# Sipa Resources International NL

ABN 26 009 448 980

22 October 2003

The Manager
ASX Company Announcements Platform
PO Box H224
Australia Square
SYDNEY NSW 2001

Dear Sir

We enclose herewith a copy of a letter being sent to all shareholders setting out details of the taxation position of the Return of Capital to shareholders.

Yours faithfully

**D J Gore**
Secretary

# Sipa Resources International NL

ABN 26 009 448 980

Dear Shareholder,

**Re: Return of Capital**

At the time of lodgement of the 2003 Annual Report with the authorities (22 September 2003) the Company had received no response to its application for a class ruling from the Australian Tax Office "ATO". This letter is to inform shareholders of the current ATO position concerning the "Return of Capital".

Following the November 2002 Resolution of Shareholders to proceed with a return of capital we applied to the ATO for a class ruling on 21 November 2002 which sought to have the payment treated as a return of capital for tax purposes.

A return of capital will only be treated as a dividend for tax purposes if the Commissioner of Taxation at his own discretion issues a determination to deem the return of capital to be an unfranked dividend for tax purposes.

On the 30 September 2003 some ten months later we have received a written determination that the ATO will deem the 2 cent first payment of the "Return of Capital" payment as an unfranked dividend for tax purposes. The ATO have also verbally advised that they will issue a determination to deem the 3 cent "Return of Capital" payable on 30 October 2003 as a unfranked dividend for tax purposes. We anticipate that we will not receive the actual class ruling until late November 2003.

Sipa could not legally declare a 5 cent dividend, because in compliance with the Corporate Law (Section 254T) dividends can only be declared from profits and Sipa's profits have not been sufficient to enable such a dividend to be declared (despite there being significant cashflow).

Despite continuous efforts by the Company the ATO has taken considerable time (estimated to be ultimately 12 months) to address our application which has put shareholders and the Company to considerable inconvenience.

What is of great concern to the Company is that due to the excessive time taken to come to their decision, the ATO have denied the Company (and shareholders) all other options for dealing with the $10.3 million being returned to shareholders.

Based on the experience of other public companies and the facts and circumstances surrounding the Return of Capital the Company and its advisors were of the view in undertaking the return of capital that the relevant circumstances did not exist for the ATO to deem the "Return of Capital" an unfranked dividend for tax purposes. The Company is still waiting on a detailed explanation from the ATO as to its reasons for deeming the "Return of Capital" to be a unfranked dividend for tax purposes.

One option for the Company, had the ATO advised in a timely fashion as to its intention to deem the "Return of Capital" an unfranked dividend for tax purposes, would have been to spend $10.3 million on exploration creating a greater chance for a discovery and at the same time giving the Company a tax deduction and so ensuring that the Company would pay little or no tax in the near future.

As a result of the ATO adopting its view a tax windfall estimated to be between $3 to $4 million has been created that was always intended to go to shareholders.

Your Company has spent considerable time and money in the preparation of the application for a class ruling which has been to no avail.

While the company has no recourse to the ATO when a class ruling is ultimately issued, shareholders either individually or collectively can appeal the position adopted by the ATO.

Yours faithfully

**P I B Pearce**
**Chairman**