

TRANSACTION UPDATE

Acquisition of Greenmount Resources Pty Ltd

As previously announced, the Company has agreed to acquire all of the issued capital of Greenmount Resources Pty Ltd ("Greenmount"), which has the rights to the Karlawinda gold project, for the issue of 171,636,476 Malagasy shares, giving Greenmount shareholders 50% of the issued capital of Malagasy Minerals Limited.

The only outstanding condition precedent to be met is the Malagasy shareholders approving the issue of the consideration shares required for the transaction.

Proxy votes received to date are overwhelmingly in favour of the transaction and the deadline for submission of proxies is 12:00 noon on Monday 1st February.

Reconstruction of existing Malagasy assets

The internal reorganisation to facilitate third party investment into the Madagascar property subsidiary and the graphite tenements as separate vehicles has proceeded as far as it can from the Australia end and needs only the completion of Malagasy administrative processes.

As announced in the previous quarter, exploration tenements held in Madagascar for the Company's account have been reviewed and rationalized, resulting in a reduction of 82.4%, to 237.7 km².

The directors have decided against proceeding with the planned distribution of the graphite assets to pre transaction shareholders in the company. The reasons for this are a combination of factors, including:

- regulatory impediment such that there is now uncertainty that pre-transaction shareholders can be isolated for a distribution;
- the expense involved in continuing the process with little identified benefit to shareholders at the end of it; and
- desire to retain all available funds to progress the Karlawinda Gold Project

The directors have sought comment from the Independent Expert as to whether, or not, the decision of not distributing corporate ownership of the graphite assets and liabilities to Malagasy shareholders would have a material adverse impact on the Expert's conclusion. Based upon the Expert's response, the directors, are of the opinion that these changed conditions will not be sufficiently material to change the recommendation that the Greenmount transaction is "not fair but reasonable" to existing Malagasy shareholders.

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