



INTERIM FINANCIAL REPORT

31 DECEMBER 2008

**MALAGASY MINERALS LIMITED
ABN 84 121 700 105
AND CONTROLLED ENTITIES**

Incorporated under the Corporations Act 2001 in the State of Western Australia on 22nd September 2006.

**INTERIM FINANCIAL REPORT
31 DECEMBER 2008**

CORPORATE DETAILS

Directors:

Mr M.D.J. Cozijn B.Com. ASA, MAICD	– Chairman & Finance Director
Mr S.B. Goertz BSc (Geology), MAusIMM / MAIG	– Managing Director
Mr G. LeClezio BA	– Non-Executive Director
Dr P. Woods BScH / PhD (Geol). MAIG	– Non-Executive Director

Secretary:

M.D.J. Cozijn B. Com. ASA

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Postal Address:

PO Box 2818
WEST PERTH WA 6872

Auditors:

WHK Horwath
Level 6, 256 St Georges Terrace
PERTH WA 6000

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MALAGASY MINERALS LIMITED
ABN 84 121 700 105

INTERIM FINANCIAL REPORT

DIRECTORS' REPORT

Your Directors submit the financial report of the economic entity for the half year ended 31 December 2008, made in accordance with a resolution of the Board.

DIRECTORS

The names of Directors who held office during or since the end of the half year:

Mr Max Cozijn (Chairman)
Mr Steven Goertz (Managing Director)
Mr Guy LeClezio (Non-Executive Director)
Dr Peter Woods (Non-Executive Director)

REVIEW OF OPERATIONS

The economic entity incurred a loss from ordinary activities after income tax of \$1,440,603 for the half year (2007: \$184,935).

Malagasy Minerals Ltd (MGY) listed on the ASX on 7th July 2008 after successfully completing an oversubscribed IPO issue of 50 million shares at 20 cents per share raising gross proceeds of A\$10 million.

In view of the contraction of the equity market due to the global credit crisis, Malagasy Minerals is restructuring its exploration activities to reduce costs significantly, while also restructuring our Commercial property holdings to maximize rental income, Labradorite royalty receipts, coupled with generation of additional revenues from our drilling and assaying investments, with a view to supplementing our exploration and operation costs.

HIGHLIGHTS - Six Months to 31 December 2008:

- ◆ Malagasy Minerals Limited has concluded an active and successful field programme for the 2008 field season, and continues to advance promising corporate and exploration targeting opportunities:
 - **Vohibory Copper-Silver Project:** Aeromagnetic / VTEM 21 and surface geochemical surveys completed over 80% of project – data interpretation at an advanced stage – strong sub-surface conductors identified, coincident with strong surface geochemical Cu-Ag-Au-Ni anomalism.
 - **Ampanihy Nickel-Copper-PGE Project:** Airborne magnetic / VTEM survey over both anorthosite gabbro intrusives completed with data interpretation at an advanced stage – comprehensive surface geochemical soil and rock chip sampling programme around the abovementioned intrusives is approximately 35% complete, with preliminary screening assays being undertaken in-house with the company's XRF unit.
 - **Ianapera Coal Project:** Drilling of stratigraphic core holes completed without intersecting major coal seams;
- ◆ Comprehensive review of tenement holdings completed resulting in relinquishment of non-core tenement assets – allowing for stronger focus on core assets and exploration targets.
- ◆ Labradorite royalty revenues continued during the half year;
- ◆ Intertek-Genalysis Madagascar has advanced the construction phase of establishing their sample preparation facilities in Antananarivo, with the facility scheduled for start-up in late-February 2009.
- ◆ **BRGM:** Since formal handover in July 2008, the Company has made good progress in integrating the expanded team and expanding operational capabilities of the group:

- **Drilling:** the company is in the process of restructuring its drilling operations to allow tendering on larger contracts;
- **Assay Lab:** In-house XRF unit and processing facility fully operational for reconnaissance assaying of company field samples.

CORPORATE

- The total issued capital of Malagasy Minerals Limited at 31 December 2008 was 95,000,003 Shares of which 73,725,003 Shares are listed. Details of escrowed Shares and unlisted Options are provided below:
- Escrowed Shares:
21,275,000 Shares are escrowed for a further 12 and 24 months.
- Unlisted Options:
1,000,000 unlisted 20c Options expiring 27/06/2013 – escrowed to 04/07/2010
2,000,000 unlisted 20c Director Options expiring 01/12/2013
1,000,000 unlisted 20c Consulting Options expiring 03/07/2013 – vesting on 03/01/2010
1,000,000 unlisted 20c Consulting Options expiring 03/07/2013 – vesting on 03/07/2011
- During the half year 2,000,000 unlisted 20c Options expiring 1 December 2013 were issued to directors pursuant to shareholder approval obtained at the AGM on 25 November 2008. An additional 2,000,000 unlisted Consultancy Options exercisable at 20c and expiring on 3 July 2013 with 1,000,000 vesting on 3 January 2010 and 1,000,000 vesting on 3 July 2011 were also issued. These Shares and Options are included in the totals above.
- Approximately 5,000,000 Unlisted 20c 5 year Options remain to be issued to parties who assisted in the IPO. These Options will be subject to 24 months escrow, and will be issued upon receipt of all of the executed Restriction Agreement.

Funds on Hand

- As at 31 December 2008 funds on hand were approximately A\$3.7 million.

Political Situation

Presently there is some political instability being experienced in Madagascar, associated with the President and Mayor of the Capital, Antananarivo. It is anticipated that a negotiated settlement will be undertaken shortly, and that normalised democratic governance will continue. Presently all of the Company's management and staff are safe and operations are continuing with minimal disruption.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporation Act 2001 is set out on page 4 for the half-year ended 31 December 2008.

This report is signed in accordance with a resolution of the Board of Directors.

Mr. S.B. Goertz
Managing Director

Mr. M.D.J. Cozijn
Chairman / Finance Director

Dated this 24th day of February 2009

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Malagasy Minerals Limited and its Controlled Entities for the half-year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA

Dated this 24th day of February 2009

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MALAGASY MINERALS LIMITED
ABN 84 121 700 105
AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

ECONOMIC ENTITY			
	Note	31 December 2008 \$	31 December 2007 \$
Revenue	2	522,558	154,975
Employee benefits expense		(47,612)	(18,133)
Depreciation expense		(158,531)	(948)
Finance costs		(716)	(3,280)
Administration costs		(355,611)	(215,327)
Exploration expenditure		(1,368,127)	(3,185)
Tenement holding costs		(13,053)	(99,037)
Share-based payments		(19,511)	-
		(1,440,603)	(184,935)
Loss before income tax expense		(1,440,603)	(184,935)
Income tax expense		-	-
Loss attributable to members of the parent entity		(1,440,603)	(184,935)
 Overall Operations:			
Basic loss per Share (cents per Share)		(1.52)	-
Diluted loss per Share (cents per Share)		(1.52)	-

The accompanying notes form part of these financial statements.

MALAGASY MINERALS LIMITED
ABN 84 121 700 105
AND CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

		ECONOMIC ENTITY	
	Note	31 December 2008 \$	30 June 2008 \$
Current Assets			
Cash and cash equivalents		3,723,893	9,973,208
Trade and other receivables		335,042	635,516
Other current assets		132,376	133,048
Total Current Assets		4,191,311	10,741,772
Non-Current Assets			
Property, plant and equipment		4,072,471	3,336,868
Receivables	4	774,250	166,667
Intangible assets		166,667	166,667
Deferred exploration and evaluation costs		2,368,977	2,368,977
Total Non-Current Assets		7,382,365	6,039,179
TOTAL ASSETS		11,573,676	16,780,951
Current Liabilities			
Trade and other payables		1,575,289	5,435,327
Short-term provisions		9,937	9,375
Total Current Liabilities		1,585,226	5,444,702
Non-Current Liabilities			
Trade and other payables		1,202,839	1,100,829
Total Non-Current Liabilities		1,202,839	1,100,829
TOTAL LIABILITIES		2,788,065	6,545,531
NET ASSETS		8,785,611	10,235,420
EQUITY			
Issued capital		11,010,767	11,010,767
Reserves		191,695	200,901
Accumulated losses		(2,416,851)	(976,248)
TOTAL EQUITY		8,785,611	10,235,420

The accompanying notes form part of these financial statements.

MALAGASY MINERALS LIMITED
ABN 84 121 700 105
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	ECONOMIC ENTITY				
	Issued Capital \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Option Reserve \$	Total \$
Balance at 1 July 2007	1,300,003	(249,467)	2,349	-	1,052,885
Shares issued during the period	170,000	-	-	-	170,000
Movement in Share Option reserve	-	-	-	-	-
Loss attributable to members of parent entity	-	(184,935)	-	-	(184,935)
Preference Dividends paid or provided for	-	(3,305)	-	-	(3,305)
Adjustment from translation of foreign controlled entities	-	-	(12,870)	-	(12,870)
Balance at 31 December 2007	<u>1,470,003</u>	<u>(437,707)</u>	<u>(10,521)</u>	<u>-</u>	<u>1,021,775</u>
Balance at 1 July 2008	11,010,767	(976,248)	2,349	198,552	10,235,420
Shares issued during the period	-	-	-	-	-
Movement in Share Option reserve	-	-	-	19,511	19,511
Loss attributable to members of parent entity	-	(1,440,603)	-	-	(1,440,603)
Preference Dividends paid or provided for	-	-	-	-	-
Adjustment from translation of foreign controlled entities	-	-	(28,717)	-	(28,717)
Balance at 31 December 2008	<u>11,010,767</u>	<u>(2,416,851)</u>	<u>(26,368)</u>	<u>218,063</u>	<u>8,785,611</u>

The accompanying notes form part of these financial statements

MALAGASY MINERALS LIMITED
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AND CONTROLLED ENTITIES

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	ECONOMIC ENTITY	
	31 December 2008	31 December 2007
	\$	\$
Cash flows from Operating Activities		
Payments to suppliers and employees	(569,850)	(218,082)
Payments for exploration and development expenditure	(1,341,518)	(187,680)
Interest received	190,787	17,040
Royalties received	150,296	116,380
Other income	181,475	20,904
Finance costs	(5,792)	(3,280)
Net cash provided by (used in) operating activities	(1,394,602)	(254,718)
Cash flows from Investing Activities		
Payments for property, plant & equipment	(4,012,068)	(209,594)
Payments for subsidiary, net of cash acquired	(842,645)	-
Net cash provided by (used in) investing activities	(4,854,713)	(209,594)
Cash flows from Financing Activities		
Proceeds from issue of shares	-	170,000
Net cash provided by financing activities	-	170,000
Net increase/(decrease) in cash held	(6,249,315)	(294,312)
Cash at beginning of the period	9,973,208	747,785
Cash at end of the period	3,723,893	453,473

The accompanying notes form part of these financial statements.

MALAGASY MINERALS LIMITED
ABN 84 121 700 105
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, and complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Malagasy Minerals Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of the consolidated entity as the full financial report.

The half-year report has been prepared on an accruals basis and is based on historical costs modified, by the revaluation of selected non-current assets, financial assets and financial liabilities for which fair value basis of accounting has been applied.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2008 annual report for the financial year ended 30 June 2008.

The Company was officially listed on the Australian Stock Exchange on 7 July 2008 and as such there is no comparative for Earnings per Share at 31 December 2007.

NOTE 2 – PROFIT FOR THE PERIOD

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	31 December 2008	31 December 2007
	\$	\$
Royalty and license income	150,296	116,380
Interest Income	190,787	17,040
Other Income	181,475	21,555

MALAGASY MINERALS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 3 – SEGMENT INFORMATION

The economic entity operates predominantly in one business segment, minerals exploration and two geographical segments Australia and Madagascar.

Primary reporting - Geographical Segments

	Australia	Madagascar	Eliminations	Economic Entity
	\$	\$	\$	\$
2008				
Revenue	-	150,296	-	150,296
Other income	224,531	147,731	-	372,262
Total segment revenue	224,531	298,027	-	522,558
Result				
Segment results	(591,316)	(849,287)	-	(1,440,603)
Unallocated revenue	-	-	-	-
Unallocated expenses	-	-	-	-
Loss before income tax expense	(591,316)	(849,287)	-	(1,440,603)
2007				
Revenue	-	116,380	-	116,380
Other income	16,798	21,797	-	38,595
Total segment revenue	16,798	138,177	-	154,975
Result				
Segment results	(130,877)	(54,058)	-	(184,935)
Unallocated revenue	-	-	-	-
Unallocated expenses	-	-	-	-
Loss before income tax expense	(130,877)	(54,058)	-	(184,935)

NOTE 4 – NON-CURRENT RECEIVABLES

Non-current Receivable Assets relate to TVA (Value added tax) paid which is estimated to be recoverable from the future TVA to be incurred on revenue later than the next 12 months.

NOTE 5 – CONTINGENT LIABILITIES

There has been no material change in contingent liabilities since the last annual reporting date.

NOTE 6 – EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial period, which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of the affairs for the economic entity in subsequent financial years.

MALAGASY MINERALS LIMITED
ABN 84 121 700 105
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 7 – SHARE-BASED PAYMENTS

The following Share-based payment arrangements existed at 31 December 2008.

Options

On 27 June 2008, 1,000,000 Options were granted to executive employees as follows:

No. of Options	Exercise Price	Vesting Date	Expiry Date
1,000,000	\$0.20	27/06/2008	27/06/2013

On 1 December 2008, 2,000,000 Share Options were granted to Consultants as follows:

No. of Options	Exercise Price	Vesting Date	Expiry Date
1,000,000	\$0.20	03/01/2010	03/07/2013
1,000,000	\$0.20	03/07/2011	03/07/2013

On 1 December 2008, 2,000,000 Share Options were granted to executive Directors as follows:

No. of Options	Exercise Price	Vesting Date	Expiry Date
2,000,000	\$0.20	-	01/12/2013

None of the Options hold voting or dividend rights and are not transferable. If the Option holder ceases to be in the employment of the Company prior to vesting the Options will lapse.

	2008	
	\$	
	No of	Exercise
	Options	Price
Outstanding at the beginning of the period	<u>1,000,000</u>	<u>\$0.20</u>
Granted 1 December 2008	4,000,000	\$0.20
31 December 2008	5,000,000	\$0.20
Lapsed	<u>-</u>	<u>-</u>
Outstanding at period end	<u>5,000,000</u>	<u>\$0.20</u>
Exercisable at period end	<u>2,000,000</u>	<u>\$0.20</u>

The weighted average fair value of the Options granted during the period was 5 cents. This price was calculated using a Black Sholes Option Pricing Model applying the following inputs:

Weighted average exercise price	\$0.20
Weighted average life of option	5 years
Underlying share price	2.7c
Expected share price volatility	70%
Risk free interest rate	3.85%

Due to the Company's recent ASX listing (7th July 2008) there is limited historical trading data. A volatility rate of 70% has been used based on the calculated average volatility rates of similar ASX-listed exploration companies.

MALAGASY MINERALS LIMITED
ABN 84 121 700 105
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors of the company declare that:

- (a) The financial statements and notes, as set out on pages 5 to 11:
 - (i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the economic entity's financial position as at 31 December 2008 and of its performance for the half year ended on that date.
- (b) In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors:



Mr. S.B. Goertz
Managing Director



Mr. M.D.J. Cozijn
Chairman / Finance Director

Perth, Western Australia
24th February 2009

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MALAGASY MINERALS LIMITED AND ITS CONTROLLED ENTITIES
REPORT ON THE HALF-YEAR FINANCIAL REPORT**

We have reviewed the accompanying half-year financial report of Malagasy Minerals Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Malagasy Minerals Limited and its Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Malagasy Minerals Limited and its Controlled Entities is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA
Dated this 24th day of February 2009

Total Financial Solutions



Horwath refers to Horwath International Association, a Swiss Verein.
Each member of the Association is a separate and independent legal entity.

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