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ANNUAL REPORT

TASMANIAN MAGNESITE PROJECT

RETENTION LICENCES

RL 17/1989 AND RL 18/1989

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February 2006
Perth

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BACKGROUND AND TENEMENT MATTERS

This Report covers work done on the two Retention Licences, RL 17/1989 and 18/1989, which comprise the Tasmanian Magnesite Project. The tenements are owned by Tasmania Magnesite NL, a subsidiary of Australian Ethanol Limited. Via a July 2005 Agreement, Minemakers Australia NL, a subsidiary of Minemakers Limited ("Minemakers") was to acquire the tenements from Tasmania Magnesite NL. At the time of writing this Agreement is being varied such that Minemakers will instead have an option to purchase the Project.

Minemakers has assumed management of the Project and is now responsible for conduct of exploration and evaluation under the terms of the Conditions attached to the Licences.

This Report covers the year to 2 March 2006.

Tenement and locality details are shown in Figures 1 and 2.

The Retention Licences are separated by a few kilometres, and this gap has been secured by the application for an Exploration Licence by Mineral Holdings Australia Pty Ltd. Via a separate agreement, Minemakers will purchase that tenement on its grant and will evaluate all three tenements as one Project.

MAGNESIUM OUTLOOK

The outlook can best be described as mixed for non-Chinese magnesium metal production. As is well known, the three major projects mooted for start-up in Australia in the earlier part of this decade were abandoned due to a combination of weak Mg metal prices – which had been driven down by excess Chinese export capacity – and relatively high capital, energy and other operating costs.

In early 2006, Magnesium International Limited, which had previously been SAMAG, the South Australian-based hopeful, had to announce large blow-outs in capital costs at its intended new plant in Egypt. It had moved its operations there having been lured by apparently cheaper costs in this Third World country. It seems very unlikely that this project will now go ahead.

The history of Mg metal prices is charted in Figure 3.

Mg metal prices have risen during 2005 as Chinese energy prices have trended upwards towards world parity. Nonetheless the style of plant that is environmentally acceptable in the Western World remains is generally now too expensive to enable a satisfactory return on investment funds.

It is evident that there is a need for a new Mg metal production technology and several research groups are trying to commercialise that new technology. Until that materialises it is unlikely that the Tasmanian Magnesite Project will support an Mg metal production facility. Minemakers is likely to financially assist CSIRO in its research in this regard.

MAGNESIA OUTLOOK

While Minemakers has yet to verify this, it has been led to understand that previous metallurgical testwork has indicated that the Tasmanian Magnesite Project can generate high quality magnesia from calcination and/or dead-burning.

While magnesia prices have been depressed over the last few years by Chinese exports, some recovery is underway (Figure 4). Additionally, China has relatively low proportions of high grade magnesite. So it has to mine (and export as lower grade magnesia) the large quantities of that lower grade material that are necessarily produced in consequence of mining its high grade needs. It seems that in the future there may be a strongly increasing price gap between lower and higher grade magnesia, and this may lead to an opportunity for Minemakers' project, and for a calcinations plant in Tasmania.

Within Australia, there seems to be further potential to use the Tasmanian Magnesite Project product to feed a calciner which has already been built in Western Australia.

WORK DONE

1. Project Overview

Featherstone Geological Consultants were commissioned to undertake a technical review of the Project, concentrating on geological aspects. Its Report is presented as Appendix 1.

It effectively indicates that there is probably sufficient drilling information to allow design of a pit or quarry for production of magnesite that could be shipped elsewhere in Australia to be calcined in an existing facility. However, to attain a bankable feasibility for the capital required for the construction of a new Tasmanian calcination plant, infill drilling will be required to raise confidence in the resource estimates and the continuity of the quality of mineralisation.

2. Tasmanian Calcination Plant

Several discussions have been held with an unlisted Australian group which is keen to study construction of a calcination kiln on the northern coast of Tasmania and which would use Bass Strait gas as an energy supply. This will be pursued during the forthcoming year.

3. Western Australian Calcination

The expanding Western Australian laterite nickel industry is a large user of lower to intermediate grade magnesia, which is currently being imported at high cost from Queensland.

Cockburn Cement Ltd, a subsidiary of Adelaide Brighton Limited, owns a mothballed calcination plant near Perth. It is currently conducting metallurgical testwork on drill core from RLs 17 and 18/1989 and preliminary results have been verbally reported to Minemakers as encouraging.

Production and export of magnesite to WA is not seen as an end-game, but rather as a way to generate the additional information, initial siteworks and cashflow which will facilitate commitment to construction of a full calcination plant in Tasmania.

4. CSIRO Research

Several meetings were held with officers from CSIRO Melbourne concerning the potential to accelerate funding for its research on production of Mg metal by the carbothermic process. The aim is to demonstrate to Canberra – the main source of research funds – that there is private industry financial commitment and contribution to that research. Minemakers is awaiting a funding proposal from CSIRO. It is not expected that the Tasmania Magnesite Project would have any exclusive right to any new Mg metal production technology, but rather that no-one else will have an exclusive right and so Minemakers will be able to access it if it is visible.

PLANNED EVALUATION WORK

During 2006, the following is planned:

1. Magnesium Metal

Secure the research funding agreement with CSIRO.

CSIRO aims to undertake pilot scale Mg metal production this year.

2. Calcination – Tasmania

If possible, secure an agreement with the party which is keen to build a calcination plant in Tasmania.

3. Calcination – Western Australia

Complete the testwork on the potential to produce magnesia for the WA lateritic nickel industry.

EXPENDITURE

Expenditure during the year under review is relatively difficult to quantify as much of it was done in conjunction with other projects, or is being done at no cost to Minemakers (eg the calcination testwork).

A reasonable estimate is $20,000 spread over both RLs.

2006 expenditure will be governed by the funding levels to be agreed with CSIRO.