

20 August 2012

TO THE CREDITOR AS ADDRESSED

Dear Sir/Madam

**Pasminco Limited
(Subject to Deed of Company Arrangement)
ACN 004 368 674
and its wholly owned Australian Subsidiaries ("Pasminco")**

Dividend Estimates as at 30 June 2012

As you are aware, we have held back a proportion of the proceeds from the float of Zinifex Limited in order to deal with the completion of the Deeds of Company Arrangement of the remaining companies that comprise the Residual Group. The process from here is effectively akin to a winding up.

Due to the commercial sensitivity of the issues relating to the retention, we are unable to provide you with either the amount or a specific breakdown of the quantum of the retention and how it relates to the provisioning for the outstanding Residual Group issues.

Given our present understanding of the likely cost of dealing with these issues, we have sought to provide creditors with an estimate of further dividends that may be payable based on "best case", "mid case" and "worst case" scenarios.

As you are no doubt aware, we are continuing to experience an unstable economic climate. This places a further element of uncertainty on the forecasts that we have prepared, particularly in relation to the quantum and timing of recoveries that may be obtained from the realisation of land associated with the Cockle Creek site ("the Site").

As previously stated, the mid case scenario represents our best estimate of further dividends to creditors.

Disclaimer

The process of estimating future dividends that may be payable to the unsecured creditors of Pasminco involves assessing a number of contingencies, risks, uncertainties and other factors, all of which are, to a large extent, beyond the control of the Deed Administrators. Actual dividend levels may be materially different from the estimates provided in this paper due to any number of factors beyond the Deed Administrators' control.

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Furthermore, many of the estimates adopted in calculating possible future dividend levels are based on information from a variety of sources, including advice received from a number of consultants as well as data available from market commentators and advisors. We have not independently verified this industry and market data or the advice received from various consultants and advisors.

Given these uncertainties and the contingencies that may affect the ultimate realisation of any of the scenarios, unsecured creditors and prospective acquirers of unsecured debt are cautioned not to place reliance upon the estimates provided in this document. You should not treat the dividend estimates as a representation or warranty by the Deed Administrators as to the likelihood of achieving the estimated dividend levels that are provided. Creditors and persons interested in acquiring unsecured debt should make their own enquiries and the Deed Administrators accept no liability for loss or damage suffered by any person relying on these estimates.

Incitec Site

Of significant note and as already discussed verbally with the majority of creditors, I am pleased to inform you of an alliance with Incitec Fertilizers Limited (“IFL”) which provides significant and positive progress in respect of the future development of the PCCS site.

The proposal is for PCCS to transfer contaminated material from the adjoining IFL site for placement within an expanded PCCS containment cell on favourable commercial terms. The result being a singular, on site, containment cell under our future management.

As previously reported to you in our report dated 3 February 2012 the Incitec site had been failing to manage its ground and surface water flows resulting in cross contamination from their un-remediated site on to the PCCS site. As a result proceedings against IFL were issued in both the Land and Environment Court (“LEC”) and the Supreme Court (“SC”).

The execution of a Deed of Settlement and Release on 26 July 2012 with IFL resulted in a successful settlement of the court proceedings in favour of PCCS with Incitec paying our litigation costs and our claim for significant damages.

The agreement has numerous financial and non financial implications which are detailed below:

Benefits of the Proposal

- Favourable resolution of ongoing litigation (as detailed above)
- Positive financial outcome to creditors
- Control of the combined (PCCS/IFL) Sites and the remediation and development timetable
- Certainty of planning outcomes for the combined (PCCS/IFL) Sites
- IFL contribution towards the long term maintenance of the PCCS containment cell; and
- Incidental acquisition by PCCS of the remediated IFL site

A pre-condition to the alliance with IFL was receipt of confirmation by PCCS from the Environmental Protection Authority (“EPA”) that no waste levies would be incurred. On 8 June 2012 the EPA provided a letter (See **Annexure A**) confirming that no waste levy charges would be incurred under the alliance.

Following this acknowledgment from the EPA, we are now liaising with the relevant Government authorities to ensure that all design approvals and licence amendments are obtained in a timely manner to allow works on the IFL site to commence as soon as possible and without any disconnect between the completion of remediation works on the PCCS site and commencement on the IFL site.

Creditors should note that despite the agreement resulting in additional onsite remediation works continuing until approximately September 2013, the works will not extend the overall timeframe for sales of the developable land at PCCS. More likely, the realisation timetable will be shortened as the risks of further delays caused by IFL’s continued cross contamination and inactivity will be removed.

The completion of the remediation will also correspond with the completion of onsite infrastructure works (construction of a roundabout and a portion of Munibung Road) which we are determined to complete by December 2013.

Dividend Forecast

Despite the positive financial benefits of the Incitec arrangement, you will note that this forecast is consistent with our forecast as at 31 December 2011. This is due to the following:

- Termination of the joint venture agreement with McCloy Group (“McCloys”) in relation to the Triangular Paddock site (Lot 1). The termination by McCloys was primarily due to their concerns regarding the ongoing litigation between PCCS and IFL. Our intention is to now commence a marketing campaign to sell this piece of land as an englobo sale. We will endeavour to achieve realisations of c. \$2.5 million.

- Our property consulting experts (“Hill PDA”) have conducted a recent land assessment and have reported that land values have continued to deteriorate in the Lake Macquarie area since December 2011.

Summary of Dividend Estimates

In May 2012 we made our 8th dividend distribution of 0.5 cents in the dollar to creditors. Dividends paid to date now total 21.2 cents in the dollar.

Shown below are two schedules relating to our estimates at 30 June 2012 of further dividends, on an undiscounted and discounted basis respectively.

Undiscounted Dividend Forecast as at 30 June 2012

Estimate further dividends (cents in the dollar)		
Worst Case	Mid Case	Best Case
0.9	2.0	3.4

Discounted Dividend Forecast as at 30 June 2012

Estimated further dividends (cents in the dollar)			
Nominal			
Discount Rate	Worst Case	Mid Case	Best Case
8%	0.7	1.4	2.1
10%	0.6	1.2	1.9
12%	0.6	1.2	1.7

As indicated above, our estimate of the further dividends at 30 June 2012 payable to creditors on a mid case scenario is 2.0 cents, a marginal increase since our December 2011 forecast, which would bring the final total dividend to unsecured creditors to 23.2 cents in the dollar (undiscounted).

You will note that the forecast is generally consistent with our forecast prepared as at 31 December 2011.

General Assumptions

It should be noted that in calculating the estimates of the dividends under these scenarios, due to yet unknown variables, assumptions have been made as follows:

- An average interest receivable rate of 5.0% on deposit account funds has been applied, except for those amounts locked in a term deposit with a fixed rate of interest. Interest in respect of those funds not held in term deposit accrues on the average mid period cash balance.

- Creditor claims are estimated to amount to \$2,613 million.
- Discount rates used are nominal rates.
- Estimates are based as at 30 June 2012 and have been discounted back to the end of the 2012 calendar year.

Should you have any queries in this regard, please contact Mr Richard Bastow or Mr Paul Harlond of this office.

Yours faithfully
Pasminco Limited



Peter McCluskey
Deed Administrator

ANNEXURE A



Our reference: DOC12/22386
Your reference: ARS:DRM 30-3562050
Contact: Sarah Sutton (02) 9995 5729

Mr Duncan McGregor
Partner
Minter Ellison
GPO Box 521
Sydney, NSW, 2001

STANDARD AND ELECTRONIC POST

Dear Mr McGregor

Pasminco Cockle Creek Smelter – confirmation of Waste levy

I refer to your correspondence received by the Environment Protection Authority ("EPA") on 1 June 2012 advising of the proposed action to amalgamate two Environment Protection Licences ("EPL") and the implications of this on the requirement to pay the NSW waste and environment levy ("the levy").

You have advised that you intend to apply to the EPA to undertake an amalgamation of the Incitec Fertilizers Pty limited ("IFL") site, EPL no. 208 and Pasminco Cockle Creek Smelter Pty limited (subject to Deed of company Arrangements ("PCCS") site EPL no.5042. You have requested the EPA confirms that by undertaking this action, waste movements on-site will not trigger the requirement to pay the levy.

Please note that any material that is already on the existing IFL and PCCS site at the time the amalgamation takes place will not trigger the requirement to pay the levy. Any material moved within the newly amalgamated site, that is, waste taken from the IFL site to be placed into the containment cell constructed on the PCCS site once the amalgamation has taken place will not trigger the requirement to pay the levy.

Any material received onto the IFL site or the PCCS site from off those sites after the amalgamation will trigger the requirement to pay the levy.

If you have any queries in relation to this matter please contact Ms Sarah Sutton on 02 9995 5729.

Yours sincerely

8 JUNE 2012

CHRIS McELWAIN
Manager Waste and Resource Strategy
Environment Protection Authority