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1 Executive Summary

1.1 Introduction

John Menzies Spark and Peter Damien McCluskey were appointed joint and several Voluntary Administrators (“Administrators”) of Pasminco Limited and its wholly owned Australian subsidiaries (“the Companies” or “Pasminco”) on 19 September 2001 pursuant to Section 436A of the Corporations Act (2001) (“the Act”).

The Administrators’ report to creditors pursuant to Section 439A of the Act dated 1 July 2002 (“the first report”) provided details of the proposal for Deeds of Company Arrangement (“Deeds”).

The second meetings of creditors were held on 15 July 2002 and adjourned to 16 August 2002. The meetings held on 16 August 2002 were further adjourned to 30 August 2002. The adjournments occurred to enable Deed documentation to be agreed with a number of stakeholders so that the Deeds can be executed within the statutory allowed period if they are accepted by creditors.

It is proposed that the Deeds will be voted on by creditors at the meetings of creditors on 30 August 2002.

This report is the Administrators’ second report to creditors pursuant to Section 439A of the Act (“the second report”). The second report is to be read in conjunction with the first report.

1.2 Restructure of Pasminco

The proposal to restructure Pasminco is to be implemented by way of Deeds of Company Arrangement and various associated documents.

The restructure is to be implemented through two distinct stages as follows:

- a) A restructure of the Group, achieved principally by splitting the Group into two parts; and
- b) The exchange of existing debt for equity in the restructured Pasminco, with the sale of 50% (or some other portion) of the equity in the market place.

The two parts that Pasminco would be split into are as follows:

- a) Entities required for the ongoing operations (“Ongoing Group”).
- b) Entities that will not be included in the restructured Pasminco (“Residual Group”).

The two groups will be decided after the Deeds have been approved and executed to ensure the optimum structure for Pasminco prior to the proposed float proceeding.

The proposed Deeds also have sufficient flexibility to allow for possible variations to the structure for the proposed capital raising.

If the float was not to proceed, the proposed Deeds incorporate a number of fallback measures.

The proposal requires a Summit Facility to be in place when the Deeds are executed to enable the Administration facility to be augmented and to provide a working capital facility.



The key terms of the Summit Facility have been substantially agreed with the Summit Facility financiers and are expected to be finalised to enable the Deed documents to be executed as required. In this regard, the Facility will be provided once relevant documents (including the Deeds of Company Arrangement and the Security Trust Deed) are finalised and executed.

The Deeds must be executed within 21 days of the resolution accepting the Deeds being passed (or such further period as allowed by the Court).

If the Summit Facility is not in place when the Deeds are executed, the float will not be able to be pursued (unless alternative funding is secured) and the Deeds will require the Administrators of the Deeds to convene a further meeting of creditors to consider, among other things:

- Whether all Pasmenco assets are to be realised pursuant to the Deeds.
- Whether the Deeds should be terminated and the Companies placed into a formal winding up.

1.3 Equity & Float Option

In consultation with the Committee of Creditors, Pasmenco Management and our advisors, we have considered a range of alternatives for the proposal to restructure Pasmenco. The option that we consider to be the most preferred option has been called the Equity & Float Option.

The key aspects of the Equity & Float Option are as follows:

- A public offering of equity (say 50%) in a new holding company of the Ongoing Group.
- An initial cash distribution to creditors from the float proceeds (after payment of priority creditors), subject to the amount of new equity floated.
- Creditors will have the opportunity to benefit from the potential increase in value of their listed equity holding. In this regard, the restructured entity will be lowly geared and consist of a world class asset base, ready to take advantage of forecast improved market conditions.
- A Pricing Committee, comprising major creditors, will vote on the float pricing parameters which will determine whether the float proceeds.

The Committee of Creditors, which represents approximately 99% of creditors in number and 80% in value, has indicated its support for the proposal.

1.4 Amendments to Proposed Deeds

Since the adjournment of the meetings of creditors held on 15 July 2002, we and our advisors have progressed the various documents required to implement the proposed restructure of Pasmenco. As the documents have progressed, it has become necessary to amend the proposal for Deeds of Company Arrangement.

These amendments have been required to reflect changes to certain documents and clarify or enhance certain parts of the proposal.

The key amendments to the proposal are discussed at section 3.3 below and are shown in the amended Statement Setting out Details of the Deeds of Company Arrangement and Other Restructure Documents (“the Summary Statement”) (**Annexure 1**).

A Statement of Key Amendments summarising the key amendments made to the Summary Statement is attached at **Annexure 2**.

1.5 Fallback Restructure Options

An advantage of the proposed Deeds is that they contain a number of fallback restructure options which can be pursued if it is decided that the float should be withdrawn.

The options available to creditors may include, but are not limited to, the following:

- Equity Option
 - Debt is converted to equity in the existing holding company.
 - Creditors obtain returns from cash distributions and sale of debt or equity.
 - Possibility of a float at a later date.
- Realisation of Assets in a Deed
 - All assets are realised and the net proceeds distributed pursuant to a Deed.
- Formal Winding Up
 - All assets are realised and the net proceeds distributed in a formal creditors’ voluntary winding up.

If the float was withdrawn, a meeting of all creditors would be convened to determine which option of these should be taken, or whether an alternative option, should be pursued.

1.6 Investigations

In the first report, we detailed the investigations performed by us into the affairs of Pasminco and our key findings. In this regard, based on the information reviewed by us, we noted that in our opinion:

- A combination of a number of factors contributed to the failure of Pasminco.
- Further work is required to establish if any of the reasons for failure constitute a breach of duty by Pasminco’s Directors or advisors. Any cause of action for a breach of duty is available under the proposed Deeds or in a Liquidation.
- Pasminco did not trade whilst insolvent.
- There are no voidable transactions recoverable by a Liquidator.

1.7 Options Available to Creditors

Concurrent meetings of creditors that were held and adjourned on 15 July and 16 August 2002 will be reconvened on 30 August 2002 to consider the proposal for Deeds of Company Arrangement to allow the restructure of Pasminco to proceed.



Under the Act, at the meetings of creditors, creditors may resolve that:

- a) Each of the Companies execute Deeds of Company Arrangement as outlined in section 3 of this report and sections 4 to 6 of the first report (subject to amendments referred to in this report) and the Summary Statement (**Annexure 1**); or
- b) Each of the Administrations of the Companies should end; or
- c) Each of the Companies be wound up.

1.8 Recommendations of Administrators

We consider that the proposed Deeds offer the best opportunity to maximise the return to creditors.

For the reasons set out in this report and the first report, in our opinion, it is in the creditors' best interests to accept the Deeds of Company Arrangement for each of the Companies in the form proposed to allow the restructure of Pasminco to proceed.

We do not believe it is in the creditors' best interests for each of the Administrations to end or for each of the Companies to be wound up.



2 Introduction and Purpose of Report

This report is the Administrators' second report to creditors pursuant to section 439A of the Act. The second report is provided in relation to 22 Companies within the Pasminco Group that were placed into Voluntary Administration on 19 September 2001.

This report is provided as a supplementary report to the first report. In this regard, this report is to be read in conjunction with the first report.

In particular, the first report provides inter alia, the following:

- Details of the proposal for Deeds of Company Arrangement.
- Statutory information for the Pasminco Group.
- A summary of Pasminco's business activities and historical financial performance.
- Details of Pasminco's current financial position.
- An outline of the key administration issues that we have been required to deal with since our appointment on 19 September 2001.
- Details of our investigation of the affairs of Pasminco.

Should any creditor not have received a copy of the first report, they should request a copy from us.

The first report and this report have been prepared exclusively for the use of the creditors of Pasminco pursuant to the Act. The reports do 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 and the first report has been obtained from a wide range of sources and knowledge accumulated by us during the course of the Administration.

Our reports do not guarantee or warrant the current or future position of Pasminco. A significant amount of the trading information, asset values and modelling which has been produced by the Administrators and Pasminco over the past 11 months, by necessity, cannot be shared with the wider group of Pasminco'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 assist creditors to determine how to vote in respect of the future of Pasminco. In doing so, we have made assumptions that we consider to be valid at the time of writing, but which may not prove to be valid.

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 Administrators' express written consent.

3 Deeds of Company Arrangement

3.1 Introduction

As creditors are aware, the meetings of creditors held on 15 July and 16 August 2002 were adjourned to 30 August 2002 to enable various documentation to be agreed and finalised with a number of stakeholders to ensure that the proposed Deeds can be executed within the required timeframe, if they are accepted by creditors.

In the first report we provided creditors with details of the proposed Deeds, including the manner in which we expect the restructure to progress and a summary of the Equity & Float Option, which will be pursued if the proposed Deeds are accepted by creditors.

We refer creditors to sections 4 to 6 of the first report in this regard.

It has been necessary to revise certain elements of the proposal set out in the first report as we have progressed the Deed documentation.

In the sections below we comment on the following:

1. The current status of the Deed documentation; and
2. Details of the key amendments to the proposed Deeds.

We have also provided below a summary of the proposal which is largely as set out in the Executive Summary of the first report.

The Summary Statement (including amendments to the proposal) is attached at **Annexure 1**.

A Statement of Key Differences setting out details of the key amendments to the proposal set out in the first report is attached at **Annexure 2**.

3.2 Status of Deed Documentation

There are a number of documents critical to the implementation of the proposal to restructure Pasmenco.

Work has continued on progressing these documents since the meetings of creditors held on 15 July 2002.

In particular, we and our solicitors have been liaising with key stakeholders regarding the terms of certain documents and continuing to prepare Pasmenco for the proposed float.

In this regard, the relevant Deed documentation has progressed substantially since 15 July 2002. Whilst the Deed documents are not in their final form at this stage, they have been substantially agreed and we believe that the documents (including the terms of the Summit Facility) will now be able to be finalised within the 21 day statutory period allowed to execute the Deeds of Company Arrangement should they be accepted by creditors on 30 August 2002.

If the Deeds are accepted by creditors on 30 August 2002, they must be executed by the parties to them by 20 September 2002 unless an application is made to Court to extend the execution period.

The proposal requires the Summit Facility, which is required to replace the Administration facility and provide a working capital facility, to be in place when the Deeds are executed.

If the Summit Facility is not in place when the Deeds are executed, the float will not be able to be pursued (unless alternative funding is secured) and the Deeds will require the Administrators of the Deeds to convene a further meeting of creditors to consider, among other things:

- Whether all Pasmenco assets are to be realised pursuant to the Deeds.
- Whether the Deeds should be terminated and the Companies placed into a formal winding up.

Key terms of the Summit Facility have been substantially agreed with the Summit Facility financiers, however, provision of the Facility will be subject to finalisation and execution of the relevant documents, including the Deeds and Security Trust Deed.

As work has continued on obtaining the agreement of stakeholders to the Deed documentation, a number of amendments have been made to the proposed Deeds. These amendments are discussed below:

3.3 Amendments to Proposed Deeds

The following key amendments have been made to the Summary Statement since the first report was distributed to creditors.

- Companies subject to the Deeds of Company Arrangement will now be providing more comprehensive cross indemnification of the Deed Administrators. The indemnities provided by Companies subject to Deeds of Company Arrangement to the Administrators for personal liabilities incurred, will have a higher priority under the Security Trust Deed where the liability is to be discharged in a company other than where it was originally incurred.
- Amendments have been made to the security structure, particularly with respect to clarification of the priorities currently contemplated under the Security Trust Deed.
- The Deed Administrators are now required to convene a meeting of creditors to consider alternative options if the Summit Facility is not in place when the Deeds are executed as discussed at section 3.2 above.
- The current Administration facility will remain in place albeit with different financiers as it will form part of the Summit Facility. In addition to the current Administration facility, the Summit Facility will include a working capital facility for the period of the Deeds.

The current Administration facility is to be repaid from the float proceeds. There will also be further circumstances in which the Summit Facility is reviewable by the Summit Facility financiers. Terms of the Summit Facility are subject to final agreement with the Summit Facility financiers.

- The following additional requirements must now be met before the Deed Administrators allow the proposed float to proceed:
 - Other Restructure Documents as specified in the Deeds, including the PPT Lease Transfer and Waiver Deed, the Mine Fleet Assets Transaction Waiver and Consent Deed, the Newcastle Ship Loader Transaction Waiver and Consent Deed and the Accommodation Village Transaction Waiver and Consent Deed must be executed by all of the parties to them or the waivers, consents and other matters, the subject of those documents, must have otherwise become binding as a consequence of the proposed parties to those agreements having voted in favour of the relevant Deeds being executed or the Court ordering that the waivers, consents and other matters are binding.
- The Deed Administrators will be able to waive certain requirements that are to be met before the float proceeds, including the requirements summarised above, with the approval of the Pricing Committee.
- An indemnity provided by Pasminco Century Mine Limited (“PCML”) to QBE Insurance Limited (“QBE”) will not be compromised under the Deeds subject to QBE providing various waivers and consents in relation to the PPT Lease. In this regard, an agreement will need to be entered into between Pasminco Limited, Newco and QBE, under which a guarantee by Pasminco Limited in favour of QBE will be replaced with a guarantee by Newco in favour of QBE.
- The circumstances giving rise to the release of creditors’ claims have been clarified.
- The Deeds will allow the Deed Administrators to terminate the ASIC Deed of Cross Guarantee.
- Representatives of Residual Group companies will have access to the books and records of Ongoing Group companies.
- Certain mechanical and procedural amendments have been made to the fallback restructure options.

Creditors should also be aware that the structure for the capital raising may change prior to execution of the Deeds to take into account taxation and other structuring and commercial factors.

For example, the structure could be varied to involve an existing Group Company such as PCML instead of Newco acquiring the Ongoing Group and the debt payable by the Ongoing Group to the Residual Group. Another Company in the Group could then offer shares in PCML or the other Company for sale under a capital raising.

It is also possible that PCML or another Company could become the holding company of the Ongoing Group as an option for consideration by creditors if the float was withdrawn.

The above amendments are the ones that we consider to be of greater importance. Creditors should refer to the Summary Statement for all terms of the proposal.

We have summarised below the key elements of the proposed Deeds and the Equity & Float Option as they were originally advised to creditors in the first report.

3.4 Proposal for Deeds of Company Arrangement

The Deeds proposed to creditors involve the implementation of two distinct steps:

- a) A restructure of the Group, achieved principally by splitting the Group into two parts; and
- b) The exchange of existing debt for equity in a new holding company of the Ongoing Group, with the sale of 50% (or some other portion) of the equity to investors.

If the float was not to proceed, the proposed Deeds incorporate certain fallback measures.

The proposal has been formulated over the course of the Administration to date. During this period, we have considered a number of possible restructure options ranging from those with relatively high levels of debt to options with more conservatively geared Balance Sheets.

The proposal to be voted on by creditors is the option that we consider offers the best possibility of maximising the return to creditors. In this regard, the proposal has been formulated in consultation with our advisors, Pasmenco Management and the Committee of Creditors.

Creditors should also be aware that if the Deeds are accepted by creditors, upon execution by the Companies and the Deed Administrators, they will become binding on all creditors and shareholders affected by their terms. However, under the Act, a Deed of Company Arrangement cannot in general terms bind an owner of property with respect to property used by the company or a lessor of property with respect to property occupied by the company unless that party votes in favour of the Deed if it purports to bind them. There are a number of creditors who fall into those categories in Pasmenco.

Under the restructure, the Pasmenco Group would be split into two distinct Groups prior to the float proceeding. The Groups would comprise:

- a) Ongoing Group entities required for the ongoing operations.
- b) Residual Group entities that will not be included in the restructured Pasmenco.

The proposed Deeds allow for the decision as to which group each entity is placed within to be made after the execution of the Deeds so as to ensure that the optimum structure is determined prior to the float proceeding.

If the proposed Deeds are accepted by creditors and the Summit Facility (or alternative funding) is obtained, the Administrators of the Deeds will pursue the implementation of the restructure with a view to proceeding with the recommended Equity & Float Option.

3.5 Equity & Float Option

In broad terms, this option which forms the basis for the proposed Deeds, involves a public offering to provide creditors with an initial cash return and an allocation of shares in the publicly listed entity.

3.5.1 Newco Structure

The Equity & Float Option will utilise a newly incorporated entity (“Newco”) to act as the future parent of the Ongoing Group and directly or indirectly raise the float proceeds.

This structure has a number of important advantages compared to using Pasminco Limited as the future parent for the float.

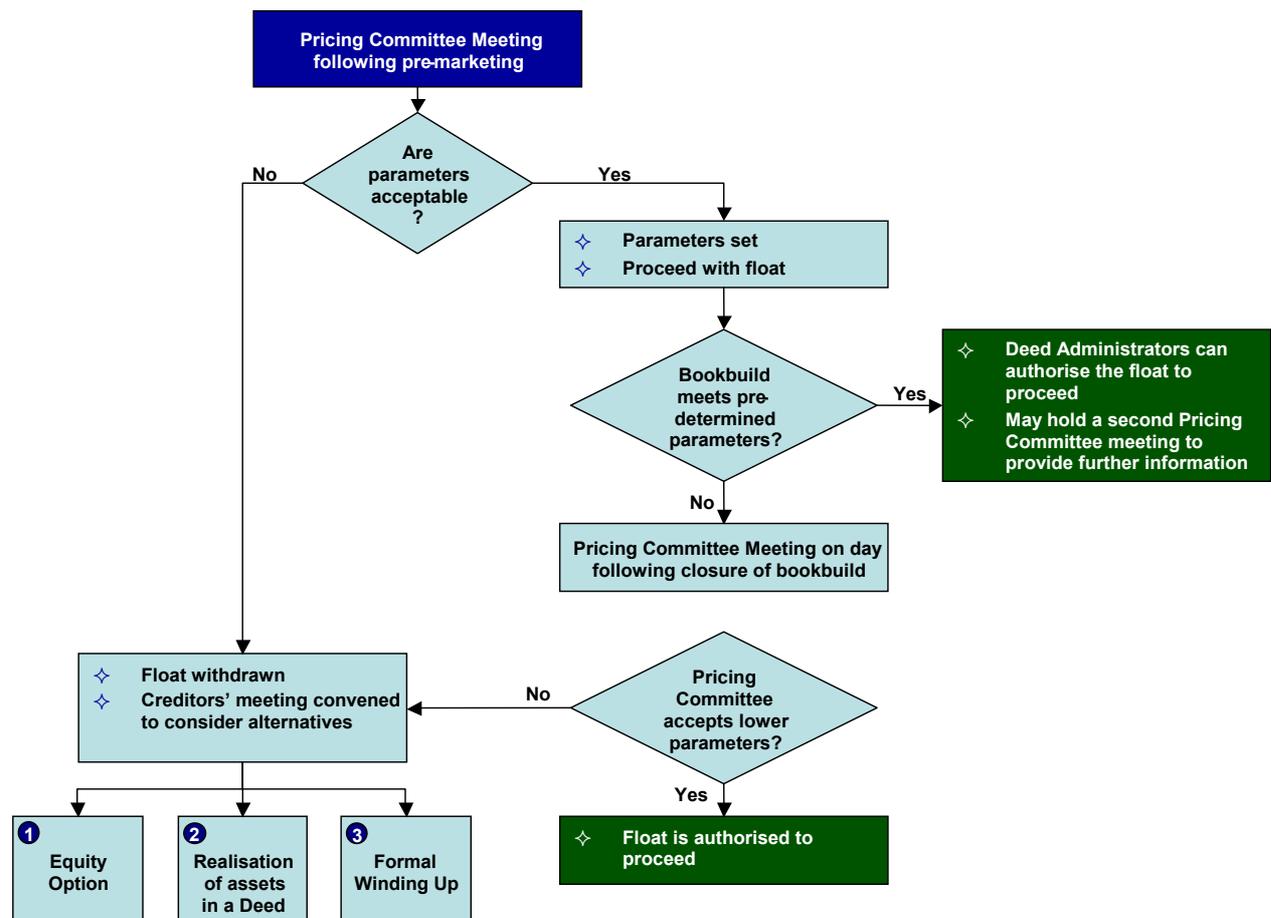
It should be noted that under this structure, existing shareholders will not receive any equity interest in the restructured Pasminco. However, they may be offered some priority allocation in the float.

3.5.2 Parameters for Capital Raising

We have avoided publishing any potential float values in the first report and in this report so as not to prejudice the Initial Public Offering process.

A Pricing Committee will be empowered to set clear pricing parameters for the float following the pre-marketing process. In this regard, a Pricing Committee will be made up of creditors with claims in excess of AUD5 million.

The process proposed for setting the pricing parameters and authorising the float to proceed is set out below:



We note that if the float is withdrawn, a meeting of all creditors will be held and certain fallback options will be considered.

3.6 Restructure Analysis

3.6.1 Advantages of the Equity & Float Option

This option has a number of important advantages over Liquidation and the other restructure options contemplated:

- With a successful float, creditors could potentially receive an initial cash return in a short period of time whilst retaining potential for upside via their remaining equity holding.
- The restructure mechanism proposed provides flexibility for those creditors that choose to retain up to their full pro rata equity position.
- Liquidation risk is reduced.
- The creditors that finance the Summit Facility will have the majority or all of this new funding repaid shortly after the float (if successful).
- The restructured Pasminco has an ability to attract better personnel, including Directors and Management.
- A more viable capital structure would allow Pasminco to make more strategic decisions going forward rather than being weighed down or pre-occupied with the debt burden. It may also be able to take advantage of any growth opportunities.
- It provides a mechanism for creditors to value residual shareholding and carry equity at real value.
- This option is more likely to satisfy the regulatory authorities than the other options.
- The improved borrowing profile should lead to a lower cost of funds.
- As opposed to Liquidation, this option avoids crystallising employee and environmental liabilities.

We have engaged investment banking firms to act as Joint Lead Managers (“JLMs”) to assist with the proposed float. The JLMs consider that the Equity & Float Option is viable despite recent volatility in global financial markets.

3.6.2 Disadvantages of the Equity & Float Option

There are also a number of potential disadvantages:

- The cost and uncertainty of equity raising.
- Whilst the advice received to date has been that the market would be receptive to this type of equity raising, there is no guarantee that market sentiment will be favourable at the time of the float. Therefore, there is no certainty that the float will occur in the time frame contemplated.
- In the event that the float is withdrawn and Liquidation is contemplated, the future Liquidation return may not be as attractive.

3.6.3 Restructure Risks

It should be noted that such a restructure is subject to a number of risks. These are summarised below:

- Inability to procure ongoing funding in the period preceding the float.
- Decreases in the zinc price.
- A significant appreciation in the AUD against the USD.
- Production problems, including potential industrial action.
- Inability to attract and retain quality Board members and Management.
- Environmental risks.
- Market conditions being considered unfavourable to the float proceeding.
- Execution risk. In this regard, the restructure contemplated is very complex, requiring the proposed float to be integrated with other elements of the restructure.

The implications of one of these risks eventuating is that the float may be withdrawn. If this eventuates, creditors will have a number of fallback options as set out in Section 3.7 of this report.

3.6.4 Summary

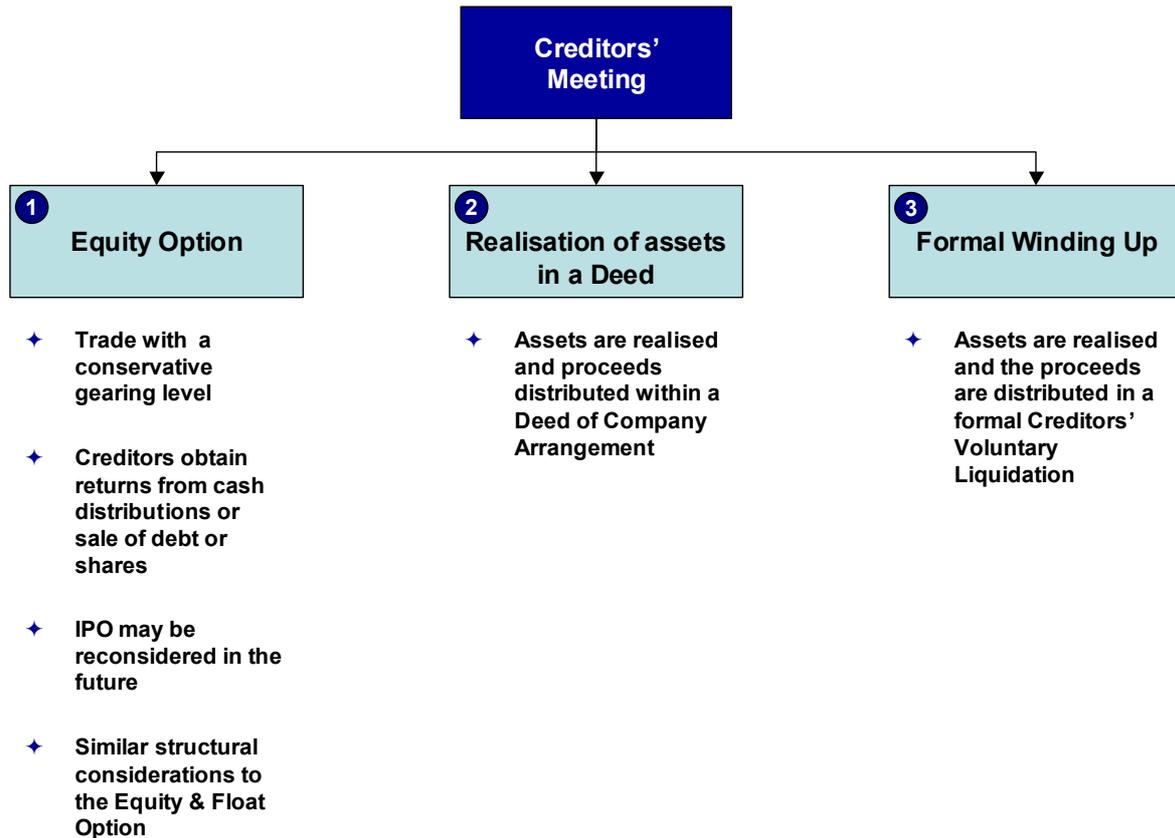
Based on our work performed during the Administration, and in consultation with certain advisors, we are able to advise creditors that:

- i) **The return from the Equity & Float Option is expected to substantially exceed the estimated Liquidation return.**
- ii) **The JLMs consider the proposal to be viable.**

3.7 Fallback Restructure Options

There is the possibility that the float will be withdrawn or the bookbuild process may not meet the pre-determined pricing parameters set by the Pricing Committee. If this eventuates, the proposed Deeds require that the Deed Administrators will convene a meeting of creditors as soon as practicable.

The options available to creditors may include, but are not limited to, the following:





3.7.1 Equity Option

If the float is withdrawn or the bookbuild price is unacceptable, then creditors may decide to continue with a restructure option and undertake to convert a certain level of debt to equity.

3.7.2 Realisation of assets in a Deed

If creditors elected to adopt this option, then all of the Companies would be administered pursuant to Deed provisions similar to the manner that the Residual Group is to be conducted under the Equity & Float Option. This would involve the timely realisation of the assets of the entire Pasminco Group.

Under this option, the Deed Administrators would seek to realise Pasminco's assets in an orderly manner. The Deed Administrators would be responsible for ongoing trading whilst the assets are sold, however, they would need to be satisfied that necessary funding was in place to enable trading to continue whilst the assets are sold.

3.7.3 Formal Creditors' Voluntary Liquidation

This option would involve all of the Companies in Voluntary Administration being placed into a Creditors' Voluntary Winding Up. The assets would be sold or shut down as soon as possible under this option.

4 Summary of Investigations

In the first report, we provided details of the investigations performed by us as Administrators. In particular, our investigations focused on:

- The reasons for the failure of Pasminco and whether those reasons may constitute a breach of duty by Pasminco's Directors or advisors; and
- whether Pasminco traded whilst it was insolvent.

In this regard, we refer creditors to section 12 of the first report.

By way of summary, we make the following comments:

- In our opinion, a combination of the following factors contributed to the failure of Pasminco:
 - The decline in the world zinc price.
 - Pasminco's debt burden.
 - The acquisition of Savage.
 - The effect of the devaluation of the Australian dollar on Pasminco's hedge book.
 - Inadequate management information systems.

- Further work is required to be performed by us and our advisors in order to determine whether the reasons for the failure of Pasminco may constitute a breach of duty by Pasminco's Directors or advisors.

Whilst this work has progressed since the meeting of creditors held on 15 July 2002, further work is still required to be performed.

- Importantly, if there is ultimately found to be any actions available for any breaches of duty by Pasminco's Directors or professional advisors, these actions would be available under the proposed Deeds of Company Arrangement.
- We have reviewed a large amount of information in order to consider whether a Liquidator could establish if any of the Companies traded whilst it was insolvent. Based on the work performed by us, in our opinion, none of the Companies traded whilst insolvent.
- We have also investigated whether there are any voidable transactions that may be recoverable by a Liquidator. In this regard, we note that:
 - We are not aware of any creditor that has received an unfair preference.
 - Our investigations have not disclosed any transactions, which in our view, may be uncommercial and therefore voidable by a Liquidator of Pasminco.
 - Our investigations have not disclosed any loans which, in our view, may be unfair and therefore voidable by a Liquidator of Pasminco.
- Potential recoveries by a Liquidator for insolvent trading, or in respect of any voidable transactions, would not be available under the proposed Deeds of Company Arrangement.

5 Other Options Available to Creditors

5.1 Introduction

Pursuant to Section 439C of the Act, at the second meetings of creditors, creditors may resolve that:

1. Each of the Companies execute Deeds of Company Arrangement.
2. Each of the Administrations of the Companies should end.
3. Each of the Companies should be wound up.

We have commented regarding the proposed Deeds at Section 3 above.

If a majority in number, and a majority in value, of those creditors voting at the meetings approve the proposal for the Deeds, the Deeds upon execution by the Companies and the Deed Administrators, will become binding on all creditors and shareholders affected by their terms.

5.2 Whether the Administrations Should End

We consider that the Administrations of the Companies should not end as the Companies are insolvent given the existing claims against them.

5.3 Formal Liquidation

We refer creditors to our comments at Section 7.2 of the first report.

In our opinion, the return to creditors in a formal Liquidation is likely to be significantly less than that which could be achieved through the restructure under the proposed Deeds.

Accordingly, we do not consider that the Companies should be wound up.

5.4 Other Matters to be Decided at Second Meetings

In addition to deciding the future of the Companies, there are three other resolutions to be voted on by creditors at the reconvened second meetings of creditors as follows:

- i) Appointment of a Committee of Creditors (or Committee of Inspection if a Liquidator is appointed).
- ii) Approval of the Voluntary Administrators' further fees.
- iii) Approval of the Deed Administrators' fees (if the Deeds are accepted).

5.4.1 Appointment of Committee of Creditors

The tenure of the current Committee of Creditors ceases at the end of the Voluntary Administration period. We recommend that a Committee of Creditors be appointed under the proposed Deeds or if any company was to be placed into Liquidation, to assist the ongoing Administrations of Pasminco.

Accordingly, it will be necessary at the reconvened second meetings of creditors to pass a resolution appointing a new Committee of Creditors or a Committee of Inspection.

5.4.2 Approval of Voluntary Administrators' Further Fees

Fees Approved to Date

We commented in the first report regarding the work we had performed during the Administration and the amount of our fees.

At the second meetings of creditors held on 15 July 2002, creditors resolved to approve the Administrators' fees totalling AUD8.25 million which had been calculated as follows:

	AUD
Actual fees 19/9/01 to 15/6/01	6,798,218
Estimated fees 16/6/01 to 5/8/01	1,451,782
Total fees approved	8,250,000

At the request of some creditors, we agreed to restrict the payment of our fees to those fees incurred to 30 June 2002 so that fees incurred by us after this date, but up to a total of AUD8.25 million from the commencement of the Administration, would not be paid without the consent of the Committee of Creditors, approval by creditors at a further meeting of creditors or by an Order of the Court.

Our fees incurred to 30 June 2002, which have now been paid, are AUD7.2 million. The Committee has consented to the payment of our fees incurred for July 2002 totalling AUD902,000.

Approval of the Administrators' Further Fees

At the adjourned second meetings of creditors, we will seek to have our fees approved by creditors for a further AUD1.60 million. This amount is in addition to the amount of AUD8.25 million approved at the meetings of creditors held on 15 July 2002.

In this regard, the amount of AUD8.25 million previously approved by creditors had been calculated assuming that the proposed Deeds of Company Arrangement would be accepted by creditors at the meetings held on 15 July 2002 and the Deeds would be executed by 5 August 2002. As a result of the two adjournments of the meetings, the Voluntary Administration period has been extended and our fees will exceed this amount.

Accordingly, the fees approved to date and our estimate of further fees can be reconciled as follows:

	AUD
Fees incurred and paid 19/9/01 to 31/7/02	8,129,007
Estimated fees to be incurred (not paid) 1/8/02 to 20/9/02	1,720,993
Less fees approved to date (subject to undertaking)	(8,250,000)
Balance to be approved (ie. up to limit of)	1,600,000



The Administrators propose that at the reconvened second meetings of creditors, a resolution for the Administrators' further fees be approved in the amount of up to AUD1.60 million.

In this regard, we have continued to perform a substantial amount of work since the meetings of creditors held on 15 July 2002 with respect to, inter alia, the preparation of the Deed documentation, ongoing work preparing Pasminco for the proposed float, liaising with the Committee of Creditors and numerous other Administration issues.

If a lesser amount than the fees we are seeking to approve is incurred, only the amount actually incurred would be paid. Alternatively, we are able to apply to the Court to set our fees, as a cost of the Administration.

Our fees have been calculated in accordance with Ferrier Hodgson's scale of rates, a schedule which was provided with the first report and is attached at **Annexure 3** of this report.

5.4.3 Approval of Deed Administrators' Fees

In the first report, we proposed that creditors approve our future fees as Deed Administrators, if the Deeds were accepted by creditors, subject to a cap of AUD3.4 million.

This amount was based on an estimate of the fees that we considered may be incurred to 31 December 2002, subject to the matters that evolved.

In order that proxies submitted for the 15 July 2002 meetings remain valid with respect to this resolution, we do not propose to change this resolution even though we expect our fees as Deed Administrators to 31 December 2002 will be less than AUD3.4 million given the extended Administration period.

We estimate that given the two adjournments of the second meetings of creditors, our fees to 31 January 2003 would be approximately AUD3.4 million, subject to the matters that evolve.

We commented in the first report regarding the matters that we expected would be required to be completed should the Deeds be accepted by creditors. In this regard, the majority of the work that we expect to perform relates to implementing the restructure and overseeing the proposed float process and its outcome.

Given that the fees will be capped, we are unable to draw fees exceeding this amount. Should our fees exceed this amount, if for example the Deed timeframe extends beyond 31 January 2003, we will seek further approval from creditors.

We will also continue to inform the Committee of the level of our fees and provide an accounting of all future fees incurred and paid at future meetings of creditors.

Should Pasminco be placed into Liquidation at the reconvened second meetings, and a Committee of Inspection is appointed, in a Liquidation that Committee has the power to approve the Liquidators' fees.

5.5 Creditor and Voting Issues

5.5.1 Claim by Aquila

Many creditors are aware of a claim in the Administration by Aquila Resources Limited and its wholly owned subsidiary, Aquila EHM Pty Ltd (collectively "Aquila").



In this regard, Aquila has submitted a Proof of Debt in the Administration for approximately AUD153 million with respect to the sale by Pasminco of its 49% interest in the Ernest Henry Mine in March 2001.

At the meetings of creditors held on 15 July 2002, Aquila's solicitors read a statement to the meetings indicating that if its Proof of Debt was not admitted by the Administrators, it would commence recovery proceedings in the Supreme Court of Western Australia which would delay any distribution of funds to creditors under the proposed Deeds of Company Arrangement until the outcome of those proceedings is known.

We disagree that any proceedings commenced by Aquila would have that effect.

Aquila's claim has yet to be adjudicated upon and it has not provided all the documents that it relies upon to support its claim. As yet, we have not been satisfied that there is a proper basis for a claim.

If the proposed Deeds are accepted by creditors, we will immediately call for and adjudicate on Proofs of Debt of creditors. If any creditor's Proof of Debt is rejected, it has a right of appeal in respect of that decision. This is a normal incident of any insolvency administration and should not delay a distribution of funds to creditors.

The usual practice where all other matters have been resolved and a large claim remains outstanding would be for us to hold back sufficient funds to pay a dividend to the relevant creditor in case its Court proceedings were successful, however, a distribution could be made to other creditors pending determination by the Court. In this regard, Aquila is at best (and that is not conceded) an unsecured creditor and to this end, Aquila's claim, if admitted in full, would represent only about 5% of total unsecured creditor claims.

In light of the above, based on the information reviewed to date, we do not currently expect that the Court proceedings intimated by Aquila would have any material effect on either the timing or quantum of a distribution to creditors.

5.5.2 Use of Proxy Forms

We received a large number of proxy forms for the meetings of creditors held on 15 July 2002. The majority of these proxy forms were completed as general proxy forms, however several hundred proxy forms were submitted as special proxy forms.

Proxy forms completed for the meetings on 15 July and 16 August 2002, as either a general proxy form or a special proxy form, will be valid for the meetings to be held on 30 August 2002 subject to our comments below.

If a creditor completed a general proxy form, the person appointed as proxy will be able to vote on all matters to be dealt with at the reconvened meetings.

Important Note For Special Proxy Holders

Creditors who have completed special proxy forms may wish to change the directions given to their proxies on how to vote as a consequence of this report or for other reasons.

Further, creditors may wish to vote on the new resolution regarding additional Administrators' fees. As this is a new resolution that is required given the adjournment of the previous meetings, it will not be covered by the existing special proxies of creditors. Unless creditors complete a new special proxy form, they will not vote by special proxy on that resolution.

If creditors wish to either change their directions on existing resolutions or vote on the new resolution, they must complete a new proxy form for the reconvened meetings to be held on 30 August 2002.

For those creditors who completed a special proxy form in respect of the meetings on 15 July or 16 August 2002, unless a new special proxy is completed in its place, the vote specified in the original proxy form will be treated by the Administrators as a valid proxy for the purpose of voting at the reconvened meetings except with respect to the resolution for the additional Administrators' fees.

If a creditor completes a new special proxy form in a manner different than the first proxy form with respect to other resolutions, then the new proxy form will be treated by the Administrators as a replacement of the first proxy form.

If creditors have specific queries regarding the completion of proxy forms, they should contact Ms Christine Bertolotti or Mr Tim Cipolloni of this office.

5.5.3 ASIC Class Order

We have previously advised that 15 of the 22 Pasmenco Companies to which we have been appointed are subject to ASIC Class Order 98/1418 (known as "the Closed Group").

The Class Order was conditional upon each of the Closed Group companies entering into a Deed of Cross Guarantee ("the Cross Deed") whereby each of these companies has guaranteed the liabilities of each company in the Closed Group in the event of a winding up.

Accordingly, the effect of this Cross Deed is that each primary creditor of a Closed Group company is also a contingent creditor of each of the other Closed Group companies.

In order for a company to become part of the Closed Group, after the original execution of the Cross Deed in 1997, it was necessary for a Deed of Assumption to be executed by that company and lodged with and approved by ASIC.

Following the acquisition by Pasmenco of the Savage Group of companies in February 1999, four of these companies ("the Savage companies") were to be added to the Closed Group.

Due diligence work currently being performed for the proposed float has revealed that the Assumption Deed to join the Savage companies to the Closed Group was not lodged with ASIC by Pasmenco or its advisors.

The Savage companies affected by the non lodgement of the Assumption Deed are:

- Savage Resources Limited ("Savage Resources")
- Ramala Holdings Pty Ltd
- Savage EHM Pty Ltd
- Savage EHM Finance Pty Ltd ("Savage Finance")

Other than intercompany loans, the only assets and liabilities which we are aware of for these companies are:

- Savage Resources' shareholding in the US Group of companies that own and operate the US assets.



- The claim by Aquila against Savage Resources and Savage Finance (we refer creditors to our comments regarding Aquila's claim at section 5.5.1).
- Amounts owing to 3 counterparties by Savage Resources under certain hedge contracts.

Given that Pasminco published and lodged its statutory accounts and conducted its business on the basis that the Savage companies were party to the Cross Deed, 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 Cross Deed.

We are clarifying the legal position to confirm that the Savage companies should be treated in this manner.

In the meantime, for the purposes only of voting at these meetings, we consider that direct creditors of the other Cross Deed companies have a contingent claim against the Savage companies and direct creditors of the Savage companies have a contingent claim against other Cross Deed companies. As a result, the effect of this is the same as if the Savage companies are party to the Cross Deed.

Given the existence of the Cross Deed and in view of the comments above, creditors of any one of the Closed Group companies and the Savage companies will be able to vote for resolutions proposed in relation to all of the Closed Group companies and the Savage companies at the meetings of creditors.

One of the Companies not subject to the Cross Deed, PCML SPC Pty Ltd ("PCML SPC"), has no external or intercompany creditors of which we are aware. Accordingly, no resolutions will be able to be voted on for this company.

PCML SPC is a wholly owned subsidiary of Pasminco Century Mine Limited and holds a 50% shareholding in Lawn Hill & Riversleigh Pastoral Company Pty Ltd.

The Administration of PCML SPC will be allowed to end and control of it will revert to its Directors but subject to the ultimate control of its holding company which is in Administration.

6 Conclusions and Recommendations of Administrators

6.1 Proposal for Deeds of Company Arrangement

Deeds of Company Arrangement have been proposed for the Companies by the Administrators. The Deeds provide a mechanism for a restructure of Pasmenco to occur through two distinct stages:

- a) The splitting of the Companies into Ongoing Group and Residual Group.
- b) The public float of (say) 50% of equity to investors.

The proposal provides for a return to creditors from:

- a) An initial cash distribution from the float proceeds after deduction of certain liabilities under a priority structure.
- b) The potential upside in the value of the issued shares in the restructured Pasmenco.
- c) Surplus funds (if any) from the realisation of the assets of the Residual Group.

The proposal has been formulated by us in consultation with certain advisors, the Committee of Creditors and Pasmenco Management, after considering a range of alternatives to restructure Pasmenco. The proposed Equity & Float Option has been selected as the preferred manner to achieve the restructure given the distinct advantages it offers over other alternatives.

The Deed documentation has been substantially agreed with key stakeholders, thereby enabling us to propose that the Deeds of Company Arrangement be voted on by creditors on 30 August 2002.

An important element of the proposal is that a Summit Facility, which is required to replace the Administration facility and provide a working capital facility, be put in place when the Deeds of Company Arrangement are executed. The Deeds are required to be executed no later than 21 days after the resolution is passed by creditors (unless the Court allows an extension).

If the Summit Facility is not in place when the Deeds are executed, the float will not be pursued (unless alternative funding is secured) and the Deed Administrators will be required to convene a further meeting of creditors to consider alternative options.

Certain elements of the proposal have been revised as we have progressed the Deed documentation. These amendments are referred to in this report and incorporated into the Summary Statement (**Annexure 1**).

6.2 Advantages and Risks of the Proposal

In our opinion the proposal offers a number of compelling advantages to creditors as follows:

- The opportunity to receive an initial cash distribution from the float proceeds in a relatively short period of time.

- Creditors will receive an equity interest in the restructured Pasminco allowing them to receive the benefit of the forecasted improved market conditions and an improved operating structure of Pasminco. In particular, the restructured Pasminco will have minimal debt and consist of a world class asset base.
- A more viable capital structure.
- Creditors owed in excess of AUD5 million will have the ability to vote on the float pricing 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 for such a scenario as provided for in the proposed Deeds.
- Security will be granted to assist in the protection of employee entitlements and substantially all employees will retain their jobs.
- Ability to attract better Board/Management.

The proposal provides the restructured Pasminco with the best prospects of attracting a strong Board and Management team to operate the restructured Pasminco.

We have recently received advice from the Joint Lead Managers confirming their initial views that the proposal is achievable.

Creditors should be aware that there are a number of key risks that may adversely impact upon the success of the restructure, including execution and implementation risk. Many of these risks are outside of the control of Pasminco, including commodity prices, movements in the Australian dollar and the reaction of the market to the proposed float.

An appealing element of the proposal however, is that it incorporates certain fallback options if the float does not proceed.

In our opinion, a formal winding up of Pasminco does not offer creditors the opportunity to maximise their return. In particular, a formal winding up is more likely to result in reduced asset sale values, greater claims against Pasminco and would take a considerable period of time to complete (and hence delay providing any return to creditors).

6.3 Views of the Committee of Creditors

The Committee of Creditors has been involved with the development of the proposal to restructure Pasminco. We have met with the Committee formally on numerous occasions and held a substantial number of other discussions with them over the course of the Administration.

The Committee has had access to a substantial amount of information additional to that presented in the first report and in this report during the Administration, provided to them subject to Confidentiality Agreements, including certain commercially sensitive information.

The Committee has been satisfied with the information provided to them and has expressed support for the proposed Deeds.

The Committee, which consists of representatives of Pasminco's financiers and staff, represents about 99% of all creditors in number and about 80% in value.



6.4 Administrators' Opinion

The Administrators are of the view that the proposed Deeds of Company Arrangement are in the best interests of creditors and should be accepted.

In our opinion, the proposal offers the best opportunity to maximise the return to creditors and is likely to exceed the return that would be available in a formal winding up.

Accordingly, we recommend that creditors accept the proposal for each of the Companies to execute Deeds of Company Arrangement on the terms outlined in the Summary Statement.

In our opinion, it is not in the creditors' interests for each of the Companies to be wound up or for the Administrations to end.

DATED this 19th day of August 2002

J M SPARK
ADMINISTRATOR

P D McCLUSKEY
ADMINISTRATOR

Encl