



24th January 2012

ASX Announcement

ASX: MGY

DECEMBER 2011 – QUARTERLY REPORT: OPERATIONS REVIEW

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.
- **Joint Venture company (75% EGZ; 25% MGY)** formed with the right to explore for industrial minerals including vanadium and graphite within ~40% of MGY’s tenement holding.
- Subsequent to Quarter end, EGZ has announced the **discovery of a potential flake graphite camp over the joint venture property**, with multiple graphitic trends identified over a cumulative strike length of 320km.
- **8 diamond drill holes completed at Vohibory Project** for 1,059m, including two holes to test colonial-era copper mineralization and six holes to test a previously identified gold-in-soil anomaly – **assay results awaited**.
- 607 soil samples collected from two areas at the lanapera area (Ampanihy Project), to follow up on prospective nickel and copper zones located from regional prospecting and mapping.
- **89 stream sediment samples collected from the Maniry area** (Ampanihy Project) with areas of anomalism to be followed up with soil sampling.
- **Southern Geoscience Consultants** (SGC) completed a geophysical review of selected zones within the lanapera area (Ampanihy) with most of the targets confirmed in the field and rock chip sampled accordingly.
- **68 rock chips collected across all the project areas** following up on previously located soil anomalies at Fotadrevo, artisanal & historical copper and gold workings at Vohibory and SGC’s latest geophysical interpretation.
- **Several anomalous areas for nickel and uranium delineated along the Suture Zone** at the Ampanihy Project following receipt of assays from 216 stream sediment samples collected in the September Quarter.
- MGY retains A\$2.878M in cash reserves, plus listed securities worth ~A\$1.8M as at 31st December 2011.

Malagasy Minerals Ltd (ASX: MGY) completed its 2011 field exploration program on 20th December, with key activities undertaken during the December Quarter including diamond drilling, mapping, soil, rock chip & stream sediment sampling programmes on its **Fotadrevo Vanadium, Vohibory and Ampanihy Projects** in southern Madagascar.

Fotadrevo Vanadium Project

A total of 13 rock chip samples were collected from the Fotadrevo Project during the Quarter, following up on significant nickel-in-soil anomalism (up to 2,096ppm Ni). Mapping showed the source of the anomalism to be ultramafic schist. Assays from the rock chip sampling are pending and the approximate location of the sampling is shown on Figure 1.

The Company's new joint venture partner, Energizer Resources (TSX: EGZ), which is targeting vanadium and industrial minerals potential on a portion of MGY's tenements, drilled nine diamond drill holes (1,182m) on the Fotadrevo leases during the Quarter.

As EGZ's primary interest is in vanadium and industrial minerals, Malagasy intends to log and sample the drilling to ascertain the potential for other metals, e.g., Ni, Cu, Au, Ag & U. It is anticipated that this work will be carried out at the start of the 2012 field season (April).

Vohibory Project

During the Quarter, 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 & chrysocolla) were observed in core from both drill holes. The source of mineralisation 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. The drill core is currently being cut for sampling and assaying at the company's Antananarivo facility. Assay results are expected in the March Quarter 2012.
- 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 mineralisation 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, however assay results are required before the Company can determine whether this represents potential gold mineralisation. The drill core has been transferred to the Antananarivo office is currently being sampled ready for assaying. It is anticipated this work will be completed during the March Quarter 2012.

Figure 2 summarises the drilling completed at Vohibory for the 2011 field season.

During the Quarter, 31 rock chip samples were collected from three areas within the Vohibory Project including from further colonial-era workings that were copper oxide rich, from the area where drill holes VHD007-VHD012 were completed and from newly located zones of pegmatite-hosted copper oxide mineralization on the eastern part of the Vohibory Project. Assays are pending for all samples.

Figure 2 summarises the location where the rock chips samples were collected.

During the March 2012 Quarter, the Company will undertake a complete review of all the soil sampling programmes. As many of the soil samples from Vohibory have only been analysed by the Company-owned Niton-XRF analyser to date, those considered to be of potential interest will be sent to Intertek for definitive assaying.

It is anticipated that the results will generate a requirement for closer spaced soil sampling as the current coverage is on 400m x 400m spacings.

Ampanihy Project

As previously reported in the September Quarterly Report, 216 stream sediment samples were collected from what is referred to as the Suture Zone, which is essentially the area covering a dominant regional shear between the lanapera and Maniry zones.

The assays were received during the December Quarter and minor anomalism in Cu, Ni Pt, U and Zn was located at various locations along the Suture Zone. Follow-up soil sampling is planned for the March Quarter 2012. Figure 3 shows the area covered by the soil sampling.

During the December Quarter, a second programme of stream sediment sampling comprising 89 samples was completed south of the Suture Zone, in the Maniry zone. The assays from this programme are pending. Figure 3 shows the area of sampling.

As stated in the previous Quarterly Report, Southern Geoscience Consulting (SGC) was commissioned to complete a geophysical interpretation and target generating exercise based on the aeromagnetic, VTEM and Ikonos data in the lanapera zone.

28 potential targets were identified by SGC and subsequently field checked. As a result of this work, further gossanous zones and also copper oxide mineralisation were located. The gossanous zones are situated along a different stratigraphic horizon to the east of that tested by diamond drilling in 2010.

Sampling programmes were put in place as follow up, resulting in 24 rock chip samples and 607 soil samples being collected. Soil sampling was completed on 50m x 400m spacing. Initially they will be analysed using Malagasy's XRF equipment.

Furthermore, SGC plans to complete more target generating work based on the same geophysical parameters during the March Quarter 2012. To assist in this work, selected soil samples collected in 2010 but analysed by XRF only will be assayed at Intertek in Perth. This work is to be completed in both the lanapera and Maniry zones

During the September Quarter, 59 samples from the 2010 core drilling, i.e. drill holes IPC0001-IPC007, at lanapera were sent to another laboratory (Bureau Veritas) for confirmatory assaying. The assays between the two laboratories exhibited an excellent agreement, confirming that the massive sulphides (pyrrhotite-pyrite) intersected are indeed Ni-Cu poor.

However during the December Quarter, as further due diligence, core from IPC001 and IPC007 was ¼ cut, with the samples sent to Bureau Veritas in Perth for crushing and assaying. This will ensure complete certainty as to the metal content of the sulphides intersected in those drill holes.

Reconnaissance sampling was also completed during the course of the Suture Zone stream sediment sampling programme undertaken in the September Quarter. This programme located a shear zone filled with heavily disseminated to massive graphite, approximately 330 metres long and four metres wide and open-ended along strike in both directions. The location of the graphite occurrence is shown on Figure 3.

GRAPHITE OCCURRENCE

Samples of massive and disseminated flake graphite were discovered during the Quarter and submitted to Intertek for determination of carbon content and to Pontifex and Associates for determination of flake size and general petrological description.

Intertek reported 71.94% Carbon (C) and 12.52% C for the massive and disseminated specimens respectively, which is at least comparable to if not better than the material from the former graphite mines near Ampanihy, where material collected from stockpiles and dumps assayed from 11.44% C to 54.02% C.

Pontifex reported flake size as commonly 0.5mm wide x 1.5mm long, with approximately 1/3 being 1.0mm wide and 6mm long for the massive graphite sample; and up to 20% graphite as single flakes, 0.1 to 0.3mm, more commonly as composites to 5mm for the disseminated sample.

The testwork indicates that both the grade of the graphite and the flake size are within commercial specifications and the newly located graphite vein is considered to have economic potential. It should be noted that this graphite locality now falls into the Energizer Joint Venture area.

ENERGIZER RESOURCES JOINT VENTURE

Under the Joint Venture Agreement announced on 15 December 2011, Malagasy and Energizer have formed a joint venture company owned 75% by Energizer and 25% by Malagasy with the right to explore for a group of defined industrial minerals including vanadium and graphite within specifically defined permits covering approximately 40 per cent of Malagasy's prospective tenement holding in southern Madagascar.

Malagasy has received total consideration of US\$2.25 million plus 7.5 million EGZ shares.

Malagasy's interest in the joint venture will be free-carried until Energizer delivers a Bankable Feasibility Study (BFS). If Energizer or the joint venture 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 to below 10%, then Malagasy's interest will convert to a 2% net smelter return royalty.

Since completion of the Joint Venture, Energizer has advised in a release dated 19 January 2012 that:

Quote “

- Identification of multiple graphitic trends have been identified on JV property
- The 21 km vanadium trend found on the Green Giant property has now been increased by an additional 30 km on the JV property
- Molo zone identified on the JV property, which features structurally 'thickened' graphite zones – coinciding with Malagasy's discovery noted above.

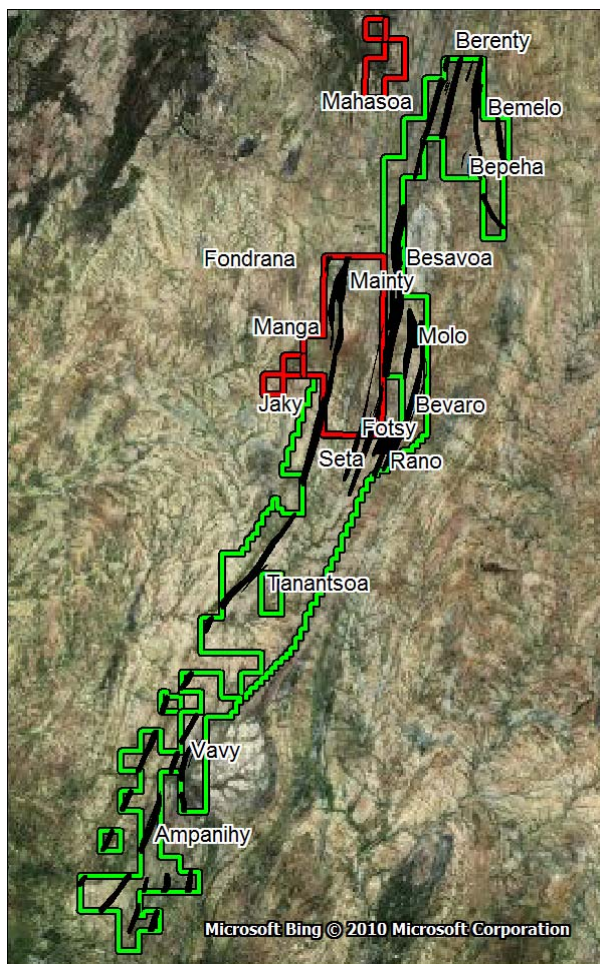
Potential Flake Graphite Camp

During the course of the Phase I and II exploration programs, multiple graphitic or graphitic-vanadium trends were identified with the aid of airborne geophysics, and subsequently verified with ground prospecting, and delineated with the use of an EM31-MK2 (EM31) instrument. In total, 12 new graphite trends have been identified over the JV property.

This brings the total number of graphite trends identified to date over the Green Giant and JV properties to 17, with a cumulative strike length in excess of 320 km. These observations have validated the Company's belief that southern Madagascar has the potential to host a potential flake graphite camp.

The graphite trends identified to date are named as follows:

Berenty, Bemelo, Mahasoia, Bepeha, Besavoa, Fondrana, Mainty, Manga, Molo, Bevaro, Jaky, Fotsy, Rano, Seta, Tanantsoa, Vavy, Ampanihy.



Multiple Graphitic Horizons Identified Within Each Zone With EM31

Field observations indicated that each graphitic zone identified, was comprised of multiple ‘stacked’ graphitic horizons. This observation was validated by surveying a number of the zones in detail with an EM31 ground conductivity instrument. In total, 160.5 line kilometres of EM31 surveying was completed over 5 target areas, the Fondrana, Fotsy, Molo, Seta, and Besavoa targets.

Unquote”

CORPORATE

MGY retains A\$2.878 million in cash reserves, plus listed securities worth approximately A\$1.8 million as at 31st December 2011.

Labradorite royalties: the Company continues to receive Labradorite Royalties from three groups, generating revenues to assist in supporting local operating costs. An additional labradorite quarrying sub-lease agreement is being negotiated with a Chinese group.

Commercial property rental: the Company continues to receive rental income from commercial leases at its base in Antananarivo.

Red Cat Minerals Agreement: the Company has agreed to extend this agreement to 30 April 2012, having received additional consideration by way of non-refundable cash deposits. This agreement covers the proposed sale of a northern portion of the Vohibory Project.

Management

On 7 October 2011, the Company announced the appointment of Fergus Jockel as Exploration Manager overseeing all of its exploration activities, with assistance from the Company's Country Manager (Gerant) & CFO, Jean Luc Marguetoux.

The Company is currently 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 impact our continuing operations.

Political Situation

International mediation with the assistance of SADC is continuing to assist in the negotiation of an orderly resolution of the political situation, with the aim of achieving free elections and the establishment of normalized relations with the international community and donor countries. The current situation in Madagascar has the potential to result in difficulties in obtaining effective legal redress. Meanwhile delays are being encountered in the processing of tenement applications and renewals. A new Mines Minister has been appointed and there are encouraging signs of progress being achieved.

For and on behalf of the Board

A handwritten signature in blue ink, appearing to read 'Max Cozijn', with a long horizontal stroke extending to the right.

Max Cozijn
Chairman – Acting CEO

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. Fergus Jockel, Consulting Geologist, who is a Member of the Australasian Institute of Mining and Metallurgy and of the Australian Institute of Geoscientists. Mr. Jockel 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. Jockel consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

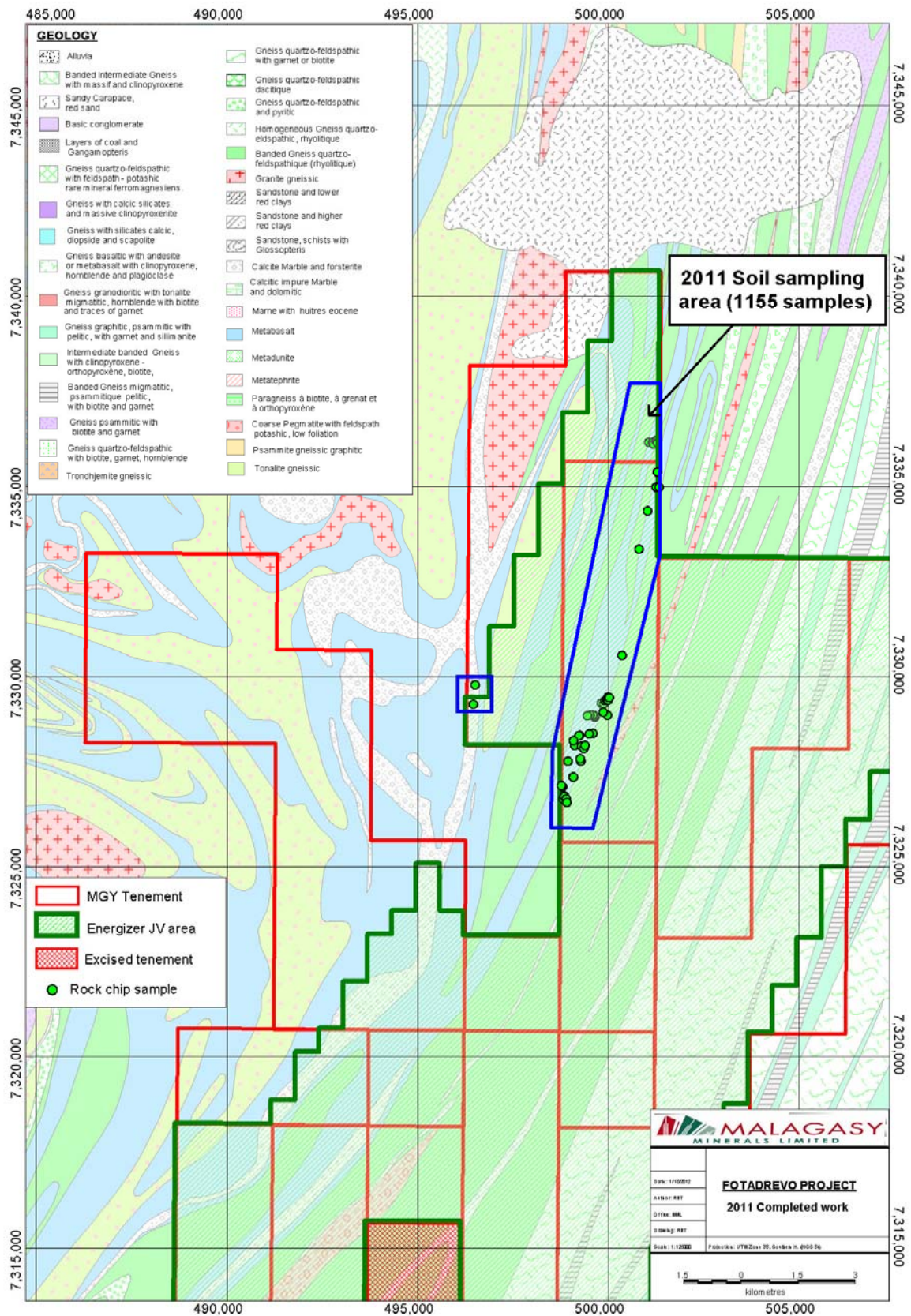


Figure 1: Plan showing area of soil sampling and follow up rock chip sampling (green dots) at the Fotadrevo Project

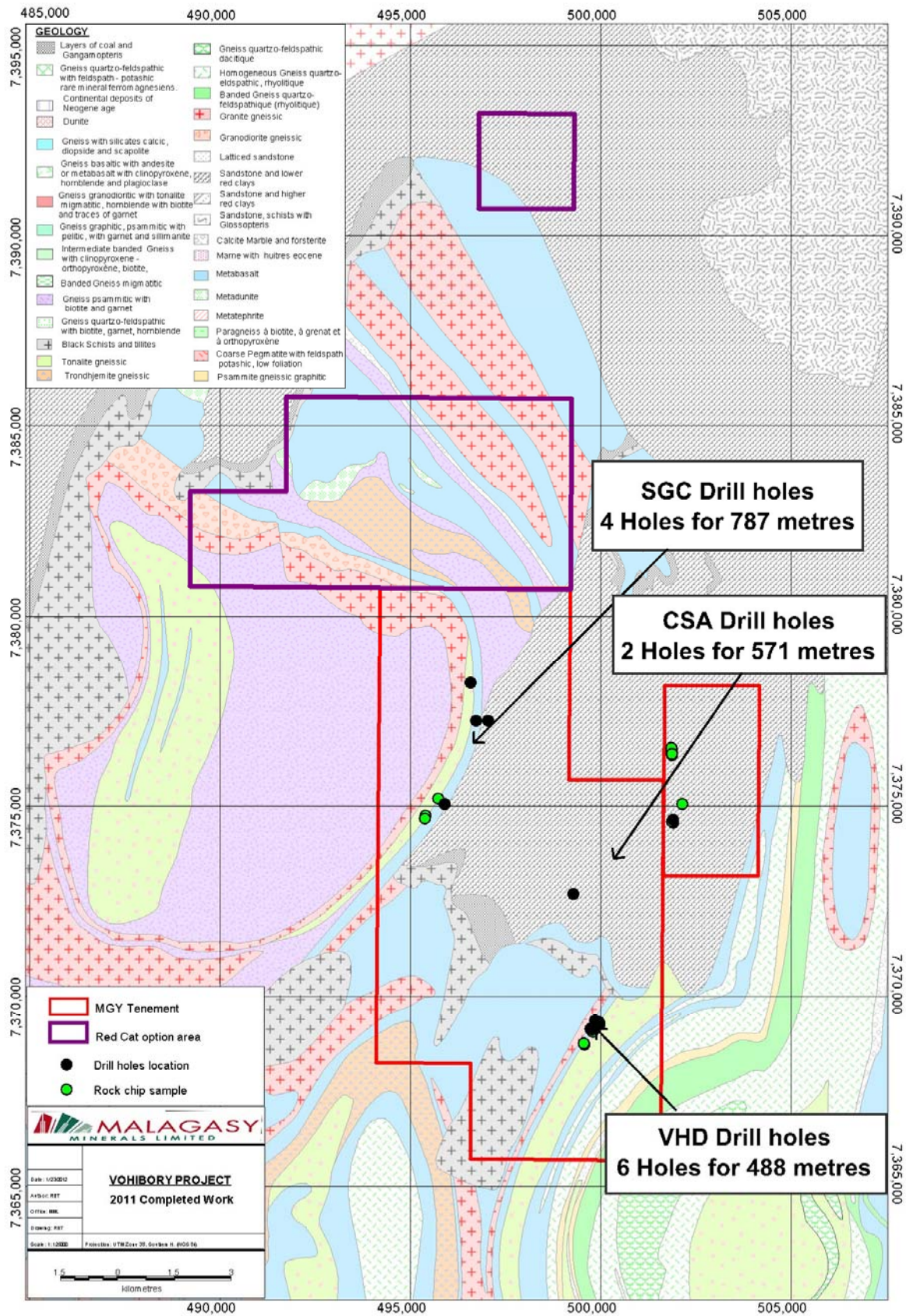


Figure 2: Plan showing areas of diamond drilling (black dots) and rock chip sampling (green dots) at the Vohibory Project

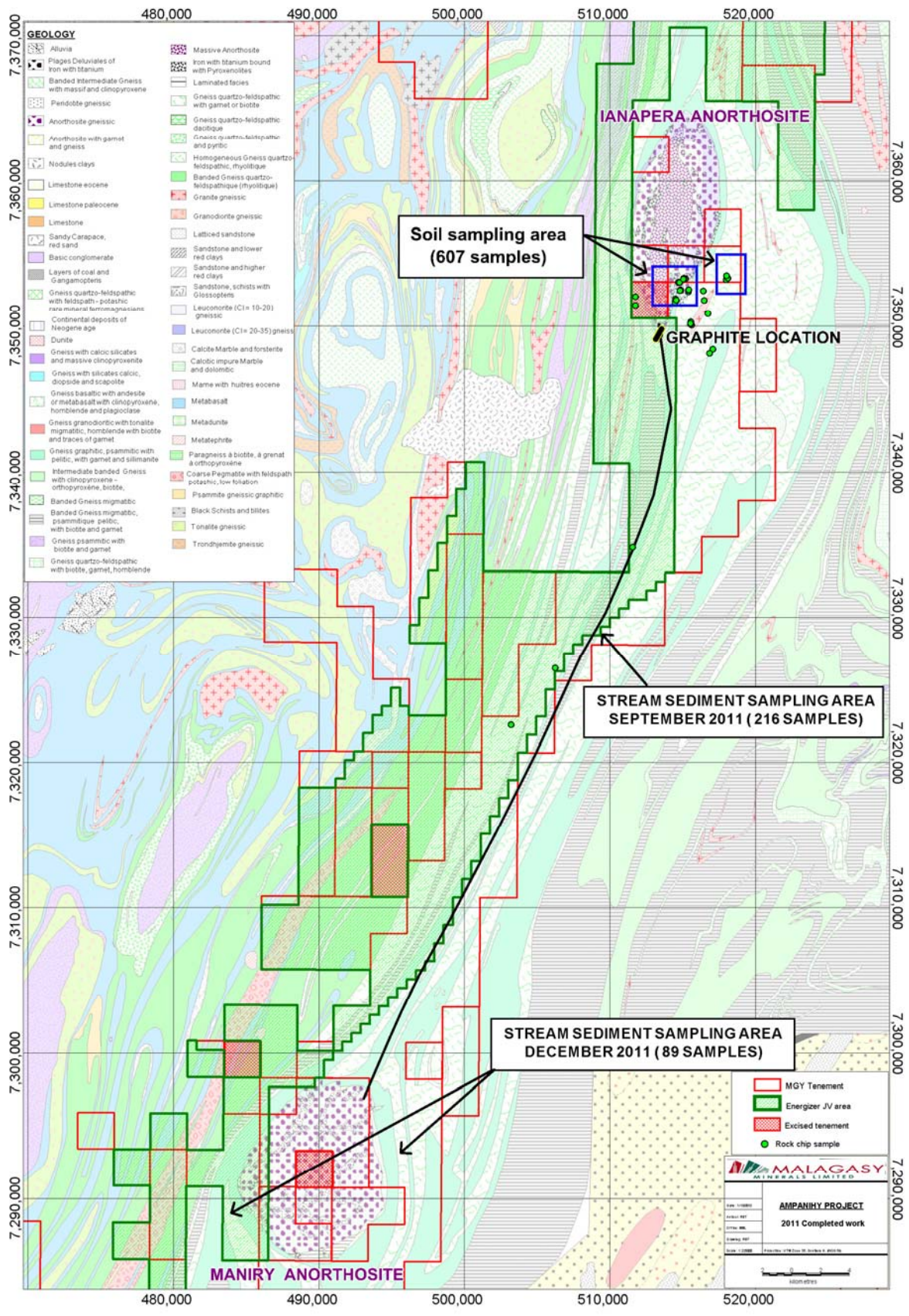


Figure 3: Plan showing areas of soil & stream sediment sampling and rock chip sampling locations (green dots) at the Ampanihy Project

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")

31 DECEMBER 2011

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 Months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	130	259
1.2 Payments for (a) exploration & evaluation (net)	(486)	(936)
(b) development	-	-
(c) production	-	-
(d) administration (net)	(126)	(219)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	30
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (TVA recoverable)	-	-
Net Operating Cash Flows	(467)	(866)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(5)	(7)
1.9 Proceeds from sale of:		
(a) prospects	2,296	2,366
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	(28)	(60)
Net investing cash flows	2,263	2,299
1.13 Total operating and investing cash flows (carried forward)	1,796	1,433

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	1,796	1,433
	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	1,796	1,433
1.20	Cash at beginning of quarter/year to date	1,082	1,445
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	2,878	2,878

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	30
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 Directors Fees and Wages 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

Received 7,500,000 fully paid shares in Canadian company Energizer Resources Inc (TSX:EGZ) upon finalisation of JVA.

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	300
4.2 Development	-
4.3 Production	-
4.4 Administration (Net)	100
Total	400

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	178	232
5.2 Deposits at call	2,700	850
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,878	1,082

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	156,562,504	156,562,504	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		

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)	Nil	Nil
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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: 24th January 2012

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.