MALAGASY MINERALS LIMITED

ABN 84 121 700 105

ANNUAL REPORT 2012

Figure 1: *Malagasy Minerals Limited - Projects and Head office in Madagascar*

MALAGASY MINERALS LIMITED

ACN 121 700 105

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

CORPORATE DIRECTORY

Directors
Max Cozijn – Chairman
Guy LeClezio – Director
Peter Woods – Director
Graeme Boden - Director

Country Manager Madagascar
Jean Luc Marquetoux

Company Secretary
Max Cozijn

Registered and Corporate Office
Unit 7, 11 Colin Grove
WEST PERTH WA 6005
Telephone: +61 8 9463 6656
Facsimile: +61 8 9463 6657
Internet: www.malagasyminerals.com

Postal Address
GPO Box 2818
WEST PERTH WA 6872

Madagascar Operations Office
Batiment L Cite ex-BRGM, Rue Farafaty
Ampandrianomby
ANTANANARIVO 101
MADAGASCAR

Telephone: +261 20 22 416 63
+261 20 22 591 34
Facsimile: +261 20 22 591 32

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

Stock Exchange Listing
ASX Limited
ASX Code: MGY

Auditor
Crowe Horwath, Perth
Level 6
256 St Georges Terrace
PERTH WA 6000

Solicitors to the Company
Hardy Bowen Lawyers
Level 1, 28 Ord Street
WEST PERTH WA 6005

GTP Legal
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, 1st Floor, 48 Ord Street, West Perth Australia at 4-00 pm (WST) on Thursday 15th November 2012.

Web Site
Visit our website at:
www.malagasyminerals.com

HIGHLIGHTS

- Joint Venture Agreement with Canadian company Energizer Resources Inc. ("EGZ") executed on 15 December 2011, resulting in a total of US$2.25M being paid to MGY plus 7.5M EGZ shares (approx. value $2.1M).
- Joint Venture Company (75% EGZ; 25% MGY) formed with the right to explore for industrial minerals including vanadium and graphite in approximately 40% of MGY's tenement holdings. 100% of all other mineral rights remain with MGY.
- JV drilling by EGZ at the Molo JV project returns 421.3m of graphite at 6.12% Carbon
- EGZ completed 8,500m diamond drilling program with the aim of establishing a NI43-101 Resource by December 2012. EGZ Resource Target stands at + > 100Mt of Graphite at +6% Carbon.
- On Malagasy's neighbouring 100 per cent-owned ground:
    - Graphite reconnaissance sampling and mapping has identified significant areas warranting further work. Results identify seven significant graphitic zones with individual samples grading up to 50.8% and average grades ranging from 11.5% to 23.94% carbon.
    - At the nickel-copper prospects, follow up systematic geochemical sampling has been completed at three areas with strongly anomalous nickel-in-soil assays received in both the northern area (Ianapera Zone), Fotadrevo (centre) and the southern area (Maniry Zone).
- At the Vohibory Project, eight diamond drill holes were completed for 1,059m, including two holes to test colonial-era copper mineralization and six holes to test a previously identified gold-in-soil anomaly – minor copper anomalism (up to 3000ppm Cu) was intersected in three holes.
- MGY retains A$1.95M in cash reserves and ~A$2.3M in listed securities as at 30 June 2012.

Exploration Programs

- Drilling by Canada's Energizer Resources continued at the Molo Green Giant graphite JV prospect
- Graphite exploration on Malagasy's 100% owned tenements at Ampanihy, initially utilising existing VTEM data;
- Soil and stream sediment sampling at Ampanihy targeting nickel-copper mineralisation, and
- Further exploration work will be planned for Vohibory and Fotadrevo once all assays from the recent exploration program are analysed

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CHAIRMAN'S REVIEW

Dear Shareholder,

This financial year has been a challenging one for Malagasy Minerals, with the global economic crisis affecting the stock market, and with continuing political uncertainty in Madagascar. However I am pleased to advise that Malagasy Minerals has been able to complete a significant Joint Venture with the Toronto Listed Company, Energizer Resources Inc. ("EGZ") over approximately 40% of our tenement holdings at the Ampanihy project area.

This Joint Venture Agreement ("JV") was executed in December 2011, and involved the payment of US$2.25 million and the issue of 7.5 million EGZ listed securities with a current value of approximately $2.3 million. A Malagasy Joint Venture company has been established, with 75% owned by EGZ and 25% held by Malagasy Minerals. Malagasy Minerals is free carried to completion of a Bankable Feasibility Study. The JV is specifically for Industrial Minerals only, including Vanadium and Graphite. Malagasy Minerals retains 100% of the rights to all other minerals including base metals and precious metals, including our Labradorite interests.

During the financial year under review, EGZ embarked on an 8,500 metre diamond drilling campaign, targeting a new large graphite deposit, called the Molo Project within the JV area. It is anticipated by EGZ that this drilling program will result in the establishment of a NI43-101 (JORC) compliant resource target of over 100 million tonnes of graphite grading > 6% carbon before the end 2012.

This transaction with EGZ has enabled the Company to continue to fund its ongoing exploration and operations within Madagascar without the need to raise funds from the market during this time. The Company is also fortunate in continuing to receive royalty income from the Labradorite quarrying operations undertaken by two Italian Groups and one Indian Group. In addition we continue to receive property rentals from our administration base and head office located in the capital of Antananarivo. This site covers an area of approximately 19,000sq metres and lends itself to further commercial redevelopment.

At the Fotadrevo Project wide ranging reconnaissance soil and stream sampling was completed which identified several areas with significant nickel-in-soil anomalism up to 3,716 ppm nickel. At the Ampanihy Project three areas centred on previous wide spaced soil sampling anomalies have been systematically sampled. Coherent nickel anomalies have been identified at two of the areas. Follow up work is warranted.

A reconnaissance sampling and mapping program of the graphitic horizons on MGY's 100% held tenements adjacent to the JV area, has identified numerous anomalous graphite occurrences including seven significant graphitic zones with grades ranging up to 50.8% carbon. Follow up systematic sampling and mapping are planned.

At the Vohibory Project, eight diamond drill holes were completed for 1,059 metres with minor copper anomalism found in three holes. Further reconnaissance sampling, core logging and detailed analysis are planned.

During the year Madagascar, with the assistance of the South African Development Corporation, the World Bank, United Nations and the international community, reformed its interim political structure to facilitate the calling of fresh elections scheduled for May 2013.

The Company remains committed to pursuing our exploration efforts in Madagascar and we wish to thank the local management team, staff and stakeholders for their outstanding contribution and commitment to the Company in a continuing difficult environment.

Yours sincerely,

Max Cozijn
Chairman
14 September 2012

OPERATIONS REVIEW

TENEMENTS

Malagasy Minerals Ltd has retained 1,858 km2 of exploration permits over the following project areas (see Figures 2 and 3):

1. Ampanihy (Ni-Cu-PGE and graphite) – 1,415 km^2
2. Fotadrevo (V-Ni-Cu) – 312 km^2
3. Vohibory (Cu-Au) – 106 km^2
4. Majunga (Mineral Sands) – 25km^2

PROJECTS

Malagasy Minerals Ltd has continued to explore its tenement holdings in Madagascar. The current major focus is on a substantial ground position - the Ampanihy Project.

During the year a consultant geologist was engaged to collate all existing data and to supervise field exploration for the year. As a result some diamond drilling and systematic soil, rockchip and reconnaissance stream sampling were completed.

Ampanihy Project

The Ampanihy Project covers two anorthosite intrusions (Ianapera and Maniry) and the suture zone between. To the immediate west is the Fotadrevo Project.

The area around the anorthosite intrusions and along the suture zone has potential to host nickel and copper mineralisation as well as various industrial minerals including graphite. Drilling in 2010 beneath low tenor Ni and Cu gossans to the east of the Ianapera anorthosite intersected sulphide bodies. Despite the low tenor of the sulphides, their discovery is considered to be highly positive, as it demonstrates that the magma that formed the original layered intrusion was "sulphur saturated".

During the year a 75/25% Joint Venture over 40% of the permit area, for Industrial Minerals (including vanadium and graphite), was entered into with Energizer Resources Inc (EGZ) of Canada on 15 December 2011. JV drilling by EGZ at the Molo JV project returned 421.3m of graphite at 6.12 per cent Carbon in their first hole MOLO-12-01

Fotadrevo (Ni-Cu) ASZ (MGY 100% base and precious metal rights)

The Fotadrevo Project covers the southern extension along strike from Energizer Resources Inc.'s Green Giant Vanadium project where that company has announced a resource of 59.2Mt @ 0.69% V2O5 at a 0.5% cut-off.

Soil and outcrop sampling results and mapping indicates vanadium anomalism over 9 kilometres of strike continuing south-southwest within MGY permits. Recent soil sampling has found significant nickel-in-soil anomalism up to 3,716 ppm nickel with 569ppm copper.

Follow up sampling to define a coherent anomaly is planned.

Vohibory (Cu-Au)

The Vohibory Prospect lies along strike and to the north of Sun Ridge Minerals Besakoa Project where a significant drill intersections of 21m @ 0.7% Cu; 1.1% Zn; 0.5gpt Au and 21gpt Ag was made. Alluvial gold and a number of copper gossans occur within the Project area, providing target for exploration.

Eight diamond drill holes were completed for 1,059 metres, with some anomalous copper (up to 3000ppm over 1m) delineated in three holes.Recent rock chip and soil sampling has identified a Cu-Au-Ag zone extending for a strike of 1.2km with values up to 9.3%Cu, 8.33g/t Au and 23.5g/t Ag.

Further work including relogging and assaying the core and follow up sampling will be undertaken.

Majunga Prospect

This prospect lies on the northwest coast of Madagascar over acoastal sediments with potential to host heavy mineral sands (ilmenite, rutile and zircon). A reconnaissance sampling trip was not able to reach the area.

AMPANIHY PROJECT

Graphite – Vanadium - JV – Energizer Resources Inc. (TSX:EGZ)

On 15 December 2011 Malagasy Minerals formed a joint venture (JV) company with Canadian-based Energizer Resources Incorporated (TSX:EGZ) owned 25% by Malagasy and 75% by Energizer, which has the right to explore for a group of defined industrial minerals including vanadium and graphite within specifically defined permits covering approximately 40% of Malagasy's tenement holding in southern Madagascar. (see Figure 3)

Malagasy's interest in the JV will be free-carried until Energizer delivers a Bankable Feasibility Study (BFS). If Energizer, or the JV Company, delivers a BFS on any discovery, Malagasy will have the right to contribute to development and mining operations in accordance with its 25% interest in the joint venture or may elect to dilute its interest.

If Malagasy elects to dilute its joint venture interest below 10%, then Malagasy's interest will convert to a 2% net smelter royalty (NSR). On completing the JV agreement Malagasy received US$2.25 million in cash plus 7.5 million Energizer shares, currently worth approx. A$2.3 million.

OPERATIONS REVIEW (Cont.)

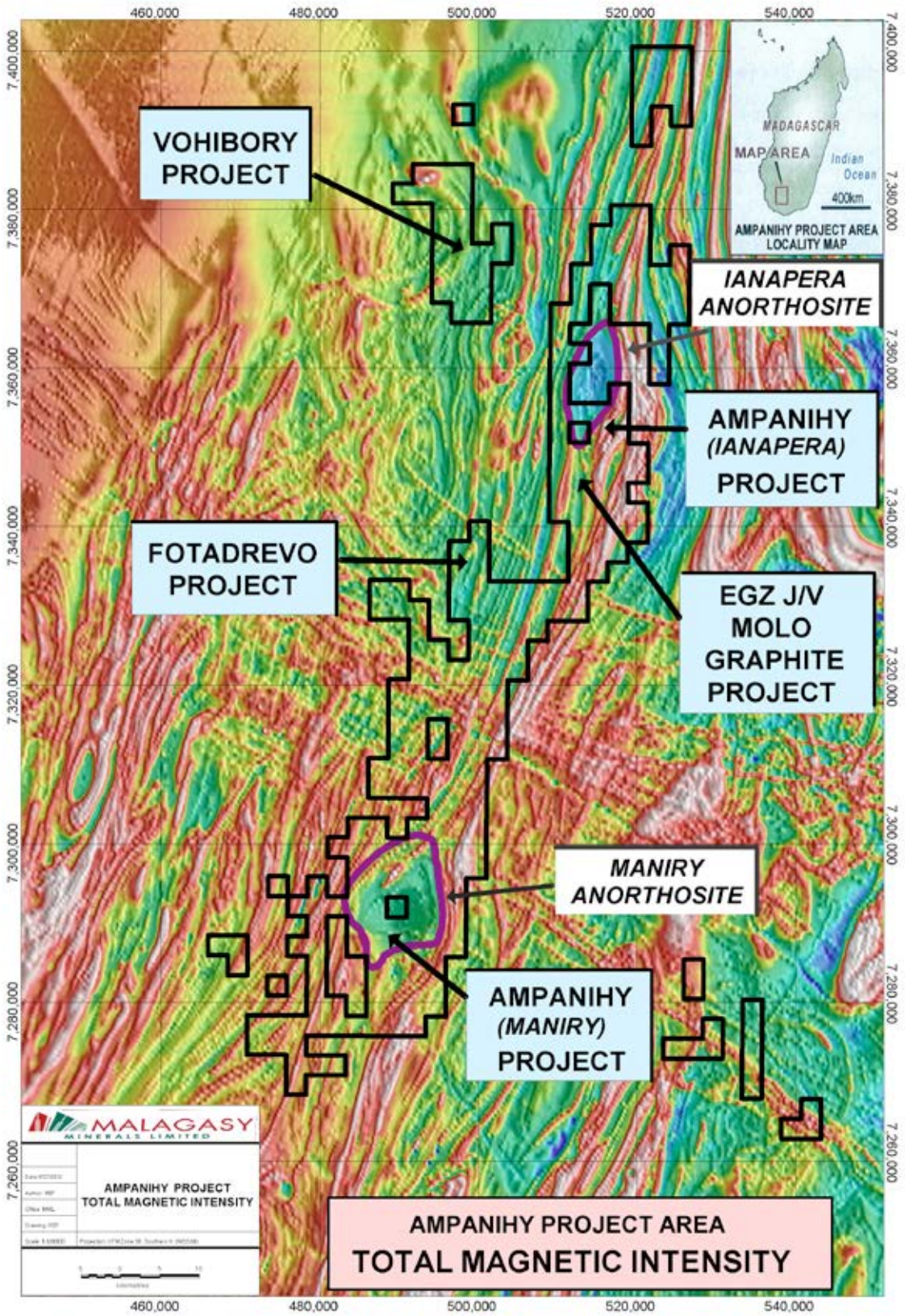

Figure 2: *Composite magnetic image of Project areas at Vohibory, Ampanihy and Fotadrevo*

OPERATIONS REVIEW (Cont.)

Since completing the joint venture, Energizer has announced significant results from its graphite exploration activities.

Of particular significance to Malagasy, is the announcement by Energizer that it is beginning to define a new graphite camp in southern Madagascar. This includes significant results from the Molo Zone, which is within the JV area. According to Energizer graphite mineralisation has been confirmed at surface, and to a depth of 108 metres at a grade of 8.8% carbon (C).

Energizer advised that the Molo Zone can be characterized as follows:

- a multi-folded graphite zone with a surface-exposed strike length of over two kilometres;
- characterized by resistant ridges of graphite-rich rock, and abundant graphite-rich float;
- individual graphite ridges between 20 and 150 metres in width;
- EM31 geophysical surveys indicate the graphite mineralisation is pervasive in the area;
- wide-spaced drilling of six diamond drill holes completed over a strike length of 1.2 kilometres, intersected graphitic mineralisation to a vertical depth of 75 metres, with a down-hole thickness between 60 and 150 metres; and
- mineralisation is open-ended along strike and down-dip.

The Molo Zone is one of many graphite zones and potential graphite zones identified by Energizer both within the JV ground and on its own ground (see Figure 4).

Energizer is presently completing a diamond drilling program for 8,500 metres at the Molo Project, with the aim of completing an N I43-101 (JORC) compliant resource targeting >100 million tonnes of graphite of > 6% carbon grade.

Drill Results

The first 3 holes were emplaced to help determine the outer boundaries of the Molo deposit. Diamond drill hole MOLO-12-01 was drilled to test both the western and eastern edge of the Molo deposit. MOLO-12-02 was drilled in order to define the western-most edge of the Molo deposit, while MOLO-12-03 was drilled to define the eastern-most edge of the Molo deposit. The table below summarizes the drill intersections.

Drill Hole	UTMX	UTMY	Azimuth	Dip	Graphite Intersection (m)	Carbon %	Depth From (m)	To (m)
MOLO-12-01	513120	7345600	90	-45	421.3	6.12%	31.3	452.65
MOLO-12-02	513180	7345600	270	-45	37.5	6.11%	19	56.5
MOLO-12-03	513240	7345600	90	-45	290.1	6.08%	1.2	291.3

Energizer's Plans

According to Energizer drill core and trench assays are wider than originally anticipated. As such, Energizer believes a resource target of >100 million tonnes (MT) grading over 6% C is obtainable for the Molo deposit. This resource will be available by December of this year. A 100 Mt deposit grading at 6% C would be capable of producing 100,000t per year of graphite concentrate for over 50 years.

To expedite the development of the project, geologic and geotechnical data is being supplied on a continual basis to the JV's technical partner, DRA Mineral Projects (DRA), which will be providing full Engineering, Procurement and Construction Management (EPCM) services to construct a modular graphite mine at Molo. Additionally, DRA has provided an independent onsite geologist to help facilitate information transfer, as well as to expedite the establishment of a NI 43-101.

Energizer believes that existing infrastructure in southern Madagascar can be suitably upgraded with minimal expenditure to handle the output of a modular graphite mine at Molo producing up to 100,000t of graphite concentrate per annum. Consequently, Energizer and DRA believe that given the deposit characteristics and metallurgy determined to date, in conjunction with minimal improvements to existing infrastructure, that a cost-effective open pit mine can be easily fast tracked. The exact build-out timing will be established in a PEA analysis due in the December 2012 Quarter by DRA.

Graphite Exploration – 100% controlled Malagasy tenements

Based on the success achieved by Energizer Resources in locating potentially good quality graphite resources, the Company established an exploration team whose focus is to explore specifically for graphite resources within Malagasy's 100%-controlled tenements, initially, targeting VTEM anomalism along zones of interest inferred from mapping and previous exploration.

Preliminary interpretation of VTEM data outlined approximately 110 kilometres of potential strike of graphitic schist. This is in addition to the 320 kilometres strike of potential graphite

OPERATIONS REVIEW (Cont.)

mineralisation outlined by Energizer on the JV area and its own permits. Figure 3 shows the areas inferred to contain potential graphitic mineralization potential within Malagasy's 100% controlled tenements and the EGZ JV area.

Field work commenced in May 2012, initially sampling and mapping the target areas. Sample results, from 171 samples, received after end of year confirm the prospectivity of the area to host potentially economic deposits of graphite.
Three types of graphite were recognised: -.

1. massive graphite, some of which, near surface, may have a significant iron and silica content
2. heavily disseminated graphite, which appears to have a coarse flake size
3. lightly disseminated graphite, which appears to have a finer flake size.

Of note, seven significant graphitic zones with grades ranging up to 50.8% carbon have been highlighted (see Figure 3 and the table below):

Coordinates (ave)		Anomaly No	No Samples	Max C%	Min C%	AVE C%
E517461	N7357561	1	1	23.94	23.94	**23.94**
E517553	N7358206	2	1	13.66	13.66	**13.66**
E516950	N7355995	3	10	44.52	5.07	**19.78**
E489603	N7283464	31	6	28.11	8.8	**14.31**
E489535	N7282419	37	3	12.94	10.12	**11.53**
E488842	N7285220	38	7	23.07	9.96	**15.48**
E486627	N7279776		1	50.78	50.78	**50.78**

It is proposed that these target areas will be mapped and systematically sampled at closer spacing and then costeaned ahead of drilling.

At each location, the width and potential length of the graphite unit was noted, and the outcrop was sampled. In the case of wide outcrops, this involved several adjoining samples. In many cases, the samples were deliberately high-graded.
Fifteen specimens of graphitic schist and other rock have been submitted for petrographic analysis to determine:

- graphite flake size
- presence or absence of deleterious minerals within the graphite flakes
- the relationship between graphite flakes and other minerals in the rock (i.e. the ease with which the graphite can be "liberated",

Initial reports suggest that the specimens are indicative of a deposit with the potential to meet technical specifications for commercial applications.

Based on observation of width, potential strike length, assay results and visual grade of the graphite, these seven anomalies are considered to be high-priority drill-targets. Three of these require only mapping and limited costeaning to indicate the size of the target and identify the best drill sites. No major earthworks or access construction is required. Others require mapping and more extensive costeaning to define targets in what appears to be a structurally complex area.
Five medium priority targets are worth further work after the results of testing the high priority targets are available.

Anomaly C on Figure 3 : *Outcrop of Graphitic Schist, estimated to be over 3,000 metres long and 87 metres wide at this point.*

OPERATIONS REVIEW (Cont.)

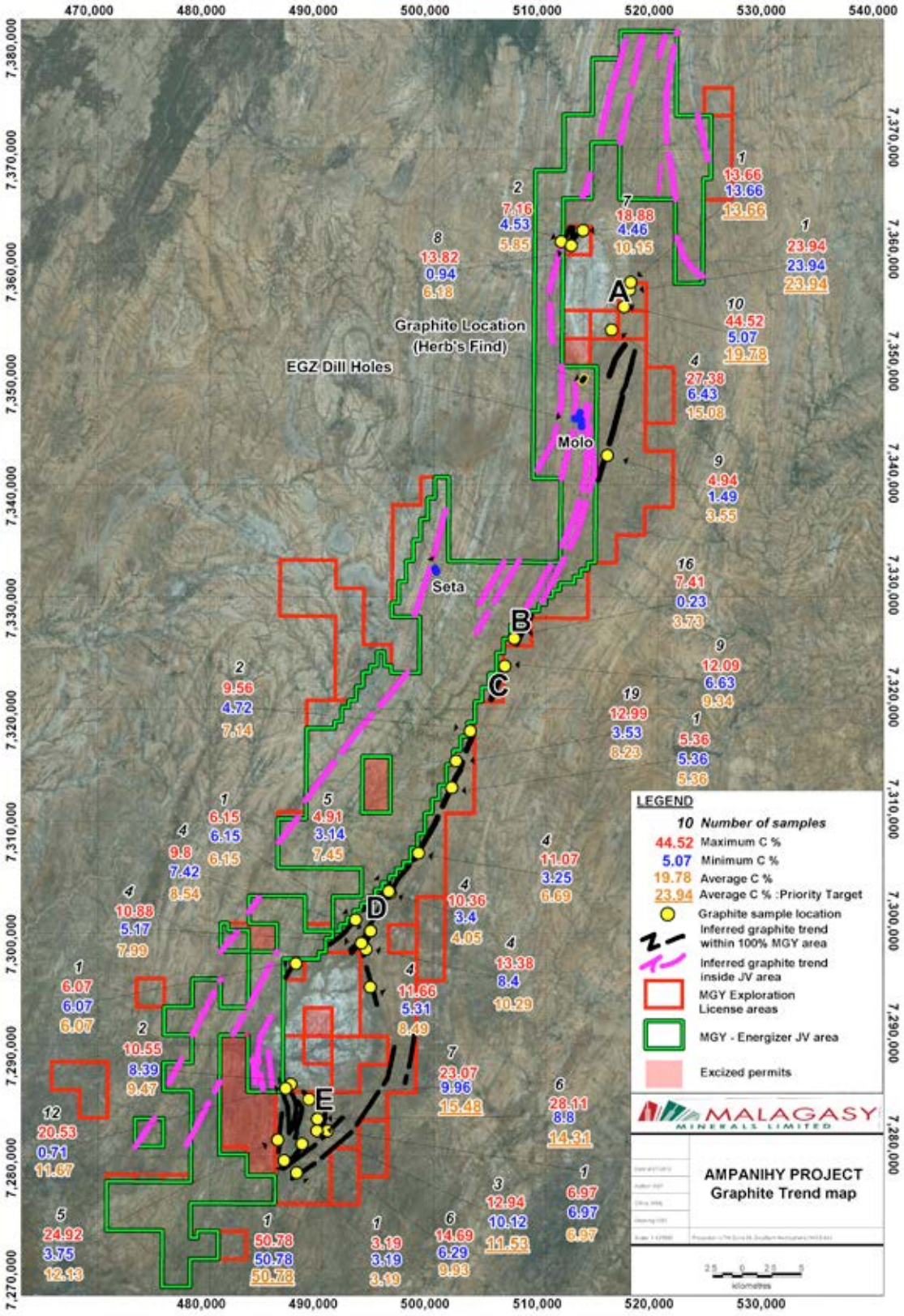

Figure 3: *Graphite trends inferred from VTEM and Magnetic data. Black lines are 100% Malagasy controlled and Magenta lines are JV controlled.*

OPERATIONS REVIEW (Cont.)

Sulphide-hosted Ni-Cu-PGE

During the 2008 field season, Malagasy completed a 3,500 line-km VTEM-aeromagnetic survey over the margins of these anorthosite bodies, which delineated numerous VTEM and magnetic conductors, some of which are coincident with both anomalous surface geochemistry and observed gossans.

In June 2010, 11 massive sulphide gossans were discovered at Ianapera, along the southeast margins of the Ianapera anorthosite approximately coincident with a cluster of VTEM conductors (see Figure 4).

The gossans were moderately anomalous in nickel and copper which was attributed to possible leaching during weathering.

Eight diamond drill holes (1,385 metres) tested eight of the gossans in late 2010.

The first hole, IPC0001 tested Gossan AMC-50 and intersected 2.5 metres of massive sulphide mineralization from 134 m followed by 20 metres of disseminated (5% to 15%) sulphides in ultramafic rock. The sulphides comprised dominantly pyrrhotite (95%+) and lesser pyrite with trace chalcopyrite and pentlandite. This suggests that the gossans reflect the tenor of the Ni and Cu within the sulphide zones and not weathering.

Despite the low tenor of initial assay results, the discovery of the massive-sulphide system at Ianapera is considered to be highly positive, as it demonstrates that the magma that formed the original layered intrusion was "sulphur saturated".

Based on the drill results, it appears that the target for mineralisation probably lies further from the anorthosite bodies than previously thought and accordingly, reconnaissance stream sampling and systematic soil sampling of areas with anomalous results from widespread sampling were undertaken.

Follow-up soil sampling was started in the June 2012 quarter has recently been completed with assays showing:

- a number of very anomalous Ni and Cu values up to 3716 ppm Ni and 569 ppm Cu (at Fotasrevo)
- two coherent zones of anomalous Ni and
- a number of areas with anomalous Ni and Cu in stream samples along the Suture Zone.

Fotadrevo (Ni-Cu):

Recent work (2008-10) adjacent to the western central area of the Fotadrevo Project by Canadian explorer Energizer Resources Inc. has identified significant vanadium-bearing horizons extending for over 18 kilometres of strike parallel to sub-parallel to the regional foliation (i.e. NNE-SSW). Based on information in Energizer's NI43-101 report completed in January 2011, the potential vanadium ores are an assortment of silicate rocks (micas) and V-rich oxides and V-Fe-rich sulphides. Energizer's deposit, named the Green Giant, is quoted in their NI43-101 as having a combined resource (indicated and inferred) of 59.2Mt @ 0.69% V2O5 using a 0.5% cut-off.

From field observations, the mineralized zones appear to be associated with a variety of horizons; a weathering resistant quartzo-feldspathic metasediment usually containing a green mica known as roscoelite; and more recessive units dominated by either hematite or graphite. Roscoelite, (K(V,Al,Mg)2AlSi3O10(OH)2), has a vanadium content of 9.92% (or 17.70% vanadium pentoxide (V2O5)). In the field it is not immediately apparent what the other vanadium-rich minerals are.

The results of a 1,194-sample surface/auger soil sampling programme which was completed in May 2012 have been analysed utilizing the Company's own XRF equipment. Of these samples, 233 were then sent for assaying to allow calibration of the XRF results.

The programme identified a coincident V-Ni-Cu anomaly with assays up to 0.62%V, 2,096ppm Ni and 437ppm Cu respectively. In addition, there were anomalous uranium values of up to 98ppm. The soil sampling was designed to cover a 10km strike trend over multiple identified radiometric anomalies.

The results of the soil sampling indicate a near continuous V-Ni-Cu anomaly of over a strike length of 9km, open-ended to both the north and south. Further soil sampling is planned to close off the anomalous zone and to ascertain whether further anomalous zones exist to the west of the currently outlined zone. Figure 2-4 show the respective zone of V, Ni and Cu anomalism.

Vohibory (Cu-Au): Copper-Silver-Gold Potential

Outcrop prospecting by Malagasy's geologists between 2007 and 2010 returned strong results up to 29% Cu, 8.33g/t Au and 206g/t Ag, in addition to which, significant copper and gold in soil anomalism has been returned in a number of zones throughout the Project area. Consequently, it is recognized that the Project has considerable exploration potential. Furthermore, Canadian company, Sun Ridge, has made significant drill intersections, with a best result of 21m @ 0.7% Cu; 1.1% Zn; 0.5g/t Au; 21g/t Ag at their Besakoa Project immediately to the south of Malagasy's tenements.

OPERATIONS REVIEW (Cont.)

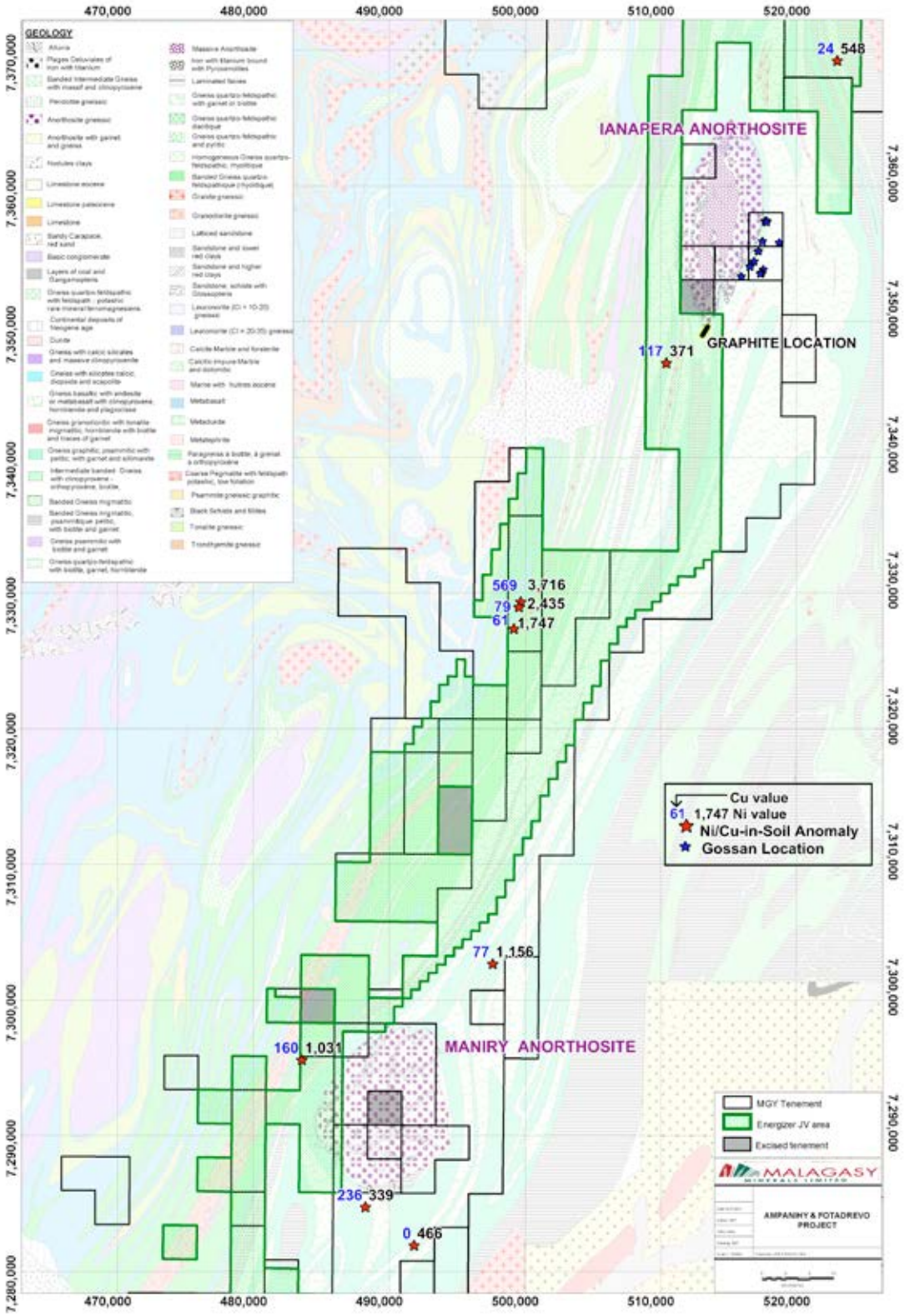

Figure 4: *Nickel-in-Soil anomalism areas (>300ppm Ni) and up to 1,156ppm Ni at Ampanihy and 3,716ppm Ni at Fotadrevo.*

OPERATIONS REVIEW (Cont.)

Much of the area is covered in Permian age sediments, often referred to as the 'Karoo Group' or the 'Sakoa Group'. At the Vohibory Project, these rocks generally comprise basal scree and talus. Hosted within these sediments are secondary copper minerals, predominantly malachite, as well as silver and gold indications. In some areas they were prospected by BRGM during the French run colonial era. Surface samples have returned assays in the range of 2-28% Cu and 2-206g/t Ag. The source of the copper, silver and gold remains conjectural, however, geologists consider they most likely originate from the underlying Proterozoic basement rocks. The maximum thickness of the Permian rocks remains unknown but based on the 2009 drilling it is at least 130 metres. A programme of three diamond drill holes is planned to test this anomalism during the latter part of 2012.

At the end of 2011, eight holes for 1,058 metres were completed to test two targets, as summarized below:

a) Two drill holes (CSA001 & CSA004) for 571m were collared in basal Karoo rocks (Permian) testing copper oxide mineralisation located in pits dating to the colonial-era. Surface samples assayed up to **9.3% Cu, 8.33g/t Au and 23.5g/t Ag**. Copper oxide minerals (malachite & chyrsocolla) were observed in core from both drill holes. The source of mineralization remains conjectural and both drill holes were intended to continue to the Proterozoic basement rocks to ascertain whether they were the source of mineralisation. However, drill problems prevented this.

b) Two fence lines of angled diamond drill holes comprising six holes (VHD007 – VHD012) for 488m were drilled perpendicular to the line of strike of gold mineralization identified by previous soil sampling in the eastern part of the Vohibory Project, where there are also recent small artisanal workings. Prospecting indicated that the source of gold mineralization was concordant quartz veins and siliceous quartz-feldspar-mica-pyrite schist (Proterozoic). The drilling intersected several horizons of siliceous, pyritic quartz-mica schist and quartz veining.

In summary, there is sufficient Cu-Au-Ag anomalism at surface to consider this area to be prospective. Consequently, exploration programmes consisting of further soil sampling and mapping will continue throughout the field season.

As reported in Malagasy's previous Annual Report, Malagasy has executed an agreement with Red Cat Minerals Ltd. ('Red Cat'), to sell the northernmost seven squares, totalling 43.75 km2, of the Vohibory Project tenements. Red Cat controls all the adjacent tenements contiguous to the northwest of the Vohibory Project and plans to list on the Australian Securities Exchange (ASX) in second half of 2012. Further extensions have been granted to 30 September 2012 for additional consideration so an IPO listing can be completed.

PLANNED EXPLORATION ACTIVITY FOR 2013 FINANCIAL YEAR.

Malagasy Minerals is continually reviewing its exploration activities, which will be modified from time to time, depending on exploration results and economic factors. Presently it is anticipated that the following exploration activities will be undertaken for the 2013 financial year.

- EGZ JV at Molo completing 8,500 diamond drilling program on Molo Graphite Project as part of establishing a NI43-101 (JORC) compliant resource target of >100 MT of >6% Carbon grade. It is anticipated that a scoping study on the Molo Project will be completed.
- MGY 100% Graphite Project ASZ- Follow up in-fill sampling and costeaning ahead of drilling the most prospective targets.
- Ampanihy project - at Ianapera and Maniry follow up soil and stream sampling.
- At Fotadrevo - follow up on infill sampling of strongly anomalous nickel in soil assay results.
- At Vohibory - follow up soil sampling, core logging and reassaying

OPERATIONS REVIEW (Cont.)

Competent Persons Statement

The information in this report that relates to Exploration Results or Mineral Resources is based on information compiled or reviewed by Dr Peter Woods, Director, who is a Member of the Australian Institute of Geoscientists. Dr Peter Woods has sufficient experience, which is relevant to the style of mineralization 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". Dr Peter Woods consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

CORPORATE

CAPITAL

The Company has a total issued capital of 156,562,504 shares. In addition there are 9,003,600 20c unlisted options expiring in 2013 on issue.

As at 30th June 2012 the Company retained A$1.95 million in cash resources, and ~ A$2.3 million in listed securities (EGZ).

Labradorite royalties: the Company continues to receive Labradorite Royalties from three groups, generating revenues to assist in supporting local operating costs.

Commercial property rental income: The Company continues to receive rental income from commercial leases at its base in Antananarivo (Refer Figure 5). This property covers 19,000 sqm of land situated in the capital. This property lends itself to future redevelopment and improvement for additional commercialization of facilities.

RedCat Minerals Agreement:
The Company has agreed to extend this agreement up to 30 September 2012, having received additional consideration by way of non-refundable cash deposits totalling A$429,000 to date. This agreement covers the proposed sale of a northern portion of the Vohibory project and is due for final settlement by 30 September 2012.

Management
The Company's exploration activities continue to be managed with the assistance of local geological staff and Consultant Geologists, aided by the Company's Country Manager (Gerant) and CFO, Jean Luc Marquetoux.

The Company remains in dispute with its former Managing Director in respect of the terms of his resignation, his conduct and his repudiation of the terms of his resignation and various attempts by him to affect our continuing operations, including attempts to illegally impede operations. The Company has commenced legal action for damages arising from his actions.

Political Situation
The current political situation is unchanged in Madagascar, with international mediation continuing to assist in the negotiation of an orderly resolution, with the aim of achieving free elections and the establishment of normalized relations with the international community and donor countries. As previously advised, the current situation in Madagascar has the potential to result in difficulties in obtaining effective legal redress. Meanwhile, continuing delays are being encountered in the processing of tenement applications, renewals, and the registration of additional minerals on the permits. If the political situation does not improve there is a risk that the Company may not be able to secure the grant or renewal of tenements in a timely manner, or on satisfactory terms. Presently UN supervised new elections are planned to be held in May 2013, and it is anticipated that a new democratically elected government will be established.

Health & Safety
The Company completed a review of its health & safety programs during the year and is updating its procedures and training.

Australian Doctors for Africa
Malagasy Minerals is pleased to continue to provide sponsorship and logistical support for Australian Doctors for Africa ("ADFA") who provide tangible medical training and services in the region of Toliara, South West Madagascar.

OPERATIONS REVIEW (Cont.)

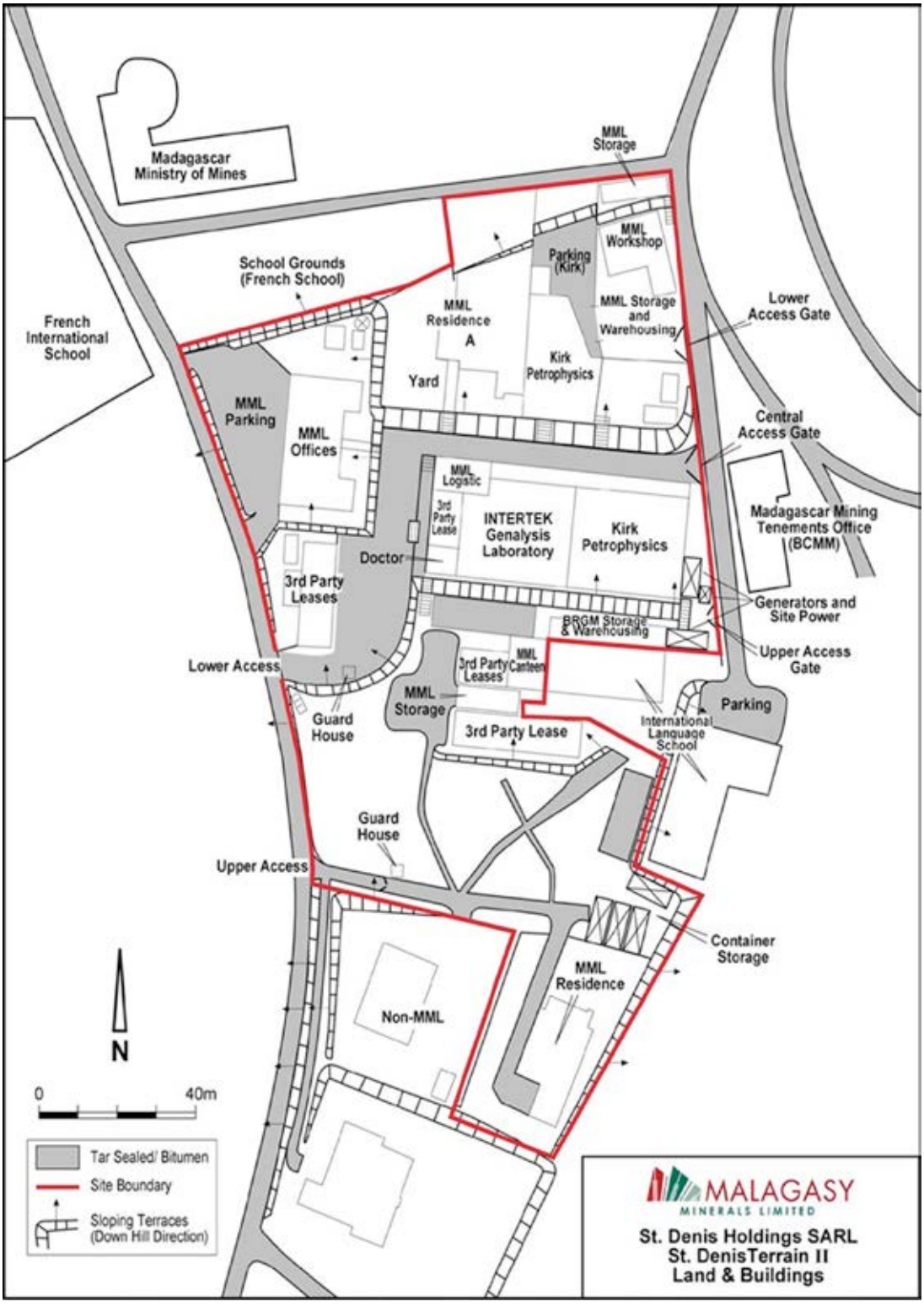

Figure 5: *Plan of St. Denis Terrain Showing Location & Extent of Building Infrastructure*

CORPORATE GOVERNANCE STATEMENT

Approach to Corporate Governance

Malagasy Minerals Limited (Company) has adopted 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 2nd edition (**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. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

The following governance-related documents can be found on the Company's website at www.malagasyminerals.com under the section marked "Corporate Governance":

Charters
Board
Audit Committee
Nomination Committee
Remuneration Committee

Policies and Procedures
Policy and Procedure for Selection and (Re)Appointment of Directors
Process for Performance Evaluations
Policy on Assessing the Independence of Directors
Diversity Policy (summary)
Code of Conduct (summary)
Policy on Continuous Disclosure (summary)
Compliance Procedures (summary)
Procedure for the Selection, Appointment and Rotation of External Auditor
Shareholder Communication Policy
Risk Management Policy (summary)

The Company reports below on how it has followed (or otherwise departed from) each of the recommendations during the 2011/2012 financial year (Reporting Period). The information in this statement is current at 14th September 2012.

Board

Roles and responsibilities of the Board and Senior Executives (Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to senior executives 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.

Senior executives are responsible for supporting the Chief Executive Officer and assisting the Chief Executive Officer 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

CORPORATE GOVERNANCE STATEMENT (Cont.)

thresholds at first instance to the Chief Executive Officer or, if the matter concerns the Chief Executive Officer, directly to the Chair or the lead independent director, as appropriate.

The Company's Board Charter is disclosed on the Company's website.

Skills, experience, expertise and period of office of each Director (Recommendation: 2.6)

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report. The mix of skills and diversity for which the Board is looking to achieve in membership of the Board is a mix of relevant skills, knowledge and experience to meet its objectives. The skills, knowledge and experience which the Board considers to be particularly relevant include qualifications and experience in the areas of finance/accounting, operational and technical expertise and country experience. The Board also considers the balance of independence on the Board.

Director independence (Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board does not have a majority of directors who are independent. During the Reporting Period, the Board did have a majority of independent directors for the period 23 December 2011 to 3 April 2012. The composition of the Board during the Reporting Period was as follows:

1 July 2011 to 22 December 2011	
Max Cozijn	Not independent
Guy LeClezio	Not independent
Peter Woods	Not independent
23 December 2011 to 3 April 2012	
Max Cozijn	Not independent
Guy LeClezio	Independent
Peter Woods	Independent
4 April 2012 to 5 June 2012	
Max Cozijn	Not independent
Guy LeClezio	Not independent
Peter Woods	Independent
6 June 2012 to 30 June 2012	
Max Cozijn	Not independent
Guy LeClezio	Not independent
Peter Woods	Independent
Graeme Boden	Independent

The Board considers that its current composition is adequate for the Company's current size and operations, and believes that it has an appropriate mix of skills and experience relevant to the Company's business at this time. The Board does consider independence as a factor in any new Board appointments, and appointed an independent director (Graeme Boden) during the Reporting Period.

The independent directors of the Company are Peter Woods and Graeme Boden. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

CORPORATE GOVERNANCE STATEMENT (Cont.)

The Board considers the independence of directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds.

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

- Balance sheet items are material if they have a value of more than 10% 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, could affect the Company's rights to its assets, if accumulated 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 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 which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent directors of the Company are Max Cozijn and Guy LeClezio.

Mr Cozijn is acting Chief Executive Officer and non-independent Chair of the Board. Since the Managing Director's resignation on 11 June 2011, Mr Cozijn has been appointed as Acting Chief Executive Officer pending a restructure of the Company's Board and management. The Board believes that Mr Cozijn is the most appropriate person for the position of Chair because of his qualifications and experience. The Company has appointed Graeme Boden 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.

Independent professional advice (Recommendation: 2.6)

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 from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

Selection and (Re)Appointment of Directors (Recommendation: 2.6)

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee (or equivalent) is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

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

CORPORATE GOVERNANCE STATEMENT (Cont.)

one 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.

The Company's Policy and Procedure for the Selection and (Re) Appointment of Directors is disclosed on the Company's website.

Board committees

Nomination Committee
(Recommendations: 2.4, 2.6)

The Board has not established a separate Nomination Committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the 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 to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

The full Board, in its capacity as the Nomination Committee, held one meeting during the Reporting Period. Details of the directors' attendance at the Nomination Committee meeting are set out in the following table:

Name	No. of meetings attended
Guy LeClezio (Chair)	1
Max Cozijn	1
Peter Woods	1
Graeme Boden (not yet appointed when meeting held)	0

The Company has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee.

The Company's Nomination Committee Charter is disclosed on the Company's website.

Audit Committee
(Recommendations: 4.1, 4.2, 4.3, 4.4)

The Board has not established a separate Audit Committee and accordingly, it is not structured in compliance with Recommendation 4.2. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Audit Committee. Accordingly, the 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 to it in the Company's Audit Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Audit Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

The full Board, in its capacity as the Audit Committee, held two meetings during the Reporting Period. Details of the directors' and their attendance at Audit Committee meetings are set out in the following table.

Name	No. of meetings attended
Guy LeClezio (Chair) (non-independent, non-executive)	2
Max Cozijn (non-independent, executive)	2
Peter Woods (independent, non-executive)	1
Graeme Boden (independent, non-executive) (not yet appointed when meetings held)	0

CORPORATE GOVERNANCE STATEMENT (Cont.)

When the Board meets as the Audit Committee, Guy LeClezio chairs' the meeting. To assist the Board to fulfil its function as the Audit Committee, the Company has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee.

Details of each of the director's qualifications are set out in the Directors' Report. All of the directors have industry knowledge and consider themselves to be financially literate. Mr Cozijn has a Bachelor of Commerce and is a member of CPA Australia. Mr Cozijn's qualifications 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.

The Company's Audit Committee Charter and Procedure for the Selection, Appointment and Rotation of External Auditor are disclosed on the Company's website.

Remuneration Committee
(Recommendations: 8.1, 8.2, 8.3, 8.4)

The Board has not established a separate Remuneration Committee and accordingly, it is not structured in accordance with Recommendation 8.2. Given the current size and composition of the Company, the Board believes that there would be no efficiencies gained by establishing a separate Remuneration Committee. Accordingly, the Board performs the role of 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 to it in the Company's Remuneration Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Remuneration Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

The full Board, in its capacity as the Remuneration Committee, held one meeting during the Reporting Period. Details of the directors' and their attendance at the Remuneration Committee meeting are set out in the following table:

Name	No. of meetings attended
Guy LeClezio (Chair) (not independent, non-executive)	1
Max Cozijn (not independent, executive)	1
Peter Woods (independent, non-executive)	1
Graeme Boden (independent, non-executive) (not yet appointed when meetings held)	0

To assist the Board to fulfil its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee.

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 Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non-executive directors are 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. All of the directors' option holdings are fully disclosed. Executive pay and reward 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.

CORPORATE GOVERNANCE STATEMENT (Cont.)

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.

The Company's Remuneration Committee Charter is disclosed on the Company's website.

Performance evaluation

Senior executives
(Recommendations: 1.2, 1.3)

The Chief Executive Officer is responsible for evaluating the performance of the senior executives via an interview process. The performance of senior executives is reviewed against key duties and responsibilities as outlined in the employment agreement with the senior executives.

During the Reporting Period, a performance evaluation of senior executives took place in accordance with the process disclosed above.

Board, its committees and individual directors
(Recommendations: 2.5, 2.6)

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. Each director completes a questionnaire and the responses are collated and summarised for presentation and discussion by the full Board.

During the Reporting Period a performance evaluation of the Board and individual directors took place in accordance with the process disclosed.

The Company's Process for Performance Evaluation is disclosed on the Company's website.

Ethical and responsible decision making

Code of Conduct
(Recommendations: 3.1, 3.5)

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

A summary of the Company's Code of Conduct is disclosed on the Company's website.

Diversity
(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy. During the Reporting Period, the Diversity Policy did not include requirements for the Board to establish measurable objectives for achieving gender diversity, or for the Board to assess annually both the objectives and progress towards achieving them as the Board was considering whether the setting of measurable objectives for achieving gender diversity was appropriate for the Company. The Board, in considering the Diversity Policy, amended the Company's Diversity Policy to include requirements for the Board to establish measurable objectives for achieving gender diversity, and for the Board to assess annually both the objectives and progress towards achieving them, and in June 2012 established the following measurable objectives for achieving gender diversity:.

CORPORATE GOVERNANCE STATEMENT (Cont.)

Measurable Objective

- Remunerate fairly between men and women at each job level;
- Provide flexible workplace arrangements;
- Provide career development opportunities for all employees (irrespective of any differences albeit gender, culture or other); and
- Promote an inclusive culture that treats the workforce with fairness and respect.

The Board will report on its progress towards achieving the measurable objectives set out above in its 2012/2013 Annual Report.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

	Proportion of women
Whole organisation	9 out of 46 (19%)
Senior Executive positions	2 out of 4 (50%)
Board	0 out of 4 (0%)

The Company's Diversity Policy is disclosed on the Company's website.

Continuous Disclosure

(Recommendations: 5.1, 5.2)

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

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

Shareholder Communication

(Recommendations: 6.1, 6.2)

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

The Company's Shareholder Communication Policy is disclosed on the Company's website.

Risk Management

Recommendations: 7.1, 7.2, 7.3, 7.4)

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 Chief Executive Officer, who is responsible for identifying, assessing, monitoring and managing risks. The Chief Executive Officer 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 Chief Executive Officer 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.

CORPORATE GOVERNANCE STATEMENT (Cont.)

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 for management, which, if proposed to be exceeded, requires 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.

The Board has established a formal system for management of its material business risks. This system includes the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for those risks. The risk register is reviewed and updated as required. Further, risk management is a standing agenda item at Board meetings.

The Company reports on the following categories of risks as part of its systems and processes for managing material business risk: political, operational, ethical, legal, environmental, human capital, financial, market-related, economic, human capital and technological.

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. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks for the Reporting Period.

The Acting Chief Executive Officer and the Chief Financial Officer (or equivalent) 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 reporting risks.

A summary of the Company's Risk Management Policy is disclosed on the Company's website.

DIRECTORS' REPORT

Your Directors present their report on the company and its controlled entities for the financial year ended 30 June 2012.

DIRECTORS

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

Max Cozijn
Guy LeClezio
Peter Woods
Graeme Boden (appointed 6 June 2012)

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 profit of the economic entity after providing for income tax amounted to $2,718,046 (2011: Loss $1,839,989).

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 increased by $2,567,567 to $9,974,014 during the financial year.

This increase is largely as a result of the following factors:

- Energizer Resources Inc. (TSX: EGZ) formed a Joint Venture with Malagasy Minerals in December 2011 in which Malagasy received US$2,250,000, and 7,500,000 shares in EGZ valued at $2,376,120 at balance date.
- Exploration activities and Operating Costs

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

DIRECTORS' REPORT (Cont.)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- A Joint Venture Agreement with Canadian company Energizer Resources Inc. (EGZ) was executed on 15 December 2011, resulting in a total of US$2.25M being paid to Malagasy plus 7.5M EGZ shares. The Joint Venture Company (75% EGZ; 25% MGY) was formed with the right to explore for industrial minerals including vanadium and graphite within approximately 40% of MGY's tenement holdings. Malagasy is free carried until completion of a BFS by EGZ for its 25% JV interest.
- Graeme Boden was appointed Non-Executive Director on 6 June 2012
- The Company has entered into a Deed of Variation with Red Cat Minerals Ltd for the proposed sale of the northern portion of the Vohibory tenement area. Part of the consideration is dependent on the listing of Red Cat Ltd on ASX. This has been delayed and MGY has agreed to extend this agreement to 30/09/12 for further consideration. To date, non-refundable deposits of $429,000 have been received.

AFTER BALANCE DATE EVENTS

There were no material events arising subsequent to 30 June 2012 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. CPA, MAICD – Chairman, Acting CEO, & Company Secretary

Mr Cozijn graduated from the University of Western Australia in 1972 with a Bachelor of Commerce degree and is a member of CPA Australia. 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, Non-Executive Chairman of Oilex Ltd and is 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 (until 25 June 2012)
- Energia Minerals Limited (from May 1997 (listed December 2009))

Mr Guy Francois Marie LE CLEZIO, BA – Director / 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 was a founding director of World Titanium Resources Ltd and a former director of ASX listed Windy Knob Resources Ltd.

DIRECTORS' REPORT (Cont.)

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

Dr Peter James WOODS, BSc (Hons) / PhD (Geol), MAIG – Director / 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 held by World Titanium Resources Ltd. He was a founding director of World Titanium Resources Ltd and a Member of the Australian Institute of Geoscientists.

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

Mr Graeme Raymond BODEN, B Ec(Hons) FAICD – Director / Non-Executive Director

Graeme is an experienced business executive with more than 35 years in senior corporate or financial roles, particularly in the planning and evaluation function of the resources industry and in the finance and administration function of a range of industries. He has 30 years' experience as a Director or Secretary of ASX listed companies. He is the principal of Boden Corporate Services, whose clients include listed companies World Titanium Resources Ltd and TUC Resources Ltd.

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

- Consegna Group Limited (until May 2011)

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
M.D.J. Cozijn	12,501	7,500,000	-	1,000,000
P.J. Woods	-	1,100,000	-	500,000
G.F. Le Clezio	-	11,940,513	500,000	-
G.R. Boden (appointed 6 June 2012)	-	-	-	-

REMUNERATION REPORT (AUDITED)

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, by the remuneration committee, with revised remuneration packages generally taking effect from the 1st 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.

DIRECTORS' REPORT (Cont.)

The payment of bonuses, 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

Details of Remuneration for Year Ended 30 June 2012

The remuneration for Key Management Personnel of the economic entity during the year were as follows:

2012	Salary	Directors' Fees	Non-Cash Benefits	Super Contributions	Equity	Options	Total	Perfor-mance related
	$	$	$	$	$	$	$	%
Key Management Personnel:								
Directors:								
M.D.J. Cozijn	130,128	-	-	17,161	-	-	147,289	-
P.J. Woods	-	-	-	43,600	-	-	43,600	-
G.F. Le Clezio	-	40,000	-	3,600	-	-	43,600	-
G.R. Boden (appointed 6 June 2012)	-	2,906	-	-	-	-	2,906	-
	130,128	42,906	-	64,361	-	-	237,395	-
Executives:								
J.L. Marquetoux	105,106	-	-	-	-	-	105,106	-
(CFO & Gerant)	105,106	-	-	-	-	-	105,106	-

2011	Salary	Directors' Fees	Non-Cash Benefits	Super Contributions	Equity	Options	Total	Perfor-mance related
	$	$	$	$	$	$	$	%
Key Management Personnel:								
Directors:								
S.B. Goertz (resigned 11/06/11)	150,000	20,000	-	16,800	-	3,119	189,919	-
M.D.J. Cozijn	50,000	20,000	-	6,300	-	-	76,300	-
P.J. Woods	-	-	-	21,800	-	-	21,800	-
G.F. Le Clezio	-	20,000	-	1,800	-	-	21,800	-
	200,000	60,000	-	46,700	-	3,119	309,819	-
Executives:								
J. Le Clezio	60,000	-	-	-	-	-	60,000	-
(resigned 31/12/10)	60,000	-	-	-	-	-	60,000	-

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

There were no bonuses or share based payment compensation benefits made to any Key Management Personnel during the year.

Shares and Options issued as part of remuneration for the year ended 30 June 2012

DIRECTORS' REPORT (Cont.)

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

The following table shows the gross revenue, profits, dividends and share price at the end of financial year for the past 4 years

	2009	2010	2011	2012
Revenue	972,950	695,679	850,032	5,370,306
Net Profit/(Loss)	(2,288,750)	(1,586,439)	(1,839,989)	2,718,046
Share Price at Year End	3.6c	4.9c	3.9c	8.5c
Dividends Paid	-	-	-	-

The improved performance in 2012 is primarily attributable to the Energizer Resources Inc. Joint Venture Agreement entered into in December 2011. The improvement in the Company's performance has been reflected in the Company's share price and the Directors are satisfied the Energizer Joint Venture Agreement has improved shareholder wealth, and continues to work toward achieving a sustainable improvement in operating performance and resulting share price.

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 Crowe Horwath for non-audit services during the year ended 30 June 2012.

MEETINGS OF DIRECTORS

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

	Directors' Meetings		Audit		Committee Meetings Remuneration		Nomination	
Director	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
M.D.J. Cozijn	9	9	2	2	1	1	1	1
P.J. Woods	9	8	2	1	1	1	1	1
G.F. Le Clezio	9	8	2	2	1	1	1	1
G.R. Boden (appointed 6 June 2012)	0	0	0	0	0	0	0	0

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

DIRECTORS' REPORT (Cont.)

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	Date of expiry	Exercise price	No. under option
27 June 2008	27 June 2013	$0.20	1,000,000
1 December 2008	1 December 2013	$0.20	2,000,000
1 December 2008	3 July 2013	$0.20	1,000,000
1 December 2008	3 July 2013	$0.20	1,000,000
2 April 2009	7 July 2013	$0.20	4,003,600
			9,003,600

No options were exercised during the year ended 30 June 2012.

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

PROCEEDINGS OF THE COMPANY

Apart from an action of damages against the former Managing Director, 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 remains in dispute with its former Managing Director in respect of the terms of his resignation, his conduct and his repudiation of the terms of his resignation and various attempts by him to affect our continuing operations, including attempts to unlawfully impede operations. The Company has commenced legal action for damages arising from these actions.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 31 of the annual report.

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

M.D.J. Cozijn
Chairman

G.F. Le Clezio
Director

Perth, Western Australia
14 September 2012

AUDITOR'S INDEPENDENCE DECLARATION

Crowe Horwath™

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 2012, 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.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 14 September 2012

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss verein. Each member firm of. Each member firm of Crowe Horwath is a separate and independent legal entity.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	ECONOMIC ENTITY 2012 $	2011 $
Revenue	2	4,160,826	850,032
Fair value gain on financial assets	11	1,209,480	-
Employee benefits expense		(693,330)	(562,169)
Depreciation expense	3	(98,315)	(127,242)
Finance costs		(930)	(291)
Administration costs		(486,198)	(472,727)
Exploration expenditure	3	(1,221,011)	(1,141,897)
Foreign exchange movements		(2,320)	(57,426)
Share-based payments		-	(3,549)
Merger costs	3	-	(257,206)
Loss before income tax expense		2,868,202	(1,772,475)
Income tax expense	4	(150,156)	(67,514)
Net profit (loss) attributable to members of the parent entity		2,718,046	(1,839,989)
Other Comprehensive Income			
Adjustment from translation of foreign controlled entities		(150,479)	(81,303)
Income tax relating to components of other comprehensive income		-	-
Total comprehensive Income for the period attributable to members of the parent entity.		2,567,567	(1,921,292)
Overall Operations:			
Basic and dilutive earnings/(loss) per share - cents per share	5	1.74	(1.37)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	EONOMIC ENTITY 2012 $	2011 $
Current Assets			
Cash and Cash Equivalents	7	1,949,520	1,451,555
Other Receivables	9	270,054	60,295
Other Current Assets	8	170,945	244,470
Other Financial Assets	11	2,376,120	-
Total Current Assets		4,766,639	1,756,320
Non-Current Assets			
Other Receivables	9	429,740	484,074
Property, Plant & Equipment	10	2,862,233	2,925,422
Investment in Joint Venture		1	-
Deferred Exploration and Evaluation costs	13	3,289,216	3,289,216
Total Non-Current Assets		6,581,190	6,698,712
TOTAL ASSETS		11,347,829	8,455,032
Current Liabilities			
Trade and Other Payables	14	888,397	304,950
Short-term Provisions	15	33,284	52,960
Total Current Liabilities		921,681	357,910
Non-Current Liabilities			
Trade and Other Payables	16	452,134	690,675
Total Non-Current Liabilities		452,134	690,675
TOTAL LIABILITIES		1,373,815	1,048,585
NET ASSETS		9,974,014	7,406,447
EQUITY			
Issued Capital	17	14,441,337	14,441,337
Reserves	18	(493,943)	(343,464)
Accumulated Losses		(3,973,380)	(6,691,426)
TOTAL EQUITY		9,974,014	7,406,447

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	ECONOMIC ENTITY				
	Issued Capital	Accumulated Losses	Foreign currency Translation Reserve	Option Reserve	Total
	$	$	$	$	$
Balance at 30 June 2010	11,411,975	(4,851,437)	(523,064)	257,354	6,294,828
Shares issued during the year	3,217,250	-	-	-	3,217,250
Transaction costs	(187,888)	-	-	-	(187,888)
Movement in Share Option Reserve	-	-	-	3,549	3,549
Loss attributable to members of economic entity	-	(1,839,989)	-	-	(1,839,989)
Other Comprehensive Income	-	-	(81,303)	-	(81,303)
Balance at 30 June 2011	14,441,337	(6,691,426)	(604,367)	260,903	7,406,447
Shares issued during the year	-	-	-	-	-
Transaction costs	-	-	-	-	-
Movement in Share Option Reserve	-	-	-	-	-
Loss attributable to members of economic entity	-	2,718,046	-	-	2,718,046
Other Comprehensive Income	-	-	(150,479)	-	(150,479)
Balance at 30 June 2012	14,441,337	(3,973,380)	(754,846)	260,903	9,974,014

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	ECONOMIC ENTITY 2012 $	2011 $
Cash flows from Operating Activities			
Payments to suppliers and employees		(958,282)	(1,388,842)
Payments for exploration expenditure		(1,227,414)	(1,051,486)
Interest received		73,241	48,942
Royalties received		129,698	231,668
Other income		248,618	250,245
Finance costs		(930)	(291)
Net cash used in operating activities	20(a)	(1,735,069)	(1,909,764)
Cash flows from Investing Activities			
Payments for property, plant and equipment		(35,086)	(31,100)
Proceeds from sale of plant and equipment		-	70,177
Proceeds on sale of exploration tenements (non-refundable deposits)		150,000	249,000
Proceeds on entering into Joint Venture Agreement		2,276,065	-
Payments for equity share in Joint Venture Entity		(1)	-
Merger costs		-	(257,206)
Net cash provided by investing activities		2,390,978	30,871
Cash flows from Financing Activities			
Proceeds from issues of shares		-	3,217,250
Capital raising costs		-	(187,888)
Repayment of Share Sale Agreement		(128,640)	(239,747)
Net cash flows (used in) / provided by financing activities		(128,640)	2,789,615
Net increase in cash held		527,269	910,722
Cash at the beginning of the financial year	7	1,451,555	571,669
Effect of exchange rates on cash holdings in foreign currencies		(29,304)	(30,836)
Cash at the end of the financial year	7	1,949,520	1,451,555

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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.

The financial statements were authorised for issue on 14th September 2012 by the Directors of the Company.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

The consolidated financial statements of Malagasy Minerals Limited as at the year ended 30 June 2012 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 the Corporations Act 2001.

Basis of Preparation
Reporting Basis and Conventions

Except for the cash flow information 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, to the extent that they are considered material.

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(c) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

(e) Financial Instruments

Recognition

Financial instruments are initially measured at fair value 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.

Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

Financial liabilities

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

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 arm's 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible 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.

(g) Interests in Joint Ventures

The Groups interests in the joint venture entity is recorded using the equity method of accounting in the consolidated financial statements. Details of the Groups interest is provided in Note 12.

(h) 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.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share Based payments are measured at the fair value of the instruments issued and amortised over the vesting periods. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period.

(j) 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.

(k) 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.

(l) Revenue and Other Income

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).

(m) 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.

(n) 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.

(o) Comparative Figures

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

(p) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key Judgements
Exploration and Evaluation Expenditure
Tenement acquisition costs are initially capitalised and then amortised with other exploration and evaluation expenditure written off as incurred. 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. 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. The Directors believe that the capitalised exploration expenditure should not be written off at balance date as the tenements areas have been reviewed for impairment indicators and Directors believe no indicators of impairment exist.

Non-Current Receivables
Non-Current Receivables includes the tax (TVA) recoverable from the Madagascan tax authority. The Directors believe the full amount to be recoverable and therefore a provision for impairment has not been made.

Accrued Expenses
Accrued expenses are amounts in respect of the Share Sale Agreement with WTR Holdings Pty Ltd (formerly Madagascar Resources NL). The liability is only repayable from 70% of the labradorite royalty cash receipts by MADA-Aust SARL and is split between current and non-current portions. The directors believe the royalty generating operations will continue and have not identified any factors indicating impairment. The current portion of the liability is based on the estimate of the next financial year's cash receipts with the remaining balance not expected to be settled in the next financial year treated as non-current.

(q) Other receivables
Other receivables include amounts due from customers for services performed in the ordinary course of business Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets. Other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1f) for further discussion on the determination of impairment losses.

(r) Other payables
Other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(s) Adoption of New and Revised Accounting Standards
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

(t) New Accounting Standards for Application in the Future
The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key 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;
- requiring financial assets to be reclassified 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

  This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group

AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.
To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB101, AASB124, AASB134, AASB1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.
AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

i. for an offer that may be withdrawn – when the employee accepts;
ii. for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
iii. where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2 – REVENUE

	Note	ECONOMIC ENTITY 2012 $	2011 $
Operating Activities			
- royalties		228,736	231,668
- rental		126,232	204,536
- other		122,386	115,886
- tenement sales (non-refundable deposits)		150,000	249,000
Non-operating activities			
- Interest received		90,767	48,942
- Energizer JVA consideration	2A	3,442,705	-
Total Revenue		4,160,826	850,032

NOTE 2A – ENERGIZER JVA

Non-refundable deposit received		271,273	-
Joint venture cash consideration		2,004,792	-
Initial recognition of listed shares in Energizer Resources at Fair Value		1,166,640	-
Total Revenue		3,442,705	-

A Joint Venture Agreement with Canadian company Energizer Resources Inc. (EGZ) was executed on 15 December 2011, resulting in a total of US$2.25M being paid to Malagasy plus 7.5M EGZ shares. The Joint Venture Company (75% EGZ; 25% MGY) was formed with the right to explore for industrial minerals including vanadium and graphite within approximately 40% of MGY's tenement holdings. Malagasy is free carried until completion of a BFS by EGZ for its 25% JV interest.

NOTE 3 – PROFIT/(LOSS) FOR THE YEAR

Expenses			
Finance costs		930	291
Depreciation of non-current assets			
- Land and Buildings		18,023	19,006
- Property, Plant & Equipment		35,389	37,952
- Field equipment		21,621	44,931
- Motor vehicles		23,282	25,353
Total depreciation		98,315	127,242
Exploration expenditure		1,221,011	1,141,897
Rental expenses on operating leases - minimum office lease payments		39,442	35,634
Merger costs [1]		-	257,206

(1) Merger costs relate to the Deed of Termination and Release with WTR Holdings Pty Ltd (formerly Madagascar Resources NL) terminating the proposed Merger of the two companies.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4 - INCOME TAX	Note	ECONOMIC ENTITY 2012 $	2011 $
(a) Income Tax Expense			
The prima facie tax expense/(benefit) on Profit/(Loss) from ordinary activities is reconciled as follows:			
The Components of tax expense comprise:			
Current Tax		1,273	67,514
Deferred Tax		148,883	-
		150,156	67,514
The Prima facie tax on Profit/(Loss) before income tax at 30% (2011: 30%)		860,461	(531,743)
Add/(subtract) the tax effect of:-			
Tax attributable to foreign subsidiary		1,273	67,514
Effect of lower tax rate [1]		45,687	25,800
Permanent Differences		250,518	102,772
Recognition of deferred tax not previously brought to account		(1,062,593)	-
Deferred tax assets not brought to account		54,810	403,171
Income tax expense attributable to entity		150,156	67,514
(1) The corporate tax rate in Madagascar is 21%(2011: 23%)			
(b) Recognised Deferred Tax Balances			
Deferred Tax Asset		213,961	-
Deferred Tax Liability		(362,844)	-
		(148,883)	-
(c) Unrecognised Deferred Tax Balances			
The following deferred tax assets have not been brought to account:			
Unrecognised deferred tax assets comprise:			
Future income tax benefits attributable to tax losses		594,568	1,492,131
Transaction costs on equity issue		-	161,625
		594,568	1,653,757

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4 - INCOME TAX (CONTINUED)

(d) Deferred Tax Liability

	ECONOMIC ENTITY			
	Opening Balance $	Charged to Income $	Charged to Equity $	Closing Balance $
Deferred Tax Assets				
Future Income tax benefits attributable to tax losses	-	130,689	-	130,689
Transaction costs on equity issue	-	83,272	-	83,272
Balance as at 30 June 2012	-	213,961	-	213,961
Deferred Tax Liabilities				
Deferred Tax on fair value increase of listed shares in EGZ	-	362,844	-	362,844
Balance as at 30 June 2012	-	362,844	-	362,844

NOTE 5 – EARNINGS PER SHARE

	ECONOMIC ENTITY	
	2012 $	2011 $
(a) Reconciliation of Earnings to Net Profit/(Loss)	2,718,046	(1,839,989)
Profit/(Loss) used in the calculation of basic and dilutive EPS	2,718,046	(1,839,989)
Basic and Diluted profit / (loss) per share - cents per share	1.74	(1.37)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	156,562,504	134,415,757

As at 30 June 2012 there are 9,003,600 unlisted options on issue. The effect of these options are anti- dilutive on the earning per share calculation as the exercise price of the options is above the current market value.

NOTE 6 – KEY MANAGEMENT PERSONNEL COMPENSATION

Directors:

Mr. M.D.J Cozijn	– Finance Director/Company Secretary (Executive Director)
Mr. G.F. Le Clezio	– Director (Non-Executive Director)
Dr. P.J. Woods	– Director (Non-Executive Director)
Mr. G.R. Boden	– Director (Non-Executive Director) (appointed 6 June 2012)

Executives:

Mr J.L Marquetoux	– CFO & Gerant (Madagascar)

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6 – KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

(a) Key Management Personnel Remuneration

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report. The totals of remuneration paid to Key Management Personnel of the Group during the year are as follows:

	ECONOMIC ENTITY	
	2012	2011
	$	$
Short term employee benefits	318,140	340,000
Post – employment benefits	24,361	26,700
Other long-term benefits	-	-
Share Based Payments	-	3,119
	342,501	369,819

(b) Equity and Options granted as compensation

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

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

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Key Management Personnel:							
Directors:							
Mr M.D.J. Cozijn	1,000,000	1,000,000	01/12/08	0.9 cents	20 cents	01/12/08	01/12/13
Mr G.F. Le Clezio	500,000	500,000	01/12/08	0.9 cents	20 cents	01/12/08	01/12/13
Dr P.J. Woods	500,000	500,000	01/12/08	0.9 cents	20 cents	01/12/08	01/12/13
Mr G.R. Boden (appointed 6 June 2012)	-	-	-	-	-	-	-
	2,000,000	2,000,000					
Executives:							
Mr J L Marquetoux	-	-	-	-	-	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6 – KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

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

2012	Balance at 1 July 2011	Granted as Remuneration	Balance at 30 June 2012	Total Vested 30 June 2012	Total Exercisable 30 June 2012	Total Unexercisable 30 June 2012
Key Management Personnel						
Directors:						
Mr M.D.J. Cozijn	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Mr G.F. Le Clezio	500,000	-	500,000	500,000	500,000	-
Dr P.J. Woods	500,000	-	500,000	500,000	500,000	-
Mr. G.R. Boden (appointed 6 June 2012)	-	-	-	-	-	-
	2,000,000	-	2,000,000	2,000,000	2,000,000	-
Executives:						
Mr J.L Marquetoux	-	-	-	-	-	-

(e) Shareholdings of Key Management Personnel

	Balance 1 July 2011	Purchased	Options Exercised	Disposals	Balance 30 June 2012
Key Management Personnel:					
Directors:					
Mr M.D.J. Cozijn	7,512,501	-	-	-	7,512,501
Mr G.F. Le Clezio	2,019,809	[1] 9,920,704	-	-	11,940,513
Dr P.J. Woods	100,000	[2] 1,000,000	-	-	1,100,000
Mr G R Boden	-	-	-	-	-
	9,632,310	10,920,704	-	-	20,553,014
Executives:		-			
Mr J.L Marquetoux	-	-	-	-	-
	-	-	-	-	-
	9,632,310	10,920,704	-	-	20,553,014

Notes

1. 8,862,023 shares were purchased in off market trades and 1,058,681 were on market trades.
2. All purchases were off market trades

NOTE 7 – CASH AND CASH EQUIVALENTS

	ECONOMIC ENTITY 2012 $	2011 $
Cash on hand	200	200
Cash at bank	133,510	135,545
Deposits at call (i)	1,800,000	1,300,000
Bond	15,810	15,810
	1,949,520	1,451,555

(e) The effective interest rate on deposits at call is 5.5% (2011-5.00%) and has a maturity of 30 days.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 8 – OTHER CURRENT ASSETS

	ECONOMIC ENTITY 2012 $	2011 $
Prepayments	169,079	242,883
Other	1,866	1,587
Total Other Current Assets	170,945	244,470

NOTE 9 – OTHER RECEIVABLES

CURRENT		
Other receivables	270,054	60,295
	270,054	60,295
NON-CURRENT		
Other receivables	429,740	484,074
	429,740	484,074

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

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

Property, Plant & Equipment – At cost	523,703	509,837
Less accumulated depreciation	(287,685)	(252,296)
Total Property, Plant & Equipment	236,018	257,541
Field Equipment – At cost	362,101	355,007
Less accumulated depreciation	(175,712)	(154,086)
Total Field Equipment	186,389	200,921
Motor Vehicles – At cost	235,226	221,055
Less accumulated depreciation	(195,676)	(172,393)
Total Motor Vehicles	39,550	48,662
Total Property, Plant and Equipment	461,957	507,124
Land and Buildings – At cost	2,500,000	2,500,000
Less accumulated depreciation	(99,724)	(81,702)
Total Land & Buildings	2,400,276	2,418,298
TOTAL FIXED ASSETS	2,862,233	2,925,422

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(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 $
Economic Entity					
Balance at 30 June 2010	2,437,304	270,817	243,548	77,099	3,028,768
Additions and reclassifications	-	26,092	5,008	-	31,100
Disposals	-	(3,390)	(8,155)	(36,092)	(47,637)
Depreciation expense	(19,006)	(37,952)	(44,931)	(25,353)	(127,242)
Currency Translation Differences	-	1,974	5,451	33,008	40,433
Carrying amount at 30 June 2011	2,418,298	257,541	200,921	48,662	2,925,422
Additions and reclassifications	-	13,823	7,093	14,171	35,087
Disposals	-	-	-	-	-
Depreciation expense	(18,023)	(35,389)	(21,621)	(23,282)	(98,315)
Currency Translation Differences	1	43	(4)	(1)	39
Carrying amount at 30 June 2012	2,400,276	236,018	186,389	39,550	2,862,233

NOTE 11 – OTHER FINANCIAL ASSETS

	ECONOMIC ENTITY 2012 $	2011 $
Initial recognition of listed shares in Energizer Resources at Fair Value	1,166,640	-
Fair value increase of listed shares in Energizer Resources	1,209,480	-
Total Financial Assets	2,376,120	-

Financial Assets at fair value through profit and loss represent 7,500,000 fully paid ordinary shares in Canadian company Energizer Resources Inc. (EGZ).

NOTE 12 – INTERESTS IN JOINT VENTURES

A Joint Venture Agreement with Canadian company Energizer Resources Inc. (EGZ) was executed on 15 December 2011, resulting in a total of US$2.25M being paid to Malagasy plus 7.5M EGZ shares. The Joint Venture Company (75% EGZ; 25% MGY) was formed with the right to explore for industrial minerals including vanadium and graphite within approximately 40% of MGY's tenement holdings. Malagasy is free carried until completion of a BFS by EGZ for its 25% JV interest.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13 – DEFERRED EXPLORATION AND EVALUATION COSTS

	ECONOMIC ENTITY 2012 $	2011 $
Opening Balance	3,289,216	3,289,216
Additions and Reclassifications	-	-
Impairment	-	-
Costs carried forward in respect of areas of interest in Exploration and Evaluation phases	3,289,216	3,289,216

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 14 – CURRENT TRADE & OTHER PAYABLES

Unsecured liabilities		
Trade Payables	523,341	132,436
Tax Liability	150,156	67,514
Accrued Expenses [1]	214,900	105,000
Total Current Trade & Other Payables	888,397	304,950

(1) Accrued expenses include amounts in respect of the Share Sale Agreement with WTR Holdings Pty Ltd (formerly Madagascar Resources NL) estimated to be payable within the next 12 months. The liability is only repayable from 70% of the labradorite royalty cash receipts actually received by MADA-Aust SARL.

NOTE 15 – SHORT–TERM PROVISIONS

Provision for annual leave		
Opening Balance	52,960	38,870
Additional provisions	17,985	19,458
Amounts Used	(37,661)	(5,368)
Total Provisions	33,284	52,960
	No.	No.
Number of employees at year end	46	52

NOTE 16 – NON-CURRENT TRADE & OTHER PAYABLES

Unsecured liabilities		
Accrued Expenses (2)	452,134	690,675
Total Non-Current Payables	452,134	690,675

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

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 17 – ISSUED CAPITAL

	ECONOMIC ENTITY	
	2012	2011
	$	$
156,562,504 fully paid ordinary shares	14,441,337	14,441,337
	14,441,337	14,441,337
Ordinary shares	No.	No.
At the beginning of reporting period	156,562,504	109,250,003
Shares issued during the year		
29 November 2010[1]	-	16,000,000
29 December 2010[2]	-	31,312,501
At reporting date	156,562,504	156,562,504

There are no preference shares on issue.

Notes

[1] On 29 November 2010, 16,000,000 fully paid ordinary shares were allotted at $0.068 per share pursuant to a placement.

[2] On 29 December 2010, 31,312,501 fully paid ordinary shares were allotted at $0.068 per share pursuant to a 1 for 4 non-renounceable underwritten rights issue.

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 156,562,504 shares, all of which are listed on the Australian Stock Exchange Limited (ASX) 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 3 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.

Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Groups debt and capital includes ordinary share capital, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18 – RESERVES

	ECONOMIC ENTITY 2012 $	2011 $
Foreign Currency Translation Reserve [1]	(754,846)	(604,367)
Option Reserve [2]	260,903	260,903
	(493,943)	(343,464)

(1) The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.
(2) The Option Reserve records items recognised as expenses on valuation of employee share options. Options that are converted, expire, lapse or are cancelled have the amount in the reserve attributable to them transferred into issued capital.

NOTE 19 – PARENT ENTITY DISCLOSURES

(a) Assets		
Current Assets	4,333,518	1,435,463
Non Current Assets	8,621,876	8,079,891
Total Assets	12,955,394	9,515,354
(b) Liabilities		
Current Liabilities	640,438	188,806
Non Current Liabilities	452,134	690,675
Total Liabilities	1,092,572	879,481
(c) Shareholders Equity		
Issued Capital	14,441,337	14,441,337
Reserves	260,903	260,903
Accumulated Losses	(2,839,418)	(6,066,367)
Total Shareholders Equity	11,862,822	8,635,873
(d) Statement of Comprehensive Income		
Net Loss attributable to members of the parent entity	3,226,950	(1,403,916)
Total Comprehensive Income for the period attributable to members of the parent entity.	3,226,950	(1,403,916)

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20 - CASH FLOW INFORMATION

	ECONOMIC ENTITY	
	2012	2011
	$	$
(a) Reconciliation of cash flow from operations with loss after income tax:		
Profit /(Loss) after income tax	2,718,046	(1,839,989)
Non-cash flows in result:		
Depreciation	98,315	127,242
Fair value Gain on Financial Assets	(1,209,480)	-
Share consideration for Joint Venture and revaluation	(2,426,065)	-
Share Option expense	-	3,549
Changes in assets and liabilities :		
Increase/(Decrease) in income taxes payable	1,273	67,514
(Increase)/Decrease in other current assets	(1,242,388)	21,599
Increase /(Decrease) in payables and accruals	325,230	(289,679)
Cashflow used by Operations	(1,735,069)	(1,909,764)

(b) Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the items in the balance sheet as follows:

Cash and cash equivalents (Note 7)	1,949,520	1,451,555

NOTE 21 – CONTROLLED ENTITIES

• Controlled Entities

	Country of Incorporation	Percentage Owned	
		2012	2011
Parent Entity			
Malagasy Minerals Limited	Australia	-	-
Subsidiaries of Malagasy Minerals Limited:			
Mada Aust SARL	Madagascar	100%	100%
Mazoto Minerals SARL *	Madagascar	100%	100%
Energex SARL	Madagascar	100%	100%
Mining Services SARL	Madagascar	100%	100%
St Denis Holdings SARL	Madagascar	100%	100%

* A 10% interest is held in trust for Malagasy Minerals Limited.

The subsidiaries noted above are all controlled entities and are dependent on the parent entity for financial support. At the year end, total net loans to these subsidiaries amount to $6,236,605 (2011: $5,689,593). Loans to subsidiaries total $8,082,863 (2011: $7,535,852) with a provision for impairment of $1,846,258.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22 – CONTINGENT ASSETS AND LIABILITIES

(a) Contingent Assets

The Company has entered into a Deed of Variation with Red Cat Minerals Ltd for the proposed sale of the northern portion of the Vohibory tenement area. Part of the consideration is dependent on the listing of Red Cat Minerals on ASX. This has been delayed and MGY has agreed to extend this agreement to 30/09/12.

(b) Exploration Commitments

The economic entity has no statutory obligations to perform minimum exploration work on its tenements, however the Company needs to maintain an active work program to retain its interests. Tenement rents of approximately $300,000 per annum are payable to maintain ownership over the tenement areas. 40% of the tenement rents are paid for under the Energizer Joint Venture.

(c) Finance Lease Commitments

There are no finance leases

(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

	ECONOMIC ENTITY	
	2012	2011
	$	$
- not later than one year	34,704	10,408
- between one and five years	36,439	-
	71,143	10,408

This relates to a property lease for 2 years with an expiration date of 30 June 2014.

NOTE 23 – EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events arising subsequent to 30 June 2012 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 24 – FINANCIAL INSTRUMENTS

(a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable. 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 Market 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.

ECONOMIC ENTITY	Net Financial Assets/(Liabilities) in AUD				
2012	MGA	AUD	USD	EURO	Total AUD
Cash	17,097	1,920,216	1,182	11,025	1,949,520
Receivables	241,043	29,012	-	-	270,055
Payables	(281,243)	(1,092,572)	-	-	(1,373,815)
Statement of Financial Position exposure	(23,103)	856,656	1,182	11,025	845,760

ECONOMIC ENTITY	Net Financial Assets/(Liabilities) in AUD				
2011	MGA	AUD	USD	EURO	Total AUD
Cash	29,249	1,420,719	471	1,116	1,451,555
Receivables	60,295	-	-	-	60,295
Payables	(169,104)	(879,481)	-	-	(1,048,585)
Statement of Financial Position exposure	(79,560)	541,238	471	1,116	463,265

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 24 – FINANCIAL INSTRUMENTS (CONTINUED)

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

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 Madagascan government relating to taxes paid on the Business Sale Agreement and Long Term Lease Agreement. These taxes are recoverable long term in accordance with existing Madagascan taxation law.

Risk is also minimized by investing surplus funds in financial institutions with 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	
	2012	2011	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	$	$
Financial Liabilities due for payment								
Payables	706,781	252,910	-	-	-	-	706,781	252,910
Amounts payable to related parties	214,900	105,000	452,134	690,6 75	-	-	667,034	795,675
Total expected outflows	921,681	357,910	452,134	690,675	-	-	1,373,815	1,048,585
Financial Assets – Cash Flows Realisable								
Cash	1,949,520	1,451,555	-	-	-	-	1,949,520	1,451,555
Assets	2,376,120	-	-	-	-	-	2,376,120	-
Receivables	270,054	60,295	-	-	-	-	270,054	60,295
Total Inflow on Financial Instruments	4,595,694	1,511,850	-	-	-	-	4,595,694	1,511,850

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 24 – FINANCIAL INSTRUMENTS (CONTINUED)

ECONOMIC ENTITY

2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale financial assets:				
– listed investments	2,376,120	-	-	2,376,120
	2,376,120	-	-	2,376,120
2011				
Financial assets				
Available-for-sale financial assets:				
– listed investments	-	-	-	-
	-	-	-	-

Included within Level 1 of the hierarchy are the Energizer Resources Inc shares listed on the Toronto Stock Exchange. The fair values of these financial assets have been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

In determining the fair value of unlisted investments included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted.

No transfers between the levels of the fair value hierarchy occurred during the current or previous reporting period.

(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:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing Within Year		Non-interest Bearing		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	%	%	$	$	$	$	$	$	$	$
Cash	5.5%	5%	149,320	151,355	1,800,000	1,300,000	200	200	1,949,520	1,451,555
Receivables			-	-	-	-	270,054	60,295	270,054	60,295
Total Financial Assets			149,320	151,355	1,800,000	1,300,000	270,254	60,495	2,219,574	1,511,850
Payables			-	-	-	-	(1,373,815)	(1,048,585)	(1,373,815)	(1,048,585)
Total Financial Liabilities			-	-	-	-	(1,373,815)	(1,048,585)	(1,373,815)	(1,048,585)
Net Financial Asset			149,320	151,355	1,800,000	1,300,000	(1,103,561)	(988,090)	845,759	463,265

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 24 – 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 2012, 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	
	2012	2011
	$	$
Change in profit		
Increase in interest rate by 1%	908	4,361
Decrease in interest rate by 1%	(908)	(4,361)
Change in equity		
Increase in interest rate by 1%	(5,089)	(4,361)
Decrease in interest rate by 1%	5,089	4,361

Foreign Currency Risk Sensitivity

Analysis at 30 June 2012, 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:

	ECONOMIC ENTITY	
	2012	2011
	$	$
Change in profit		
Improvement in AUD to MGA by 5%	(25,445)	(21,804)
Decline in AUD to MGA by 5%	25,445	21,804
Change in equity		
Improvement in AUD to MGA by 5%	25,445	21,804
Decline in AUD to MGA by 5%	(25,445)	(21,804)

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25 – 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.

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.
- Intersegmental 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.

Significant Customers

Royalties from Labradorite Operations represents 31% of total revenue in Madagascar and this is shared between 3 customers (in 2011 the same 3 customers represented 38% of all revenue generated in Madagascar).

2012	Australia	Madagascar	Eliminations	Economic Entity
Revenue				
Other Income	4,766,901	729,573	(126,168)	5,370,306
Total Segment Revenue	4,766,901	729,573	(126,168)	5,370,306
Result				
Segment Result	3,226,950	(826,135)	317,231	2,718,046
Profit/(Loss) before Income tax expense	3,375,833	(824,862)	317,231	2,866,202
Profit/(Loss) after income tax	3,226,950	(826,135)	317,231	2,718,046
Assets				
Segment Assets	12,955,496	3,447,183	(5,054,850)	11,347,829
Segment Liabilities	(1,092,572)	(6,228,645)	5,947,402	(1,373,815)
Other				
Acquisition of non-current segment assets	1,725	33,361	-	35,086
Depreciation	6,753	91,562	-	98,315

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25 – STATEMENT OF OPERATIONS BY SEGMENT (CONTINUED)

2011	Australia	Madagascar	Eliminations	Economic Entity
Revenue				
Other Income	60,795	789,237	-	850,032
Total Segment Revenue	60,795	789,237	-	850,032
Result				
Segment Result	(1,403,916)	(225,830)	(210,243)	(1,839,989)
Loss before income tax expense	(1,403,916)	(158,316)	(210,243)	(1,772,475)
Loss after income tax	(1,403,916)	(225,830)	(210,243)	(1,839,989)
Assets				
Segment Assets	9,515,354	4,629,272	(5,689,594)	8,455,032
Segment Liabilities	(879,481)	(169,104)	-	(1,048,585)
Other				
Acquisition of non-current segment assets	871	30,229	-	31,100
Depreciation	39,054	88,188	-	127,242

NOTE 26 – 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 2012 Number	ECONOMIC ENTITY 2011 Number
Ordinary Shares	20,553,014	9,632,310

(b) Related Party Transactions:

	ECONOMIC ENTITY 2012 $	ECONOMIC ENTITY 2011 $
WTR Holdings Pty Ltd (formerly Madagascar Resources NL)	128,640	491,109
Midas Consultancy Limited	-	91,200
Hendry Consulting	-	199,873

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26 – RELATED PARTY TRANSACTIONS (CONTINUED)

WTR Holdings Pty Ltd (WTRL) was the holder of 10,000,000 ordinary shares in Malagasy Minerals Ltd. 100% of these shares were sold in April 2012 and at 30 June 2012, WTR held nil shares.
Mr Guy Le Clezio and Dr Peter Woods were also Directors of WTRL (both resigned on .23/12/11).
WTRL are paid 70% of net labradorite royalty receipts actually received from existing contracts as per the Share Sale Agreement.
At 30 June 2012, WTRL is owed $667,034.

NOTE 27 – AUDITORS REMUNERATION

	ECONOMIC ENTITY	
	2012	2011
Amount payable to Crowe Horwath as Auditor	$	$
Auditing or reviewing the financial report	42,354	35,000
	42,354	35,000

Amounts payable to non Crowe Horwath firms for the audit and review of the financial reports of subsidiary companies was $7,200 (2011: $7,000)

NOTE 28 – SHARE BASED PAYMENTS

The following Share-based payment arrangements existed at 30 June 2012.

Options

2012				2011			
Grant Date	No. of Options	Exercise Price	Expiry Date	Grant Date	No. of Options	Exercise Price	Expiry Date
27/06/2008	1,000,000	$0.20	26/06/2013	27/06/2008	1,000,000	$0.20	26/06/2013
01/12/2008	2,000,000	$0.20	01/12/2013	01/12/2008	2,000,000	$0.20	01/12/2013
01/12/2008	1,000,000	$0.20	03/07/2013	01/12/2008	1,000,000	$0.20	03/07/2013
01/12/2008	1,000,000	$0.20	03/07/2013	01/12/2008	1,000,000	$0.20	03/07/2013
02/04/2009	4,003,600	$0.20	07/07/2013	02/04/2009	4,003,600	$0.20	07/07/2013
	9,003,600				9,003,600		

None of the options hold voting or dividend rights.

	2012		2011	
	No of Options	Exercise Price	No of Options	Exercise Price
Outstanding at the beginning of the period	9,003,600	$0.20	9,003,600	$0.20
Granted during the period	-	-	-	-
Outstanding at period end	9,003,600	$0.20	9,003,600	$0.20
Exercisable at period end	9,003,600	$0.20	4,000,000	$0.20

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 28 – SHARE BASED PAYMENTS (CONTINUED)

2012

The weighted average fair value of the options vested during the period was NIL.

2011

The weighted average fair value of the options vested during the period was $3,549.

This price was calculated using a Black Scholes 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	0 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%

The volatility factor is based on an average of comparable companies historic data.

NOTE 29 – 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 32 to 63 are in accordance with the Corporations Act 2001 and:

   (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2012 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:

M.D.J. Cozijn
Chairman

G.F. Le Clezio
Director

Perth, Western Australia
14 September 2012

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath™

INDEPENDENT AUDIT REPORT TO MEMBERS OF MALAGASY MINERALS AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of Malagasy Minerals Limited (the company) and its Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2012, and the 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 Note1, 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.

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath is a separate and independent legal entity.

INDEPENDENT AUDITOR'S REPORT (Cont.)

Crowe Horwath™

Auditor's Opinion

In our opinion, the financial report of Malagasy Minerals Limited and its Controlled Entity is in accordance with the Corporations Act 2001 including:

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their 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.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 27 to 29 of the directors' report for the year ended 30 June 2012. The directors of the company 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 Malagasy Minerals Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner
Signed at Perth, 14 September 2012

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath is a separate and independent legal entity.

SHAREHOLDER INFORMATION

1. Shareholding

The shareholder information set out below was applicable as at 5th September 2012:

(a) Distribution of Share Holdings as at 5th September 2012

Size of Holding	Number of Shareholders
1 - 1,000	17
1,001 - 5,000	43
5,001 - 10,000	117
10,001 - 100,000	477
100,001 and over	217
Total Shareholders	871

(b) Of the above total 110 Ordinary Shareholders hold less than a marketable parcel.

(c) Substantial Shareholders

- Director Guy Le Clezio holds 11,940,513 ordinary shares representing 7.63% 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 156,562,504 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.

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.

SHAREHOLDER INFORMATION (Cont.)

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 5th September 2012

SHAREHOLDERS (Fully Paid Ordinary)	NUMBER OF SHARES	%
RUNNING WATER LIMITED	10,690,513	6.83
DIPLOMAT HOLDINGS PTY LTD	7,500,000	4.79
NEFCO NOMINEES PTY LTD	7,500,000	4.79
HARMAN NOMINEES PTY LTD	7,000,000	4.47
TEMMEDO PTY LTD	5,368,500	3.43
MIDAS CONSULTANCY LIMITED	5,000,000	3.19
MAGAURITE PTY LTD	3,500,000	2.24
MR RENE LEGOLL	3,325,000	2.12
MR HARVEY ZHENYU WANG & MRS LINDA QUAN CHEN	3,175,000	2.03
MR ROBERT HASTINGS SMYTHE	2,900,000	1.85
JP MORGAN NOMINEES AUSTRALIA	2,868,428	1.83
DR DIGBY JOHN EDGAR CULLEN	1,700,000	1.09
FGL ASSET MANAGEMENT LIMITED	1,500,000	0.96
FIT INVESTMENTS PTY LTD	1,329,300	0.85
MR GUY FRANCOIS LE CLEZIO	1,250,000	0.80
SUNDALE ASSET PTY LTD	1,200,000	0.77
LEET INVESTMENTS PTY LIMITED	1,199,619	0.77
HENDERSON SERVICES PTY LTD	1,167,158	0.75
QUANTUM HOLDINGS PTY LTD	1,100,000	0.70
MS YU LIU	1,042,100	0.67
TOP 20 SHAREHOLDERS	70,315,618	44.93
TOTAL ISSUED SHARES as at 5th September 2012	156,562,504	100

TENEMENT SCHEDULE

Title Number	Permit Type	Grant Date	Expiry Date	Term	Project Name	Total Carres (New - 0.391km2)	Interest %	Notes
						4752		
3432	PR	18-Jun-01	17-Jun-11	10	Ampanihy - Central (Big 'S')	1648	807 -100% 841 - 25% in JV	1
5391	PE	20-Nov-02	19-Nov-42	40	Ampanihy - Ianapera	16	100%	2
5392	PE	20-Nov-02	19-Nov-42	40	Ampanihy - Ianapera	16	100%	2
5393	PE	20-Nov-02	19-Nov-42	40	Ampanihy - Ianapera	16	100%	2
5394	PE	20-Nov-02	19-Nov-42	40	Ampanihy - Maniry	48	40 - 100% 8 - 25% in JV	3
12834	PR	01-Mar-05	28-Feb-15	10	Majunga	64	100%	
13063m	PR	04-Feb-05	03-Feb-15	10	Vohibory	240	100%	
13063s	PR	04-Feb-05	03-Feb-15	10	Vohibory	96	100%	4
13064	PR	04-Feb-05	03-Feb-15	10	Fotadrevo	48	25% in JV	
13089	PR	04-Feb-05	03-Feb-15	10	Ampanihy - Maniry	48	100%	
13508	PR	04-Feb-05	03-Feb-15	10	Vohibory	16	100%	4
13811	PR	14-Mar-05	13-Mar-15	10	Ampanihy - Maniry	48	25% in JV	
13812	PR	14-Mar-05	13-Mar-15	10	Ampanihy - Maniry	32	100%	
13827	PR	14-Mar-05	13-Mar-15	10	Ampanihy - Ianapera	192	100%	
13829	PR	14-Mar-05	13-Mar-15	10	Vohibory	32	100%	
13832	PR	14-Mar-05	13-Mar-15	10	Ampanihy - Maniry	16	100%	
14618	PR	26-Jan-05	25-Jan-15	10	Ampanihy - Ianapera	32	100%	
14619	PR	26-Jan-05	25-Jan-15	10	Ampanihy - Maniry	16	25% in JV	
14620	PR	26-Jan-05	25-Jan-15	10	Fotadrevo	48	25% in JV	
14622	PR	26-Jan-05	25-Jan-15	10	Fotadrevo	64	25% in JV	
14623	PR	26-Jan-05	25-Jan-15	10	Ampanihy - Ianapera	112	39 - 100% 73 - 25% in JV	
16746	PR	09-Sep-05	08-Sep-15	10	Ampanihy - Ianapera	16	100%	
16747	PR	09-Sep-05	08-Sep-15	10	Ampanihy - Maniry	48	25% in JV	
16749	PR	09-Sep-05	08-Sep-15	10	Ampanihy - Maniry	16	100%	
16750	PR	09-Sep-05	08-Sep-15	10	Ampanihy - Maniry	32	100%	
16753	PR	09-Sep-05	08-Sep-15	10	Ampanihy - Maniry	48	4 - 100% 44 - 25% in JV	
18915	PR	10-Mar-06	09-Mar-16	10	Anjeba (Antinimora/Jafaro)	112	100%	
18916	PR	23-Feb-06	22-Feb-16	10	Anjeba (Antinimora/Jafaro)	32	100%	
19003	pr	23-Feb-06	22-Feb-16	10	Ampanihy - Maniry	16	25% in JV	
19851	PR	04-Feb-05	03-Feb-15	10	Fotadrevo	32	25% in JV	
19932	PE	10-Mar-06	09-Mar-46	40	Ampanihy - Maniry	112	102 - 100% 10 - 25% in JV	5
19933	PE	10-Mar-06	09-Mar-46	40	Ampanihy - Maniry	16	100%	5
19934	PR	26-Jan-05	25-Jan-15	10	Ampanihy - Ianapera	16	25% in JV	
19935	PR	26-Jan-05	25-Jan-15	10	Ampanihy - Ianapera	16	25% in JV	
21059	PR	14-Sep-07	13-Sep-12	5	Ampanihy - Maniry	16	25% in JV	6
21060	PR	30-Oct-06	29-Oct-11	5	Ampanihy - Maniry	16	3 - 100% 13 - 25% in JV	6
21061	PR	30-Oct-06	29-Oct-11	5	Ampanihy - Maniry	16	25% in JV	6

TENEMENT SCHEDULE (Cont.)

Title Number	Permit Type	Grant Date	Expiry Date	Term	Project Name	Total Carres (New - 0.391km2)	Interest %	Notes
21062	PR	03-Oct-07	02-Oct-12	5	Ampanihy-Maniry	32	4 - 100% 28 - 25% in JV	6
21063	PR	30-Oct-06	29-Oct-11	5	Ampanihy - Maniry	32	25% in JV	6
21064	PR	30-Oct-06	29-Oct-11	5	Ampanihy - Maniry	16	1 - 100% 15 - 25% in JV	6
24864	PR	08-May-07	07-May-12	5	Fotadrevo	48	25% in JV	6
25093	PE	18-Jan-07	17-Jan-47	40	Ampanihy - Ianapera	16	100%	7
25094	PE	18-Jan-07	17-Jan-47	40	Ampanihy - Ianapera	16	100%	7
25095	PE	18-Jan-07	17-Jan-47	40	Ampanihy - Maniry	48	100%	7
25605	PR	18-Jun-01	17-Jun-11	10	Ampanihy - Maniry	80	25% in JV	8
25606	PR	18-Jun-01	17-Jun-11	10	Ampanihy - Maniry	16	9 - 100% 7 - 25% in JV	5
28340	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	160	137 - 100% 23 - 25% in JV	
28341	PR	08-Jan-08	07-Jan-13	5	Ampanihy-Maniry	16	100%	
28345	PR	08-Jan-08	07-Jan-13	5	Ampanihy-Maniry	48	100%	
28346	PR	08-Jan-08	07-Jan-13	5	Ampanihy-Maniry	16	4 - 100% 12 - 25% in JV	
28347	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	112	4 - 100% 108 - 25% in JV	
28348	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	16	25% in JV	
28349	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	16	25% in JV	
28352	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	96	25% in JV	
28353	PR	08-Jan-08	07-Jan-13	5	Fotadrevo	96	47 - 100% 49 - 25% in JV	
29020	PR	12-Sep-08	25-Oct-12	5	Fotadrevo	32	20 - 100% 12 - 25% in JV	5
29082	PR	12-Sep-08	11-Sep-13	5	Tranomaro	224	100%	
29084	PR	14-Jul-08	13-Jul-13	5	Tranomaro	16	100%	
29085	PR	12-Sep-08	11-Sep-13	5	Tranomaro	144	100%	
31733	PR	11-Feb-09	10-Feb-14	5	Ampanihy-Maniry	16	100%	
31734	PR	11-Feb-09	10-Feb-14	5	Ampanihy-Maniry	16	25% in JV	
31735	PR	11-Feb-09	10-Feb-14	5	Ampanihy-Maniry	16	25% in JV	

NOTES

1) EUROMAD (1) & MAGRAMA (13) & SQNY (2) - Royalty and partial tenement fees payable to MDA. (renewal awaiting confirmation from BCMM)
2) EUROMAD - Royalty and partial tenement fees payable to MDA
3) EUROMAD (2 squares)- Royalty and partial tenement fees payable to MDA
4) Red Cat Option to acquire tenements subject to completion of IPO and residual payments due.
5) MAGRAMA - Royalty & Partial Tenement Fees Payable to MDA. (renewal awaiting confirmation from BCMM)
6) Renewal awaiting confirmation from BCMM
7) SQNY - Royalty and Partial Tenement Fees Payable to MDA.
8) Carres (3) LBD royalty to MAGRAMA - Carre (1) to EUROMAD. (renewal awaiting confirmation from BCMM)

Interest %

This column shows % interest in tenements held by MGY and the reference to the JV refers to Energizer Resources Inc of Canada Industrial Minerals JV.

TOYOTA
MOLO
12-02

MALAGASY
MINERALS LIMITED
ABN 84 121 700 105

Registered and Corporate Office
Unit 7, 11 Colin Grove
WEST PERTH WA 6005
Telephone: +61 8 9463 6656
Facsimile: +61 8 9463 6657

Madagascar Operations Office
Batiment L Cite ex-BRGM, Rue Farafaty
Ampandrianomby – Antananarivo 101
MADAGASCAR
Telephone: +261 20 22 416 63
Facsimile: +261 20 22 591 32

www.malagasyminerals.com