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QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2010

HIGHLIGHTS

Trading On ASX (Code 'MGY')

MADAGASCAR EXPLORATION PROJECTS

Ampanihy Nickel-Copper Project

- **Initial 15-hole drilling program** (1,840m) commenced in September to test a recently identified **nickel-copper bearing magmatic massive sulphide gossan system at Ianapera**
- **First hole** at AMC-50 IPC00001- drilled to test the first of up to 11 gossans **intersects 22.5m of massive and disseminated sulphides**
- **Second hole currently underway** on adjacent Gossan AMC-49 IPC00006 – revised target depth 400 metres with overall program to be expanded to 2,200m to test the priority gossan targets
- **Initial assay results expected shortly for First Drill hole at Ianapera**
- **Gossan system confirmed by assays from surface sampling** prior to commencement of the current drilling program in September 2010
- Gravity survey completed over selected gossans **confirms strong highs associated with interpreted conductors from VTEM**

Vohibory Copper-Silver VMS Project

- Gravity survey results **confirm gravity highs associated with VTEM conductors and gossans**
- **Planned drilling** to focus on central and southern VTEM targets

LABRADORITE QUARRYING

- **Royalty revenue from the Company's Labradorite quarrying operations** continues to support operating overheads and exploration activities in Madagascar
- **Additional partner** expressing interest in establishing quarrying operations within the Company's leases – negotiations continuing

MRNL MERGER PROPOSAL

- Merger implementation agreement with unlisted company Madagascar Resources NL cancelled in September 2010

OTHER OPERATIONS

- Intertek-Genalysis and Kirk Petrophysics laboratory facilities continue to operate, providing valuable cash flow to the Company's Madagascar operations

OVERVIEW

During the June 2010 Quarter, Malagasy Minerals continued to actively develop its 100%-owned exploration projects in Madagascar while continuing to maximise cash flow from its operational assets. The Company currently holds 1,950km² of exploration tenure over the following project areas:

- **Ampanihy** (Ni-Cu-PGE – including the **Fotadrevo Vanadium Project**) – 1,775km²
- **Vohibory** (Cu-Ag VMS) – 150km²
- **Mahajunga** (Ilmenite) – 25km²

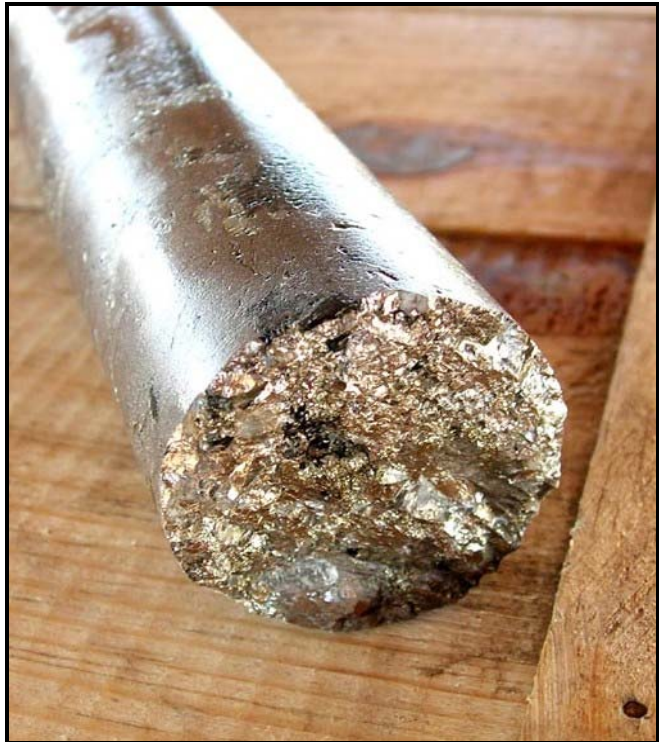
The focus of activity was on activities leading up to a new drilling program within the **Ampanihy Project** in southern Madagascar, where the Company has identified a significant magmatic massive sulphide system comprising 11 outcropping gossans within a total of eight (8) strike kilometres of mineralisation in two sub-parallel trends at the northern (lanapera) anorthosite.

Drilling commenced in September 2010, with the first diamond drill hole, IPC0001 at AMC-50 Gossan, intersecting **22.5 metres of massive and disseminated sulphides**. This drilling program is continuing, with the second hole, IPC0002, currently in progress targeting an adjacent gossan. Initial assay results from this drilling program are expected shortly. Planning of additional follow up drill holes is underway.

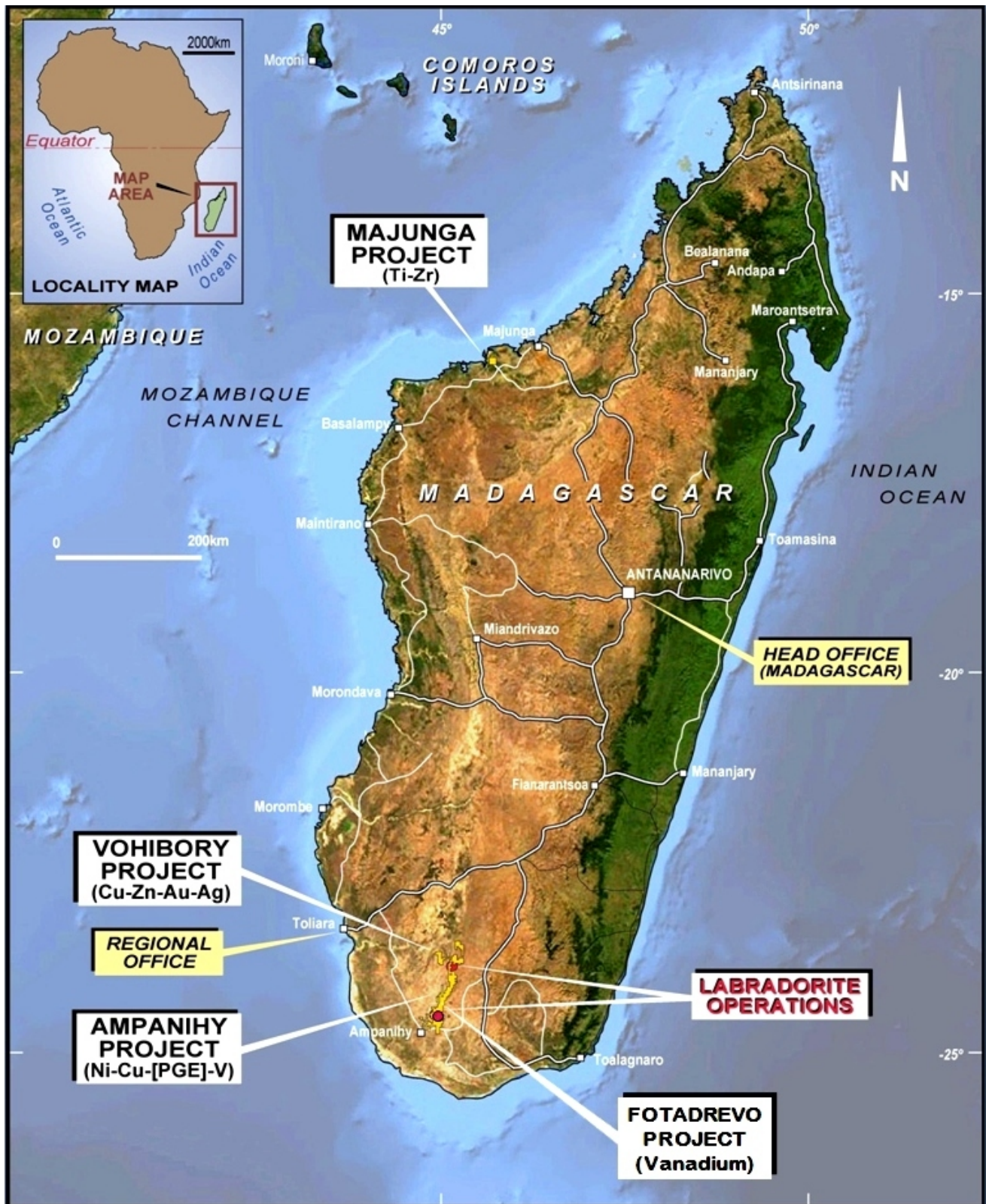
The **Vohibory** VMS Project continues to show strong promise, with a developing copper-silver VMS target in the central eastern part of the project, with gravity survey results confirming coincident gravity, VTEM, magnetic, structural, gossan occurrences. Drilling of these targets is planned to follow completion of first-pass drilling programme at lanapera.

The **Fotadrevo** Vanadium Project has also returned encouragement, with vanadium mineralisation confirmed over additional 12 km along strike from the 2009 exploration area.

Other Revenue – Malagasy continues to receive royalty revenue from its Labradorite quarrying operations of approximately A\$300,000 per annum and rental & service income from its commercial assets in Madagascar of approximately A\$400,000 per annum. 70% of the royalty revenues received are to be paid to Madagascar Resources NL pursuant to the Mada-Aust Sale Agreement.



Left: Collaring the first hole (IPC0001) at lanapera Project. **Right:** Close-up of massive sulphides in IPC0001.



Malagasy Minerals Ltd - Madagascar Projects Location Map

MADAGASCAR EXPLORATION PROJECTS

Ampanihy Ni-Cu-PGE Project

The Ampanihy Project is the largest of the Company's projects and is located north of its namesake town of Ampanihy in south-central Madagascar. The Project comprises a total of 56 permits covering an area of 1,775 sq km and approximately 80km of regional strike.

Malagasy is targeting sulphide-hosted nickel-copper-PGE mineralisation at this Project, centred around two large (75 sq km) anorthosite (gabbroic) bodies.

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

During the Quarter, the Company completed a gravity survey over selected VTEM conductors at the northern extremity of the western gossan zone (see *Figures 1 and 2 below*) and commenced drilling operations to test the 11 gossans identified in June 2010.

Results of VTEM modeling by Southern Geoscience Consultants ('SGC') had indicated a moderate westerly dip to the gossan-associated conductors, with average depths of 30 to 70 metres below natural surface (maximum 120m – AMC-41). Final interpretation resulted in the proposal of a 1,840 metre programme comprising 15 holes averaging 120m EOH depth and incorporating a 'Phase 1' subset comprising eight (8) holes for 1,070 metres (average 134m EOH depth). Drilling commenced in early September 2010.



MinServ drill team at the commencement of IPC0001



Gravity Survey underway at Ianapera

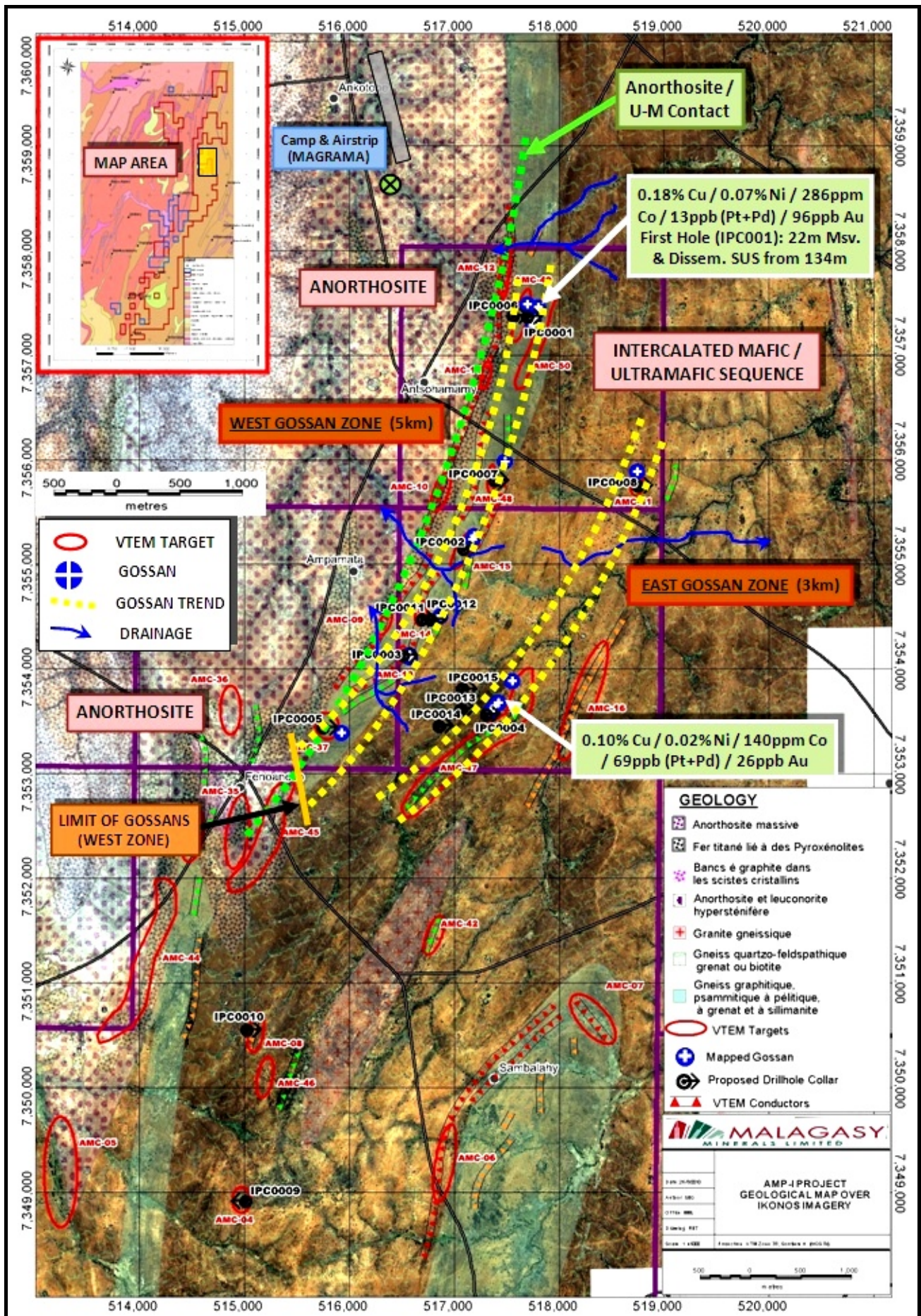


Figure 1: Summary plan of massive sulphide gossans in the West and East Gossan Zones at the northern Ampanihy (AMP-I) project area. Following completion of modeling of VTEM conductors, priority drilling targets are AMC-50, AMC-15 and AMC-47. Gravity survey data supports priority of AMC-50 over AMC-49.

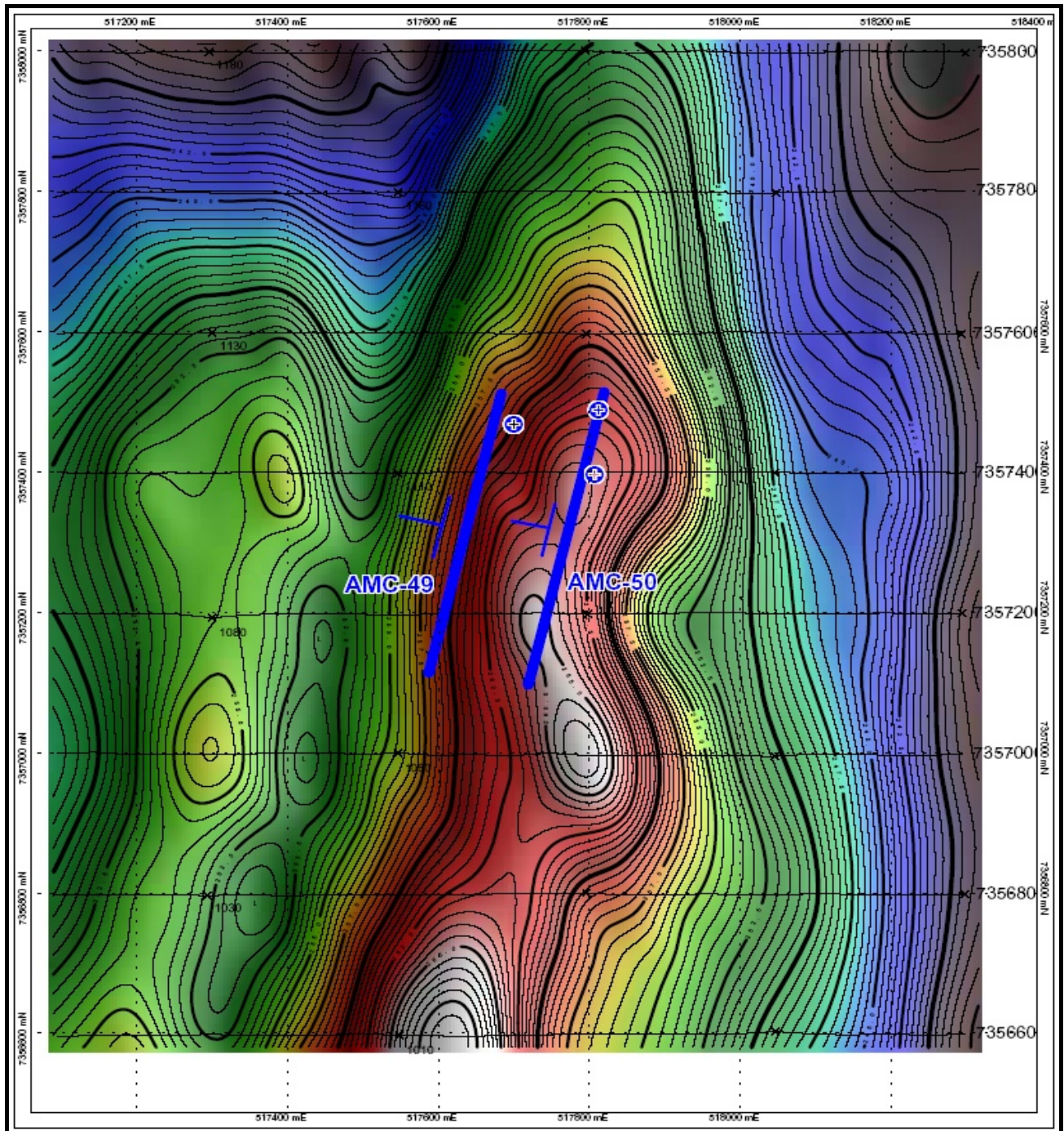


Figure 2: Strong Gravity high associated with VTEM conductors and gossans (blue-cross circles) at AMC-49 and AMC-50 at MGY's 100%-owned Ampanihy (Ilanapera) Project. Drilling commenced at the end of August 2010. Location of gravity high in relation to VTEM conductor and gossans support proposed southerly plunge to target body.

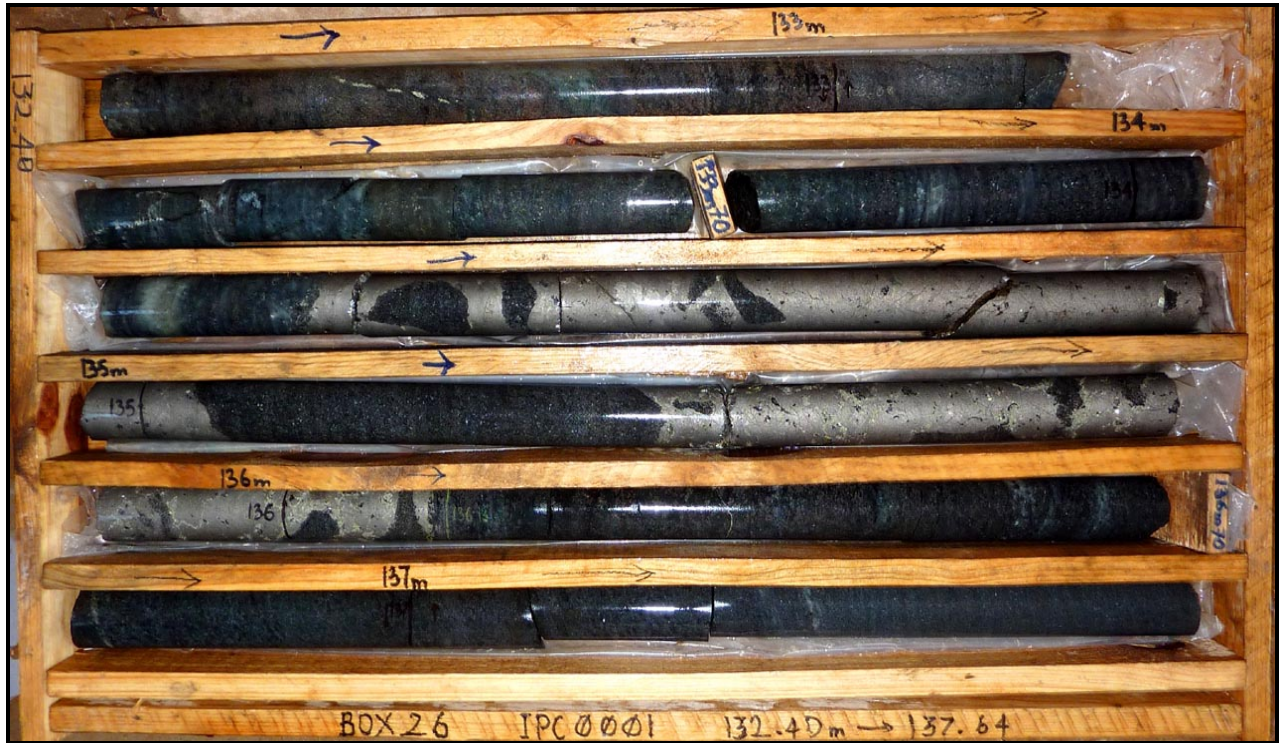
The first hole, IPC0001, which was sited to test Gossan AMC-50 (see Figure 1 above) intersected 2.5 metres of massive sulphide mineralisation from 135m followed by 20 metres of disseminated (5% to 15%) sulphides in basal ultramafic cumulates with chromite. Observed sulphide minerals are pyrite, pyrrhotite (+/- pentlandite) and chalcopyrite.

Hole collars are plotted on Figure 1 – **IPC0001** is complete at 188m. A second hole, **IPC0006**, is currently in progress to test for extensions of the zone intersected in IPC0001 beneath an adjacent gossan, AMC-49. A study of core bedding angles combined with actual intersection depth of the mineralised intervals has suggested that the conductors in this area may have a dip in the neighborhood of 80 degrees from the horizontal rather than the originally interpreted 60 degrees.

Accordingly, the target depth for IPC0006 has been extended to 400m (i.e. from 280m – refer table above), with a planned intersection depth of mineralisation of 370m. Total programme metreage has now been revised to 2,200m. A minor (10cm) band of massive sulphides with associated (3%-5%) disseminated sulphides have so far been intersected at 271m in IPC0006.

Following shipment of drill cores to Antananarivo, key intervals from IPC0001 have been split and samples prepared by Intertek-Genalysis Madagascar with full assay analysis being undertaken in their Perth Laboratory. Assay results due shortly.

In addition, detailed petrography is underway in Australia on selected intervals to determine the precise mineralogical characteristics of the intersected mineralisation. Preliminary results are expected shortly.



Massive sulphides in IPC0001 at the Ampanihy-Ianapera Project – an adjacent underlying 20m zone of disseminated (i.e. 5% to 15%) sulphides with chromite was also intersected



Close-up of massive sulphides in IPC0001 core

A total of 15 holes for 1,840 metres are planned as part of the Phase 1 programme to test the gossan system. Of these, eight (8) holes (IPC0001 to IPC0008 on Figure 1 above) are considered high priority targets. With the revision of the interpreted dip of the conductors / sulphide bodies, an additional 150m

has already been added to the Phase 1 programme. It is estimated that the full programme will ultimately comprise approximately 2,200m of drilling.

Vohibory Cu-Ag-Au VMS Project (100%-owned)

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

During the Quarter, work has focused on refining targets in the remaining central and southern project tenements; subsequent to completion in May 2010 of vending the northern 30% of the project area. To this end a ground gravity survey was completed over the area around VTEM conductors VC-10 and VC-11 (refer Figure 3 below). The program comprised a 660-station survey at 100m spacing on lines 200m apart to cover an area of 9.0 sq km.

Several moderate gravity highs were identified associated with previously reported copper-silver gossans in the central-east of the project area. The results are summarised on Figure 4 attached.

Multiple linear trends of local gravity highs have been identified associated with both interpreted faults from interpreted airborne magnetic data and lines of previously-reported historical workings over copper-silver gossans. The trends of the gravity anomalies parallel those of their associated gossan trends, and are of sufficient tenor to justify follow-up drill testing. The eastern gravity trends adjacent to VC-11 (see Figure 4) is of a relatively higher tenor than those in the western area south of VC-10 and are therefore of higher priority.

Additionally, a sub-trend associated with both the junction of VC-10 and VC-11 and interpreted conjugate faults from airborne magnetic data warrant investigation by drilling. Drilling at Vohibory will follow completion of the Phase I drilling programme at Ampanihy-lanapera.



MinServ drilling personnel in consultation during IPC0001.

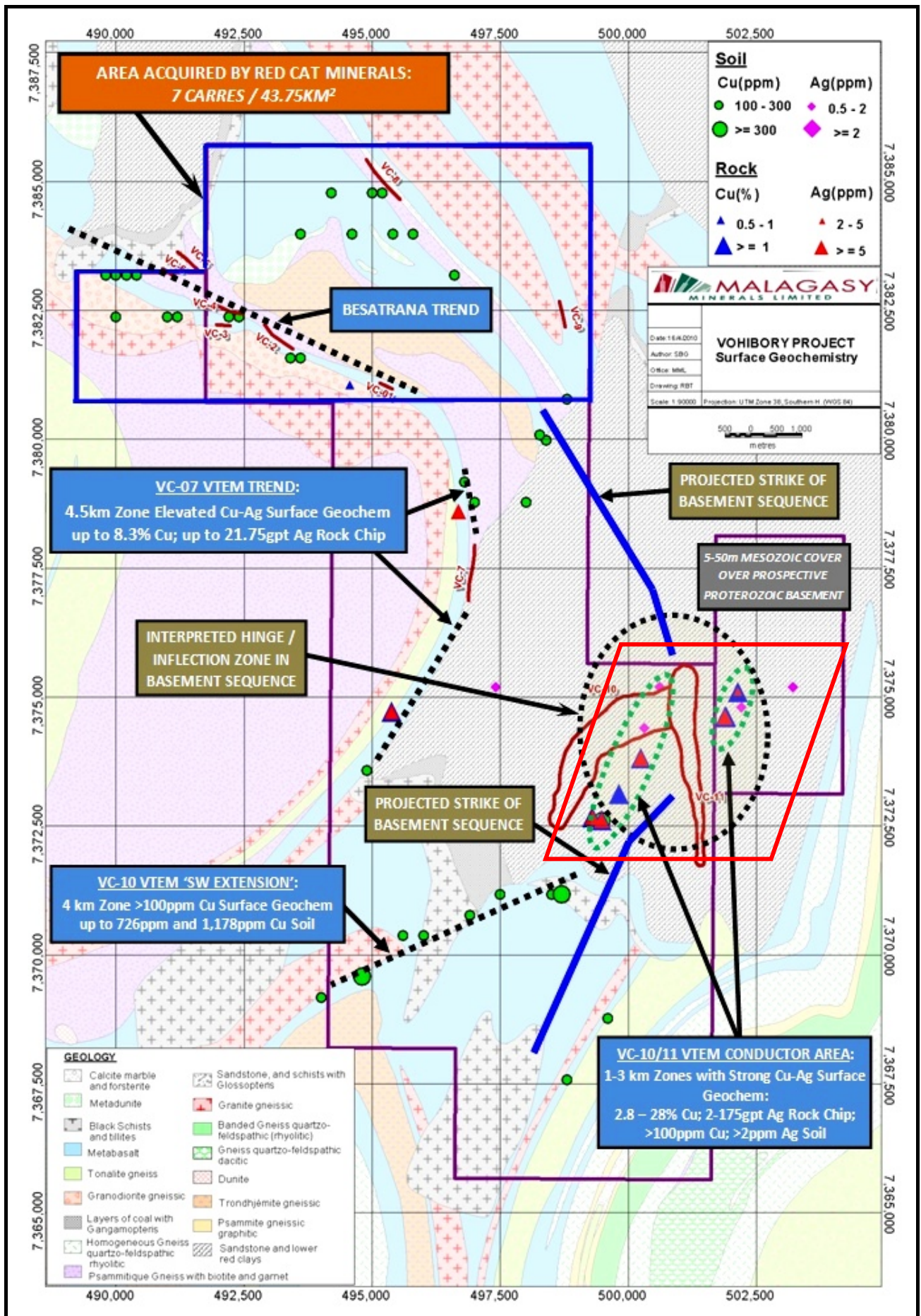


Figure 3: Summary of exploration results at Vohibory Project in southern Madagascar. Linear trends containing elevated copper and silver in the VC-10 & VC-11 area in the central-east of the project are planned for immediate follow-up by ground gravity geophysical survey (red-outlined area on the plan).

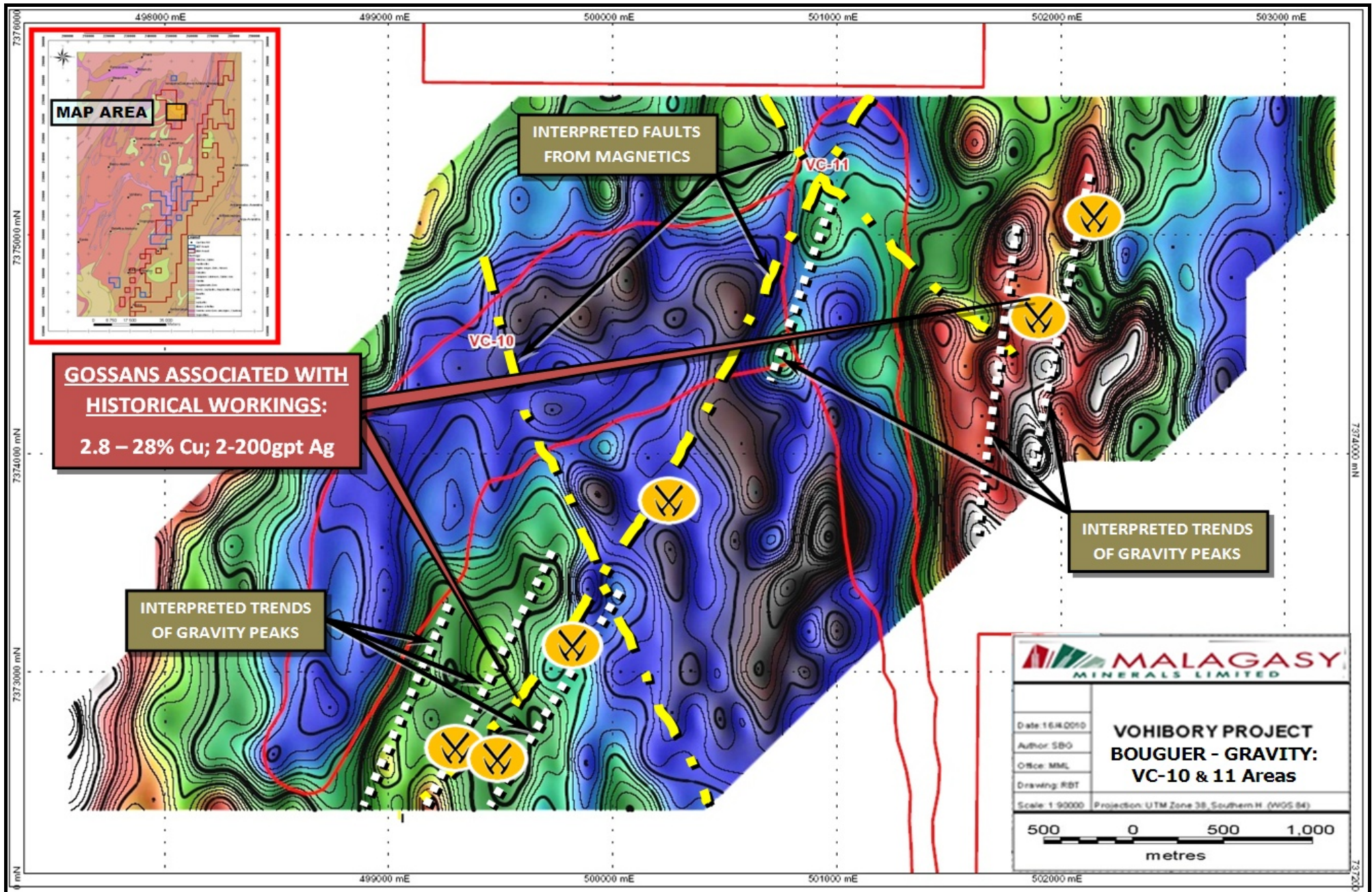


Figure 4: Gravity highs associated with gossans adjacent to VTEM conductors VC-10 and VC-11 in the central-eastern area of MGY's 100%-owned Vohibory Project. Trend lines clearly parallel trends of historical workings. Drilling will commence following completion of Phase I programme at Ampanihy-Ianapera.

AMP-Central (Fotadrevo) Vanadium Project

Malagasy is targeting vanadium and (sulphide-hosted) base metals mineralisation at this Project, which is located in central-western Ampanihy, approximately midway between the Maniry and Ianapera anorthosites discussed above. Subsequent to previously reported geochemical sampling, the Company has successfully defined an 11.5 kilometre long zone of anomalous vanadium mineralisation within its permits. This exploration activity is summarised in Figure 5 below.

No field work was undertaken at the Project during the Quarter as efforts have concentrated on advancing the Ianapera project where drilling of a massive sulphide gossan system is underway.

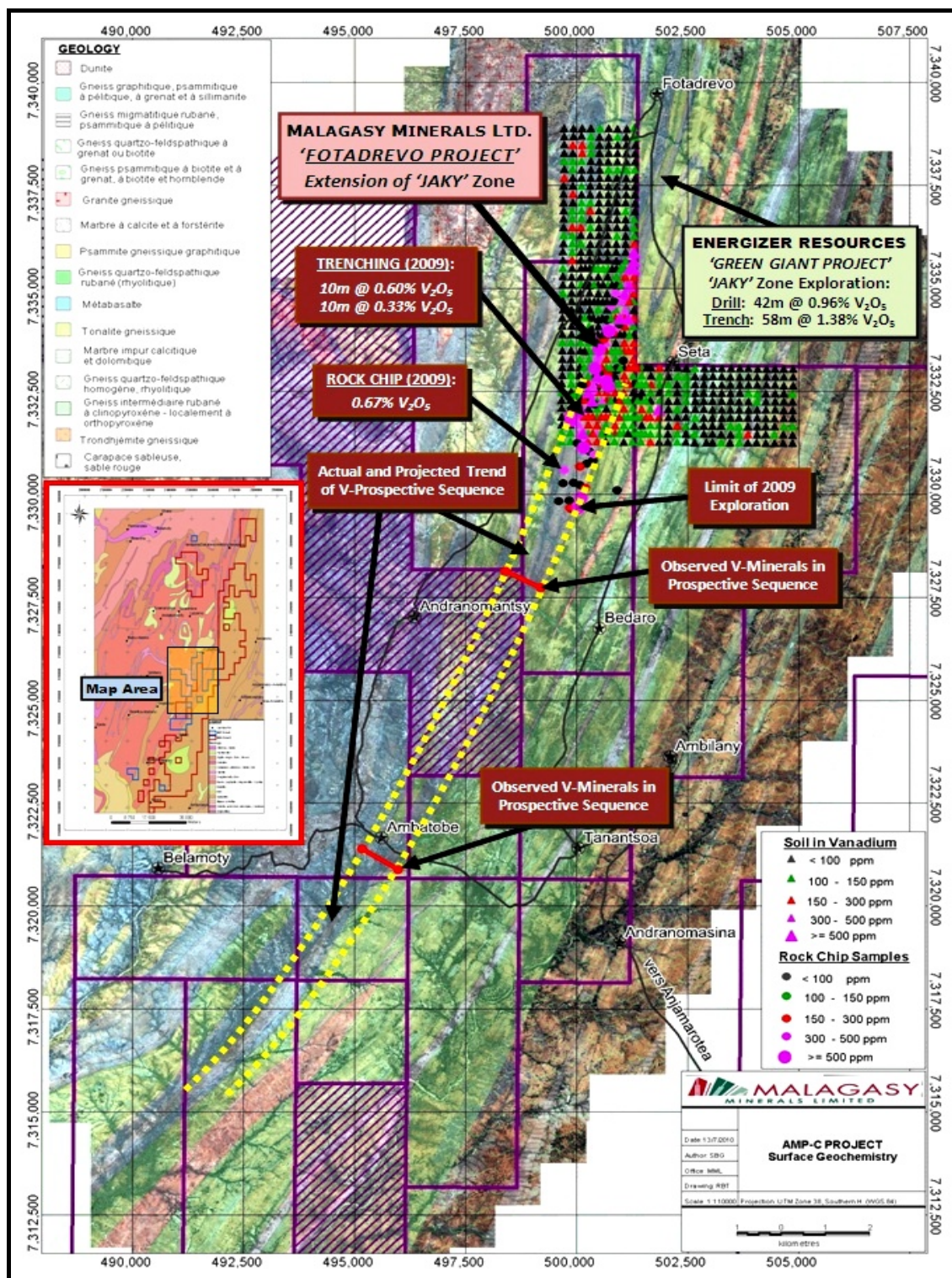


Figure 5: Summary plan of exploration along the continuation of the EGZ 'Jaky' trend into MGY tenements. The prospective sequence (yellow-dashed trend line) is confirmed to continue for at least 16km into MGY-held mineral permits. Recommended forward programme will comprise surface geochemistry and additional trenching.

COMMERCIAL PROPERTY – ST DENIS HOLDINGS SARL

Since taking possession of the St Denis commercial site on 31st July 2008, Malagasy has continued to upgrade the infrastructure at its two hectare compound in Antananarivo. At present, annual rental & service fee income of approximately A\$400,000 is being received by the Company. Several hundred square metres of commercial space remain available for rental and the Company continues to seek additional tenants.

MINING SERVICES SARL (MINSERV)

During the March Quarter, the Company has continued its previously-reported surplus vehicle / equipment disposal programme and is on target to achieve its revenue goal of A\$120,000. The LY34 drilling machine has performed well at site, with several 24h periods recording in excess of 30m drilling advance.

CORPORATE

Malagasy continues to restructure its commercial property holdings, operational assets and running costs with a view to maximising revenue income and reducing costs to become cash flow sufficient for its in-country Madagascar operations.

Total issued capital is 109,250,003; with all securities being listed subsequent to expiry of share and options escrow periods on 7th July 2010. In addition, there are 9,003,600 20c unlisted options expiring in 2013 on issue.

Madagascar Resources NL – Merger Proposal

The proposed merger between MGY and MRNL was terminated as announced to the ASX on 24th September 2010 with the terms of release finalised under agreement on the 3rd October 2010. Under the terms of this arrangement, MGY will reimburse MRNL a maximum of A\$250K for merger costs, on or before 15th December 2010.

Agreement with Red Cat Minerals

Upon receipt of a further A\$100,000 non-refundable deposit on 15th October 2010, the company has agreed to extend the Red Cat Minerals listing deadline to 15th December 2010. This leaves a cash balance of A\$150,000 to be paid in respect of the sale of the northern VHB project tenements to RCM.

Funding Requirements

Malagasy continues to support its operations in Madagascar from its commercial activities in Madagascar, supplemented by various asset sales and transactions such as the RedCat tenement sale. This leaves general Australian operating costs and additional third party (external) exploration costs to be funded. The Company is assessing various funding options, and it is anticipated that during the December quarter additional equity funds will be raised.

Political Situation – Madagascar

As previously advised, the current political situation in Madagascar remains stable, and international mediation is assisting in the negotiation of a peaceful resolution of the political situation, with the aim of achieving early elections and the re-establishment of normalised relations with both the international community and donor countries.

The Company's operations and staff remain secure and business is being conducted on a normal day-to-day basis. Entry and exit to the country continues without impediment.

The Company regularly updates its website at www.malagasyminerals.com

For and on Behalf of the Board,



Steven Goertz
Managing Director

20th October 2010

Competent Persons Statement

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

About Malagasy Minerals

Malagasy Minerals Limited (ASX: MGY) is an international exploration company with a high-potential minerals company in Madagascar, a largely unexplored country off the east coast of Southern Africa.

The company currently holds some 1,950 sq km of mineral tenure in the country and is exploring for magmatic nickel-copper-PGE, vanadium, and copper-silver VMS-style mineralisation.

The Company's senior management and operational headquarters are located in Antananarivo, the capital of Madagascar. Malagasy has an existing income stream from royalties on labradorite mining as well as rental income on its logistics and operational base which effectively covers all in-country overheads.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

MALAGASY MINERALS LIMITED

ABN

84 121 700 105

Quarter ended ("current quarter")

30 SEPTEMBER 2010

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 Months) \$A'000
1.1	Receipts from product sales and related debtors	139	139
1.2	Payments for (a) exploration & evaluation (net)	(254)	(254)
	(b) development	-	-
	(c) production	-	-
	(d) administration (net)	(287)	(287)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	3	3
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (TVA recoverable)	-	-
Net Operating Cash Flows		(399)	(399)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2)	(2)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	32	32
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (Payments to MRNL)	-	-
Net investing cash flows		30	30
1.13	Total operating and investing cash flows (carried forward)	(369)	(369)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(369)	(369)
	Cash flows related to financing activities		
1.14	Net Proceeds from issues of shares, options, etc	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(369)	(369)
1.20	Cash at beginning of quarter/year to date	565	565
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	196	196

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	54
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Payment of wages and Consultancy Fees to Directors.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	10	10

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	200
4.2 Development	-
4.3 Production	-
4.4 Administration	200
Total	400

Note: Additional receipt of \$100,000 non-refundable deposit from Red Cat Minerals Ltd Sales Agreement received on 15th October 2010, plus other income of over \$150,000 budgeted to be received in the Dec'10 Quarter.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	146	265
5.2 Deposits at call	50	300
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	196	565

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed		Refer to Covering Quarterly Activity Report attached hereto		
6.2 Interests in mining tenements acquired or increased		Refer to Covering Quarterly Activity Report attached hereto		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities	Nil	Nil	-	-
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3	*Ordinary securities	109,250,003	109,250,003	Various	Fully Paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5	*Convertible debt securities	Nil	Nil	-	-
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-
7.7	Options <i>Unlisted</i>	1,000,000 2,000,000 2,000,000 4,003,600	- - - -	20c Options 20c Options 20c Options 20c Options	Expiry: 27/6/2013 Expiry: 01/12/2013 Expiry: 03/07/2013 Expiry: 07/07/2013
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	Debentures <i>(totals only)</i>	Nil	Nil		
7.12	Unsecured notes <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



(Director/Company secretary)

Date: 20th October 2010

Print name: Max D.J. Cozijn

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 Issued and quoted securities. The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 Accounting Standards. ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.