


INTERSUISSE

Minemakers Limited (MAK)

Progressing the phosphate

Simplifying the portfolio

Important: Intersuisse and an associate company, Phillip Capital Pty Ltd, are currently engaged by Minemakers Limited for capital markets services on commercial terms. For Disclosures, refer to the back page under "Important Information".

Recommendation

BUY

Price

40.5c

Calculated NPV

\$1.82

ASX / S&P Sector

Metals & Mining

Intersuisse initiated research on MAK on 25 October 2010. Since then:

- MAK has proposed the spin out of its base metal assets, significantly simplifying the company;
- MAK has confirmed progress on 3 of its phosphate projects.

In Intersuisse's view, while the share price has risen since we initiated research, the market is awaiting decisive developments. Intersuisse is confident that investors will be rewarded during 2011.

Snapshot

Last Price	\$0.405
Market Cap.	\$91 million
Shares on Issue	227.0m
52 Week High	\$0.585
52 Week Low	\$0.200

Price Chart



MAK has defined a JORC resource of 2,023Mt, fully diluted, of phosphate rock, grading 14.3% P₂O₅; most is in MAK's Wonarah project, which is the subject of an MOU with an Asia group that will under-write the development of this project. MAK also has a 42.5% direct interest in a phosphate project in offshore Namibia.

MAK also has exploration projects for phosphate offshore of Peru, salt offshore of NT and iron ore in WA.

MAK's share price was hit hard by the proposed RSPT, and has only just recovered, even though this threat has been removed.

See www.minemakers.com.au/

Analyst: Pieter Bruinstroop :

MAK : a simpler business

MAK is progressing the spin out of its base metal assets into TNT Mines Limited. The remaining assets comprise :

- The Wonarah phosphate deposit in Northern Territory;
- A direct 42.5% interest in Namibian Marine Phosphates Limited, plus a further 6.4% indirect interest;
- 70% of the Rocky Point deposits in offshore Namibia;
- 100% of Pacifico, which has phosphate deposits in offshore Peru;
- 100% of Port Keats (near Darwin) offshore salt deposit;
- Exploration Leases for magnetite adjacent to Grange Resources (GRR.ASX) Southdown project near Esperance in WA; and
- A small investment in BCD Resources.

This suite of assets is very focussed on phosphate.

Intersuisse's 26 November 2010 note described TNT Mines Limited.

Progress in phosphate projects

In an article in "Resources Stocks" (see Appendix), Andrew Drummond, the MD of MAK, detailed progress on each of the phosphate projects.

Intersuisse Comment

While the MAK share price has risen since Intersuisse initiated research on MAK, it has not performed as strongly as we expected, though we did warn that some patience would be required. We attribute this to confusion over MAK's investment in BCD Resources, a lack of understanding of Phosphate as a commodity and a lack of newsflow on progress of MAK's projects.

The article in "Resources Stocks" highlights the strategy and the progress made, as well as giving some signposts.

Intersuisse confirms its BUY recommendation on MAK.

Minemakers : Conclusions

With the proposed spin out of the base metal operations, MAK will :

- Generate significant value for shareholders as the value of these assets gets some recognition in the MAK share price; and
- Become a major player in the phosphate business, with interests in 4 separate operations.

Intersuisse's base case valuation of MAK is \$1.82, which compares with the current share price of 40.5c.

Figure 1 shows the detail of Intersuisse's valuation of Minemakers of \$1.82, which is about 4 times the current share price. It also shows that nearly all of the value in MAK is due to the phosphate projects.

Figure 1 : Detail of Intersuisse's revised valuation of MAK

discount rate =	12.0%	100%	30-Jun-10	11-Nov-10	
			Product	per share	
Wonarah DSO, Reserves	70%	\$A 31 m	\$A 22 m	\$0.05	\$0.05
franking credits	42%	\$A 34 m	\$A 14 m	\$0.03	\$0.03
Wonarah DSO, Resources	60%	\$A 216 m	\$A 129 m	\$0.28	\$0.29
franking credits	36%	\$A 44 m	\$A 16 m	\$0.03	\$0.04
Wonarah DSO, Extension	50%	\$A 55 m	\$A 28 m	\$0.06	\$0.06
franking credits	30%	\$A 19 m	\$A 6 m	\$0.01	\$0.01
Wonarah Beneficiated	50%	\$A 437 m	\$A 219 m	\$0.46	\$0.48
franking credits	30%	\$A 366 m	\$A 110 m	\$0.23	\$0.24
Sandpiper Moeb JV	65%	\$A 251 m	\$A 163 m	\$0.35	\$0.36
MAK Investments	80%	\$A 47 m	\$A 37 m	\$0.08	\$0.08
MAK : exploration, other	100%	(\$A 30 m)	\$A 0 m	\$0.00	\$0.00
Corporate	100%	(\$A 61 m)	(\$A 61 m)	\$0.13	\$0.13
Cash / (debt)	100%	\$A 31 m	\$A 31 m	\$0.07	\$0.15
Equity raisings	100%	\$A 120 m	\$A 120 m	\$0.25	\$0.16
TOTAL		\$A 1,559 m	\$A 833 m	\$1.77	\$1.82
Shares on issue	226.5m		17.2m	options	
Shares to be issued	226.5m		69m	extra shares	

Source : Intersuisse estimates

In a recent article published in "Resources Stocks" magazine, a copy of which is in the Appendix to this note, the MD of MAK, Andrew Drummond, stated :

- "I'm very confident that we'll (MAK) will be able to announce something on that in the first quarter of this year" ie. by March 2011;
- "We are working on an investment decision by the end of the second quarter";
- "We are in discussions with several potential investors that have funding and know how to develop and make fertiliser businesses".

Intersuisse is very encouraged by Mr Drummond's confidence.

Intersuisse believes that MAK will begin to out-perform through 2011 as announcements are made progressing its phosphate projects :

- Native Title agreement for the development of Wonarah to be signed in February;
- Investment in MAK by Asian investors, with whom MAK is presently in active discussion to progress the Wonarah project, by March 2011;
- An investment decision on Wonarah by June 2011; and
- A Reserve for Namibian Marine Phosphates.

Finally, while MAK's investment in BCD Resources has been very messy, Intersuisse is confident that

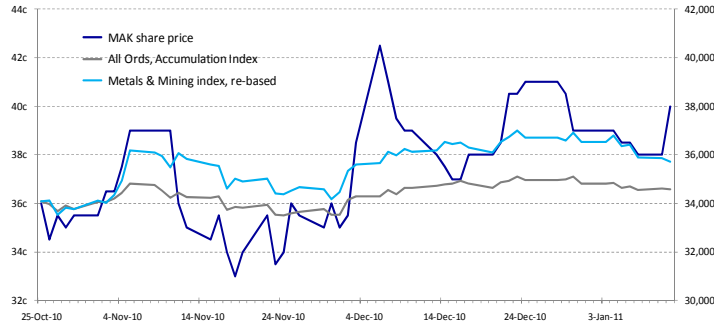
- MAK shareholders will benefit from this investment
 - MAK has paid \$8.5m for a stake that the market currently values at over \$22m
 - Intersuisse believes that if the projections for the operations of the Tasmania mine are realised, and we believe they should be, then this stake will be worth much more than its present value
- The investment will not prove to be too much of a distraction for MAK management, and that it will be effectively dealt with to ensure that it does not become a distraction

Newsflow on the progress of MAK's phosphate projects has been quiet, but MAK has now stated that they are confident of major announcements by March and June 2011.

Minemakers : Background

Figure 2 shows that the MAK share price has risen, but not as much as we would have expected given the significant discount of the share price to Intersuisse's valuation.

Figure 2 : MAK share price



MAK's share price has risen since Intersuisse initiated coverage, but not as much as we expected.

Source : IRESS, Intersuisse

Intersuisse attributes this weak performance to :

- A lack of understanding of phosphate as a commodity;
- A lack of newsflow representing progress on the phosphate projects; and
- Confusion over MAK's investment in BCD Resources;

Phosphate

Phosphate, as a commodity, is poorly understood, partly because it does not have an exchange traded price, and also there are no ASX listed players in this market.

Phosphate (P) is one of the three main essential ingredients for plant life, N-P-K. Nitrogen can be relatively easily sourced from low cost gas supplies, from which ammonia can be produced. DAP (Di-Ammonium Phosphate) and MAP (Mono-Ammonium Phosphate) are the most common end products for phosphate.

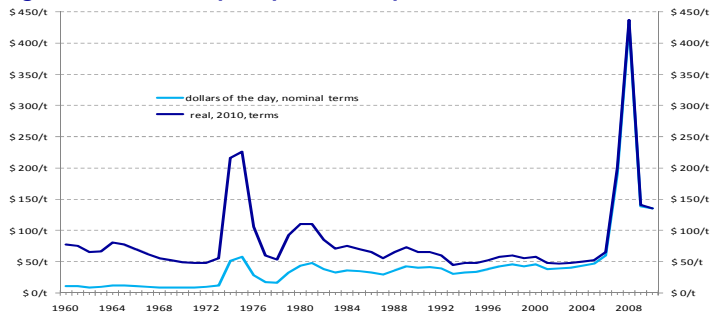
The third essential element is Potassium, (K for Kalium, the Latin name), which is usually marketed as Potash (KCl). It was the subject of the recent failed bid by BHP for Potash Corp (POT.TSX).

Intersuisse is very positive on phosphate as a commodity as

- China is acting to conserve its resources; and
- Investors are keen to participate in MAK's projects.

Figure 3 shows historical annual average phosphate prices. Spot prices have been \$145/t FOB Morocco for some months now, which compares with a base case of \$135 - \$140 equivalent assumed by Intersuisse in our valuation of MAK.

Figure 3 : Historical phosphate rock prices



Source : British Sulphur Consultants (CRU), US Bureau of Labor Statistics, Intersuisse

Intersuisse gets significant comfort from the interest shown in MAK by Asian investors and the depletion of China's own phosphate rock resources.

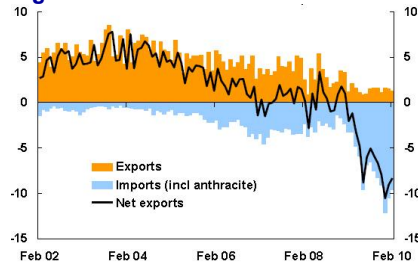
Also, the Chinese Government recently imposed an export tax of 35% on all exports of phosphate rock, which emphasises the concerns of the Chinese Government to conserve available resources.

Intersuisse believes that the experience of the coal market, which surged in price when China became a net importer, is relevant for the phosphate market.

In Intersuisse's view, phosphate as a commodity could be near the transition point where China changes from being an exporter to an importer as its own resources are depleted, and the issues of China's low grade (and high contaminant) resources become significant.

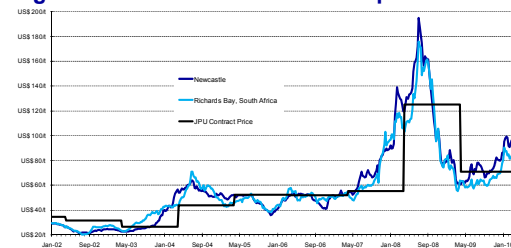
This has been shown previously, especially for coal markets during 2008, as shown in Figure 4a and 4b which shows the major rise in coal prices as China became a major importer.

Figure 4a : China's thermal coal trade



Source : Chinese Customs

Figure 4b: Seaborne thermal coal prices



Source : Globalcoal.com. Intersuisse

MAK's phosphate projects

The Appendix to this note comprises a copy of an article in the recent "Resources Stocks" magazine. The article is focussed on MAK's phosphate operations, which will be the basis of MAK when the base metal assets are spun out into TNT Mines Limited, which is expected in about March 2011.

Wonarah, NT

- A feasibility study concluded that a project based on the Direct Shipping Ore (DSO) is viable, but MAK has decided NOT to pursue this option, but instead on a potentially much more significant project;
- Wonarah is fully permitted, except for a Native Title Agreement, which is expected to be signed in February;
- The much larger project, which is to produce DAP or similar downstream product will require significant capital, well beyond the means of MAK to raise independently
- MAK has been in positive discussions with Asian investors on this ambitious proposal;
- The MD, Andrew Drummond, is quoted in the article as saying that "I'm very confident that we'll (MAK) will be able to announce something on that in the first quarter of this year" ie. by March 2011;
- "We are working on an investment decision by the end of the second quarter";
- "We are in discussions with several potential investors that have funding and know how to develop and make fertiliser businesses".

Namibian Marine Phosphates Limited (NMPL)

- Present resources are 1,581Mt at 18.8% P₂O₅ and the plan is to double this by the end of 2011;
- The intention of the extra drilling is to be able to develop a mine plan, focussing on higher grade resources that are nearer to the coast;
- The scoping study, announced on 11 November 2011, showed operating costs of US\$ 60/t and a low cap.ex as the rent of the dredge vessel is totally included in the operating cost estimate;

MAK's development plan for Wonarah is ambitious, but MAK is working on realising this ambition

MAK's interests in phosphate resources offshore of Namibia have very large value potential

- The next step is marketing studies to determine the end product (mined material, beneficiated material, to 28% - 30% P₂O₅, or phosphoric acid to be used by existing DAP producers, especially in the USA where phosphate rock mine production has been curtailed).

Others

MAK WILL become a major global supplier of phosphate rock and derived product

The low costs of the NMPL scoping study augur well for MAK's 70% owned Rocky Point deposit, which is also offshore Namibia, about 500km to the north of the NMPL tenements.

MAK has been undertaking early stage exploration of its Pacifico project in offshore Peru. Marine sampling has discovered extensive mineralisation, with grade and distribution similar to Namibia.

BCD Investment

Background

On 22 July 2010, BCD announced an agreement with Bendigo Mining (BDG.ASX) for a scrip based merger, with BDG lending BCD \$8m prior to merger completion to finance the development of the Tasmania mine. The BCD share price rose from 10c to 12c on the news.

On 15 September 2010, BCD announced revised Reserves and Reserves as at 30 June 2010 :

- Reserves of 294koz, from 949kt at 9.7g/t, an increase of 41koz, before mining depletion of 32koz, on the 31 December 2009 estimate; and
- Total Resources of 521koz, from 1,447kt at 11.2g/t, of which 436koz, from 1,170kt at 11.6g/t, is in the Measured and Indicated categories
 - the total was down on the 571koz at 31 December due to mining depletion and a lower grade assumed for the Western Zone, from 16.0g/t to 10.6g/t

MAK's investment in BCD Resources has a messy history, that began in July 2010.

On 7 October (Thursday), BCD went into a trading halt.

On 11 October 2010 (Monday), BDG announced that

- BDG has advanced \$5m of the agreed \$8m loan to BCD;
- BDG issued a notice of potential default under the loan agreement and demanded repayment of the funds advanced by c.o.b 13 October.

It could be speculated that BDG would be aware that this action would likely cause BCD to be placed in administration again, and

- The bloated work-force could be rationalised using funds set aside in trust account from the previous period of administration; and
- The assets could be acquired for a value significantly less than that implied by the terms of the agreed merger.

The BCD share price fell from 15c, before the suspension from trading, to close at 5.2c on 14 October 2010.

On 14 October 2010, BCD announced a funding agreement with MAK :

- BCD would provide \$15m in loan funds to cover the development of the Tasmania mine until it can begin production, and associated working capital; and
- BCD shareholders will be asked to approve the conversion of the Minemakers debt to equity in BCD at 2.0 cents per share
 - following the conversion, Minemakers would own 64% of BCD and existing BCD shareholders would retain a 36% interest
 - Neville Bergin, the General Manager of Operations for MAK is appointed to the Board of BCD Resources;

- If the conversion is not approved by BCD shareholders, the Minemakers debt would become repayable within 90 days of the meeting.

On 11 November, MAK advised that

- \$8.5m had been advanced to BCD;
- "a material adverse change had occurred in BCD's financial position"; and
- "MAK concluded that it was not prepared to advance further loan moneys to BCD"

MAK gave BCD until 15 November to secure replacement funds.

On 22 November, after being given an extension by MAK, BCD announced

- MAK had agreed to maintain its advance of funds to BCD, but able to convert into BCD equity at 1.0c rather than 2.0c, as previously;
- BCD has secured an extra \$6.1m in new funds on the same terms, with the potential to extend this to \$10m.

Depending on how much of the \$3.9m (\$10m potential less \$6.1m advanced by the new investors) is converted into equity :

- MAK will own between 37% and 45% of BCD;
- The new investors will own between 19% and 22% of BCD; and
- The original BCD shareholders will own between 19% of 22%.

As shown in Figure 5, the BCD share price fell from 4.3c on 5 November 2010 to 2.1c on 22 November, drifting down to a low of 1.5c in December. It has since recovered to 2.6c.

Figure 5 : BCD share price since 2 January 2010



Source : IRESS, Intersuisse

On 8 December BCD announced that the mining operations would be restructured, with 85 operators being retrenched, and being paid out of the trust funds set aside by the administrators following April 2006.

The contractor, which has undertaken development activities at the mine for many years, will offer employment to about 40 people to undertake these mining operations.

Intersuisse View

Intersuisse understands that MAK formed the view that \$15m would not be enough to get BCD into profitable operation, and that the extra amount required was roughly \$2m to \$3m, but that MAK was not prepared to extend further funds, especially as MAK was not yet in a cash generating position.

The reason the Tasmania mine had been loss making included :

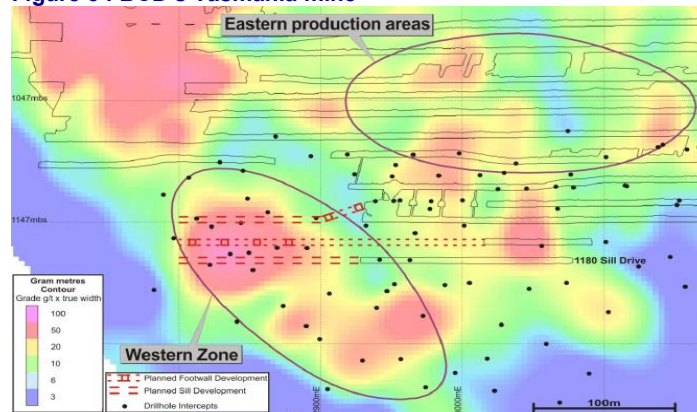
- Poor technical leadership leading to changes in the mining method;
- Poor operational leadership, with too many people in operations;
- The cost of developing to the newly discovered Western Zone; and
- Mining the lower grade Eastern zone to keep the mill operating while undertaking this development.

Figure 6 shows that the historical mine area, in the top left, was a much higher grade than the areas being stoped during 2010. Figure 4 also shows that the Western Zone is much higher grade.

Restructuring the operations of BCD's Tasmania Mine will provide a significant return on MAK's investment

At present prices, MAK already has a good return on its investment

Figure 6 : BCD's Tasmania mine



Source : BCD Resources presentation to AGM, November 2010

In Intersuisse's view :

- The operational problems at the Tasmania mine are well understood and steps have been taken to turn around the operations;
- The Tasmania mine is expected to transition from development to operations, and consequently processing a higher grade ore, over the course of this half year.

In conclusion, while the path has been very messy, Intersuisse is confident that MAK shareholders will benefit from this investment, though it runs the significant risk of being a distraction.

Also, the current BCD share price is more than twice the cost of MAK's investment.

Appendix : Resource Stocks, January/February 2011

COMPANY PROFILE

AUSTRALIA

MINEMAKERS

MAKING MINES, MAKING MONEY

Sitting on potentially the world's largest sources of phosphate, this company is keeping its options open to take advantage of such a strong position.

MINEMAKERS managing director Andrew Drummond summed it up perfectly: "If investors are thinking phosphate, they should be thinking Minemakers."

"As far as we're aware, we have more phosphate than any listed company in the world on any bourse."

"With operations in the Northern Territory and Namibia we have a nice geographic spread and can potentially export it to all corners of the world."

The company's flagship, the Wonarah project in northern Australia contains a phosphorus pentoxide (P₂O₅) resource of 43 million tonnes grading 30%.

A definitive feasibility study, completed in 2010, showed the potential for either a 620Mt direct shipping ore (DSO) mine, or a 1258Mt beneficiation operation.

Bulk sampling of the ore has proven the potential for fertiliser production.

"We've identified a strike length of 100 kilometres and the project is nearly 1000 square kilometres of mineralisation," Drummond said.

"We've completed a DFS and it was positive for a DSO mine, but [we] decided not to go ahead for the moment because we're chasing bigger fish."

"The biggest strategic decision we have to make at Wonarah is whether to move into downstream processing of phosphate fertilisers and phosphate chemicals."

The increased scope of operations would require a development partner, and Minemakers has started the search for an investor.

The project is nearly fully permitted and only awaiting sign-off on the Aboriginal land rights agreement, which is scheduled for February.

"We're getting a lot of interest from Asia," Drummond said.

"We are talking a lot of dollars and to do that we need Asian capital development funding."

"I'm very confident we'll be able to announce something regarding that in the first quarter of this year."

The decision to look at other options besides the DSO mine was because of the volatility of rock phosphate markets in recent years. A fertiliser business will provide more secure cash flow for Minemakers.

"Looking at the phosphate industry, where the margins are the highest, where the good money is made, is in the vertically-integrated fertiliser producers, the ones that control their own phosphate and run the value chain to the finished product," Drummond said.

"There are two key factors in operating a downstream fertiliser business. The first is to have a large source of phosphate and the other is access to natural gas."

"Up in Darwin there's lots of gas and of course we have lots of phosphate."

The size of the fertiliser operation will be determined by a number of factors.

During the first half, Minemakers will conduct studies into the scale of its fertiliser development and the highest value-adding final product.

"We're working on having an investment decision by the end of the second quarter," Drummond said.

"Until we actually decide what kind of fertiliser product we're going to make and the scale of production; that will determine the overall capital requirement. Some costs, such as building a railway line, are relatively fixed."

"We're in discussions with several potential investors. They are companies that have funding and know how to develop and make fertiliser businesses, and build railway lines."

"We need to look at our funding requirements, not just for the mine, but for factories, rail lines and gas pipelines."

But Wonarah is not the company's only big project, with its offshore Namibia deposits making waves in the global phosphate sphere.

Minemakers directly controls 42.5% and indirectly 6.4% of the Sandpiper joint venture. It also holds 70% of the offshore Rocky Point deposits.

The indicated and inferred resource stands at a massive 1581Mt grading 18.8% P₂O₅.

"We've completed a DFS and it was positive for a DSO mine, but decided not to go ahead for the moment because we're chasing bigger fish."

ANDREW DRUMMOND
MINEMAKERS

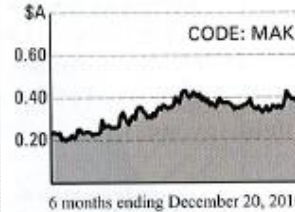


The plan is to double the resource by the end of the year.
 "That would become the single biggest non-state owned deposit in the world," Drummond said.
 "We've only tested the top two metres of the marine sediments.
 "We're not actually looking for a medal to get the biggest deposit. What we want to do, because the area is so large, is work out where we can get the high-grade material that's closest to shore, to decrease our operating costs."
 A scoping study completed at the project in 2010 showed the potential for a \$US60/tonne operation.
 "It outlines excellent operating costs for us to dredge the material, get it onto shore, separate it, and make into marketable specifications," Drummond said.
 "Namibia can be a very low-cost producer and it's very encouraging for us.
 Minemakers will complete a feasibility study on the Namibian assets this year.
 "A lot of the aspects have been completed already as part of the scoping study," Drummond said.
 "Another aspect is marketing studies – we've got to get material out, into the hands of potential offtakers."
 "There are several different products that we can produce from there and we will find out which one the market most wants."
 Other non-primary investments for

Minemakers include an early-stage phosphate exploration project in Peru.
 So far marine sampling programs have discovered extensive mineralisation, with grade and distribution similarities to Namibia.
 "It is a wholly owned project, and what we do there will depend on how much work and funding we commit to Wonarah and Namibia," Drummond said.
 And with all this upside potential, the company has also sought exposure to the rising gold price through a proposed \$8.5 million investment in BCD Resources.
 BCD owns the Tasmania gold mine in Beaconsfield, which contains 294,000 reserve ounces and 521,000oz in resources, as well as several exploration targets.
 "We moved on that one rather quickly, because we had a small window of opportunity to make the decision," Drummond said.
 "The \$8.5 million is bridging finance to get them access to the higher grade ore, which will enable them to return to mining profitability."
 Minemakers' option to acquire 40-45% of BCD will be decided at a shareholder meeting this month.
 So with such a strong portfolio of assets and the option to increase the scope and profitability of its phosphate projects, Minemakers will also be making substantial money for years to come. – **Blake Wilshaw**

Bulk sampling of the Wonarah deposit has returned excellent results

MINEMAKERS AT A GLANCE



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MARKET CAPITALISATION
 \$A86.3 million (at press time)

QUOTED SHARES ON ISSUE
 227,004,000

MAJOR SHAREHOLDERS
 Board and management 12.5%

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