

MALAGASY MINERALS LIMITED

Activities Report for the June Quarter 2013

HIGHLIGHTS

- Subsequent to the end of the quarter Malagasy Minerals Limited announced it has signed a Memorandum of Understanding ("MOU") to sell the company's 25% interest in the Molo Graphite Project to joint venture partner Energizer Resources Inc. ("Energizer" or "EGZ").
- Discovery of an extensive area (8km x 4km) of multiple outcropping horizons of significant high-grade (up to 50.8% carbon) graphite mineralisation at the 100% Maniry Project.
- Field exploration including systematic, regional geochemical sampling and geological mapping for mafic-ultramafic intrusive related nickel-copper-platinum group metal deposits has progressed across the Ampanihy Project.

BACKGROUND

Malagasy Minerals Limited (ASX Code: MGY / "Malagasy") has established a large exploration project in Southern Madagascar that is prospective for both mafic-ultramafic intrusive related nickel-copper-platinum group metals (PGM) deposits and high-grade high-quality graphite deposits. This is being undertaken both on a 100% basis and through joint venture.

MOLO GRAPHITE PROJECT

Memorandum of Understanding to sell 25% interest in the Molo Graphite Deposit

The Board of Malagasy Minerals Limited ("Malagasy") announced in on 25th October that it has signed a Memorandum of Understanding ("MOU") to sell the company's 25% interest in the Molo Graphite Project to joint venture partner Energizer Resources Inc. ("Energizer" or "EGZ").

The decision has been made to crystallise significant value from the transaction and to focus on maintaining exposure to high quality graphite deposits on the company's highly prospective 100% owned tenements at the Maniry Project. In addition to this graphite exposure, Malagasy will continue to advance its core focus of exploring for world-class nickel-copper-PGM deposits across the wider project area.

The core components of the MOU that will lead to a full Sale and Purchase Agreement ("SAP") between the companies are:

- On execution of the Sale and Purchase Agreement Energizer will;
 - Pay Malagasy the sum of C\$400,000 cash;
 - Issue 2,500,000 EGZ shares (held in escrow for 12 months); and
 - Issue 3,500,000 EGZ warrants (based on a 5 day VWAP prior to date of signing).

- On completion of a Bankable Feasibility Study (“BFS”) Energizer will:
 - Pay Malagasy the sum of C\$700,000 cash; and
 - Issue 1,000,000 EGZ shares.
- On the commencement of commercial production Energizer will:
 - Pay Malagasy the sum of C\$1,000,000 cash; and
 - Commence payment of a 1.5% Net Smelter Return (“NSR”) on all production.
- Malagasy will include an additional tenement previously not part of the Molo Joint Venture.
- The transaction is limited to industrial mineral rights only, which include graphite.
- The Sale and Purchase Agreement will be negotiated in good faith within 45 days of signing the MOU.

The Board of Malagasy believes this transaction delivers a low-risk immediate return to Malagasy in the form of the initial cash payment and the issue of shares. In the medium to long term it provides no-risk exposure to the future development of the project through a combination of additional shares, warrants and a significant royalty. In addition this agreement enhances the potential funding and development pathway of the project with Energizer now being able to seek funding support on a 100% basis.

Importantly, the development of the Molo Graphite Project would also see a substantial injection of key infrastructure into this area of southern Madagascar that would significantly enhance Malagasy’s exploration and any future development activities across the region.

In a parallel but separate transaction Energizer has agreed to:

- Transfer to Malagasy a 75% interest in the non-industrial mineral rights of the adjacent Green Giant Project (Figure 1) for nil consideration;
- The formation of the joint venture is conditional on the companies completing the Molo Project SPA; and
- Energizers’ 25% interest will be free-carried to a decision to mine.

MALAGASY REGIONAL GRAPHITE EXPLORATION (MGY 100%)

Malagasy has been working to a strategy to define the potential of the 100% held ground to host additional high-grade graphite deposits that would have the potential to either enhance, or be enhanced by, the development of the Molo Graphite JV Deposit. Malagasy is targeting a high-grade resource base of >5,000,000 tonnes at a graphite grade of +15%C, with a particular focus on identifying near surface deposits that can be assessed quickly and at modest cost.

Exploration during the quarter (ASX announcement 26th August 2013) has identified a series of large, high-grade outcrops of graphite mineralisation (peak result 50.8%C) within a broader graphite trend over an area of approximately 8km x 4km. These high-grade near surface exposures of graphite mineralisation clearly demonstrate the potential for the Maniry Project to host a significant graphite deposit. Importantly, these high-grade graphite exposures can be demonstrated to lie over the top of a large conductive body as defined in the airborne electromagnetic data (VTEM) (Figure 3). Graphite is highly conductive and this may indicate the presence of a large graphitic mineralized system.

The results of the rock chip sampling program are provided below in Table 1 and displayed in Figure 3.

Table (1) – Graphite Assay Results

Sample No	Easting	Northing	C %
MD05883	489148	7286108	33.70
MD05888	486744	7282097	28.40
MD05886	487557	7283740	28.10
MD05889	486885	7280652	21.10
MD05918	490079	7285071	20.20
MD05930	488644	7280660	18.50
MD05887	487435	7282960	17.90
MD05934	487504	7283278	16.50
MD05931	488858	7280769	15.30
MD05892	488091	7285801	14.40
MD05949	485966	7286158	13.00
MD05917	489415	7282919	12.60
MD05947	487930	7284732	12.50
MD05920	490049	7284600	12.40
MD05884	491679	7286047	12.10
MD05903	487625	7282345	12.10
MD05925	486038	7279987	12.00
MD05910	488457	7280991	10.60
MD05945	487888	7284922	10.60
MD05933	488527	7281500	10.40
MN36728	488885	7285221	19.15
MD37729	488890	7285200	13.57
MD36730	488911	7285177	23.07
MD36731	488951	7285186	12.01
MD36732	488656	7285257	12.81
MD36733	488708	7285224	17.79
MD36734	488570	7285252	11.05
MD36735	490318	7284103	13.16
MD36736	490228	7284041	11.88
MD36742	490249	7282590	28.11
MD36743	488554	7281089	12.83
MD36738	489510	7282446	11.53
MD36739	489523	7282420	12.94
MD36746	488294	7281010	14.69
MD36750	485605	7281412	24.92
MD36751	485608	7281580	15.68
MD36752	486249	7281645	12.30
MD36755	486627	7279776	50.78
MD36759	486851	7286388	10.95
MD36763	486397	7286528	15.71
MD36762	486418	7286564	20.53
MD36766	486690	7286089	12.08
MD36767	486690	7286089	12.62
MD36768	486773	7285551	19.00
MD36769	487225	7285983	11.35
MD36770	487225	7285983	10.64

Analysis completed by Genalysis-Intertek Laboratories (Perth). The analytical method was CSA (Total Carbon and Sulphur by CS analyser) detection limit of 0.01% - 50%C.

With the potential of the Maniry Project area now established, a follow-up phase of exploration has been initiated that will involve more detailed and systematic sampling and mapping across key areas that have returned high grade results. If the results of this work continue to provide similar encouragement to the work to date a set of representative samples will be collected and assessed for their mineralogical and quality characteristics.

AMPANIHY PROJECT – NICKEL-COPPER-PGM EXPLORATION

As previously reported the Ampanihy Project has been confirmed that it is host to a significant suite of mafic-ultramafic intrusive rocks that have demonstrated potential to host nickel-copper-PGM mineralisation. Having established that the application of systematic regional geochemical sampling and programs of mapping and rock chip sampling is the most effective and cost-effective way of exploring the entire 110km strike of the project a work program has now been undertaken to collect samples across the entire project. The Malagasy field team has now been in the field for the past 4 months and has now collected approximately 6,000 samples.

These samples are currently being dispatched for analysis in Perth: the results of which will be reported as they come to hand over the next quarter.

An important addition to the nickel-copper-PGM exploration initiative has been gaining access to the Green Giant Project through the recently announced agreement with Energizer Resources Inc. This project consolidates Malagasy's position over the major nickel-copper-PGM trend identified through the Ampanihy Project.

CORPORATE

Financial Position

The Company's cash position at 30 September was \$871,000, an increase of \$461,000 for the quarter, arising from the sale of 4 million of the 7.5 million Energizer shares held by the Company. Labradorite royalties continue to be received from only one of the three companies with quarrying agreements, but administration costs were partly defrayed by \$49,000 rent receipts from the Tana complex and \$82,000 from a drilling services contract.

Resignation of Director

Mr Max Cozijn resigned as a director in August 2013, having served as Chairman since the Company's incorporation in 2006 and as CFO and Secretary for most of that time. The Company's asset position in Madagascar is largely the result of Max's efforts and the board expresses great appreciation, on behalf of both itself and shareholders, for the contribution which Max has made to the formation and development of the group.

Political Situation

The first round of the presidential elections was held on 25th October 2013 with a field of 33 candidates. With 29% of the vote counted, there are two clear front runners who appear likely to contest the second round run off on 20th November, in conjunction with elections for the legislative assemblies. 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.

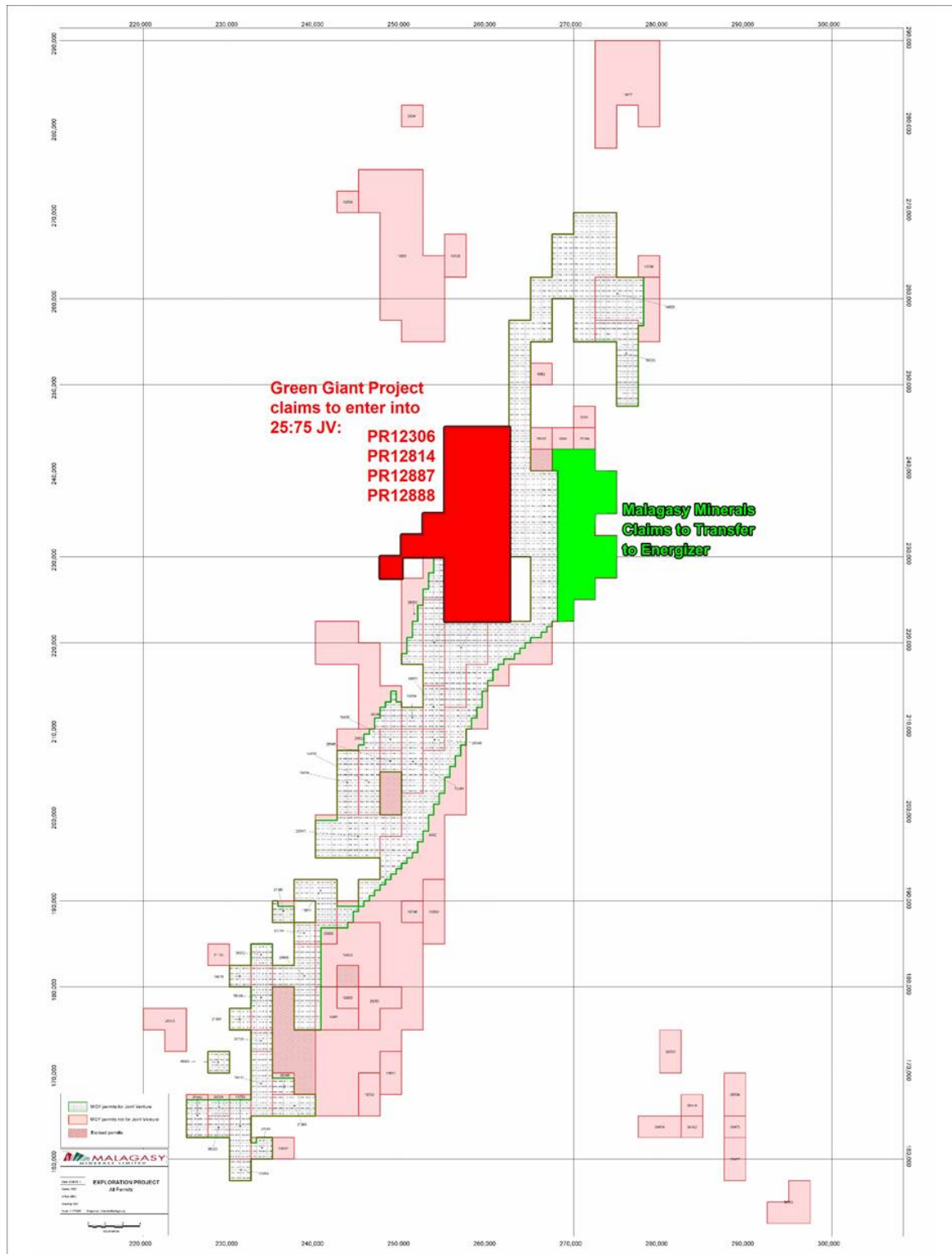
For and on behalf of the Board

Peter Langworthy Technical Director

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. Peter Langworthy, Consulting Geologist, who is a Member of the Australian Institute of Mining and Metallurgy. Mr. Peter Langworthy has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to activities undertaken, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Peter Langworthy consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Figure (1) – Project Location Plan



Explanation:

- Pink tenements – Malagasy 100% all commodities.
- Green outline with sub-blocks tenements
 - Malagasy 100% of base and precious metals rights.
 - Energizer 100% of industrial minerals.
- Red tenements – Green Giant Project;
 - Base and precious metals rights - Malagasy 75% / Energizer 25% free carried to a decision to mine.
 - Energizer 100% of industrial minerals.
- Green tenements – New tenements;
 - Malagasy 100% of base and precious metals rights
 - Energizer 100% of industrial minerals.

Figure (2) – Project Location Plan

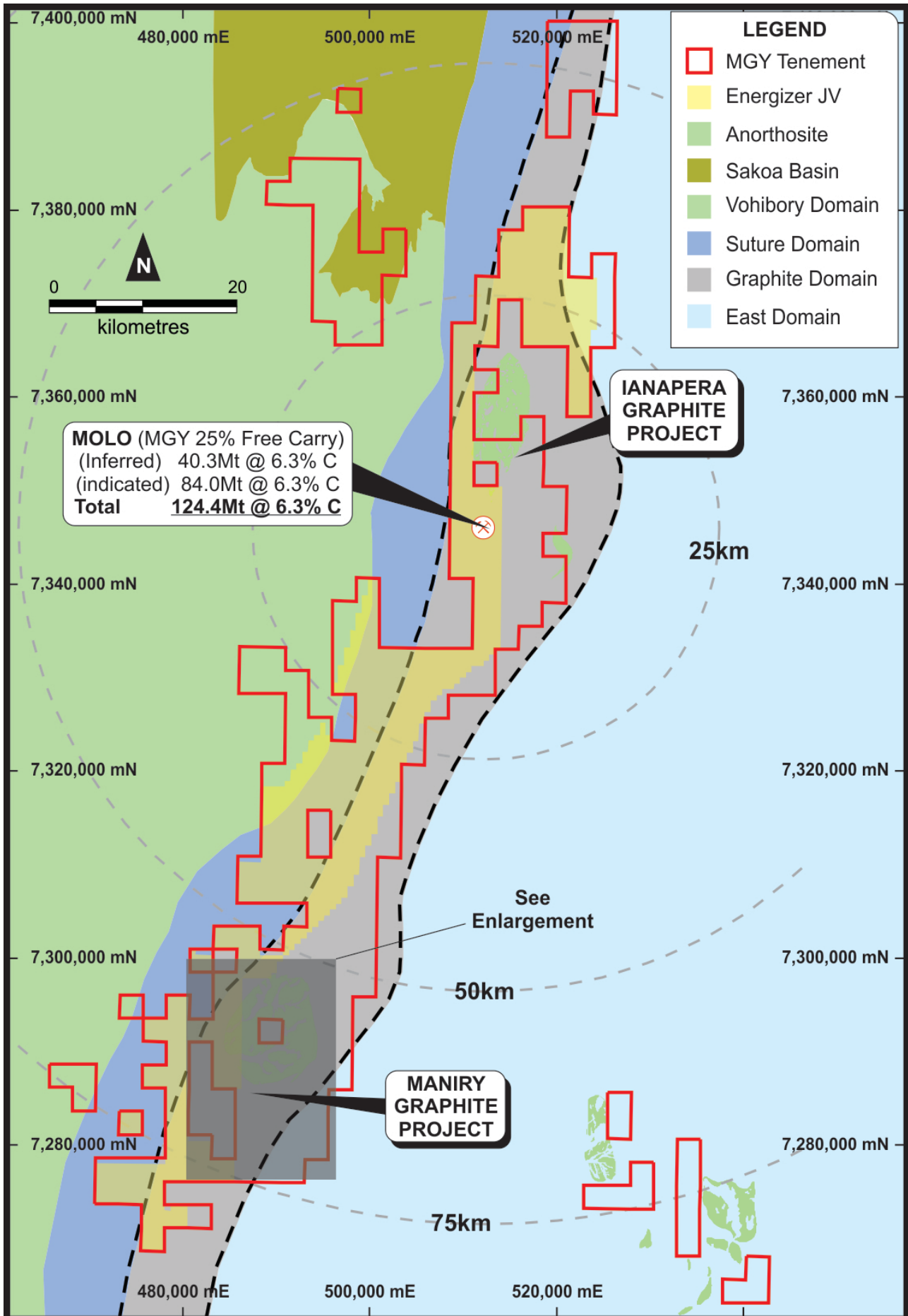


Figure (3) – Maniry Project Location Plan

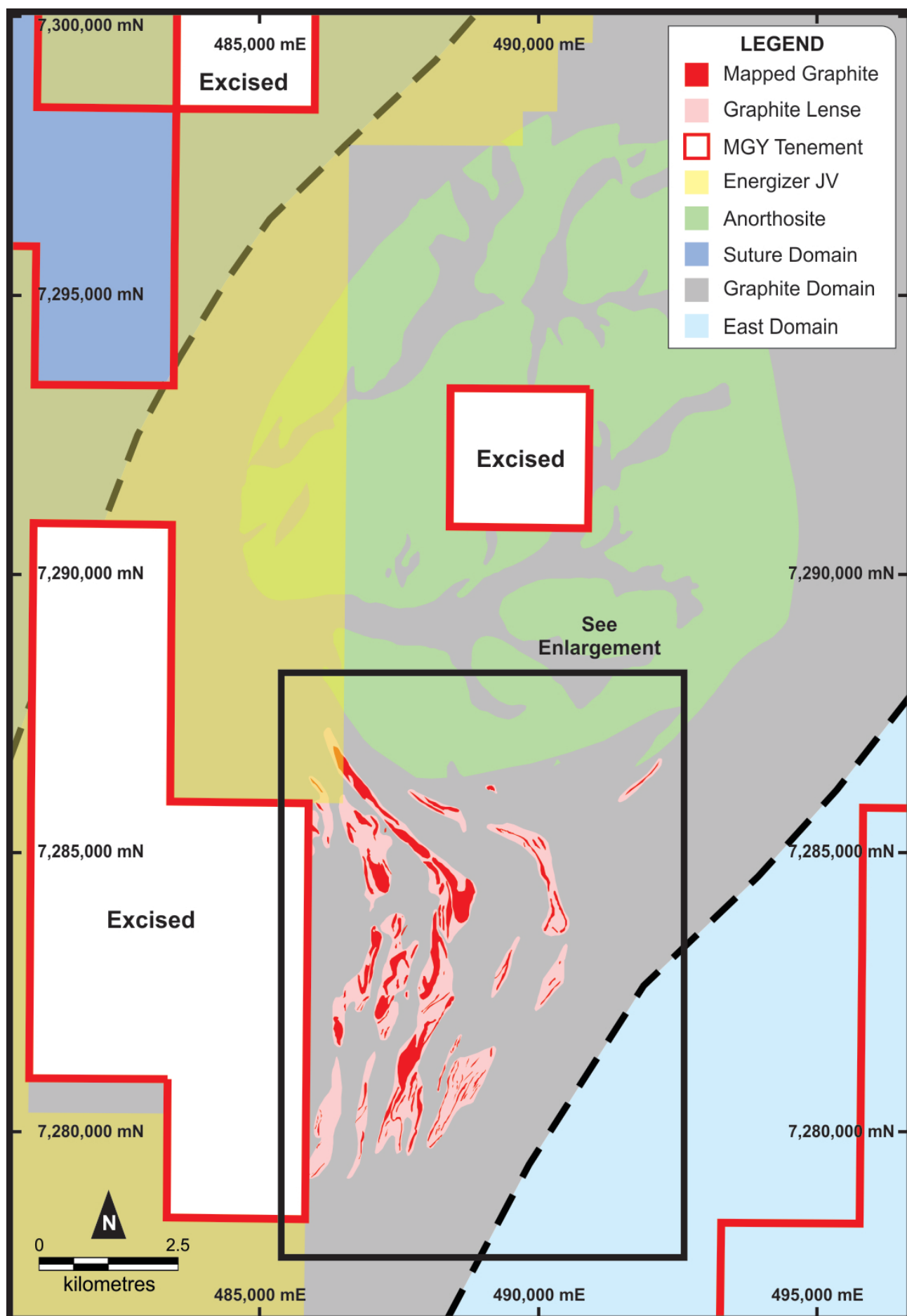
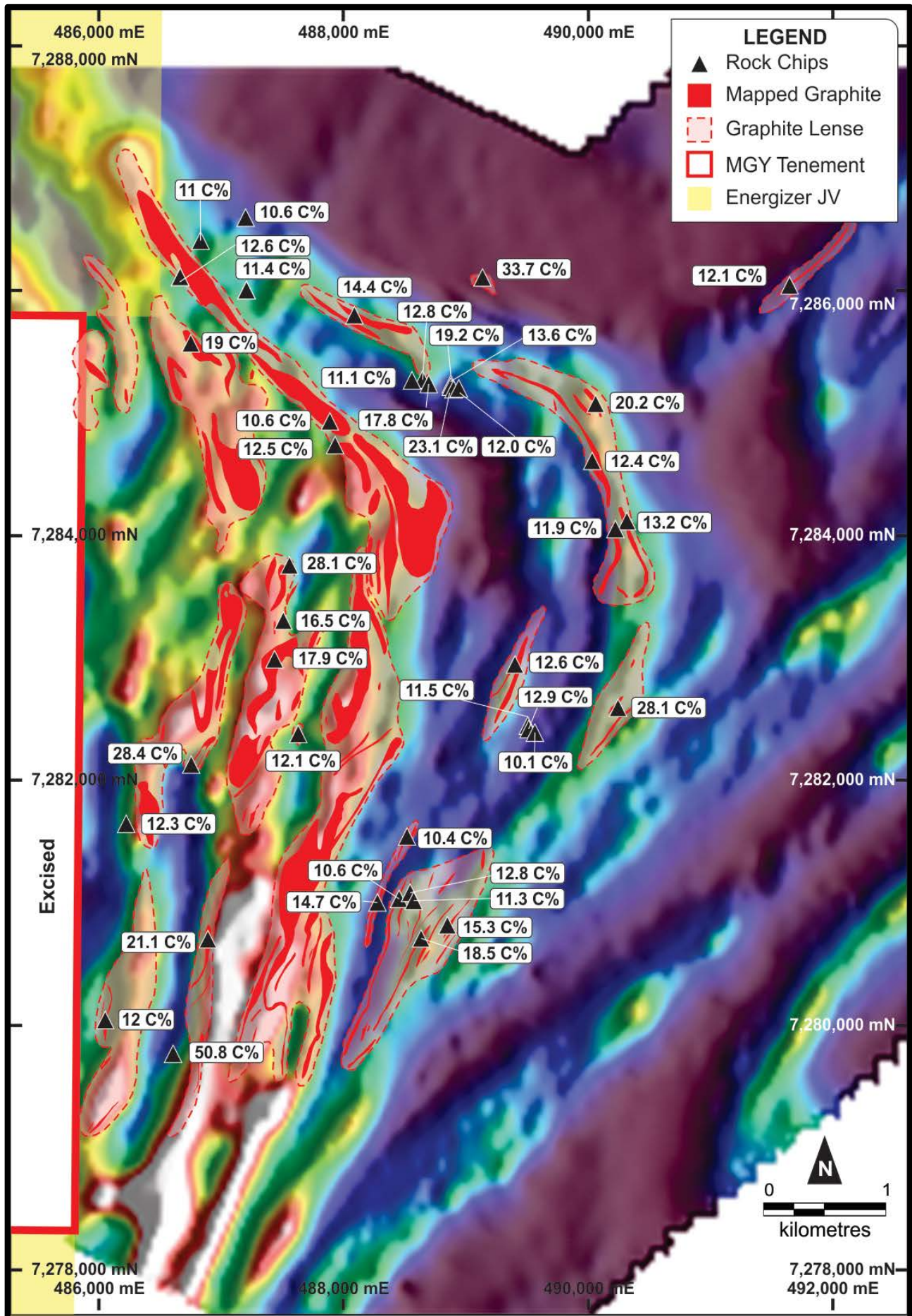


Figure (4) – Graphite Rock Chip Results on VTEM



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 2013

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	19	19
1.2	Payments for (a) exploration & evaluation	(155)	(155)
	(b) development	-	-
	(c) production	-	-
	(d) administration (net)	(58)	(58)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	2	2
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (TVA recoverable)	-	-
Net Operating Cash Flows		(192)	(192)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments (deferred)	(13)	(13)
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	666	666
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other	-	-
Net investing cash flows		653	653
1.13	Total operating and investing cash flows (carried forward)	461	461

1.13	Total operating and investing cash flows (brought forward)	461	461
	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	461	461
1.20	Cash at beginning of quarter/year to date	410	410
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	871	871

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	57
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

	<u>\$A'000</u>
Directors Fees and superannuation	-
Exploration management services	36
Company secretarial, accounting & administration services	<u>21</u>
	<u>57</u>

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

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	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	200
4.2 Development	-
4.3 Production	-
4.4 Administration (Net)	100
Total	300

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	670	70
5.2 Deposits at call	201	340
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	871	410

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		

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	158,812,504	158,812,504	Various	Fully Paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil	Nil	Nil	Nil
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>	2,000,000 7,500,000 375,000 375,000 375,000	- - - - -	20c Options 15c Options 30c Options 40c Options 50c Options	Expiry: 01/12/2013 Expiry: 31/11/2016 Expiry: 30/09/2015 Expiry: 31/12/2015 Expiry: 31/03/2016
7.8	Issued during quarter	500,000	- -	15c Options	Expiry: 31/11/2016
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	2,000,000 4,003,600	-	20c Options 20c Options	Expiry: 03/07/2013 Expiry: 07/07/2013
7.11	Debentures <i>(totals only)</i>	Nil	Nil		
7.12	Unsecured notes <i>(totals only)</i>	Nil	Nil		

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: (Company Secretary)
Print name: Graeme R Boden

Date: 31st October 2013

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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