



**WEST AUSTRALIAN
METALS LTD**

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8 October 2004

Manager Announcements
Company Announcements Office
Australian Stock Exchange Limited
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Dear Sir,

AUSTRALIAN TAX OFFICE CLASS RULING – AUSTIN ENGINEERING DEMERGER

On 6 October 2004, the Australian Tax Office (ATO) published Class Ruling CR 2004/108 (Class Ruling) relating to the demerger of Austin Engineering Ltd (Austin) by West Australian Metals Ltd (WA Metals).

The Class Ruling confirms the availability of demerger relief for shareholders and is consistent with the summary of tax implications of the demerger contained in the Explanatory Statement forming part of the Notice of Annual General Meeting on 28 November 2003.

The following is a summary of the Australian taxation consequences of the demerger based upon the Class Ruling. This summary does not purport to be a complete analysis or to identify all potential tax consequences nor is it intended to replace the need for specialist tax advice. Accordingly, shareholders of WA Metals should consult their tax advisers as to the consequences of the demerger.

Background

On 8 December 2004, Austin was demerged from WA Metals by way of a return of capital. The return of capital amounted to \$812,392 which was converted to equity in Austin through the creation of 22,205,738 Austin shares which were distributed to shareholders of WA Metals on the basis of 2 Austin shares for every 9 WA Metals shares held on 5 December 2003. The amount of the capital reduction was equivalent to approximately \$0.008 per WA Metals share.

Tax Implications for Australian shareholders holding their shares on capital account

The Class Ruling confirms that Australian resident shareholders who hold their shares as capital assets, are entitled to demerger relief under the demerger provisions contained in the income tax legislation.

Therefore, Australian resident shareholders are eligible to choose roll-over relief to defer the capital gains tax (CGT) consequences that happen to their WA Metals shares under the demerger.

The tax implications of a shareholder not choosing roll-over relief to apply are discussed in section (d) below.

Shareholders who do not hold their shares as capital assets and shareholders who are non-residents of Australia should seek specific advice about the tax implications of the demerger.

(a) Treatment of the distribution of the Austin shares

The Class Ruling confirms that the distribution of the Austin shares to shareholders of WA Metals is not assessable as a dividend.

The distribution of the Austin shares will be a CGT event for shareholders of WA Metals. However, a capital gain will only arise if the cost base of a WA Metals share was less than the \$0.008 return of capital. If a capital gain did arise, the demerger relief will enable shareholders to choose to defer the CGT consequences of this CGT event.

(b) CGT Cost Base

Whether rollover relief is chosen or not, it will be necessary for shareholders to recalculate the cost base and reduced cost base of their WA Metals shares and determine the cost base and reduced cost base of Austin shares received under the demerger.

This will require the shareholders to spread the cost base of their WA Metals shares just before the demerger on 8 December 2003 across those shares and the Austin shares that were received. The apportionment is based on the value that the Austin shares represented of WA Metals just after the demerger being approximately 14.591%. The remaining 85.409% is spread across the WA Metals shares.

Example:

You acquired a parcel of 20,000 WA Metals shares that had a cost base of \$1,000 just before the demerger. You later acquired another parcel of 10,000 WA Metals shares at a cost base of \$900 immediately prior to the de-merger. The cost base for all of your WA Metals shares is \$1,900 (\$1,000 plus \$900).

Under the demerger you received 6,666 Austin shares for these 30,000 WA Metals shares on the basis of 2 Austin shares for every 9 WA Metals shares.

The cost base of your shares after the de-merger is calculated as follows: -

Austin	\$1,900 x 14.591%	=	\$277.23
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The first element of the cost base (and reduced cost base) of each of your 6,666 Austin shares is \$0.0416 (\$277.23/6,666).

WA Metals	\$1,900 x 85.409%	=	\$1,622.77
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The first element of the cost base (and reduced cost base) of each of your 30,000 WA Metals shares is \$0.0541 (\$1,622.77/30,000).

(c) Disposal of Austin shares after the demerger

The Class Ruling confirms that the acquisition date of the Austin shares acquired under the demerger is the date each shareholder acquired their WA Metals shares. This will be relevant for purposes of applying the 50% CGT discount indexation, if available.

Therefore, on a subsequent sale of Austin shares, certain shareholders (such as individuals and superannuation funds who have held their WA Metals shares for more than 12 months) may be entitled to the 50% CGT discount. Alternatively, shareholders who acquired their WA Metals shares before 22 September 1999 may be able to claim cost base indexation on their Austin shares until the September 1999 quarter.

The Class Ruling also confirms that WA Metals shareholders who acquired some or all of their shares before 20 September 1985 and who choose rollover relief will be taken to have acquired a

corresponding number of their Austin shares before that day. A subsequent sale of the Austin shares may then be exempt from CGT.

(d) Shareholders who do not choose roll-over relief

If a WA Metals shareholder does not choose roll-over relief:

- The shareholder will realise a capital gain if the capital component of the in specie distribution received by the shareholder (\$0.008 per share) exceeds the shareholder's cost base in their WA Metals Shares.
- The Austin shares will be acquired at the date of the demerger, rather than be deemed to have been acquired at the time the shareholders acquired the corresponding WA Metals shares. This will preclude eligibility for the 50% CGT discount or indexation on a subsequent sale of the Austin shares and will preclude eligibility for the CGT exemption available for shares acquired before 20 September 1985.

A copy of the ATO's Class Ruling CR 2004/108 can be viewed on the WA Metals website at www.wametals.com.au or on the ATO's website at www.ato.gov.au.

Yours faithfully,
for **WEST AUSTRALIAN METALS LTD**



David Hamlyn
Executive Director