
DEED ADMINISTRATORS' FIRST REPORT TO CREDITORS



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1 Executive Summary

1.1 Introduction

John Spark and Peter McCluskey were appointed Voluntary Administrators ("the Administrators") of Pasmenco Limited and certain of its wholly owned Australian subsidiaries ("Pasmenco" or "the Companies") on 19 September 2001 and subsequently as Administrators ("the Deed Administrators") of Deeds of Company Arrangement ("Deeds") executed by the Companies on 4 October 2002.

Various restructure options for Pasmenco were developed and considered following the appointment of the Administrators. In May 2002, the Committee of Creditors agreed that the restructure option, known as "the Equity & Float Option", should be pursued. Work then commenced to prepare the documentation to implement the restructure proposal.

The Equity & Float Option broadly consists of Pasmenco's creditors receiving equity in a new holding company which will control Pasmenco's operating assets, with a sale of a percentage of that equity to investors under a prospectus in conjunction with an ASX listing of the new holding company.

On 30 August 2002, creditors resolved that the Companies execute Deeds that allow the restructure of Pasmenco to proceed. The Deeds and other restructure documents were executed by the parties to them on 4 October 2002.

1.2 Restructure of Pasmenco

Work on the restructure of Pasmenco has progressed substantially since the Deeds were executed. We have continued to liaise and work with the Joint Lead Managers ("JLMs") engaged to assist on the proposed public float, the Summit Facility Financiers (ie the financiers providing ongoing funding to Pasmenco during the Deed period), the Committee of Creditors, Pasmenco and other advisors so that the float will be able to take place at the appropriate time.

We previously indicated that we proposed that the float occur by the end of 2002 or early 2003, if possible. In light of the current instability in Australian and world equity markets, principally caused by the uncertainty regarding Iraq, and the slower than expected recovery in the zinc price, the proposed float will not occur earlier than the second half of calendar year 2003.

We will continue to perform the necessary work however, to ensure that the proposed float is able to proceed when conditions are considered appropriate.



1.3 Meetings of Creditors and Pricing Committee

Concurrent meetings of creditors of the Companies will be held on 28 March 2003 in order to:

- Provide creditors with an update in relation to the status of the Deed Administration.
- Seek creditors' approval for two (2) variations to the Deeds under Section 445A of the Corporations Act (2001) ("the Act").
- Advise creditors of the outcome of the Pricing Committee meeting to be held earlier on the same day.
- Provide an opportunity for questions from creditors.
- Seek creditors' approval for the payment of the unpaid fees of the Administrators and Deed Administrators.

A separate meeting of the Pricing Committee, a committee of creditors with admitted claims of AUD5 million or more established under the Deeds with prescribed functions, will also be held on 28 March 2003 to consider a resolution required to extend the latest date within which the Deed Administrators can authorise the proposed float to proceed ("the Capital Raising Direction Date") from 31 March 2003 to 30 September 2003 or such other date as the Deed Administrators from time to time propose with approval by resolution of the Pricing Committee.

We have recommended that the Pricing Committee pass this resolution.

If the resolution is rejected, a further meeting of creditors will be required to be convened to consider the fallback restructure options available to creditors under the Deeds.

1.4 Proposed Variations of Deeds

At the meetings of creditors to be held on 28 March 2003, we will seek a resolution of creditors under Section 445A of the Act approving two (2) variations of the Deeds as follows:

- (i) A variation of the Deeds to clarify that a proposal by the Deed Administrators to replace the Capital Raising Direction Date and approval by the Pricing Committee of the replacement date will not preclude the Deed Administrators later proposing and the Pricing Committee approving other replacement dates from time to time.
- (ii) A variation of the Deeds of fifteen (15) Companies affected by the Deed of Cross Guarantee ("Cross Deed Companies") to enable the Deed Administrators to execute a Deed of Cross Assumption of Claims on or before 23 April 2003, when the revocation of the current Deed of Cross Guarantee will take effect.

The second variation, if approved by creditors, will ensure that the position under the Deed of Cross Guarantee is maintained subsequent to 23 April 2003, which is required given that a float will not occur prior to this date as previously anticipated.

Further details on the proposed variations of the Deeds can be found at Section 4 of this Report.

1.5 Other Administration Tasks

In addition to the implementation of the restructure option selected for Pasminco, there have been a number of other matters that we have been required to deal with since the execution of the Deeds, including the following:

- **Overseeing the trading of the business**

Pasminco's trading position under the Deeds continues to be reasonable as a result of initiatives implemented during the restructure, despite depressed metals prices.

The Deed Administrators continue to have a significant role in overseeing, authorising and reporting on the current operations of Pasminco.

- **Implementation of asset strategies**

A critical element of the restructure of Pasminco has been the development and implementation of defined strategies for Pasminco's operating sites. Various strategies have now been announced for these sites based on the vision for the restructured Pasminco consisting of a portfolio of world class assets centred around the Century Mine in Queensland.

- **Formal assessment of creditor claims**

To date we have received or estimated creditor claims against Pasminco under the Deeds totalling AUD2.84 billion. This amount includes a number of claims that are under consideration, including a claim by Aquila Resources Limited ("Aquila") for AUD153 million for which Aquila is yet to provide full details of the documents upon which it relies to substantiate its claim.

- **Statutory issues**

We have been required to attend to various statutory obligations since the execution of the Deeds including the lodgement of statutory accounts with ASIC and ASX, holding Pasminco's 2001 and 2002 Annual General Meetings and lodging with ASIC a confidential report on the affairs of Pasminco prior to the commencement of the Voluntary Administration pursuant to Section 438D of the Act.

We have also further progressed our investigation of the affairs of Pasminco and conduct of various parties. These investigations are not yet concluded.



1.6 Summary

- Substantial work has been and continues to be performed by us, Pasminco and our advisors to enable the proposed public float of the restructured Pasminco Group to occur at the appropriate time.
- We have determined, in conjunction with our advisors, that it is not appropriate that the proposed float should proceed before the second half of calendar year 2003 given current market conditions, however the restructure of Pasminco is now substantially advanced to enable the float to proceed at the appropriate time.
- A meeting of the Pricing Committee will be held on 28 March 2003 to consider a resolution to approve a proposal by the Deed Administrators to extend the period within which the Deed Administrators may authorise the proposed float to proceed.
- Concurrent meetings of the creditors of the Companies will be held on 28 March 2003 for the purposes stated at Section 1.3 of this Report.



2 Introduction and Purpose of Report

This Report is the Deed Administrators' First Report to creditors since the execution of the Deeds. This report is provided in relation to 21 Companies within the Pasmenco Group that executed Deeds on 4 October 2002, having been placed into Voluntary Administration pursuant to Section 436A of the Act on 19 September 2001.

A number of key matters have occurred since the meetings of creditors held on 30 August 2002 and the execution of the Deeds and other restructure documents on 4 October 2002.

This Report is provided to creditors as an update on the status of the administration, particularly with respect to the progress of the restructure of Pasmenco.

We have convened concurrent meetings of creditors of the Companies under the Deeds to be held on 28 March 2003 to:

- Provide creditors with an update on the status of the administration of the Deeds;
- Seek creditors' approval for two (2) variations to the Deeds;
- Advise creditors of the outcome of the Pricing Committee meeting to be held prior to the meetings of creditors (refer Section 3.5 below);
- Provide an opportunity for questions from creditors; and
- Seek creditors' approval for payment of the unpaid fees of the Administrators and Deed Administrators.

This Report has been prepared exclusively for the use of the creditors of Pasmenco pursuant to the Deeds. The report does not constitute an offer to sell, or the solicitation of an offer to buy any securities in any jurisdiction, including in the United States.

The information contained in this Report has been obtained from a wide range of sources and knowledge accumulated by us during the course of the Voluntary Administration and Deed periods.

Our Reports do not guarantee or warrant the current or future position of Pasmenco. A significant amount of the trading information, asset values and modelling which has been produced by us since our appointment, by necessity, cannot be shared with the wider group of Pasmenco's creditors or the public at large due to its confidential nature.

This confidential information, which is substantial, has been shared with the members of the Committee of Creditors who have all signed confidentiality agreements.

We have however provided information that we consider relevant to provide the general body of creditors with an update as to the status of the administration.

This Report may not be referred to, reproduced or quoted from in whole or in part or used for any other purpose whatsoever without the Deed Administrators' express written consent.

3 Restructure of Pasminco

3.1 Key Events to Date

As creditors are aware, the Voluntary Administration of Pasminco continued for a longer than usual period of time as various restructure options were developed, considered and assessed and a course of action was agreed to. Further time was then required to enable the relevant documentation to be prepared that gives effect to the restructure proposal.

A selection of key events that have occurred during the administration to date are as follows:

Date	Key Event
19 September 2001	John Spark and Peter McCluskey appointed as Voluntary Administrators of the Companies.
26 September 2001	First meetings of creditors held, Administrators' appointment ratified and Committee of Creditors formed.
21 May 2002	The restructure option for Pasminco, known as the Equity & Float Option, was agreed with the Committee of Creditors.
31 May 2002	Completion of the sale of the Broken Hill Mine in New South Wales.
30 August 2002	Creditors approved the Deeds of Company Arrangement that provide for the restructure of Pasminco.
4 October 2002	The Deeds and other restructure documents were executed by the relevant parties.
24 October 2002	Pasminco announces its intention to close the Cockle Creek Smelter with the exact timing subject to various factors.
13 November 2002	It is announced that Pasminco had entered into a Memorandum of Understanding with Consolidated Broken Hill Limited ("CBH") to conduct due diligence with a view to negotiating the sale of the Elura Mine in New South Wales.
4 December 2002	Pasminco announces the closure of its US mines; Gordonsville by June 2003; Clinch Valley over the next 2 years; with the exact timing subject to certain factors.

Considerable work has been performed on the restructure of Pasminco by the Deed Administrators, Pasminco and our advisors from the time that the Equity & Float Option was agreed to by the Committee of Creditors and in particular since creditors approved the Deeds on 30 August 2002.

This work continues to occur in order to prepare Pasminco for the proposed public float of the restructured entity when market conditions are considered appropriate. The timing of the proposed public float is discussed further at Section 3.3 below.

3.2 Restructure Documents & Recap

As indicated above, the Deeds and other restructure documents that provide for the restructure were executed by the relevant parties on 4 October 2002.

Details of the proposal were provided by the Voluntary Administrators in their First and Second Reports to creditors pursuant to Section 439A of the Act. The Deeds were lodged with ASIC by us as required following their execution.

We reiterate the key terms of the preferred restructure option (ie the Equity & Float Option) for Pasminco as follows:

- The restructure is to be implemented by splitting the Group into two parts as follows:
 - a) The Ongoing Group - entities required for the ongoing operations; and
 - b) The Residual Group - entities that will not be included in the restructured Pasminco.
- Creditors' existing debt would be compromised for a combination of equity in the restructured Pasminco and cash from the float.
- The restructured Pasminco would have the benefit of, among other things:
 - A new Board and management team;
 - The retention of the vast majority of employees;
 - A conservatively geared balance sheet;
 - An improved competitive position; and
 - Improved organisational structure, internal processes, management information systems and risk management.
- If the proposed float was not to proceed, the Deeds incorporate a number of fallback restructure options as follows:
 - a) Equity Option - creditor debt would be compromised for equity in a new ultimate holding company (which could be an existing Ongoing Group company) or in the existing holding company, Pasminco Limited, however there may not be a public float, or a variation of that option;
 - b) The realisation of all Pasminco assets under the Deeds; or
 - c) A formal winding up under the Act.

The above options were outlined in our Report to Creditors dated 16 August 2002.

The Administrators, Pasminco and the Committee of Creditors favoured the Equity & Float Option due to the following key factors:

- The opportunity for creditors to receive an initial cash distribution from the float proceeds in a relatively short period of time.
- Creditors would receive an equity interest in the restructured Pasminco allowing them to receive the benefit of the forecast improved market conditions and an improved operating structure of Pasminco.
- The restructured Pasminco would have a more viable capital structure.
- It provides a mechanism for creditors to value their residual shareholding and carry equity at market value.
- Creditors owed at least AUD5 million and certain other creditors who are parties to the PPT Lease and are approved by the Deed Administrators will have the ability to vote on the float pricing and volume parameters that govern whether the float is to proceed. If the float does not proceed, all creditors will have the opportunity to vote on the alternatives available in such a scenario, thereby providing maximum flexibility.
- The vast majority of employee jobs are retained thereby avoiding the crystallisation of employee entitlements.

In the circumstances, we recommended that creditors accept the proposal for the Deeds given that it provided the best opportunity available to maximise the return to creditors.

3.3 Proposed Public Float of Pasminco Resources Limited

Considerable work has been performed by the Deed Administrators, Pasminco and our advisors to prepare Pasminco for the restructure and float of the new entity, to be known as Pasminco Resources Limited ("PRL").

This work commenced following agreement with the Committee of Creditors that the Equity & Float Option should be pursued. In particular, the JLMs, Deutsche Bank, Salomon Smith Barney and UBS Warburg, were engaged to assist in preparing Pasminco for a public float.

As creditors would be aware, preparing a company for a public float is a substantial exercise. Some of the key tasks that we, Pasminco and our advisors have been performing include, for example, the following:

- Preparation of financial information and models for PRL, including statutory and pro forma financial statements and ongoing forecasts.
- Review of all operations and development of the strategy for Pasminco prior to the proposed float and for PRL.



- Extensive due diligence of Pasminco's operations both in Australia and overseas.
- Preparation of a detailed Institutional Offering Memorandum to be provided to overseas and Australian institutional investors and the prospectus to be provided to Australian retail investors once the float is ready to proceed.
- Liaising and working with various advisors with respect to the provision of information and preparations for the proposed float.

Work continues to be performed to prepare Pasminco for the proposed public float. We discuss below the key factors affecting the timing of a float.

3.4 Timing of Proposed Public Float

When the Equity & Float Option was announced, we indicated that we proposed that the float occur by late 2002 or early 2003, if possible.

We have consulted extensively with the JLMs, the Summit Facility Financiers, the Committee of Creditors, Pasminco and other advisors about the timing of the public offering. It is our intention to proceed with the float when we consider, based on advice, that market conditions are appropriate.

In this regard, at this stage, we do not expect that the float of PRL would occur until at least the second half of calendar year 2003.

The key factors affecting the timing of the float include the following:

- a) Economic conditions and a resolution of the potential Iraq conflict.
- b) Zinc price.
- c) USD/AUD exchange rate.

3.4.1 Economic Conditions and Iraq

The world economy has been very turbulent in recent months. World stock markets have experienced large declines as a result of deteriorating investor confidence and market sentiment.

The volatility in world economic markets has been exacerbated by the continued uncertainty surrounding Iraq. The position with Iraq has caused and continues to cause substantial uncertainty with the investment community and is adversely affecting Australian and world equity markets. Currently, investors have adopted a "wait and see" approach with respect to the Iraq situation whilst its resolution continues to be unclear.

The economic outlook as well as the stability in world equity markets will influence investor demand for shares in PRL at the time of the proposed public float.

It is not our intention in this Report to outline what market conditions we consider appropriate before a float of PRL will proceed or to speculate about changes in key economic variables in the short term.

We will however continue to liaise with the JLMs, the Summit Facility Financiers and the Committee of Creditors so that in the event that the Pricing Committee resolves that the date in which the Deed Administrators must give the Capital Pricing Direction be extended, PRL will be in a position so that we can proceed with the proposed float at the appropriate time.

The role of the Pricing Committee in this regard is discussed at Section 3.5 below.

3.4.2 Zinc Price

In early 2002, industry forecasters predicted an improvement in the world zinc price in the latter part of 2002. Whilst industry forecasters continue to forecast an improvement in the zinc price, future projections now point towards a slower recovery than was anticipated in 2002.

In particular, due to the recent turbulence in economic markets, many metals prices have fallen. The zinc price has been volatile in recent months and is yet to show a sustained upward trend.

3.4.3 USD / AUD Exchange Rate

The USD/AUD exchange rate has also been volatile in recent months.

Whilst the exchange rate has risen in recent months, it is not considered to be at a level that would undermine a float of PRL, however greater stability in the exchange rate would be considered to be beneficial.

3.5 Role of the Pricing Committee

3.5.1 Functions of the Pricing Committee

The Pricing Committee is a committee of those creditors with claims existing at 19 September 2001 of at least AUD5 million (with one exception) established under the Deeds. The Pricing Committee has the following functions:

- i) To approve or reject pricing proposals made by the Deed Administrators with respect to the proposed float.
- ii) To approve or reject a proposal by the Deed Administrators to extend the period within which the Deed Administrators may give the Capital Raising Direction.
- iii) To approve or reject a proposal made by the Deed Administrators to proceed with the Capital Raising Direction where certain pre-conditions set out in the Deeds have not been met.



- iv) To approve or reject a proposal to implement aspects of the Ongoing Group Holding Company Procedures (as set out in the Deeds).

The Deed Administrators can accept or reject any creditor seeking to be a member of the Pricing Committee where their claim has not yet been admitted by the Deed Administrators.

3.5.2 Pricing Committee Meeting

A meeting of the Pricing Committee will be held at 10.30am on 28 March 2003 to consider the second resolution referred to above ie. to approve the Deed Administrators' proposal to extend the latest date for the Deed Administrators to give the Capital Raising Direction from 31 March 2003 to 30 September 2003 or such other date as the Deed Administrators from time to time propose with approval by resolution of the Pricing Committee.

Creditors will be advised of the outcome of the Pricing Committee meeting at the meetings of creditors to be held on the same day at 11.00am and by way of circular following the meeting.

For those creditors who are eligible to be on the Pricing Committee, a separate notice addressed "To the Pricing Committee Member" has been sent to you with this Report.

Any creditor who claims they should be a member of the Pricing Committee that has not received such a notice should contact our office.

Consistent with the basis of voting used at earlier meetings of creditors, contingent creditors who have not yet had their claim admitted, for whatever reason, will be admitted for voting purposes at the meeting of creditors for AUD1 and therefore will not be eligible to be a member of the Pricing Committee.

3.5.3 Deed Administrators' Recommendation to the Pricing Committee

We have recommended to the Pricing Committee that, in our opinion, it is in the best interests of creditors and Pasminco that the Capital Raising Direction Date be extended to 30 September 2003 or such further date as from time to time proposed by the Deed Administrators and approved by resolution of the Pricing Committee.

In this regard, we consider that pursuing a public float of PRL remains the best opportunity available to maximise the return to creditors.

If the Pricing Committee rejects the resolution, the meeting of creditors on 28 March 2003 will be adjourned and reconvened for a later date to consider the other restructure options available to creditors under the Deeds.

4 Proposed Variations of Deeds of Company Arrangement

Given that, based on the advice received, it is not appropriate for a float to proceed prior to the second half of calendar year 2003, we consider that it is desirable that two (2) variations to the Deeds should be made.

Pursuant to the Act, a deed of company arrangement can only be varied by resolution of creditors pursuant to Section 445A of the Act.

The variations that we consider should be made to the relevant Deeds are as follows:

- (i) A variation of the Deeds to clarify that a proposal by the Deed Administrators to replace the Capital Raising Direction Date and approval by the Pricing Committee of the replacement date will not preclude the Deed Administrators later proposing and the Pricing Committee approving other replacement dates from time to time.
- (ii) A variation of the Deeds that will affect fifteen (15) Cross Deed Companies affected by the Deed of Cross Guarantee to enable the Deed Administrators to execute a Deed of Cross Assumption of Claims on or before 23 April 2003, when the revocation of the current Deed of Cross Guarantee will take effect.

The variations and manner in which voting will be conducted at the meetings of creditors are discussed further below

4.1 Capital Raising Direction Date

4.1.1 Requirements under the Deeds

Clause 18.1 of the Deed in respect of Pasmenco Limited and clauses 17.1 of the Deeds in respect of the other Companies have the effect that the Deed Administrators must give the Capital Raising Direction, if and only if, certain conditions specified in those clauses are satisfied on or before 31 March 2003 or such other date as the Deed Administrators propose with the approval of the Pricing Committee by resolution of that committee (referred to above as the "Capital Raising Direction Date").

Clause 19.1 of the Deed of Company Arrangement in respect of Pasmenco Limited and clauses 18.1 of the Deeds of Company Arrangement in respect of the other Companies have the effect that, if the Deed Administrators form the view that they will not or cannot give the Capital Raising Direction on or before the Capital Raising Direction Date, the Deed Administrators must as soon as is practicable having regard to the circumstances, convene meetings of creditors for the purpose of deciding on a fallback option.



4.1.2 Pricing Committee Meeting

As noted at Section 3.5 above, and elsewhere in this Report, a meeting of the Pricing Committee will be held on 28 March 2003 to consider a resolution required to extend the Capital Raising Direction Date from 31 March 2003 to 30 September 2003 or such other date as the Deed Administrators from time to time propose with approval by resolution of the Pricing Committee.

4.1.3 Variation to the Deeds

A variation of the Deeds will be sought to clarify that a proposal by the Deed Administrators to replace the Capital Raising Direction Date and approval by the Pricing Committee of the replacement date will not preclude the Deed Administrators from subsequently proposing and the Pricing Committee approving other replacement dates from time to time.

This variation is required to ensure that the Capital Raising Direction Date can be extended more than once, if required.

We will seek resolutions of creditors under Section 445A of the Act at the concurrent meetings of creditors approving the following variations to the Deeds:

Creditors of Pasmenco Limited will be asked to approve the insertion of the following new clause 18.5 into the Deed in respect of Pasmenco Limited:

“18.5 Proposal and approval of another date

Proposal by the Deed Administrators and approval by the Pricing Committee of another date under clauses 18.1 and 19.1 will not preclude the Deed Administrators proposing and the Pricing Committee approving another date or other dates from time to time in replacement of a previously proposed and approved date.”

Creditors of each of the other Cross Deed Companies will be asked to approve the insertion of the following new clause 17.5 into the Deeds in respect of those companies:

“17.5 Proposal and approval of another date

Proposal by the Deed Administrators and approval by the Pricing Committee of another date under clauses 17.1 and 18.1 will not preclude the Deed Administrators proposing and the Pricing Committee approving another date or other dates from time to time in replacement of a previously proposed and approved date.”

We consider that the proposed variations to each relevant Deed is in the best interests of creditors of the Companies as the amendments will clarify the position in respect of replacement of the Capital Raising Direction Date from time to time.

4.2 Deed of Cross Assumption of Claims

4.2.1 Deed of Cross Guarantee

As has previously been advised to creditors, most of the Companies are party to a Deed of Cross Guarantee dated 23 April 1997 as affected by various subsequent Deeds of Assumption.

The Deed of Cross Guarantee was entered into in order to allow the Cross Deed Companies to obtain various accounting and auditing relief from ASIC under the Act, which is common for many large corporate groups.

The effect of the Deed of Cross Guarantee is that each Cross Deed Company guarantees all of the debts of each other Cross Deed Company.

The guarantee becomes enforceable against each Cross Deed Company on the winding up of a Cross Deed Company under certain circumstances (known as "Trigger Events") specified in the Deed of Cross Guarantee.

4.2.2 Revocation Deed

As contemplated under clause 31.1 of the Deed in respect of Pasmenco Limited and clauses 28.1 of the Deeds in respect of the other Companies, a Revocation Deed has been executed by each Cross Deed Company under which the application of the Deed of Cross Guarantee in respect of Cross Deed Companies in the Ongoing Group will be revoked effective on 23 April 2003 subject to no Trigger Event occurring prior to that date.

The Revocation Deed was executed by the Cross Deed Companies to ensure that:

- A Cross Deed Company which is a company in the Ongoing Group could not become liable after a float of the Ongoing Group for a claim against a Cross Deed Company which is a company in the Residual Group in the event of a winding up of the company in the Residual Group; and
- The corresponding position could not arise for the Residual Group in the event of a winding up of a company in the Ongoing Group.

The Revocation Deed will not revoke the application of the Deed of Cross Guarantee in respect of Cross Deed Companies in the Residual Group as it is intended that the companies in the Residual Group will continue to guarantee each other's debts after the float.

At the time the Revocation Deed was executed, it was proposed that the float would occur on or before 31 March 2003, prior to the Revocation Deed becoming effective on 23 April 2003. However, it is now expected that the float will not occur until the second half of calendar year 2003.



Accordingly, we consider it appropriate to ensure that the position under the Deed of Cross Guarantee is maintained until such time that a float or one of the other restructure options occur.

4.2.3 Deed of Cross Assumption of Claims

An effect of the guarantees under the Deed of Cross Guarantee is that each creditor of each Cross Deed Company has a Claim (within the meaning of that term in the Deeds of Company Arrangement ie broadly a debt payable or claim against Pasminco, including contingent claims, the circumstances giving rise to which occurred on or before the date of our appointment) against each other Cross Deed Company.

To ensure this position is maintained after the Revocation Deed becomes effective, at least until any float of the Ongoing Group, it is proposed that each Cross Deed Company will on or before 23 April 2003 execute a deed to be called the Deed of Cross Assumption of Claims under which Claims against each Cross Deed Company will, in effect, become Claims against each other Cross Deed Company.

A copy of the proposed Deed of Cross Assumption of Claims is attached at **Annexure 1** of this Report.

Each Cross Deed Company will retain flexibility under the Deed of Cross Assumption of Claims to declare that Claims under one or more of the Deeds of Company Arrangement in respect of the Cross Deed Companies cease to be assumed by the Cross Deed Company.

The Deed of Cross Assumption of Claims will not entitle the Cross Deed Companies to accounting or audit relief. Its purpose will be to ensure the administration continues to be carried on with respect to Claims as it has to date.

4.2.4 Variation to the Deeds

We will seek resolutions of creditors under Section 445A of the Act at the concurrent meetings of creditors approving the following variations to the Deed in respect of each Cross Deed Company:

Creditors of Pasminco Limited will be asked to approve the insertion of the following new clause 31A into the Deed in respect of Pasminco Limited:

“31A Deed of Cross Assumption of Claims

Deed Creditors acknowledge and agree that on or before 23 April 2003 the Deed Administrators will execute for and on behalf of the Company and each Deed Company the deed titled ‘Deed of Cross Assumption of Claims’ in the form annexed or in such other form as the Deed Administrators determine.”



Creditors of each of the other Cross Deed Companies will be asked to approve the insertion of the following new clause 28A into the Deeds in respect of those companies:

“28A Deed of Cross Assumption of Claims

If, prior to 23 April 2003, the Company is, in the opinion of the Deed Administrators, subject to the ASIC Deed of Cross Guarantee (whether under its terms or by operation of law or principles of equity or otherwise), Deed Creditors acknowledge and agree that on or before 23 April 2003 the Deed Administrators will execute for and on behalf of the Company and each Deed Company that is, prior to 23 April 2003, also so subject to the ASIC Deed of Cross Guarantee in the opinion of the Deed Administrators, the deed titled ‘Deed of Cross Assumption of Claims’ in the form annexed or in such other form as the Deed Administrators determine.”

We consider that the proposed variation to each Deed is in the best interests of creditors of the Companies as the amendments maintain the position of creditors of having their Claims against each Cross Deed Company guaranteed by the other Cross Deed Companies prior to a float or other restructure option occurring.

4.3 Voting at Creditors’ Meetings

4.3.1 Cross Deed Companies

As indicated at Section 4.2 above, the effect of the Deed of Cross Guarantee is that each Cross Deed Company guarantees all of the debts of each other Cross Deed Company.

We have previously indicated in the Voluntary Administrators’ First and Second Reports to Creditors dated 1 July 2000 and 16 August 2002 pursuant to Section 439A of the Act that as a result of the existence of the Deed of Cross Guarantee, direct creditors of any one of the Cross Deed Companies will be able to vote for resolutions proposed in relation to all of the other Cross Deed Companies.

In the Second Report dated 16 August 2002, we advised that four (4) companies (“the Savage Companies”) acquired by Pasmenco through the takeover of Savage Resources Limited were to become parties to the Deed of Cross Guarantee through the lodgement of a Deed of Assumption with ASIC, however this Deed was not lodged.

We also advised creditors that given Pasmenco published and lodged its statutory accounts and conducted its business on the basis that the Savage Companies were party to the Deed of Cross Guarantee, it is possible that creditors of other Cross Deed Companies and creditors of the Savage Companies would be able to enforce rights against the Savage Companies and Cross Deed Companies respectively as if they had been party to the Deed of Cross Guarantee.

We have performed further work which confirms that this position is appropriate. As such, we still consider it appropriate to conduct voting at the meetings of creditors on this basis ie direct creditors of any of the Cross Deed Companies and the Savage Companies will be able to vote for resolutions proposed in relation to all of the Cross Deed Companies and the Savage Companies.



The two (2) variations to the Deeds that have been proposed will be dealt with by one (1) resolution at the meetings of creditors.

4.3.2 Non Cross Deed Companies

There are six (6) Companies that are not subject to or affected by the Deed of Cross Guarantee.

As previously advised to creditors, there are no external creditors of these Companies of which we are aware.

There are, however, intercompany loans with other Pasmenco entities that can be used to pass resolutions as required ie the variation referred to at Section 4.1.3 above.

4.3.3 Completion of Proxy Forms or Powers of Attorneys

Pasmenco's employees with accrued entitlements owing at the date of our appointment as Administrators on 19 September 2001 are entitled to attend and vote at meetings of creditors.

There are approximately 2,300 employees with accrued pre appointment entitlements. The completion and processing of proxy forms for such a large number of creditors is a difficult logistical task.

Given that we expect that there will be further meetings of creditors pursuant to the Deeds, we have prepared a limited Power of Attorney (last page of the Report - the green form) that can be used by the person appointed for future meetings of creditors.

The Power of Attorney is only able to be completed by employees and not other creditors.

Creditors who are not employees must complete the Proxy Form attached (second last page of the Report - yellow form).

Employees who wish to appoint someone to represent them at the meeting on 28 March 2003 only and do not wish to appoint someone to represent them at all future meetings of creditors should complete the yellow Proxy Form only.

We remind creditors that Proxy Forms completed for the previous meetings held during the Voluntary Administration period are not valid for the meetings to be held on 28 March 2003, regardless of whether they were prepared as General or Special Proxy Forms.

Further information with respect to the completion of Proxy Forms can be found in the Instructions for Completing Meeting Forms contained at **Annexure 2** of this Report.

5 Work Performed by Deed Administrators

In conjunction with Pasminco and our advisors, we have continued to perform considerable work since the execution of the Deeds on 4 October 2002.

Much of this work relates to preparing Pasminco for a possible float, however, other key tasks performed relate to the following main areas:

- Trading of the business.
- Development and implementation of asset strategies.
- Dealing with creditor claims, including Aquila.
- Attending to statutory issues, including holding Pasminco's 2001 and 2002 Annual General Meetings.
- Further investigation work.

We comment on these issues below.

5.1 Trading of Business

5.1.1 Overview

As creditors are aware, following our appointment as Voluntary Administrators on 19 September 2001, we assumed control of the Companies.

Since execution of the Deeds on 4 October 2002, Pasminco has continued to operate under our direction in our capacity as Deed Administrators. We have previously advised creditors that under the Deeds, we are not personally liable for debts incurred by Pasminco on and after the execution of the Deeds. A funding facility is in place to ensure the ongoing payment of liabilities incurred by Pasminco.

We have previously advised creditors that the key aspects of the trading of Pasminco that we are involved with include the following:

- Working closely with Treasury regarding ongoing cashflow management and forecasting;
- Reviewing all material capital expenditure projects;
- Reviewing proposed contracts;
- Liaising with employees and employee representatives regarding issues of concern to employees;
- Preparing a range of trading reports regarding the performance of the business;

- Considering appropriate hedging strategies for Pasminco. For example, we previously entered into foreign currency call options that would benefit Pasminco if the USD/AUD exchange rate appreciated (whilst allowing Pasminco to benefit from a lower AUD). Given the recent strengthening of the AUD, these hedges are currently “in-the-money”; and
- Dealing with a variety of other day to day trading issues and the preparation of numerous other reports to the Committee of Creditors and Summit Facility Financiers.

5.1.2 Trading Performance

Statutory accounts for Pasminco Limited have been prepared and lodged with ASIC as required since our appointment. These financial statements have disclosed losses as a result of asset write downs and the crystallisation of contingent hedge contracts. They also include accruing interest on Pasminco’s banking facilities which have effectively been frozen since our appointment as Administrators.

As such, these financial statements do not accurately reflect the ongoing trading position of Pasminco or the likely trading position of PRL once the restructure is complete. We do not intend to give a detailed analysis of the ongoing trading performance in this report given its confidential nature, but can advise that Pasminco has recorded actual cashflow results ahead of forecast since the Deeds were executed, despite the continued depressed zinc price.

5.2 Asset Strategies

A critical element of the restructure of Pasminco has been the development of appropriate strategies for Pasminco’s assets.

The strategies that have been put in place are based on the strategic vision for the restructured Pasminco which must focus on a world class asset base centred around the Century Mine in Queensland.

The strategies that have been announced or effected since our appointment and the status of those strategies are as follows:

Broken Hill

- Sold to Perilya Limited (“Perilya”) with settlement having occurred on 31 May 2002.
- Contracts entered into with Perilya for the ongoing supply of concentrates to Pasminco smelters.



Cockle Creek

- On 24 October 2002, it was announced that as part of the longer term strategy for the restructure of Pasminco, the Cockle Creek Smelter in New South Wales will ultimately be closed.
- The exact date of the closure is dependent on capital expenditure requirements, plant performance and market conditions.
- All employee entitlements associated with the closure will be paid as and when they fall due.
- A comprehensive remediation plan is being developed in consultation with the New South Wales EPA and other relevant government agencies.

US Assets

- On 4 December 2002, we and Pasminco announced that Pasminco's Gordonsville and Clinch Valley Mines in Tennessee, USA, would be closed in the future and that the Clarksville Refinery in Tennessee, USA, would continue to operate.
- The Gordonsville Mine is scheduled to close in about mid-2003.
- The exact closure date for the Clinch Valley Mine will depend on market conditions, raw materials supply, mine performance and the capital expenditure requirements.
- Raw material contracts have been put in place to cover requirements for the supply of concentrate to the Clarksville Smelter beyond the closure of the mines.
- Preparations for the closure of the Gordonsville Mine are being undertaken as scheduled since the closure plans were announced.

Elura Mine

- Pasminco placed the Elura Mine on the market for sale in March 2002.
- On 13 November 2002, it was announced that Pasminco Limited had entered into a Memorandum of Understanding with Consolidated Broken Hill Limited ("CBH") to conduct due diligence with a view to negotiating the purchase of the Elura Mine.
- On 28 January 2003, it was announced that Pasminco Limited had entered into negotiations with CBH for the purchase of the Elura Mine with the exclusivity period granted to CBH having been extended to 14 February 2003.
- Negotiations are currently continuing with CBH for the sale of the mine, which is subject to approval by various parties for both companies.

5.3 Creditor Claims

5.3.1 Overview

Following the approval of the Deeds by creditors on 30 August 2002, we wrote to creditors on 5 September 2002 and requested that creditors submit Proofs of Debt to us with respect to claims existing at the date of our appointment. We have also individually contacted many financier creditors to agree their claims.

At this stage, we have received or estimated creditor claims against Pasminco totalling AUD2.9 billion, which can be summarised as follows:

	AUD m
Financier Claims	2,655.8
Non-Financier Claims	185.7
Total Claims	<u>AUD2,841.5m</u>

With respect to the above, we note the following:

- Financier claims include hedging contracts that have been closed out.
- The non-Financier claims primarily represent Aquila, which has lodged a claim for AUD153 million (refer Section 5.3.2 below).
- We are dealing with the claims received that are yet to be admitted or rejected. In many cases, further information is required or the claim is not yet able to be adjudicated.
- We have also received several claims which have not yet been quantified, however on the basis of information currently available, these claims are not expected to be substantial.

5.3.2 Claim by Aquila

Creditors may recall that Aquila had lodged a Formal Proof of Debt against certain Pasminco entities for AUD153 million with respect to the sale by Pasminco of its 49% interest in the Ernest Henry Mine ("EHM") in March 2001.

We have previously advised creditors that we are waiting on further information from Aquila before we are able to adjudicate on its claim.

Despite various ongoing correspondence with Aquila's solicitors, the information that we require to adjudicate on the claim has not yet been provided.

Aquila is continuing with proceedings in the Western Australian Supreme Court for the discovery of documents from Pasminco and the advisors for the sale of EHM, Credit Suisse First Boston. Aquila claims that these documents are required to assist it to establish its claim.

We have previously advised creditors that based on the documentation that Aquila has indicated it relies on, we do not consider that there is a proper basis for its claim.

5.4 Statutory Issues

There are a number of ongoing statutory issues that we have been required to deal with given Pasminco's status as a public company limited by shares which are listed on ASX (albeit suspended from trading) and in our capacity as Deed Administrators.

Most notably, the statutory obligations have included:

- Lodgement of Pasminco's audited 2001 and 2002 financial accounts. These were lodged on 30 August 2002 and 1 November 2002 respectively as allowed by ASIC.
- Lodgement with ASIC of the Deeds of the Companies following their execution.
- Holding the joint 2001 and 2002 Annual General Meetings for Pasminco Limited on 12 December 2002. No resolutions were required to be passed at the Annual General Meetings.
- Lodgement of a confidential report with ASIC pursuant to Section 438D of the Act regarding our investigation into the affairs of Pasminco and the conduct of its directors, officers and advisors.

5.5 Investigations

We have previously reported to creditors regarding the reasons for the failure of Pasminco and the nature of our investigations.

In this regard, we have previously advised that in our opinion a combination of the following factors contributed to the failure of Pasminco:

- i) The decline in the world zinc price.
- ii) Pasminco's debt burden.
- iii) The acquisition of Savage.
- iv) The effect of the devaluation of the Australian dollar on Pasminco's hedge book.
- v) Inadequate management information systems.

We also previously advised creditors that further work is required to be performed by us as to whether any of the reasons for failure constitute a breach of duty by Pasminco's directors or advisors.



Our investigations are now substantially complete, however certain aspects of those investigations have not been finalised. Accordingly, we do not intend to detail our further findings at this stage. We will continue to consult with the Summit Facility Financiers and the Committee of Creditors on these issues.

We also intend to lodge a further confidential report with ASIC when our investigations are completed.

5.6 Administrators' and Deed Administrators' Fees

5.6.1 Voluntary Administrators' Fees

We have commented in our previous reports to creditors and at the creditors' meetings that have been held to date regarding the work performed by us and the amount of our fees.

The following fees (exclusive of GST) have been approved and paid in the Voluntary Administration to date.

	AUD
Fees Incurred 19 September 2001 to 4 October 2002	10,136,893
Fees Approved and Paid	<u>(9,850,000)</u>
Balance Outstanding	<u><u>AUD286,893</u></u>

At the last creditors' meeting held on 30 August 2002, creditors approved our further Voluntary Administration fees of AUD1.6 million plus GST, which was an estimate of fees that we expected to be incurred in the period up to 20 September 2002 (end of the statutory 21 day period from 30 August 2002 allowed to execute the Deeds), when we expected the Deeds to be executed.

We were required to apply to Court to extend the period to execute the Deeds to 4 October 2002 given further time was required to finalise the Deed documentation.

As a result of the extended Voluntary Administration period, our fees as Voluntary Administrators exceeded the amount previously approved by creditors. If the Voluntary Administration period was not required to be extended, our fees would not have exceeded the amount approved by creditors.

Accordingly, we will be seeking a resolution of creditors to approve the payment of these unpaid fees (together with GST) at the creditors' meeting to be held on 28 March 2003.

An accounting of these fees has previously been provided to the Committee of Creditors. These fees have been calculated in accordance with Ferrier Hodgson's scale of rates which was attached to our previous Reports to Creditors.



5.6.2 Deed Administrators' Fees

At the last meeting of creditors held on 30 August 2002, creditors also approved our fees as Deed Administrators to an interim cap of AUD3.4 million plus GST.

This amount was based on our estimate of fees that may be incurred to 31 January 2003, subject to the matters that evolve.

Our fees incurred (exclusive of GST) during the Deed period can be shown as follows:

	AUD
Fees Approved on 30 August 2002	3,400,000
Fees Incurred and Paid 5/10/02 to 31/1/03	(2,168,920)
Fee Incurred 1/2/03 to 28/2/03 (not paid)	<u>(524,357)</u>
Balance of Fee Approval Limit	<u>AUD706,723</u>

The fees paid to us have been paid after providing a full accounting to the Committee of Creditors and obtaining their approval for payment.

These fees are less than the fee limit approved given the extended Voluntary Administration period.

We expect the interim Deed Administrators' fee limit will be reached during April 2003.

Accordingly, we will seek approval for an additional fee limit of AUD3.3 million plus GST, being the additional fees we expect to be the fees likely to be incurred for the period April 2003 to September 2003 subject to the matters that evolve.

In particular, we note that the timing of a float is likely to have a material effect on the level of our fees given the time intensive nature of the work that will be required to be performed when a listing date is set down.

We intend to seek this additional fee limit to avoid the need and cost of holding meetings of creditors on a constant basis, which only serves to diminish the ultimate return to creditors.

We also undertake to seek the approval of the Committee of Creditors or an Order of the Court prior to paying fees within a fee approval limit, consistent with our approach during the administration to date.

Our fees as Deed Administrators have been calculated in accordance with Ferrier Hodgson's scale of rates.

Given that the fees will be subject to a limit, we are unable to draw fees exceeding the limit. Should our fees exceed this limit, we will seek further approval from creditors at later meetings of creditors. We will also continue to inform the Committee of Creditors of the level of our fees and provide an accounting of all future fees incurred and paid in future reports to creditors.

6 Conclusion

6.1 Status of Restructure

Considerable work has been performed by us since the Deeds were executed on 4 October 2002, particularly with respect to the ongoing restructure of Pasminco and preparations for the proposed public float of PRL.

It was initially proposed that the float occur in late 2002 or early 2003, if possible. Given current market conditions and based on the advice of the JLMs and having liaised with the Summit Financiers, the Committee of Creditors and Pasminco, we are of the view that the float should not proceed until at least the second half of calendar year 2003.

Work continues to be performed to ensure that the proposed float of PRL will be able to proceed at the earliest appropriate time.

Importantly for Pasminco:

- Its underlying trading performance has been reasonable for some time as a result of initiatives implemented during the restructure, despite depressed commodity prices.
- Production results have been strong.
- Defined asset strategies are now in place with respect to the operating sites.
- Preparatory work on a float is significantly advanced.

The Equity & Float Option was selected for Pasminco as the preferred restructure option given it provided the best available opportunity to maximise the return to creditors. It is our opinion that this remains the case today.

6.2 Meeting of the Pricing Committee

A resolution of the Pricing Committee is required to extend the Capital Raising Direction Date past 31 March 2003. In this regard, a meeting of the Pricing Committee will be held on 28 March 2003 to consider a resolution to extend the Capital Raising Direction Date to 30 September 2003 or such further date as proposed by the Deed Administrators with approval by a resolution of the Pricing Committee.

We have recommended that the Pricing Committee accept this resolution.

The outcome of the Pricing Committee meeting will be reported to creditors at the creditors' meeting to be held on 28 March 2003 and by way of circular subsequent to that meeting.

We will continue to perform the necessary work and liaise with the JLMs and other parties to enable a float of PRL to occur at the appropriate time.



6.3 Proposed Variations of Deeds

We will seek creditors' approval for a resolution effecting two (2) variations to the relevant Deeds as outlined at Section 4 above.

The variations are desired to assist the ongoing conduct of the Deed Administration given that it is not appropriate that a float occur at this stage.

We will seek one (1) resolution of creditors with respect to both variations being sought by us.

In our opinion, both variations to the relevant Deeds are in the interest of creditors. Accordingly, we recommend that creditors pass the resolution to vary the relevant Deeds.

We will continue to report to creditors further regarding the progress of the administration and restructure of Pasminco.

If creditors have any queries regarding the matters raised in this Report, they should contact Ms Christine Bertolotti or Mr Tim Cipolloni of this office.

DATED this 14th day of March 2003

J M SPARK
DEED ADMINISTRATOR

P D McCLUSKEY
DEED ADMINISTRATOR

encl