



annual report  
to 30th June **2010**





**Figure 1:** Malagasy Minerals Limited - Mineral Tenure, Projects and Infrastructure Assets in Madagascar; inclusive of assets of proposed merger partner Madagascar Resources NL





## **MALAGASY MINERALS LIMITED**

ACN 121 700 105

*Registered under the Corporations Act 2001 in the State of Western Australia on 22<sup>nd</sup> September 2006.*

### **Directors**

Max Cozijn – Chairman

Steven Goertz – Managing Director

Guy LeClezio – Director

Peter Woods – Director

### **Country Manager Madagascar**

Jules LeClezio

### **Company Secretary**

Max Cozijn

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### **Stock Exchange Listing**

ASX Limited

ASX Code: MGY

### **Auditor**

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### **Solicitors to the Company**

Hardy Bowen Lawyers

Level 1, 28 Ord Street

WEST PERTH WA 6005

### **Solicitors (Madagascar)**

Lexel Juridique & Fiscal

Zone Tana Water Front

Ambodivona

Antananarivo 101 Madagascar

### **Annual General Meeting**

The Annual General Meeting of Malagasy Minerals Limited will be held in the President's Room, The Celtic Club, 1<sup>st</sup> Floor, 48 Ord Street, West Perth Australia at 4-00 pm on Thursday 18<sup>th</sup> November 2010.

### **Web Site**

Visit our website at:

[www.malagasyminerals.com](http://www.malagasyminerals.com)





*MML in-country geological team at the 'discovery' AMC-48 gossan at Ianapera. A total of 11 massive sulphide gossans were delineated during June 2010*



*Local Villagers at Ianapera Project*

# highlights

- Discovery of nickel-copper-PGE bearing massive sulphide gossan system at Ianapera Project – potential Voisey's Bay style mineralisation identified – two (2) zones – eight (8) strike km
- Eight (8) km Copper-silver geochemical – gossan zone identified at Vohibory Project
- Follow-up gravity confirms drill targets at Ampanihy and Vohibory
- Drilling to commence September 2010 – utilising in-house drilling equipment and crew
- Emerging vanadium prospectivity at Fotadrevo Project
- Intertek-Genalysis and Kirk Petrophysics, world class laboratories, continuing operations within the complex – minerals and petroleum
- Combined rental and labradorite cash flow of approximately A\$700K pa

## Objectives and Strategy

- Create Shareholder wealth through focused exploration, discovery and development of significant nickel, PGE and copper ore bodies.
- Utilise the technically competent and experienced resource team assembled by the Company, combined with in-house drilling and first-pass XRF assaying capabilities to maximise cost-effectiveness and project fast-tracking ability.
- Continually assess existing projects and create new opportunities whilst remaining a focused nickel-copper-PGE-gold explorer in southern Madagascar.

## Exploration Programs

- Two (2) priority project areas identified at Vohibory and Ampanihy for copper and nickel.
- Emerging vanadium project in central Ampanihy project area.
- Utilising established exploration teams and logistical support infrastructure to enable sustained momentum in target generation and follow-up.

## Merger with Madagascar Resource NL

- May 2010 - merger implementation agreement ("MIA") signed with unlisted public company, Madagascar Resources NL ("MRNL") to acquire all of the latter's shares.
- Merger terms based on the offer of three (3) Malagasy shares for every one (1) MRNL share, plus one (1) option exercisable at 20 cents for every two (2) MRNL shares held.
- Madagascar Resources' key asset is the advanced **Toliara Sands Project** – which includes at Ranobe a JORC-compliant resource of **710Mt @ 6.3% THM** ('Total Heavy Minerals').
- An independent review of the Ranobe Project has indicated the potential for a viable Phase 1 project producing 200,000tpa of ilmenite and 23,000tpa of rutile/zircon concentrate – discussions underway with potential off-take partners.
- The proposed merger will create a diversified resources group which will also have an extensive, nickel, copper, PGE and vanadium exploration portfolio as well as existing rental income from commercial property assets and labradorite royalties from quarrying operations in Madagascar.



*Sulphidic quartz veining in core from Vohibory Project*



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*Sunset over Mt. Vohibory at northern Vohibory Project*

# chairman's review

Dear Shareholder,

This financial year has seen Malagasy Minerals achieve significant progress in the development of a major Madagascar based and focused resource group with the achievement of the following;

- Identification of 11 magmatic massive sulphide nickel-copper-PGE bearing gossans over 8 kilometers at the Ipanihy – Ampanihy project
- 8 kilometer copper-silver geochemical anomalies identified as part of a gossan zone at the Vohibory project
- Potential large scale vanadium ( $V_2O_5$ ) mineralisation over 6.5 kilometers with prospective 30 kilometers of strike, at the Fotadrevo Project
- Merger Implementation underway with Madagascar Resources NL (MRNL) whereby Malagasy Minerals will acquire 100% of the Toliara Sands Project in South Western Madagascar- containing a JORC compliant resource of 710Mt of 6.3% THM
- Consolidation of our rental revenues from the 19,000 sqm of commercial land and labradorite royalty revenues to significantly support our in country overheads

As previously advised, the Company is largely able to support its Madagascar operating costs from its Rental income and Labradorite Royalties, and we have been able to support our exploration drilling activities with the use of our own drilling rigs and drilling staff.

Upon the successful completion of the Merger with Madagascar Resources NL, which is subject shareholder's approval from the respective companies, it is anticipated that Malagasy, in conjunction with MRNL, will be able to expedite the conclusion of an agreement over the Ranobe Project, which forms part of the Toliara Sand Project (TSP). It is anticipated that a Phase 1 development of a high grade zone of approximately 75 Mt @ 9.5% THM producing approximately 200,000 tpa of ilmenite and 23,000 tpa of rutile/zircon concentrate with a mine life of approximately 20 years.

It is anticipated that the TSP project once commissioned and in stable production, will contribute significant free cash flow to support the ongoing development of our Madagascar mineral resource projects and related activities.

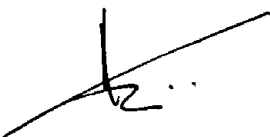
The Company continues to rationalize its operating costs and focus on its core exploration projects at Ampanihy, Vohibory and Fotadrevo- which are all located within a 60 km radius of each other. Malagasy is confident that following our initial exploration success, that with follow up drilling and focused exploration of these project areas, that we will be successful in delineating a commercial resource.

Following successful completion of the MRNL merger the Company will address its ongoing funding requirements.

Unfortunately the Country continues to suffer from its political situation. Overall the company's operations have not been significantly impacted, apart from the obvious impact on donor country funding support for Madagascar and the resultant impact on the Country's international reputation. It is anticipated that this situation will be resolved within the next 6 months. In the meantime we remain committed to Madagascar and feel confident that the country will be able to successfully develop its long term potential.

We thank the Management, staff and all stakeholders for their continued contribution and support in building the company, and look forward to building on our early success.

Yours sincerely,



Max Cozijn  
Chairman

14<sup>th</sup> September 2010



## PROJECTS SUMMARY

Priority exploration tenure comprises three (3) main projects with the Company holding 1,856 square kilometers of mineral tenure overall, in southern and central Madagascar, for commodities as diverse as, nickel, cobalt, copper, silver, base metals, vanadium and ilmenite (titanium). The primary area of Company operations is located in south-central Madagascar, which contains the Company's three (3) principal projects.

### Ampanihy (Ni-Cu-PGE Sulphide)

- Large system targeting Voisey's Bay-style nickel-copper-PGE deposits
- Gabbroic anorthosite bodies (75 sqkm) associated with mafic-ultramafic greenstone sequences
- 50 strike-km major regional suture zone between anorthosites – virtually unexplored
- **Ianapera:** 11 nickel-copper bearing massive sulphide gossans identified – June 2010 - two (2) parallel trends covering a total of 8 strike km associated with VTEM conductors and mafic – ultramafic sequences
- July 2010 - Ground gravity survey over selected conductors confirms high-density sub-surface body associated with VTEM conductors
- September 2010 - drilling of Ianapera gossans underway from end of August 2010
- Logistical support: Adjacent to operating labradorite facility – accommodation, workshop, heavy equipment and air strip
- August 2010 - Additional ground acquired on margins of satellite anorthosites to east of Maniry

### Vohibory (Cu-Zn-Ag-[Au])

- Polymetallic 'Besshi'-type VMS mineralisation targeted (NB: Besshi contained 30 million tonnes averaging 2.5% Cu; 0.3% Zn; 7gpt Ag & 0.2gpt Au)
- On-strike from recent anomalous competitor drilling (e.g. 21m @ 0.7% Cu; 1.1% Zn; 0.5gpt Au; 21gpt Ag) to south. Placer gold and small copper gossans ubiquitous within the property
- **Gossans:** 2% to 28% Cu - 2g/t to 175g/t Ag over 4 km combined strike associated with interpreted VTEM conductors (VC10 & VC-11) and eight (8) km of semi-contiguous copper-silver mineralisation defined in central and southern portions of project – 2009 and 2010 programmes
- Mineralisation trend oriented strike-parallel with prospective underlying basement greenstone sequence (metasediments)
- July 2010 - ground gravity survey to detect massive sulphides in basement rocks under shallow cover sediments confirms anomalous trends associated with gossans and interpreted faults
- Drilling scheduled for October – November 2010

### Fotadrevo (Vanadium)

- Targeting large-scale sediment-hosted vanadium ( $V_2O_5$ ) mineralisation
- Along strike from advanced 'Green Giant' vanadium project of Energizer Resources Inc.
- 2009 - Extensive geochemical sampling and costeaning confirms vanadium mineralisation for 6.5 strike km into MGY tenements - 30km of prospective strike remains unexplored
- **2010:** Vanadium-bearing prospective sequence confirmed for additional 12km inside MGY tenements - planned additional trenching to west of currently defined zone and along strike to south

### Toliara Sands Project (merger with MRNL)

- MRNL key asset: **Toliara Sands Project** – JORC-compliant resource at Ranobe of **710Mt @ 6.3% THM** ('Total Heavy Minerals')
- Creating a diversified resources group, with near-term (ilmenite) production potential, a strong, nickel, copper, PGE and vanadium exploration portfolio and ongoing rental income from commercial rental and labradorite royalties in Madagascar.

## CORPORATE

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 to raise \$10 million.

On 22nd June 2010, the Company placed 14,250,000 shares; raising gross proceeds of A\$427,500 for exploration. Total issued capital stands at 109,250,003. In addition there are 9,003,600 20c unlisted options expiring in 2013 on issue.

## TENEMENTS & TECHNICAL

Malagasy Minerals Ltd ("MML") has retained 1,856 sq km of exploration tenure over the following highly prospective project areas:

1. Ampanihy (Ni-Cu-PGE) – 1,413km<sup>2</sup>
2. Fotadrevo (Vanadium) – 312km<sup>2</sup>
3. Vohibory (Cu-Ag VMS) – 106km<sup>2</sup>
4. Mahajunga (Ilmenite) – 25km<sup>2</sup>

Promising drill targets have been generated at both Ampanihy and Vohibory, with drilling scheduled to commence in September 2010.

Fotadrevo (central Ampanihy Project) has shown encouraging indications of vanadium mineralisation and is located adjacent along strike from (Canadian explorer) Energizer Resources Inc. 'Green Giant' vanadium project, which is currently under resource and metallurgical assessment.

Mahajunga has been retained as it is low-cost and is close to the major north western port city of Mahajunga.

All of MML's priority southern projects ('1' to '3' above) are located within a 100km radius of each other. The current MML tenement position is summarised on Figures 1 and 2 at the front of this report.

The company continues to review project opportunities, and while mindful of the need to conserve cash resources, we will continue to assess more mature mineral development opportunities as they arise.

### **MML - PRIORITY PROJECTS**

Ampanihy (Ni-Cu-PGE Sulphide): the largest of the projects, Ampanihy is located approximately 200km southeast of Toliara in south-central Madagascar. It overlies an inter-tectonic mafic-ultramafic greenstone sequence, which has been locally intruded by mafic dykes. The entire assemblage has subsequently been subjected to high degrees of strain and multiple folding episodes during metamorphism.

MML is targeting Voisey's Bay style Ni-Cu-PGE mineralisation at Ampanihy; centered around two (2) large anorthosite (gabbroic labradorite) bodies; located 70 kilometers apart within a large suture zone and averaging

75 sqkm in area each. The anorthosites are observed to contain disseminated Cu-Ni sulphides and have produced anomalous Ni-Cu-PGE results from surface sampling around the margins.

During the 2008 field season, the Company completed a 3,500 line-km VTEM-Aeromagnetic survey over the margins of these anorthosites, which delineated numerous VTEM conductors, some of which are coincident with both anomalous surface geochemistry and observed copper gossans.

In June 2010, the Company conducted site visits with the leading nickel sulphide expert, Dr Martin Gole, to selected VTEM conductors at both Maniry (AMP-M) in the south and lanapera (AMP-I) in the north.

The group visited 12 sites in the Maniry area surrounding the anorthosite body, including one site possibly within the body itself. Four (4) of the VTEM target sites were confirmed as graphite-bearing felsic gneisses (leptynites). However, ultramafic rocks were observed to the north of the Maniry anorthosite and MA-VC-01 (reported previously) and further follow-up is being undertaken in this area in light of the



*Collaring Drill Hole VHD003 at Vohibory in September 2009*



positive results from the lanapera area in the north.

At lanapera, 11 massive sulphide gossans were discovered along the southeast margin of the lanapera anorthosite. The cluster of VTEM conductors in this area was prioritized for follow-up due to their association with elevated nickel-copper-cobalt surface geochemistry in both historical stream sediment and recent soil samples (see Figure 3).

The gossans vary in size from 20m to in excess of 130m in length. The two largest gossans, AMC-50 and AMC-47-north (see Figure 1), outcrop over a strike of 93m and 132m respectively. The consistent occurrence of all gossans at the northern end of their associated VTEM conductors has been interpreted as an indication of the possible presence of southerly plunging shoots.

A total of 34 rock chip samples were collected from both VTEM zones and submitted to Intertek-Genalysis in Madagascar for multi-element analysis.

Results have confirmed the characteristics of the gossan system to be compatible with their initial classification as magmatic nickel-copper bearing massive sulphide gossans. In particular, the largest outcropping gossans at AMC-47, 49 and 50 (refer Figure 1), though visibly subject to heavy leaching, show positive indications of PGE mineralisation.

**Gossans at AMC-49 returned 0.18% copper, 0.07% nickel; 286ppm cobalt, 13ppb (platinum-palladium) and 96ppb gold; with those at AMC-47 and AMC-15 returning similar values (inclusive of 69ppb Pt+Pd & 88ppb gold).**

The tenor of these initial assays is interpreted in the context of the heavily leached nature of the outcropping gossans combined with the coincident (i.e. Ni-Cu-Co-PGE [Au])

elemental signature. The Company will now expedite drilling of the most prospective gossan-conductor targets subsequent to receipt of geophysical modeling of the VTEM anomalies associated with these Gossans.

Results of VTEM modeling by the Company's geophysical consultants Southern Geoscience Consultants ('SGC') indicate a moderate westerly dip to the gossan-associated conductors, with average depths of 30 to 70 metres below natural surface (maximum 120m – AMC-41). Final interpretation has recommended an 1,840 metre programme comprising 15 holes averaging 120m EOH depth. A Phase 1 subset comprising eight (8) holes for 1,070 metres (average 134m EOH depth) will comprise the initial drilling programme, due to start at the end of August 2010.

Following further discussions with SGC a (50m x 200m) gravity survey was conducted over the area of AMC-11&12 and AMC-49&50. The purpose was to gain additional definition of the characteristics of the suspected sulphide-hosting VTEM conductors in this northern area.

Results of the survey identified a strong gravity high associated with AMC-50 (refer Figure 4). This supports the interpretation of the presence of associated massive sulphide bodies below the identified gossans.

A targeted 50m x 100m soil geochemical sampling programme will be completed over the AMC-49 / 50 and AMC-47 areas to determine the elemental dispersion characteristics for the area. Information from this exercise will be used to design additional sampling programmes for the project – in particular relating to evaluation of the 50km suture zone between the Maniry and lanapera anorthosites.

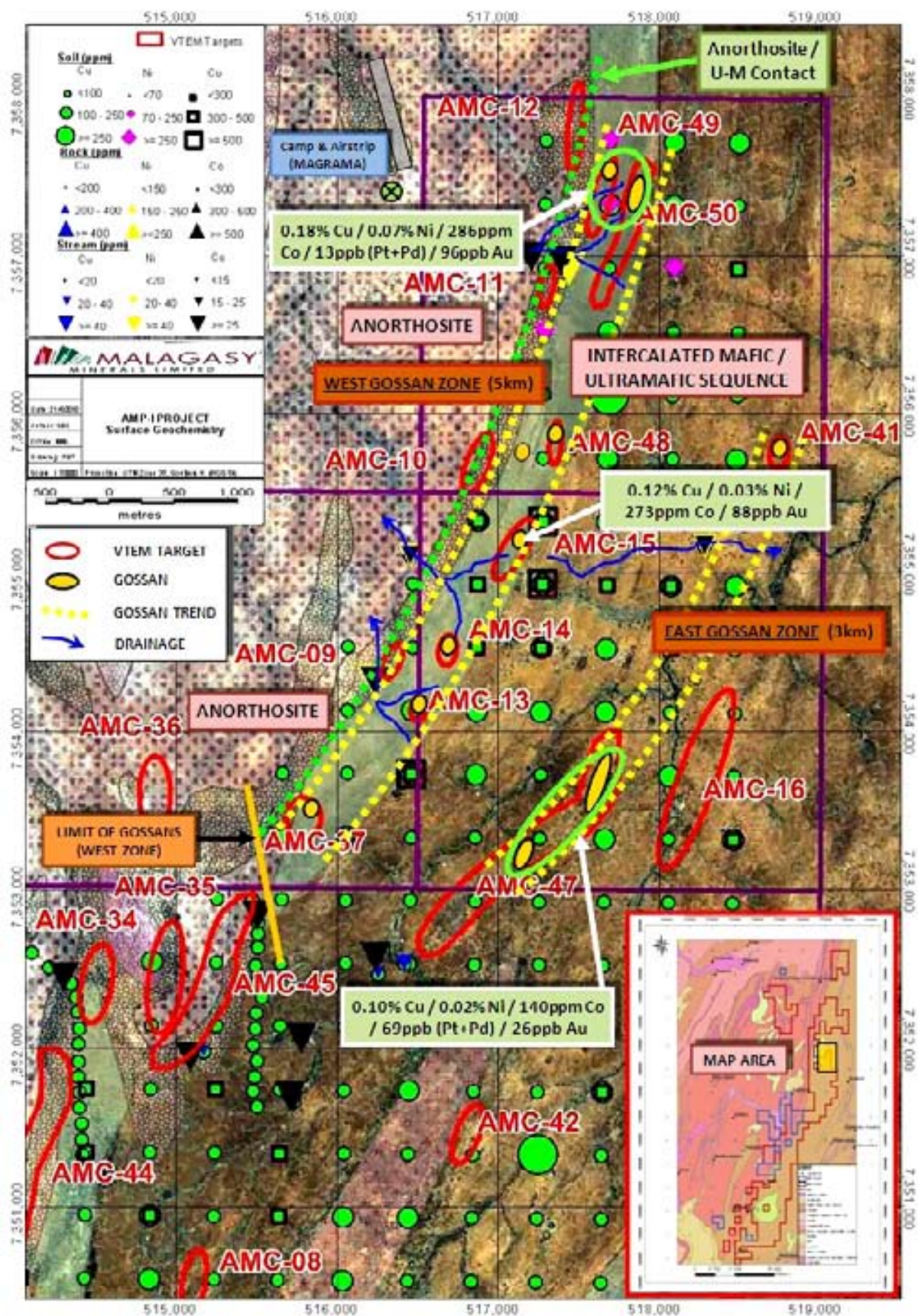


Left: Consulting nickel sulphide expert Dr. Martin Gole examining one of the Gossans at lanapera.



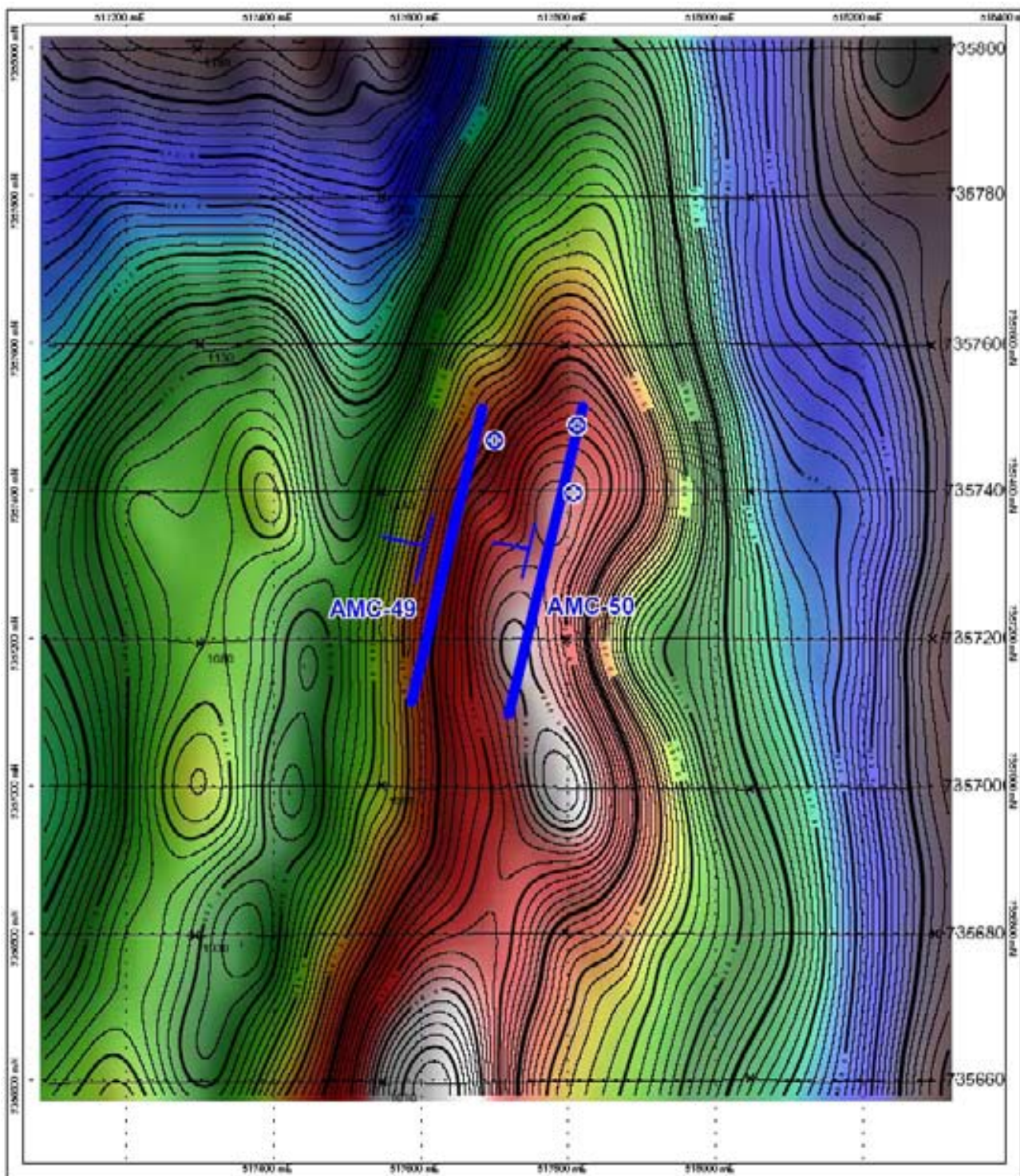
Right: Close-up of gossan showing characteristic texture indicative of weathered massive sulphides.





**Figure 3:** Summary plan of massive sulphide gossans in the West and East Gossan Zones at the northern Ampanihy (AMP-I) project area. Following completion of modeling of VTEM conductors, priority drilling targets are AMC-50, AMC-15 and AMC-47. Gravity survey data supports prioritisation of AMC-50 over AMC-49.





**Figure 4:** Strong gravity high associated with VTEM conductors and gossans (blue-cross circles) at AMG-49 and AMG-50 at MGY's 100% owned Ampanihy (Ilanpera) Project. Drilling will commence at the end of August 2010. Location of gravity high in relation to VTEM conductor and gossans support proposed southerly plunge to target body.

**Vohibory (Cu-Ag-[Au] VMS):** Exploration at the Vohibory project is targeting sediment-hosted copper-silver-zinc-gold VMS mineralisation similar to known deposits at Besshi in Japan and Bisha in Eritrea. The Neoproterozoic greenstone sequences that underlie the Vohibory permits are known to be prospective for this type of mineralisation.

Surface prospecting by Company personnel between 2007 and 2010 has returned strong results up to 29% copper, 206gpt silver, 2000ppm nickel and 40ppb platinum from two sub-parallel north-south trending corridors within the project tenements. Follow up work in 2008-09 has further expanded these results; defining extensive areas of nickel, copper, silver and gold anomalism.

Drilling during 2009 of VTEM conductors along the northern (Besatrana) corridor returned limited encouragement, with a best result of 4 metres grading 10.3gpt silver from surface. At the same time additional mapping and surface geochemical sampling significantly enhanced the prospectivity of the central and southern regions of the project tenements. As a result, the company reprioritised its focus towards the latter area. These works are summarised on Figure 5 below.

Copper and gold indications are ubiquitous in the underlying basement metasedimentary units – despite the apparent absence of a structural concentration mechanism. Interpretation of geological and geophysical data, combined with the results of recent surface geochemical sampling, has indicated that the area around VC-10 and VC-11 may likely host such a site. Surface geochemical rock-chip and soil sampling in the southern and central portions of the Vohibory project between 2007 and 2009 had defined several significant copper-silver mineralisation trends associated with VTEM conductors and interpreted structures.

The strongest of these anomalies – a 3 km zone associated with the large VC-10 conductor in the central-east of the project – returned results of 2% to 28% copper and 2gpt

to 206gpt silver from rock chips within an anomalous >100ppm copper / >2ppm silver-in-soil zone. This zone comprises the central component of an 8 km semi-contiguous belt of copper +/- silver anomalism extending from the extreme central-east of the property to the southwest corner. This area is highlighted on Figure 5.

MGY's in-country geological team, together with Dr Martin Gole, visited the area around VC-10 and VC-11 in June 2010. It was clear that the line of workings were associated almost exclusively with the most highly permeable beds within the Isalo sediments (Sakoa Coal Measures – 'SCM'). Additionally, there was little observed in the Isalo units to justify the presence of such strong and discrete secondary copper (malachite / azurite / chalcocite) mineralisation.

Finally, although the strike of the Isalo cover sequences is north-south (easterly dip of 10-20 deg), the actual trend of workings is parallel to the strike of the underlying basement greenstones / metasediments. It is thus postulated that these small mineral occurrences represent secondary remobilization along point intersections between highly permeable Isalo beds and possible underlying mineralised zones running parallel to the basement sequence.

Given that the target mineralisation style is known to respond most effectively to the (ground) gravity method (e.g. Bisha, at 1,400m strike length, was found by drilling right on the center of the gravity anomaly), and due to the targeted host rocks being overlain by 5 to 50 metres of Mesozoic cover, it was concluded at the time that a ground gravity survey over the general area would provide conclusive information on the best way forward to assess potential for significant base metals mineralisation and to target drill holes.. The program was completed in July 2010 and comprised a 660-station survey at 100m spacing on lines 200m apart to cover an area of 9.0 sq km.

Results of the survey identified several moderate gravity highs associated with the above-mentioned copper-silver gossans in the VC-10 and 11 areas. Multiple linear trends

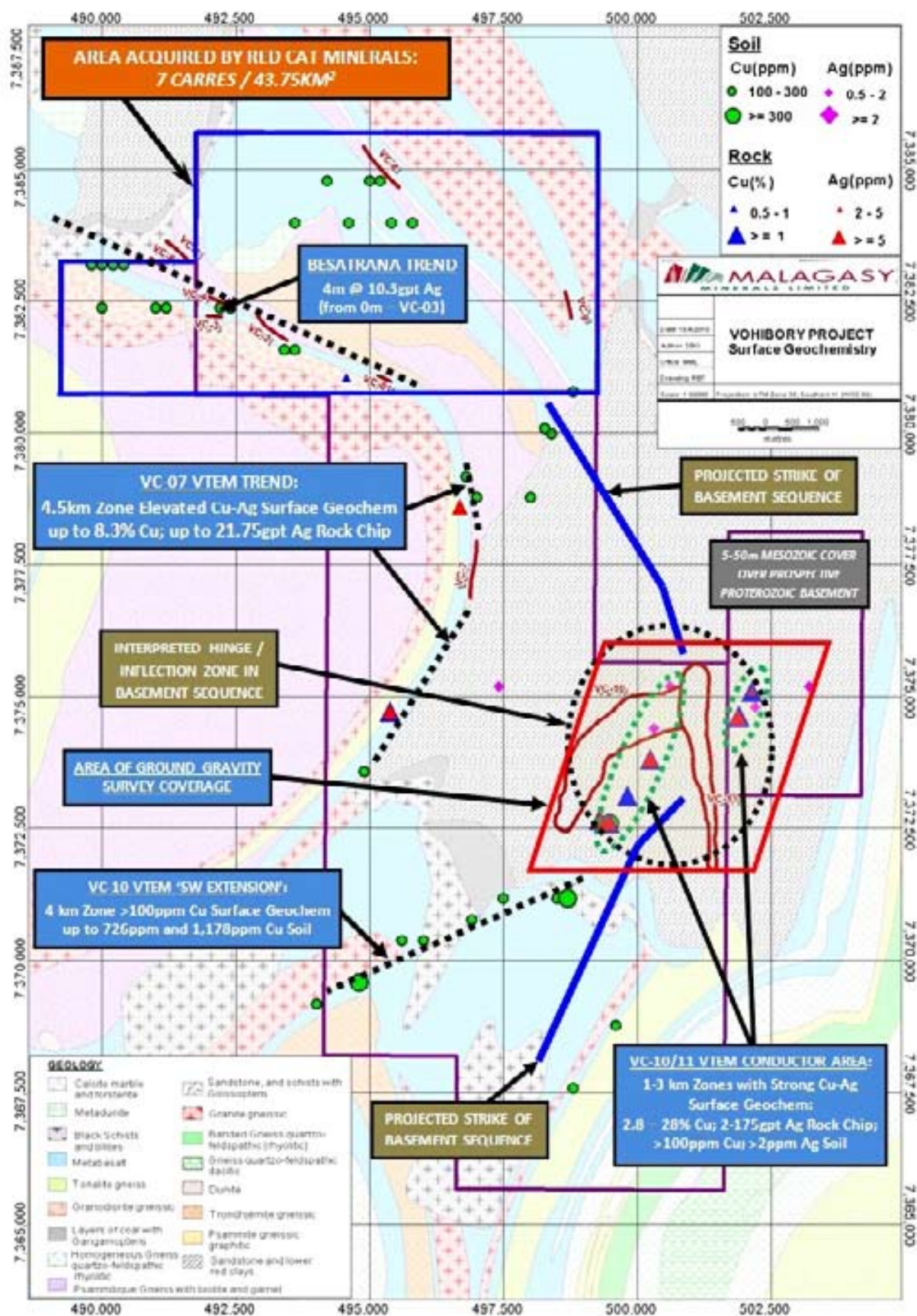


Left: Selection of typical copper-silver bearing gossans occurring in permeable units of the Isalo sediments in the VC-10 and VC-11 area. Sample in top-left of photo returned 39% Cu and 186gpt (6 oz) Ag.



Right: Close-up showing poorly sorted, immature characteristics of the sediments – note the secondary copper mineralisation permeating the interstitial areas of the rock.





**Figure 5:** Summary of exploration results at Vohibory Project in southern Madagascar. Linear trends containing elevated copper and silver in the VC-10 & VC-11 area in the central-east of the project have been followed-up by a ground gravity geophysical survey (red outline on figure – also, refer Figure 6 following).

of local gravity highs have been identified associated with both interpreted faults from interpreted airborne magnetic data and lines of previously-reported historical workings over copper-silver gossans. Figure 6 summarises identified trends in relation to gossans, VTEM conductors and interpreted faults from aeromagnetics.

The trends of the gravity anomalies parallel those of their associated gossan trends, and are of sufficient tenor to justify follow-up drill testing. The eastern gravity trends adjacent to VC-11 are of a relatively higher tenor than those in the western area south of VC-10 and are therefore of higher priority. Additionally, a sub-trend associated with both the junction of VC-10 and VC-11 and interpreted conjugate faults from airborne magnetic data warrant investigation by drilling. Drilling at Vohibory will follow completion of the Phase I drilling programme at Ampanihy-lanapera.

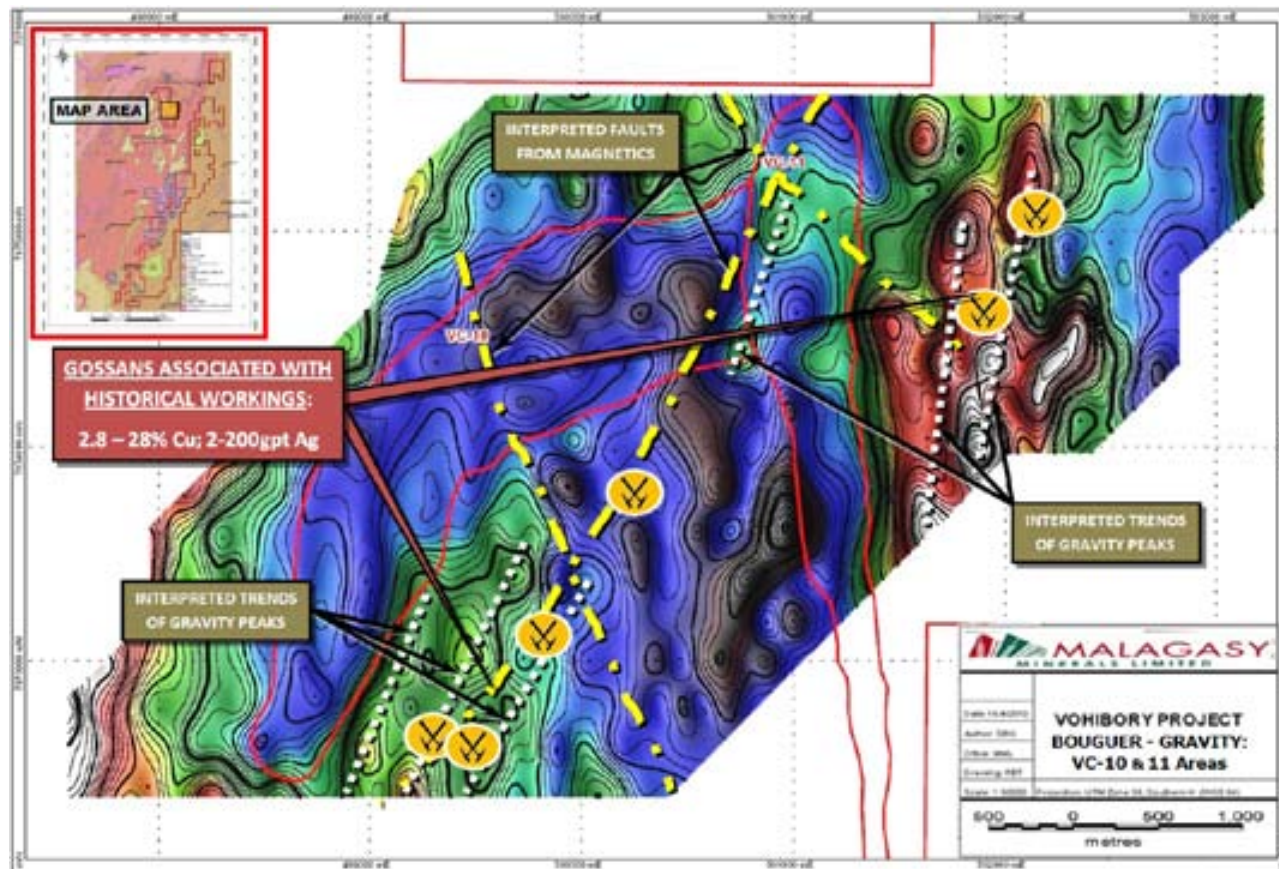
In May 2010, Malagasy signed an agreement with a Mauritian company, Red Cat Minerals Ltd. ('Red Cat'), to sell the northernmost seven (7) squares of the Vohibory project tenement. Red Cat controls all the adjacent tenements contiguous to the northwest of VHB, inclusive of the historic namesake Besatrana copper mine, and is planning to list on the Australian Securities Exchange ('ASX') in late 2010. The agreement covers 43.75 sqkm,

comprising seven squares over the northernmost portion of the Vohibory copper-silver VMS project, (refer Figure 5 above). These tenements cover the eastern extension to the Besatrana copper mine trend and have been explored by MGY between 2007 and 2009. Through a wholly-owned Madagascar subsidiary company, Red Cat hold tenements adjacent to the west and north of MGY, inclusive of the historical Besatrana copper mine.

The deal will give MDA A\$300,000 in cash; A\$50,000 on signing and the remaining A\$250,000 upon listing of Red Cat Minerals Ltd on the Australian Securities exchange ('ASX'); plus A\$200,000 in shares in the Red Cat IPO in respect of services provided by MGY.

This will free up cash for MGY and allow the Company to focus on its emerging targets in the central and south of the Vohibory Project, discussed above. Additionally, the potential to unlock value from the northern conductor trend will be significantly enhanced by combining this ground with the historic Besatrana mining area.

Drilling of generated targets within the south-central (retained) portion of the Vohibory Project is planned for October – November 2010, subsequent to completion of the Phase 1 programme at lanapera. It is estimated that approximately 1,000 metres of core drilling will be sufficient as a first-pass test of the various targets.



**Figure 6:** Gravity highs associated with gossans adjacent to VTEM conductors VC-10 and VC-11 in the central-eastern area of MGY's 100%-owned Vohibory Project. Trend lines clearly parallel trends of historical workings (see discussion following page). Drilling will commence following completion of Phase I programme at Ampanihy-lanapera.



### **Fotadrevo – Ampanihy Central (Vanadium):**

Malagasy is targeting vanadium and (sulphide-hosted) base metals mineralisation at this project, located in central-western Ampanihy, approximately midway between the Maniry and Ianapera anorthosites discussed above (refer Figure 1). Subsequent to previously reported geochemical sampling, the Company has successfully defined a 6.5 kilometre long zone of anomalous vanadium mineralisation via trenching and surface geochemistry / prospecting. These works are summarised on Figure 7.

Recent work (2008-10) adjacent to the western central area of the Ampanihy Project by Canadian explorer Energizer Resources Inc. ('EGZ') has identified significant vanadium-bearing horizons extending for over 18 strike kilometers sub-parallel to regional strike (i.e. NNE-SSW). The highest tenor mineralisation seems to be manifesting at the southern end of their tenements, immediately adjacent to MML permits (refer Figure 7).

From field observations, the mineralised zones appear to be associated with a variety of horizons; a resistant –

weathering quartzo-feldspathic metasediments containing two green minerals, a phyllosilicate (i.e. mica) roscoelite and a green grossular garnet (uvarovite); and more recessive units dominated by either hematite or graphite. Roscoelite can contain up to 18 wt% V and is a secondary ore of vanadium behind vanadinite.

Trenching (costeaning) by MGY in late 2009 returned results up to 0.60%V<sub>2</sub>O<sub>5</sub> over 10 metres from channel samples. Follow-up inspection and prospecting in 2010 have confirmed the identification of vanadium minerals within MML ground for an additional 12m.

The Company intends to give exploration priority to Ianapera and Vohibory, as those projects have the highest probability to generate early exploration success. Planned work programme for the remainder of 2010 and 2011 will comprise surface geochemistry and prospecting, with possible trenching immediately to the west of the 2009 costeans. Prospective horizons have been observed to continue stratigraphically upward to the west under areas of artisanal cultivation.

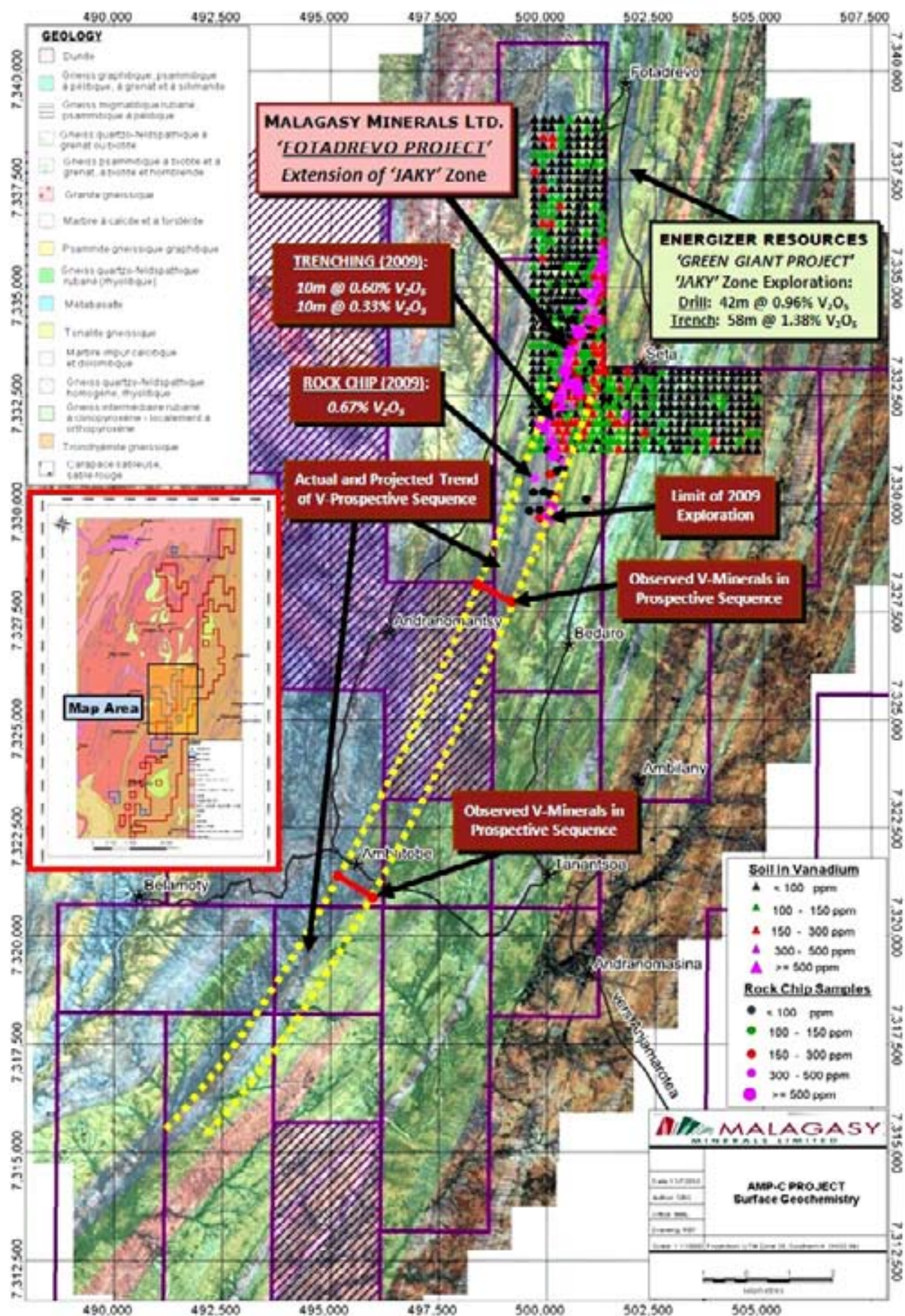


*Left: Costeaning in progress and Fotadrevo Project.*



*Right: Common sulphide (arsenopyrite) stained outcrop adjacent to vanadium-mineralised zones.*





**Figure 7:** Summary plan of exploration to date at Malagasy Minerals' Fotadrevu Vanadium Project. Trenching in late 2009 returned results up to 0.60%  $V_2O_5$  over 10 metres.



## OTHER MML PROJECTS

*Mahajunga (Ilmenite)*: Located 35km southwest of the NW coastal port of Mahajunga, the project comprises a single block of permits totaling 25 sqkm of area. MML is targeting minerals sands (ilmenite) in this area; however the project remains inactive at this point while the Company concentrates on its priority projects in the south.

## OPERATIONS – LABRADORITE DIMENSION STONE - ROYALTY STREAM

### Location and Tenure

Through its wholly-owned subsidiary in Madagascar, Mada-Aust SARL ('MDA'), MML holds significant tenement interests over both the Ianapera (northern) and Maniry (southern) anorthosite bodies. The two tenement blocks are centered 50km apart, along a NNE-SSW trend. They are centered approximately 170km east-south-east of Tulear in the south-central portion of Madagascar (refer Figures 1 and 2). All permits covered by labradorite contracts are of exploitation (i.e. mining) type. They were granted in 2002 and are valid for 40 years. Beneficial ownership of the Permits resides with the Company, with tenement title held by MDA.

### Geology, Production History and Projected Cash Flow

Labradorite is a calcium-rich variety of feldspar that exhibits an attractive internal refractance (termed 'schiller') akin to that seen with opal. Colour reflectance exhibits a mottled habit that varies between green, gold, pink and blue, with

the latter being most common.

MML, through its acquisition of MDA, has agreements with three (3) entities, giving these entities the right to mine labradorite-bearing anorthosite dimension stone from the two gabbroic anorthosites within the Ampanihy tenement group. The rights to all other minerals and metals remains with MDA.

Two (2) Italian companies (MAGRAMA SARL and EUROMAD SA) are operating quarries for a combined production of approximately 3,000 metric tonnes per year. In addition, one Indian company (SQNY International – 'SQNY') finalised preparation of a further quarry and commenced production in June 2009. The Company is currently negotiating with another Indian counterparty in respect of remaining unencumbered labradorite permits at Maniry.

The labradorite operations comprise a key aspect of the MML strategy going forward; providing valuable cash flow to the Company, with a high likelihood of long operational life and increased cash flow in the medium to longer term. This will be utilised in providing a cash flow subsidy to operational funds. An additional benefit is provided in the form of logistical support, as both Magrama and SQNY have established significant camp infrastructure associated with their respective quarrying operations. These possess sufficient capacity to periodically assist MML personnel with accommodation, messing and other logistical support during field campaigns.



*Cut face of labradorite block ready to ship, showing colour variation and crystal size.*



Quarrying operations in progress at one of Magrama's Ianapera quarries. Blocks are commonly quarried at around 30 tonne size and subsequently cut to 8 to 15 tonne finished blocks for road transport to Tulear.

## PROPOSED MERGER WITH MRNL

A Merger Implementation Agreement (MIA) was entered into between MGY and the unlisted public company Madagascar Resources NL ('MRNL') on the 25<sup>th</sup> May 2010 to effect the merger by way of a Scheme of Arrangement ("Scheme") under which MGY will make offers to acquire all of the issued shares in MRNL.

The proposed Merger will combine MGY's prospective portfolio of VMS copper, nickel-copper-PGE and vanadium exploration assets, as well as its strong logistics and operational base in Madagascar, with MRNL's advanced Toliara Sands Project, located in the country's south-west.

This will give the merged group a mix of existing cash flow, near-term development potential in the mineral sands business, excellent exploration upside and a strong strategic position in Madagascar, which is attracting significant international investment in its emerging resource industry.

### Merger Summary

The Merger terms are based on the offer of **three (3) MGY shares** for every **one (1) MRNL share**, plus half an option exercisable at 20 cents per share within a four year term for every three (3) MGY shares issued.

MRNL has a total issued capital of 51,364,870 shares and 8,750,000 options which are to be exercised or cancelled prior to completion. Assuming that all the options are

exercised and the Merger is completed, MGY will issue up to an additional 180,344,610 shares and 30,057,435 options.

The merger is to be effected by a Scheme of Arrangement and is subject to various conditions including:

- satisfactory completion of due diligence by the Boards of both companies; (which has been completed);
- approvals being received from the security holders of MRNL, MGY and the Court;
- all relevant regulatory approvals; and
- conditions customary for a transaction of this nature.

MRNL is an unlisted public company with 69 shareholders. MRNL has been involved in Madagascar for over 16 years. Dr Peter Woods and Mr Guy LeClezio are directors of both MGY and MRNL and are therefore considered to be non-independent directors of MGY and have not been involved in the decision to merge.

On completion of the Merger the MGY shares on issue are as follows:

	Pre Merger		Post Merger
	MGY	MRNL	MGY-Merged Coy
Ordinary Shares (millions)	109.3	60.1	289.6



## Key Assets of the Merged Group

The key assets of the merged group will comprise:

- the advanced Toliara Sands Project, which has a JORC compliant resource of 710 million tonnes grading 6.3% THM (Total Heavy Minerals) at Ranobe;
- three base metal exploration projects at Vohibory, Ampanihy and Fotadrevo targeting copper, nickel, PGEs and vanadium;
- significant commercial property assets and rental income derived from 19,000 square metres of land in the Madagascan capital of Antananarivo, where the Company's administrative operations are based; and
- royalty revenues from Labradorite quarrying operations in the south-east of Madagascar.

## Strategic Benefits

The independent directors of MGY believe that the combination of MGY and MRNL, should the Merger be approved, represents a strategic benefit to both companies.

MGY will benefit from the acquisition of an advanced project. MRNL will benefit from its project being combined within a listed company, while both companies will benefit from the combination of their complementary technical, operational and commercial skills with resultant economies of scale.

### Toliara Sands Project

MRNL has a significant mineral sand project located in the southwest of Madagascar known as the Toliara Sands Project ("TSP") which includes the advanced Ranobe deposit and two other mineralized zones to the north (M-M area). Ranobe has a mineralized zone around 16km long, 1 to 2km wide and comprising three mineralized sand units. (refer Figures 1 and 8).

Within this larger zone, detailed exploration was focused on the Upper Sand Unit at Ranobe resulting in a JORC compliant resource being identified as follows:

A review of the Ranobe project undertaken by MRNL and its consultants TZMI has indicated that a Stage 1, Phase 1 project would be potentially viable based on the development of 75 million tonnes at an average grade of 9.5% THM containing 4.6 million tonnes of ilmenite, with a 20 year mine life, yielding 200,000 tonnes pa of ilmenite and 23,000 tonnes pa of rutile/zircon concentrate.

Discussions are currently underway with several potential off-take partners.

MGY believes that the combination of the MRNL assets and MGY's existing projects at Vohibory, Fotadrevo and Ampanihy targeting copper, nickel, PGEs and vanadium will enhance the Company's presence in Madagascar and its ability to achieve early development of its mineral assets. The merger of the two groups should result in a significant re-rating of the underlying value of the merged entity.

## BACKGROUND

### Toliara Sands Project

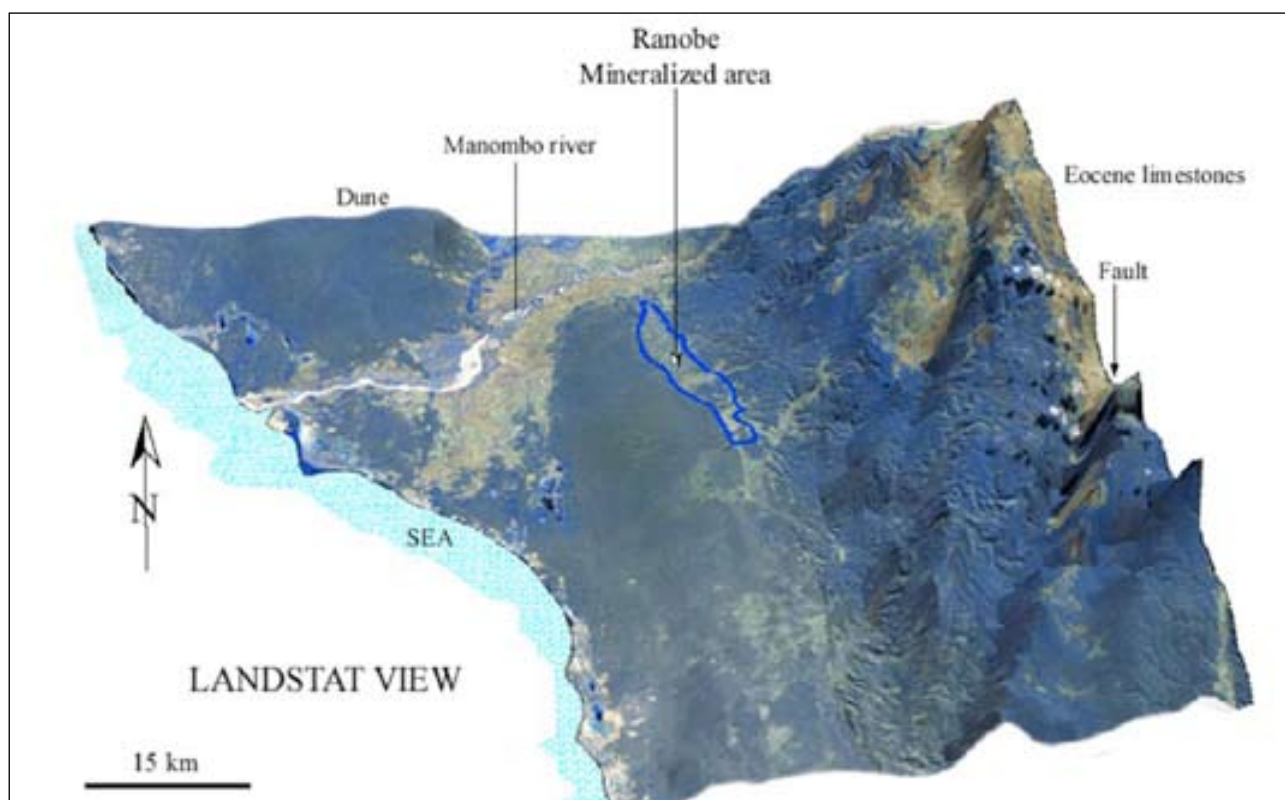
Madagascar Resources NL (MRNL), through its Malagasy subsidiary Toliara Sands SARL (TSSARL), currently holds permits for the Toliara Sands Project (TSP) in south-west Madagascar, where a significant zone of heavy mineral sand mineralisation has been identified at Ranobe, around 40km north of the port of Toliara.

To date a considerable amount of work has been completed at Ranobe including resource definition (JORC compliant resource estimates) and feasibility level study reports into processing, infrastructure, environmental and social matters. MRNL and TSSARL have subsequently undertaken a comprehensive review of the TSP, resulting in a smaller scale project concept that is considered to be a viable initial development with considerable scope for future expansion.

The mineralised zone at Ranobe is of an appreciable size around 16km long, 1 to 2km wide and comprising 3 mineralized sand units. Within this zone, a JORC compliant resource of 710 million tonnes at 6.3% THM has been defined within the Upper Sand Unit.

Upper Sand Unit	Tonnage Mt	THM (*) %	Slime %	Mineral assemblage %			
				Ilmenite	Zircon	Rutile	Leucoxene
Measured	209	7.44	4.08	64.65	5.65	1.88	4.97
Indicated	320	6.09	4.02	65.68	5.58	1.97	6.08
Inferred	181	5.32	4.76	65.79	5.64	1.88	5.08
Total	710	6.29	4.23	64.71	5.56	1.91	5.09

(\*) Total Heavy Minerals

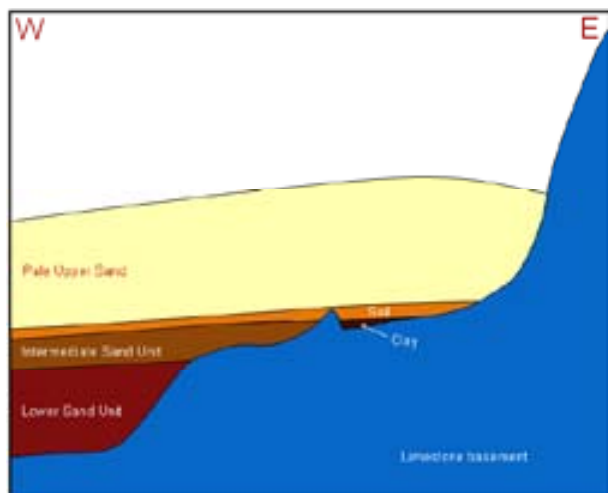


*Landsat view showing the Ranobe deposit.*

A review of the initial mine plan and schedule has focused on a high value area capable of sustaining a re-scaled mining operation for 20 years, with a view to reducing operating and capital costs by relaxing the restrictions that had been put in place during the initial study.

The re-scaled Ranobe Project will satisfy the local and national interest of Madagascar, generate returns for investors and produce a long term reliable ilmenite supply to growing markets, especially China.

The first stage of the Project focuses on 15km<sup>2</sup> area with Measured and Indicated Resources of 145 million tonnes at an average heavy mineral content 8.1% (see Figure 8).



*Idealised cross section through the Ranobe Deposit showing the three mineralised units*

Within this resource a Phase 1 project has been identified, with 75 million tonnes of 9.5% THM, capable of sustaining a mining operation of 3.5 million tonnes per year (450tph) for approximately 20 years.

The heavy mineral consists predominantly of ilmenite making up about 65% of the concentrate. The project also benefits significantly from the presence of much higher value zircon and rutile which together contribute about 8% of the heavy mineral, but around 33% of the value.

Important features of the deposit that deliver significant advantages compared to many existing operations are the low slimes content in the ore (less than 5%) and the absence of barren overburden.

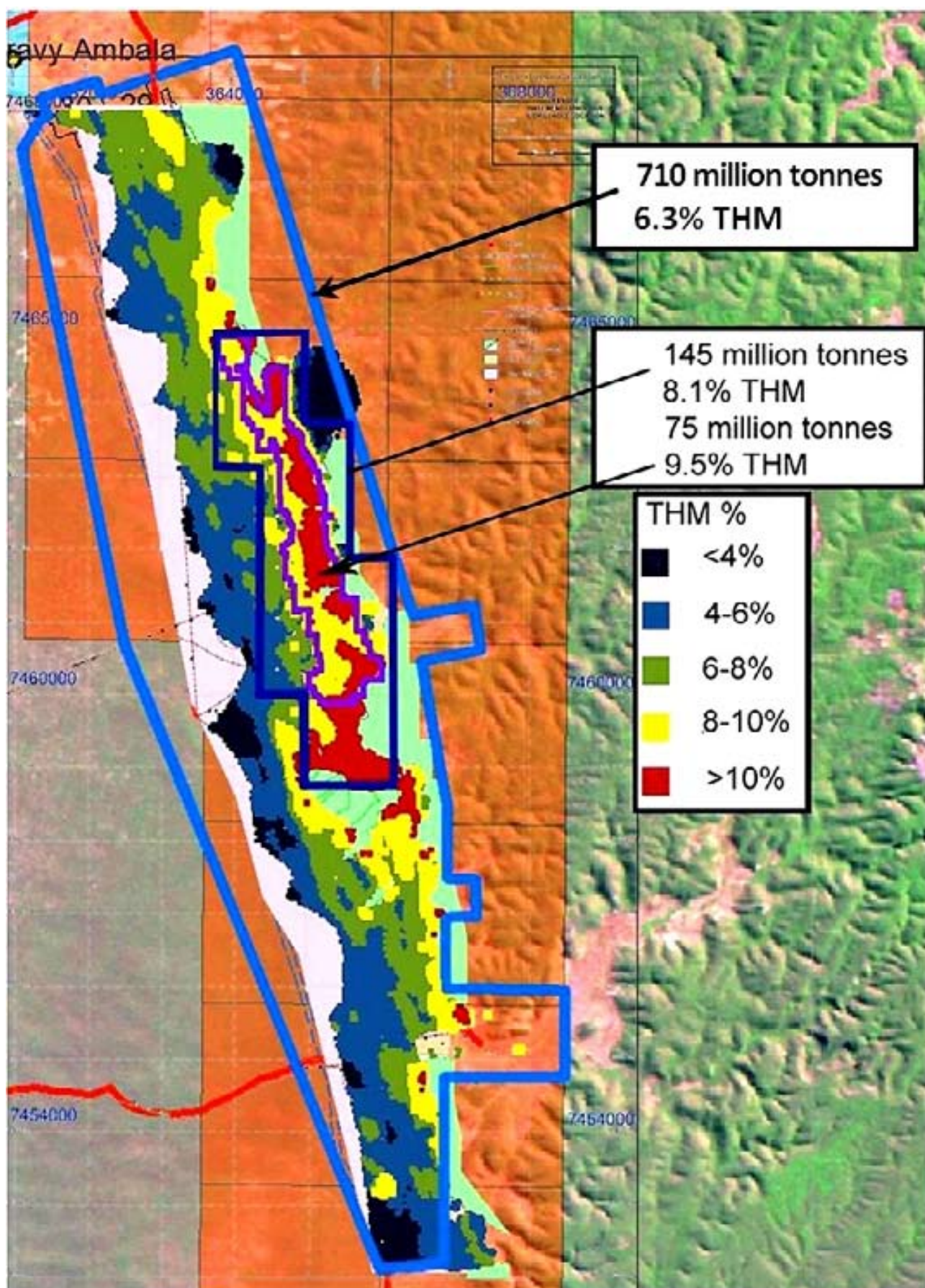
The global mineral sands industry mines an average ore grade of 5.6% heavy minerals with an overburden strip ratio of 0.4 and a contained value of US\$6.60 per tonne of ore. By contrast, contained value of the first phase of the Ranobé deposit has the potential to exceed this value due to its grade, and there is no overburden to remove. This is the key to unlocking the project value.

The ore volume requirements for the project mean that the deposit can be economically mined using a simple front end loader direct feeding a slurry transport unit. This mining methodology is employed in many operations world-wide, and represents a very low risk option.

The primary concentrator plant will be based on easily re-locatable plants widely employed in many Australian ilmenite mines.

Test work conducted to date shows that the ilmenite consists predominantly of a product suitable for use in the TiO<sub>2</sub> sulfate pigment process or in ilmenite smelters for





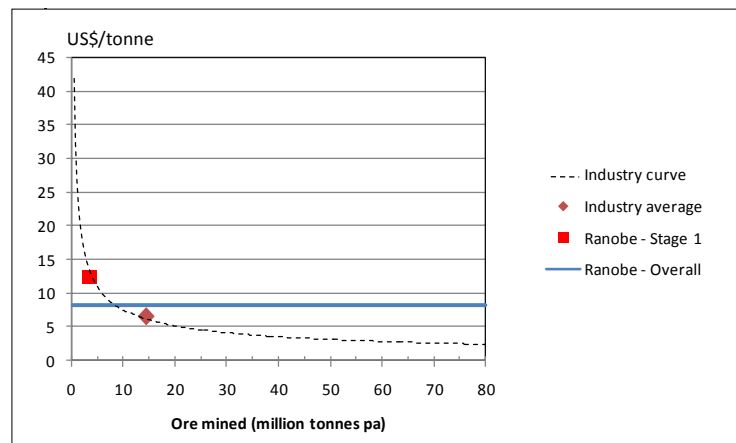
**Figure 8:** Detailed view of the Ranobe (Toliara Sands) Project as shown on Figure 1.

the production of chloride grade slag. A smaller volume of higher value ilmenite suitable for direct chlorination or as a blend feed to synthetic rutile processors is also recovered. These products can be separated with conventional mineral sands processing technology at a low unit cost.

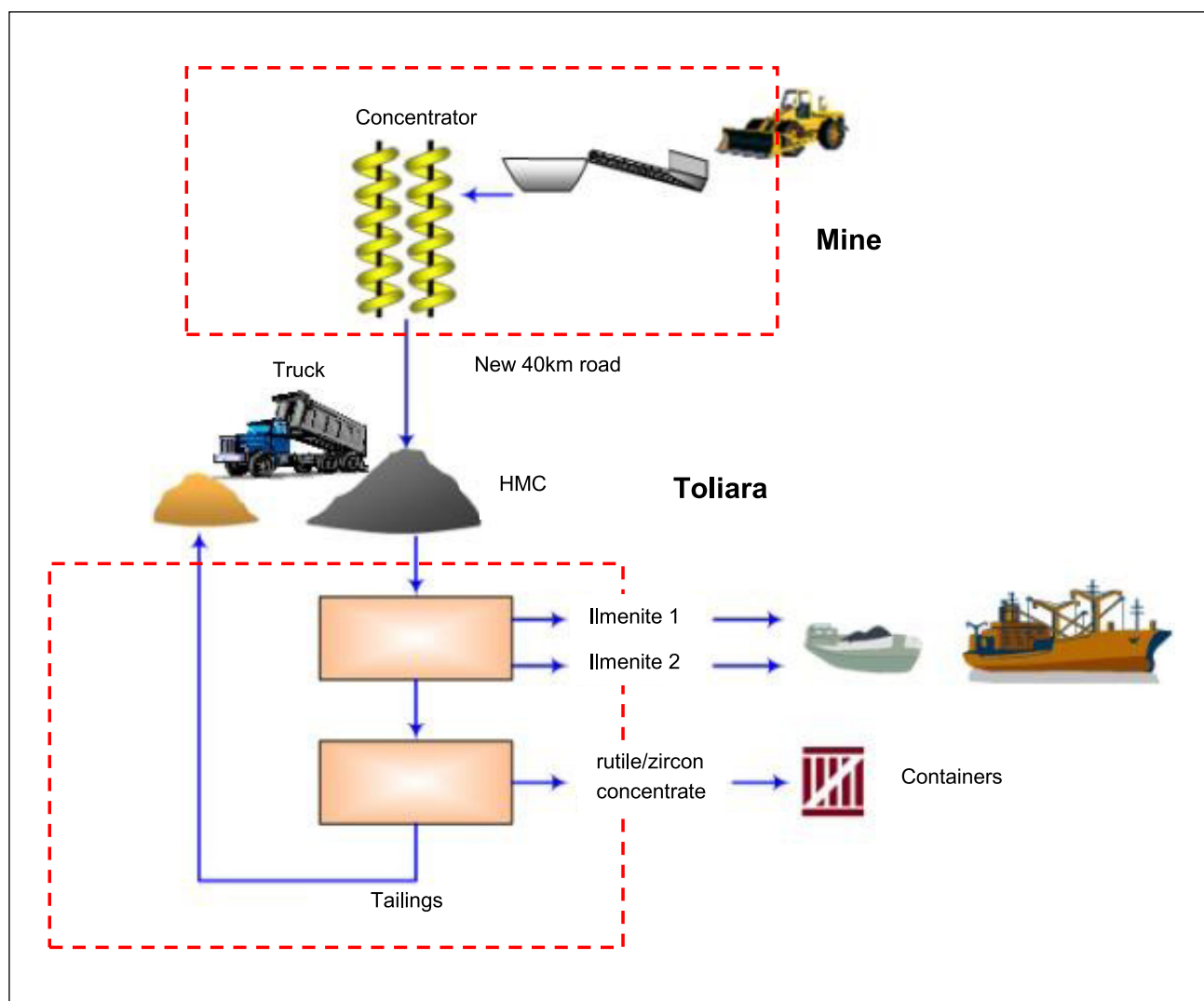
A simplified flow sheet will be employed to recover a mixed rutile/zircon concentrate suitable for shipment to Chinese processors, which have shown an increasing appetite for semi-finished concentrates.

Capital and operating cost estimates have been prepared by TZMI and are considered to be in line with similar minerals sands processing operations.

MRNL has initiated the search for an off-take partner interested in a long term supply of high quality ilmenite, initially at 200,000 tonnes per year, but with potential to increase this to more than double with incremental investment. Several Chinese groups have expressed interest in further review of the project.



Ore contained value Ranobe compared with mineral sands industry average



Simplified process flow diagram.



## BRGM ACQUISITION & STRATEGIC ALLIANCE

Following the successful listing of MML on the ASX (NB: a prerequisite for completion of the transaction), MML formally acquired control of the BRGM assets, with a formal handover ceremony held at site on the 31<sup>st</sup> July 2008.

The property itself covers approximately 19,000 sqm of land and contains (i) MML office facilities, (ii) expatriate residences and (iii) several third party leases; all of which provided revenues to BRGM at the time of A\$7,250 per month. During 2009 MML, through its wholly-owned subsidiary in Madagascar, Saint Denis Holdings SARL ('SDH') increased this amount by around 230% to over A\$24,000 per month. This revenue stream has been maintained during 2010. The site layout is summarised on Figure 9.

Additionally, the company has sought proposals from architects regarding staged redevelopment of the entire site; starting with the vacant 30% area in the south-central part of the property (refer Figure 9).

The company continues to seek additional tenants and discussions are currently underway with at least one potential tenant.

## ASSAY FACILITIES

Intertek-Genalysis ('GLS-ITTK') continue to operate a mineral sample preparation facility out of the SDH site, whilst Kirk Petrophysics ('Kirk') operate a geotechnical laboratory and core logging facility servicing Total's Bemolanga Tar Sands Project in western Madagascar. The location of these facilities is detailed on Figure 8.



Left: Drilling at Vohibory in late 2009 with the Company's LY34 drilling machine.

This continues to be a very positive aspect of the company's operations in Madagascar, as the presence of these two operators draws a variety of industry stakeholders to the site, thereby raising the profile of MML. This is in addition to the substantial capital investments made by the tenant counterparties; all of which have added significant value to the asset.

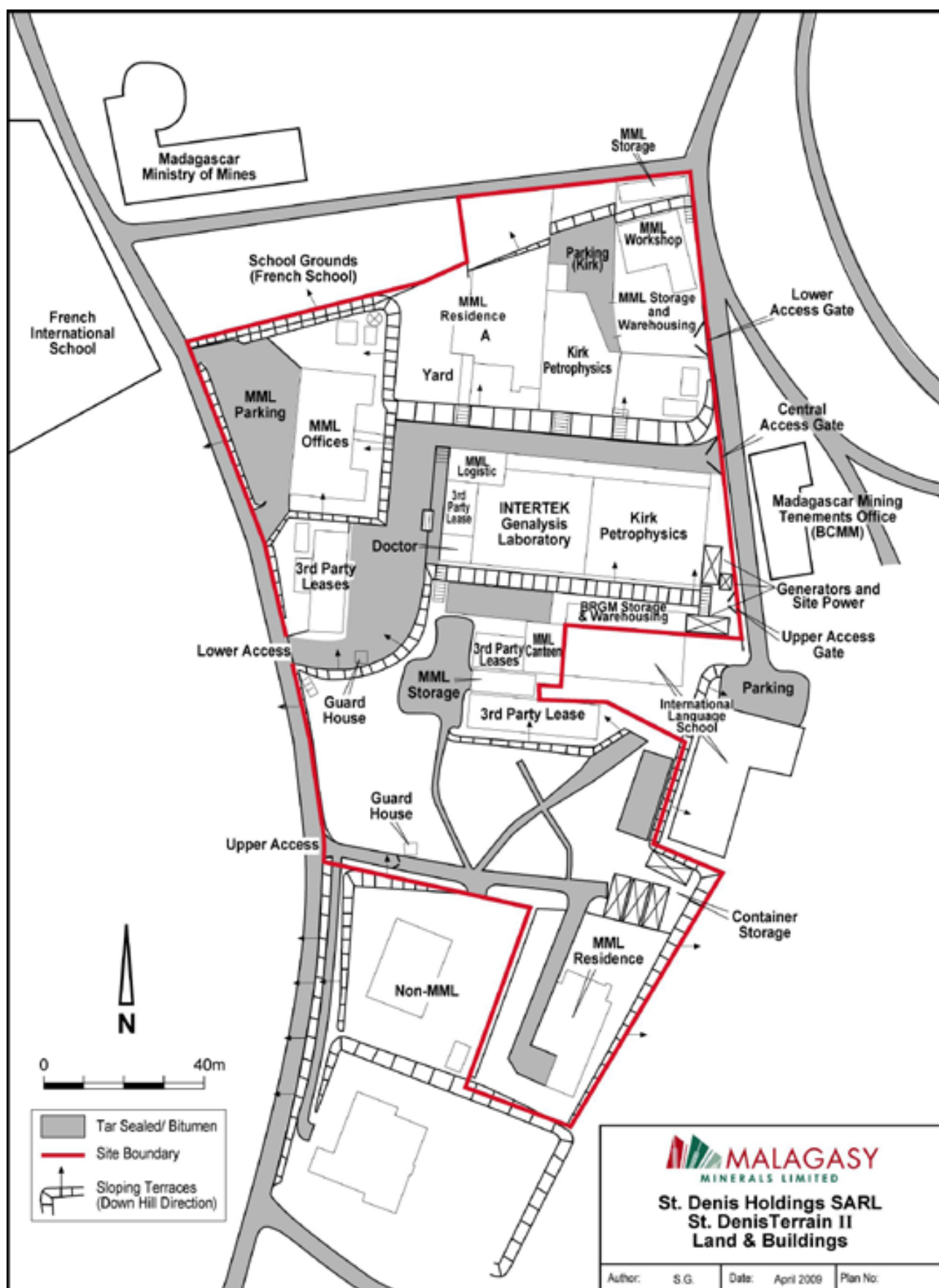
## DRILLING EQUIPMENT

Following the acquisition of BRGM assets in Madagascar, Malagasy Minerals has acquired four (4) drilling rigs; comprising three (3) diamond core drilling rigs and one (1) RAB Rig acquired separately by the Company's wholly owned subsidiary Mining Services SARL.

Subsequent to a performance review for the 2008 and 2009 exploration seasons, a decision was made to dispose of two (2) of the drilling rigs plus four (4) surplus vehicles; using the revenue to refurbish the Longyear 34 drilling machine ('LY34') and augment / upgrade down-hole equipment. Proceeds from this exercise will equate to nearly A\$120,000; allowing for the overhauls of the LY34 and will assist in funding the local costs of MML exploration programmes for 2010. A separate expatriate field supervisor will be engaged to assist drilling operations in the field. Using this methodology, it is possible to operate for between A\$40 and A\$50 per metre all-up direct drilling costs, depending on daily metreage advance rate.



Right: Testing the refurbished LY34 unit in July 2010 at the SDH workshop prior mobilizing to Ianapera.



**Figure 9:** Plan of St. Denis Terrain Showing Location & Extent of Building Infrastructure



## POLITICAL SITUATION

Madagascar recently experienced a period of political unrest that began in late January 2009. An interim solution was found with the installation of a transitional authority, preparatory to holding national elections within an agreed timeframe – currently March 2011. In spite of the situation, the Company remained operative in the country during this period, inclusive of expatriate management, and no hindrance to operations or assets was experienced during the period of unrest.

Presently the political situation in Madagascar remains stable, the company's operations and staff remain secure and business is being conducted on a normal day-to-day basis. Entry and exit to the country continues without impediment. The Company continues to monitor the situation through its established and comprehensive presence in Madagascar and remains hopeful of an early completion of the current process.

## HEALTH & SAFETY

### Incidents

There have been no material incidents, with the last incident report for Mining Services SARL and Mada-Aust SARL being in April 2010.

### Training

The company avails itself of training programs offered by CNaPS (Caisse Nationale Prevoyance Sociale) with training on aspects of Health and Safety at work, compliance to the 1994 code of hygiene and safety at the working environment.

The program customized to provide varying levels of Health and Safety awareness and roles for the Staff, workers and union representatives. Subjects covered include:

- Detection of workplace hazards and of unsafe practices.
- Preventative techniques to reduce incidents.
- Ways to allocate resources to prevent incidents.

The Company also provides in-house English language classes to interested staff as well as sponsoring furtherance of academic qualifications for selected employees.

## AUSTRALIAN DOCTORS FOR AFRICA

Malagasy Minerals provides sponsorship and logistical support for an Australian medical NGO Australian Doctors for Africa ("ADFA"); the first dedicated Australian NGO to be accredited in Madagascar.

ADFA operate up to four (4) clinics per year in the southwestern Madagascar port city of Tulear, covering a variety of activities from simple consultations to comprehensive surgery and treating up to several hundred patients per clinic.

The Company is proud to be associated with ADFA and the tangible benefits it brings to the people of southwestern Madagascar.

## Competent Persons Statements

*The information in this report that relates to **Malagasy Minerals** Exploration Results or Mineral Resources is based on information compiled or reviewed by Mr Steven Goertz, Managing Director Malagasy Minerals Ltd who is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Goertz has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activities undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Goertz consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.*

*The information in this report that relates to **Toliara Sands Project** Exploration Results or Mineral Resources is based on information compiled or reviewed by Mr. Andrew Milne of GEOCraft Pty Ltd who is a Member of the Australasian Institute of Mining and Metallurgy and of the Geological Society of Australia. Mr. Milne has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activities undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Milne consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.*

# corporate governance statement

## Statement

Malagasy Minerals Limited ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" reporting regime.

## Disclosure of Corporate Governance Practices

### Summary Statement

	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>		ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4 <sup>3</sup>	n/a	n/a
Recommendation 1.3 <sup>3</sup>	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1		✓	Recommendation 5.2 <sup>3</sup>	n/a	n/a
Recommendation 2.2		✓	Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2 <sup>3</sup>	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6 <sup>3</sup>	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4 <sup>3</sup>	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1		✓
Recommendation 3.3 <sup>3</sup>	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1		✓	Recommendation 8.3 <sup>3</sup>	n/a	n/a
Recommendation 4.2		✓			

1 Indicates where the Company has followed the Principles & Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

## Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website at [www.malagasyminerals.com](http://www.malagasyminerals.com) under the section marked Corporate Governance. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3
Policies and Procedures	
Policy and Procedure for Selection and (Re)Appointment of Directors	2.6
Process for Performance Evaluation	1.2, 2.5
Policy on Assessing the Independence of Directors	2.6
Policy for Trading in Company Securities (summary)	3.2, 3.3
Code of Conduct (summary)	3.1, 3.3
Policy on Continuous Disclosure (summary)	5.1, 5.2
Procedure for Selection, Appointment and Rotation of External Auditor	4.4
Shareholder Communication Policy	6.1, 6.2
Risk Management Policy (summary)	7.1, 7.4



## Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**").

### Principle 1 – Lay solid foundations for management and oversight

#### Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

#### Disclosure:

The Company has established the functions reserved to the Board and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Company has established the functions delegated to senior executives and has set out these functions in its Board Charter. Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

#### Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

#### Disclosure:

The Managing Director is responsible for evaluating the performance of senior executives. The performance evaluations are undertaken by an interview process between the Managing Director and each of the senior executives.

#### Recommendation 1.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

#### Disclosure:

During the Reporting Period, an evaluation of senior executives took place in accordance with the process disclosed at Recommendation 1.2.

Please refer to the section above marked Website Disclosure.

## Principle 2 – Structure the board to add value

### Recommendation 2.1:

A majority of the Board should be independent directors.

#### Notification of Departure:

The Board does not comprise a majority of independent directors. None of the directors on the Board are independent.

#### Explanation for Departure:

The Board considers that its composition is adequate for the Company's current size and operations. The Board believes it has an appropriate mix of skills and expertise, relevant to the Company's business at this time. Further, the Board has adopted a Policy on Independent Professional Advice to assist directors to bring independent judgement to the Board which provides that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office, the Company will pay for the reasonable expenses of obtaining that advice subject to obtaining the prior written approval of the Chair.

### Recommendation 2.2:

The Chair should be an independent director.

#### Notification of Departure:

The Chair is Max Cozijn who is not an independent director as he acts in an executive capacity for the Company. Further, Mr Cozijn has a substantial shareholding in the Company.

#### Explanation for Departure:

The current Board composition does not allow for the Company to follow Recommendation 2.2 because none of the directors are independent. However, the Board believes that Mr Cozijn is the most appropriate person for the position of chair because of his qualifications and experience. Further, pursuant to the Board Charter, the Company has appointed Guy LeClezio as lead independent director to take the role of Chair when Mr Cozijn is unable to act in that role due to a conflict of interest.

### Recommendation 2.3:

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

#### Disclosure:

The Managing Director is Steven Goertz who is not Chair of the Board.

### Recommendation 2.4:

The Board should establish a Nomination Committee.

#### Notification of Departure:

The Company has not established a separate Nomination Committee.

#### Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a Nomination Committee. Given that the Board comprises only four directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of Nomination Committee. Items that are usually required to be discussed

by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Nomination Committee by ensuring the director with conflicting interests is not party to the relevant discussions.

#### **Recommendation 2.5:**

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

#### **Disclosure:**

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Nomination Committee is responsible for evaluating the Managing Director.

Evaluations of the Board and individual directors are undertaken by each director completing a questionnaire which is subsequently assessed by the Chair. Evaluation of the Managing Director is undertaken by way of an interview between the Nomination Committee and the Managing Director.

#### **Recommendation 2.6:**

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

#### **Disclosure:**

#### **Skills, Experience, Expertise and term of office of each Director**

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

#### **Identification of Independent Directors**

There are no independent directors of the Company.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The materiality thresholds are set out below.

#### **Company's Materiality Thresholds**

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect

on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

#### **Statement concerning availability of Independent Professional Advice**

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

#### **Nomination Matters**

The full Board, in its capacity as the Nomination Committee, held one meeting during the Reporting Period. All Board members were in attendance at the Committee meeting.

To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter.

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

#### **Performance Evaluation**

During the Reporting Period an evaluation of the Board, its committees, and individual directors took place in accordance with the process disclosed at Recommendation 2.5.

#### **Selection and (Re) Appointment of Directors**

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure whereby it evaluates the range of skills, experience and expertise of the existing Board; considers the balance of independent directors on the Board as well as the particular skills and qualifications of potential candidates that will best increase the Board's effectiveness. A potential candidate is considered with reference to their skills and expertise in relation to other Board members. If relevant, the Nomination Committee recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next annual general meeting. The Board's Policy and Procedure for Selection and (Re)Appointment of Directors is available on the Company's website. Please refer to the section above marked Website Disclosure.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession



planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

### **Principle 3 – Promote ethical and responsible decision-making**

#### **Recommendation 3.1:**

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

#### **Disclosure:**

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

#### **Recommendation 3.2:**

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

#### **Disclosure:**

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees.

#### **Recommendation 3.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

#### **Disclosure:**

Please refer to the section above marked Website Disclosures.

### **Principle 4 – Safeguard integrity in financial reporting**

#### **Recommendation 4.1:**

The Board should establish an Audit Committee.

#### **Notification of Departure:**

The Company has not established a separate Audit Committee.

#### **Explanation for Departure:**

The Board considers that given its size and composition, no efficiencies or other benefits would be gained by establishing a separate Committee. Accordingly, the full Board performs the role of Audit Committee. Items that are usually required to be discussed by an Audit Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Audit Committee it carries out those functions which are delegated in the Company's Audit Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Audit Committee by ensuring the director with conflicting interests is not party to the relevant discussions.

#### **Recommendation 4.2:**

The Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

#### **Notification of Departure:**

The Audit Committee comprises the full Board and is not structured in accordance with the compositional recommendation.

#### **Explanation for Departure:**

As only two of the four directors are non-executive directors (Guy LeClezio and Peter Woods) and none of the directors are independent, the Company is unable to establish an Audit Committee that would comply with the compositional requirements of Recommendation 4.2. When the Board convenes as the Audit Committee, Guy LeClezio chairs the meeting. Mr LeClezio is not Chair of the Board. The explanation for departure in Recommendation 4.1 explains how the Company performs the functions of the Audit Committee, including its processes for dealing with any conflicts of interest that may occur.

#### **Recommendation 4.3:**

The Audit Committee should have a formal charter.

#### **Disclosure:**

The Company has adopted an Audit Committee Charter.

#### **Recommendation 4.4:**

Companies should provide the information indicated in the *Guide to reporting on Principle 4*.

#### **Disclosure:**

The full Board, in its capacity as the Audit Committee, held two meetings during the Reporting Period. All Board members were in attendance at the Committee meeting. To assist the Board to fulfil its function as the Audit Committee, it has adopted an Audit Committee Charter. The Audit Committee Charter is available on the Company's website. Please refer to the section above marked Website Disclosure.

The explanation for departure set out under Recommendation 4.1 above explains how the functions of the Audit Committee are performed.

Details of each of the director's qualifications are set out in the Director's Report.

All of the directors have industry experience and consider themselves to be financially literate. Mr Cozijn has a Bachelor of Commerce and is an Associate of the Australian Society of Certified Practising Accountants. Mr Cozijn's qualifications and experience enable him to bring financial expertise to the Board in its role as the Audit Committee.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board. A copy of the Company's Procedure for Selection, Appointment and Rotation of External Auditors is available on the Company's website. Please refer to the section above marked Website Disclosures.

## **Principle 5 – Make timely and balanced disclosure**

### **Recommendation 5.1:**

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

#### **Disclosure:**

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

### **Recommendation 5.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 5*.

#### **Disclosure:**

Please refer to the section above marked Website Disclosures.

## **Principle 6 – Respect the rights of shareholders**

### **Recommendation 6.1:**

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

#### **Disclosure:**

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

### **Recommendation 6.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

#### **Disclosure:**

Please refer to the section above marked Website Disclosures.

## **Principle 7 – Recognise and manage risk**

### **Recommendation 7.1:**

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

#### **Disclosure:**

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits within the agreed budget for management which, if exceeded, will require prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

In March 2010, the Board formalised and documented its systems for management of its material business risks. These systems include the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for these risks. The risk register will be reviewed and updated, as required. Further, risk is a standing agenda item at Board meetings.

The company reports on categories of risk that are identified as market-related, financial, operational, environmental, human capital, political, ethical conduct, economic, legal compliance and technological.



### **Recommendation 7.2:**

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

#### **Disclosure:**

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board has received a report from management as to the effectiveness of the Company's management of its material business risks.

### **Recommendation 7.3:**

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

#### **Disclosure:**

The Managing Director and the Finance Director have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

### **Recommendation 7.4:**

Companies should provide the information indicated in the *Guide to reporting on Principle 7*.

#### **Disclosure:**

The Board has received the report from management under Recommendation 7.2.

The Board has received the assurance from the Managing Director and the Finance Director under Recommendation 7.3.

Please refer to the section above marked Website Disclosures.

## **Principle 8 – Remunerate fairly and responsibly**

### **Recommendation 8.1:**

The Board should establish a Remuneration Committee.

#### **Notification of Departure:**

The Company has not established a separate Remuneration Committee.

#### **Explanation for Departure:**

The Board considers that no efficiencies or other benefits would be gained by establishing a separate Remuneration

Committee. Accordingly, the full Board performs the role of Remuneration Committee and has adopted a Remuneration Committee Charter, which it applies when convening as the Remuneration Committee. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings, when required. When the Board convenes as the Remuneration Committee it carries out those functions which are delegated in the Company's Remuneration Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Remuneration Committee by ensuring the director with conflicting interests is not party to the relevant discussions.

### **Recommendation 8.2:**

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

#### **Disclosure:**

Non-executive directors are remunerated at a market rates (for comparable companies) for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to the performance of the Company. Given the Company is a junior explorer and the financial restrictions placed on it, the Company may consider it appropriate to issue unlisted options to non-executive directors subject to obtaining the relevant approvals. This policy is subject to annual review.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals.

### **Recommendation 8.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

#### **Disclosure:**

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

The full Board, in its capacity as the Remuneration Committee, held one meeting during the Reporting Period. All Board members were in attendance at the Committee meeting. To assist the Board to fulfil its function as the Remuneration Committee, it has adopted a Remuneration Committee Charter.

The explanation for departure set out under Recommendation 8.1 above explains how the functions of the Remuneration Committee are performed.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Please refer to the section above marked Website Disclosures.

# directors' report

Your Directors present their report on the company and its controlled entities for the financial year ended 30 June 2010.

## DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Max Cozijn

Steven Goertz

Guy LeClezio

Peter Woods

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## COMPANY SECRETARY

Max Cozijn held the position of Company Secretary for the entire financial year. Details of Mr Cozijn's experience and qualifications are set out in the information on Directors in the Directors' Report.

## PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year were mineral exploration and project evaluation. No significant change in the nature of these activities occurred during the financial year.

## OPERATING RESULTS

The consolidated loss of the economic entity after providing for income tax amounted to \$1,586,439 (2009: \$2,288,750).

## DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or recommended to be paid during the financial year.

## REVIEW OF OPERATIONS

A review of the economic entity's operations during the year and the results of those operations are contained in the Operations Review section of this Annual Report.

## FINANCIAL POSITION

The net assets of the economic entity have decreased by \$1,391,497 to \$6,294,828 during the financial year.

This decrease is largely a result of the following factors:

- Foreign Currency fluctuations during the global economic crisis; and
- Exploration activities and operating costs.

The directors believe the group is in a sound financial position to progress its objectives and strategies.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Parent entity occurred during the financial year:

- On 25<sup>th</sup> May 2010 a Merger Implementation Agreement was entered into with unlisted public company Madagascar Resources NL (MRNL) to effect a merger by way of a Scheme of Arrangement under which Malagasy Minerals (MGY) will make offers to acquire all of the issued shares in MRNL based on the offer of three (3) MGY shares for every one (1) MRNL share plus half an option exercisable at 20 cents per share within a four year term for every three (3) MGY shares issued. This will result in 180,344,610 new shares plus 30,057,435 options being issued upon the successful conclusion of the merger.
- On 22<sup>nd</sup> June 2010, 14,250,000 fully paid ordinary shares at an issue price of 3 cents per share were issued pursuant to a placement. Further details are disclosed in Note 16 of the financial statements.

## AFTER BALANCE DATE EVENTS

The MRNL proposed merger details are included in the Operations Review. Presently, the merger is awaiting first court approval (scheduled for 20 September 2010) following which it is anticipated, both companies will be holding shareholder meetings to approve the merger. These are scheduled to be held in late October 2010. Subsequent to these approvals the court will then be asked to give final approval to the scheme which would see the merger being implemented during November 2010.

Other than those detailed above there were no material events arising subsequent to 30 June 2010 to the date of this report which may significantly affect the operations of the economic entity, the results of those operations and the state of affairs of the economic entity in the future.

## FUTURE DEVELOPMENTS

Likely future developments in the operations of the economic entity are referred to in the Operations Review section of this Annual Report. Further information as to likely developments in the operations of the economic entity and likely results of those operations would, in the opinion of the directors, be speculative and not in the best interests of the economic entity.

## ENVIRONMENTAL ISSUES

Mining and exploration operations in Madagascar are subject to environmental regulation under the Laws of Madagascar. The economic entity's current activities generally involve low level disturbance only associated with geochemical and geophysical surveys and exploration drilling programs.



## INFORMATION ON DIRECTORS

### Mr Max Dirk Jan COZIJN, B.Com. ASA, MAICD – Chairman, Finance Director, & Company Secretary

Mr Cozijn graduated from the University of Western Australia in 1972 with a Bachelor of Commerce degree and is an Associate of the Australian Society of Certified Practising Accountants. Mr Cozijn is also a member of the Australian Institute of Company Directors. He has over 30 years experience in the administration of listed mining and industrial companies. Mr Cozijn is a Non-Executive Director of Carbon Energy Ltd, a Director of Magma Metals Limited, Chairman of Oilex Ltd and a Non-Executive Director of Energia Minerals Ltd.

During the past three years Mr Cozijn has held the following other listed company directorships:

- Carbon Energy Ltd \* (from September 1992)
- Oilex Ltd \* (from September 1997)
- Magma Metals Limited\* (from June 2005 )
- Energia Minerals Limited\* (from May 1997 (listed December 2009))
- Elkedra Diamonds NL (from April 2000 to November 2007)

\* Denotes current directorship

### Mr Steven Burton GOERTZ, BSc (Geology), MAusIMM / MAIG – Managing Director

Mr Goertz graduated from the University of British Columbia in 1986 with a BSc in Geology and is a Member of both the AusIMM and the AIG. He is a geologist with 25 years experience in exploration and mining in Canada, Australia, New Caledonia, Philippines and Madagascar. During this time Mr Goertz has worked in a variety of management and operational roles involving a diverse range of commodities and mineralisation styles, including gold, silver, base metals, PGE's, nickel, cobalt, antimony and gemstones. He has been involved with Madagascar since 1999 when he began developing a project concept for the country. Mr Goertz is a corporate member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

During the past three years Mr Goertz has not held any other listed company directorships.

### Mr Guy Francois Marie LE CLEZIO, BA – Non-Executive Director

Mr Le Clezio holds a Bachelor of Arts from the University of Western Australia. He has had 20 years experience in the mining and exploration industry and was an Executive Director of Eyres Reed Ltd and Canadian Imperial Bank of Commerce who were leading Western Australian stockbrokers specialising in the mining industry. He is a founding director of MRNL and a former director of ASX listed Windy Knob Resources Ltd.

During the past three years Mr Le Clezio has held the following other listed company directorships:

- Windy Knob Resources Limited (from October 2006 to April 2008)

### Dr Peter James WOODS, BScH / PhD (Geol), MAIG – Non-Executive Director

Dr Woods holds a Bachelor of Science (Honours) and a Doctorate of Philosophy (Geology) from the University of Western Australia. He has had over 20 years experience in the mining and exploration industry specialising in base metals, gold and industrial minerals, and as a consulting environmental scientist. He has worked in Madagascar since 1994 and in that time discovered the 710 million tonne Ranobe mineral sand deposit currently the subject of a Bankable Feasibility Study. He is a founding director of Madagascar Resources NL and a Member of the Australian Institute of Geoscientists.

During the past three years Dr Woods has not held any other listed company directorships.

As at the date of this report, the interests of the Directors in shares and options of the Company were:

	No. of Shares Held		No. of Unlisted Options Held	
	Direct	Indirect	Direct	Indirect
Mr. M D J Cozijn	10,001	6,000,000	-	1,000,000
Mr. S B Goertz	150,001	5,130,000	-	2,000,000
Dr. P J Woods <sup>1</sup>	-	100,000	-	500,000
Mr. G F Le Clezio <sup>1</sup>	-	2,019,809	500,000	-

<sup>(1)</sup> Madagascar Resources NL ('MRNL') holds 10,000,000 Shares in MML; Mr. G F Le Clezio and Dr. P J Woods are also Directors and Shareholders of MRNL.

## REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Malagasy Minerals Limited and for the executives receiving the highest remuneration.

The remuneration policy, which sets the terms and conditions for the Managing Director and other senior executives, was developed after seeking professional advice from independent consultants and was approved by the Board. All executives receive a base salary, superannuation, fringe benefits, performance incentives and retirement benefits. The remuneration committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is reviewed annually, in June, by the remuneration committee, with revised remuneration packages generally taking effect from the 1<sup>st</sup> of July of that year.

Executives may be granted unlisted share options from time to time, as determined by the Board.

The Board expects that the remuneration structure implemented will result in the company being able to attract and retain the best executives to manage the economic entity. It will also provide executives with the necessary incentives to work towards sustainable growth in shareholder value.

The payment of bonuses, stock options and other incentive payments are reviewed by the remuneration committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval. All bonuses, options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

The company's remuneration committee Charter is set out on the company's website at [www.malagasyminerals.com](http://www.malagasyminerals.com)

### Details of Remuneration for Year Ended 30 June 2010

The remuneration for each director and each of the specified executive officers of the economic entity during the year were as follows:

2010	Salary \$	Directors' Fees \$	Non-Cash Benefits \$	Super Contributions \$	Equity \$	Options \$	Total \$	Performance related %
<b>Parent Entity Directors:</b>								
S B Goertz	150,000	20,000	-	16,800	-	6,852	193,652	-
M D J Cozijn	50,000	20,000	-	6,300	-	-	76,300	-
P J Woods	-	20,000	-	1,800	-	-	21,800	-
G Le Clezio	-	20,000	-	1,800	-	-	21,800	-
	200,000	80,000	-	26,700	-	6,852	313,552	-
<b>Executives:</b>								
J Le Clezio	120,000	-	-	-	-	-	120,000	-
	120,000	-	-	-	-	-	120,000	-

2009	Salary \$	Directors' Fees \$	Non-Cash Benefits \$	Super Contributions \$	Equity \$	Options \$	Total \$	Performance related %
<b>Parent Entity Directors:</b>								
S B Goertz	150,000	20,000	-	16,800	-	6,029	192,829	-
M D J Cozijn	50,000	20,000	-	6,300	-	9,000	85,300	-
P J Woods	-	20,000	-	1,800	-	4,500	26,300	-
G Le Clezio	-	20,000	-	1,800	-	4,500	26,300	-
	200,000	80,000	-	26,700	-	24,029	330,729	-
<b>Executives:</b>								
J Le Clezio	120,000	-	-	-	-	-	120,000	-
	120,000	-	-	-	-	-	120,000	-

None of the remuneration was performance related.



## Shares and Options issued as part of remuneration for the year ended 30 June 2010.

There were no Shares and no Options issued during the financial year to any Director or Executive.

2009	Granted: No	Options granted as part of remuneration \$	Total remuneration represented by options %	Options lapsed \$	Options exercised \$	Total \$
<b>Directors:</b>						
S Goertz	2,000,000	6,029	3%	-	-	6,029
M Cozijn	1,000,000	9,000	11%	-	-	9,000
P Woods	500,000	4,500	17%	-	-	4,500
G Le Clezio	500,000	4,500	17%	-	-	4,500
	4,000,000	24,029		-	-	24,029
<b>Executives:</b>						
J Le Clezio	-	-	-	-	-	-
	-	-	-	-	-	-

## Service Agreements of Directors and Specified executives

Mr Goertz has been engaged under a Consultancy Agreement for a 3 year period commencing 7 July 2008.

Mr Jules Le Clezio has been engaged under a Consultancy Agreement for a 3 year period which commenced 6 April 2007 and is to be re-negotiated following the merger with MRNL.

The required notice period is three months from either party. Payment of termination benefit on early termination by the employer, other than for gross misconduct will be equal to 12 months remuneration.

The aggregate amount of remuneration payable to all non-executive directors was set by shareholders at \$200,000 per annum.

## MEETINGS OF DIRECTORS

During the financial year, the directors' attendance at meetings of directors and committees of directors were as follows:

Director	Directors' Meetings		Audit		Committee Meetings			
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Remuneration Number eligible to attend	Number attended	Nomination Number eligible to attend	Number attended
Mr M D J Cozijn	10	10	2	2	1	1	1	1
Mr S B Goertz	10	10	2	2	1	1	1	1
Dr P J Woods	9	9	2	2	1	1	1	1
Mr G F LeClezio	9	9	2	2	1	1	1	1

The Full Board undertakes the role of the Audit, Remuneration and Nomination Committees.

## NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

All non-audit services are reviewed and approved by the executive directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

The nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees were paid or payable to WHK Horwath for non-audit services during the year ended 30 June 2010.

## INDEMNIFYING OFFICERS AND AUDITORS

The Company has established an insurance policy insuring Directors and officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers will not be disclosed. This is permitted under S300(9) of the Corporation Act 2001.

## SHARE OPTIONS

At the date of this report, the unissued ordinary shares of Malagasy Minerals Limited under option are as follows:

### Unlisted Options

Grant date	Vesting date	Date of expiry	Exercise price	No. under option
27 June 2008	27 June 2009	27 June 2013	\$0.20	1,000,000
1 December 2008	1 December 2008	1 December 2013	\$0.20	2,000,000
1 December 2008	3 January 2010	3 July 2013	\$0.20	1,000,000
1 December 2008	3 July 2011	3 July 2013	\$0.20	1,000,000
2 April 2009	7 July 2010	7 July 2013	\$0.20	4,003,600
				<u>9,003,600</u>

No options were exercised during the year ended 30 June 2010.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any body corporate.

## PROCEEDINGS ON BEHALF OF THE COMPANY

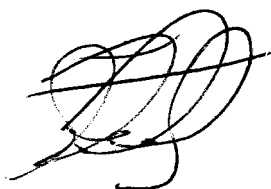
No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## AUDITOR'S INDEPENDENCE DECLARATION

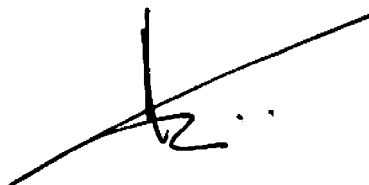
The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 37 of the annual report.

Signed in accordance with a resolution of the Board of Directors.



**S.B. Goertz**

Managing Director  
West Perth, Western Australia  
14<sup>th</sup> September 2010



**M.D.J. Cozijn**

Finance Director



# auditor's independence declaration



## AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Malagasy Minerals Limited for the year ended 30 June 2010, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

CYRUS PATELL  
Partner

Perth, WA

Dated this 14<sup>th</sup> day of September 2010

### *Total Financial Solutions*



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

### **Member Horwath International**

WHK Horwath Perth Audit Partnership ABN 96 844 819 235  
Level 6, 256 St Georges Terrace Perth WA 6000 Australia  
GPO Box P1213 Perth WA 6844 Australia  
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152  
Email [perth@whkhorwath.com.au](mailto:perth@whkhorwath.com.au) [www.whkhorwath.com.au](http://www.whkhorwath.com.au)  
A WHK Group firm

# consolidated statement of comprehensive income

for the year ended 30 June 2010

## ECONOMIC ENTITY

	Notes	2010 \$	2009 \$
Revenue	2	<b>695,679</b>	972,950
Employee benefits expense		<b>(596,385)</b>	(664,820)
Depreciation expense		<b>(157,088)</b>	(289,447)
Impairment of Assets		-	(589,423)
Finance costs		<b>(758)</b>	(1,375)
Administration costs		<b>(608,364)</b>	(919,328)
Exploration expenditure		<b>(888,460)</b>	(912,976)
Foreign Exchange Movements		<b>(13,675)</b>	196,439
Share-based payments		<b>(29,299)</b>	(29,503)
Loss before income tax expense		<b>(1,598,350)</b>	(2,237,483)
Income tax (expense) / benefit	4	<b>11,911</b>	(51,267)
<b>Net Loss attributable to members of the parent entity</b>		<b>(1,586,439)</b>	(2,288,750)
Other Comprehensive Income:			
Adjustment from translation of foreign controlled entities		<b>(235,565)</b>	(289,848)
Income Tax relating to components of other comprehensive income		-	-
<b>Total Comprehensive Income for the period attributable to members of the parent entity</b>		<b>(1,822,004)</b>	(2,578,598)
Overall Operations:			
Basic earnings (loss) per share		<b>(1.66)</b>	(2.40)
- cents per share	5		
Diluted earnings (loss) per share		<b>(1.66)</b>	(2.40)
- cents per share	5		

The accompanying notes form part of these financial statements



# consolidated statement of financial position

as at 30 June 2010

## ECONOMIC ENTITY

	Notes	2010 \$	2009 \$
<b>Current Assets</b>			
Cash and Cash Equivalents	7	571,669	1,435,644
Trade and Other Receivables	9	26,882	162,931
Other Current Assets	8	142,774	91,010
<b>Total Current Assets</b>		<b>741,325</b>	1,689,585
<b>Non-Current Assets</b>			
Trade and Other Receivables	9	573,783	784,830
Property, Plant & Equipment	10	3,028,768	3,278,460
Intangible Assets	11	-	-
Deferred Exploration and Evaluation costs	12	3,289,216	3,256,182
<b>Total Non-Current Assets</b>		<b>6,891,767</b>	7,319,472
<b>TOTAL ASSETS</b>		<b>7,633,092</b>	9,009,057
<b>Current Liabilities</b>			
Trade and other Payables	13	584,960	355,393
Short-term Provisions	14	38,870	27,320
<b>Total Current Liabilities</b>		<b>623,830</b>	382,713
<b>Non-Current Liabilities</b>			
Trade and other Payables	15	714,434	940,019
<b>Total Non- Current Liabilities</b>		<b>714,434</b>	940,019
<b>TOTAL LIABILITIES</b>		<b>1,338,264</b>	1,322,732
<b>NET ASSETS</b>		<b>6,294,828</b>	7,686,325
<b>EQUITY</b>			
Issued Capital	16	11,411,975	11,010,767
Reserves	17	(265,710)	(59,444)
Accumulated Losses		(4,851,437)	(3,264,998)
<b>TOTAL EQUITY</b>		<b>6,294,828</b>	7,686,325

The accompanying notes form part of these financial statements.

# consolidated statement of changes in equity

for the year ended 30 June 2010

## ECONOMIC ENTITY

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
	\$	\$	\$	\$	\$
Balance at 30 June 2008	11,010,767	(976,248)	2,349	198,552	10,235,420
Shares issued during the year	-	-	-	-	-
Transaction costs	-	-	-	-	-
Movement in Share Option Reserve	-	-	-	29,503	29,503
Loss attributable to members of economic entity	-	(2,288,750)	-	-	(2,288,750)
Other Comprehensive Income	-	-	(289,848)	-	(289,848)
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2009	11,010,767	(3,264,998)	(287,499)	228,055	7,686,325
Shares issued during the year	<b>427,500</b>	-	-	-	<b>427,500</b>
Transaction costs	<b>(26,292)</b>	-	-	-	<b>(26,292)</b>
Movement in Share Option Reserve	-	-	-	<b>29,299</b>	<b>29,299</b>
Loss attributable to members of economic entity	-	<b>(1,586,439)</b>	-	-	<b>(1,586,439)</b>
Other Comprehensive Income	-	-	<b>(235,565)</b>	-	<b>(235,565)</b>
Dividends paid or provided for	-	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>11,411,975</b>	<b>(4,851,437)</b>	<b>(523,064)</b>	<b>257,354</b>	<b>6,294,828</b>

The accompanying notes form part of these financial statements

# consolidated statement of cash flows

for the year ended 30 June 2010

## ECONOMIC ENTITY

	Notes	2010 \$	2009 \$
<b>Cash flows from Operating Activities</b>			
Payments to suppliers and employees		(1,178,026)	(2,108,604)
Payments for exploration expenditure		(571,877)	(1,356,279)
Interest received		20,373	231,282
Royalties received		259,330	304,051
Other income		415,976	437,617
Borrowing costs		(758)	(1,375)
Net cash used in operating activities	19(a)	(1,054,982)	(2,493,308)
<b>Cash flows from Investing Activities</b>			
Payments for property, plant and equipment		(55,115)	(4,308,520)
Payments for exploration and evaluation expenditure		-	(836,895)
Net cash used in investing activities		(55,115)	(5,145,415)
<b>Cash flows from Financing Activities</b>			
Proceeds from issues of shares		427,500	-
Capital raising costs		(26,292)	-
Repayment of borrowings		(8,104)	(8,869)
Repayment of Share Sale Agreement		(133,307)	(889,972)
Net cash flows provided by (used in) financing activities		259,797	(898,841)
Net increase (decrease) in cash held		(850,300)	(8,537,564)
Cash at the beginning of the financial year	7	1,435,644	9,973,208
Effect of exchange rates on cash holdings in foreign currencies		(13,675)	-
<b>Cash at the end of the financial year</b>	7	<b>571,669</b>	<b>1,435,644</b>

The accompanying notes form part of these financial statements.



# notes to the financial statements

## for the year ended 30 June 2010

### NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The consolidated financial statements of Malagasy Minerals Limited as at the year ended 30 June 2010 comprises the company and its subsidiaries (together referred to as the 'Group' or 'Economic Entity'). Malagasy Minerals Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Malagasy Minerals Ltd, have not been presented within this financial report as permitted by amendments made to Corporations Act 2001 effective as at 30 June 2010.

#### Basis of Preparation

##### *Reporting Basis and Conventions*

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

#### Accounting Policies

##### (a) Principles of Consolidation

A controlled entity is any entity controlled by Malagasy Minerals Limited. Control exists where Malagasy Minerals Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Malagasy Minerals Limited to achieve the objectives of Malagasy Minerals Limited. All controlled entities have a 30 June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

##### (b) Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will be able to meet its commitments, realize its assets and discharge its liabilities in the ordinary course of business. This status is dependent upon the Group being able to generate commercial levels of cash flow from its continuing operations and/or being able to raise further capital.

If this does not occur, the going concern basis may not be appropriate and the Group may have to realize assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

##### (c) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

##### (d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

###### *Property*

Land and Buildings are measured on the cost basis less accumulated depreciation in accordance with a 99 year lease. The carrying amount is reviewed annually by the Directors and independent valuations will be commissioned as and when required.

###### *Plant and equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### *Depreciation*

The depreciable amount of all fixed assets including capitalised lease assets, but excluding computers, is depreciated on a reducing balance commencing from the time the asset is held ready for use. Computers are depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Property	1%
Plant and Equipment	7.5% - 50%
Motor vehicles	20%
Field equipment	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### **(e) Exploration, Evaluation and Development Expenditure**

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Tenement acquisition costs are initially capitalised. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Immediate restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure. Exploration activities resulting in future obligations in respect of restoration costs result in a provision to be made by capitalising the estimated costs, on a discounted cash basis, of restoration and depreciating over the useful life of the asset. The unwinding of the effect of the discounting on the provision is recorded as a finance cost on the income statement.

#### **(f) Financial Instruments**

##### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

##### *Available for Sale Financial Assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

##### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

##### *Derivative instruments*

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

##### *Fair value*

Fair value is determined based on current bid process for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

#### *Impairment*

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

#### **(g) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and tangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### **(h) Intangibles**

##### *Goodwill*

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### **(i) Foreign Currency Transactions and Balances**

##### *Functional and presentation currency*

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### *Transaction and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

#### **(j) Employee Benefits**

Provision is made for the entity's liability for employee benefits arising from services rendered by employees to the balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

#### **(k) Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### **(l) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

#### **(m) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Revenue from Royalties are recognised upon delivery of goods to customers or to the minimum monthly contractual amount.

All revenue is stated net of the amount of goods and services tax (GST).

#### **(n) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these



circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **(o) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### **(p) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### **(q) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

##### *Key Estimates – Impairment*

The group assess impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Impairment of Investments in subsidiaries arises where the carrying value of the asset exceeds the net asset position of the subsidiaries and impairment is recognised to the value of the deficit. Impairment of Intangible assets is recognised upon managements' best estimate that the carrying value exceeds the fair value of the asset considering future cash flows and profits arising from the asset.

No impairment has been recognised in respect of costs carried forward as exploration assets. The ultimate recoupment of value is dependent on the successful development and commercial exploitation or sale of the respective areas.

#### **(r) Adoption of New and Revised Accounting Standards**

During the current year the Company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Malagasy Minerals Limited.

#### **AASB 8: Operating Segments**

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed. Below is an overview of the key changes and the impact on the Group's financial statements.

##### *Measurement impact*

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. Under AASB 114, segments were identified by business and geographical areas.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has not resulted in a significant change from the prior year, the company results are viewed as the only segment, as this is how they are reviewed by the chief operating decision maker.

##### *Disclosure impact*

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

#### **AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

##### *Disclosure impact*

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

### **New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;

- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009-8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.



## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 2 – REVENUE</b>		
Operating Activities		
- royalties	<b>259,330</b>	304,051
- rental	<b>227,335</b>	119,354
- other	<b>188,641</b>	318,263
Non-operating activities		
- Interest received	<b>20,373</b>	231,282
Total Revenue	<b>695,679</b>	972,950
<b>NOTE 3 – LOSS FOR THE YEAR</b>		
<b>Expenses</b>		
Borrowing costs	<b>758</b>	1,375
Depreciation of non-current assets		
- Land and Buildings	<b>38,327</b>	24,369
- Property, Plant & Equipment	<b>72,841</b>	139,420
- Field equipment	<b>37,135</b>	54,199
- Motor vehicles	<b>8,785</b>	71,459
Total depreciation	<b>157,088</b>	289,447
Exploration expenditure	<b>888,460</b>	912,976
Impairment of non-current assets	-	589,423
Rental expenses on operating leases - minimum lease payments	<b>46,606</b>	48,706

## ECONOMIC ENTITY

**2010**  
**\$**

**2009**  
**\$**

### NOTE 4 - INCOME TAX EXPENSE

#### (a) Income Tax Expense

The prima facie tax/(benefit) on Profit/(Loss) from ordinary activities is reconciled to the income tax expense as follows:

Prima facie tax/(benefit) on Profit/(Loss) from ordinary activities before income tax at 30% (2009: 30%)	<b>(479,505)</b>	(686,625)
Add tax effect of:-		
Tax attributable to foreign subsidiary	<b>(11,911)</b>	51,267
Permanent Differences	<b>(96,706)</b>	(553,878)
Deferred tax assets not brought to account	<b>576,211</b>	1,240,503
Income tax expense attributable to entity	<b>(11,911)</b>	51,267

#### (b) Deferred Tax Assets

Timing differences		
Opening	<b>1,455,326</b>	214,823
Tax losses – Australia	<b>332,986</b>	848,464
Tax losses - Madagascar	<b>239,653</b>	392,039
Total deferred tax assets not brought to account	<b>2,027,965</b>	1,455,326

## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 5 – LOSS PER SHARE</b>		
(a) Reconciliation of Earnings to Net Loss		
Loss used in the calculation of basic EPS	<b>(1,586,439)</b>	(2,288,750)
Loss used in the calculation of dilutive EPS	<b>(1,586,439)</b>	(2,288,750)
Basic loss per share		
- cents per share	<b>(1.66)</b>	(2.40)
Diluted loss per share		
- cents per share	<b>(1.66)</b>	(2.40)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		
	<b>95,351,373</b>	95,000,003
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS		
	<b>95,351,373</b>	95,000,003

As at 30 June 2010 there are 9,003,600 unlisted options on issue. The effect of these options are anti-dilutive on the earnings per share calculation as the exercise price of the options is below the current market value.

## NOTE 6 – KEY MANAGEMENT PERSONNEL COMPENSATION

### (a) Key Management Personnel

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Mr S B Goertz – Managing Director (Executive Director)

Mr M D J Cozijn – Finance Director/Company Secretary (Executive Director)

Mr G F M Le Clezio - Director (Non-Executive Director)

Dr P J Woods - Director (Non-Executive Director)

Mr J Le Clezio – Country Manager (Madagascar)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.



## (b) Equity and Options granted as compensation

There were no Shares or Options issued to Directors or Executives in the financial year.

Shares and Options Granted as Compensation and Terms & Conditions of each Grant:

2009	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
<b>Parent Entity Directors:</b>							
Mr S Goertz	-	2,000,000	01/12/2008	0.8 cents	20 cents	03/01/2010	03/07/2013
Mr M Cozijn	1,000,000	1,000,000	01/12/2008	0.9 cents	20 cents	01/12/2008	01/12/2013
Mr G Le Clezio	500,000	500,000	01/12/2008	0.9 cents	20 cents	01/12/2008	01/12/2013
Dr P Woods	500,000	500,000	01/12/2008	0.9 cents	20 cents	01/12/2008	01/12/2013
	2,000,000	4,000,000					
<b>Executives:</b>							
Mr J Le Clezio	1,000,000	1,000,000	27/06/2008	20 cents	20 cents	27/06/2008	26/06/2013
	1,000,000	1,000,000					

Exercise prices are in excess of the market prices at the date of grant.

The services and performance criteria set to determine remuneration are included in the Remuneration Report in this Annual Report.

All options were granted for \$nil consideration.

## (c) Shares issued on Exercise of Compensation Options

There were no options exercised by key management personnel during the financial year.

## (d) Option Holdings held directly and indirectly by Key Management Personnel

2010	Balance at 1 July 2009	Granted as Remuneration	Balance at 30 June 2010	Total Vested 30 June 2010	Total Exercisable 30 June 2010	Total Unexercisable 30 June 2010
<b>Parent Entity Directors:</b>						
Mr S Goertz	2,000,000	-	2,000,000	1,000,000	1,000,000	1,000,000
Mr M Cozijn	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Mr G Le Clezio	500,000	-	500,000	500,000	500,000	-
Dr P Woods	500,000	-	500,000	500,000	500,000	-
	4,000,000	-	4,000,000	3,000,000	3,000,000	1,000,000
<b>Executives:</b>						
Mr J Le Clezio	1,000,000	-	1,000,000	1,000,000	1,000,000	-
	1,000,000	-	1,000,000	1,000,000	1,000,000	-

**(e) Shareholdings of key management personnel**

	Balance 1 July 2009	Purchased	Options Exercised	Net change other	Balance 30 June 2010
<b>Key Management Personnel:</b>					
Mr S Goertz	5,130,001	-	-	-	5,130,001
Mr M Cozijn	5,360,001	650,000 <sup>1</sup>	-	-	6,010,001
Mr G Le Clezio	2,019,809	-	-	-	2,019,809
Dr P Woods	-	-	-	100,000 <sup>2</sup>	100,000
	12,509,811	650,000	-	100,000	13,259,811
<b>Executives:</b>					
Mr J Le Clezio	5,500,000	300,000 <sup>1</sup>	-	-	5,800,000
	5,500,000	300,000	-	-	5,800,000
	18,009,811	950,000	-	100,000	19,059,811

**Notes**

1. All purchases are on market trades.
2. Off market transfers

**ECONOMIC ENTITY**

	2010 \$	2009 \$
<b>NOTE 7 – CASH AND CASH EQUIVALENTS</b>		
Cash on hand	200	200
Cash at bank	255,659	169,634
Deposits at call (i)	300,000	1,250,000
Bond	15,810	15,810
	<b>571,669</b>	<b>1,435,644</b>

(i) The effective interest rate on deposits at call is 5.12% (2009-3.48%) and has a maturity of 30 days.

**NOTE 8 – OTHER CURRENT ASSETS**

Prepayments	141,971	89,554
Other	803	1,456
Total Other Current Assets	<b>142,774</b>	<b>91,010</b>

**NOTE 9 – TRADE AND OTHER RECEIVABLES**

<b>CURRENT</b>		
Other receivables	26,882	162,931
	<b>26,882</b>	<b>162,931</b>
<b>NON-CURRENT</b>		
Other receivables	573,783	784,830
	<b>573,783</b>	<b>784,830</b>

## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 10 – PROPERTY, PLANT AND EQUIPMENT</b>		
Property, Plant & Equipment – At cost	<b>487,135</b>	361,813
Less accumulated depreciation	<b>(216,318)</b>	(110,966)
Total Property, Plant & Equipment	<b>270,817</b>	250,847
Field Equipment – At cost	<b>357,458</b>	438,992
Less accumulated depreciation	<b>(113,910)</b>	(54,560)
Total Field Equipment	<b>243,548</b>	384,432
Motor Vehicles – At cost	<b>259,531</b>	269,803
Less accumulated depreciation	<b>(182,432)</b>	(102,253)
Total Motor Vehicles	<b>77,099</b>	167,550
Total Property, Plant and Equipment	<b>591,464</b>	802,829
Land and Buildings – At cost	<b>2,500,000</b>	2,500,000
Less accumulated depreciation	<b>(62,696)</b>	(24,369)
Total Land & Buildings	<b>2,437,304</b>	2,475,631
TOTAL FIXED ASSETS	<b>3,028,768</b>	3,278,460

### (a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land & Buildings \$	Property, Plant & Equipment \$	Field Equipment \$	Motor Vehicles \$	Total \$
<b>Economic Entity</b>					
Balance at 30 June 2008	2,500,000	264,066	561	121,941	2,886,568
Additions and reclassifications	-	123,715	275,635	183,765	583,115
Disposals	-	(4,518)	-	-	(4,518)
Depreciation expense	(24,369)	(139,420)	(54,199)	(71,459)	(289,447)
Currency Translation Differences	-	7,004	162,435	(66,697)	102,742
Carrying amount at 30 June 2009	2,475,631	250,847	384,432	167,550	3,278,460
Additions and reclassifications	-	<b>53,361</b>	<b>1,754</b>	-	<b>55,115</b>
Disposals	-	-	<b>(83,288)</b>	<b>(10,272)</b>	<b>(93,560)</b>
Depreciation expense	<b>(38,327)</b>	<b>(72,841)</b>	<b>(37,135)</b>	<b>(8,785)</b>	<b>(157,088)</b>
Currency Translation Differences	-	<b>39,450</b>	<b>(22,215)</b>	<b>(71,394)</b>	<b>(54,159)</b>
Carrying amount at 30 June 2010	<b>2,437,304</b>	<b>270,817</b>	<b>243,548</b>	<b>77,099</b>	<b>3,028,768</b>



## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 11 – INTANGIBLE ASSETS</b>		
Goodwill		
Cost	<b>616,967</b>	616,967
Provision for Impairment	<b>(616,967)</b>	(616,967)
Total Intangible Assets	<b>-</b>	-

Management have reviewed the carrying value of Goodwill and have impaired the intangible asset on the estimate the fair value is nil.

## NOTE 12 – DEFERRED EXPLORATION AND EVALUATION COSTS

Opening Balance	<b>3,256,182</b>	2,368,977
Additions and Reclassifications	<b>33,034</b>	887,205
Impairment	<b>-</b>	-
Costs carried forward in respect of areas of interest in Exploration and Evaluation phases	<b>3,289,216</b>	3,256,182

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploitation or sale of the respective areas.

## NOTE 13 – CURRENT TRADE & OTHER PAYABLES

Unsecured liabilities		
Trade Payables	<b>279,847</b>	116,644
Sundry Payables	<b>-</b>	8,104
Accrued Expenses (1)	<b>305,113</b>	230,645
Total Current Trade & Other Payables	<b>584,960</b>	355,393

(1) Accrued expenses include amounts in respect of the Share Sale Agreement with Madagascar Resources NL estimated to be payable within the next 12 months.

## NOTE 14 – SHORT-TERM PROVISIONS

Provision for annual leave		
Opening Balance	<b>27,320</b>	-
Additional provisions	<b>11,550</b>	27,320
Balance at 30 June 2010	<b>38,870</b>	27,320

	<b>No.</b>	<b>No.</b>
Number of employees at year end	<b>54</b>	32

## NOTE 15 – NON-CURRENT TRADE & OTHER PAYABLES

Unsecured liabilities		
Accrued Expenses (2)	<b>714,434</b>	940,019
Total Non-Current Payables	<b>714,434</b>	940,019

(2) Accrued expenses are amounts in respect of the Share Sale Agreement with Madagascar Resources NL. This portion of the liability is only repayable from 70% of net labradorite royalties received by MADA-Aust SARL and is not expected to be settled in the next financial year.

## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 16 – ISSUED CAPITAL</b>		
109,250,003 fully paid ordinary shares	<b>11,411,975</b>	11,010,767
	<b>11,411,975</b>	11,010,767
<b>Ordinary shares</b>	<b>No.</b>	No.
At the beginning of reporting period	<b>95,000,003</b>	95,000,003
Shares issued during the year:		
22 June 2010 <sup>1</sup>	<b>14,250,000</b>	-
At reporting date	<b>109,250,003</b>	95,000,003

### Notes

(1) On 22 June 2010, 14,250,000 fully paid ordinary shares were allotted at \$0.03 per share pursuant to a placement.

There are no preference shares on issue.

The Company has no maximum authorised share capital. Ordinary shares are of no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

### Stock Exchange Listing

Total Issued Capital is 109,250,003 shares, of which 89,625,003 are listed at 30 June 2010 and 19,625,000 Shares were released from escrow on 7 July 2010 with all 109,250,003 listed at the date of this report.

### Options

1,000,000 unlisted Options with an exercise price of \$0.20 and with expiry date of 27 June 2013 are on issue.

1,000,000 unlisted Options with an exercise price of \$0.20 and with expiry date of 3 July 2013 are on issue.

1,000,000 unlisted Options with an exercise price of \$0.20 and with expiry date of 13 July 2013 are on issue.

2,000,000 unlisted Options with an exercise price of \$0.20 and with expiry date of 1 December 2013 are on issue.

4,003,600 unlisted Options with an exercise price of \$0.20 and with expiry date of 7 July 2013 are on issue.

## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 17 – RESERVES</b>		
Foreign Currency Translation Reserve <sup>(1)</sup>	<b>(523,064)</b>	(287,499)
Option Reserve <sup>(2)</sup>	<b>257,354</b>	228,055
	<b>(265,710)</b>	(59,444)

<sup>(1)</sup> The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

<sup>(2)</sup> The Option Reserve records items recognised as expenses on valuation of employee share option scheme.

## PARENT ENTITY

	2010 \$	2009 \$
<b>NOTE 18 – PARENT ENTITY DISCLOSURES</b>		
<b>(a) Assets</b>		
Current Assets	<b>458,197</b>	1,344,253
Non Current Assets	<b>7,802,772</b>	7,603,076
Total Assets	<b>8,260,969</b>	8,947,329
<b>(b) Liabilities</b>		
Current Liabilities	<b>539,657</b>	320,985
Non Current Liabilities	<b>714,434</b>	940,019
Total Liabilities	<b>1,254,091</b>	1,261,004
<b>(c) Shareholders Equity</b>		
Issued Capital	<b>11,411,975</b>	11,010,767
Reserves	<b>257,354</b>	228,055
Accumulated Losses	<b>(4,662,451)</b>	(3,552,497)
Total Shareholders Equity	<b>7,006,878</b>	7,686,325

There have been no guarantees entered into by the Parent Entity in relation to the debts of its subsidiaries.

The Parent entity has no contingent liabilities as at the date of this report.

The Parent entity has not entered into any contractual commitments for the acquisition of property plant and equipment at the date of this report.



# PARENT ENTITY

	2010 \$	2009 \$
<b>NOTE 18 – PARENT ENTITY DISCLOSURES (CONTINUED)</b>		
<b>(d) Profit and Loss</b>		
Revenue	<b>19,284</b>	264,527
Employee benefits expense	<b>(309,056)</b>	(251,414)
Depreciation expense	<b>(35,538)</b>	(36,366)
Impairment of Assets	-	(1,846,259)
Finance costs	<b>(356)</b>	(1,375)
Administration costs	<b>(413,310)</b>	(639,461)
Exploration expenditure	<b>(341,680)</b>	(288,364)
Share-based payments	<b>(29,299)</b>	(29,503)
Loss before income tax expense	<b>(1,109,955)</b>	(2,828,215)
Income tax expense	-	-
Net Loss attributable to members of the parent entity	<b>(1,109,955)</b>	(2,828,215)
<b>(e) Total Comprehensive Income</b>		
Other Comprehensive Income:		
Adjustment from translation of foreign controlled entities	-	-
Income Tax relating to components of other comprehensive income	-	-
Total Comprehensive Income for the period attributable to members of the parent entity.	<b>(1,109,955)</b>	(2,828,215)

## ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 19 - CASH FLOW INFORMATION</b>		
(a) Reconciliation of cash flow from operations with loss after income tax:		
Loss after income tax	(1,586,439)	(2,288,750)
Non-cash flows in loss:		
Depreciation	157,088	289,447
Share Option expense	29,299	29,503
Impairment of assets	-	589,423
Changes in assets and liabilities :		
Increase/(Decrease) in income taxes payable	(11,911)	51,267
(Increase)/Decrease in other current assets	84,285	635,165
Increase (Decrease) in payables and accruals	272,696	(1,799,363)
Cashflow used by Operations	(1,054,982)	(2,493,308)
(b) Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the items in the statement of financial position as follows:		
Cash and cash equivalents (note 7)	571,669	1,435,644

## NOTE 20 – CONTROLLED ENTITIES

### Controlled Entities Consolidated

		Country of Incorporation	Percentage Owned	
			2010	2009
<b>Parent Entity</b>				
Malagasy Minerals Limited	Australia	-	-	
<i>Subsidiaries of Malagasy Minerals Limited:</i>				
Mada Aust SARL	Madagascar	100%	100%	
Mazoto Minerals SARL *	Madagascar	90%	90%	
Energex SARL	Madagascar	100%	100%	
Mining Services SARL	Madagascar	100%	100%	
St Denis Holdings SARL	Madagascar	100%	100%	

\* Mr. Steven Goertz holds a 10% interest in trust for Malagasy Minerals Limited.

The subsidiaries noted above are all controlled entities and are dependant on the parent entity for financial support. At the year end, total net loans to these subsidiaries amount to \$5,377,100 (2009: \$5,141,371). Loans to subsidiaries total \$7,223,358 (2009: \$6,225,649) with a provision for impairment of \$1,846,259.

## NOTE 21 – CONTINGENT ASSETS AND LIABILITIES

### (a) Contingent Assets

In April 2010, Malagasy Minerals entered into an agreement to sell 30% of its Vohibory project to neighbouring explorer Red Cat Minerals Ltd. Under the agreement, Malagasy's wholly owned subsidiary Mada-Aust will receive \$300,000 in cash for tenements. \$50,000 deposit was received before 30 June 2010 with the remaining \$250,000 to be received upon Red Cat's listing to ASX which has been extended to 15<sup>th</sup> October 2010. \$200,000 worth of Red Cat Minerals Ltd shares will be issued to Malagasy Minerals Limited upon Red Cat's official admission to the ASX for services rendered.

### (b) Exploration Commitments

The economic entity has no statutory obligations to perform minimum exploration work on its tenements. Tenement rents of approximately \$260,000 per annum are payable to maintain control over the tenement areas.

### (c) Finance Lease Commitments

	ECONOMIC ENTITY	
	2010 \$	2009 \$
Payable – minimum lease payments		
- not later than one year	-	8,460
- between one year and five years	-	-
Minimum lease payments	-	8,460
Less future finance charges	-	(356)
	-	8,104

### (d) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalized in the financial statements payable:

These obligations which are not provided for in the financial statements and are payable

- not later than one year	<b>32,265</b>	32,208
- between one and five years	<b>45,352</b>	45,229
	<b>77,617</b>	77,437

This relates to a property lease for 2 years with an option to renew the lease at the end of the 2-year term for a further 2 year period up to October 2013.

## NOTE 22 – EVENTS SUBSEQUENT TO BALANCE DATE

The MRNL proposed merger details are included in the Operations Review. Presently, the merger is awaiting first court approval (scheduled for 20 September 2010) following which it is anticipated, both companies will be holding shareholder meetings to approve the merger. These are scheduled to be held in late October 2010. Subsequent to these approvals the court will then be asked to give final approval to the scheme which would see the merger being implemented during November 2010.

On 7<sup>th</sup> July 2010, 19,625,000 previously issued fully paid ordinary shares were released from escrow and were granted official quotation on the Australian Stock Exchange (ASX) effective from 12<sup>th</sup> July 2010. At the date of this report all issued capital being 109,250,003 fully paid ordinary shares are listed on ASX.



## NOTE 23 – FINANCIAL INSTRUMENTS

### (a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The group does not speculate in the trading of derivative instruments.

#### i Treasury Risk Management

The Finance Director and Managing Director discuss on a regular basis the currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

#### ii Financial Risk

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk and liquidity risk.

##### *Interest rate risk*

Interest rate risk is managed with a mixture of fixed and floating rate deposits.

##### *Foreign currency risk*

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's functional and presentation currency.

As a result of subsidiary companies being registered in Madagascar, the Group's balance sheet can be affected by movements in the AUD\$/Ariary exchange rates. The Group do not seek to hedge this exposure.

The following table shows the foreign currency risk on the financial assets and liabilities of the Groups operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

#### ECONOMIC ENTITY

2010	Net Financial Assets/(Liabilities) in AUD				
	MDA	AUD	USD	EURO	Total AUD
<b>Cash</b>	<b>115,506</b>	<b>442,559</b>	<b>3,972</b>	<b>9,632</b>	<b>571,669</b>
<b>Receivables</b>	<b>26,576</b>	<b>306</b>	<b>-</b>	<b>-</b>	<b>26,882</b>
<b>Payables</b>	<b>(134,173)</b>	<b>(1,254,091)</b>	<b>-</b>	<b>-</b>	<b>(1,388,264)</b>
<b>Statement of Financial Position exposure</b>	<b>7,909</b>	<b>(811,226)</b>	<b>3,972</b>	<b>9,632</b>	<b>(789,713)</b>

2009	Net Financial Assets/(Liabilities) in AUD				
	MDA	AUD	USD	EURO	Total AUD
Cash	46,352	1,330,083	6,477	52,732	1,435,644
Receivables	162,187	744	-	-	162,931
Payables	(49,495)	(1,273,237)	-	-	(1,322,732)
Statement of Financial Position exposure	159,044	57,590	6,477	52,732	275,843

##### *Liquidity risk*

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities are maintained.

## NOTE 23 – FINANCIAL INSTRUMENTS (CONTINUED)

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognized financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is managed to ensure that customers are of sound credit worthiness and monitoring is used to recover aged debts and assess receivables for impairment. Credit terms are generally 30 days from the invoice date. The Group has no significant concentration of credit risk with any single party with the exception of the TVA receivable from the Madagascar government relating to taxes paid on the Business Sale Agreement and Long Term Lease Agreement. These taxes are recoverable long term.

Risk is also maintained by investing surplus funds in financial institutions that maintain a high credit rating.

### Net Fair Values

For the purposes of the tables below, Net fair value has been determined in respect of financial assets and financial liabilities, with reference to the carrying amount of such assets and liabilities in the consolidated statement of financial position, determined in accordance with the accounting policies disclosed in note 1 to the financial statements. The valuation of all financial assets and liabilities has been based on inputs other than quoted prices.

### Financial Liability and Financial Asset Maturity Analysis

#### ECONOMIC ENTITY

	Within 1 year		1 to 5 years		Over 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities due for payment</b>								
Payables	<b>318,717</b>	169,878	-	-	-	-	<b>318,717</b>	169,878
Amounts payable to related parties	<b>305,113</b>	212,835	<b>714,434</b>	940,019	-	-	<b>1,019,547</b>	1,152,854
Total expected outflows	<b>623,830</b>	382,713	<b>714,434</b>	940,019	-	-	<b>1,338,264</b>	1,322,732
<b>Financial Assets – Cash Flows Realisable</b>								
Cash	<b>571,669</b>	1,435,644	-	-	-	-	<b>571,669</b>	1,435,644
Receivables	<b>26,882</b>	162,931	-	-	-	-	<b>26,882</b>	162,931
Total Inflow on Financial Instruments	<b>598,551</b>	1,598,575	-	-	-	-	<b>598,551</b>	1,598,575

## NOTE 23 – FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

#### ECONOMIC ENTITY

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within Year		Non-interest Bearing		Total	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash	<b>3.8%</b>	5.9%	<b>271,469</b>	185,444	<b>300,000</b>	1,250,000	<b>200</b>	200	<b>571,669</b>	1,435,644
Receivables			-	-	-	-	<b>26,882</b>	162,931	<b>26,882</b>	162,931
Total Financial Assets			<b>271,469</b>	185,444	<b>300,000</b>	1,250,000	<b>27,082</b>	163,131	<b>598,551</b>	1,598,575
Payables			-	-	-	(8,104)	<b>(1,388,264)</b>	(1,314,628)	<b>(1,388,264)</b>	(1,322,732)
Total Financial Liabilities			-	-	-	(8,104)	<b>(1,388,264)</b>	(1,314,628)	<b>(1,388,264)</b>	(1,322,732)
Net Financial Assets			<b>271,469</b>	185,444	<b>300,000</b>	1,241,896	<b>(1,361,182)</b>	(1,151,497)	<b>(789,713)</b>	275,843



## NOTE 23 – FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Sensitivity Analysis

#### *Interest Rate Risk and Foreign Currency Risk at Balance Date*

The group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

#### *Interest Rate Sensitivity Analysis at Balance Date*

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

#### ECONOMIC ENTITY

	2010 \$	2009 \$
Change in profit		
Increase in interest rate by 1%	<b>4,765</b>	39,095
Decrease in interest rate by 1%	<b>(4,765)</b>	(39,095)
Change in equity		
Increase in interest rate by 1%	<b>(4,765)</b>	(39,095)
Decrease in interest rate by 1%	<b>4,765</b>	39,095

#### *Foreign Currency Risk Sensitivity*

Analysis at 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Madagascan Ariary, with all other variables remaining constant is as follows:

Change in profit		
Improvement in AUD to MGA by 5%	<b>(23,825)</b>	26,973
Decline in AUD to MGA by 5%	<b>23,825</b>	(26,973)
Change in equity		
Improvement in AUD to MGA by 5%	<b>23,825</b>	(26,973)
Decline in AUD to MGA by 5%	<b>(23,825)</b>	26,973

## NOTE 24 – STATEMENT OF OPERATIONS BY SEGMENT

#### *Identification of reportable segments*

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (as the chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of geographical location as the Group's operations inherently have different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis. Reportable segments are therefore disclosed as geographical segments being Australia and Madagascar.

## NOTE 24 – STATEMENT OF OPERATIONS BY SEGMENT (CONTINUED)

Basis for accounting for purpose of reporting by operating segments

- Accounting policies adopted  
Unless otherwise stated, all amounts reported to the Board of Directors, being the chief operating decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group outlined in note 1.
- Inter-segmental transactions  
Intersegment loans are recognised at the consideration received net of transaction costs. Intersegment loans are not adjusted to fair value based on market interest rates.
- Comparative information  
This is the first year AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.

Significant Customers

Royalties from Labradorite Operations represents 38% of total revenue in Madagascar and this is shared between 3 customers (in 2009 the same 3 customers represented 43% of all revenue generated in Madagascar).

2010	Australia	Madagascar	Eliminations	Economic Entity
<b>Revenue</b>				
Other Income	19,284	676,395	-	695,679
Total Segment Revenue	19,284	676,395	-	695,679
<b>Result</b>				
Segment Result	(1,109,955)	(798,839)	322,355	(1,586,439)
Loss before income tax expense	(1,109,955)	(810,750)	322,355	(1,598,350)
Loss after income tax	(1,109,955)	(798,839)	322,355	(1,586,439)
<b>Assets</b>				
Segment Assets	8,260,969	3,817,383	(4,445,260)	7,633,092
Segment Liabilities	(1,254,091)	(5,837,657)	5,753,484	(1,338,264)
<b>Other</b>				
Acquisition of non-current segment assets	1,200	53,915	-	55,115
Depreciation	35,538	183,473	(61,923)	157,088
Impairment of assets	-	-	-	-

## NOTE 24 – STATEMENT OF OPERATIONS BY SEGMENT (CONTINUED)

2009	Australia	Madagascar	Eliminations	Economic Entity
<b>Revenue</b>				
Other Income	264,527	708,423	-	972,950
Total Segment Revenue	264,527	708,423	-	972,950
<b>Result</b>				
Segment Result	(2,828,215)	539,465	-	(2,288,750)
Loss before income tax expense	(2,828,215)	(1,255,527)	1,846,259	(2,237,483)
Loss after income tax	(2,828,215)	(1,306,794)	1,846,259	(2,288,750)
<b>Assets</b>				
Segment Assets	8,947,329	5,067,009	(5,005,281)	9,009,057
Segment Liabilities	(1,261,004)	(6,676,001)	6,614,273	(1,322,732)
<b>Other</b>				
Acquisition of non-current segment assets	88,377	147,180	-	235,557
Depreciation	36,366	253,081	-	289,447
Impairment of tenements	1,846,259	589,423	(1,846,259)	589,423

## NOTE 25 – RELATED PARTY TRANSACTIONS

Transactions between related parties are on usual commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### (a) Directors' Share Transactions:

Directors and director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Company

	ECONOMIC ENTITY	
	2010 Number	2009 Number
Ordinary Shares	13,259,811	12,509,811

	ECONOMIC ENTITY	
	2010 \$	2009 \$
<b>(b) Related Party Transactions:</b>		
Madagascar Resources NL	133,307	894,972
Midas Consultancy Limited	151,200	139,300
Hendry Consulting	186,800	198,984

## NOTE 25 – RELATED PARTY TRANSACTIONS (CONTINUED)

Madagascar Resources NL is the holder of 10,000,000 ordinary shares in Malagasy Minerals Ltd. Mr Guy Le Clezio and Dr Peter Woods are also Directors of Madagascar Resources NL. Madagascar Resources NL are paid 70% of net labradorite royalty receipts from existing contracts as per the Share Sale Agreement. At 30 June 2010, Madagascar Resources NL is owed \$1,019,546.

Midas Consultancy Ltd is the holder of 5,000,000 ordinary shares in Malagasy Minerals Ltd and 1,000,000 unlisted 20 cent options that vested on 27 June 2008 and expire on 26 June 2013. Mr Jules Le Clezio is a Director of Midas Consultancy Ltd. Mr Jules Le Clezio has been engaged under a Consultancy Agreement through Midas Consulting for a three year period that commenced 6 April 2007. This agreement will need to be renegotiated after the MRNL merger is completed. At 30 June 2010 Midas Consulting is owed \$38,400.

Hendry Consulting is the holder of 5,130,000 ordinary shares in Malagasy Minerals Ltd and 2,000,000 unlisted 20cent options that vest between 3 January 2010 and 3 July 2011 and expire on 3 July 2013. Mr Steven Goertz is a Director of Hendry Consulting. Mr Steven Goertz has been engaged under a Consultancy Agreement through Hendry Consulting for a three year period that commenced 7 July 2008.

### ECONOMIC ENTITY

	2010 \$	2009 \$
<b>NOTE 26 – AUDITORS REMUNERATION</b>		
Amount payable to WHK Horwath as Auditor		
Auditing or reviewing the financial report	29,500	24,960
	<b>29,500</b>	<b>24,960</b>

Amounts payable to non WHK Horwarth firms for the audit and review of the financial reports of subsidiary companies was \$7,002 (2009: \$8,866)

## NOTE 27 – SHARE BASED PAYMENTS

The following Share-based payment arrangements existed at 30 June 2010.

### Options

Grant Date	No. of Options	Exercise Price	Vesting Date	Expiry Date
27/06/2008	1,000,000	\$0.20	27/06/2008	26/06/2013
01/12/2008	2,000,000	\$0.20	01/12/2008	01/12/2013
01/12/2008	1,000,000	\$0.20	03/01/2010	03/07/2013
01/12/2008	1,000,000	\$0.20	03/07/2011	03/07/2013
02/04/2009	4,003,600	\$0.20	07/07/2010	07/07/2013

None of the options hold voting or dividend rights. If the Option holder ceases to be in the employment of the Company prior to vesting the Options will lapse.



## NOTE 27 – SHARE BASED PAYMENTS (CONTINUED)

	2010	
	No of Options	Exercise Price
Outstanding at the beginning of the period	9,003,600	\$0.20
Granted during the period	-	\$0.20
Outstanding at period end	9,003,600	\$0.20
Exercisable at period end	4,000,000	\$0.20

The weighted average fair value of the options vested during the period was \$29,299. This price was calculated using a Black Sholes option pricing model applying the following inputs:

Number Granted	4,003,600	1,000,000
Vesting Date	07/07/2010	03/07/2011
Expiry Date	07/07/2013	03/07/2013
Weighted average exercise price	20 cents	20 cents
Weighted average life of option	4.26 years	4.59 years
Underlying share price	2.7 cents	2.7cents
Expected share price volatility	85%	85%
Risk free interest rate	3.85%	3.85%

## NOTE 28 – COMPANY DETAILS

The registered office of the company is:  
Malagasy Minerals Limited  
Unit 7, 11 Colin Grove  
West Perth WA 6005  
Australia

The principal place of business is:  
Mada-Aust SARL  
Batiment L Cite' BRGM, Rue Farafaty  
Ampandrianemby – Antananarivo 101  
Madagascar

# directors' declaration

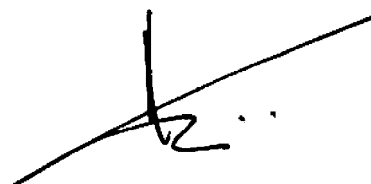
The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 38 to 67 are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the economic entity;
2. the Managing Director and Finance Director have each declared that:
  - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
  - (d) the financial statements and notes for the financial year give a true and fair view;
3. The remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with Australian Accounting Standards AASB 124 Related Party Disclosures the Corporations Act 2001 and the Corporations Regulations 2001.
4. 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 and is signed for and on behalf of the Directors by:



**Mr S.B. Goertz**  
Managing Director



**Mr M.D.J. Cozijn**  
Finance Director

West Perth, Western Australia  
14<sup>th</sup> September 2010

# independent auditor's report



## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MALAGASY MINERALS LIMITED

We have audited the accompanying financial report of Malagasy Minerals Limited and its Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

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

#### Total Financial Solutions



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

#### Member Horwath International

WHK Horwath Perth Audit Partnership ABN 96 844 819 235  
Level 6, 256 St Georges Terrace Perth WA 6000 Australia  
GPO Box P1213 Perth WA 6844 Australia  
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152  
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A WHK Group firm

### **Auditor's Opinion**

In our opinion, the financial report of the consolidated entity is in accordance with the Corporations Act 2001 including:

- (a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### **Emphasis of Matter Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following. As a result of the matter disclosed in Note 1 to the financial statements, there is significant uncertainty about the consolidated entity's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the ordinary course of business

### **REPORT ON THE REMUNERATION REPORT**

We have audited the Remuneration Report included in pages 34 to 35 of the directors' report for the year ended 30 June 2010. The directors are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

In our opinion the Remuneration Report for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL

Partner

Perth, WA

Dated this 14<sup>th</sup> day of September 2010



# shareholder information

## 1. Shareholding

The shareholder information set out below was applicable as at 10<sup>th</sup> September 2010:

### (a) **Distribution of Share Holdings as at 10<sup>th</sup> September 2010**

Size of Holding and Option Holdings	Number of Shareholders
1 - 1,000	5
1,001 - 5,000	15
5,001 - 10,000	46
10,001 - 100,000	298
100,001 and over	127
Total Shareholders	491

(b) Of the above total 23 Ordinary Shareholders hold less than a marketable parcel.

### (c) **Substantial Shareholders**

- Madagascar Resources NL holds 10,000,000 ordinary shares representing 9.15% of the company's equity.
- Midas Consulting Ltd and Jules LeClezio holds 6,300,000 ordinary shares representing 5.76% of the company's equity.
- Diplomat Holdings P/L and Max Cozijn holds 6,010,001 ordinary shares representing 5.50% of the company's equity.

### (d) **Voting Rights**

The voting rights attached to the ordinary shares are governed by the Constitution.

On a show of hands every person present who is a Member or representative of a Member shall have one vote and on a poll, every Member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. None of the options have any voting rights.

2. The name of the Company Secretary is Mr Max D.J. Cozijn.

3. The address of the principal registered office in Australia is Unit 7, 11 Colin Grove, West Perth, Western Australia 6005, Telephone +61 (08) 9463 6656.

4. The register of securities is held at;

Security Transfer Registrars Pty Ltd, 770 Canning Highway, Applecross WA 6153, Telephone +61 (08) 9315 2333.

## 5. **Stock Exchange Listing**

Quotation has been granted for 109,250,003 ordinary shares on all member exchanges of the Australian Stock Exchange Limited ("ASX") and trade under the symbol 'MGY'.

## 6. **Unquoted Securities - Shares**

There are no unquoted ordinary shares at the date of this report with all securities released from escrow on 7 July 2010.

7. Detailed schedules of exploration and mining tenements held are included in the operations review.

8. Directors' interests in share capital are disclosed in the Directors Report.

**9. Unquoted Securities – Options**

The following Unlisted Options are on issue:

No. of Options	Exercise Price	Vesting Date	Expiry Date
1,000,000	\$0.20	27/06/2008	26/06/2013
2,000,000	\$0.20	01/12/2008	01/12/2013
1,000,000	\$0.20	03/01/2010	03/07/2013
1,000,000	\$0.20	03/07/2011	03/07/2013
4,003,600	\$0.20	07/07/2010	07/07/2013
5,000,000 Options held by 6 holders.			
4,003,600 Options held by 259 holders.			

**10.** There is currently no on-market buy-back in place.

**11.** For the current financial year, the entity used its cash and assets in a form readily convertible to cash in a manner consistent with its business activities.

**TWENTY LARGEST SHAREHOLDERS  
AS AT 10th September 2010**

SHAREHOLDERS (Fully Paid Ordinary)	NUMBER OF SHARES	%
MADAGASCAR RESOURCES NL	10,000,000	9.15%
DIPLOMAT HOLDINGS NL	6,000,000	5.49%
NEFCO NOMINEES PL	5,700,000	5.22%
GOERTZ SUPERFUND A/C	5,000,000	4.58%
HARPENDON NOMINEES NL	5,000,000	4.58%
MIDAS CONSULTANCY LTD	5,000,000	4.58%
MAD HOLDINGS LTD	3,125,000	2.86%
TALEX INVESTMENTS PL	3,000,000	2.75%
GJ MUNYARD FAMILY	2,550,000	2.33%
GREENSLADE HOLDINGS PL	2,500,000	2.29%
TRISTESSE PL	2,450,000	2.24%
SUNDALE ASSET PL	1,700,000	1.56%
LEET INVESTMENTS PL S/F	1,400,000	1.28%
LEET INVESTMENTS PL	1,300,000	1.19%
JULES LECLEZIO	1,300,000	1.19%
FGL ASSET MANAGEMENT LTD	1,300,000	1.19%
GUY LECLEZIO S/F	1,250,000	1.14%
BOND STREET CUSTOMERS LTD	1,250,000	1.14%
FIT INVESTMENTS PL S/F	1,085,000	0.99%
COLBERN FIDUCIARY NOMINEES PL	1,000,000	0.92%
TOP 20 SHAREHOLDERS	61,910,000	56.67%
TOTAL ISSUED SHARES as at 10 <sup>th</sup> September 2010	109,250,003	100.00%

# tenement schedule

MALAGASY MINERALS LTD				TENEMENT SCHEDULE			Current as at: 30 June 2010		
Title Number	Holder	Permit Type	Grant Date	Expiry Date	Term	Project Name	Total Carres (New-0.391km2)	Minerals Currently Under Title	Notes
							<b>4752</b>		
<b>3432</b>	MDA	PR	18/06/2001	<b>18/06/2011</b>	<b>10</b>	Ampanihy - Central	1648	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>1.</b>
<b>5391</b>	MDA	<b>PE</b>	20/11/2002	<b>20/11/2042</b>	<b>40</b>	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>2.</b>
<b>5392</b>	MDA	<b>PE</b>	20/11/2002	<b>20/11/2042</b>	<b>40</b>	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>3.</b>
<b>5393</b>	MDA	<b>PE</b>	20/11/2002	<b>20/11/2042</b>	<b>40</b>	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>4.</b>
<b>5394</b>	MDA	<b>PE</b>	20/11/2002	<b>20/11/2042</b>	<b>40</b>	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>5.</b>
<b>12834</b>	MDA	PR	01/03/2005	<b>01/03/2015</b>	<b>10</b>	Majunga	64	Ilmenite	
<b>13063</b>	MDA	PR	04/02/2005	<b>04/02/2015</b>	<b>10</b>	Vohibory	336	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13064</b>	MDA	PR	04/02/2005	<b>04/02/2015</b>	<b>10</b>	Fotadrevo	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>13089</b>	MDA	PR	04/02/2005	<b>04/02/2015</b>	<b>10</b>	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13508</b>	MDA	PR	04/02/2005	<b>04/02/2015</b>	<b>10</b>	Vohibory	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13811</b>	MDA	PR	14/03/2005	<b>14/02/2015</b>	<b>10</b>	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13812</b>	MDA	PR	14/03/2005	<b>14/02/2015</b>	<b>10</b>	Ampanihy - Maniry	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13827</b>	MDA	PR	14/03/2005	<b>14/02/2015</b>	<b>10</b>	Ampanihy - lanapera	192	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13829</b>	MDA	PR	14/03/2005	<b>14/02/2015</b>	<b>10</b>	Vohibory	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>13832</b>	MDA	PR	14/03/2005	<b>14/03/2015</b>	<b>10</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>14618</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Ampanihy - lanapera	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>14619</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>14620</b>	MDA	PR	26/01/2005	<b>26/01/2005</b>	<b>10</b>	Fotadrevo	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>14622</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Fotadrevo	64	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>14623</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Ampanihy - lanapera	112	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>16746</b>	MDA	PR	09/09/2005	<b>09/09/2015</b>	<b>10</b>	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>16747</b>	MDA	PR	09/09/2005	<b>09/09/2015</b>	<b>10</b>	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>16749</b>	MDA	PR	09/09/2005	<b>09/09/2015</b>	<b>10</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>16750</b>	MDA	PR	09/09/2005	<b>09/09/2015</b>	<b>10</b>	Ampanihy - Maniry	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>16753</b>	MDA	PR	09/09/2005	<b>09/09/2015</b>	<b>10</b>	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
<b>18915</b>	MDA	PR	10/03/2006	<b>10/03/2016</b>	<b>10</b>	Anjeba (Antanimora/Jafaro)	112	Cu, Ni, Co, Mn, Ag, Zn, Fe, Au	
<b>18916</b>	MDA	PR	23/02/2006	<b>23/02/2016</b>	<b>10</b>	Anjeba (Antanimora/Jafaro)	32	Cu, Ni, Co, Mn, Ag, Zn, Fe, Au	
<b>19003</b>	MDA	pr	23/02/2006	<b>22/02/2016</b>	<b>10</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>19851</b>	MDA	PR	04/02/2005	<b>04/02/2015</b>	<b>10</b>	Fotadrevo	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>19932</b>	MDA	<b>PE</b>	10/03/2006	<b>09/03/2046</b>	<b>40</b>	Ampanihy - Maniry	112	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>6.</b>
<b>19933</b>	MDA	<b>PE</b>	10/03/2006	<b>09/03/2046</b>	<b>40</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	<b>7.</b>
<b>19934</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Fotadrevo	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>19935</b>	MDA	PR	26/01/2005	<b>26/01/2015</b>	<b>10</b>	Fotadrevo	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
<b>21059</b>	MDA	PR	14/09/2007	<b>14/09/2012</b>	<b>5</b>	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	

Title Number	Holder	Permit Type	Grant Date	Expiry Date	Term	Project Name	Total Carres (New-0.391km2)	Minerals Currently Under Title	Notes
21060	MDA	PR	30/10/2006	30/10/2016	10	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
21061	MDA	PR	30/10/2006	30/10/2016	10	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
21062	MDA	PR	03/10/2007	03/10/2012	5	Ampanihy - Maniry	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
21063	MDA	PR	30/10/2006	30/10/2016	10	Ampanihy - Maniry	32	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
21064	MDA	PR	30/10/2006	30/10/2016	10	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	
24864	MDA	PR	08/05/2007	08/05/2012	5	Fotadrevo	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	
25093	MDA	PE	18/01/2007	18/01/2047	40	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	8.
25094	MDA	PE	18/01/2007	18/01/2047	40	Ampanihy - lanapera	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	9.
25095	MDA	PE	18/01/2007	18/01/2047	40	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	10.
25605	MDA	PR	18/01/2007	18/06/2011	10	Ampanihy - Maniry	80	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite, V, Ti	11.
25606	MDA	PR	18/01/2007	18/06/2011	10	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Labradorite	12.
28340	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	160	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28341	MZT	PR	1/08/2008	1/08/2013	5	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28345	MZT	PR	1/08/2008	1/08/2013	5	Ampanihy - Maniry	48	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28346	MZT	PR	1/08/2008	1/08/2013	5	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28347	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	112	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28348	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28349	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28352	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	96	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
28353	MZT	PR	1/08/2008	1/08/2013	5	Fotadrevo	96	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn, V, Ti	
29020	MDA	PR	26/10/2007	26/10/2012	5	Fotadrevo	32	Ni, Cu, Fe, Mn, Au, Ag, Zn, U, Th, Ta, Nb, Sc, V, Ti	
29082	MZT	PR	9/12/2008	9/12/2013	5	Tranomaro	224	Cu, Fe, Mn, Au, Ag, Zn, Ni, Co	
29084	MZT	PR	9/12/2008	9/12/2013	5	Tranomaro	16	Cu, Fe, Mn, Au, Ag, Zn, Ni, Co	
29085	MZT	PR	9/12/2008	9/12/2013	5	Tranomaro	144	Cu, Fe, Mn, Au, Ag, Zn, Ni, Co	
31733	MDA	PR	11/02/2009	11/02/2014	5	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
31734	MDA	PR	11/02/2009	11/02/2014	5	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	
31735	MDA	PR	11/02/2009	11/02/2014	5	Ampanihy - Maniry	16	Ni, Cu, Co, Cr, Fe, Mn, Pt, Pd, Rh, Au, Ag, Zn	

#### Tenement Schedule Notes

1. EUROMAD (1) & MAGRAMA (13) & SQNY (2) - Royalty and partial tenement fees payable to MDA.
2. EUROMAD - Royalty and partial tenement fees payable to MDA
3. EUROMAD - Royalty and partial tenement fees payable to MDA
4. EUROMAD - Royalty and partial tenement fees payable to MDA
5. EUROMAD (2 squares)- Royalty and partial tenement fees payable to MDA
6. MAGRAMA - Royalty & Partial Tenement Fees Payable to MDA
7. MAGRAMA - Royalty & Partial Tenement Fees Payable to MDA
8. SQNY - Royalty and Partial Tenement Fees Payable to MDA
9. SQNY - Royalty and Partial Tenement Fees Payable to MDA
10. SQNY - Royalty and Partial Tenement Fees Payable to MDA
11. Carres (3) LBD royalty to MAGRAMA - Carre (1) to EUROMAD
12. MAGRAMA - Royalty & Partial Tenement Fees Payable to MDA





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