$2,395 per tonne or US\$1.09 per pound.

LME ZINC PRICE (US\$ / TONNE)



LME LEAD PRICE (US\$ / TONNE)



resources & reserves

Resources and Reserves conform to the Australasian Code for Reporting of Mineral Resources and Ore Reserves (The Joint Ore Reserves Committee Code – JORC). Total Resources include all the Measured and Indicated Resources used to calculate the Reserves.

Broken Hill Mine Resources and Reserves

Since Perilya acquired the Broken Hill deposit in 2002, a total of approximately 15.1 million tonnes of ore has been mined, containing 1.42 million tonnes of contained zinc and lead. The Ore Reserves have been consistently replenished through classification of areas as economic during development planning and Resource extension drilling.

Current Reserves provide for a mine life of around 10 years.

Broken Hill Operations

Mineral Resource as at 30 June 2010		Tonnes '000	Zinc %	Lead %	Silver g/t	
Resource	Southern Operations	Measured	8,447	9.5	7.0	70
		Indicated	3,289	9.4	6.9	71
		Inferred	1,996	9.9	9.2	91
		Total	13,732	9.6	7.3	73
North Mine Uppers (Above 26L)	Measured	434	7.4	8.0	155	
	Indicated	323	7.3	8.4	150	
	Inferred	279	7.3	10.9	109	
	Total	1,036	7.3	8.9	141	
North Deeps (Below 26L)	Measured	2,100	11.4	13.9	216	
	Indicated	1,200	11.7	13.6	239	
	Total	3,300	11.5	13.8	224	
Potosi	Inferred	1,600	14.1	3.4	46	
	Total	1,600	14.1	3.4	46	
Silver Peak	Inferred	390	4.9	9.0	77	
	Total	390	4.9	9.0	77	
Central Blocks	Inferred	680	4.7	3.5	43	
	Total	680	4.7	3.5	43	
Flying Doctor	Indicated	865	3.1	4.2	43	
	Inferred	590	3.3	3.7	46	
	Total	1,455	3.2	4.0	44	
Henry George	Inferred	1,290	7.7	0.8	14	
	Total	1,290	7.7	0.8	14	
1130	Inferred	220	12.2	0.6	7	
	Total	220	12.2	0.6	7	
Total	Measured	10,981	9.8	8.4	101	
	Indicated	5,676	8.8	8.0	107	
	Inferred	7,045	9.1	5.1	56	
	Total	23,702	9.4	7.3	89	

Mineral Resource cutoff grade (combined Pb and Zn): North Mine Deeps 8%, Henry George /1130 /Central Blocks variable 2-5%, Silver Peak 5%, all other resources 7%.

Broken Hill Operations

Ore Reserve as at 30 June 2010			Tonnes '000	Zinc %	Lead %	Silver g/t	
Reserve	Southern Operations	LHOS**	Proved	4,619	6.2	4.0	44
			Probable	8,408	4.2	2.7	32
			Total	13,027	4.9	3.2	36
		Pillar	Proved	1,556	8.8	9.9	86
	Probable		678	5.2	5.8	52	
	Total		2,234	7.7	8.7	76	
		Total	Proved	6,175	6.9	5.5	55
	Probable		9,086	4.3	2.9	34	
	Total		15,261	5.3	4.0	42	

** Long-Hole Open Stope Reserve

Flinders Operations

Mineral Resource as at 30 June 2010			Tonnes '000	Zinc %	Lead %
Resource	Reliance	Indicated	277	29.0	1.5
		Inferred	31	18.5	1.9
		Total	308	27.9	1.5
	Aroona	Indicated	23	32.0	1.0
Inferred		84	33.5	1.0	
Total		107	33.2	1.0	
	Aroona 2	Indicated	26	27.5	0.6
Total		26	27.5	0.6	
	Moolooloo	Indicated	29	22.5	2.2
Inferred		10	14.9	0.1	
Total		39	20.6	1.7	
	Total	Indicated	355	28.6	1.5
Inferred		125	28.3	1.2	
Total		480	28.5	1.4	

Mineral Resource cut-off grade of 10% Zn used for all Resources.

Mount Oxide Operations

Mineral Resource as at 30 June 2009			Tonnes '000	Copper %	Cobalt %	Silver g/t
Resource	Mt Oxide	Measured	0	0.0	0.0	0.0
		Indicated	10,100	1.4	0.06	12
		Inferred**	7,800	1.1	0.05	8
		Total	17,900	1.3	0.06	10

Mineral Resource cut-off grade at 0.2% Cu.

** Includes stockpiles of 300k at 0.7% Cu.

Moblan (Quebec, Canada)

Mineral Resource as at April 2008			Tonnes '000	Li ₂ O %
Inferred	Total		5,300	1.5

Mineral Resource cut-off grade at 0.43%.

Resource to a depth of 50 metres.

Cerro de Maimón as of 30th June 2007

Class	Tonnes	Cu %	Au g/t	Ag g/t	Zn %	AuEquiv	Pounds Cu	Ounces Au	Ounces Ag	Pounds Zn
Mineral Resource - Oxide										
Measured (M)	985,172		1.86	33.2		2.40		58,828	1,051,146	
Indicated (I)	261,407		1.39	23.4		1.78		11,713	196,929	
M+I	1,246,579		1.76	31.1		2.27		70,541	1,248,075	
Mineral Resource - Sulphide										
Measured (M)	5,628,632	2.30	0.91	33.3	1.46		285,868,560	164,955	6,030,179	181,517,189
Indicated (I)	1,739,214	1.25	0.73	28.7	1.31		47,862,876	40,634	1,603,996	50,063,877
M+I	7,367,846	2.05	0.87	32.2	1.43		333,731,436	205,589	7,634,175	231,581,065
Inferred	142,283	1.20	0.71	34.6	1.12		3,758,520	3,249	158,491	3,522,333

Oxide Resource is summarized at a 0.50 g/t equivalent gold cut-off grade (AuEquiv), where AuEquiv = AU + Ag *AgFactor [AgFactor = 0.01630]

Sulphide Resource is summarized at a 0.30% Cu cut-off grade.

Cerro de Maimón as of 30th June 2007

	Tonnes	Cu %	Ag g/t	Au g/t
Mineral Reserves - Oxide				
Proven	927,274		37.1	1.95
Probable	230,093		23.9	1.48
Total	1,157,367		34.5	1.86
Mineral Reserves - Sulphide				
Proven	4,285,800	2.66	35.7	0.98
Probable	538,760	1.52	28.7	0.78
Total	4,824,560	2.54	34.9	0.96

Mineral Resources for the Cumpié Hill Project including Cumpie and Loma Mala Sectors at February 2008
(Resources including the Loma Mala and Cumpe Sectors)

Category	Cut-off %Ni	Tonnage Mt	Grade %Ni	Contained Ni kt
Indicated	0.8	3.7	1.38	51
	0.9	3.4	1.43	49
	1.0	3.0	1.49	45
	1.1	2.6	1.55	41
	1.2	2.3	1.61	37
	1.3	2.0	1.67	33
	1.4	1.7	1.72	30
	Inferred	0.8	4.1	1.3
0.9		3.7	1.4	52
1.0		3.2	1.5	48
1.1		2.7	1.5	41
1.2		2.3	1.6	37
1.3		2.1	1.6	34
1.4		1.7	1.7	29

The estimate of Mineral Resource may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

Figures have been rounded and this may have resulted in minor discrepancies.

The most likely cut-off grade for this deposit is not known and will need to be confirmed by the appropriate economic studies.

Cerro Kiosko Resource estimation as at January 2006

Deposit	Cut-off grade	Method	Category	M Tons	Cu %	Au g/t	Ag g/t
Kiosko	0.35 g/t Au	Block model	Indicated	0.565	1.01	1.93	4.20
			Inferred	4.360	0.98	2.01	5.17
Kiosko	0.50 g/t Au	Block model	Indicated	0.438	1.27	2.39	4.84
			Inferred	4.028	1.04	2.12	5.35
Kiosko	2.0 g/t Au	Block model	Indicated	0.126	2.89	5.63	8.88
			Inferred	1.700	1.66	3.40	7.39

attribution statement

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

The information in this report that relates to Mineral Resources for the Central Blocks, Flying Doctor and the Pinnacles (Henry George and 1130) is based on information compiled by Mr David Price who was, at the time of compiling the report, a full time employee of Perilya and is now employed by Silver Lake Resources Limited and is a member of the Australian Institute of Mining and Metallurgy. Mr Price 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 Price consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Mineral Resources for North Mine Deeps is based on information compiled by Mr Jared Broome who was, at the time of compiling the report, a full time employee of Perilya and is now employed by Oz Minerals Limited and is a member of the Australian Institute of Metallurgy. Mr Broome 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 Broome consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Mineral Resources for Reliance; Aroona; Aroona 2 and Moolooloo; are based on information compiled by Mr Dean Rogers who is a full-time employee of Perilya and is a member of the Association of Professional Geoscientists of Ontario a 'Recognised Overseas Professional Organisation' ('ROPO') included in a list promulgated by the ASX from time to time. Mr Rogers 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 Rogers consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Mineral Resources for Mount Oxide is based on information compiled by Mr Martin Jones who is a full-time employee of Perilya and is 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 the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Ore Reserves for Cerro de Maimón operations and the Mineral Resources for the Cerro de Maimón operations, Cumpié Hill, Loma Mala, Cerro Kiosco, Loma Pesada and the Moblan Lithium projects are based on information compiled and/or reviewed by Dr. Sergio Gelcich., PhD, P.Geo., Senior Geologist. Dr. Gelcich has visited the projects on a number of occasions during his involvement of the exploration programs and has validated all relevant data. Dr Gelcich has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Qualified Person as defined under NI 43-101 (Canada). Dr. Gelcich consents to the inclusion in this quarterly report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Mineral Resources for the Doña Loretta and Doña Amanda projects are based on information compiled and/or reviewed by Mr Denis Chénard who is a member of the Order des Ingénieurs du Québec. At the time of compiling this report, Mr Chénard was working as a consultant for GlobeStar Mining Corporation, now a wholly owned subsidiary of Perilya. Mr Chénard has visited the Doña Loretta and Doña Amanda projects on a number of occasions during his involvement of the exploration programs and has reviewed the drill cores of both projects. Mr Chénard has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Qualified Person as defined under NI 43-101 (Canada). Mr Chénard consents to the inclusion in this quarterly report of the matters based on the information in the form and context in which it appears.

NOTES:

1. *The Ore Resource and Reserve Statements for Broken Hill's Northern and Southern Operations shown in this report are as at 30 June 2010. Perilya is currently undertaking a review of its Ore Reserve and Resources at Broken Hill and anticipates releasing an updated Ore Reserve and Resources Statement to the ASX during the December quarter 2011.*
2. *The Resource Statements for Perilya's Flinders Deposits shown in this report are as at 30 June 2010.*
3. *The Resource Statement for Perilya's Mount Oxide Deposits shown in this report are as at 30 June 2010*
4. *The Ore Resource and Reserve Statements for Perilya's Cerro de Maimón operations shown in this report are as at 30 June 2007. Perilya is currently undertaking a review of its Ore Reserve and Resources at Cerro de Maimón and anticipates releasing an updated Ore Reserve and Resources Statement to the ASX during 2011.*
5. *The Resource Statement for Perilya's Cumpié Hill and Loma Mala projects shown in this report are as at February 2008.*
6. *The Resource Statement for Perilya's Cerro Kiosco, Loma Pesada, Doña Loretta and Doña Amanda projects shown in this report are as at January 2006.*
7. *The Resource Statement for Perilya's Moblan Lithium project shown in this report are as at April 2008 and anticipates releasing an updated Resources Statement to the ASX during 2011.*
8. *Figures shown in the Resources and Reserves statements have been rounded and this may result in minor discrepancies.*

five-year performance summary

		12 MONTHS ENDING	6 MONTHS TO	12 MONTHS ENDING	12 MONTHS ENDING	12 MONTHS ENDING	12 MONTHS ENDING
		DEC 2010	DEC 2009	JUN 2009	JUN 2008	JUN 2007	JUN 2006
Net profit after tax	\$'000	74,176	28,513	(75,089)	(140,235)	82,483	67,006
Revenue	\$'000	243,665	151,687	211,524	273,124	365,793	344,969
Cash flow from operating activities	\$'000	50,676	50,387	769	(9,922)	132,068	166,039
Cash and cash equivalents	\$'000	90,516	116,709	72,891	77,832	173,047	135,608
Total assets	\$'000	611,105	294,334	160,751	307,734	449,029	341,964
Borrowings	\$'000	236,658	62,050	8,580	26,005	15,651	7,070
Shareholder equity	\$'000	219,779	144,811	83,719	147,610	149,273	131,421
E&E expenditure	\$'000	14,069	2,570	9,042	22,331	18,619	7,750
Capex	\$'000	53,388	77,949	5,568	77,815	65,694	44,545
Basic EPS	cents	14.1	7.2	(27.9)	(72.1)	43.3	35.6
Dividend	cents	-	-	-	1.0	11.0	5.0
Issued number of shares	'000	526,076	526,076	394,554	196,883	196,276	191,047
Share price		0.625	0.67	0.35	0.74	4.37	2.39

financial statements

23

FOR THE PERIOD ENDED 31 DECEMBER 2010

24	BOARD OF DIRECTORS
27	CORPORATE GOVERNANCE STATEMENT
35	ASX PRINCIPLES COMPLIANCE STATEMENT
37	DIRECTORS' REPORT
42	REMUNERATION REPORT
57	FINANCIAL STATEMENTS
122	DIRECTORS' DECLARATION
123	INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
125	ASX ADDITIONAL INFORMATION

board of directors

31 December 2010

24

Zhang Shuijian

Executive Master Degree of Business Administration (EMBA)

Non-Executive Chairman

Independent: No

Age: 54

Term of office:

Non-Executive Director since 5 February 2009, Non-Executive Chairman since 5 March 2009.

Skills, experience and expertise:

Mr Zhang is a senior mining executive with over 30 years of experience in the resources industry. At Zhongjin Lingnan, Mr Zhang has led the expansion program of both the mining and smelter operations in recent years.

Prior to joining Zhongjin Lingnan, Mr Zhang worked at Jiangxi Copper (the largest copper producer in China), where he managed the Dexing Copper mine, the second largest copper mine in the world (on the basis of throughput). At Jiangxi Copper, Mr Zhang served as Executive Director and Vice President. Mr Zhang is also the current Vice President of the China Nonferrous Metals Association, the trade body for the nonferrous metals industry in China.

Mr Zhang has a wealth of mining experience and skills in the areas of mining, business strategy and general management.

Special Responsibilities: Nil

Other current directorships:

President: Zhongjin Lingnan
Vice President: China Nonferrous Metals Association
Director: Nonfemet Finance Co. Ltd

Former directorships over the past three years: Nil

Patrick O'Connor

BCom (UWA), SEP Stanford Executive Program (USA), FAICD

Non-Executive Director and Deputy Chairman

Independent: Yes

Age: 47

Term of office:

Non-Executive Chairman from 1 February 2006 to 4 March 2009, with a period as Executive Chairman from 5 February 2008 to 30 November 2008. Patrick has been Deputy Chairman since 5 March 2009.

Skills, experience and expertise:

He is a fellow of the Australian Institute of Company Directors and attended the Stanford Executive Program at Stanford University, California, USA.

Patrick is a professional Company Director and has extensive executive leadership skills and wide experience in communicating with capital markets, shareholders and the media.

Perilya Board committee membership and other special responsibilities:

Deputy Chairman
Chairman of the Remuneration and Nominations Committee
Member of Audit & Risk Management Committee
Chairman of the Contracts Committee

Other current directorships:

Chairman: Water Corporation
Chairman: Xceed Resources Limited
Non-Executive: SAS Telecom Pty Ltd
Non-Executive: St George Capital Pty Ltd

Former directorships over the past three years: Nil

Paul Arndt

BSc (1st class honours - UWA), MSc (Curtin),
Grad Dip Engineering (Curtin)

Managing Director and Chief Executive Officer

Independent: No

Age: 52

Term of office:

Appointed CEO on 1 October 2008 and Managing Director on 25 November 2008.

Skills, experience and expertise:

In February 2008, the Board appointed Paul Arndt as Executive General Manager Operations & Projects to oversee performance improvements at the Broken Hill Operation. Subsequently, Paul was appointed Chief Executive Officer in October 2008 and Managing Director on 25 November 2008, following approval by shareholders at the Company's AGM. In response to the global financial downturn and the rapidly deteriorating circumstances in global metals markets in 2008, Paul planned and implemented the highly successful resizing of the organisation and in particular the Company's operations at Broken Hill. During Paul's time with Perilya he has been instrumental in delivering almost a doubling in productivity as well as significant reductions in direct operating costs at the Broken Hill Operation and, in the 2010 financial year, the acquisition of the former TSX listed GlobeStar Mining Corporation with operating and exploration assets in the Dominican Republic and Canada for CAD\$184 million. Paul was also instrumental in introducing Zhongjin Lingnan to Perilya and negotiating and completing arrangements that saw Zhongjin Lingnan acquire a 52% interest in the Company.

Paul brings a range of skills and qualities well suited to the role, including a steadfast and disciplined approach to addressing key business drivers and cost management. Paul brings a wealth of mining experience and skills in the areas of strategy, commercialisation, people and project management.

Former roles include senior general management positions with Newcrest Mining Limited at their Telfer operation in Western Australia, Pasminco Limited's Cockle Creek smelter in Boolaroo (NSW), and MIM Holdings Limited's Britannia zinc and lead operation in Avonmouth (UK).

Perilya Board committee membership and other special responsibilities:

Managing Director
Member of Contracts Committee

Other current directorships: Nil

Former directorships over the past three years: Nil

Peter Harley

BComm, ASA, FAICD

Non-executive director

Independent: Yes

Age: 60

Term of office:

Peter was appointed non-executive director on 19 November 2003.

Skills, experience and expertise:

Peter is a fellow of the Australian Institute of Company Directors and a qualified accountant.

Since 1987, Peter has served as a director of a number of public and private companies. He has also consulted to a number of companies in the areas of strategic planning, market development and corporate acquisitions and re-organisation.

Perilya Board committee membership and other special responsibilities:

Chairman of the Audit and Risk Management Committee
Member of the Remuneration and Nominations Committee
Member of the Contracts Committee

Other current directorships:

Gunson Resources Limited

Former directorships over the past three years: Nil

board of directors

31 December 2010

26

Han Minzhi

BA Business Administration

Non-Executive Director

Independent: No

Age: 45

Term of office:

Mr Han was appointed Non-Executive Director on 5 February 2009.

Skills, experience and expertise:

Mr Han is a senior commercial executive in the base metal industry with over 23 years of experience in marketing base metals and base metal concentrates, especially in zinc and lead. He is also responsible for financial risk management at Zhongjin Lingnan.

Mr Han brings extensive commercial and financial risk management expertise to the Board.

Perilya Board committee membership and other special responsibilities:

Member of the Audit and Risk Management Committee

Other current directorships:

Shum Yip Nonfemet Hong Kong Ltd
Nonfemet Commodities & Futures Agency Co. Ltd
Wuxuan Panlong Lead and Zinc Mining Co. Ltd

Former directorships over the past three years: Nil

Wang Wen

BA Mining Mechanism

Non-Executive Director

Independent: No

Age: 44

Term of office:

Mr Wang was appointed Non-Executive Director on 5 February 2009.

Skills, experience and expertise:

Mr Wang has 20 years mining experience at the Fankou Mine which has a throughput of 1.6 million tonnes a year, producing 180,000 tonnes of zinc and lead in concentrates. Mr Wang was instrumental in the Fankou Mine's expansion program undertaken during 2005-2008 to bring its mining capacity from 1.3 million to 1.6 million tonnes a year.

Mr Wang was trained as a mining engineer in China and Germany. Mr Wang brings extensive mining and project management skills to the Board.

Perilya Board committee membership and other special responsibilities:

Member of the Remuneration and Nominations Committee

Other current directorships: Nil

Former directorships over the past three years: Nil

corporate governance statement

31 December 2010

Statement on corporate governance at Perilya

This statement reports on Perilya's key governance framework, principles and practices as at the date of this report. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and best practice in corporate governance.

ASX principles of good corporate governance

Perilya, as a listed entity, must comply with the Corporations Act 2001 (Cwth) ("Corporations Act"), the Australian Securities Exchange Limited ("ASX") Listing Rules ("ASX Listing Rules") and other Australian laws.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles") released by the ASX Corporate Governance Council. The ASX Principles require the Board to consider carefully the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

Compliance with ASX principles of good corporate governance

Details of the company's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant section of this statement and the remuneration report, is provided on pages 31 to 32 of this report and published on the company's website at www.perilya.com.au.

1. The Board of directors

a) Board composition and expertise

The Board has an expansive range of relevant industry experience, financial and other skills and expertise to meet its objectives.

The current Board composition includes three senior executives from the parent company, Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd ("Zhongjin Lingnan") who are all regarded as non-independent directors. In addition, there are two independent non-executive directors and one executive director. Details on each of the director's backgrounds including experience, knowledge and skills and their status as an independent or non-independent director are set out on pages 24 to 26 of this report.

The Board considers that the executive and non-executive directors collectively bring the range of skills, knowledge and experience necessary to direct the company.

In assessing the composition of the Board, the directors have regard to the following policies:

- the Chairman should be non-executive (but does not need to be independent where the Chairman or his associates control greater than 50% of Perilya);
- the role of the Chairman and Chief Executive Officer ("CEO") should not be filled by the same person;
- the Managing Director should be a full-time employee of the company;
- the Board should include at least two independent non-executive directors; and
- the Board should have a broad range of qualifications, experience and expertise considered of benefit to the company and to adequately represent both the interest of the parent company Zhongjin Lingnan and the 48% of minority related shareholders.

ASX Principle 2.1 (non-compliance) - The Company presently does not meet the requirements of ASX Principle 2.1, which requires a majority of independent directors. The Company notes that on 5 February 2009, shareholders overwhelmingly supported the acquisition by Zhongjin Lingnan of a 50.1% interest in Perilya (now 52% following a pro rata non-renounceable rights issue in December 2009) and the appointment of three senior executives of Zhongjin Lingnan to the Perilya Board. The Board believes that the qualifications, experience and expertise of all non-independent directors, being those senior executives of Zhongjin Lingnan, bring considerable benefit to the company and is appropriate to adequately represent the interest of the 52% ownership of the parent company Zhongjin Lingnan.

The Chairman, Mr Zhang is the President and a Director of Zhongjin Lingnan. Mr Zhang joined Zhongjin Lingnan in 2000 as a Vice President and was promoted to President in 2002. Mr Han and Mr Wang are senior executives of Zhongjin Lingnan, with the relevant skills and experience to assist the Company.

corporate governance statement

31 December 2010

28

1. The Board of directors (continued)

b) Board role and responsibilities

The roles and responsibilities of the Board are formalised in the Board Charter. The Board Charter defines in detail the matters that are reserved for the Board and its committees, and those that the Board has delegated to management. The central role of the Board is to oversee and approve the company's strategic direction, to select and appoint a CEO, to oversee the company's management and business activities and report to shareholders.

In addition to matters required by law to be approved by the Board, the following powers are reserved to the Board for decision:

- strategy - providing strategic oversight and approving strategic plans and initiatives;
- board performance and composition – evaluating the performance of non-executive directors, and determining the size and composition of the Board as well as recommending to shareholders the appointment and removal of directors;
- leadership selection – evaluating the performance of, and selection of, the CEO and those executives reporting directly to the CEO;
- corporate responsibility – considering the safety, social, ethical and environmental impacts of Perilya's activities, and setting policy and monitoring compliance with safety, corporate and social policies and practices;
- financial performance – approving Perilya's annual operating plans and budget, monitoring management, financial and operational performance;
- financial statements to shareholders – approving annual and half-year reports and disclosures to the market that contain, or relate to, financial projections, statements as to future financial performance or changes to the policy or strategy of the company; and
- establishing procedures – ensuring that the Board is in a position to exercise its power and to discharge its responsibilities as set out in the Board Charter;

The Board also recognises its responsibilities to Perilya's employees, the communities and environments within which Perilya operates and, where relevant, other stakeholders.

Responsibility for management of Perilya's business activities is delegated to the CEO who is accountable to the Board.

The Board Charter is available in the corporate governance section of Perilya's website.

c) Chairman

The Board elects one of the non-executive directors to be Chairman. The Chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the promotion of relations between Board members and between Board and management that are open, cordial and conducive to productive co-operation.

ASX Principle 2.2 (non-compliance) - The company presently does not meet the requirements of ASX Principle 2.2, which requires an Independent Chairman. The company notes that the acquisition of Zhongjin Lingnan's initial 50.1% interest in Perilya (now 52% following a pro rata non-renounceable rights issue in December 2009), together with the appointment of Directors, Messrs Zhang (Chairman of Perilya and President of Zhongjin Lingnan), Han and Wang was approved by shareholders on 5 February 2009. Mr Zhang's role as Chairman brings significant leadership and experience to Perilya's Board.

d) Director independence

The Board has approved a policy on independence of directors, a copy of which is available in the corporate governance section of Perilya's website.

The policy provides that the independence of a director will be assessed by determining whether the director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the director. Materiality is considered from the perspective of Perilya, the persons or organisations with which the director has an affiliation and from the perspective of the director. Materiality thresholds are considered by the Board from time to time. The Board considers that the following are material:

- a material customer is a customer of Perilya which accounts for more than 5% of Perilya's consolidated gross revenue;
- a supplier is material if Perilya accounts for more than 5% of the supplier's consolidated gross revenue;
- a substantial shareholder of Perilya who holds greater than 5% of the voting capital of Perilya; and
- service on the Board for a period exceeding 10 years is a period which could, or could reasonably be perceived to, materially interfere with a director's ability to act in the best interests of the company.

As stated above, the directors Messrs Zhang, Han and Wang are not regarded as independent as they represent the interest of Zhongjin Lingnan, which holds 52% interest in Perilya.

Mr O'Connor is regarded as independent. His time as Executive Chairman from February 2008 to November 2008 is not considered to have affected his independence as this role was vital during the company's strategic review phase and it required considerably more time than would normally be provided by a Non Executive Chairman.

Mr O'Connor and Mr Harley are both regarded as independent as they are regarded, and have been assessed as being, free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

e) Directors' retirement and re-election

Perilya's Constitution states that at each annual general meeting ("AGM") one of its directors (excluding the Managing Director and any director appointed to fill a casual vacancy) and any director who has held office for three or more years since their last election must retire. At least one non-executive director must stand for election at each AGM.

Any director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM. Directors who retire as required may offer themselves for re-election by shareholders at the next AGM. Re-appointment of directors retiring by rotation or filling a casual vacancy is not automatic.

f) Board succession planning

The Board in conjunction with the Remuneration and Nominations Committee reviews the size and composition of the Board and the mix of existing and desired competencies across members from time to time.

g) Board performance evaluation

The Board undertakes ongoing self-assessment and review of performance of the Board, committees and individual directors annually. The Chairman of the Board is responsible for determining the process for evaluating Board performance.

The last review was undertaken in December 2008, and subsequent to the appointment of Zhongjin Lingnan representatives to the Board on 5 February 2009, the composition of the Board was reduced with the retirement of Mr Lockyer and Mrs Field from the Board. Mr Van den Brand also retired from the Board on 25 November 2008 following a review of the size and composition of the Board, which commenced at the time the Company's operations were resized. The Board has planned a full review of performance of the Board, committees and individual directors during the first half of 2011.

h) Nominations and appointment of new directors

Recommendations for nomination of new directors are considered by the Remuneration and Nominations Committee and approved by the Board as a whole.

i) Professional advice

Directors may, in carrying out their company related duties, seek external professional advice. If external professional advice is sought a director is entitled to reimbursement of all reasonable costs where such a request for advice is approved by the Chairman. In the case of a request made by the Chairman, approval is required by at least two Board members.

j) Conflicts of interest

Directors are required to disclose any actual or potential conflict, or any material personal interests, on appointment as a director and are required to keep these disclosures up to date.

In the event that there is, or may be, a conflict between the personal or other interests of a director, then the director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter. When the matter comes before the Board for discussion, the director withdraws from the meeting for the period the matter is considered and takes no part in the discussion or decision making process.

The Board has established a formal process to review any potential conflicts that may arise as a result of Zhongjin Lingnan's 52% ownership. The process includes the review of relevant matters by a Contracts Committee which comprise the relevant independent non-executive directors, Mr O'Connor and Mr Harley, the Managing Director & CEO, Mr Arndt and the Company's General Counsel, Paul Marinko (as a non-voting member).

k) Terms of appointment, induction training and continuing education

All new directors are provided with a formal letter of appointment setting out the key terms and conditions of the appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work.

A formal induction is provided to all new directors. It includes comprehensive meetings with the CEO, key executives and management, and information on key corporate and Board policies, visits to the company's principal operations and completion of compulsory safety inductions.

All directors are expected to maintain the skills required to discharge their obligations to the company. Directors are encouraged to undertake continuing professional education and where this involves industry seminars and approved education courses, this is paid for by the company where appropriate.

l) Directors' remuneration

Details of remuneration paid to directors (independent non-executive) are set out in section 1.0 on pages 43 to 45 of the remuneration report.

The non-independent directors, Messrs Zhang, Han and Wang, who are appointed representatives of Zhongjin Lingnan are entitled to receive remuneration at a commensurate level to the Company's independent directors, but to date have elected to decline to accept any directors' remuneration.

corporate governance statement

31 December 2010

30

1. The Board of directors (continued)

m) Board meetings

The Chairman sets the agenda for each meeting in conjunction with the executive management and the Company Secretary. Any director may request additional matters be added to the agenda. Members of senior management attend meetings of the Board by invitation and sessions are also held for non-executive directors to meet without management present.

Directors are entitled to request additional information where they consider the information is necessary to support informed decision making.

Details on the number of meetings and the attendance of Directors at Board and Board Committee Meetings are set out below in Table 1 on page 31.

n) Company Secretary

The Company Secretary is Mr Paul Marinko LLB (Hons). Mr Marinko joined Perilya in October 2006 as general counsel, and was appointed Company Secretary on 25 November 2008. Mr Marinko is a barrister and solicitor and was admitted to practise in the Supreme Court of Western Australia and the Federal and High Courts of Australia in 1993. Paul has over 17 years of legal, corporate and commercial experience and has previously served as company secretary for an Australian publicly listed company. Mr Marinko has also practised and held partnerships in Australian commercial law firms and before joining Perilya held executive board roles on a number of Australian and US private companies. In addition to his role as Company Secretary, Mr Marinko continues to serve as Perilya's general counsel and as a director of Perilya's operational subsidiaries.

Responsibilities for the secretarial function include providing advice to directors and executives on corporate governance and regulatory matters, recording minutes of directors meetings, developing Perilya's corporate governance framework and giving effect to the Board's decisions. All directors have access to advice from the Company Secretary.

2. Board committees

a) Board committees and membership

The Board currently has three standing committees to assist in the discharge of its responsibilities. These are the:

- Audit and Risk Management Committee;
- Remuneration and Nominations Committee; and
- Contracts Committee

All duties and responsibilities for health, safety and environment are included as standing agenda item for every Board meeting.

The charters of all Board committees detailing the roles and duties of each are available in the corporate governance section of Perilya's website. All Board committee charters are reviewed at least annually.

At the date of this report the membership of each Board committee is as follows:

Audit & Risk Management Committee	Remuneration & Nominations Committee	Contracts Committee
Peter Harley (Chair)	Patrick O'Connor (Chair)	Patrick O'Connor (Chair)
Patrick O'Connor	Peter Harley	Peter Harley
Han Minzhi	Wang Wen	Paul Arndt Paul Marinko (non-voting member)

Committee members are chosen for the skills, experience and other qualities they bring to the committees. The executive management attends, by invitation, board committee meetings.

With the exception of papers being considered by the Contracts Committee, all papers considered by the standing committees are available on request to directors who are not on that committee.

In accordance with the Contracts Committee Charter and protocols establishing the Contracts Committee, all papers relating to matters before the Contracts Committee are not made available to Zhongjin Lingnan representatives on the Board until after those matters have been finally determined by the Contracts Committee.

Following each committee meeting, generally at the next Board meeting, the Board is given a verbal update by the Chair of each committee. In addition, minutes of all committee meetings are provided to all directors.

The Company Secretary provides secretariat services for each committee.

Other committees are convened to address major transactions or other matters calling for special attention.

Details on the number of meetings and the attendance of Directors at Board Committee Meetings are set out below in Table 1 on page 31.

b) Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is to assist the Board to meet its oversight responsibilities in relation to the company's financial statements, internal control structure and financial risk management procedures and the internal and external audit function. In doing so, it is the Committee's responsibility to maintain free and open communication between the Committee and the external auditors and the management of Perilya. Oversight of the operational risk management procedures is retained by the full Board.

The Audit and Risk Management Committee is required to have a minimum of two members composed of independent non-executive directors. The Chairman of the Audit and Risk Management Committee, Mr Harley is a qualified accountant. Details on the qualifications of members of the Audit and Risk Management Committee are set out on pages 24 to 26 of this report.

The external auditors, the CEO and the Chief Financial Officer (CFO) attend Committee meetings by invitation. The Committee meets at least four times per year.

c) Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is to assist the Board by reviewing and approving Perilya's remuneration policies and practices and the appointment of non-executive directors to the Board. The Committee's responsibilities include:

- assess the necessary and desirable competencies of Board members;
- reviewing Board succession plans;
- reviewing the company's remuneration framework, which is used to attract, retain and motivate employees to achieve operational excellence and create value for shareholders;
- reviewing the remuneration packages and incentive schemes for the CEO and senior executives, to establish rewards, which are fair and responsible, having regard to the financial results of the group, individual performance and general remuneration conditions;
- reviewing the performance and succession planning for the CEO and senior executives; and
- reviewing Perilya's corporate governance policies and practices.

The CEO attends Committee meetings by invitation. The Committee meets at least two times per year.

d) Contracts Committee

The role of the Contracts Committee is to assist the Board by reviewing and approving any proposed contract with Zhongjin Lingnan and its associates, to ensure arms length terms and related party transactions are assessed and are reasonable. The proceedings of the Contract Committee are not disclosed to any Zhongjin Lingnan representatives of the Perilya Board until the relevant contract has been finalised or, if considered appropriate, rejected at the discretion of the Contracts Committee. The Contracts Committee is free to engage suitably qualified advisors. The Committee meets as required.

In making a determination on whether a proposed contract with a related party is on "arms length terms", the Contracts Committee measures the terms of the transaction against the terms that would reasonably be achieved by the hypothetical public company in the following circumstances:

- The company is unrelated to the other party to the transaction in anyway;
- The company is free from any undue influence or pressure;
- The persons making decisions on behalf of the company are persons who are sufficiently:
 - *knowledgeable* about the circumstances of the transaction;
 - *experienced* in business; and
 - *well advised* to be able to form a sound judgement as to what is in the company's interests; and
- The company's only concern is to achieve the best available commercial result for itself in all of the circumstances:

In all cases the Contracts Committee aims to satisfy itself that what has been achieved is the best available commercial result for Perilya in all of the circumstances.

During the period under review, the Contracts Committee met on one occasion in accordance with its Charter to review proposed related party transactions with Zhongjin Lingnan. That transaction related to a proposed security to be provided by Zhongjin Lingnan to the Bank of China as security for a working capital facility being provided by the Bank of China to Perilya in an amount of US\$50 million (the "Facility").

At its meeting held on 22 October 2010 the Committee resolved to approve the entering into the Facility, which included the payment of a guarantee fee to Zhongjin Lingnan of 0.6% of the amount guaranteed (guaranteed amount is US\$50 million). The guarantee fee was payable in return for Zhongjin Lingnan providing the Bank of China with a guarantee as security for the Facility.

Table 1: Directors in Office and attendance at Board and Board Committee Meetings in the year ended 31 December 2010

	Board committee meetings							
	Board meetings		Audit and Risk Management Committee		Remuneration and Nominations Committee		Contracts Committee	
	A	B	A	B	A	B	A	B
Zhang Shuijian	13	13	-	-	-	-	-	-
Patrick O'Connor	13	13	4	4	2	2	1	1
Paul Arndt	13	13	-	-	-	-	1	1
Peter Harley	12	13	4	4	2	2	1	1
Wang Wen	13	13	-	-	2	2	-	-
Han Minzhi	12	13	4	4	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the relevant committee during the year.

corporate governance statement

31 December 2010

32

3. External Auditor relationship and independence

a) Approach to audit and governance

The Board is committed to the basic principles that:

- Perilya's financial statements represent a true and fair view;
- Perilya's accounting practices are comprehensive, relevant and comply with applicable accounting standards and policies; and
- the external auditor is independent and serves all shareholder's interests.

b) External auditor relationship

Perilya's independent external auditor is PricewaterhouseCoopers ("PwC"). PwC was appointed by shareholders at the 1988 annual general meeting in accordance with the Corporations Act 2001. The shareholders approved re-election of the auditors at the 2009 Annual General Meeting.

The Board has adopted an External Auditor Policy which requires rotation of the audit partner at least every five years, prohibits the reinvolvement of a previous audit partner in the audit service for two years following their rotation, and provides that a former partner of the audit firm, or member of the audit team, may only be recruited into a position as a director or senior employee of Perilya after the expiry of at least two years.

Furthermore, in accordance with the External Auditor Policy, the Audit and Risk Management Committee oversees detailed External Auditor Guidelines covering the terms of engagement of Perilya's external auditor. The guidelines include provisions directed to maintaining the independence of the external auditor and in assessing whether the provision of any non-audit services by the external auditor that may be proposed is appropriate. Such provisions are referenced to the Code of Ethics published by the International Federation of Accountants ("IFAC").

The External Auditor Guidelines contain a set of controls which address threats to the independence of the external auditor including, in particular, any threat which may arise by reason of self interest, self-review, advocacy, familiarity or intimidation (all terms defined by the IFAC's Code of Ethics). The External Auditor Guidelines classify a range of non-audit services which are considered not acceptable for provision by the external auditor.

c) Attendance of auditor at the AGM

Perilya's external auditor attends the AGM and is available to answer questions from shareholders on:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by Perilya in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

4. Risk management and internal control

a) Approach to risk management

The Board and senior executives are responsible for overseeing the implementation of the company's Risk Management Policy.

The company's approach to risk management is based on the identification, assessment, monitoring and management of material risks embedded in its business and management systems. This framework is based on the Australian Standards for Risk Management.

In light of the changes in operations during the year, the Board in conjunction with management has commenced a review to update the company's Risk Management Policy and approved risk management plan. The risk management plan will build on management's existing assessment of material business risks and mitigation strategies, with a focus on reviewing Perilya's underlying policies and practices for managing strategic, operational and financial risks.

b) Risk Management Roles and Responsibilities

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- Board approval of a strategic plan, which encompasses the Board's objectives and strategies along with identified risks and plans to manage such risks;
- Implementation of Board approved operating budgets and plans, then monitoring the actual progress against those;
- Audit and Risk Management Committee reporting on specific financial risks; and
- Dissemination of a Risk Management Policy guide to be used throughout the company in identifying and communicating business risks.

The executive management team is responsible for implementation of the Board approved risk management strategy and developing policies, processes and procedures to identify risks and mitigation strategies in Perilya's activities.

c) CEO and CFO assurance on corporate reporting

The Board receives monthly reports about the financial condition and operational results of Perilya and its controlled entities.

The CEO and Chief Financial Officer provide, at the end of each six monthly period, a formal statement to the Board confirming that the company's financial statements present a true and fair view, in all material respects, and the group's financial condition and operational results have been prepared accordance with the relevant accounting standards.

The statement also confirms the integrity of the company's financial statements and notes to the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies approved by the Board, and that Perilya's risk management and internal compliance and control systems, to the extent they relate to financial statements, are operating efficiently and effectively in all material respects.

5. Promoting ethical and responsible behaviour

a) Health and safety

The Board has approved a Health and Safety Policy consistent with Perilya's commitment to ensuring the highest standards of occupational health and safety management at its operations. The health, safety and wellbeing of Perilya's people, contractors, suppliers, visitors and host communities are a key value for the company.

Perilya's safety management system includes standard to guide all aspects of safety management at Perilya's operations, including the occupational health and safety charter and statements, departmental safety management plans, inductions and site security policy.

Perilya's systems are regularly reviewed and submitted for internal and external audit to ensure continuing compliance.

Perilya's philosophy is that all personnel share the responsibility for a safe workplace. A range of occupational health programs are in place to monitor the wellbeing of employees. Perilya's fitness for work policy is designed to further promote wellbeing and a safe workplace by addressing drug, alcohol and fatigue related issues. Perilya's safety performance is closely and carefully monitored by the Board and is a subject of standing item for each Board meeting.

b) Codes of conduct

The Board has approved a Code of Conduct for Directors and a Code of Conduct for Employees which describes the standards of ethical behaviour that directors and employees are required to maintain.

Compliance with the Code of Conduct by Directors and Employees will also assist Perilya in effectively managing its operating risks and meeting its legal and compliance obligations, as well as enhancing Perilya's corporate reputation.

The Code of Conduct describes Perilya's requirements on matters such as confidentiality, conflicts of interest, sound employment practices, compliance with laws and regulations, the protection and proper use of Perilya's assets and the responsibilities and accountabilities of individuals for reporting and investigating reports of unethical practices.

Conflicts of interest that may arise from potential transactions between Perilya and Zhongjin Lingnan are dealt with by the Contract Committee.

A copy of each Code of Conduct is available in the corporate governance section of Perilya's website.

c) Concern reporting and whistleblowing

The Board has approved a Whistleblower Policy which documents Perilya's commitment to maintaining an open working environment in which employees are able to report instances of unsafe work practices, unethical, unlawful or undesirable conduct without fear of intimidation or reprisal.

A copy of the Whistleblower Policy is available in the corporate governance section of Perilya's website.

d) Share trading policy

Perilya's Securities Trading Policy is binding on all directors and employees. This policy provides a brief summary of the law on insider trading and other relevant laws, sets out the restrictions on dealing in securities by people who work for, or are associated with, Perilya and is intended to assist in maintaining market confidence in the integrity of dealings in the company's securities.

The policy stipulates that the only appropriate time for a director or employee to deal in the company's securities is when he or she is not in possession of 'price sensitive information' that is not generally available to the share market. A director wishing to deal in the company's securities may only do so after first having advised the Chairman of his or her intention. A senior executive wishing to deal must first notify the CEO. Confirmation of any dealing must also be given by the director or senior executive within two business days after the dealing.

Directors and senior executives' dealings in the company's securities are also subject to specified closed periods, which are set out in the Company's Share Trading Policy or as otherwise determined by the Board from time to time.

A copy of the company's Share Trading Policy is available in the corporate governance section of Perilya's website.

6. Shareholders and corporate responsibility

Perilya aims to produce positive outcomes for all stakeholders in managing its business and to maximise financial, social and environmental value from our activities.

In practice this means having a commitment to transparency, fair dealing, responsible treatment of employees and customers and positive links into the community.

Sustainable and responsible business practices within Perilya are viewed as an important long term driver of performance and shareholder value. Through such practices Perilya seeks to reduce operational and reputation risk and enhance operational efficiency while contributing to a more sustainable society.

Perilya accepts that the responsibilities on the Board and management, which flow from this approach, go beyond strict legal and financial obligations. In particular, the Perilya Board seeks to take a practical and broad view of directors' fiduciary duties, in line with stakeholders' expectations.

corporate governance statement

31 December 2010

34

a) Continuous disclosure

Perilya is committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

Perilya's Continuous Disclosure Policy reinforces Perilya's commitment to ASX continuous disclosure requirements and outline management's accountabilities and the processes to be followed for ensuring compliance. The policy also describes Perilya's guiding principles for market communications.

A copy of the Continuous Disclosure Policy is available in the corporate governance section of Perilya's website.

b) Shareholder communications and participation

Perilya is committed to giving all shareholders comprehensive, timely and equal access to information about its activities so that they can make informed decisions. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares in Perilya.

A wide range of communication approaches are employed including direct communications with shareholders and presentations to shareholders at the company's Annual General Meeting. Publication of all relevant company information, including the company's Annual Report is in the Investor Information section of Perilya's website at www.perilya.com.au. Shareholders are also given the opportunity to receive information in print or electronic format.

Perilya's Shareholder Communication Policy provides that the company will communicate effectively with its shareholders, give shareholders ready access to balanced and understandable information about Perilya and encourages shareholder participation at General Meetings and Annual General Meetings. The way it does this includes:

- ensuring that financial statements are prepared in accordance with applicable laws;
- ensuring the disclosure of full and timely information about Perilya's activities in accordance with the general and continuous disclosure principles of the ASX Listing Rules and the Corporations Act 2001. This includes reporting on a quarterly basis the activities and prospects of the company;
- the Chairman and CEO reporting to shareholders at the company's annual general meeting;
- placing all ASX announcements (including quarterly reports and financial statements) on Perilya's website as soon as practicable following release; and
- ensuring that reports, notices of meeting and other shareholder communications are prepared in a clear and concise manner.

A copy of the Shareholder Communication Policy is available in the corporate governance section of Perilya's website.

7. Remuneration framework

Details of Perilya's remuneration framework are included in the remuneration report.

ASX principles compliance statement

35

ASX corporate governance council's best practice recommendations		Reference	Compliance
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	1b	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives	Remuneration report	Comply
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	1a, 1b Remuneration report	Comply
Principle 2:	Structure the Board to add value		
2.1	A majority of the Board should be independent directors.	1a, 1d	Not in compliance
2.2	The chair should be an independent director.	1a, 1c	Not in compliance
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	1a, 1b	Comply
2.4	The Board should establish a nomination committee.	1h, 2c	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	1g, 2a	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	Directors' report	Comply
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity; and the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	5a, 5b	Comply
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.	1j, 5d	Comply
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3	5a, 5b, 5c, 5d	Comply
Principle 4:	Safeguard integrity in financial statements		
4.1	The Board should establish an audit committee.	2b	Comply
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> consists only non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the Board; and has at least three members. 	2a, 2b 2a, 2b 2a 2a, 2b	Comply Comply Comply Comply
4.3	The audit committee should have a formal charter.	2a	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	2a, 3b Directors' report	Comply

ASX principles compliance statement

36

ASX corporate governance council's best practice recommendations		Reference	Compliance
Principle 5:	Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance and ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	6, 6a	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	6a	Comply
Principle 6:	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	6, 6b	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	6	Comply
Principle 7:	Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	2b, 4a, 4b	Comply
7.2	The board should require management to design and implement the risk management and internal control systems to manage the company's material business risks and disclose a summary of those policies	4a	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial statement risks.	4b, 4c	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	4a, 4b, Directors' report	Comply
Principle 8:	Remunerate fairly and responsibly		
8.1	The board should establish a remuneration committee	2c, Remuneration report	Comply
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Remuneration report	Comply
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	Remuneration report	Comply

directors report

31 December 2010

The directors present their report on the consolidated entity comprising Perilya Limited ("Perilya" or "the company") and its controlled entities ("the consolidated entity") for the year ended 31 December 2010. Perilya is a company limited by shares that is incorporated and domiciled in Australia.

Board of directors

The directors of Perilya Limited in office during the year and up to the date for this report were:

Name	Position	Independent	First appointed
Zhang Shuijian	Non-Executive Chairman	No, due to association with Zhongjin Lingnan	5 February 2009 – appointed Non-Executive Director 5 March 2009 – appointed Non-Executive Chairman
Patrick O'Connor	Non-Executive Director & Deputy Chairman	Yes	1 February 2006 – appointed Non-Executive Director 5 March 2009 – appointed Deputy Chairman
Paul Arndt	CEO & Managing Director	No, due to executive functions	CEO from 1 October 2008 and Managing Director from 25 November 2008
Peter Harley	Non-Executive Director	Yes	19 November 2003
Han Minzhi	Non-Executive Director	No, due to association with Zhongjin Lingnan	5 February 2009
Wang Wen	Non-Executive Director	No, due to association with Zhongjin Lingnan	5 February 2009

Information on directors

Particulars on the skills, experience, expertise and responsibilities of each director at the date of this report, including all directorships of other listed companies held, or previously held, by a director at any time in the past three years, are on pages 24 to 26.

Board meeting attendance

Particulars of the number of meetings of the Board of directors of Perilya and each Board committee of directors held and attended by each director during the year ended 31 December 2010 are set in Table 1 on page 31.

Directors' interests in securities in Perilya

As at the date of this report, the relevant interests of each director in the ordinary shares and options in Perilya Limited are:

	Fully paid ordinary shares		
	Beneficial, private company or trust	Own name	Options
Zhang Shuijian	-	-	-
Patrick O'Connor	-	-	-
Paul Arndt ⁽¹⁾	240,698	127,742	3,089,092
Peter Harley	100,000	-	-
Wang Wen	-	-	-
Han Minzhi	-	-	-

(1) Excludes unvested Employee Share Acquisition Plan (ESAP) related share holdings still held in the Plan as these shares are controlled by the trust and still subject to the recipient satisfying specified service conditions. For further details in relation to ESAP see table 12 in the remuneration report and note 30 of the financial statements.

No director holds a relevant interest in any performance rights on issue.

directors report

31 December 2010

38

Company secretary

The Company Secretary is Paul Marinko. Mr Marinko was appointed to the position of company secretary on 25 November 2008 and has worked for Perilya since 2006 as general counsel.

Principal activities

The principal activities of the consolidated entity during the financial year consisted of mining and exploring for base and precious metals.

Review and results of operations

Overview

CORPORATE

2010 has been an extremely exciting year for Perilya during which Perilya successfully acquired 97.77% of the common shares of GlobeStar Mining Corporation ("GlobeStar"), a TSX listed company, with operating and exploration assets in the Dominican Republic and an advanced lithium project in Canada. Post end of year Perilya completed the compulsory acquisition of the remaining 2.23% of the outstanding common shares of GlobeStar and as of 10 January 2011 holds 100% of the issued shares of GlobeStar. In addition to the acquisition of GlobeStar, 2010 has seen the Broken Hill Operation continue to improve its mine performance since the decision was made to resize in late 2008.

BROKEN HILL OPERATION

In 2010 the Broken Hill Operation focused on a combination of mine development ore and lower tonnage profile around mining remnant pillars and stopes in the Southern Operation, which has been very successful in delivering both a safe and reliable production profile, but one which has also delivered excellent financial and operational results. During the 12 months to December the Broken Hill mine produced 114,900 tonnes of contained zinc and lead (combined) at an average C1 cash operating cost of US\$0.44/lb. With a steadily improving zinc price also seen during the past 12 months (an average for the year of US\$0.97/lb), the operation generated a healthy cash operating margin of \$0.53/lb of payable zinc.

In 2010 we have seen continued productivity improvements and reductions in operating costs, the Broken Hill Operation is now in a far stronger position to both endure difficult market conditions as they occur and to continue to generate solid cash flow and profitability as economic situations improve.

During the past 12 months not only has the operation continued to improve productivity and financial outcomes, it has also seen an outstanding performance on safety, achieving major reductions in the All Injury Frequency Rate. By 31 December 2010, the All Injury Frequency Rate had dropped to 17.2 which is the lowest rate ever achieved at Broken Hill under Perilya's ownership.

FLINDERS ZINC PROJECT

The sale of Beltana Direct Shipping Ore ("DSO") completed in the September quarter of 2010, generating a positive EBIT and cash flow contribution.

In 2010 we have seen a significant increase in expenditure on exploration. With exploration drilling focussed on newly identified zinc silicate mineralization at the North Moolooloo prospect area. There is potential to prove up a resource from this area. Also during the year extensional drilling on the former Aroona Mine was completed aimed at increasing the remaining resource tonnage.

Financial Results

The consolidated entity recorded a net profit after tax of \$74.2 million for the year ended 31 December 2010, compared to a net profit after tax of \$28.5 million for the 6 months to 31 December 2009.

	31 December 2010	31 December 2009
	\$A'000	\$A'000
Revenue from operations	243,665	151,687
Profit after tax from operations	74,176	28,513
Profit after tax attributable to members	74,176	28,513

The improvement in earnings is a combination of both an increase in zinc and lead prices, and the recognition of previously unbooked tax losses, together with the continual operational benefits at Broken Hill, a direct result from the decision to resize the operation in 2008.

Highlights for the 12 months to December 2010 included the following:

- Cash costs at Broken Hill maintained at US\$0.44/lb of payable zinc (same as the previous 6 months ended 31 December 2009).
- Positive cash flow and earnings in the period from both the Broken Hill Operation and the continued sale of Beltana zinc silicate stockpiles.
- Continuous improvement at the Broken Hill Operations in operating costs and productivity (tonnes mined per employee) achieved throughout the period.
- Income tax benefit, due to the recognition of previously unbooked tax assets; this has only been possible due to the positive financial results from the Company's core assets.

Summary of financial performance	2009-2010 Financial Year Total	Six months to December 2009
Revenue (\$Thousand)	243,665	151,687
Net profit after tax (\$Thousand)	74,176	28,513
Cash flow from operating activities (\$Thousand)	53,154	50,387
Total assets (\$Thousand)	611,105	294,334
Shareholders equity (\$Thousand)	219,779	144,811

Sales Revenue

The decrease in physical sales volumes and fluctuating metal prices during the year led to the net sales revenue of \$243.7 million for the 12 months ended 31 December 2010 compared to the \$151.7 million net sales revenue for the previous six month period (six months to 31 December 2009: \$151.7 million).

Average US dollar zinc prices for the 12 months to December 2010 increased by 9% and lead by 2% respectively compared to the average price during the previous 6 months. At the same time, the AUD strengthened by over 10% which offset some of these gains.

Combined Broken Hill physical sales volumes for lead and zinc were lower than the previous 6 months by approximately 9%.

Cash and Deposits

At 31 December 2010 cash totalled \$90.5 million (31 December 2009: \$116.7 million) while additional deposits totalling \$34.0 million (31 December 2009: \$24.6 million) supported performance guarantees for mining licences in Australia; environmental insurance policy related to the Cerro de Maimon Mine in Dominican Republic; remaining funds in the Trust bank account for the GlobeStar acquisition and debt service reserve amount for the Nedbank facility in GlobeStar.

As at 31 December 2010, the consolidated entity also held \$2.3 million of 'available for sale investments' (31 December 2009: \$10.1 million) comprising \$1.5 million held in commercial paper and the \$0.8 million balance held in a number of listed and unlisted equity investments.

Debt

At 31 December 2010 Perilya has \$233 million of corporate debt (31 December 2009: \$55.2 million) (being debt other than equipment finance in the ordinary course of business) and approximately \$3.7 million (31 December 2009: \$4.6 million) in operating debt solely related to mobile equipment financing which is payable over a five year period.

\$148.7 million of the corporate debt is classified as current and \$84.3 million as non-current. This debt represents the Nedbank facility in GlobeStar; borrowings for the acquisition of GlobeStar in December 2010 and for additional working capital facilities considered necessary for the operations as well as funding that was used to extinguish the silver sale agreement with Coeur d'Alene Mines Corporation.

Financial Position

At 31 December 2010 the company had net assets of \$219.8 million.

BROKEN HILL OPERATION

Production for the 12 months ended 31 December 2010 was 63,600 tonnes of contained zinc and 51,300 tonnes of contained lead, (6 months to December 2009: 35,100 tonnes of contained zinc and 29,200 tonnes of contained lead). Grades for all metals were marginally lower than the prior 6 month period which was a reflection of the individual stopes that were being mined in the schedule combined with additional lower grade material produced from mine development.

Summary of OPERATING performance	12 months to December 2010	6 months to December 2009
<i>Production statistics</i>		
Zinc (contained metal - tonnes)	63,600	35,100
Lead (contained metal - tonnes)	51,300	29,200
Silver (contained metal - ounces)	1,577,000	910,000
Zinc grade (%)	4.4	5.1
Lead grade (%)	3.7	4.3
Silver grade (g/t)	38.0	49.2
<i>Broken Hill - Cash costs and cash operating margin (US\$/lb payable zinc)</i>		
Average price received	0.97	0.95
Less Net cash costs	0.44	0.44
Cash operating margin	0.53	0.51

The C1 cash costs for the 12 months to December were the same as the previous 6 months due to tight cost control over mine site costs.

The metal price received per pound of payable zinc for the 12 months also increased by 2% over the previous 6 month period, which combined with the C1 cost, generated an improvement in the cash operating margin to US\$0.53/lb (previous 6 months showed a margin of US\$0.51/lb).

Broken Hill has continued to produce excellent operating results in the areas of mining rates, development advance and mill throughput.

The improved operational results post-resizing continue to demonstrate the capability of the Broken Hill operation to not only withstand periods of weak metal prices but for it to be extremely well positioned to benefit from increases in metal prices as the global economic conditions start to improve.

Development approval was received in the December quarter from the Broken Hill City Council for the Potosi/Silver Peak mine development.

The Exploration programme continues around the North mine, both from surface and underground directed at potential development of the upper area of the North mine.

FLINDERS PROJECT

The Flinders Project is located 520 kilometers north of Adelaide in the Flinders Ranges of South Australia.

During the reporting period, the Company successfully sold all its stockpile of high grade and blended intermediate grade ore from Beltana.

Work continues on assessing the viability of the Reliance Project which is considered the most likely deposit to follow Beltana as a source of zinc silicate production. An extensive drilling and exploration program recommenced during the year focusing on the North Moolooloo prospect aimed at proving up a resource from this area and in the former Aroona Mine with the intent to increase the remaining resource tonnage.

directors report

31 December 2010

40

Financial Results (continued)

Financial Position (continued)

MOUNT OXIDE PROJECT

The Mount Oxide project is located in the Mount Isa region Western Succession that includes several major sediment hosted breccia copper deposits. The deposit was intermittently mined between 1920 and 1971 by way of a small open pit and underground operation. The project lies 25 kilometers north of the existing Mount Gordon mine operated by Aditya Birla Minerals Limited.

During the last 12 months the Company completed approximately 70% of its exploration drilling program at Mount Oxide to investigate the resource potential and improve the confidence around the western areas of the old pit. 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'.

The Mt Oxide Project study continues with detailed studies, as well as the completion of the metallurgical and geotechnical holes and further resource definition drilling to take place.

CORPORATE

Dividend

No dividends were paid during the year. No final dividend will be paid.

Investments

During the period Perilya sold a portion of its listed investments and some of its commercial paper resulting in net cash proceeds of \$8.9 million.

Revenue Protection

The Company has a policy of hedging approximately 70% of zinc payable metal production out 6 months.

As at 31 December 2010 the Company had the following hedge contracts in place:

		Mar 11 Quarter	June 11 Quarter	Sept 11 Quarter	Dec 11 Quarter	Mar 12 Quarter	June 12 Quarter	Sept 12 Quarter	Dec 12 Quarter	TOTAL POSITIONS
ZINC:										
Tonnes	Tns	10,500	2,000	-	-	-	-	-	-	12,500
Price	A\$/tn	2,420	2,615	-	-	-	-	-	-	2,451
LEAD:										
Tonnes	Tns	7,500	7,500	-	-	-	-	-	-	15,000
Price	A\$/tn	2,829	2,829	-	-	-	-	-	-	2,829
SILVER:										
Ounces	Ozs	285,000	285,000	195,000	195,000	195,000	195,000	195,000	195,000	1,740,000
Price	US\$/Oz	16.39	16.39	15.50	15.50	18.33	18.33	18.33	18.33	17.06

All lead and zinc hedging has been treated as effective under Australian Accounting Standards, with any movements in fair value being recognised in equity rather than the income statement. However, the silver hedging has been deemed ineffective with the resultant movement in fair value (\$22.3 million) being recognised as an expense in the 31 December 2010 Financial Statements.

METALS MARKETS

From 1 January 2010 to 31 December 2010 the zinc price decreased 5.6% to US\$2,432/tn, or US\$1.10/lb (31 December 2009: US\$2,570/tn & US\$1.17/lb) due to an increase in inventory during the reporting period and global uncertainty. The lead price between 1 January 2010 to 31 December 2010 however increased 7.4% to US\$2,587/tn or US\$1.17/lb (31 December 2009: US\$2,395/tn & US\$1.09/lb).

Current demand for all metals remains strong and relatively stable globally. Perilya continues to believe that zinc and lead market fundamentals remain sound over the medium to longer term.

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

- During the final quarter of 2010, Perilya successfully acquired 97.77% of the common shares of GlobeStar Mining Corporation, a TSX listed company, with operating and exploration assets in the Dominican Republic and an advanced lithium project in Canada.

Matters subsequent to the end of the financial year

On 10 January 2011, Perilya successfully completed the 100% takeover of GlobeStar Mining Corporation ("GlobeStar"), a TSX listed company.

On 10 March 2011, Perilya repaid the US\$28.3 million GlobeStar debt facility to Nedbank of South Africa. In addition, Perilya also closed out the GlobeStar hedge book by paying US\$4.9 million to Nedbank of South Africa.

Since the end of 31 December 2010, Perilya has been in discussions with several financial institutions regarding restructuring current borrowings and is currently evaluating various proposals.

Likely developments and expected results of operations

Further information about the likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Employees

The Australian entity employed 399 employees as at 31 December 2010 (31 December 2009: 388).

Environmental disclosure

The company's operations are subject to various Commonwealth and State laws governing the protection of the environment in areas such as air and water quality, waste

emission and disposal, environmental impact assessments, mine rehabilitation and access to, and use of, ground water. In particular, some operations are required to be licensed to conduct certain activities under the environmental protection legislation of the state in which they operate and such licenses include requirements specific to the subject site.

So far as the directors are aware, there have been no material breaches of the company's licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

Greenhouse gas and energy data reporting requirements

Perilya is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007. The Energy Efficiency Opportunities Act 2006 requires Perilya to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action Perilya intends to take as a result. As required under this Act, Perilya has registered with the Department of Resources, Energy and Tourism as a participant entity and reported the results from its initial assessments before 31 December 2008. The National Greenhouse and Energy Reporting Act 2007 requires Perilya to report its annual greenhouse gas emissions and energy use. The first measurement period for this Act ran from 1 July 2008 to 30 June 2009. Perilya has implemented systems and processes for the collection and calculation of the data required and has submitted its initial report.

Options

Options on Issue

Details of options over unissued shares in Perilya Limited as at the date of this report are set out below:

	Number	Exercise price	Grant date	Expiry date
Unlisted Employee Incentive Options	300,000	\$3.46	17.07.06	17.07.11
Unlisted Employee Incentive Options	100,000	\$3.89	17.07.06	17.07.12
Unlisted Employee Incentive Options	100,000	\$4.32	17.07.06	17.07.13
Unlisted Employee Incentive Options	2,050,000	\$0.58	25.11.08	30.09.11
Unlisted Employee Incentive Options	2,050,000	\$0.73	25.11.08	30.09.12
Unlisted Employee Incentive Options	2,589,721	\$0.87	04.06.10	31.03.14
	7,189,721			

During the financial year 2,589,721 (31 December 2009: nil) options were issued. No further options have been granted since the end of the financial year and the date of this report.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Options exercised

During the financial year nil options were exercised.

Options forfeited or cancelled

During, or since the end of the financial period, 2,000,000 options (31 December 2009: nil) were forfeited or cancelled.

Options expired or lapsed

During, or since the end of the financial period, 2,050,000 options (31 December 2009: 50,000) have expired or lapsed in accordance with the terms of the Employee Share Option Plan.

directors report

31 December 2010

42

Performance rights

Performance rights on issue

Details of performance rights over unissued shares in Perilya Limited as at the date of this report are set out below:

Number	Grant date	Vesting date	Expiry date
53,900	10 Dec 2007	30 Sept 2010	30 Sept 2012

No further performance rights have been granted since the end of the financial year and the date of this report.

No performance rights holder has any right under these to participate in any other share issue of the company or any other entity.

Performance rights issued, lapsed, forfeited or cancelled

During the financial year no performance rights (31 December 2009: nil) were issued to senior executives. During or since the end of the financial year, 81,500 (31 December 2009: nil) performance rights were lapsed, forfeited or cancelled in accordance with the terms of the Perilya Long Term Incentive Share Plan.

Indemnities and insurance

During the financial year the company paid a premium of \$133,100 to insure the directors and officers of the consolidated entity against liabilities incurred in the performance of their duties.

The officers of the group covered by the insurance policy include any person acting in the course of duties for the consolidated entity who is, or was, a director, executive officer, company secretary or a senior manager within the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers, in their capacity as officers, of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the consolidated entity

At the date of this report there are no leave applications or proceedings brought on behalf of the consolidated entity under section 237 of the Corporations Act 2001.

Non-audit services

In accordance with the company's External Auditor Policy and Guidelines, the company may decide to engage the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the consolidated entity are important.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services provided during the financial year are set out in note 31 of the financial statements.

The board of directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, are satisfied that the provision of the non-audit services detailed in note 31 of the financial statements were compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are also satisfied that the provision of these non-audit services did not compromise the auditor independence requirements of the Corporations Act 2001 because:

- they have no reason to question the veracity of the auditor's independence declaration referred to in the section immediately following this section of the report; and
- the nature of the non-audit services provided is not inconsistent with those requirements.

Auditor's independence declaration

PricewaterhouseCoopers continues as external auditor in accordance with section 327 of the Corporations Act 2001. The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 56 and forms part of this report.

Remuneration report (audited)

The remuneration report summarises the key remuneration arrangements for the reporting period 1 January 2010 to 31 December 2010 for the Non Executive Directors and Key Management Personnel of Perilya Limited and its controlled entities ("the Consolidated Group") in office during the financial year.

The remuneration report has been set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration
 - a. Non Executive Directors
 - b. Key Management Personnel
3. Service agreements
4. Share-based compensation
5. Additional information.

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

1.0 Principles used to determine the nature and amount of remuneration

Remuneration and Nominations Committee

The Remuneration and Nominations Committee (the "Committee") assists the Board to fulfil its responsibilities to shareholders by ensuring the Group has remuneration policies that fairly and competitively reward executives and the broader Perilya employee workforce. The Committee's decisions on reward structures are based on the current competitive environment, remuneration packages for executives and employees in the resources industry and the size and complexity of the Consolidated Group.

The Committee's responsibilities include reviewing the company's remuneration framework and evaluating the performance of the Chief Executive Officer ("CEO") and monitoring performance of the executive team.

Independent remuneration consultants are engaged by the Committee from time to time to ensure the company's remuneration system and reward practices are consistent with market practices. During FY 2009, remuneration consultants, Tower Human Capital, were engaged by the Committee to provide it with advice in connection with the detailed design, structure and remuneration levels that were consistent with market practises for the Company's CEO and senior executives. During FY2010 the Committee engaged independent consultants, MacDonald & Company (Australasia) Pty Ltd, to provide it with independent advice on movements in industry remuneration levels to ensure that the remuneration levels and structure for the CEO and senior executives remained consistent with market practises.

Directors' remuneration policy and structure

Perilya's non-executive director remuneration policy aims to reward the directors fairly and responsibly having regard to the:

- level of fees paid to directors relative to other comparative sized Australian mining companies;
- size and complexity of Perilya's operations; and
- responsibilities and work requirements of individual Board members.

Non-executive directors who are also executives of the parent company Zhongjin Lingnan have elected not to receive director fees during the period under review.

Fees paid to the non-executive directors of Perilya are reviewed annually by the Committee and based on advice from external remuneration consultants.

Directors' fees limits

Non-executive directors' fees are determined within an aggregated directors' fee limit of \$500,000, which was approved by shareholders at the 2006 Annual General Meeting.

Directors' fees framework

The fees paid to non-executive directors were reduced during the 2008/09 financial year in line with the resizing of the organisation. During the 2009 financial year Tower Human Capital were engaged to provide the Committee with guidance on the appropriate level of remuneration for the Company's non-executive directors having regard to the size and complexity of Perilya's operations, responsibilities and work requirements of individual directors and the levels of remuneration paid to comparatively sized Australian mining companies. Following that review, Non-executive director's remuneration for the 2010 financial year (for those directors other than those which also hold executive positions within Zhongjin Lingnan) consists only of a base fee inclusive of 9% statutory superannuation, details of which are set in Table 1 below.

Board fees are not paid to executive directors as the time spent on Board work and the responsibilities of Board membership are considered in determining the remuneration package provided as part of their normal employment conditions.

Table 1 – Annual Board and committee fees payable to non-executive directors

Position	Annual fees from 1 January 2010 to present (Inclusive of Superannuation) \$
<i>Base Fee</i>	
Chairman of the Board	-
Deputy Chairman of the Board	90,000
Independent Non-executive director	75,000
<i>Additional fees</i>	
Chairman of the Audit and Risk Management Committee	16,000
Member of the Audit and Risk Management Committee*	7,500
Chairman of the Remuneration and Nomination Committee	11,000
Member of the Remuneration and Nomination Committee*	7,500
Chairman of the Contracts Committee	-
Member of the Contracts Committee	-

* Directors who also hold executive positions within Zhongjin Lingnan have declined to accept director's fees for being on a Board Committee

No retirement benefits are paid other than the statutory superannuation contributions of 9% required under Australian superannuation guarantee legislation. Superannuation amounts are included in the directors' overall fee entitlements.

directors report

31 December 2010

44

1.0 Principles used to determine the nature and amount of remuneration (continued)

Executive remuneration policy and structure

Perilya's executive remuneration policy sets the policy for rewarding the CEO and senior executives (who are direct reports to the CEO). The main principles underlying Perilya's executive remuneration policy are to:

- provide competitive rewards that attract, retain and motivate executives;
- set demanding levels of performance which are clearly linked to an executive's remuneration;
- structure remuneration at a level that reflects the executive's duties and accountabilities;
- set a competitive level of remuneration that is sufficient and reasonable;
- align executive incentive rewards with the creation of value for shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

Executive remuneration is reviewed annually having regard to individual and business performance against agreed financial and non-financial performance measures set at the beginning of the year.

Executive remuneration structure – Financial Year to 31 December 2010

Perilya's remuneration structure for the CEO and senior executives up until 31 December 2010 was divided into three principal components:

- Base pay including superannuation;
- A cash-based short-term incentive ("STI") which is a variable annual reward, or "at risk" component that is subject to performance; and
- An annual long-term equity-based incentive payment ("LTI").

Base pay

The base pay component of executive remuneration comprises base salary plus superannuation contributions calculated at 9% of base salary. Certain executives (which include those executives based at the Broken Hill and Cerro de Maimón mine sites) are entitled to other non-cash allowances such as housing, motor vehicle and health insurance.

Remuneration is determined by the scope of each executive's role, level of knowledge, skill and experience along with their individual performance. Perilya annually reviews and benchmarks this component of executive remuneration against appropriate market comparisons using information and advice from external consultants. There is no guarantee of base pay increases included in any executives' contract.

Variable annual reward

The company's executives' remuneration structure included a variable annual reward being a short term incentive (STI) based on an assessment of their individual performance and Perilya's overall performance. Each year, the Committee considers the appropriate targets and key performance indicators (KPIs) to link

the STI and the level of payout if targets are met. This includes setting any maximum payout under the STI and minimum levels of performance to trigger payment of STI. Each year the Board considers and, where applicable, seeks shareholder approval for an annual award of a long term incentive (LTI) which is equity-based.

As a result of the restructure of the business on 21 August 2008, which resulted a significant downsizing of the organisation, a review of remuneration policies by the Board and the Committee was completed resulting in both the then existing LTI Plan (performance rights plan) and STI Plan being suspended. The LTI Plan was suspended on 1 September 2008 and the STI Plan was suspended on 26 September 2008.

Prior to the commencement of the 2010 financial year, the Committee conducted an extensive review of the company's executive remuneration systems against appropriate market comparisons using information and advice from external consultants, Tower Human Capital. Following that review and in light of the change in the company's circumstances and performance of the executive management team, the Board resolved to re-instate both STI and LTI remuneration components subject to modifications and appropriate targets and key performance indicators with effect from 1 January 2010.

Short-term incentive (STI) component

Under the revised STI, with effect from 1 January 2010 the short term incentive component of an executive's annual remuneration is between 30% and 60% of their total fixed annual remuneration (being an aggregate of base salary plus superannuation) and is available to be paid in cash following an assessment of performance of both Perilya and the individual executive for the year.

The Board sets an annual profitability gateway based on a defined minimum normalised net profit after tax before the executives can be considered eligible for any STI payment (profitability gateway). In addition to the profitability gateway, in order for an executive to receive any STI award based on the safety performance component, an additional gateway applies of there being no fatalities in the relevant period.

At the commencement of each year the Board sets a series of key performance indicators (KPI) for Perilya which are linked to Perilya's business principles, budget, business plan, growth and external indicators. Subject to first achieving the profitability gateway, the level of future STI annual awards will depend on Perilya as a group achieving "threshold" and "target" performance hurdles. Perilya must achieve the "threshold" KPI for any STI to be paid with respect to that criteria. The maximum STI will be paid upon achieving the "target" KPI's in all categories. The Board has further retained to itself the discretion to award an additional payment, up to a maximum of an additional 100% of the STI component of the executive's annual remuneration, where it deems a "stretch" performance has been achieved.

For the financial year 2010 executives achieved 75% of their respective STI entitlements based on evaluation of the threshold and target performance achieved against the performance criteria set by the Board at the commencement of 2010. In addition, the Board exercised its right to pay a discretionary STI to executives of an additional 20% for "stretch" performance by the Company in the area of safety (in achieving in excess of 200% of Target performance including achieving an all-time record for safety by the Company during the period of its ownership of Broken Hill) and a significant

over-performance on the Strategic up-lift with the successful acquisition of GlobeStar during the period resulting in a well above Target increase in NPV. The aggregate of the "threshold", "target" and "stretch" performances achieved by executives for 2010 was 95% of the executives' respective STI entitlements for 2010 and will be paid in the first quarter of 2011 in accordance with the rules set by the Board for the STI component of remuneration.

Long-term incentive component (LTI)

- *Performance Rights – under the Perilya Long Term Incentive Plan ("LTIP") (approved by shareholders in October 2007)*

The primary long-term incentive was focussed on the allocation of performance rights. However, on 1 September 2008, the Performance Rights Long Term Incentive Share Plan was suspended and remains suspended.

- *Options – under the Perilya Employee Share Option Plan (approved by shareholders in November 2003 and reconfirmed at meetings held in November 2006 and November 2009) ("ESOP")*

Following suspension of the Performance Rights Long Term Incentive Share Plan, the Committee determined that it was appropriate to revert to the grant of options to certain executives under the Perilya Limited Employee Share Option Plan. Accordingly, the Board on 25 November 2008, with shareholders' approval, issued 7,650,000 options to Perilya's most senior executives. No further options were issued under the Perilya Limited Employee Share Option Plan during the period ending 31 December 2009.

The Board resolved to re-instate a long term incentive ("LTI") component of remuneration with effect from 1 January 2010. The Board determined that Key Executives will receive an award under the ESOP reflecting the LTI remuneration component based on a percentage of their respective total annual remuneration (being the aggregate total fixed annual remuneration plus the STI component potential in the relevant period). The LTI component of an executive's annual remuneration is between 17.6% and 25% of their respective total annual remuneration. The form of LTI payment is by way of options issued under Perilya's ESOP to the value of the LTI entitlement. The Company uses the Black and Scholes option price calculation method to determine the value of each option granted in calculating the number of options to be issued under the LTI.

On 4 June 2010, with applicable shareholders' approval, the Board issued Key Executives (including the Managing Director) with an aggregate of 3,139,292 options with each option vesting on 31 March 2013 and expiring on 31 March 2014 at an exercise price of \$0.87 per option (which exercise price was not less than 145% of the 5 day volume weighted average price for the Company's shares immediately prior to the grant date).

The grant of options is provided to Key Executives to incentivise and retain them for the longer term and to better align the interests of Key Executives with those of the Company's shareholders.

Shares – under the Employee Share Acquisition Plan ("ESAP")

Senior executives are eligible to participate in the company's Employee Share Acquisition Plan ("ESAP"), which provides that both senior executives and employees may salary sacrifice up to 10% of their annual salary to acquire Perilya shares on-market. Perilya will match the contributions by senior executives and employees on a dollar for dollar basis to acquire shares in Perilya. The shares acquired are subject to a restriction period of two years. The ESAP provides all employees with an opportunity to become part owners in the company.

On 1 September 2008, the ESAP was suspended and remains suspended.

Further detail on the ESAP is set out in section 4.0 below.

2.0 Details of remuneration

Amounts of Remuneration

The total remuneration paid to Directors, the key management personnel of the Group is set out in Tables 3 and 4 below. Key management personnel (as defined in AASB 124 Related Party Disclosures) of Perilya Limited and its controlled entities are those persons identified in this section who have authority and responsibility for planning, directing and controlling the activities of Perilya and its controlled entities whether directly or indirectly.

Data in Table 4 includes the 5 group executives, as identified below, who received the highest remuneration for the year ending 31 December 2010. The executives considered to be key management personnel of the Group during the year ending 31 December 2010 are the executives set out in Table 2 below. These executives include the five most highly remunerated executives within the Perilya group of companies.

Table 2 - Key management personnel: Current key management personnel

Name	Position	Period (if less than the entire period)
Paul Arndt	CEO and Managing Director	N/A
Paul Marinko	Company Secretary and General Counsel	N/A
Tim Manners	Chief Financial Officer	01/01/2010 – 31/07/2010
Angelo Christou	Chief Financial Officer	From 01/08/2010
Peter Trout	General Manager – Projects & Acquisitions (newly created executive role)	From 01/08/2010
Andrew Lord	General Manager – Broken Hill	N/A

directors report

31 December 2010

46

2.0 Details of remuneration (continued)

Non-Executive Directors Remuneration

Details on the nature and amount of remuneration of Perilya's Non-Executive Directors for the year ended 31 December 2010 are as follows, (note that comparatives are for the 6 months ended 31 December 2009 being the last reporting period).

Table 3 – Remuneration of Non Executive Directors

Name		Short-term benefits		Post employment	Total
		Director fees	Board	Superannuation	
			committee fees		
		\$	\$	\$	\$
Zhang Shuijian ⁽¹⁾	31 Dec 2010	-	-	-	-
	31 Dec 2009	-	-	-	-
Patrick O'Connor	31 Dec 2010	82,569	16,973	8,958	108,500
	31 Dec 2009	45,000	-	4,050	49,050
Peter Harley	31 Dec 2010	68,807	21,560	8,133	98,500
	31 Dec 2009	25,000	-	2,250	27,250
Han Minzhi ⁽¹⁾	31 Dec 2010	-	-	-	-
	31 Dec 2009	-	-	-	-
Wang Wen ⁽¹⁾	31 Dec 2010	-	-	-	-
	31 Dec 2009	-	-	-	-
Total	31 Dec 2010	151,376	38,533	17,091	207,000
	31 Dec 2009	70,000	-	6,300	76,300

(1) Messrs Zhang, Wang and Han have declined to accept any fees in connection with roles as Directors and Committee members.

Key management personnel remuneration

Table 4 – Key management personnel remuneration

Name	Short-term employee benefits			Post employment	Share-based payments			Total	Performance related
	Cash salary	**Incentive bonus payments	Non-monetary	Super-annuation	Fair value of Employee Share Acquisition Plan shares issued	Fair value of performance rights issued under Perilya Long Term Incentive Share Plan	Fair value of long-term incentive options		
	\$	\$	\$	\$	\$	\$	\$	\$	%
CEO									
<i>Paul Arndt</i>									
31 Dec 2010	610,287	372,469	1,788	43,168	12,753	-	101,544	1,142,009	43%
31 Dec 2009*	275,000	224,813	796	24,750	11,969	-	42,893	580,221	48%
Senior Executives									
<i>Tim Manners (resigned)</i>									
31 Dec 2010	202,343	-	1,192	10,270	3,048	-	(27,313)	189,540	(13%)
31 Dec 2009*	175,000	143,063	1,903	15,750	3,048	11,715	31,828	382,307	50%
<i>Paul Marinko</i>									
31 Dec 2010	313,781	160,658	1,788	24,452	1,730	4,870	39,590	546,869	38%
31 Dec 2009*	145,000	118,538	976	13,050	1,730	2,286	15,012	296,592	46%
<i>Angelo Christou</i>									
31 Dec 2010	133,750	69,278	1,043	12,037	-	-	-	216,108	32%
31 Dec 2009*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Peter Trout</i>									
31 Dec 2010	133,750	69,278	-	12,037	-	-	-	215,065	32%
31 Dec 2009*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Andrew Lord</i>									
31 Dec 2010	358,400	185,562	14,386	32,256	5,208	-	43,107	638,919	37%
31 Dec 2009*	160,000	120,000	9,524	25,200	4,659	-	15,012	334,395	42%
Consolidated Entity Total									
31 Dec 2010	1,752,311	857,245	20,197	134,220	22,739	4,870	156,928	2,948,510	
31 Dec 2009*	755,000	606,414	13,199	78,750	21,406	14,001	104,745	1,593,515	

* The 6 month period ending 31 December 2009, being the last reporting period.

** The incentive bonus payment made for the period ending 31 December 2009 was based on performance over the preceding 12 months.

directors report

31 December 2010

48

3.0 Service agreements

On appointment to the Board, all Independent Non Executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Chief Executive Officer and Managing Director, Chief Financial Officer and the other key management personnel are also formalised in service agreements. Major provisions of the agreements relating to remuneration of the CEO are set out below.

Remuneration of the Chief Executive Officer, Paul Arndt

Mr Paul Arndt was appointed on 25 November 2008 (with shareholders approval) as Managing Director. Prior to this promotion, he was the Executive General Manager Operations & Development and was appointed as the Company's Chief Executive Officer on 1 October 2008.

Under the employment contract with Mr Arndt he is entitled to receive an annual base salary and superannuation, together with STI and LTI awards (at Board discretion). Details of Mr Arndt's contract and remuneration are described below and set out in Table 5 below.

The remuneration provisions of Mr Arndt's employment contract provided for:

Annual Salary

Mr Arndt's annual salary is reviewed annually and his fixed remuneration for the 2010 financial year was set at \$653,455 per annum, inclusive of superannuation. Following the annual review of executive remuneration in December 2010, Mr Arndt's

fixed remuneration with effect from 1 January 2011 was set at \$700,000 per annum, inclusive of superannuation.

Short-term incentive component

As part of the December 2010 review it was resolved that Mr Arndt be awarded a short term incentive bonus of \$372,469, this was the only short term incentive payable to Mr Arndt in respect of his services during the 12 months ended 31 December 2010.

Share based payments

Mr Arndt was entitled to participate in the company's Employee Share Acquisition Plan ("ESAP") until the ESAP was suspended on 1 September 2008. All shares acquired for the benefit of Mr Arndt, under the ESAP during the period 1 July 2008 to 1 September 2008, are purchased on-market.

As approved by shareholders, on 4 June 2010, Mr Arndt was granted options over 1,089,092 Perilya ordinary shares, representing a value of \$261,382.

Termination benefits

Other than statutory entitlements for annual leave and superannuation, Mr Arndt's contract did not provide for any termination payments, other than the service may be terminated by either party with six months notice by Perilya and three month notice by Mr Arndt.

Contracts for key management personnel – currently employed in the Group at the date of this report

A summary of the key contractual provisions as at the date of this report for each of the current key management personnel is set out in Table 5 below.

Table 5 - Contractual provisions for key management personnel

Name and job title	Employing company	Contract duration	Notice period (company)	Base Salary*	Maximum STI & LTI**	Notice period (employee)	Termination provision
Paul Arndt – CEO & Managing Director	Perilya Management Services Pty Ltd	No fixed term and reviewed annually	6 months	\$700,000	STI: 60% of TFR LTI: 25% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Paul Marinko – General Counsel & Company Secretary	Perilya Management Services Pty Ltd	No fixed term and reviewed annually	3 months	\$362,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Angelo Christou – Chief Financial Officer	Perilya Management Services Pty Ltd	No fixed term and reviewed annually	3 months	\$362,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Peter Trout – General Manager – Projects & Acquisitions	Perilya Management Services Pty Ltd	No fixed term and reviewed annually	3 months	\$362,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Andrew Lord – General Manager Broken Hill	Perilya Broken Hill Limited	No fixed term and reviewed annually	3 months	\$410,189	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.

* Including superannuation and for the period commencing 1 January 2011.

** The maximum STI and LTI's are the maximums currently applied by the Board. The Board retains to itself discretion to pay STI and LTI's above the maximum for stretch performances. TFR is Total Fixed Remuneration (Base Salary plus superannuation), TAR is Total Annual Remuneration (TFR plus STI).

4.0 Share-based compensation

Key management personnel are eligible to participate in the company's Employee Share Option Plan (ESOP), the Employee Share Acquisition Plan (ESAP) and the Long Term Incentive Plan (LTIP).

On 1 September 2008, the ESOP and LTIP were suspended and no shares or any other equity based compensation was paid to Perilya senior executives under those plans.

(a) Options – Under Employee Share Option Plan (ESOP) (as approved by shareholders in November 2003 and reconfirmed at meetings held in November 2006 and November 2009)

The terms and conditions of options over Perilya Limited shares, affecting the remuneration of the key management personnel in office at the end of the reporting period or in future reporting periods, are set out below in Table 6. Further details on the how the Employee Share Option Plan operates are set out in the rules and in the notice of the 2009 Annual General Meeting at which the plan was re-approved by shareholders. Copies of the plan are available on the company's website.

All options with a grant date of 25 November 2008 and 4 June 2010 were approved by Shareholders at meetings held on 25 November 2008 and 28 May 2010 respectively.

Table 6 – Key terms over options held by key management personnel as at 31 December 2010

Name	Grant date	Options	Exercise price	Fair value per option at grant date	Vesting date	Expiry date
Paul Arndt	25 November 2008	2,000,000	1,000,000 @ \$0.58	\$0.06	30 Sept 2010	30 Sept 2011
			1,000,000 @ \$0.73	\$0.07	30 Sept 2011	30 Sept 2012
	4 June 2010	1,089,092	1,089,092 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
Paul Marinko	25 November 2008	700,000	350,000 @ \$0.58	\$0.06	30 Sept 2010	30 Sept 2011
			350,000 @ \$0.73	\$0.07	30 Sept 2011	30 Sept 2012
	4 June 2010	464,029	464,029 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
Andrew Lord	25 November 2008	700,000	350,000 @ \$0.58	\$0.06	30 Sept 2010	30 Sept 2011
			350,000 @ \$0.73	\$0.07	30 Sept 2011	30 Sept 2012
	4 June 2010	535,962	535,962 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
Angelo Christou	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Table 7 – Options granted or vested in the year to December 2010 to key management personnel

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
Paul Arndt	1,089,092 @ \$0.87	-	1,000,000 @ \$0.58	1,000,000 @ \$0.50
Tim Manners (resigned)	-	-	-	500,000 @ \$0.50
Paul Marinko	464,029 @ \$0.87	-	350,000 @ \$0.58	350,000 @ \$0.50
Andrew Lord	535,962 @ \$0.87	-	350,000 @ \$0.58	350,000 @ \$0.50
Angelo Christou	-	-	-	-
Peter Trout	-	-	-	-

Under the terms and condition of the Employee Share Option Plan (as approved by shareholders) the options granted vest immediately if there is a change of control in Perilya and any unvested options lapse on cessation of employment, unless otherwise approved by the Board or under special circumstances such as retirement or redundancy.

directors report

31 December 2010

4.0 Share-based compensation (continued)

Other options remuneration information

Further details relating to options and the portion of key management personnel remuneration related to equity compensation in the year ended 31 December 2010 are set out below in Table 8.

Table 8 – Value of options as at 31 December 2010

Name	Percentage of remuneration consisting of options	Value of options granted, exercised or lapsed/cancelled in 12 months ended 31 December 2010			
		Granted ⁽¹⁾ \$	Exercised \$	Lapsed/ cancelled ⁽¹⁾ \$	Total \$
Paul Arndt	9%	261,382	-	48,000	309,382
Tim Manners (resigned)	(14%)	-	-	483,800	483,800
Paul Marinko	7%	111,367	-	16,800	128,167
Andrew Lord	7%	128,631	-	16,800	145,431
Angelo Christou	-	-	-	-	-
Peter Trout	-	-	-	-	-

(1) Based on fair value at time of grant

The movement in option holdings for key management personnel, during the financial period, are set out below in Table 9.

Table 9 – Movement of options granted to key management personnel during the year ended December 2010

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Forfeited/ Lapsed	Balance at the end of the year	Vested during the year	Vested and exercisable at the end of the year
Paul Arndt	3,000,000	1,089,092	-	1,000,000	3,089,092	1,000,000	1,000,000
Tim Manners (resigned)	2,000,000	-	-	2,000,000	-	-	-
Paul Marinko	1,050,000	464,029	-	350,000	1,164,029	350,000	350,000
Andrew Lord	1,050,000	535,962	-	350,000	1,235,962	350,000	350,000
Angelo Christou	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-
Total	7,100,000	2,089,083	-	3,700,000	5,489,083	1,700,000	1,700,000

There were no ordinary shares in the company issued, as a result of the exercise of remuneration options during the year, to key management personnel.

(b) Performance Rights – Under Perilya Long Term Incentive Plan (LTIP)

On 1 September 2008, the Performance Rights LTIP was suspended and remains under review by the Committee. The Performance Rights LTIP provides for the issue of performance rights.

The terms and conditions of performance rights over Perilya Limited shares, affecting the remuneration of the key management personnel in office at the end of the reporting period or in future reporting periods, are set out below in Table 10.

Table 10 – Key terms over performance rights held by key management personnel as at 31 December 2010

Name	Grant date	Allocation date for grant	Fair value at grant date ⁽¹⁾	Vesting date	Performance condition for vesting to occur ⁽²⁾	Vesting	Application of retesting	Expiry date
Paul Arndt	-	-	-	-	If Perilya TSR performance equals or exceeds 50th comparator group percentile for relevant period then rights vest based on a sliding scale	Full vesting occurs if Perilya's TSR is at, or exceeds, 75th percentile of comparator group scaling down on straight line basis to 50% vesting for median performance	Initial testing occurs after 3 years with retesting at the 4th and 5th years	5 years from the date the rights are granted
Paul Marinko	10 Dec 2007	10 Dec 2007	\$1.15	30 Sept 2010				
Tim Manners (resigned)	-	-	-	-				
Andrew Lord	-	-	-	-				
Angelo Christou	-	-	-	-				
Peter Trout	-	-	-	-				

(1) The fair value, using a binomial option pricing model, at the time of grant, using a 70% volatility rate and an interest rate of 10% was \$1.15 per right and expensed over a 3 year period.

(2) In the case of special circumstances, as determined by the Board, the performance hurdle may be waived and the Board may determine in its absolute discretion to allocate shares against all or part of the unvested performance rights.

The Performance Rights LTIP provides that if the employment of any executive who participates in the plan is terminated for cause or by way of resignation then any unvested rights will immediately lapse unless the Board determines otherwise. If threshold performance is not met at the final retest date then any unvested rights that remain will also lapse immediately.

Movement in performance right holdings and share grants made on vesting

There were no movement in performance right holdings and share grants made on vesting of rights, for key management personnel, during the financial year.

Table 11 – Movement of performance rights granted to key management personnel during the year ended December 2010

Name	Balance at the start of the year	Granted during the year as remuneration	Vested during the year	Cancelled or lapsed	Balance at the end of the year	Shares granted on vesting of rights
Paul Arndt	-	-	-	-	-	-
Tim Manners (resigned)	81,500	-	-	81,500	-	-
Paul Marinko	15,900	-	-	-	15,900	-
Andrew Lord	-	-	-	-	-	-
Angelo Christou	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-
Total	97,400	-	-	81,500	15,900	-

directors report

31 December 2010

52

4.0 Share-based compensation (continued)

(c) Shares – Under Perilya Employee Share Acquisition Plan (ESAP)

On 1 September 2008, the ESAP was suspended and remains suspended pending a review by the Committee.

The Perilya Limited Employee Share Acquisition Plan ("ESAP") was implemented in August 2006, to acquire ordinary fully paid shares in Perilya on-market for the benefit of employees. The ESAP's aim was to provide a sense of ownership in Perilya and to align their interest with those of the Company's shareholders. Following changes to Australian taxation laws in 2009 applying to equity based remuneration systems, the adverse tax consequences in the hands of employees for shares acquired under the ESAP resulted in the ESAP ceasing to be an effective incentive scheme for employees.

Movement in ESAP share holdings

Details of the movement of and shares held within the ESAP for key management personnel for period are set out below in Table 12.

Table 12 – Movement in employer funded shares for key management personnel in the Perilya ESAP during the year ended December 2010 ⁽¹⁾

Name	Balance at the start of the year	Granted during the year as remuneration ⁽¹⁾	Sold or transferred out of the ESAP during the year	Forfeited during the year	Balance at the end of the year	Vested ESAP Shares			Balance currently subject to Plan restrictions	Total value of shares held in the Plan \$ ⁽²⁾
						Balance at the start of the year	Vested / (sold) during the year	Balance at the end of the year		
Paul Arndt	70,666	-	-	-	70,666	22,763	47,903	70,666	-	81,877
Tim Manners (resigned)	20,499	-	20,499	-	-	11,571	(11,571)	-	-	-
Paul Marinko	9,322	-	-	-	9,322	4,895	4,427	9,322	-	25,418
Andrew Lord	47,922	-	-	-	47,922	22,925	24,997	47,922	-	32,181
Angelo Christou	-	-	-	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-	-	-	-
Total	148,409	-	20,499	-	127,910	62,154	65,756	127,910	-	139,476

(1) Includes:

- an initial one-off grant of shares (made on commencement of the ESAP or shortly after the commencement of employment) based on 10% of the employees salary at the time of the grant; and
- employer co-contribution shares funded by the company, where key management personnel have elected to salary sacrifice to acquire additional shares in Perilya (but excludes those shares acquired by the key management personnel using their salary sacrifice contributions).

(2) Based on the assessed fair value at the date that shares are allocated to employees within the ESAP.

5.0 Additional Information

Financial performance

Perilya's performance during the year ended 31 December 2010 and the four previous years are set out in Table 13 below.

Table 13 – Perilya's financial performance for the past five reporting periods

Year ended 31 December	31 Dec 2010	31 Dec 2009 ⁽²⁾	2009	2008	2007
Net profit/(loss) after tax (\$'000)	74,176	28,513	(75,089)	(140,235)	82,483
Earnings per share (cents)	14.1	7.2	(27.9)	(73.1)	43.3
Dividends per share (cents) ⁽¹⁾	-	-	-	1.0	11.0
Dividend pay out ratio (%)	-	-	-	-	25.4
Market capitalisation (\$'000)	310,385	352,471	142,000	140,000	857,728
Closing share price (\$)	0.59	0.67	0.36	0.74	4.37
Total shareholder returns – 1 year (%)	(11.9)	294.1	(51.4)	(82.8)	87.0
Total shareholder returns – 3 year rolling (%)	(86.5)	(87.2)	(79.9)	33.8	417.8

(1) Dividends include dividends declared at year end.

(2) 6 month period as the company transitioned to a December 31st financial year end.

Details of Remuneration: Cash bonuses and options

For each cash bonus and grant of options included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out in tables 14-16 below.

Options - under Perilya Employee Share Option Plan (ESOP)

The following table details the percentage of the available grant that vested in the financial year and the percentage forfeited because the person did not meet either/or service and performance criteria specified.

Table 14 – Option grants as at 31 December 2010

Name	Number of Options	Financial year granted	Vested in current financial year	Lapsed/cancelled in current financial year	Financial year in which grants may vest for unvested grants	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
	No.	Yr	%	%	Yr	\$	\$
Paul Arndt	1,000,000	2008	-	100%	2009	nil	nil
			100%				
	1,000,000	2008	100%	-	2010	nil	nil
	1,000,000	2008	-	-	2011	nil	17,621
	1,089,092	2010	-	-	2013	nil	208,142
Tim Manners (resigned)	300,000	2006	-	100%	2008	nil	nil
	100,000	2006	-	100%	2009	nil	nil
	100,000	2006	-	100%	2010	nil	nil
	500,000	2008	-	100%	2009	nil	nil
	500,000	2008	-	100%	2010	nil	nil
	500,000	2008	-	100%	2011	nil	nil
Paul Marinko	350,000	2008	-	100%	2009	nil	nil
	350,000	2008	100%	-	2010	nil	nil
	350,000	2008	-	-	2011	nil	6,167
	464,029	2010	-	-	2013	nil	88,684
Andrew Lord	350,000	2008	-	100%	2009	nil	nil
	350,000	2008	100%	-	2010	nil	nil
	350,000	2008	-	-	2011	nil	6,167
	535,962	2010	-	-	2013	nil	102,431
Angelo Christou	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-

Performance Rights – under Perilya Long Term Incentive Share Plan (LTIP)

No performance rights were issued during the reporting period. On 1 September 2008, the LTIP was suspended and is presently under review by the Remuneration and Nominations Committee.

The assessed fair value at the grant date of performance rights to the individual is allocated over the period from grant date to vesting date, and the amount is included in the remuneration as set out in Table 14 above.

directors report

31 December 2010

54

5.0 Additional Information (continued)

Table 15 – Performance right grants as at 31 December 2010

	Number of shares	Financial year granted	Vested in financial year 2010	Lapsed/ cancelled in financial year 2010	Financial year in which grants may vest for unvested grants ⁽¹⁾	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
Name	No.	Yr	%	%	Yr	\$	\$
Paul Arndt	-	-	-	-	-	-	-
Tim Manners (resigned)	81,500	2007	-	100%	2010	nil	nil
Paul Marinko	15,900	2007	-	-	2010	nil	nil
Andrew Lord	-	-	-	-	-	-	-
Angelo Christou	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-

(1) Assuming that shares vest in minimum conditions set for the award i.e. before retest provisions are applied.

Performance rights acquired under the Perilya Long Term Incentive Share Plan vest, over a period of 3 years, provided the vesting conditions are met. If the relevant performance conditions are not met there are retest provisions that extend the vesting conditions out to 5 years. No shares will vest if the conditions are not satisfied, hence the minimum value of shares yet to vest is nil.

As noted above, the LTIP was suspended. The LTIP will likely be terminated and wound-up in due course therefore the maximum value of shares yet to vest has also been determined as nil.

Shares – under Perilya Employee Share Acquisition Plan (ESAP)

Table 16 – ESAP grants as at 31 December 2010

	Financial year granted	Number of shares	Vested in financial year 2010 ⁽¹⁾	Lapsed/ forfeited in financial year 2010	Financial year in which grants may vest for unvested grants	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
Name	Yr	No.	%	%	Yr	\$	\$
Paul Arndt	2009	15,197	100%	-	Fully vested	nil	nil
	2008	55,469	100%	-	Fully vested	nil	nil
Tim Manners (resigned)	2009	-	-	-	-	nil	nil
	2008	10,804	67%	100%	Fully vested	nil	nil
	2007	9,695	-	100%	Fully vested	nil	nil
Paul Marinko	2009	-	-	-	-	nil	nil
	2008	9,322	55%	-	Fully vested	nil	nil
Andrew Lord	2009	47,922	53%	-	Fully vested	nil	nil
Angelo Christou	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-

(1) The percentage vested represents the dollar value amount of the total grant, for the grant year, that has fully met vesting conditions as at reporting date and is no longer considered 'at risk'.

Shares acquired under the ESAP vest over periods of 12 to 24 months for employer funded free issue shares and over 24 months for employer funded matching contributions for employee salary-sacrificed purchases, provided the vesting conditions are met. No shares will vest if the conditions are not satisfied, hence the minimum value of shares yet to vest is nil.

Ordinary share holdings

Details of Perilya ordinary shares held (directly or beneficially) by the each of the group's key management personnel (excluding non-executive directors) in office at the end of the reporting period are set out below in Table 17.

Table 17 – Shareholdings key management personnel at 31 December 2010 (1)

Name	Balance at the start of the year	Number received on exercise of options	Other changes during the year	Balance at the end of the year
Paul Arndt	127,742	-	240,698	368,440
Paul Marinko	19,869	-	-	19,869
Andrew Lord	22,925	-	-	22,925
Angelo Christou	-	-	-	-
Peter Trout	-	-	-	-

(1) Excludes unvested ESAP related share holdings as these shares are controlled by the Trust

Loans to directors and executives

During the year ended 31 December 2010 and up to and including the date of this report no loans have been made to any directors or executives of the Group.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the director's report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the directors.



Zhang Shuijian

Chairman

Perth, Western Australia

29 March 2011

auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the audit of Perilya Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Perilya Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Nick Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
29 March 2011

PricewaterhouseCoopers, ABN 52 780 433 757
QV1, 250 St Georges Terrace, PERTH WA 6000, GPO BOX D198, PERTH WA 6840
DX 77 Perth, Australia
T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

annual financial statements

31 December 2010

Contents

Financial statements	Page
Income statement	58
Statement of comprehensive income	59
Statement of financial position	60
Statement of changes in equity	61
Statement of cash flows	62
Notes to the financial statements	63
Directors' declaration	122
Independent auditor's report to the members of Perilya Limited	123

These financial statements cover the consolidated entity consisting of Perilya Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Perilya Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

First Floor, Building E
661 Newcastle Street
Leederville WA 6007

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 37 to 42, which is not part of these financial statements.

These financial statements were authorised for issue by the directors on 29 March 2011. The company has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial statements and other information are available at our Investor Information section on our website at: www.perilya.com.au.

For queries in relation to our reporting please call:
+ 61 8 6330-1000 (within Australia 08 6330-1000) or alternately
email: Perilya@perilya.com.au.

57

income statement

for the year ended 31 December 2010

58

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
Revenue from operations	4	243,665	151,687
Other income	5	2,196	1,021
Changes in inventories of finished goods and work in progress		(8,505)	(2,919)
Raw materials, power and consumables used		(56,341)	(26,692)
Employee benefits expense		(44,030)	(23,352)
Depreciation and amortisation expense	6	(27,753)	(16,611)
External services and consultants		(40,833)	(15,752)
Freight and handling		(22,981)	(17,523)
Royalties		(6,934)	(4,927)
Foreign exchange gain		3,387	2,315
Other expenses from ordinary activities		(13,362)	(7,965)
Impairment of available-for-sale financial assets	6	(361)	-
Finance costs	6	(1,328)	(1,329)
Profit before income tax		26,820	37,953
Income tax benefit/(expense)	7	47,356	(9,440)
Profit for the year		74,176	28,513
Profit is attributable to:			
Owners of Perilya Limited		74,176	28,513
Non-controlling interests		-	-
		74,176	28,513
Earnings per share from profit attributable to the ordinary equity holders of the company		Cents	Cents
Basic earnings per share	41(a)	14.1	7.2
Diluted earnings per share	41(b)	14.1	7.1

The above income statement should be read in conjunction with the accompanying notes.

statement of comprehensive income

for the year ended 31 December 2010

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
Profit for the year		74,176	28,513
Other comprehensive income			
Cash flow hedges	25(a)	421	(32,160)
Available-for-sale financial assets	25(a)	(122)	694
Foreign currency translation	25(a)	(5,505)	-
Income tax relating to components of other comprehensive income	7(c)	1,562	9,440
Other comprehensive (expense) for the year, net of tax		(3,644)	(22,026)
Total comprehensive income for the year		70,532	6,487
Total comprehensive income for the year is attributable to:			
Owners of Perilya Limited		70,532	6,487
Non-controlling interests		-	-
		70,532	6,487

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

statement of financial position

as at 31 December 2010

60

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
ASSETS			
Current assets			
Cash and cash equivalents	8	90,516	116,709
Restricted cash	8	9,320	-
Trade and other receivables	9	37,758	21,929
Inventories	10	24,487	17,946
Available-for-sale financial assets	11	2,298	10,078
Financial assets at fair value through profit or loss	12	380	-
Derivative financial instruments	13	13,764	-
Total current assets		178,523	166,662
Non-current assets			
Restricted cash	8	24,669	24,570
Trade and other receivables	14	66	62
Exploration, development and evaluation expenditure	16	159,928	17,628
Mine properties in use	17	158,415	61,533
Property, plant and equipment	18	40,585	23,879
Deferred tax assets	15	48,919	-
Total non-current assets		432,582	127,672
Total assets		611,105	294,334
LIABILITIES			
Current liabilities			
Trade and other payables	19	48,124	33,139
Borrowings	20	150,676	61,186
Other liabilities	21	7,372	6,727
Current tax liabilities		3,156	-
Derivative financial instruments	13	28,938	22,715
Total current liabilities		238,266	123,767
Non-current liabilities			
Borrowings	22	85,982	864
Provisions	23	26,800	24,892
Derivative financial instruments	13	10,619	-
Deferred tax liabilities	15	29,659	-
Total non-current liabilities		153,060	25,756
Total liabilities		391,326	149,523
Net assets		219,779	144,811
EQUITY			
Contributed equity	24	210,008	209,025
Reserves	25	(1,020)	3,292
Retained earnings	26	6,670	(67,506)
Non-controlling interests	27	4,121	-
Total equity		219,779	144,811

The above statement of financial position should be read in conjunction with the accompanying notes.

statement of changes in equity

for the year ended 31 December 2010

	Notes	Contributed equity \$000	Accumulated losses \$000	Reserves \$000	Non-controlling interests \$000	Total equity \$000
CONSOLIDATED						
Balance at 1 July 2009		154,287	(96,019)	25,451	-	83,719
Total comprehensive income/(expense) for the period		-	28,513	(22,026)	-	6,487
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	24(a)	54,147	-	-	-	54,147
Employee share options – value of employee services	25(a)	-	-	120	-	120
Perilya Employee Share Acquisition plan	24(a) & 25(a)	591	-	(253)	-	338
		54,738	-	(133)	-	54,605
Balance at 31 December 2009		209,025	(67,506)	3,292	-	144,811

	Notes	Contributed equity \$000	Retained earnings \$000	Reserves \$000	Non-controlling interests \$000	Total equity \$000
Balance at 1 January 2010		209,025	(67,506)	3,292	-	144,811
Total comprehensive income/ (expense) for the year		-	74,176	(3,644)	-	70,532
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	24(a)	(46)	-	-	-	(46)
Employee share options – value of employee services	25(a)	-	-	198	-	198
Non-controlling interests	27	-	-	-	4,121	4,121
Perilya Employee Share Acquisition plan	24(a) & 25(a)	1,029	-	(866)	-	163
		983	-	(668)	4,121	4,436
Balance at 31 December 2010		210,008	6,670	(1,020)	4,121	219,779

The above statement of changes in equity should be read in conjunction with the accompanying notes.

statement of cash flow

for the year ended 31 December 2010

62

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
Cash flows from operating activities			
Cash receipts in the course of operations (inclusive of GST)		248,623	155,590
Cash payments in the course of operations (inclusive of GST)		(197,947)	(105,248)
		50,676	50,342
Interest received		4,636	932
Interest and other finance costs paid		(2,158)	(887)
Net cash inflow from operating activities	39	53,154	50,387
Cash flows from investing activities			
Payments for mine properties		(31,781)	(73,784)
Payments for property, plant and equipment		(21,607)	(4,165)
Payments for exploration and evaluation		(14,069)	(2,570)
Payments for performance guarantee bonds		-	(5)
Payments for other bonds		(3)	(3)
Acquisition of GlobeStar, net of cash acquired	44	(167,633)	-
Restricted cash paid for acquisition of GlobeStar		(4,254)	-
Proceeds from sale of available-for-sale financial assets		8,935	1,426
Proceeds from sale of property, plant and equipment		815	1,112
Net cash (outflow) from investing activities		(229,597)	(77,989)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	54,147
Payments for issues of shares and other equity securities		(46)	-
Dividends paid to company's shareholders		(1)	(1)
Proceeds from borrowings		157,996	59,759
Repayment of borrowings		-	(2,308)
Repayment of finance lease liabilities		(4,422)	(3,981)
Net cash inflow from financing activities		153,527	107,616
Net (decrease)/increase in cash and cash equivalents		(22,916)	80,014
Cash and cash equivalents at the beginning of the financial year		116,709	36,906
Effects of exchange rate changes on cash and cash equivalents		(3,277)	(211)
Cash and cash equivalents at end of the year	8	90,516	116,709
Non-cash investing and financing activities	40	3,451	-

The above statement of cash flows should be read in conjunction with the accompanying notes.

notes to the financial statements

Contents of the notes to the financial statements

	Page
1. Summary of significant accounting policies	64
2. Critical accounting estimates and judgements	73
3. Segment information	74
4. Revenue	77
5. Other income	77
6. Expenses	77
7. Income tax expense	78
8. Current and Non-current assets – Cash and cash equivalents and restricted cash	79
9. Current assets – Trade and other receivables	80
10. Current assets – Inventories	80
11. Current assets – Available-for-sale financial assets	81
12. Current assets – Financial assets at fair value through profit or loss	81
13. Derivative financial instruments	82
14. Non-current assets – Trade and other receivables	83
15. Deferred tax	83
16. Non-current assets – Exploration, development and evaluation expenditure	85
17. Non-current assets – Mine properties in use	86
18. Non-current assets – Property, plant and equipment	87
19. Current liabilities – Trade and other payables	88
20. Current liabilities – Borrowings	88
21. Current liabilities – Other	89
22. Non-current liabilities – Borrowings	89
23. Non-current liabilities – Provisions	89
24. Contributed equity	90
25. Reserves	91
26. Retained earnings	92
27. Non-controlling interests	92
28. Dividends	92
29. Financial risk management	93
30. Key management personnel disclosures	102
31. Remuneration of auditors	108
32. Contingencies	108
33. Commitments	109
34. Related party transactions	110
35. Subsidiaries	111
36. Deed of cross guarantee	111
37. Interests in joint ventures	114
38. Events occurring after the end of the reporting period	115
39. Reconciliation of profit after income tax to net cash flow from operating activities	115
40. Non-cash investing and financing activities	115
41. Earnings per share	115
42. Share-based payments	116
43. Parent entity financial information	120
44. Business combination	120

notes to the financial statements

31 December 2010

64

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Perilya Limited and its subsidiaries.

(a) Basis of preparation of financial statements

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

The consolidated financial statements of Perilya Limited group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Early adoption of standards & issued standards not early adopted

The consolidated entity has not elected to early adopt any accounting standards during the annual reporting period beginning 1 January 2010.

See section (ag) of this note for details related to issued standards not early adopted.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Working Capital Deficiency

The Perilya group has a working capital deficiency at balance date of \$59.7 million (2009: surplus of \$42.0 million) mainly due to the reclassification of various debt facilities from non-current borrowings to current borrowings. The reclassification of borrowings arises due to a combination of expiring debt facilities becoming due and payable within 12 months in the event they are not refinanced beforehand and also due to acquired debt being classified as current given the expectation that it will be repaid and/or refinanced. The Directors are confident that the working capital deficiency will be eliminated in future periods as a result of the following:

- The Group is forecasting to generate positive operating cash flows from its Broken Hill and Cerro de Maimon projects that will also be utilised to reduce outstanding debt;
- The Group has been in discussions with both its existing and other financial institutions regarding

restructuring some of its current borrowings and is currently evaluating various proposals that have been received in this regard; and

- The Group has the support of its parent company as demonstrated by a significant portion of the current borrowings of the group being guaranteed by the ultimate parent, Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd, as outlined in Notes 20 and 22.

(b) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Perilya Limited (the "company" or the "parent entity") as at 31 December 2010 and the results of all subsidiaries for the year then ended. Perilya Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Perilya Limited.

(ii) *Employee Share Trust*

The Group has a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares granted to employees under the Perilya Employee Share Acquisition Plan (ESAP) can be either new issue shares or purchased on-market. Where shares are purchased on-market, those shares purchased by company sponsored funds and held by the ESAP Trust while vesting, are disclosed as treasury shares and deducted from contributed equity. For the period ending 31 December 2010 all shares were purchased on-market.

(iii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and

50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss identified on acquisition).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Joint ventures

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of interests in joint ventures are set out in note 37.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers have been identified as the executive management team and board of directors who make strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Perilya Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Metal revenue

Metal revenue is recognised, based on a provisional metal price net of treatment costs, when the significant risks and rewards of the concentrate pass to the customer.

The provisional metal price is the spot metal price at the time of delivery. An adjustment is subsequently made to the provisional revenue amount to reflect the replacement of the provisional metal price with the final metal price, which, for Broken Hill sales is the average metal price for the first or second month following the month of delivery and for Beltana and GlobeStar sales is the average metal price for between one to four months following the month of delivery.

notes to the financial statements

31 December 2010

66

1. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) Interest income

Interest income is recognised as it accrues based on the effective interest method, being the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

(f) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax legislation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 20 & 22). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value

of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognised on goodwill are not subsequently reversed.

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if utilised, are shown within borrowings in current liabilities on the statement of financial position.

Restricted cash, which is excluded from cash and cash equivalents, represents deposits and commercial bills that are used for monetary backing of performance guarantees, and is disclosed as either a current or non-current asset.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Except for non-current receivables which include tenement bonds, trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be or is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement in 'Other expenses from ordinary activities'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'Other expenses from ordinary activities' in the income statement.

(l) Inventories

Inventories of work in progress and finished goods are physically measured or estimated and valued at the lower of cost and net realisable value. Cost comprises direct material, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock on the basis of weighted average costs in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value.

(m) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the end of the reporting period.

notes to the financial statements

31 December 2010

68

1. Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current and non-current Trade and other receivables (notes 9 and 14) in the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and derecognition

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses on sale of available-for-sale financial assets.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale financial assets fair value reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses on sale of available-for-sale financial assets.

Fair value

Details on how the fair values of financial instruments are determined are disclosed in note 29.

Impairment

The Group assesses, at each balance date, whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in 'Movements in the hedging reserve' in note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of derivative contracts are recognised in the income statement within "sale of goods" with a corresponding offsetting amount to the carrying amount of the asset or liability being the fair value movement of the hedged asset or liability. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or other expense.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of derivative contracts is recognised in the income statement within "sale of goods". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(o) Property, plant and equipment

Land and buildings and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

Assets under construction are stated at historical costs and are not depreciated until they are ready for use.

The cost of mine based plant and equipment is written off over its expected economic life on units of production method, in the establishment of which, due regard is given to the life of the related area of interest.

Depreciation or amortisation of plant and equipment, excluding mine based plant and equipment, is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Motor vehicles and heavy mobile equipment	
- Underground	2-5 years
- Surface	5 years
- Office equipment	3-5 years

Other non-mine plant and equipment typically have the following estimated useful lives:

Plant and equipment	3 years
Office furniture	3-5 years
Leasehold improvements	3-6 years
Buildings	10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(p) Maintenance and repairs

Plant and equipment of the Group is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component or modification of an asset which will generate future economic benefits in excess of the assets original designed capacity. In these instances, the costs are capitalised and depreciated in accordance with note 1(o) above.

Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

(q) Exploration and evaluation expenditure

Exploration and evaluation costs relating to areas of interest with current tenure are carried forward to the extent that:

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

In the event that an area of interest is abandoned or, if facts and circumstances suggest that the carrying value of an exploration and evaluation asset is impaired (as outlined in 1(i)) then the accumulated costs carried forward are written off in the year in which that assessment is made.

Identifiable exploration assets acquired, outside of a business combination, from another mining company are recognised as assets at their cost of acquisition. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions above is met.

notes to the financial statements

31 December 2010

70

1. Summary of significant accounting policies (continued)

(r) Mine properties

Mine properties represent the acquisition costs and/or accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of a mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when future economic benefits are established, otherwise such expenditure is classified as part of the cost of production. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

(s) Restoration and rehabilitation

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation, revegetation and monitoring of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances arising from mine extensions or changes in rehabilitation costs, whether due to changed legal requirements or anticipated technological advancements, will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the income statement. The carrying amount capitalised is depreciated over the life of the related asset.

In determining present obligations, the Group has assumed no significant future changes will occur in relevant Federal and State legislation in relation to restoration of such mineral properties.

(t) Royalties

Royalties, to the extent that they represent period costs, are accrued and charged against earnings when the liability from production or sale of the mineral crystallises.

In the case of business combinations, future royalty payments may represent a contingent purchase consideration and, such amounts are included in the cost of the business combination.

(u) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 1(c)).

(v) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(w) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(x) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs include:

- interest on bank overdrafts and short term and long term borrowings, including amounts paid or received on interest rate swaps;
- amortisation of discounts or premiums relating to borrowings;

- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance lease charges; and
- the cost of unwinding discounted provisions.

(y) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

(z) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as a current provision in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled post 12 months of the reporting date are recognised as a non-current provision and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to employees defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share based payments

Share based compensation benefits are provided to employees via the Perilya Limited Employee Share Option Plan, the Perilya Employee Share Acquisition Plan ("ESAP") and the Perilya Long Term Incentive Share Plan. Information relating to share-based payments is set out in note 42.

The fair value of options granted under the Perilya Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become

unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of options granted is adjusted to reflect market vesting conditions but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At the end of each reporting period, the group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the Perilya Employee Share Scheme ("ESAP"), the fair value of shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which employees become unconditionally entitled to the shares.

Under the Perilya Long Term Incentive Share Plan, the fair value of performance rights granted over shares is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which employees granted the rights become unconditionally entitled to the rights.

(aa) Contributed equity

Ordinary shares are classified as equity and incremental costs directly attributable to the issue of new shares, options or rights are shown in equity as a deduction, net of tax, from the proceeds. If the entity reacquires its own equity instruments for the purpose of reducing its issued capital, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(ab) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial period but not distributed at balance date.

(ac) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

notes to the financial statements

31 December 2010

72

1. Summary of significant accounting policies (continued)

(ac) Earnings per share

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(ad) Goods and services tax

Revenue, expenses and assets are recognised, net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flow.

(ae) Parent entity financial information

The financial information for the parent entity, Perilya Limited, disclosed in note 43 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Perilya Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Perilya Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Perilya Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Perilya Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Perilya Limited for any current tax payable assumed and are compensated by Perilya Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Perilya Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidation entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(af) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ag) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement and derecognition of financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from *AASB139 Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

- Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 January 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates.

- AASB Interpretation 19 *Extinguishing Financial Liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 January 2011. Its application is not expected to have any impact on the results of the Group.

- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 January 2011.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and made and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Critical accounting estimates and assumptions

(i) Impairment of assets

In accordance with accounting policy note 1(i), in determining whether the recoverable amount of each cash generating unit is the higher of fair value less costs to sell or value-in-use against which asset impairment is to be considered, the Group undertakes future cash flow calculations which are based on a number of critical estimates and assumptions including, for its mine properties, forward estimates of:

- mine life including quantities of mineral reserves and resources for which there is a high degree of confidence of economic extraction with given technology;
- production levels and demand;
- metal prices and treatment charges;
- inflation;
- US/Australian dollar exchange rates;
- cash costs of production; and
- discount rates applicable to the cash generating unit.

(ii) Exploration and evaluation expenditure

In accordance with accounting policy note 1(q) exploration and evaluation expenditure is capitalised when either, costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. In determining this, assumptions, including the maintenance of title, ongoing expenditure and prospectivity are made and in the event that these assumptions no longer hold then this expenditure may, in part or full, be expensed through the income statement in future periods - see note 16 for disclosure of carrying values.

(iii) Estimation of sales revenue on delivery

As set out in accounting policy note 1(e), metals revenue is recognised based on a provisional price being the spot metal price at the time of delivery. Provisional revenues estimated for the period are revised to actual revenue for the period when actual metal prices are determined with the adjustment taken to account in the period when metal prices are actualised.

notes to the financial statements

31 December 2010

74

2. Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(iv) Restoration and rehabilitation provisions

As set out in accounting policy note 1(s), the value of current restoration and rehabilitation provisions are based on a number of assumptions including the nature of restoration activities required and the valuation at the present value of a future obligation that necessitates estimates of the cost of performing the work required, the timing of future cash flows and the appropriate discount rate. Additionally current provisions are based on the assumption that no significant changes will occur in either relevant Federal or State legislation or other jurisdiction covering restoration of mineral properties. A change in any, or a combination, of these assumptions used to determine current provisions could have a material impact to the carrying value of the provision - see note 23 for disclosure of carrying values.

(v) Income tax

The Group is subject to income taxes in Australia, Malaysia, Canada and Dominican Republic and significant judgement is required in determining the ultimate provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of the Group's business for which the ultimate tax determination is uncertain from the moment of incurrence, through the process of lodgement of statutory returns with the appropriate authorities, until a final tax assessment is determined. As such, the Group recognises liabilities for tax, and if appropriate for anticipated tax audit issues, based on whether tax and/or additional tax will be due and payable. Where the tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which the assessment is made.

The Group has recognised deferred tax assets relating to carried forward tax losses in Australia. Utilisation of tax losses also depends on the ability of the Group to satisfy certain tests at the time the losses are recouped.

(b) Critical judgements in applying the Groups accounting policies

(i) Derivative financial instruments

The Group makes judgements on the effectiveness of all derivative financial instruments entered into, including forward metal sales, forward metal option and forward currency option contracts in accordance with accounting policy note 1(n). Management's assessment is that, unless otherwise disclosed the derivatives have been highly effective in offsetting changes in the fair value of the future cash flows against which they have been designated and as such are compliant with the hedge effectiveness requirements of AASB 139. Further information on the Group's use of derivative financial instruments, including carrying values, is set out at note 13.

3. Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the executive management team and board of directors that are used to make strategic decisions.

The executive management team and board of directors consider the business from an operational perspective and have identified six reportable segments as at 31 December 2010.

Base metals consist of lead and zinc production which is sold into Australia and global markets from both Broken Hill and Beltana, and copper and gold production and sale from the newly acquired Cerro de Maimon mine located in the Dominican Republic. The executive management team considers these separately as they are three identifiable sites.

The Australia exploration segment operates predominantly in Australia with minor tenements held in Malaysia. This segment is monitored jointly as the only activity currently is in Australia.

The newly acquired America exploration segment consists of exploration activities related to the non-producing mineral properties located primarily in the Dominican Republic and Canada.

The investment and administration segment represents all other activities including: hedging; management of financial instruments; investments and other head office costs.

(b) Segment information provided to the executive management team and board of directors

The segment information provided to the executive management team and the board of directors for the reportable segments for the year ended 31 December 2010 is as follows:

	BASE METALS MINING		EXPLORATION				Investment & administration \$000	Adjustments & Eliminations \$000	Consolidated \$000
	Broken Hill \$000	Beltana \$000	Cerro de Maimon \$000	Australia \$000	America \$000				
Total segment revenue	224,311	14,582	-	-	-	4,772	-	243,655	
Other revenue/income	549	-	-	-	-	1,647	-	2,196	
Reconciliation to total revenue (note 4 and 5)	224,860	14,582	-	-	-	6,419	-	245,861	
EBIT	24,757	3,172	-	-	-	(4,553)	-	23,376	
Reconciliation of EBIT to operating profit/(loss) for the year									
Interest revenue	-	-	-	-	-	4,772	-	4,772	
Finance costs	1,064	-	-	-	-	(2,392)	-	(1,328)	
Share of net losses of associates	-	-	-	-	-	-	-	-	
Profit/(loss) before income tax	25,821	3,172	-	-	-	(2,173)	-	26,820	
Income tax expense								47,356	
Profit for the year								74,176	
Depreciation and amortisation expense	(26,917)	(775)	-	-	-	(61)	-	(27,753)	
Impairment losses taken to income statement	-	-	-	-	-	(361)	-	(361)	
Segment assets # *	104,865	33,180	131,187	31,697	128,231	181,945	-	611,105	
Total assets per the balance sheet								611,105	
Segment liabilities # *	110,608	26,593	80,456	-	-	203,949	(30,280)	391,326	
Total liabilities per the balance sheet								391,326	
Investments in associates	-	-	-	-	-	-	-	-	
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	67,458	-	87,770	-	132,399	-	-	287,627	

Investment and administration segment assets include cash on deposit.

* Base metals mining segment assets and segment liabilities include derivative financial instrument assets and liabilities.

notes to the financial statements

31 December 2010

76

3. Segment information (continued)

The segment information provided to the executive management team and the board of directors for the reportable segments for the six months ended 31 December 2009 is as follows:

	BASE METALS MINING					Consolidated \$000
	Broken Hill \$000	Beltana \$000	Exploration \$000	Investment & administration \$000	Adjustments & Eliminations \$000	
Total segment revenue	135,449	19,827	-	-	-	155,276
Other revenue/income	(3,470)	-	-	902	-	(2,568)
Reconciliation to total revenue (note 4 and 5)	131,979	19,827	-	902	-	152,708
EBIT	34,363	4,527	-	(510)	-	38,380
Reconciliation of EBIT to operating profit/(loss) for the period						
Interest revenue	-	-	-	902	-	902
Finance costs	(473)	-	-	(856)	-	(1,329)
Share of net losses of associates	-	-	-	-	-	-
Profit/(loss) before income tax	33,890	4,527	-	(464)	-	37,953
Income tax expense						(9,440)
Loss for the period						28,513
Depreciation and amortisation expense	(16,076)	(493)	-	(42)	-	(16,611)
Impairment losses taken to income statement	-	-	-	-	-	-
Segment assets #	82,564	33,228	17,628	160,914	-	294,334
Total assets per the balance sheet						294,334
Segment liabilities *	103,104	25,721	-	47,936	(27,238)	149,523
Total liabilities per the balance sheet						149,523
Investments in associates	-	-	-	-	-	-
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	77,933	15	-	-	-	77,948

Investment and administration segment assets include cash on deposit.

* Base metals mining segment liabilities include derivative financial instrument liabilities.

(c) Notes to and forming part of the segment information

(i) Segment revenue

There are no sales between segments. The revenue from external parties reported to the executive management team and board of directors is measured in a manner consistent with that in the income statement. Revenues from external customers are derived from the sale of zinc and lead concentrate on contract terms. Segment revenue reconciles to the total revenue in the above tables.

The entity is domiciled in Australia. The result of its revenue from external customers for Broken Hill is \$224,311,000 (31 December 2009: \$135,449,000), and the total revenue from external customers from Beltana is \$14,582,000 (31 December 2009: \$19,827,000). Segment revenues are allocated based on the site from which the base metal inventory is located.

(ii) EBIT

The executive management team and board of directors assess the performance of the operating segments based on a measure of EBIT. This measurement basis excludes the effect of tax from the operating segments. EBIT reconciles to profit or loss before income tax in the above tables.

(iii) Segment assets

The amounts provided to the executive management team and board of directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Investment in shares (classified as available for sale financial assets) held by the Group are included in the investment and administration segment. Segment assets reconcile to total assets in the above tables.

(vi) Segment liabilities

The amounts provided to the executive management team and board of directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. Segment liabilities reconcile to the total liabilities in the above tables.

	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
Notes		
4. Revenue		
<i>Sales revenue</i>		
Sale of goods	239,507	155,276
<i>Other revenue</i>		
Loss on ineffective hedging	(746)	(4,557)
Interest	4,772	902
Rent and sub-lease rentals	132	66
	243,665	151,687
5. Other income		
Net gain on disposal of property, plant and equipment	412	983
Net gain on disposal of available-for-sale financial assets	1,638	-
Other income	146	38
	2,196	1,021
6. Expenses		
Profit before income tax includes the following specific expenses:		
Depreciation:		
Buildings	40	12
Leasehold improvements	402	306
Plant and equipment	7,787	3,638
Total depreciation	8,229	3,956
Amortisation of mine properties	19,524	12,655
Total depreciation and amortisation expense	27,753	16,611
Impairment losses:		
Available-for-sale financial assets (notes 11)	361	-
Total impairment losses	361	-
Finance costs:		
Unwinding of discount on rehabilitation provision	(1,455)	164
Interest and finance charges paid/payable	2,783	1,165
Total finance costs	1,328	1,329

notes to the financial statements

31 December 2010

78

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
7. Income tax expense		
(a) Income tax expense/(benefit)		
Current tax (benefit)/expense	-	-
Deferred tax (benefit)/expense	(47,356)	9,440
Income tax (benefit)/expense	(47,356)	9,440
Deferred income tax (benefit)/expense included in income tax expense/(benefit) comprises		
(Increase)/decrease in deferred tax assets	15(b) (55,465)	(3,317)
(Decrease)/increase in deferred tax liabilities	15(d) 8,109	12,757
Deferred tax (benefit)/expense	(47,356)	9,440
(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit from operations before income tax expense	26,820	37,953
Tax at the Australian tax rate of 30% (2009: 30%)	8,046	11,386
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income		
Non deductible expenses	(169)	(283)
Non taxable gains	(297)	-
Share-based payments	56	36
Write-down/(write back) of deferred tax assets	(21,618)	(16,310)
Tax losses for which deferred tax assets has been recognised	(32,535)	-
Unused tax losses for which no deferred tax asset has been recognised	-	14,723
	(46,517)	9,552
Adjustments for current tax of prior periods	(839)	(112)
Income tax (benefit)/expense	(47,356)	9,440
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax credited directly to equity	1,562	9,440
(d) Tax losses		
Unused Australian revenue tax losses for which no deferred tax asset has been recognised	-	108,450
Unused Australian capital tax losses for which no deferred tax asset has been recognised	6,196	6,196
	6,196	114,646
Potential tax benefit @ 30%	1,859	34,394
Unused foreign tax losses for which no deferred tax asset has been recognised	19,215	803
Potential foreign tax benefit	3,396	241

As at 31 December 2010, Perilya's subsidiary in Canada has accumulated gross tax losses totalling \$14,929,000. Perilya does not consider it more likely than not that the deferred tax asset arising from part of these tax losses will be utilised and has therefore recorded an allowance of \$5,351,000. In accordance with the tax laws in Canada, these tax losses can be carried forward against future years' taxable income and will expire during the following years:

Year	\$'000
2014	821
2015	200
2026	1,286
2027	3,041
2028	3,567
2029	2,293
2030	3,721
	14,929

Perilya's subsidiary in the Dominican Republic has available gross tax losses carried forward totaling \$3,483,000, which will expire between 2011 and 2013 in accordance with the tax laws in the Dominican Republic.

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000

8. Current and Non-current assets - Cash and cash equivalents and restricted cash

(a) Total cash (current and non-current)

Cash at bank and in hand as per statement of cash flows	90,516	116,709
Add: Current – Restricted cash #	9,320	-
Add: Non-current - Restricted cash *	24,669	24,570
Cash at the end of the reporting period inclusive of restricted cash	124,505	141,279

* Non-current restricted cash comprises deposits that are used for monetary backing for performance guarantees and security for the environmental insurance policy related to the Cerro de Maimon mine.

Current restricted cash relates to GlobeStar's debt service reserve amount required as part of the secured loan facility with Nedbank and remaining funds in the Trust Bank Account for GlobeStar acquisition.

(b) Cash at bank and on hand

Cash at bank is deposited in trading accounts with major financial institutions under normal terms and conditions appropriate to the operations of the accounts. These deposits earn interest at rates set by these institutions and for the year ending 31 December 2010 the weighted average interest rate on these accounts was 1.26% (31 December 2009: 3.18%). Cash on hand is non-interest bearing.

(c) Interest rate risk exposures

Further details of the Group's exposure to interest rate changes on cash and cash equivalents are set out in the financial risk management note (note 29).

notes to the financial statements

31 December 2010

80

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
9. Current assets - Trade and other receivables		
Trade debtors (a)	29,077	17,592
Prepayments	1,967	4,006
Other debtors (d)	6,714	331
Total trade and other receivables	37,758	21,929

(a) Impaired trade receivables

As at 31 December 2010 receivables to the nominal value of \$135,000 were considered impaired and a provision of this amount exists against these receivables (31 December 2009: \$135,000). These receivables relate to the Group's Malaysian operations associated with dormant joint venture operations in that country.

(b) Past due but not impaired

Age analysis of both current and non-current receivables including past due but not impaired is set out in the financial risk management note (note 29).

(c) Fair value and foreign exchange, interest rate and credit risk

Information concerning fair value, foreign exchange, interest rate and credit risk of both current and non-current receivables is set out in the financial risk management note (note 29).

(d) Other debtors

Other debtors balance consists of various tax related receivables from the Dominican Tax Department; Canada and Quebec Revenue Department, and goods and services tax receivable from the Australian Tax Office.

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
10. Current assets – Inventories		
Current inventories		
Consumable supplies and spare parts, at cost	7,693	5,160
Less: Provision for obsolescence	(587)	(669)
	7,106	4,491
Zinc and lead ore, at cost	-	60
Zinc silicate ore, at cost	-	5,122
Copper ore, at cost	329	-
Zinc and lead concentrates, at net realisable value	3,330	7,395
Zinc and lead concentrates, at cost	1,628	878
Copper concentrates, at net realisable value	12,094	-
Total current inventories	24,487	17,946

(a) Inventory expense

Inventories recognised as expense during the year ended 31 December 2010 amounted to \$63,061,000 (31 December 2009: \$20,338,000).

The write down of inventories to net realisable value recognised as an expense during the year ended 31 December 2010 amounted to \$1,610,000 (31 December 2009: \$935,000) and is included in 'Changes in inventories of finished goods and work in progress' in the income statement.

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
At beginning of the year		10,078	11,420
Additions		-	-
Disposals		(7,297)	(1,425)
Impairment of securities (c)	6	(461)	-
Impairment of commercial paper (c)	6	100	-
Net revaluation (loss)/gain transferred to equity	25(a)	(122)	83
At end of the year		2,298	10,078
These available-for-sale financial assets comprise:			
Commercial paper (b)		1,500	8,697
Listed Australian equities		311	829
Unlisted overseas equities (a)		487	552
		2,298	10,078

(a) Unlisted securities

Unlisted securities are traded in inactive markets. Fair values for these assets are established using the methodologies outlined in accounting policy note 1(m).

(b) Commercial paper

Investments in commercial paper were classified under cash and cash equivalents as 'Deposits at call' in financial years prior to 2008, as it was considered to meet the definition of cash being a highly liquid investment, readily convertible into known amounts of cash and subject to insignificant risk of change in value. As a result of conditions experienced in financial markets during the 2008 reporting period, at the 30 June 2008 balance date the Group reclassified these deposits to available-for-sale and this classification is retained as at the 31 December 2010 reporting date.

(c) Impairment and risk exposure

In the reporting period ended 31 December 2010, upon review of evidence and an analysis being undertaken, management has concluded that \$361,000 of impairment losses have been recognised against available-for-sale financial assets (31 December 2009: nil). Previous losses have been recognised in the income statement.

For an analysis of the sensitivity of current available-for-sale financial assets to price and foreign exchange risk refer to note 29.

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
Financial assets at fair value through profit or loss are all held for trading and include the following:			
Listed overseas equities – arising from acquisition of GlobeStar		380	-
		380	-

12. Current assets – Financial assets at fair value through profit or loss

notes to the financial statements

31 December 2010

82

CONSOLIDATED
 12 months to 31 December 2010 \$000 6 months to 31 December 2009 \$000

13. Derivative financial instruments

Current assets

Forward metal sale contracts – cash flow hedges	4,885	-
Call options – held for trading	8,879	-
Total current derivative financial instrument assets	13,764	-
Total derivative financial instrument assets	13,764	-

Current liabilities

Forward metal sale contracts – held for trading	24,464	11,279
Forward metal sale contracts - cash flow hedges	4,474	11,436
Total current derivative financial instrument liabilities	28,938	22,715

Non-current liabilities

Forward metal sale contracts – held for trading	10,619	-
Total non-current derivative financial instrument liabilities	10,619	-
Total derivative financial instrument liabilities	39,557	22,715

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to future price and currency fluctuations in the primary commodity markets in which it operates. This is done in accordance with the Group's financial risk management policies (refer to note 29).

Forward metal sales contracts – cash flow hedges

The Group hedges movements in AUD metal prices on its anticipated sales of its zinc and lead products and hedges movements in USD base metal prices on its anticipated sales of its silver products. Contracts taken out with counterparties, to hedge this forward price/exchange risk, are timed to mature as closely as possible to when anticipated settlement of the sale is expected to occur.

These contracts are subject to the same risk management policies as all other derivative contracts (see note 29 for details).

At the 31 December 2010, these cash flow designated hedge contracts are in place over:

- 12,500 tonnes of anticipated zinc sales with settlements between January 2011 and April 2010;
- 15,000 tonnes of anticipated lead sales with settlements between January 2011 and June 2011; and
- 1,740,000 ounces of anticipated silver sales with settlement periods extending through to December 2012.

Certain silver hedge contracts included in the abovementioned relating to 1,350,000 ounces of anticipated silver sales do not qualify for hedging accounting and are classified above as held for trading. Therefore, movements in fair value of these contracts between inception and settlement are taken to the income statement.

Forward and call option contracts

The Group holds a combination of forward and call option contracts for copper covering a portion of the estimated copper production for the Cerro de Maimón Mine during the initial three years of operations. The remaining hedging program is in place over 1,058,208 pounds of copper. As the program includes long call options at an average strike price of US\$4.10 per pound of copper, it permits the Group to participate in price increases in the event that copper prices exceed the strike prices of the options.

The Group also holds a combination of forward and call option contracts for gold and silver covering most of the estimated production of these metals from the Cerro de Maimón Mine during the initial three years of operations. The remaining hedging program is in place over 5,100 ounces of gold and 48,000 ounces of silver. As the program includes long call options at a strike price of US\$800 per ounce for gold and US\$17.25 per ounce for silver, it permits the Group to participate in price increases in the event that gold or silver prices exceed the strike prices of the options.

Hedge book closure

For those contracts that were in place at the time the hedge book was closed out in August 2008, that portion of the gain or loss on those hedging instruments that were determined to be an effective hedge were recognised and retained directly in equity. These gains are being transferred from equity to the income statement in line with the periods for when the cash flows were originally contracted to occur.

During the year ended 31 December 2010, a gain of \$10,826,000 (31 December 2009: gain of \$20,723,000) in relation to the previously closed out metal sales forward and option contracts and forward currency option contracts was removed from equity and included in profit and loss.

(b) Risk exposures and cash flows associated with derivative instruments

Further information about exposure to (i) credit risk, price risk and foreign exchange risk; and (ii) liquidity risk related to undiscounted cash flow exposure from derivative contracts is provided at note 29.

CONSOLIDATED	
12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000

14. Non-current assets - Trade and other receivables

Other receivables	66	62
-------------------	-----------	----

Information relating to loans to and from related parties (controlled entities) is set out in note 34.

(a) Impaired receivable and past due but not impaired

None of the non-current receivables are impaired.

Age analysis of both current and non-current receivables including past due but not impaired is set out in the financial risk management note (note 29).

(b) Fair value and foreign exchange, interest rate and credit risk

Information concerning fair value, foreign exchange, interest rate and credit risk of both current and non-current receivables is set out in the financial risk management note (note 29).

CONSOLIDATED		
Notes	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000

15. Deferred Tax

Deferred tax asset	15(a)	73,949	14,451
Set-off of deferred tax liabilities pursuant to set off provisions		(25,030)	(14,451)
Net deferred tax asset		48,919	-
Deferred tax liability	15(c)	54,689	14,451
Set-off of deferred tax liabilities pursuant to set off provisions		(25,030)	(14,451)
Net deferred tax liability		29,659	-

notes to the financial statements

31 December 2010

84

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
15. Deferred Tax (continued)		
(a) The deferred tax asset balance comprises temporary differences attributable to:		
Mine properties in use	3,092	-
Provision for rehabilitation and restoration	6,290	5,964
Employee benefits	3,925	3,522
Accruals	1,765	2,688
Derivatives held for trading	7,014	2,039
Available-for-sale financial assets	3,491	6,034
Provision for obsolescence	176	201
Property, plant and equipment	9,297	11,709
Tax losses – Australia	34,243	-
Unrealised foreign currency losses	1,652	-
Derivatives	1,065	3,431
Other items	2,522	481
Deferred tax asset unable to be carried	(583)	(21,618)
Net deferred tax assets	73,949	14,451
Deferred tax assets to be recovered within 12 months	12,333	11,160
Deferred tax assets to be recovered after more than 12 months	61,616	3,291
Net deferred tax assets	73,949	14,451
(b) Movements in deferred tax asset:		
At the beginning of the year	14,451	7,703
Credited to the income statement	55,465	3,317
Credited/(charged) to equity - hedging reserve	(2,366)	3,431
Credited to equity – foreign currency translation reserve	1,652	-
Arising from acquisition of GlobeStar	4,901	-
Foreign exchange translation	(154)	-
At end of the year	73,949	14,451

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
15. Deferred Tax (continued)			
(c) The deferred tax liability balance comprises temporary differences attributable to:			
Receivables		84	51
Inventories		1,732	1,548
Derivatives		1,009	-
Derivatives held-for-trading		457	-
Mine properties in use		4,482	5,746
Exploration and evaluation		9,505	5,287
Treasury shares		343	391
Available-for-sale financial assets fair value		(25)	11
Other		2,744	1,417
Fair value adjustment on exploration and evaluation		32,234	-
Fair value adjustment on inventory		2,125	-
Net deferred tax liabilities		54,689	14,451
Deferred tax liabilities to be settled within 12 months		5,954	3,027
Deferred tax liabilities to be settled after more than 12 months		48,735	11,424
		54,689	14,451
(d) Movements in deferred tax liability			
At the beginning of the year		14,451	7,703
Charged to the income statement	7(a)	8,109	12,757
Charged/(credited) to equity – available-for-sale financial assets fair value reserve	25(a)	(36)	208
Charged to equity – hedging reserve		(2,240)	(6,217)
Arising from acquisition of GlobeStar		35,523	-
Foreign exchange translation		(1,118)	-
At end of the year		54,689	14,451
16. Non-current assets – Exploration, development and evaluation expenditure			
Cost or fair value at the beginning of the year		17,628	15,000
Expenditure incurred during the year		13,978	2,570
Capitalisation of depreciation related to exploration, development and evaluation assets	18 (a)	92	58
Arising from acquisition of GlobeStar	44	132,399	-
Foreign exchange translation		(4,169)	-
Cost or fair value at end of the year		159,928	17,628

notes to the financial statements

31 December 2010

86

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
17. Non-current assets - Mine properties in use			
Cost brought forward at the beginning of the year		250,115	176,331
Expenditure incurred during the year on existing properties (c)		31,781	73,784
Arising from acquisition of GlobeStar	44	87,376	-
Foreign exchange translation		(2,751)	-
Cost carried forward at the end of the year		366,521	250,115
<hr/>			
Amortisation and impairment brought forward at the beginning of the year		188,582	175,927
Amortisation for the year	6	19,524	12,655
Amortisation and impairment carried forward at the end of the year		208,106	188,582
Net book amount at the end of the year		158,415	61,533

(a) Impairment of capitalised value of mine properties in use and other assets

For 31 December 2010, the Broken Hill mine property and other associated assets were tested for impairment as outlined in note 1(i). The recoverable amount of a cash generating unit (CGU) is based on "value in use" (VIU) calculations. These calculations used discounted cash flow projections based on the financial budgets and the life of mine plan approved by management covering the Broken Hill mine life.

The primary assumptions underlying the cash flow projections include:

- Metal production volume over the mine life based on the approved financial budgets and life of mine plan;
- Metal prices and foreign exchange rates based on relevant long-term consensus adjusted to reflect management's expectations; and
- The pre-tax discount of 15.5% based on the weighted average cost of capital which is believed to reflect the risks specific to the asset.

Based on the impairment testing performed at 31 December 2010, the Broken Hill mine property and other associated assets were not impaired (31 December 2009: nil).

(b) Assets pledged as security

Refer to note 22 for information on non-current asset pledged as security by the company and its controlled entities.

(c) Silver buy back

In July 2009 Perilya paid an amount of \$67.1m (US\$55m) to Coeur to terminate the silver sale agreement that was executed in 2005. This payment, net of the remaining liability recorded at 30 June 2009, was capitalised to mine properties.

18. Non-current assets - Property plant and equipment

(a) Carrying amounts and movements of each class of property, plant and equipment

Reconciliation of the movement in the carrying values of classes of property, plant and equipment at the beginning and the end of each period covered by these financial statements are set out below:

Notes	Land & buildings \$000	Leasehold improvements \$000	Assets under construction \$000	Leased plant & equipment \$000	Other plant & equipment \$000	Total \$000
CONSOLIDATED						
At 30 June 2009						
At cost or fair value	7,658	1,550	281	36,982	106,109	152,580
Less: accumulated depreciation and impairment	(7,319)	(891)	-	(28,662)	(91,851)	(128,723)
Net book amount carried forward	339	659	281	8,320	14,258	23,857
Six months ended 31 December 2009						
Opening net book amount brought forward	339	659	281	8,320	14,258	23,857
Additions	-	-	2,253	-	1,912	4,165
Disposals	-	-	-	-	(139)	(139)
Depreciation/amortisation expense	6	(306)	-	(1,634)	(2,004)	(3,956)
Depreciation capitalised to 'Exploration, development and evaluation'	16	(12)	-	-	(46)	(58)
Other	-	-	-	-	10	10
Closing net book amount	315	353	2,534	6,686	13,991	23,879
At 31 December 2009						
At cost or fair value	7,658	1,550	2,534	35,615	107,549	154,906
Less: accumulated depreciation and impairment	(7,343)	(1,197)	-	(28,929)	(93,558)	(131,027)
Closing net book amount at 31 December 2009	315	353	2,534	6,686	13,991	23,879
Year ended 31 December 2010						
Opening net book amount brought forward	315	353	2,534	6,686	13,991	23,879
Additions	-	-	56,831	-	99	56,930
Disposals	-	-	-	(181)	(222)	(403)
Transfers in/(out) from assets under construction	212	51	(41,400)	3,451	5,905	(31,781)
Depreciation/amortisation expense	6	(402)	-	(3,320)	(4,467)	(8,229)
Depreciation capitalised to 'Exploration, development and evaluation'	16	(24)	-	-	(68)	(92)
Arising from acquisition of GlobeStar	-	57	-	84	140	281
Closing net book amount	463	59	17,965	6,720	15,378	40,585
At 31 December 2010						
At cost or fair value	7,870	1,658	17,965	38,579	108,538	174,610
Less: accumulated depreciation and impairment	(7,407)	(1,599)	-	(31,859)	(93,160)	(134,025)
Closing net book amount at 31 December 2010	463	59	17,965	6,720	15,378	40,585

(b) Assets pledged as security

Refer to note 22 for information on non-current asset assets pledged as security by the company and its controlled entities.

notes to the financial statements

31 December 2010

88

Notes	CONSOLIDATED	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000

19. Current liabilities - Trade and other payables

Trade creditors and accruals	46,460	32,741
Other payables	1,664	398
	48,124	33,139

(a) Risk exposure and fair value

Refer to note 29 for information regarding related risk exposure and fair value estimation.

20. Current liabilities - Borrowings

Secured

Finance leases	33(c)	2,016	3,735
Loan facility	(b)	27,708	-
Total secured current borrowings		29,724	3,735

Unsecured

Insurance funding liabilities		-	2,261
Loan facilities	(a)	120,952	55,190
Total unsecured current borrowings		120,952	57,451
Total borrowings		150,676	61,186

(a) Unsecured loan facilities

The USD \$49.5 million debt facility from the Bank of China was obtained in 2009 in order to fund the termination of the silver agreement with Coeur d'Alene Mines Corporation. On the anniversary date, being 31 July 2010, this facility has been extended for another year as per terms and conditions of the loan agreement. Interest charged on this facility is 1 month LIBOR plus a margin of 2.1% per annum. These funds have been provided via a guarantee facility granted by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd. The facility is not secured over any of the assets of Perilya.

A USD \$100 million long term facility from China Development Bank was obtained in 2010 to fund the acquisition of GlobeStar Mining. Up to 31 December 2010, USD \$91.2 million has been utilised. The term of this facility is five years with the principal repayable at 5%, 10%, 25%, 25% and 35% on 8 December in each year. The interest rate on this facility is 3 month LIBOR plus a margin of 3.3% per annum. These funds have been provided via a guarantee facility granted by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd. The facility is not secured over any of the assets of Perilya. The non-current portion of this loan is shown in note 22.

In addition, a USD \$49.5 million working capital facility from Bank of China and USD \$40m working capital facility from China Development Bank were obtained in 2010. The term of these working capital facilities is one year. As at 31 December 2010, there is USD \$20 million undrawn working capital facility from China Development Bank and this will expire at the end of May 2011. The interest rate of the Bank of China facility is 3-month LIBOR plus a margin of 1.45% per annum, and that of the China Development Bank facility is 3-month LIBOR plus a margin of 2.5% per annum. These funds have been provided via a guarantee facility granted by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd. The facility is not secured over any of the assets of Perilya.

(b) Secured loan facility

The secured loan facility relates to the newly acquired subsidiary GlobeStar Mining Corporation's USD \$45million senior debt facility with Nedbank of South Africa. It has an annual interest rate of LIBOR floating rate plus 300 basis points. The term of the facility ends on 31 December 2013 with total USD \$9.4 million principal repayable during each of the year in 2011, 2012 and 2013. The facility is secured by all of the assets of GlobeStar. The company is subject to the requirement to fund, at each quarterly principal payment date, a debt service reserve account in an amount equal to the aggregate amount of principal and interest on the facility projected to become due during the following six-month period. As at 31 December 2010, the company fully funded the debt service reserve account in the amount of USD \$5,148,646 and this is classified as current restricted cash (see note 8). As per note 38, this loan facility was repaid in full on 10 March 2011.

As a result of Perilya's acquisition, this loan has been classified as current in accordance with its facility agreement.

(c) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 29.

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
21. Current liabilities - Other			
Employee benefits - annual leave (a)		7,372	6,727
		7,372	6,727

(a) Amounts not expected to be settled within the next 12 months

Since the Group does not have an unconditional right to defer settlement, annual leave provisions are presented as current.

22. Non-current liabilities - Borrowings**Secured**

Finance leases	33(c)	1,706	864
Total secured non-current borrowings		1,706	864

Unsecured

Loan facility	20(a)	84,276	-
Total unsecured non-current borrowings		84,276	-
Total borrowings		85,982	864

(a) Assets pledged as security

While the parent entity goes guarantor over finance leases entered into by subsidiaries in Australia, these lease liabilities are effectively secured by the asset financed as the rights to the leased assets recognised in the financial statements revert to the lessor or financier in the event of default. At the end of the year the assets securing lease liabilities have a carrying value of \$6,636,000 (31 December 2009: \$6,686,000).

(b) Risk exposures

Details of the Group's exposure to risks arising from interest rate changes are set out in note 29.

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
23. Non-current liabilities - Provisions			
Employee benefits - long service leave		5,713	5,013
Restoration and rehabilitation*		21,087	19,879
		26,800	24,892

* The expected expenditure is to be minimal during the next 12 months with the significant proportion of the provision to be expended at the end of mine life.

notes to the financial statements

31 December 2010

90

Notes	RESTORATION & REHABILITATION	
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000

23. Non-current liabilities - Provisions (continued)

(a) Movements in provisions

Movements in each class of provision, other than employee benefits, are set out below:

Consolidated

Carrying amount at start of the year		19,879	19,807
Unwinding of discount		(1,455)	164
Amounts used during the year		(259)	(92)
Arising from acquisition of GlobeStar	44	3,017	-
Foreign exchange translation		(95)	
Carrying amount at the end of the year		21,087	19,879

12 months to 31 December 2010 Shares	CONSOLIDATED		6 months to 31 December 2009 Shares
	12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000	

24. Contributed equity

(a) Share capital and movement

Opening balance of issued and fully paid shares	526,075,563	394,554,640	211,195	157,048
Rights issue	-	131,520,923	-	55,239
Less: transaction costs arising from shares issued	-	-	(46)	(1,092)
Dividend re-investment plan issues (c)	-	-	-	-
Options exercised from employee share option plan issues (d)	-	-	-	-
Closing balance at the end of the year of issued and fully paid shares	526,075,563	526,075,563	211,149	211,195
Opening balance of treasury shares (e)	(1,585,148)	(1,794,836)	(2,170)	(2,761)
Treasury shares purchased	-	-	-	-
Perilya ESAP shares issued to participants	838,957	209,688	1,029	591
Closing balance at the end of the year of treasury shares	(746,191)	(1,585,148)	(1,141)	(2,170)
Total consolidated contributed equity	525,329,372	524,490,415	210,008	209,025

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(c) Dividend reinvestment plan

The company has established a dividend reinvestment plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of shares. The issue of these shares may, at the discretion of the company, be satisfied by either the issue of new ordinary shares, or by on market purchase and transfer, to eligible participants. Further details can be found at note 28.

(d) Options

Information relating to the Perilya Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the reporting period and options outstanding at the end of the reporting period are set out in note 42.

(e) Treasury shares

Treasury shares are shares held in the Perilya Employee Share Acquisition Plan Trust for the purpose of issuing shares under the Perilya Employee Share Acquisition Plan (ESAP) (see note 42 for further information). The movement in these shares is set out under section (a) of this note.

(f) Capital risk management

Information on the Group's and the parent entities objectives when managing capital are provided at note 29.

	Notes	CONSOLIDATED	
		12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
25. Reserves			
Available-for-sale financial assets fair value reserve		(61)	25
Share-based payments reserve		3,026	3,694
Hedging reserve - cash flow hedges		(132)	(427)
Foreign currency translation reserve		(3,853)	-
		(1,020)	3,292
(a) Movements			
<i>Available-for-sale financial assets fair value reserve</i>			
Balance at the beginning of the year		25	(462)
Revaluation		(122)	84
Plus/(less): Deferred tax on revaluation	15(d)	36	(25)
Transfer to net profit		-	611
Plus/(less): Deferred tax on transfer	15(d)	-	(183)
Balance at the end of the year		(61)	25
<i>Share-based payments reserve</i>			
Balance at the beginning of the year		3,694	3,828
Option expense		198	120
ESAP shares expensed		163	337
Issue of shares held by Perilya ESAP Trust to employees	24(a)	(1,029)	(591)
Funding of acquisition of shares by the Perilya ESAP Trust		-	-
Balance at the end of the year		3,026	3,694
<i>Hedging reserve – cash flow hedges</i>			
Balance at the beginning of the year		(427)	22,085
Revaluation – gross		26,593	(11,437)
Plus/(less): Deferred tax on revaluation		(7,978)	3,431
Transfer to net profit – gross		(26,172)	(20,723)
Less: Deferred tax on transfer		7,852	6,217
Balance at the end of the year		(132)	(427)
<i>Foreign currency translation reserve</i>			
Balance at the beginning of the year		-	-
Foreign currency translation		(3,853)	-
Balance at the end of the year		(3,853)	-

notes to the financial statements

31 December 2010

92

25. Reserves (continued)

(b) Nature and purpose of reserves

(i) Available-for-sale financial assets fair value reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale financial assets fair value reserve, as described in note 1(m). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the fair value of options issued to employees but not yet vested;
- the fair value of shares issued to employees but not yet vested and held by the Perilya Employee Share Acquisition Plan Trust; and
- the issue of shares held by the Perilya Employee Share Acquisition Plan Trust to employees.

(iii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains and losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iv) Foreign currency translation reserve

The foreign currency translation reserve is used to record currency differences arising from the translation of the financial statements of foreign operations.

CONSOLIDATED	
12 months to 31 December 2010	6 months to 31 December 2009
\$000	\$000

26. Retained earnings

Movements in retained earnings were as follows:

Balance of accumulated losses at the beginning of the year	(67,506)	(96,019)
Net profit for the year	74,176	28,513
Balance at the end of the year	6,670	(67,506)

27. Non-controlling interests

Interests in:

Share capital	4,121	-
	4,121	-

28. Dividends

(a) Dividends paid on ordinary shares

During the year ended 31 December no dividends have been paid.

(b) Dividends not recognised at year end

Subsequent to the end of the current reporting period end the directors have decided against payment of a final dividend for the year ended 31 December 2010.

(c) Perilya Dividend Reinvestment Plan

The Perilya Dividend Reinvestment Plan ("DRP") was approved by shareholders on 29 November 2006 and applies in respect of eligible dividends payable on participating shares at the record date of payment of the dividend.

Participation in the DRP is optional and, to commence, amend or cease participation in the DRP, shareholders are required to complete and duly lodge the required application form by the date, and within the terms and conditions, set by the directors for the specified dividend. Shares issued to participants may be either new shares or shares acquired on market for transfer to participants.

In line with non-payment of a final dividend for the reporting period ended 30 June 2008 the directors resolved to suspend the company's DRP until further notice.

CONSOLIDATED

12 months to 31 December 2010 \$000	6 months to 31 December 2009 \$000
---	--

(d) Franked dividends

The franked portions of the dividends recommended after 31 December 2010 will be franked out of existing franking credits.

Franking credits available for subsequent financial years based on a tax rate of 30% (31 December 2009: 30%)	56,857	56,857
--	---------------	--------

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the provision for income tax;
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

In line with the non-payment of a final dividend for the year ending 31 December 2010 there will be no reduction in the franking account balance disclosed above (31 December 2009: nil).

29. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk, in the normal course of its business. The Group therefore has an overall risk management program that focuses on the unpredictability of financial and metal commodity markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed including sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. The Group then uses derivative financial instruments such as forward metal, forward metal option and forward foreign exchange option contracts to hedge certain risk exposures.

Financial risk management is carried out by the finance area of the Group, under policies approved by the Board of Directors with identification, evaluation and hedging of financial and commodity price risks being undertaken in close co-operation with the Group's operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as use of derivative financial instruments and investment of excess liquidity.

notes to the financial statements

31 December 2010

94

CONSOLIDATED
 12 months to 31 December 2010 \$000 6 months to 31 December 2009 \$000

29. Financial risk management (continued)

The Group holds the following financial instruments:

Financial assets

Cash and cash equivalents and restricted cash	124,505	141,279
Trade and other receivables	35,791	21,991
Available-for-sale financial assets	2,298	10,078
Held-for-trading financial assets	380	-
Derivative financial instruments	13,764	-
	176,738	173,348

Financial liabilities

Trade and other payables	48,124	33,139
Borrowings	236,658	62,050
Derivative financial instruments	39,557	22,715
	324,339	117,904

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. While the Group primarily operated through the year nationally it is exposed to foreign exchange risk as it sells its metal products in US dollars on the international market and maintains a USD denominated bank account and has USD denominated trade debtor transactions. As such a strongly appreciating Australian dollar or rapidly weakening US dollar environment, or an ongoing volatile AUD/USD environment, exposes the Group to risks related to the movements in the AUD/USD exchange rate. These risks are measured using sensitivity analysis and cash flow forecasting and to manage this risk the Group uses forward metal contracts denominated in AUD to limit the exposure to foreign exchange risk.

Additionally the Group is exposed to foreign exchange risk in relation to:

- investments in available-for-sale financial assets denominated in foreign currencies (see also note 11);
- foreign currency transactions for operations in Canada and the Dominican Republic where USD is the functional currency; and
- foreign currency transactions for exploration and evaluation activities in Malaysia.

Investments in available-for-sale financial assets are generally made for strategic reasons and while investments can be material, risks related to movements in the AUD relative to the exchange rate of the denominated currency of the investment are not actively managed.

In relation to amounts denominated in Malaysian Ringgit (RM), foreign currency accounts are maintained at minimum levels and are aligned with approved expenditure programmes. As these amounts are considered immaterial, risks related to movements in the AUD/RM exchange rate are also not actively managed.

As at the reporting date exposures to foreign currency risk for financial instruments expressed in AUD, are as follows:

Financial assets

	31 DECEMBER 2010			31 DECEMBER 2009 ^(*)
	USD \$000	CAD \$000	DR Peso \$000	USD \$000
Cash and cash equivalents and restricted cash	76,536	7,214	1,019	17,742
Receivables	20,372	812	1,702	15,297
Financial and other assets	487	380	-	495
	97,395	8,406	2,721	33,534

Financial liabilities

Payables	2,446	3,033	5,489	70
Loan Facility	204,853	-	-	49,500
	207,299	3,033	5,489	49,570

* No CAD and DR Peso in prior year.

Sensitivity

The following table summarises the sensitivity of financial instruments held at balance date to movement in the exchange rates with all other variables held constant. The 10% sensitivity is based on management's estimate of reasonably possible changes over a financial year.

	IMPACT ON PROFIT CONSOLIDATED		IMPACT ON EQUITY CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000	31 December 2010 \$000	31 December 2009 \$000
Pre-tax gain/(loss)				
AUD/USD +10%	1,881	1,676	(44)	(50)
AUD/USD -10%	(2,299)	(2,048)	54	61
USD/CAD +10%	(488)	-	-	-
USD/CAD -10%	597	-	-	-
USD/DR Peso +10%	252	-	-	-
USD/DR Peso -10%	(308)	-	-	-

The Group's exposure to other foreign exchange movements is not material.

(ii) Price risk – metal commodity price risk

The Group is exposed to commodity price risk for its primary metal products. These risks are measured using sensitivity analysis and cash flow forecasting and to manage:

- Exposures arising from provisional revenue amount which is to be finalised at the end of quotation period; and
- Exposures arising from the forward and call option commodity price hedging contracts.

The Group's policy is to hedge no more than 70% of anticipated zinc sales and no more than 70% of lead sales in the subsequent 18 months. Balance date exposures and further details of current commodity price derivative operations are provided at note 13. When necessary these contracts may be rolled over into new contracts at maturity, subject to counterparty credit approval.

notes to the financial statements

31 December 2010

96

29. Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk – metal commodity price risk (continued)

Sensitivity

The following table summarises the sensitivity of the fair value of instruments held at balance date to movements in the relevant forward commodity price, with all other variables held constant. The 20% sensitivity is based on management's estimate of reasonably possible changes over a financial year.

	IMPACT ON PROFIT CONSOLIDATED		IMPACT ON EQUITY CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000	31 December 2010 \$000	31 December 2009 \$000
Pre-tax gain/(loss)				
<i>20% increase in:</i>				
Zinc forward price	1,092	(1,578)	(2,683)	(10,967)
Lead forward price	950	-	(5,081)	(9,127)
Copper forward price	2,856	-	-	-
Gold forward price	356	-	-	-
Silver forward price	(7,596)	(6,147)	(1,609)	-
<i>20% decrease in:</i>				
Zinc forward price	(1,573)	1,578	2,683	10,967
Lead forward price	(942)	-	5,081	9,127
Copper forward price	(2,316)	-	-	-
Gold forward price	(356)	-	-	-
Silver forward price	7,604	6,147	1,609	-

(iii) Price risk – available-for-sale financial assets

The Group is also exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale. The majority of investments held by the Group are (i) publicly traded on the Australian Stock Exchange (ASX) and (ii) have been made for strategic rather than trading purposes.

Investments in available-for-sale assets are made in accordance with policies approved by the Board of Directors, which limit exposure of the Group to equity market risk by limiting capital invested in both (i) the market, and (ii) individual equity exposures. The Group does not use any form of derivative instruments to hedge this price risk and at 31 December 2010 this amount was immaterial.

(iv) Interest rate risk

Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates that will lead to opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. The Group's aim is to minimise interest rates.

The Group's main exposure to changes in interest rates is in relation to that on its borrowing facility, which is based on 3 month LIBOR or 1 month LIBOR. The Group's policy in respect to borrowings is to limit debt exposure to the minimum required for operational purposes and wherever possible to utilise financing terms that enable management to fix the interest rate for 1, 2 or 3 months at a time.

The Group does not enter into any hedge/interest rate swap instruments to manage interest rate risk exposure.

CONSOLIDATED			
31 DECEMBER 2010		31 DECEMBER 2009	
\$000	Weighted average interest rate %	\$000	Weighted average interest rate %

As at the end of the year the Group's interest rate risk exposure, and the Group's weighted average interest rate for each class of financial assets and liabilities was:

Financial assets (at fixed interest rate or fair value)

Cash, cash equivalents & restricted cash	124,505	1.26	141,279	2.15
Available-for-sale financial assets	1,500	3.19	10,078	3.36
	126,005		151,357	

Financial liabilities (at variable interest rate)

Borrowing facilities	232,936	2.86	55,190	3.13
	232,936		55,190	

Financial liabilities (at fixed interest rate)

Insurance funding	-	-	2,261	2.07
Finance leases	3,722	7.73	4,599	5.45
Total liabilities	236,658		62,050	

Sensitivity

If interest rates were to move by 1% with all other variables held constant then the pre tax impact on the Group's profit would be a movement of \$1,107,000 (31 December 2009: \$893,000).

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted under a financial instrument resulting in a financial loss to the Group and arises from deposits with banks and financial institutions, derivative financial instruments as well as credit exposures to customers including outstanding receivables and committed transactions.

While the Group has policies in place to ensure that sales of its products are made to customers with an appropriate credit history it does have a concentration of credit risk in relation to its primary metal sales due to its dependence for a significant volume of its sales revenues on a few principal buyers. Sales to these customers are made in accordance with contractual protocols with each transaction secured via recognised bank instruments that are ultimately settled in cash. Additionally goods are sold subject to retention of title clauses related to payment so that in the event of non-payment the Group may have a secured claim.

All customers have been existing customers for more than six months and there have been no defaults in the past. In accordance with AASB 7 this would meet the requirements of group 2 counterparties, the Group had no new customers (group 1) or customers with defaults (group 3).

In relation to managing other potential credit risk exposures, the Group has in place policies that aim to ensure that derivative counterparties and cash transactions are limited to high credit quality financial institutions (as indicated by appropriate credit ratings determined by recognised ratings agencies) and that the amount of credit exposure to any one financial institution is limited as far as is considered commercially appropriate.

notes to the financial statements

31 December 2010

98

CONSOLIDATED
 12 months to
 31 December 2010
 \$000

6 months to
 31 December 2009
 \$000

29. Financial risk management (continued)

(b) Credit risk (continued)

The maximum exposure to credit risk at the reporting date was as follows:

Current

Cash and cash equivalents	90,516	116,709
Restricted cash	9,320	-
Trade receivables	29,077	17,592
Other receivables – other entities	6,714	4,337
Available-for-sale financial assets	1,500	8,697
Derivative instruments	13,764	-

Non-current

Restricted cash	24,669	24,570
Trade receivables	66	62

TOTAL 31 December 2010 \$000	RECEIVABLES AGING ANALYSIS BETWEEN		
	<30 days \$000	30-60 days \$000	>60 days \$000 ⁽¹⁾

The ageing of current receivables at the reporting date was as follows (see also notes 9 and 14):

31 December 2010**Consolidated**

Trade receivables	29,077	15,858	5,840	7,379
Other receivables	6,714	1,924	-	4,790
Total receivables	35,791	17,782	5,840	12,169

Note 1: The Group's normal terms related to product sales allows close out of invoicing to extend beyond 60 days therefore, as at the date of this report, no receivables for the 31 December 2010 reporting period are classified as 'past due not impaired'.

TOTAL 31 December 2009 \$000	RECEIVABLES AGING ANALYSIS BETWEEN		
	<30 days \$000	30-60 days \$000	>60 days \$000 ⁽¹⁾

31 December 2009**Consolidated**

Trade receivables	17,592	9,391	5,307	2,894
Other receivables	331	9	31	291
Total receivables	17,923	9,400	5,338	3,185

Note 1: The Group's normal terms related to product sales allows close out of invoicing to extend beyond 60 days therefore, as at the date of this report, no receivables for the 31 December 2009 reporting period are classified as 'past due not impaired'.

Credit risk further arises in relation to financial guarantees given to certain parties – see note 43 for details.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not meet its financial obligations as they fall due. Prudent liquidity risk management therefore implies that, under both normal and stressed conditions, the Group maintains:

- sufficient cash and marketable securities;
- access to, or availability of, funding through an adequate amount of committed credit facilities; and
- the ability to close-out any open market positions.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows; matching maturity profiles of financial assets and liabilities; and by maintaining flexibility in funding including ensuring that surplus funds are generally only invested in instruments that are tradeable in highly liquid markets or that can be relinquished with minimal risk of loss.

Financing arrangements

The Group has US\$20 million undrawn working capital facilities from China Development Bank expiring at the end of May 2011 at the reporting date (31 December 2009: nil).

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	< 1 year \$000	Between 1-5 years \$000	Total contractual cash flow \$000
31 December 2010 - Consolidated			
Non-derivatives			
Payables	48,124	-	48,124
Interest Bearing	156,487	97,055	253,542
Lease liabilities	2,016	1,706	3,722
Total non-derivatives	206,627	98,761	305,388
Derivatives			
Forward metal sales contracts – held for trading	24,463	10,619	35,082
Forward metal sales contracts – Cash flow hedges	4,474	-	4,474
Total derivatives	28,937	10,619	39,556
31 December 2009 - Consolidated			
Non-derivatives			
Interest bearing	57,451	-	57,451
Lease liabilities	3,735	864	4,599
Total non-derivatives	61,186	864	62,050
Derivatives			
Forward metal sales contracts – held for trading	11,279	-	11,279
Forward metal sales contracts – Cash flow hedges	11,392	45	11,436
Total derivatives	22,671	45	22,715

For both the reporting period ended 31 December 2010 and the comparative period the Group had no contractual liabilities that would result in cash flows extending beyond a 5 year time frame.

notes to the financial statements

31 December 2010

29. Financial risk management (continued)

(d) Fair value disclosures

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Perilya Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities, (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), (level2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs), (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2010 and 31 December 2009:

	CONSOLIDATED - as at 31 December 2010			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Trade receivables	-	29,077	-	29,077
Derivative financial instruments				
Call options – held for trading	-	8,879	-	8,879
Forward metal sales contracts – cash flow hedges	-	4,885	-	4,885
Held-for-trading financial assets				
Equity securities	380	-	-	380
Available-for-sale financial assets				
Commercial paper	-	1,500	-	1,500
Equity securities	311	-	487	798
Total assets	691	44,341	487	45,519
Liabilities				
Derivative financial instruments				
Forward metal sales contracts – held for trading	-	35,082	-	35,082
Forward metal sales contracts – cash flow hedges	-	4,474	-	4,474
Total liabilities	-	39,556	-	39,556

	CONSOLIDATED - as at 31 December 2009			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Available-for-sale financial assets				
Commercial paper	-	8,697	-	8,697
Equity securities	829	-	552	1,381
Total assets	829	8,697	552	10,078
Liabilities				
Derivative financial instruments				
Forward metal sales contracts – held for trading	-	11,279	-	11,279
Forward metal sales contracts – cash flow hedges	-	11,392	-	11,392
Total liabilities	-	22,671	-	22,671

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Derivative financial instruments are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Commercial paper is fair valued using dealer quotes for and assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in level 2.

The following table presents the changes in level 3 instruments for the year:

	CONSOLIDATED	
	Available for sale equity securities 31 December 2010 \$000	Available for sale equity securities 31 December 2009 \$000
Opening balance	552	610
Losses recognised in other comprehensive income	(65)	(58)
Closing balance	487	552

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The carrying values (less impairment provision if provided) of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The carrying value of financial liabilities approximates their fair values which, for disclosure purposes, are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(e) Capital risk management

The Group manages its capital so as to retain a strong capital base to sustain the future development of the business and to ensure that the Group, will be able to continue to provide returns for shareholders as well as maintaining investor, creditor and market confidence.

Total capital is calculated as equity as shown in the balance sheet (including non-controlling interests) plus debt.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group continuously reviews the capital structure to ensure that:

- sufficient finance for the Group is maintained and at a reasonable cost;
- sufficient funds are available to meet capital expenditure and ongoing operational requirements; and
- distributions to shareholders can be met within stated dividend policy requirements.

There were no changes to the Group's approach to capital management during the reporting period.

Beyond any covenants disclosed elsewhere in these notes, neither the parent entity nor any of its subsidiaries within the Group are subject to externally imposed capital requirements.

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
Total borrowings	236,658	62,050
Less: Cash and cash equivalents	(90,516)	(116,709)
Net debt	146,142	(54,659)
Total equity	219,779	(144,811)
Total capital	365,921	90,152

notes to the financial statements

31 December 2010

30. Key management personnel disclosures

(a) Directors

The following persons were directors of Perilya Limited during the financial year:

(i) Chairman – Non-executive

Zhang Shuijian

(ii) Executive director

Paul Arndt

(iii) Non-executive directors

Patrick O'Connor (Deputy Chairman)

Peter Harley

Wang Wen

Han Minzhi

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the reporting period or for the periods of employment as indicated:

Name	Position	Employer
Tim Manners (resigned)	Chief Financial Officer (1 January 2010 to 31 July 2010)	Perilya Management Limited
Paul Marinko	Company Secretary & General Counsel	Perilya Management Limited
Andrew Lord	General Manager – Broken Hill	Perilya Broken Hill Limited
Angelo Christou	Chief Financial Officer (from 1 August 2010)	Perilya Management Limited
Peter Trout	General Manager – Projects & Acquisitions (from 1 August 2010)	Perilya Management Limited

CONSOLIDATED ⁽¹⁾
31 December 2010 31 December 2009
 \$000 \$000

(c) Key management personnel compensation

Short-term employee benefits	2,819,661	1,676,912
Post-employment benefits	151,313	104,737
Share-based payments	184,537	163,209
	3,155,511	1,944,858

(1) The data in this table is sourced from Tables 3 and 4 of the remuneration report which can be found on page 42 - 43.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 4(a) of the remuneration report on pages 42 to 55.

(ii) Options holdings

The number of options over ordinary shares in the company held during the financial year by each director of Perilya Limited and other key management personnel of the Group, including their personally related parties, are set out below:

31 December 2010	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes #	Balance at end of the reporting period #	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
Directors of Perilya Limited								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	3,000,000	1,089,092	-	-	(1,000,000)	3,089,092	1,000,000	2,089,092
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
Other key management personnel								
Tim Manners (resigned)	2,000,000	-	-	-	(2,000,000)	-	-	-
Paul Marinko	1,050,000	464,029	-	-	(350,000)	1,164,029	350,000	814,029
Andrew Lord	1,050,000	535,962	-	-	(350,000)	1,235,962	350,000	885,962
Angelo Christou	-	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-	-

For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the reporting period' column. These personnel may have either forfeited these options on leaving or, where options have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their options, the balances in the 'Balance at end of the reporting period column' indicate the individuals options holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

No options are vested and un-exercisable at the end of the reporting period.

31 December 2009	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes #	Balance at end of the reporting period #	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
Directors of Perilya Limited								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	3,000,000	-	-	-	-	3,000,000	1,000,000	2,000,000
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
Other key management personnel								
Tim Manners	2,000,000	-	-	-	-	2,000,000	900,000	1,100,000
Paul Marinko	1,050,000	-	-	-	-	1,050,000	350,000	700,000
Andrew Lord	1,050,000	-	-	-	-	1,050,000	350,000	700,000
Bruce Byrne	1,100,000	-	-	-	(50,000)	1,050,000	350,000	700,000

For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the reporting period' column. These personnel may have either forfeited these options on leaving or, where options have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their options, the balances in the 'Balance at end of the reporting period column' indicate the individuals options holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

notes to the financial statements

31 December 2010

30. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) Shares provided as remuneration

Details of shares provided as remuneration under the Perilya ESAP, together with terms and conditions, can be found at section 4(c) of the remuneration report on page 52.

(iv) Share holdings ⁽¹⁾

The numbers of shares in the company held during the reporting period by each director of Perilya Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

31 December 2010 Name	Balance at the start of the reporting period	Received during the reporting period on exercise of options	Other changes during the reporting period ⁽²⁾	Balance at the end of the reporting period
Directors of Perilya Limited				
Zhang Shuijian ⁽³⁾	-	-	-	-
Paul Arndt	127,742	-	240,698	368,440
Patrick O'Connor	-	-	-	-
Han Minzhi	-	-	-	-
Peter Harley	100,000	-	-	100,000
Wang Wen	-	-	-	-
Other key management personnel				
Tim Manners (resigned)	71,822	-	(71,822)	-
Paul Marinko	19,869	-	-	19,869
Andrew Lord	22,925	-	-	22,925
Angelo Christou	-	-	-	-
Peter Trout	-	-	-	-

(1) This table excludes unvested ESAP related share holdings still held in the Plan as these shares are controlled by the Trust and still subject to the recipient satisfying specified service conditions. Vested ESAP shares are included in 'Other changes' as while still held in the Plan the recipient now has an unconditional right to receive those shares. For details related to employer share remuneration received by key management personnel, under the Perilya ESAP, see Table 12 of the directors' report on page 52. For further detail on the operations of the plan see note 42.

(2) Other changes may include reductions, for disclosure purposes only, for those directors and key management personnel who have left the company – therefore the balance at year end for that person cannot be taken to be indicative of whether or not an interest is still retained in those shares.

(3) Mr Zhang, by virtue of his directorship in Zhongjin, is taken to have held 273,557,884 shares in Perilya Limited. However, this is not shown in the table.

31 December 2009 Name	Balance at the start of the reporting period	Received during the reporting period on exercise of options	Other changes during the reporting period ⁽²⁾	Balance at the end of the reporting period
Directors of Perilya Limited				
Zhang Shuijian ⁽³⁾	-	-	-	-
Paul Arndt	22,763	-	104,979	127,742
Patrick O'Connor	-	-	-	-
Han Minzhi	-	-	-	-
Peter Harley	15,000	-	85,000	100,000
Wang Wen	-	-	-	-
Other key management personnel				
Tim Manners	54,883	-	16,939	71,822
Paul Marinko	1,861	-	18,008	19,869
Andrew Lord	-	-	22,925	22,925
Bruce Byrne	58,396	-	2,572	60,968

- (1) This table excludes unvested ESAP related share holdings still held in the Plan as these shares are controlled by the Trust and still subject to the recipient satisfying specified service conditions. Vested ESAP shares are included in 'Other changes' as while still held in the Plan the recipient now has an unconditional right to receive those shares. For details related to employer share remuneration received by key management personnel, under the Perilya ESAP, see Table 12 of the directors' report on page 52. For further detail on the operations of the plan see note 42.
- (2) Other changes may include reductions, for disclosure purposes only, for those directors and key management personnel who have left the company – therefore the balance at the end of the reporting period for that person cannot be taken to be indicative of whether or not an interest is still retained in those shares.
- (3) Mr Zhang, by virtue of his directorship in Zhongjin, is taken to have held 273,557,884 shares in Perilya Limited. However, this is not shown in the table.

notes to the financial statements

31 December 2010

30. Key management personnel disclosures (continued)

(v) Performance rights

In October 2007 shareholders approved the implementation of the Perilya Long Term Incentive Share Plan which is used to remunerate key management personnel and other executives via the issuing of rights over Perilya Limited shares which then vest over set periods dependent on specified performance hurdles been met.

The numbers of performance rights in the company held during the reporting period by each director of Perilya Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

31 December 2010 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes #	Balance at end of the reporting period or on leaving the company #	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
Directors of Perilya Limited								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	-	-	-	-	-	-	-	-
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
Other key management personnel								
Tim Manners (resigned)	81,500	-	-	-	(81,500)	-	-	-
Paul Marinko	15,900	-	-	-	-	15,900	-	15,900
Andrew Lord	-	-	-	-	-	-	-	-
Angelo Christou	-	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-	-

For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the year' column. These personnel may have either forfeited these performance rights on leaving or, where rights have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their performance rights, the balances in the 'Balance at end of the year column' indicate the individuals performance rights holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

31 December 2009 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes #	Balance at end of the reporting period or on leaving the company #	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
Directors of Perilya Limited								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	-	-	-	-	-	-	-	-
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
Other key management personnel								
Tim Manners	81,500	-	-	-	-	81,500	-	81,500
Paul Marinko	15,900	-	-	-	-	15,900	-	15,900
Andrew Lord	-	-	-	-	-	-	-	-
Bruce Byrne	18,800	-	-	-	-	18,800	-	18,800

For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the year' column. These personnel may have either forfeited these performance rights on leaving or, where rights have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their performance rights, the balances in the 'Balance at end of the year column' indicate the individuals performance rights holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

Further information on the plan can be found in sections 4(b) of the remuneration report on pages 51 and note 42 of these financial statements.

(e) Loans to key management personnel

There were no loans made, outstanding or repaid by any directors or other key management personnel during the reporting period (2009: nil).

(f) Other transactions with key management personnel

Apart from details as disclosed above, in the remuneration report on pages 42 to 55 and in note 34 (detailing related party transactions), there were no other transactions with directors or other key management personnel during the reporting period.

notes to the financial statements

31 December 2010

108

CONSOLIDATED
31 December 2010 31 December 2009
\$000 \$000

31. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Assurance services

Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial statements and other audit work under the Corporations Act 2001	248,566	116,118
Deloitte Canadian firm		
Audit and review of financial statements and other audit work	219,222	-
Total remuneration for audit services	467,788	116,118
Other assurance services		
PricewaterhouseCoopers Australian firm		
Other services	-	11,750
Total remuneration for other assurance services	-	11,750
Total remuneration for assurance services	467,788	127,868

(b) Taxation services

PricewaterhouseCoopers Australian firm		
Tax compliance services	55,000	37,665
Tax advice on potential acquisitions	460,287	35,800
Total remuneration for taxation services	515,287	73,465

(c) Transactional services

PricewaterhouseCoopers Australian firm		
Transactional services on potential acquisitions	440,514	-
Total remuneration for transactional services	440,514	-

The Group employs PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally taxation services where PricewaterhouseCoopers acts as the Group's taxation agent and in relation to provision of general corporate advice. It is the Group's policy to seek competitive tenders for all major consulting projects.

32. Contingencies

There were no known contingent assets or liabilities which were not provided for in the financial statements of the Group as at 31 December 2010, other than:

(a) Contingent liabilities

Disputes

In July 2010, Pacific Basin IHC (IHC) gave notice of its intent to refer a dispute under an expired shipping contract between Perilya and IHC to arbitration under the terms of that contract's dispute resolution procedures. Whilst each party has nominated arbitrators pursuant to their respective rights under the shipping contract and the nominated Arbitrators have appointed a third arbitrator to Chair the panel, as at the date of this report, and despite repeated requests from the Panel for it to do so, IHC have yet to lodge any actual claim in the proceedings. Accordingly, it is not practicable at this stage to estimate either the nature of the claim or the likelihood or the quantum of any potential liability.

CONSOLIDATED

31 December 2010	31 December 2009
\$000	\$000

33. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

Property, plant and equipment

Commitments in relation to capital expenditure contracted for, but not provided for are payable as follows:

Within one year	3,963	1,730
Later than one year but not later than five years	-	-
Later than five years	-	-
Total capital commitments	3,963	1,730

(b) Lease commitments – non-cancellable operating leases

Operating leases

Commitments in relation to non-cancellable operating leases contracted for at the reporting date, but not recognised as liabilities payable:

Within one year	540	306
Later than one year but not later than five years	856	336
Total lease commitments	1,396	642

The operating lease reflected relate to Perilya's head office located at 661 Newcastle Street, Leederville, Perth; GlobeStar's head office located at 18 King Street, East Toronto; hire of mobile underground equipment at Broken Hill and hire of vehicles at Canada.

During the year ended 31 December 2010, \$440,000 was recognised as an expense in the income statement in respect of operating leases (31 December 2009: \$381,000).

(c) Lease commitments – finance leases

The Group enters finance leases with various financial institutions as a means of funding the acquisition of some property, plant and equipment. Lease payments are fixed and have no escalation clauses and under the contractual terms of the agreements the Group retains the equipment on completion on the agreed repayment schedule between the Group and the financier or has the option to acquire the leased assets for agreed fair values on the expiry of the leases.

CONSOLIDATED

Notes	31 December 2010	31 December 2009
	\$000	\$000

Commitments in relation to finance leases are payable as follows:

Within one year	2,216	3,965
Later than one year but not later than five years	1,795	884
	4,011	4,849
Less: future finance charges	(287)	(250)
Total recognised as a liability	3,724	4,599

Representing lease liabilities:

Current	20	2,016	3,735
Non-current	22	1,706	864

The weighted average interest rate implicit across all finance leases is 7.71% (31 December 2009: 5.45%).

(d) Exploration expenditure commitments

Discretionary exploration expenditure relating to existing mineral tenements is as follows:

Within one year	21,550	20,921
-----------------	---------------	--------

notes to the financial statements

31 December 2010

33. Commitments (continued)

(d) Exploration expenditure commitments (continued)

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State and national governments under whose jurisdiction the Group's tenements reside.

As at 31 December 2010 the Group maintains current rights of tenure to tenements which require estimated expenditure outlays for 2011 of \$8.4 million on exploration tenements (31 December 2009: \$7.8 million); and \$13.2 million on the Broken Hill mine tenements (31 December 2009: \$13.2million).

Ongoing expenditure obligations exist until such time as the tenement is relinquished. Under certain circumstances these obligations are subject to the possibility of adjustment to the amount and/or timing of such obligations, however, they are expected to be fulfilled in the normal course of operations. Further outlays in respect of tenements will continue beyond 2010 however the amount is impractical to quantify. These obligations are not provided for in the financial statements.

34. Related party transactions

(a) Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 35), joint ventures (see note 37) and with its key management personnel (see notes 30 and 42).

(b) Transactions with ultimate parent

The ultimate Australian parent entity within the Group is Perilya Limited. The ultimate controlling party is Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd ("Zhongjin Lingnan" – incorporated in China) which at 31 December 2010 owns 52% of the issued ordinary shares of Perilya Limited (31 December 2009: 52%)

In July 2010, the consolidated group extended the USD\$49.5m debt facility from the Bank of China in order to fund the termination of the silver agreement with Coeur d'Alene Mines Corporation for another year.

In addition, the consolidated group utilised the facility of USD\$49.5m from Bank of China for working capital purpose in December 2010.

The above Bank of China facilities have been provided via guarantee facility granted by Zhongjin Lingnan for which Perilya is charged 0.6% per annum. The guarantee fees charged for the year ended 31 December 2010 totalled \$344,200.

During the year, the consolidated group also obtained a USD\$100m long term facility to fund the acquisition of GlobeStar Mining Corporation and USD\$40m working capital facility from the China Development Bank. These funds have been provided via guarantee facility granted by Zhongjin Lingnan.

In December 2009, the Company announced the successful completion of its 1 for 3 non-renounceable rights issue. As a participant of the rights issue Zhongjin Lingnan subscribed to 65,890,666 shares in Perilya Limited for consideration of \$27,674,080. As part of an underwriting agreement between Perilya Limited and Zhongjin Lingnan, Zhongjin was issued with an additional 9,995,217 shares in Perilya Limited for consideration of \$4,197,991. Perilya paid Zhongjin an underwriting fee of 2.75% of the value of the shortfall securities issued totalling \$115,445.

(c) Transactions with state-owned banks

Perilya's ultimate parent, Zhongjin Lingnan, is 39.23% owned by the People's Republic of China ("PRC") Government. Therefore Perilya is subject to significant influence from the PRC Government. The PRC Government controls a number of state-owned banks in China. Therefore transactions with these state-owned banks are regarded as related party transactions.

The significant transactions with the state-owned banks are as follows:

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
<i>Bank of China</i>		
Bank balances and deposits	48,577	4,604
Bank loans	96,642	55,190
Interest expense on bank loans	1,266	245
<i>China Development Bank</i>		
Bank loans	108,586	-
Interest expense on bank loans	319	-

(d) Subsidiaries

Interests in subsidiaries are set out in note 35.

(e) Key management personnel and remuneration benefits

Disclosures relating to key management personnel including information on remuneration are disclosed in note 30 and information related to option transactions and performance rights are disclosed in note 42.

(f) Transactions with related parties

There were no transactions between related parties during 2010 (2009: nil).

35. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and controlled entities in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			31 December 2010 %	31 December 2009 %
Perilya Broken Hill Pty Ltd*	Australia	Ordinary	100	100
Perilya Daisy Milano Pty Ltd	Australia	Ordinary	100	100
Perilya Exploration Pty Ltd (formerly Ranger Minerals Pty Ltd)	Australia	Ordinary	100	100
Perilya Investments Pty Ltd (formerly Kolmar Pty Ltd)	Australia	Ordinary	100	100
Noble Mining Corporation Pty Ltd	Australia	Ordinary	100	100
Perilya Flinders Pty Ltd (formerly Freehold Mining Ltd)*	Australia	Ordinary	100	100
Perilya Management Pty Ltd (formerly Strike Energy Pty Ltd)	Australia	Ordinary	100	100
Riverpoint Holdings Pty Ltd	Australia	Ordinary	100	100
Powerform Investments Pty Ltd	Australia	Ordinary	100	100
Richview Investments Pty Ltd	Australia	Ordinary	100	100
Mt Oxide Pty Ltd	Australia	Ordinary	100	100
Perilya Employee Share Acquisition Plan - Tax Deferred Trust	Australia	-	100	100
Perilya (Malaysia) Sdn Bhd	Malaysia	Ordinary	100	100
Perilya Canada Pty Ltd	Canada	Ordinary	100	-
GlobeStar Mining Corporation	Canada	Ordinary	97.77	-
TGW Corp. Inc	Canada	Ordinary	97.77	-
Sarmin Exploration Corp.	Canada	Ordinary	97.77	-
Corporacion Minera Dominicana S.A.	Dominican Republic	Ordinary	97.77	-

* These subsidiaries have been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information see note 36.

36. Deed of cross guarantee

Perilya Limited, Perilya Broken Hill Limited and Freehold Mining Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Perilya Limited, they also represent the 'Extended Closed Group'.

notes to the financial statements

31 December 2010

36. Deed of cross guarantee (continued)

(a) Consolidated income statement and a summary of movements in consolidated retained profits

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the reporting period ended 31 December 2010 of the Closed Group consisting of Perilya Limited, Perilya Broken Hill Limited and Freehold Mining Ltd.

	CLOSED GROUP	
	31 December 2010 \$000	31 December 2009 \$000
INCOME STATEMENT		
Revenue from continuing operations	238,893	150,785
Other income	2,187	1,021
Changes in inventories of finished goods and work in progress	(8,505)	(2,919)
Raw materials, power and consumables used	(56,320)	(26,684)
Employee benefits expense	(40,504)	(21,117)
Depreciation and amortisation expense	(27,692)	(16,569)
External services and consultants	(36,063)	(15,023)
Freight and handling	(22,976)	(17,520)
Royalties	(6,934)	(4,927)
Foreign exchange loss	(6,306)	(2,022)
Impairment losses	(361)	-
Other expenses from ordinary activities	(10,317)	(7,143)
Finance costs	1,064	(473)
Profit before income tax	26,166	37,409
Income tax benefit	65,662	2,459
Profit for the period attributable to members of Perilya Limited	91,828	39,868
SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED PROFITS		
Accumulated losses at the beginning of the period	(121,512)	(161,380)
Profit for the period	91,828	39,868
Accumulated losses at the end of the period	(29,684)	(121,512)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 31 December 2010 of the Closed Group.

	CLOSED GROUP	
	31 December 2010 \$000	31 December 2009 \$000
ASSETS		
Current assets		
Cash and cash equivalents	77,810	116,619
Trade and other receivables	23,728	21,693
Inventories	10,145	17,946
Available-for-sale financial assets	1,811	9,526
Derivative financial instruments	4,885	-
Total current assets	118,379	165,784
Non-current assets		
Restricted cash	24,570	24,570
Trade and other receivables	7,407	522
Other financial assets	230,232	51,972
Exploration, development and evaluation expenditure	9,352	1,302
Mine properties in use	73,789	61,533
Property, plant and equipment	40,307	23,883
Deferred tax assets	67,158	-
Total non-current assets	452,815	163,782
Total assets	571,194	329,566
LIABILITIES		
Current liabilities		
Trade and other payables	104,815	122,673
Borrowings	144,814	61,186
Provisions	7,120	6,495
Derivative financial instruments	14,608	22,715
Total current liabilities	271,357	213,069
Non-current liabilities		
Borrowings	85,923	864
Provisions	23,838	24,826
Derivative financial instruments	10,619	-
Total non-current liabilities	120,380	25,690
Total liabilities	391,737	238,759
Net assets	179,457	90,807
EQUITY		
Contributed equity	211,149	209,024
Reserves	(2,008)	3,295
Retained profits	(29,684)	(121,512)
Total equity	179,457	90,807

notes to the financial statements

31 December 2010

37. Interests in joint ventures

Companies within the economic entity are participants in the following joint ventures as at 31 December 2010. The joint ventures are not separate legal entities, they are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenue or profit. The percentage interests at each reporting date may vary depending on the monies expended by the joint venturers. The Group's percentage interests in future output if all the venturers fulfil their obligations to the joint ventures are as follows:

Joint venture	Location	Principal activity	% Holding	
			31 December 2010	31 December 2009
Coultra ⁽¹⁾	NSW	Base metal exploration	51	80
Greenshire ⁽¹⁾	NSW	Base metal exploration	90	90
Stirling Vale ⁽¹⁾	NSW	Base metal exploration	51	70
Beltana Corridor ⁽¹⁾	SA	Base metal exploration	85	85
Blinman (Minotaur) ⁽¹⁾	SA	Base metal exploration	80	80
Mt Frome ⁽¹⁾	SA	Base metal exploration	90	90
Reaphook ⁽¹⁾	SA	Base metal exploration	85	85
Aroona ⁽¹⁾	SA	Base metal exploration	80	80
Malaysia Wide ⁽²⁾	Malaysia	Gold and base metal exploration	50	50
Ranau ⁽²⁾	Malaysia	Gold and base metal exploration	50	50
Dee Range ⁽¹⁾	QLD	Gold and base metal exploration	90	90
Ulam Range ⁽¹⁾	QLD	Gold and base metal exploration	90	90
Moblan West ⁽²⁾	Canada	Lithium exploration	60	-
Moblan East ⁽²⁾	Canada	Lithium exploration	60	-
Kanowna	WA	Gold exploration	76	76
Rustenberg ⁽²⁾	South Africa	Platinum group metals exploration	52	52

(1) Indicates the interest in the joint venture is controlled by Perilya Limited or its associated subsidiary and is not jointly controlled.

(2) Indicates jointly controlled ventures – see note (a)

(a) Jointly controlled assets

The Group's aggregate interests in the assets employed in its joint venture operations are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
Current assets		
Receivables	24	5
Other	-	1
Total current assets	24	6
Non-current assets		
Exploration and evaluation expenditure	39,647	199
Property, plant and equipment	30	30
Total non-current assets	39,677	229
Total assets	39,701	235

The contingent liabilities and commitments in respect thereto are referred to in notes 32 and 33.

38. Events occurring after the End of the reporting period

Subsequent to the acquisition of 97.77% interest in GlobeStar Mining Corporation, a TSX listed company, as disclosed in note 44, on 10 January 2011, Perilya successfully completed the 100% takeover of GlobeStar Mining Corporation.

On 10 March 2011, Perilya repaid the US\$28.3 million GlobeStar debt facility to Nedbank of South Africa. In addition, Perilya also closed out the GlobeStar hedge book by paying US\$4.9 million to Nedbank of South Africa.

Since the end of 31 December 2010, Perilya has been in discussions with several financial institutions regarding restructuring current borrowings and is currently evaluating various proposals.

39. Reconciliation of profit after income tax to net cash flow from operating activities

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
Profit for the year	74,176	28,513
Depreciation and amortisation	27,754	16,611
Non-cash share-based payments employee benefits expense	361	457
Net exchange differences	(7,042)	211
(Gain)/loss on sale of 'available-for-sale financial assets'	(1,277)	612
(Gain)/loss on sale of plant and equipment	(412)	(983)
Change in operating assets and liabilities		
Decrease/(increase) in trade debtors	(4,192)	4,294
Decrease/(increase) in other debtors	(854)	133
Decrease/(increase) in inventories	7,801	2,516
Decrease/(increase) in prepayments	3,506	(1,775)
Increase/(decrease) in trade creditors and other payables	2,718	(899)
Increase/(decrease) in provisions	(367)	878
Increase/(decrease) in tax assets and liabilities	(47,356)	9,440
Decrease/(increase) in hedge assets and liabilities	(1,662)	(9,621)
Net cash inflow from operating activities	53,154	50,387

40. Non-cash investing and financing activities

Acquisition of plant and equipment on finance leases	3,451	-
--	--------------	---

41. Earnings per share

(a) Basic earnings per share

	CONSOLIDATED	
	31 December 2010 cents	31 December 2009 cents
Profit attributable to the ordinary owners of the company	14.1	7.2

(b) Diluted earnings per share (e)

Profit attributable to the ordinary owners of the company	14.1	7.1
---	-------------	-----

notes to the financial statements

31 December 2010

41. Earnings per share (continued)

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary owners of the company used in calculating basic and diluted earnings per share	74,176	28,513

	CONSOLIDATED	
	31 December 2010	31 December 2009
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used in the denominator in calculating basic earnings per share	524,991,452	398,624,460
Adjustments for calculation of diluted earnings per share		
Unlisted options (e)	-	789,946
Weighted average number of ordinary shares and potential ordinary shares used in the denominator in calculating diluted earnings per share	524,991,452	399,414,406

(e) Information concerning the classification of securities

Treasury shares (as disclosed in note 24) are deducted from total shares on issue for the purposes of calculating earnings per share.

Options granted to employees under the Perilya Limited Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive for the period ended 31 December 2010.

Performance rights, first issued in October 2007 (see notes 30 and 42) and granted to employees under the Perilya Long Term Share Incentive Plan, are considered to be potential ordinary shares but, as they do not vest for a minimum of 3 years from issue date, at this stage they will not impact in the determination of diluted earnings per share. Performance rights have not been included in the determination of basic earnings per share.

42. Share-based payments

(a) Employee options plans (approved by shareholders in November 2006 and November 2009)

Options have been granted to employees under 2 established options plans ("the plans"), namely the old Perilya Limited 2000 Employee Incentive Scheme ("the incentive scheme") and its subsequent replacement, the Perilya Limited Employee Share Option Plan ("the current plan"), which was approved by shareholders at the 2003 annual general meetings and re-affirmed at the 2006 and the 2009 annual general meetings. Staff eligible to participate in the schemes, over the relevant periods, have been, or are, generally those at senior management level and above (including executive and non-executive directors) or those employees considered eligible to participate by the Board or its delegated committee.

Set out below are current balance summaries of options granted under the plans, as at 31 December 2010:

Grant date	Expiry date	Exercise price	Note	Balance at start of the reporting period Number	Granted during the reporting period Number	Exercised during the reporting period Number	Lapsed/ cancelled during the reporting period Number	Expired Number	Balance at the end of the reporting period Number	Exercisable at the end of the reporting period Number
<i>31 Dec 2010</i>										
28-Mar-06	07-Mar-11	\$2.47	(i)	300,000	-	-	(300,000)	-	-	-
28-Mar-06	07-Mar-12	\$2.67	(i)	100,000	-	-	(100,000)	-	-	-
28-Mar-06	07-Mar-13	\$2.97	(i)	100,000	-	-	(100,000)	-	-	-
17-Jul-06	17-Jul-11	\$3.46	(i)	300,000	-	-	-	-	300,000	300,000
17-Jul-06	17-Jul-12	\$3.89	(i)	100,000	-	-	-	-	100,000	100,000
17-Jul-06	17-Jul-13	\$4.32	(i)	100,000	-	-	-	-	100,000	100,000
26-Nov-08	30-Sep-10	\$0.50	(i)	2,550,000	-	-	(500,000)	(2,050,000)	-	-
26-Nov-08	30-Sep-11	\$0.58	(i)	2,550,000	-	-	(500,000)	-	2,050,000	2,050,000
26-Nov-08	30-Sep-12	\$0.73	(i)	2,550,000	-	-	(500,000)	-	2,050,000	-
04-Jun-10	31-Mar-14	\$0.87	(i)	-	2,589,721	-	-	-	2,589,721	-
Total				8,650,000	2,589,721	-	(2,000,000)	(2,050,000)	7,189,721	2,550,000
Weighted average exercise price				\$0.91	\$0.87	-	\$1.12	\$0.50	\$0.96	\$1.21

Grant date	Expiry date	Exercise price	Note	Balance at start of the reporting period Number	Granted during the reporting period Number	Exercised during the reporting period Number	Lapsed/ cancelled during the reporting period Number	Expired Number	Balance at the end of the reporting period Number	Exercisable at the end of the reporting period Number
<i>31 Dec 2009</i>										
20-Aug-04	20-Aug-09	\$0.88	(i)	50,000	-	-	-	(50,000)	-	-
31-May-05	16-May-11	\$1.13	(i)	-	-	-	-	-	-	-
31-May-05	16-May-12	\$1.26	(i)	-	-	-	-	-	-	-
28-Mar-06	07-Mar-11	\$2.47	(i)	300,000	-	-	-	-	300,000	300,000
28-Mar-06	07-Mar-12	\$2.67	(i)	100,000	-	-	-	-	100,000	100,000
28-Mar-06	07-Mar-13	\$2.97	(i)	100,000	-	-	-	-	100,000	-
17-Jul-06	17-Jul-11	\$3.46	(i)	300,000	-	-	-	-	300,000	300,000
17-Jul-06	17-Jul-12	\$3.89	(i)	100,000	-	-	-	-	100,000	100,000
17-Jul-06	17-Jul-13	\$4.32	(i)	100,000	-	-	-	-	100,000	100,000
26-Nov-08	30-Sep-10	\$0.50	(i)	2,550,000	-	-	-	-	2,550,000	2,550,000
26-Nov-08	30-Sep-11	\$0.58	(i)	2,550,000	-	-	-	-	2,550,000	-
26-Nov-08	30-Sep-12	\$0.73	(i)	2,550,000	-	-	-	-	2,550,000	-
Total				8,700,000	-	-	-	(50,000)	8,650,000	3,450,000
Weighted average exercise price				\$0.91	-	-	-	\$0.88	\$0.91	\$1.20

Notes: (i) Issued under the Perilya Limited Employee Share Option Plan 2003 (as re-ratified in November 2006 and November 2009)

notes to the financial statements

31 December 2010

42. Share-based payments (continued)

(a) Employee options plans (approved by shareholders in November 2006 and November 2009) (continued)

There were no options exercised during the year ended 31 December 2010. There were no options exercised during the reporting period ended 31 December 2009.

The weighted average remaining contractual life of share options outstanding at the end of the year was 2.24 years (31 December 2009: 2.02 years).

Fair value of options granted

2,589,721 options with an exercise price of \$0.87 were granted during the year ended 31 December 2010 (31 December 2009: nil).

Details of options provided as remuneration and shares issued the exercise of such options, together with terms and conditions of the options, can be found in section 4(a) of the remuneration report on pages 42 to 55.

(b) Employee Share Acquisition Plan

The Perilya Limited Employee Share Acquisition Plan (ESAP) was implemented in August 2006 to acquire shares on-market for the benefit of employees. All Australian resident permanent employees (including key management personnel but excluding non-executive directors) of the Group are eligible to participate and employees may elect not to participate in the scheme.

The Trust has been consolidated in accordance with note 1(b).

Under the terms of the ESAP, employees receive an initial one-off free allocation of shares, equal to 10% of their annual salary. In addition, employees may elect to purchase additional shares by way of salary sacrifice, and the Group will match the employee's contributions, dollar for dollar, up to a further 10% of the employee's annual salary.

Except under certain specified conditions, shares acquired in the ESAP are generally subject to restrictions of up to two years from the date of purchase. Shares which have not met the vesting conditions (other than shares purchased using an employee's before-tax salary contributions) are forfeited if the employee leaves Perilya.

Employer funded shares that have not yet vested at reporting date are shown as treasury shares in the consolidated financial statements, see note 24(e).

The fair value of shares allocated under the Plan, is the allocation price at the date of issue within the Plan to employees and is calculated based on a five day volume weighted average price for Perilya's shares (PEM) on the ASX for the 5 trading days immediately preceding the allocation.

The expense of these shares is recognised over the vesting period and the expense for the reporting period is included in 'Employee benefits expense' in the income statement (see note (d) below).

Where shares are allocated to employees of subsidiaries within the Group, the subsidiaries compensate the parent entity for the fair value of these shares.

All shares acquired under the ESAP are held by the plan's Trustee, CPU Share Plans Pty Ltd (and managed by Computershare Limited) for the benefit of employees. All shares acquired in the plan are purchased on-market by the Trustee and are entitled to dividends and voting rights. Voting rights are exercised by the Trustee on behalf of the employee as beneficiaries to the plan.

On 1 September 2008 the ESAP was suspended. As at the date of this report grants already provided under ESAP have satisfied all vesting conditions.

(c) Performance rights - Perilya Long Term Incentive Share Plan (LTIP)

At the company's Annual General Meeting in October 2007, shareholders approved the Perilya Long Term Incentive Share Plan. This incentive plan is the current long term incentive plan used to remunerate senior executives of the Group, including key management personnel identified elsewhere in this report. This plan was introduced (as an alternative to the Employee Share Option Plan) to provide a plan, which:

- provides annual awards;
- is dependent on performance hurdles;
- which measures performance against total shareholder returns ("TSR"); and which
- strengthens the link to shareholder value creation.

Rights issued over Perilya Limited shares, under this plan are issued for no consideration.

On 1 September 2008 the LTIP was suspended and is presently under review by the Remuneration and Nominations Committee. Accordingly, the LTIP will likely be terminated and wound-up in due course.

During the reporting period no grants of performance right were made (31 December 2009: nil).

Fair value and conditions attaching to grants of performance rights

The table below shows details on fair values of performance rights granted as at 31 December 2010 along with other keys terms and conditions.

Grant date	Allocation date for grant	Fair value per right at grant date ⁽¹⁾	Vesting date	Performance condition for vesting to occur ²	Vesting	Application of retesting	Expiry date
10 Dec 2007	10 Dec 2007	\$1.15	30 Sept 2010	If Perilya TSR performance equals or exceeds 50th comparator group percentile for relevant period then rights vest based on a sliding scale	Full vesting occurs if Perilya's TSR is at, or exceeds, 75th percentile of comparator group scaling down on straight line basis to 50% vesting for median performance	Initial testing occurs after 3 years with retesting at the 4th and 5th years	5 years from the date the rights are granted

(1) Fair value was calculated using a binomial option pricing model, at the time of the grant, using a 70% volatility rate and an interest rate of 10%.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	31 December 2010 \$000	31 December 2009 \$000
Employee share acquisition plan expense	163	337
Options issued under employee options plan	198	120
Performance rights issued under employee share incentive plan	-	-
	361	457

notes to the financial statements

31 December 2010

120

PARENT ENTITY	
31 December 2010	31 December 2009
\$000	\$000

43. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Statement of Financial Position

Current assets	78,719	111,469
Total assets	393,786	188,460
Current liabilities	147,075	73,557
Total liabilities	231,352	73,557
<i>Shareholders' equity</i>		
Contributed equity	211,149	211,195
Reserves		
Available-for-sale financial assets fair value reserve (net of tax)	(14)	26
Share-based payments reserve	1,886	1,525
Business combination reserve (net of tax)	(3,746)	-
Accumulated losses	(46,841)	(97,843)
	162,434	114,903
Profit/(loss) for the year	51,002	(801)
Total comprehensive income	47,216	(274)

(b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities	-	-
---	---	---

While the parent entity goes guarantor over finance leases entered into by subsidiaries in Australia, these lease liabilities are effectively secured by the asset financed as the rights to the leased assets recognised in the financial statements revert to the lessor or financier in the event of default. At the end of the reporting period the assets securing lease liabilities have a carrying value of \$6,636,000 (31 December 2009: \$6,686,000).

Perilya Limited has an unsecured guarantee of payment, given to an unrelated party, with respect to wholly owned Australian subsidiary dealings in relation to derivative contracts for the sale, purchase, swap and lease of metals on spot and forward transactions and for foreign exchange option transactions. As at 31 December 2010 the extent of this guarantee amounts to \$20,633,000 (31 December 2009: \$22,715,000). This guarantee may give rise to liabilities in the parent entity if the subsidiary does not meet their obligations under the terms of the guarantee.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2010 or 31 December 2009. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant and equipment

The parent entity did not have any contractual commitments for acquisition of property, plant and equipment as at 31 December 2010 or 31 December 2009.

44. Business combination

Acquisition of GlobeStar Mining Corporation ("GMI")

On 13 December 2010, pursuant to a Take-over Bid, Perilya Limited ("Perilya" or "PEM") acquired 97.77% of the voting shares of GlobeStar Mining Corporation ("GMI"), a company registered and headquartered in Toronto and publicly listed on the Toronto Stock Exchange ("TSX").

The acquisition of GMI gives Perilya immediate access to a low cost operating project producing copper, gold and silver with a seven year mine life and potential to increase both mine life and production rate. It delivers geographical diversification through the addition of an operating asset outside Australia and also provides a presence in the Latin America region and a Spanish speaking exploration team with regional experience.

GMI's prime assets are the low cost Cerro de Maimon copper-gold-silver project and an extensive portfolio of exploration tenements covering base metals and nickel in the Dominican Republic and 60% ownership of the Moblan lithium development project in Quebec, Canada.

The total cost of the business combination was \$180.7 million.

The initial accounting for the acquisition of GMI has been determined provisionally at 31 December 2010 as the acquisition date is the year-end date, therefore Perilya is still undertaking an assessment of the fair values of the assets, liabilities and contingent liabilities of GMI.

The provisional fair value of the identifiable assets and liabilities of GMI as at the date of acquisition were:

	Note	Recognised provisionally on acquisition \$000	Carrying value \$000
Cash and cash equivalent		13,027	13,027
Restricted cash		5,231	5,231
Financial assets – held for trading		393	393
Receivables		12,711	12,711
Prepayments		1,514	1,514
Inventory		14,806	7,177
Property, plant and equipment		291	291
Mine properties	17	87,376	87,376
Exploration, evaluation expenditure	16	132,399	11,469
Deferred tax assets		-	4,901
Long-term deposits		103	103
		267,851	144,191
Payables		11,837	11,837
Income tax payable		3,259	3,259
Borrowings		28,708	28,708
Derivatives		5,627	5,627
Provisions	23	3,017	3,017
Deferred tax liabilities		30,623	48
		83,071	52,496
Fair value of identifiable net assets		184,780	
Less: Non-controlling interest 2.23%		(4,120)	
Fair value of identifiable net assets of controlling interest		180,660	
Goodwill arising on acquisition		-	
		180,660	
Cost of business combination			
Cash		180,660	
Cash outflow on business acquisition			
Cash consideration		180,660	
Net cash acquired with the subsidiary		(13,027)	
Net consolidated cash outflow		167,633	

The fair value of acquired trade receivables is \$5.6m. The gross contractual amount due is \$5.6m, of which nil is expected to be uncollectible.

Direct costs of \$1.3 million relating to the acquisition have been recognised as external services and consultant expense in the profit and loss for the year ended 31 December 2010.

From the date of acquisition, the GMI has contributed Nil to the revenue or net profit of Perilya for the year ended 31 December 2010.

Had the acquisition of GMI been completed on the first date of the financial year, Group revenue for the year would have been \$330.8 million and Group net profit would have been \$85.9 million.

directors' declaration

31 December 2010

In the directors' opinion:

- (a) the financial statements and notes set out on pages 52 to 121 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of their performance for the reporting period ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on pages 37 to 55 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 36 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 36.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Zhang Shuijian

Chairman

Perth, Western Australia

29 March 2011

independent auditor's report to the members of Perilya limited



Independent auditor's report to the members of Perilya Limited

Report on the financial report

We have audited the accompanying financial report of Perilya Limited (the company), which comprises the statement of financial position as at 31 December 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Perilya Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers, ABN 52 780 433 757
 QV1, 250 St Georges Terrace, PERTH WA 6000, GPO BOX D198, PERTH WA 6840
 DX 77 Perth, Australia
 T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

independent auditor's report to the members of Perilya limited

124



Independent auditor's report to the members of Perilya Limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Perilya Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 42 to 55 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Perilya Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry
Partner

Perth
29 March 2011

ASX additional information

to the members of Perilya Limited

Additional information required by the Australian Stock Exchange Limited listing rules and not disclosed elsewhere in this report is set out below. The information was applicable as at 15 March 2011.

Distribution of Equity Securities

There were 874 holders of less than a marketable parcel of ordinary shares. The number of shareholders by size of holding is set out below:

Size of Holding (Ordinary Shares)	Number of shareholders	Number of unlisted option holders	Number of unlisted performance rights participants
Less than 1,000	1,146	-	-
1,001 to 5,000	2,671	-	-
5,001 to 10,000	1,255	-	-
10,001 to 100,000	1,659	-	3
More than 100,000	147	6	-
TOTAL	6,878	6	3

Substantial Shareholders

An extract of the company's register of substantial shareholders (who held 5% or more of the issued capital) is set out below:

Shareholder	Number of Shares	Percentage Held %
Zhongjin Lingnan Mining (HK) Company Limited	273,557,884	52.00
L1 Capital Pty Ltd	36,977,020	7.03

Top 20 Shareholders

The top 20 largest shareholders are listed below:

Shareholder	Number of Shares	Percentage Held %
Zhongjin Lingnan Mining (HK) Company Limited	273,557,884	52.00
J P Morgan Nominees Australia Limited	47,004,152	8.93
J P Morgan Nominees Australia Limited <Cash Income A/C>	25,531,938	4.85
HSBC Custody Nominees (Australia) Limited	24,503,507	4.66
National Nominees Limited	21,293,984	4.05
Cogent Nominees Pty Limited	10,285,604	1.96
Citicorp Nominees Pty Limited	7,104,681	1.35
CPU Share Plans Pty Limited <Perilya Employee Share Acquisition Plan>	2,442,564	0.46
Citicorp Nominees Pty Limited <CWLTH SMALL CO FD 9 A/C>	2,097,657	0.40
Le Grand Pty Ltd	2,065,000	0.39
Yandal Investments Pty Ltd	2,000,000	0.38
Mr Eric Arthur Hopgood & Mr Owen William Hopgood	1,821,334	0.35
Forbar Custodians Limited <Forsyth Barr Ltd – Nominee A/C>	1,525,668	0.29
Warbont Nominees Pty Ltd <Settlement Entrepot A/C>	1,389,652	0.26
Phillip Securities (Hong Kong) Ltd <Client A/C>	1,265,591	0.24
Mr Timothy Ryan & Mrs Pamela Violet Ryan	1,250,000	0.24
HSBC Custody Nominees (Australia) Limited – GSCO ECA	1,053,820	0.20
Inter City Development Corporation Pty Ltd	995,000	0.19
UBS Nominees Pty Ltd	938,373	0.18
Krystal Holdings Pty Ltd <Shar Super Fund A/C>	917,139	0.17
TOTAL	429,043,548	81.56

ASX additional information

to the members of Perilya Limited

Voting Rights

Ordinary Shares

For all ordinary shares, voting rights are on a show of hands whereby every member present in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

Options

There are no voting rights attached to options.

Performance Rights

There are no voting rights attached to performance rights.

Unlisted Share Options

The company has 7,189,721 employee options on issue with exercise prices between \$0.50 and \$4.32 per shares, issued in accordance with the Employee Share Option Plan approved by shareholders in November 2006. The number of option holders totals six.

Unlisted Performance Rights

The company has 53,900 performance rights on issue, issued in accordance with the Long Term Incentive Plan approved by shareholders in October 2007. The number of beneficial holders of performance rights totals three.

Other Information

Perilya Limited is incorporated and domiciled in Australia and is a publicly listed company limited by shares.

corporate directory

Perilya Limited is an Australian base and precious metals mining and exploration company, focused on the production of zinc, lead and silver at its Broken Hill Operation in NSW. For more details, visit www.perilya.com.au.

The company was established in 1987, its headquarters are in Perth, Western Australia and its current Board of Directors and Company Secretary comprises:

Board of directors

Shuijian Zhang

Non Executive Chairman

Patrick O'Connor

Non-Executive Deputy Chairman

Paul Arndt

Managing Director and Chief Executive Officer

Peter Harley

Non-Executive Director

Minzhi Han

Non-Executive Director

Wen Wang

Non-Executive Director

Paul Marinko

Company Secretary and General Counsel

Head office & registered office

Level 1, Building E
661 Newcastle Street
Leederville Western Australia 6007

PO Box 3057, Adelaide Terrace
Perth, Western Australia 6832

Telephone: + 61 8 6330 1000
Facsimile: + 61 8 6330 1099
Email: perilya@perilya.com.au
Web: www.perilya.com.au

Auditors

PricewaterhouseCoopers

Chartered Accountants

QV1, 250 St George's Terrace
Perth, Western Australia 6000

Share registry

Computershare Registry Services Pty Ltd

Level 2, 45 St George's Terrace
Perth WA 6000

Telephone: + 61 8 9323 2000

Stock exchange listing

The company's shares are listed on the Australian Stock Exchange Limited

ASX Code: PEM

Continuous disclosure

Copies of Perilya's announcements to the ASX since the company listed as a public company are available on Perilya website:

<http://www.perilya.com.au/Announce.htm>

Register to receive ASX announcements via email by visiting: <http://www.perilya.com.au/ContactUs.htm>

Shareholder feedback

Feedback or comments with respect to shareholder communication are welcome. Please direct any comments to Investor Relations (see details below).

Investor Relations

Write to: Investor Relations
Perilya Limited

PO Box 3057, Adelaide Terrace
Perth Western Australia 6832

Email: info@perilya.com.au
Telephone: + 61 8 6330 1000
Facsimile: + 61 8 6330 1099

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 Australia and, following the highly successful takeover of former TSX listed GlobeStar Mining Corporation, the Cerro de Maimón copper, gold & silver mine in the Dominican Republic.

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

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

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

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

1st Floor, Building E,
661 Newcastle Street
Leederville WA 6007

Telephone: +61 8 6330 1000
Facsimile: +61 8 6330 1099
Email: perilya@perilya.com.au

www.perilya.com.au

