Madagascar Resources NL
ABN 58 061 662 011

Annual report – 30 June 2010

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Corporate directory

Directors

Peter J Woods
Non-Executive – Technical Director

Guy F M Le Clezio
Non-Executive – Corporate Director

Earl V Young
Non-Executive Director

N Tristan B Davenport
Non- Executive Director

Company Secretary and Share Registry

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Madagascar Resources NL

Chairman's Report

This is the seventeenth Annual Report of Madagascar Resources NL (MRNL). During the year ended 30 June 2010, further progress has been made in attempting to realise the potential of our interests in Madagascar.

Our main effort this year has involved reviewing the Toliara Sands Project ("TSP") and in marketing a revised project concept to potential customers within the context of the aftermath of the GFC and the political situation that developed in Madagascar during 2009.

Since regaining management of TSP, mineral sand consultants TZ Minerals International Pty Ltd ("TZMI") were engaged to undertake a comprehensive review of the Ranobe deposit with the aim of devising a new project concept that is capable of being developed within identified infrastructure and mineralogical constraints and which is also capable of attracting financing partners with a positive strategic view of the TSP.

TZMI proposed a three-phase strategy: fatal flaw analysis; reinvention of the project at possibly smaller scale and capital cost, with focus on higher grade portions of the Ranobe orebody; and marketing of the new concept.

Following the fatal flaw analysis, TZMI concluded that there is sufficient value in the deposit to sustain a revised operation and that the resource can be converted into final products that will be accepted by the market place.

TZMI visited the site in late 2009 and processed samples of ore as well as concentrate which validated previous results. Based on their results, TZMI and MRNL undertook a comprehensive review of the Ranobe project, resulting in a project concept that has attractive investment metrics and considerable scope for expansion.

A review of the previous mine plan and schedule has focused initial activity around a high value area capable of sustaining a sizeable mining operation for 40 years. The review has resulted in reduced operating and capital costs by relaxing the restrictions that had been put in place during the study conducted by Exxaro.

The total mineralisation at Ranobe is of an appreciable size and is estimated to contain 1,475 million tonnes of mineralisation at an average heavy mineral grade of 4.7%. The total drilled resource in the Upper Sand Unit is 710 million tonnes at 6.2% HM.

The first stage of this project focuses on 15km2 area with Measured and Indicated Resources of 145 million tonnes at an average heavy mineral content of 8.1%. Of the available 145 million tonnes, Phase 1, comprising 75 million tonnes at 9.5% HM, has been planned and will yield a mine life of 20 years at an average mining rate of 3.5 million tonnes per year (450tph).

The Ranobe deposit offers the opportunity of a long term resource with the potential to expand production in the future.

In order to advance the project, MRNL believes an offtake partner interested in a long term supply of high quality ilmenite, initially at 200,000 tonnes per year, would create the best opportunity to develop the project with scope to increase this to more than double with incremental investment. Ranobe is a large deposit and the ability to scale up will be dependent on the markets that can be established for its products rather than any geological limitations.

In November 2009, TZMI provided a list of companies considered to be likely to be most interested in the Ranobe products. A trip to China followed and, as a result, discussions have commenced with a number of companies.

In the meantime contact has been maintained with State Ministers, government agencies and environmental Non Government Organisations (NGOs) to make sure they are aware of the status of the Toliara Sands Project and that MRNL is aware of their aspirations. The good relationship with local villages near Ranobe has also been maintained. Political developments in Madagascar have been unsettling but it appears that elections will be held next year facilitating financing of the project.

In May 2010, MRNL agreed to merge with listed company Malagasy Minerals Ltd by way of a scheme of arrangement. Following a sharp increase in the Malagasy Minerals share price, the non-conflicted directors of that company initiated the termination of the merger process.

Part of the process of preparing the scheme documents for submission to the court included the preparation of an independent valuation of MRNL shares. The expert concluded a value within the range of $A0.28 to $A0.42 per share, with a preferred value of $A0.32.

The Company continues to hold 10 million shares in Malagasy Minerals Ltd, the progress of which can be followed on its website: www.malagasyminerals.com.

The fact that MRNL has regained control of the TSP and is negotiating with a number of Chinese and Indian companies is an exciting development as the Company now has the opportunity to realise value for the project for the benefit of shareholders.

I would like to thank all those involved in bringing the company to its current position particularly Graeme Boden and Guy LeClezio in Perth, who were instrumental in regaining TSP and to Jules LeClezio and our team in Madagascar.

Our Annual General Meeting will be held on 30th November 2010 and your attendance would be welcome.

Peter Woods
Acting Chairman

Madagascar Resources NL

REVIEW OF ACTIVITIES

TOLIARA SANDS PROJECT (TSP)

BACKGROUND

In October/November 2001, a reconnaissance aircore drilling program along the coastal plain between Toliara and Morombe in southwest Madagascar confirmed the potential for a resource of approximately 1,300 million tonnes (Mt) of sand grading around 5% HM (heavy minerals - mainly ilmenite with some zircon and rutile) at Ranobe, 40 km north of Toliara.

North of Ranobe (the M-M area) drilling was carried out at 5 locations. Significant HM was intersected at all locations, particularly around Ankililoaka and Basibasy.

In 2003 Ticor Ltd (later Kumba and now Exxaro) negotiated an Option over the Toliara Sands Project which included all areas drilled to that date. In 2003 drilling was carried out at Ranobe and Basibasy and a Pre-Feasibility Study (PFS) commenced on the Ranobe deposit.

In early 2005 the PFS was completed on the Ranobe deposit and a decision was taken by Exxaro to commence a Bankable Feasibility Study on the deposit, and to continue with exploration in the M-M area to the north.

In 2006 and 2007 reconnaissance trips to the most northern part of the M-M area confirmed the potential of the area to host higher TiO_2 ilmenite and more zircon than at Ranobe.

Ranobe – Exxaro's Bankable Feasibility Study

The Bankable Feasibility Study (BFS) on the Ranobe deposit included studies into: mineral resource, mineralogy, mineral processing, mining method, marketing, infrastructure, manpower, logistics, power generation, the environment and financial matters. The BFS was conducted by Exxaro from early 2005 until July 2009.

Based on drilling in 2003 and 2005 the resource within the Upper Sand Unit is classified as follows:

- Measured - 209 Million tonnes at 7.44% HM
- Indicated - 320 Million tonnes at 6.09% HM
- Inferred - 181 Million tonnes at 5.32%HM

The total classified resource is therefore 710 Mt at 6.29% HM and 4.23% slimes (with 4.07% ilmenite, 0.12% rutile, 0.32% leucoxene and 0.35% zircon). The total mineralisation at Ranobe based on drilling in 2001, 2003 and 2005 is around 1,400Mt at 4.7% HM.

The HM suite is dominated by ilmenite, which can be separated into a low grade and high grade ilmenite product. Testwork focused on attempting to produce marketable products from the ilmenite. Other minerals include: altered ilmenite (which is potentially a separate product), leucoxene, zircon and rutile.

A range of mining methods (dry or dredge) and transport options (road, rail, conveyor, barge) were considered. An Environmental and Social Impact Statement was prepared in conjunction with these studies to ensure that the environmental and social consequences of each option were considered during the planning process.

In addition, nurseries were established at two villages near the deposit and at the Toliara Arboretum. Seeds collected from the Ranobe forest have been germinated and trial plantings on the rehabilitated bulk sample pits have been initiated. These trials have been successful in that almost all species planted have continued to grow over the past 2 years. Results from these trials, as well as ongoing monitoring of forest recovery from fires will form an important part of the final Rehabilitation Strategy.

Negotiations are still underway with government officials and various funding agencies regarding surface rights, taxes and other financial requirements of the project.

Exxaro's last capital cost estimate was around USD 410 million (using R8/US$ exchange rate) which involved mining and processing between 15 and 22Mtpa of sand (depending on grade) to produce an average of 560,000tpa of smelter grade ilmenite, 107,000tpa of high TiO_2 ilmenite, 48,000tpa of zircon and 12,000tpa of rutile.
The many issues to be resolved including economic, political and technological developments caused Exxaro to re-evaluate its strategic investment in the TSP. Exxaro concluded that "TSP is unfortunately no longer aligned with the new business focus of Exxaro, which made this decision (to withdraw) after due consideration of all relevant factors and despite the fact that the TSP may be developed by other parties in the future."

Accordingly Exxaro advised MRNL that it "has terminated, with effect from 17 July 2009, its rights under an Option Agreement with Australian company Madagascar Resources NL ("MRNL") and its Malagasy subsidiary Exploitation Madagascar SARL ("EMSARL") in regard to the Toliara Sands Project ("TSP") in Madagascar."

2010 Financial Year - A New Direction

MRNL has been handed all project information and has engaged mineral sand consultants TZMI, to undertake a comprehensive review of the project. The Company's aim is to devise a new project concept that is capable of being developed within identified infrastructure and mineralogical constraints and which is also capable of attracting financing partners with a positive strategic view of the TSP.

Exxaro's plans placed constraints on development of the deposit that need not exist under other circumstances (ie a mining rate of 15-22 million tonnes per year and a sole market for the ilmenite at its Empangeni smelters).

TZMI proposed a three-phase strategy: fatal flaw analysis; reinvention of the project at possibly smaller scale and capital cost, with focus on higher grade portions of the Ranobe orebody; and marketing of the new concept.

Following the fatal flaw analysis, TZMI concluded that there is sufficient value in the deposit to sustain a revised operation and that the resource can potentially be converted into final products that will be accepted by the market place.

TZMI has visited the site and has processed ore samples as well as concentrate to validate Exxaro's results and to design a different type of flowsheet aimed at relaxing some of the restrictions applied by Exxaro.

Based on satisfactory results, a new project concept has been developed that focuses on the high value portions of the orebody, at much lower capital cost and scale than originally envisaged by Exxaro.

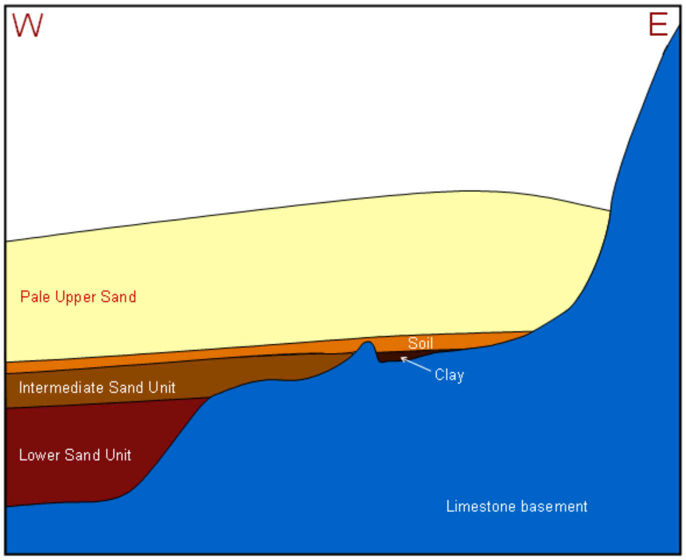
The current study involves reduced capital and operating cost estimates while the processing route has also been simplified and redefined using results from testwork supervised by TZMI. The revised mineral separation plant flowsheet has now been validated using heavy mineral concentrate produced at the on-site pilot plant. The original flowsheet has been significantly simplified to produce two ilmenite products and a zircon/rutile concentrate stream for export.

During the year, the Company engaged Geocraft Pty Ltd, through its employee, Mr Andrew Milne, to calculate a JORC resource for the Upper Sand Unit at Ranobe and also for two high grade areas which are the subject of two mining lease applications.

Current Status of Ranobe

Resource

The mineralised zone at Ranobe is approximately 20 km in length, 1 to 1.5 km in width and comprised of three mineralised sand units, shown diagrammatically below.



A JORC compliant resource of heavy minerals (**HM**) has been calculated for the Upper Sand unit, as follows:

Category	Million Tonnes	Average % Total Heavy Minerals (THM)	% Slimes
Measured	222	7.66	4.42
Indicated	393	6.07	4.66
Inferred	92	5.91	5.36
	707	6.54	4.70

The average composition of the HM assemblage in the Ranobe resource is ilmenite (64.7%), rutile (1.9%), zircon (5.5%) and leucoxene (5.1%).

Global potential of the resource in the Ranobe area may be significantly more than this, as wide spaced drilling indicates that mineralisation in the Upper Sand Unit extends to the north (possibly by 1km), west (beyond intersections in the most westerly holes) and south (by possibly 5km), as well as within the Intermediate Clay Sand Unit and the Lower Sand Unit.

A mining lease application has been submitted over an area which contains the following higher grade resource within the Upper Sand Unit:

Category	Million Tonnes	% THM	% Slimes
Measured	134.8	8.25	4.11
Indicated	22.90	8.67	4.83
	157.7	8.31	4.22

A preliminary scoping study for a mining rate of 3.5 million tonnes per annum focussed on a high grade section of this mining lease, which contains the following resource:

Category	Million Tonnes	% THM	% Slimes
Measured	71.40	9.39	4.34
Indicated	9.50	8.99	4.35
	80.90	9.34	4.34

A second mining lease application is in progress, to the south of the first. The resource within the Upper Sand Unit in this area is:

Category	Million Tonnes	Average % THM	% Slimes
Measured	22.30	8.24	4.11
Indicated	94.80	7.00	4.83
Inferred	22.60	6.51	4.22
	139.70	7.12	4.67

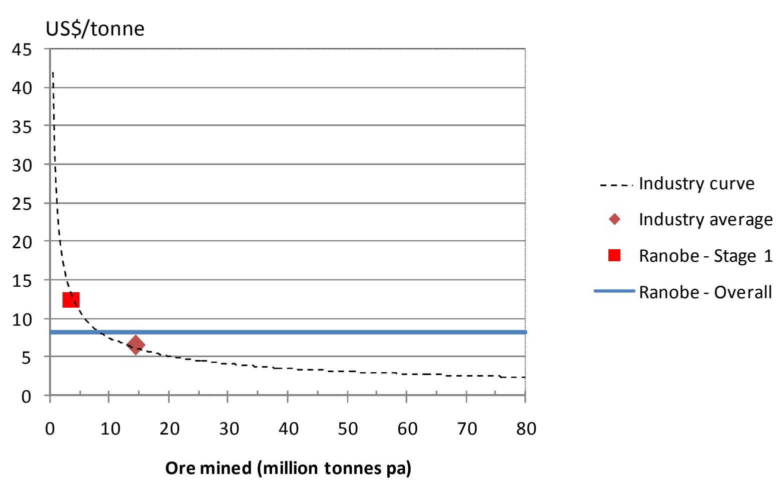
Development Concept

A scoping study has been prepared by TZ Minerals International (TZMI) for the development of the Ranobe resource of 80.9 million tonnes outlined above, using a mining rate of 450 tph, or 3.5 million tonnes per year.

The heavy mineral consists predominantly of ilmenite, making up about 65% of the concentrate. The project also benefits significantly from the presence of much higher value zircon and rutile which together contribute about 8% of the heavy mineral, but around 33% of the value.

Important features of the deposit that deliver significant advantages compared to many existing operations are the low slimes content in the ore (less than 5%) and the absence of barren overburden.

The global mineral sands industry mines an average ore grade of 5.6% heavy mineral with an overburden strip ratio of 0.4 and a contained value of US$6.60 per tonne of ore. By contrast, contained value of the first phase of the Ranobé deposit has the potential to exceed this value due to its grade, and the fact that there is no overburden to remove. This is the key to unlocking the project value.



Ore contained value Ranobe compared with mineral sands industry average

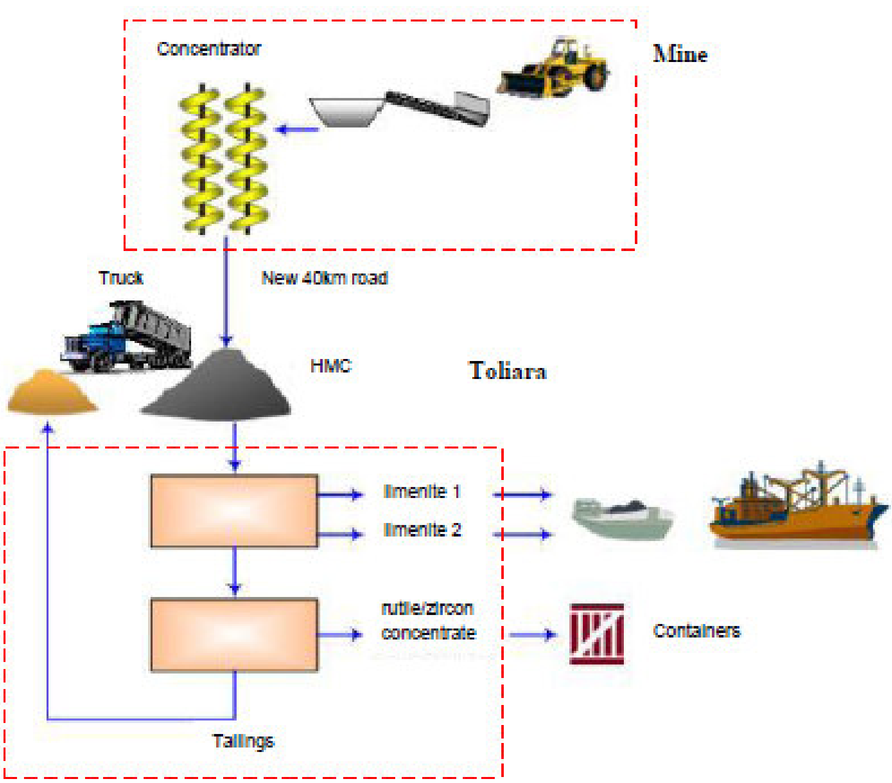
The ore volume requirements for the project mean that the deposit can be economically mined using a simple front end loader direct feeding a slurry transport unit. This mining methodology is employed in many operations world-wide, and represents a very low risk option.

The primary concentrator plant will be based on easily relocatable plants widely employed in many Australian ilmenite mines.

Testwork conducted to date shows that the ilmenite consists predominantly of a product suitable for use in the TiO_2 sulfate pigment process or in ilmenite smelters for the production of chloride grade slag. A smaller volume of higher value ilmenite suitable for direct chlorination or as a blend feed to synthetic rutile processors is also recovered. These products can be separated with conventional mineral sands processing technology at a low unit cost.

A simplified flowsheet will be employed to recover a mixed rutile/zircon concentrate suitable for shipment to Chinese processors, which have shown an increasing appetite for semi-finished concentrates.

Capital and operating cost estimates have been prepared by TZMI and are considered to be in line with similar minerals sands processing operations.



Strategy

Madagascar's strategy is to develop the Ranobe deposit to create significant value for Madagascar Shareholders and stakeholders in the region.

Madagascar has initiated the search for an offtake partner interested in a long term supply of high quality ilmenite, initially at 200,000 tonnes per year, but with potential to increase this to more than double with incremental investment.

In November 2009, TZMI provided a list of companies considered to be likely to be most interested in the Ranobe products. A trip to China followed and as a result discussions have commenced with a number of companies. Two Chinese and one Indian company have visited Madagascar to assess the TSP and discussions are continuing with all three. A further trip to China is planned in late 2010.

M-M Area

In the M-M area, three areas appear to have potential to host significant HM mineralisation.

Ankililoaka

At Ankililoaka, 25 km north of Ranobe, drilling in 2001 and 2005 encountered significant intersections (ie 0-45m at 6.4% HM) over a distance of 5000m, in young quartz sands and clayey sands, to both north and south of a northwest trending ridge of limestone. The estimated size and grade of the mineralisation based on this drilling is around 360Mt at 5.8% HM and 8.9% slime.

The HM suite is dominated by ilmenite (52%), leucoxene (5%), rutile (1%) and zircon (4%). The TiO2 content of the ilmenite ranges from 47.6 to 56.8% TiO2. The HM suite therefore appears to be similar to that at Ranobe.

Basibasy

At Basibasy 60km north of Ranobe, there appears to be a shoreline running roughly north-south, with clay-rich sediments to the east. West of this “shoreline” the sediments are more sandy and drilling in 2001, 2003 and 2005 encountered significant mineralisation (ie 39m at 7.0%HM) in quartz sands in an area around 2km by 3km. The estimated size and grade of the mineralisation based on this drilling is around 440Mt at 4.9%HM and 8.3% slime.

The HM suite is dominated by ilmenite (50%), leucoxene (16%), rutile (1%) and zircon (7%). The TiO2 content of the ilmenite ranges from 50.2 to 59.6% TiO2. This HM suite therefore appears to be different from that at Ranobe.

Northern-most Big Dune

The most northern part of the M-M area is occupied by a large semi-circular dune field. Hand auger drilling results were encouraging in that visible HM was seen at several sites while the mineral suite contains ilmenite (70%) with an average TiO2 content of 58%; and there is more zircon (8-10%) than at sites further south.

A report by Exxaro on HM samples from the area concludes with: “the ilmenite products were high TiO2 as they averaged 58% TiO2. All indications are positive of a good high TiO2 ilmenite product. The qualities of the zircon products were not fully ascertained ‘(due to small samples)’. All indications are positive that a marketing grade zircon can be produced”. The challenge however is to locate orebodies with grades >3% THM.

TZMI have also tested the heavy minerals from this area. They conclude that the HM suite comprises ilmenite (82%) and zircon (11%). The 56%TiO2 ilmenite (36% yield) is readily marketable but that the 59%TiO2 ilmenite (yield 29%) and zircon (yield 11%) would have limited marketability due to high UTh. This will need to be addressed.

The airborne geophysical survey, aimed at defining zones of HM accumulations was completed over the area. This survey failed to define potential heavy mineral accumulations but it did highlight three bullseye magnetic targets which are possibly small magmatic intrusions at shallow depth. The drilling program planned for late 2008 has been delayed until 2010.

Conservation Area

Discussions have continued with groups involved in plans to declare a large conservation area along the coast, which included some of our M-M permits. These discussions have resulted in almost total exclusion of our remaining permits from the proposed conservation area, thereby enabling us to continue exploration at Ankililoaka, Basibasy and the Big Dune area.

Future Work

Further work is warranted at Ankililoaka, Basibasy and the Big Dune as work to date confirms that both the TiO_2 content in the ilmenite and the zircon content in the HM suite increase northwards from Ranobe.

FUTURE PLANS

Work in the forthcoming year will be focused on the Toliara Sands Project which will include marketing the Ranobe Project, and in seeking an offtake partner and funding to develop the project.

Peter Woods
Technical Director

The Directors present their report together with the financial report of the consolidated entity consisting of Madagascar Resources NL and the entities it controlled ("the Group") at the end of or during the year ended 30 June 2010 and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year:

Dr Peter J Woods BSc(Hons), PHD, MAIG

Peter Woods has been a non-executive director for 17 years. He holds a Bachelor of Science (Honours) and a Doctorate of Philosophy (Geology) from the University of Western Australia. He has had over 30 years' experience in the mining and exploration industry specialising in base metals, gold, diamonds and industrial minerals. He is currently a consulting geologist and a Member of the Australian Institute of Geoscientists.

Special responsibilities: Technical and geological matters

Mr Guy F M Le Clezio BA

Guy Le Clezio has been a non-executive director for 17 years. He holds a Bachelor of Arts from the University of Western Australia. He has had 20 years experience in the Securities industry with a special interest in the mining and exploration industry. He is also a director of Running Water Limited, a share trading and investment company.

Special responsibilities: Corporate matters

Mr Earl V Young, BA, BEc

Earl Young has been a non-executive director for 6 years. With a career background in the Securities Industry, Mr Young has served as a consultant, Corporate Officer and Director to companies in the United States and abroad. He serves as President of the US/Madagascar Business Council and has represented domestic and foreign start-ups and early stage companies in their effort to obtain financing as well as assisting in their business and marketing strategies. He was Vice President of Rauscher-Pierce Securities and Rotan-Mosle, President of ENR Securities, the fund raising arm of Energy Resources a listed oil and gas company, and one of the founding partners of Renaissance Capital an investment company specialising in small capitalisation companies.

Special responsibilities: Representative for MAD Holdings Ltd

Mr N Tristan B Davenport

Tristan Davenport was appointed by the Directors in 2007. He has been an employee of J R Boulle Corporation since 1995 and has been involved in the mining industry for over 20 years, principally in the Congo, but also in other African countries, including Madagascar.

Special responsibilities: Representative for MAD Holdings Ltd

Mr Graeme R Boden BEc(Hons), FAICD (Resigned as a director 30 September 2010)

Graeme Boden has been a non-executive director and company secretary for 7 years. Mr Boden has worked as a senior corporate and financial manager with more than 25 years experience in the resources industry in both planning and evaluation roles, and finance and administration management. He is the principal of Boden Corporate Services Pty Ltd, which provides accounting, company secretarial and other administrative and commercial services to start-up companies. His client base includes several companies with ambitions of proceeding to an ASX listing and he has over 20 years experience as a director or secretary of listed companies. He is also a director of ASX listed Helicon Group Limited.

Special responsibilities: Financial and company secretarial matters

Directors' meetings

The number of meetings of the Company's board of directors held during the year ended 30 June 2010, and the number of meetings attended by each director were:

	Number of meetings held while director	Number of meetings attended while director
P J Woods	7	7
G F M Le Clezio	7	7
G R Boden	7	7
E V Young	7	1
N T B Davenport	7	4

Directors' and Executives' emoluments

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

There are no paid Directors or executives of Madagascar Resources NL.

Share based compensation - options

During the 2010 financial year, shareholders approved an option grant to the Directors. All options vested at grant. There were no further options issued as compensation during the year ended 30 June 2010. There are no performance conditions attached to the issued options.

The terms and conditions of each grant of options are as follows:

30 June 2010	Vested #	Granted #	Grant date	Fair value per option at grant date (cents)	Exercise price per option (cents)	Expiry date
P Woods	1,000,000	1,000,000	25/11/09	0.44	10	30/11/13
G F M Le Clezio	500,000	500,000	25/11/09	0.44	10	30/11/13
G Boden	750,000	750,000	25/11/09	0.44	10	30/11/13
G Young	250,000	250,000	25/11/09	0.44	10	30/11/13
T Davenport	250,000	250,000	25/11/09	0.44	10	30/11/13

The fair value of the options was charged to the Statement of Comprehensive Income during the 2010 financial year.

Options granted carry no dividend or voting rights.

Shares provided on exercise of remuneration options

There were no shares provided on exercise of remuneration options during the financial year ended 30 June 2010 or 30 June 2009.

Subsequent to the end of the financial year, shares have been issued to directors from the exercise of options at 5 cents per share, to P Woods (1,000,000), G Boden (1,000,000), G Leclezio (1,000,000) and T Davenport (250,000)

Principal activities

During the year the principal continuing activities of the group consisted of mineral exploration in Madagascar.

As disclosed in the earlier sections of this annual report, management of the exploration on the Toliara Sands Project was regained from a third party and engineering studies, funding and product offtake marketing activities were undertaken.

There were no other significant changes in the nature of the activities of the Company during the year.

Dividends

There were no dividends paid or declared during the financial period and up to the date of this report.

Significant changes in state of affairs

On 17 July 2009, Exxaro Mineral Sands, the holder of the option to acquire the Toliara Sands Project, gave notice of termination of the option.

Exxaro, through predecessor entities signed an option agreement in late 2003, in which the intent of the parties was for Exxaro to conduct a Pre- Feasibility Study and then proceed to financing and development of the Project. The Pre- Feasibility Study was completed and the components of a Bankable Feasibility Study had been under study over a four year period.

The concept which Exxaro was using as the basis for its studies was to feed its smelters at Empangeni. Following Exxaro's termination of the option agreement, MRNL has reviewed an alternative smaller scale, high grade project, using transport and infrastructure concepts to keep initial capital expenditure as low as practicable.

In May 2010 the company entered into a merger implementation agreement with Malagasy Minerals Limited ("MGY") to merge by way of scheme of arrangement. The agreement provided for MGY to take over MRNL for a consideration of 3 MGY shares and 0.5 option, exercisable at 20 cents, for each MRNL share.

The consolidated net loss after tax for the year was $1,029,780 (2009: $177,194 loss). Net assets of the consolidated entity decreased by $782,814 from $2,453,592 to $1,670,778.

Events subsequent to reporting date

During September and October, four directors exercised a total of 3,250,000 options at 5 cents per share, increasing issued capital by $162,500 and shares on issue to a total of 54,614,870.

On 1 October 2010, the Company and Malagasy Minerals signed a deed of termination and release to end the merger process.

Other than these matters, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments

Comments on future operational plans of the Group are included in this report under the review of exploration.

Environmental regulation

The Board is committed to environmental best practice in its operations and ensures full compliance with all statutory environmental regulations and guidelines.

Madagascar Resources NL

Directors' report (continued)

For the year ended 30 June 2010

Share options

Options to take up ordinary fully paid shares in the Company at the date of this report are as follows:

	Date options granted	Number	Issue price of shares	Expiry date
Executive options	28 November 2008	1,750,000	5 cents	30 November 2013
Executive options	25 November 2009	3,750,000	10 cents	30 November 2013

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

2,200,000 options exercisable at $0.25 per share expired unexercised on 30 November 2009.

Shares issued on the exercise of options

3,250,000 shares have been issued during or since the end of the period under review and no amounts are unpaid on any of the shares.

Directors' interests in shares and options

As at 30th June 2010 and also at the date of this report, the interest of the Directors and/or related parties in shares and options were

Shareholdings Date of This Report	**Balance 30/6/10**	**Option Exercise**	**Balance This Report**
P J Woods	1,760,001	1,000,000	2,760,001
G F M Le Clezio	5,395,002	1,000,000	6,395,002
N T B Davenport	-	250,000	250,000
E V Young	250,000	-	250,000
G R Boden (resigned 30 September 2010)	-	1,000,000	1,000,000
	7,405,003	3,250,000	10,655,003
Shareholdings 30 June 2010	**Balance 1/7/09**	**Transfers**	**Balance 30/6/10**
P J Woods	1,760,001	-	1,760,001
G F M Le Clezio	4,770,002	625,000	5,395,002
N T B Davenport	-	-	-
E V Young	250,000	-	250,000
G R Boden (resigned 30 September 2010)	-	-	-
	6,780,003	625,000	7,405,003
Shareholdings 30 June 2009	**Balance 1/7/08**	**Transfers**	**Balance 30/6/09**
P J Woods	1,760,001	-	1,760,001
G F M Le Clezio	4,970,002	(200,000)	4,770,002
N T B Davenport	-	-	-
E V Young	250,000	-	250,000
G R Boden	-	-	-
	6,980,003	(200,000)	6,780,003

Madagascar Resources NL

Directors' report (continued)

For the year ended 30 June 2010

Option holdings This Report	Balance 1/7/10	Granted as remuneration	Options exercised	Forfeited	Balance at This Report	Exercisable	Non-exercisable
P J Woods	2,000,000	-	(1,000,000)	-	1,000,000	1,000,000	-
G F M Le Clezio	1,500,000	-	(1,000,000)	-	500,000	500,000	-
E V Young	750,000	-	-	-	750,000	750,000	-
G R Boden*	1,750,000	-	(1,000,000)	-	750,000	750,000	-
T Davenport	750,000	-	(250,000)	-	500,000	500,000	-
	6,750,000	-	(3,250,000)	-	3,500,000	3,500,000	-

* resigned as a director 30 September 2010

Option holdings 30 June 2010	Balance 1/7/09	Granted as remuneration	Options exercised	Forfeited	Balance at 30/6/10	Exercisable	Non-exercisable
P J Woods	1,750,000	1,000,000	-	(750,000)	2,000,000	2,000,000	-
G F M Le Clezio	1,250,000	500,000	-	(250,000)	1,500,000	1,500,000	-
E V Young	750,000	250,000	-	(250,000)	750,000	750,000	-
G R Boden	1,100,000	750,000	-	(100,000)	1,750,000	1,750,000	-
T Davenport	500,000	250,000	-	-	750,000	750,000	-
	5,350,000	2,750,000	-	(1,350,000)	6,750,000	6,750,000	-

Option holdings 30 June 2009	Balance 1/7/08	Granted as remuneration	Options exercised	Forfeited	Balance at 30/6/09	Exercisable	Non-exercisable
P J Woods	750,000	1,000,000	-	-	1,750,000	1,750,000	-
G F M Le Clezio	250,000	1,000,000	-	-	1,250,000	1,250,000	-
E V Young	250,000	500,000	-	-	750,000	750,000	-
G R Boden	100,000	1,000,000	-	-	1,100,000	1,100,000	-
T Davenport	-	500,000	-	-	500,000	500,000	-
	1,350,000	4,000,000	-	-	5,350,000	5,350,000	-

Indemnification and insurance of officers and auditors

Indemnification

During or since the end of the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such by an officer or an auditor. In addition, the Company has not paid, or agreed to pay, a premium in respect of a contract insuring against liability incurred by an officer or an auditor.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 44 and forms part of the Directors' report for financial year 2010.

This report is made with a resolution of Directors:

Peter J Woods
Director

Dated at Perth this 11th day of November 2010.

Financial report – 30 June 2010

Contents

The financial report was authorised for issue by the directors on 2nd November 2010.

MADAGASCAR RESOURCES NL (“the Company”) is a company limited by shares, incorporated and domiciled in Australia.

The consolidated financial report of the Company for the financial year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the “Group”).

A description of the nature of the Group operations and principal activities is included in the review of activities on pages 5 to 11 and in the Directors’ Report on pages 12 to 16.

Madagascar Resources NL and its Controlled Entities

Statement of Comprehensive Income

For the year ended 30 June 2010

		Consolidated		Parent	
	Note	**2010 $**	**2009 $**	**2010 $**	**2009 $**
Net financial income	*6*	154,646	112,962	154,229	106,478
Other income		84,522	-	56	-
Accounting, taxation and secretarial services		(189,631)	(155,085)	(179,965)	(124,620)
Depreciation and amortisation		(17,158)	(1,087)	(451,924)	(1,087)
Exploration and evaluation expenditure		(139,312)	-	(95,393)	-
Geological and logistical consulting services		(336,350)	-	(336,350)	-
Office expenses		(335,764)	(53,633)	(148,178)	(38,149)
Other expenses	*6*	(204,354)	(5,960)	-	(53,095)
Personnel expenses	*4*	(46,074)	(72,050)	(15,900)	(72,050)
Loss before income tax expense		(1,029,475)	(174,853)	(1,073,425)	(182,523)
Income tax expenses		(305)	(2,341)	-	-
Net loss for the year	*7*	(1,029,780)	(177,194)	(1,073,425)	(182,523)
Other comprehensive income					
Net change in fair value of available for sale financial assets		80,000	260,000	80,000	260,000
Exchange difference on translation of foreign operations		145,262	18,862	-	-
Total other comprehensive (loss)/profit for the year	*7*	225,262	278,862	80,000	260,000
Total comprehensive (loss)/profit for the year attributable to the members of Madagascar Resources NL		(804,518)	101,668	(993,425)	77,477
Basic loss per share (cents per share)	*8*	(2.00)	(0.35)	(2.09)	(0.36)

The statement of comprehensive income is to be read in conjunction with the accompanying notes of the financial statements.

Madagascar Resources NL and its Controlled Entities

Statement of changes in equity

For the year ended 30 June 2010

Parent	Note	Issued Capital	Accumulated Losses	Reserves	Total
		$	$	$	$
Balance at 1 July 2008		3,916,580	(1,659,911)	49,500	2,306,169
Loss attributable to members of the entity		-	(182,523)	-	(182,523)
Other comprehensive income		-	-	260,000	260,000
Total comprehensive income/(loss)		-	(182,523)	260,000	77,477
Shares issued during the year	*16*	-	-	-	-
Share-based payments	*15*	-	-	72,050	72,050
Balance at 30 June 2009		3,916,580	(1,842,434)	381,550	2,455,696
Balance at 1 July 2009		**3,916,580**	**(1,842,434)**	**381,550**	**2,455,696**
Loss attributable to members of the entity		**-**	**(1,073,425)**	**-**	**(1,073,425)**
Other comprehensive income		**-**	**-**	**80,000**	**80,000**
Total comprehensive income/(loss)		**-**	**(1,073,425)**	**80,000**	**(993,425)**
Shares issued during the year	*16*	**-**	**-**	**-**	**-**
Share-based payments	*15*	**-**	**-**	**15,900**	**15,900**
Balance at 30 June 2010		**3,916,580**	**(2,915,859)**	**477,450**	**1,478,171**

Consolidated	Note	Issued Capital	Accumulated Losses	Reserves	Total
		$	$	$	$
Balance at 1 July 2008		3,916,580	(1,595,217)	(41,489)	2,279,874
Loss attributable to members of the consolidated entity		-	(177,194)	-	(177,194)
Other comprehensive income		-	-	278,862	278,862
Total comprehensive income/(loss)		-	(177,194)	278,862	101,668
Shares issued during the year	*16*	-	-	-	-
Share-based payments	*15*	-	-	72,050	72,050
Balance at 30 June 2009		3,916,580	(1,772,411)	309,423	2,453,592
Balance at 1 July 2009		**3,916,580**	**(1,772,411)**	**309,423**	**2,453,592**
Loss attributable to members of the consolidated entity		**-**	**(1,029,780)**	**-**	**(1,029,780)**
Other comprehensive income		**-**	**-**	**225,262**	**225,262**
Total comprehensive income/(loss)		**-**	**(1,029,780)**	**225,262**	**(804,518)**
Shares issued during the year	*16*	**-**	**-**	**-**	**-**
Share-based payments	*15*	**-**	**-**	**15,900**	**15,900**
Balance at 30 June 2010		**3,916,580**	**(2,802,191)**	**550,585**	**1,664,974**

The statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

Madagascar Resources NL and its Controlled Entities

Statement of Financial Position

As at 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent 2010 $	Parent 2009 $
Assets					
Cash and cash equivalents	*9*	353,938	1,294,755	254,874	1,232,555
Trade and other receivables	*10*	356,866	173,172	284,810	160,418
Total current assets		710,804	1,467,927	539,684	1,392,973
Other investments	*11*	440,000	360,000	440,000	360,000
Other receivables	*10*	621,881	744,484	621,881	744,484
Property, plant and equipment	*13*	28,358	25,938	4,900	2,912
Total non-current assets		1,090,239	1,130,422	1,066,781	1,107,396
Total assets		1,801,043	2,598,349	1,606,465	2,500,369
Liabilities					
Trade and other payables	*14*	136,069	144,757	128,294	44,673
Total current liabilities		136,069	144,757	128,294	44,673
Total liabilities		136,069	144,757	128,294	44,673
Net assets		**1,664,974**	**2,453,592**	**1,478,171**	**2,455,696**
Equity					
Issued capital	*16*	3,916,580	3,916,580	3,916,580	3,916,580
Reserves	*17(a)*	550,585	309,423	477,450	381,550
Accumulated Losses	*17(b)*	(2,802,191)	(1,772,411)	(2,915,859)	(1,842,434)
Total equity		**1,664,974**	**2,453,592**	**1,478,171**	**2,455,696**

The statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Madagascar Resources NL and its Controlled Entities

Statement of cash flows

For the year ended 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent 2010 $	Parent 2009 $
Cash flows from operating activities					
Cash receipts from customers		-	-	-	-
Cash paid to suppliers and employees		(1,078,227)	(185,324)	(688,159)	(160,680)
Cash generated from operations		(1,078,227)	(185,324)	(688,159)	(160,680)
Income taxes paid		(305)	(2,341)	-	-
Net cash used in operating activities	*24*	(1,078,532)	(187,665)	(688,159)	(160,680)
Cash flows from investing activities					
Acquisition of property, plant and equipment		(27,157)	-	(4,946)	-
Subsidiary sale instalments received		133,307	889,972	133,307	889,972
Interest received		31,565	58,567	31,083	58,466
Dividends received		-	5,000	-	5,000
Net cash provided by investing activities		137,715	953,539	159,444	953,438
Cash flows from financing activities					
Loans to subsidiaries		-	-	(448,966)	(53,096)
Dividends paid		-	-	-	-
Net cash used in financing activities		-	-	(448,966)	(53,096)
Net (decrease)/increase in cash and cash equivalents		(940,817)	765,874	(977,681)	739,662
Cash and cash equivalents at 1 July		1,294,755	528,881	1,232,555	492,893
Cash and cash equivalents at 30 June	*9*	353,938	1,294,755	254,874	1,232,555

The statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

1. Significant accounting policies

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs"), including Australian Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

The consolidated financial report of the Group also complies with the IFRS and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009.

The affected policies and standards are:

- Segment reporting – new AASB 8 *Operating Segments*
- Financial Instruments – revised AASB 7 *Financial Instruments: Disclosures*
- Borrowing Costs – revised AASB 123 *Borrowing Costs*

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to the financial statements

1. Significant accounting policies (continued)

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements, less provision for diminution in circumstances where it is considered that the investment may not recover its book value.

Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains arising from transactions with equity accounted investee are eliminated against the investment to the extent of the Group's interest in investee.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the financial currency of the Group at foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The revenues and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the foreign exchange rates ruling at the balance date. Foreign exchange differences arising on retranslation are recognised in a separate component of equity.

Prior to translating the financial statements of foreign operations in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the balance date.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the profit or loss upon disposal.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy i).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and its cost can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	10 years
Motor vehicles	4-5 years

1. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

Office equipment	4-10 years
Office furnishings	4-5 years
Tools and equipment	4 years
Plant and installations	5 years

(f) Exploration and evaluation expenditure

Expenditure incurred during exploration and the early stages of evaluation of new areas of interest is written off as incurred.

Where the Directors decide to progress to development in an area of interest all further expenditure incurred relating to the area will be capitalised.

Projects are advanced to development status when it is expected that future expenditure can be recouped through sale or successful development and exploitation of the area of interest.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy i).

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

(i) Impairment

The carrying amounts of the consolidated assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(j) Calculation of recoverable amount

The recoverable amount of the Group's receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(k) Share capital

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

1. Significant accounting policies (continued)

(l) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(m) Share-based payment transactions

The share option program allows the Group's directors and key management personnel to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binominal option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(n) Trade and other payables

Trade and other payables are stated cost.

(o) Revenue

Revenues are measured at fair value of the consideration received net of the amount of goods and services tax (GST in Australia, TVA in Madagascar) payable to the taxation authorities. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of goods can be estimated reliably and there is no continuing management involvement with the goods.

Interest income

Interest income is recognised in the statement of comprehensive income as it accrues.

Logistical support services

Revenue received by a subsidiary for support services provided to the Toliara Sands Project is recognised once the service is performed and an invoice raised.

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: The initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

1. Significant accounting policies (continued)

(q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST in Australia, TVA in Madagascar), except where the amount of GST/TVA incurred is not recoverable from the Australian Tax Office (ATO) or Centre Fiscal Mandrosoa (Fisc). In these circumstances, the GST/TVA is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST/TVA included. The net amount of GST/TVA recoverable from, or payable to, the ATO/Fisc is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST/TVA components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO/Fisc are classified as operating cash flows.

(r) Going concern

The directors are of the opinion that the company is a going concern for the following reasons.

Subsequent to year end the Group raised $162,500 of equity capital via the exercise of director options. The funds raised will be used to meet the ongoing working capital requirements of the Group. The directors also anticipate that a further equity raising will be required and will be completed in 2011. However, current cash flow forecasts indicate that the company will be able to meet its commitments for at least 12 months from the date of signing this report.

2. Accounting estimates and judgements

Management has been involved in the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. Those estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Note 13 contains information about the assumptions and their risk factors relating to the recoverable amount of certain fixed assets. In Note 18, analysis is given of the foreign exchange exposure and interest bearing assets of the consolidated entity and risks in relation to foreign exchanges and interest rate movements.

Accounting policy 1(f) discusses the Group's assumptions about exploration expenditure. The consolidated entity adopts the more conservative policy of writing off all exploration and evaluation expenditure and it is only if the area of interest is developed that an asset may be realised.

3. Segment reporting

The company had applied the exemption available to non-listed entities to not report segment information.

	Note	Consolidated		Parent	
4. Personnel expenses		**2010 $**	**2009 $**	**2010 $**	**2009 $**
Wages and statutory employee oncosts		30,174	-	-	-
Equity settled transactions	15	15,900	72,050	15,900	72,050
		46,074	72,050	15,900	72,050
5. Auditor's remuneration					
Audit services					
Auditors of the Company					
Audit and review of financial reports:					
HLB Mann Judd		12,000	16,000	12,000	16,000
Other overseas auditors		2,439	6,000	-	-
		14,439	22,000	12,000	16,000

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

6. Net financial income

	Consolidated		Parent	
	2010 $	2009 $	2010 $	2009 $
Interest income	29,751	58,316	29,334	58,214
Interest on consideration instalments	124,895	48,264	124,895	48,264
Net Financial income	154,646	112,962	154,229	106,478

7. Income tax expense

	Consolidated		Parent	
	2010 $	2009 $	2010 $	2009 $
The major components of income tax expense are:				
Income statement				
Current income tax				
Current income tax	305	2,341	-	-
Adjustments for prior years	-	-	-	-
Deferred tax expense				
Relating to origination & reversal of temporary differences	-	-	-	-
Unused tax losses not recognised as Deferred Tax Asset	-	-	-	-
Total income tax expense in statement of comprehensive income	305	2,341		-
Numerical reconciliation between tax expense/(credit) and pre-tax net profit /(loss)				
Accounting loss before income tax	(1,029,780)	(174,853)	(1,073,425)	(182,523)
Income tax benefit using the domestic corporation tax rate of 30% (2008: 30%)	(308,934)	(52,456)	(322,028)	(54,757)
Increase in income tax expense due to:				
Non-deductible expenses	134,090	31,446	134,090	32,148
Tax losses not recognised	212,313	13,350	225,407	14,949
Minimum tax requirement in Madagascar	(305)	(2,341)	-	-
Decrease in income tax expense				
Non-assessable income	(37,469)	(12,904)	(37,469)	(12,904)
	(305)	(22,905)	-	(20,564)
Over provided in previous years	-	20,564	-	20,564
Income tax expense on pre-tax net profit/(loss)	(305)	(2,341)	-	-

The Directors estimate the potential future income tax benefit arising from tax losses and temporary differences available to Madagascar Resources NL to be $328,533 (2009: $103,126) and consolidated $558,398 (2009: $346,085) which substantially relates to expenditure incurred in relation to the exploration of heavy mineral sands and associated minerals in Madagascar.

The potential future income tax benefit arising from tax losses and timing differences has not been brought to account in this financial report as realisation of the benefit cannot be regarded as probable.

The potential future income tax benefit will only be obtained by the Group if:

a) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
b) the Company continues to comply with the conditions for deductibility as imposed by tax legislation; and
c) no changes in tax legislation adversely affect the Company in realising the benefit.

8. Earning per share

	Consolidated		Parent	
	2010	2009	2010	2009
Basic earnings per share	***cents per share***	***cents per share***	***cents per share***	***cents per share***
Continuing operations	(2.00)	(0.35)	(2.09)	(0.36)
Total basic earnings per share	(2.00)	(0.35)	(2.09)	(0.36)

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

8. Earnings per share (continued)

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Basic earnings per share					
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		$	$	$	$
Earnings from continuing operations		(1,029,780)	(177,194)	(1,073,425)	(182,523)
		Shares	Shares	Shares	Shares
Weighted average number of shares		51,364,870	51,364,870	51,364,870	51,364,870

9. Cash and cash equivalents

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
	$	$	$	$
Bank balances	353,938	1,294,755	254,874	1,232,555
Cash and cash equivalents in statement of cash flows	353,938	1,294,755	254,874	1,232,555

10. Trade and other receivables

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Current				
Deferred consideration receivable	266,000	151,809	266,000	151,809
Trade debtors	-	2,310	-	-
Other debtors and prepayments	90,866	17,304	18,810	6,860
Accrued income	-	1,749	-	1,749
	356,866	173,172	284,810	160,418
Non-current				
Deferred consideration receivable	621,881	744,484	621,881	744,484
Loans to related parties	-	-	620,902	172,935
Less: Provision for non-recovery of loans	-	-	(620,902)	(172,935)
	621,881	744,484	621,881	744,484
	978,747	917,656	906,691	904,902

11. Other investments

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Non-current investments					
Available for sale investments					
- Fair Value		440,000	360,000	440,000	360,000
Investments in controlled entities					
- Cost	22	-	-	2,660	101,660
- Provision for writedown to net recoverable value	22	-	-	(2,660)	(101,660)
Investments in controlled entities		440,000	360,000	440,000	360,000

The ultimate recoupment of investments in controlled entities will be dependent on the successful development and commercial exploitation or sale of exploration projects held by those controlled entities.

During the 2010 financial year, the wholly owned subsidiary Madagascar Resources Ltd was liquidated. It was domiciled in Mauritius and had issued capital at cost of $A100,000. Malagasy Sands No.2 Ltd was incorporated in Mauritius during the year with issued capital at cost of $A1,000.

12. Current tax assets and liabilities

The current tax liability for the consolidated entity of $nil (2009: $nil) represents the amount of income taxes payable in respect of the current period.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

13. Property, plant and equipment

	Consolidated								Parent	
	Motor vehicles	Office equipment	Office furnishings	Leasehold improve-ments	Tools and equipment	Plant and technical equipment	Under con-struction	Total	Office equipment	Total
Cost										
Balance at 1 July 2008	42,278	27,147	4,988	13,553	-	6,174	-	94,140	6,110	6,110
Acquisitions	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Effect of movements in foreign exchange	3,689	2,369	435	1,183	-	539	-	8,215	-	-
Balance at 30 June 2009	45,967	29,516	5,423	14,736	-	6,713	-	102,355	6,110	6,110
Balance at 1 July 2009	45,967	29,516	5,423	14,736	-	6,713	-	102,355	6,110	6,110
Acquisitions	18,947	5,579	-	-	-	2,631	-	27,157	4,946	4,946
Disposals	-	(6,021)	(1,334)	-	-	(1,883)	-	(9,238)	-	-
Effect of movements in foreign exchange	(15,106)	(6,935)	(1,520)	(4,398)	-	(2,059)	-	(30,018)	-	-
Balance at 30 June 2010	49,808	22,139	2,569	10,338	-	5,402	-	90,256	11,056	11,056

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

13. Property, plant and equipment (continued)

	Consolidated								Parent	
	Motor vehicles	Office equipment	Office furnishings	Leasehold improve-ments	Tools and equipment	Plant and technical equipment	Under con-struction	Total	Office equipment	Total
Depreciation and impairment losses										
Balance at 1 July 2008	22,900	15,234	2,641	4,502	-	2,780	-	48,057	2,111	2,111
Depreciation charge for the year	11,243	6,287	1,061	1,441	-	1,315	-	21,347	1,087	1,087
Impairment losses	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Effect of movements in foreign exchange	3,342	2,223	385	657	-	406	-	7,013	-	-
Balance at 30 June 2009	37,485	23,744	4,087	6,600	-	4,501	-	76,417	3,198	3,198
Balance at 1 July 2009	37,485	23,744	4,087	6,600	-	4,501	-	76,417	3,198	3,198
Depreciation charge for the year	9,586	4,499	727	1,116	-	1,241		17,169	2,958	2,958
Impairment losses	-	-	-	-	-	-			-	-
Disposals	-	(5,149)	(1,089)	-	-	(1,197)		(7,435)	-	-
Effect of movements in foreign exchange	(12,567)	(6,709)	(1,324)	(2,217)	-	(1,436)	-	(24,253)	-	-
Balance at 30 June 2010	34,504	16,385	2,401	5,499	-	3,109		61,898	6,156	6,156
Carrying amounts										
At 1 July 2008	19,378	11,913	2,347	9,051	-	3,394	-	46,083	3,999	3,999
At 30 June 2009	8,482	5,772	1,336	8,136	-	2,212	-	25,938	2,912	2,912
At 1 July 2009	8,482	5,772	1,336	8,136	-	2,212	-	25,938	2,912	2,912
At 30 June 2010	15,304	5,754	168	4,839	-	2,293	-	28,358	4,900	4,900

14. Trade and other payables

	Consolidated 2010 $	Consolidated 2009 $	Parent 2010 $	Parent 2009 $
Trade payables	107,977	20,503	100,202	12,581
Non-trade payables and accrued expenses	28,092	124,254	28,092	32,092
	136,069	144,757	128,294	44,673

15. Employee benefits

Share based payments

The Company has a share option program that entitles directors and key management personnel to purchase shares in the entity. On 30 November 2005, 28 November 2008 and 25 November 2009, options were granted to directors and key management personnel. In accordance with these programs, options are exercisable at the exercise price determined at the date of grant.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management at 30 November 2005	2,200,000	50% of options vested immediately and 50% had vested subsequently	4 years
Lapsed 30 November 2009	(2,200,000)		
Option grant to key management at 28 November 2008	5,000,000	100% of options vested immediately	5 years
Option grant to key management at 25 November 2009	3,750,000	100% of options vested immediately	4 years
Total share options	8,750,000		

The options outstanding at 30 June 2010 have a weighted average exercise price of 7.14 cents and a weighted average remaining contractual life of 3.42 years.

During the year, no share options were exercised (2009: nil).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black & Scholes option-pricing model. The contractual life of the option (4 years) is used as an input into this model. Expectations of early exercise are incorporated into the Black & Scholes option-pricing model.

Fair value of share options and assumptions	Key Management Personnel 2010	Key Management Personnel 2009
Fair value at measurement date	0.44 cents	1.44 cents
Share price	5.5 cents	5 cents
Exercise price	10 cents	5 cents
Expected volatility (expressed as weighted average volatility used in the modelling under Black & Scholes option-pricing model)	25%	25%
Option life (expressed as weighted average life used in the modelling under Black & Scholes option-pricing model)	4 years	5 years
Discount for non-negotiability	0%	0%
Expected dividends	0%	0%
Risk-free interest rate (based on national government bonds)	5.44%	3.30%

The expected volatility is based on the historic volatility of prices paid for shares transferred and options exercised.

Share options granted to key management in November 2008 and November 2009 were estimated to have fair values of 1.44 cents and 0.441 cents respectively. All options vested immediately upon grant.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

15. Employee benefits (continued)

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Employee expenses		$	$	$	$
Balance 01 July		-	-	-	-
Share based payments	4	15,900	72,050	15,900	72,050
Balance 30 June		15,900	72,050	15,900	72,050

The fair value of the share options at grant date is determined based on the Black & Scholes formula. The model inputs were the share prices, the exercise price, expected volatility, expected dividends, the term and risk-free interest rate as set out in the table above.

16. Issued capital

	2010 Shares	2009 Shares	2010 $	2009 $
On issue at 1 July	51,364,870	51,364,870	3,916,580	3,916,580
Issued during year	-	-	-	-
On issue at 30 June – fully paid	51,364,870	51,364,870	3,916,580	3,916,580

The Company has also issued share options (see note 15).

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Options

Information relating to the Madagascar Resources NL Option Plan, including details of options issued, exercised and lapsed during the financial year, and options outstanding at the end of the financial year is set out in Note 15.

17. Reserves and accumulated losses

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Reconciliation of movement in reserves				
a) Reserves	$	$	$	$
Foreign currency translation reserve	73,135	(72,127)	-	-
Share-based payments reserve	137,450	121,550	137,450	121,550
Asset revaluation reserve	340,000	260,000	340,000	260,000
	550,585	309,423	477,450	381,550
Foreign currency translation reserve:				
Balance at 1 July	(72,127)	(90,989)	-	-
Currency translation differences arising during the year	145,262	18,862	-	-
Balance at 30 June	73,135	(72,127)	-	-
Share-based payments reserve:				
Balance 1 July	121,550	49,500	121,550	49,500
Option expense	15,900	72,050	15,900	72,050
Balance 30 June	137,450	121,550	137,450	121,550
Asset revaluation reserve:				
Balance 1 July	260,000	-	260,000	-
Revaluation	80,000	260,000	80,000	260,000
Balance at 30 June	340,000	260,000	340,000	260,000
(b) Accumulated profits / (losses)				
Movements in accumulated profits / (losses) were as follows:				
Balance at 1 July	(1,772,411)	(1,595,217)	(1,842,434)	(1,659,911)
Dividend paid	-	-	-	-
Net profit/ (loss) for the year	(1,029,780)	(177,194)	(1,073,425)	(182,523)
Balance 30 June	(2,802,191)	(1,772,411)	(2,915,859)	(1,842,434)

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Notes to the financial statements

18. Dividends

The last dividend paid by the Company was in relation to the 2007 year.

	Parent	
	2010	2009
Dividend franking account	$	$
30% franking credits available to shareholders of Madagascar Resources NL for subsequent financial years.	78,424	78,424

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) franking credits that will arise from the payment of the current tax liabilities
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end
(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

19. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business.

Credit risk

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group does not require collateral in respect of financial assets.

Cash transactions are limited to high credit quality financial institutions.

Interest rate risk

As the Group has no interest-bearing liabilities, the Group's loss and operating cash flows are not exposed to change in market interest rates.

The Group's interest rate risk arises from the interest-bearing assets. Cash being held to fund exploration programs and operating costs are placed with financial institutions at variable rates which exposes the Group to cash flow interest rate risk. To attempt to manage this risk the Group policy is to place all but immediately required funds into a commercial bill.

Cash and cash equivalents

Balances held in bank accounts are bearing a floating interest rate of 4.50% (2009: 2.75%).

Other financial assets and liabilities

All other financial assets and liabilities of the group are non-interest bearing.

Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to Malagasy Ariary, Euro and the US Dollar.

The Group's risk management policy is to keep surplus cash in US Dollars and have major contracts written using Euro or US Dollars as the currency for calculation of the liability or revenue stream. During 2010, ongoing expenditures in foreign currencies were minimal and the cash balance held in US dollars at 30 June 2010 was approximately $US12,281.

Notes to the financial statements

19. Financial instruments (continued)

Market risk

The Group's activities expose it primarily to the changes in foreign currency exchange rates and interest rates on cash balances.

The total advances to all subsidiaries for the year were $A447,967 (previous year $A53,096). Advances to the Mauritian subsidiaries are made in Australian dollars and converted to US dollars when payments are required to be made. Advances to Malagasy subsidiaries are made in US dollars as funds are required to pay invoices and are held in US dollars before being converted to Ariary or Euro as required.

Hence a change in the exchange rate of 100 basis points, if applied to the total advance for the year would have an impact on earnings and equity of about $A4,480. The same change on year end balances held in US dollars would be about $A123.

The cash balances held at year end were $0.354 million, on which interest was being earned at 4.50%. A change in the interest rate of 100 basis points, if applied to the year end balance for a whole year, would have the effect of changing earnings and equity by $3,540.

Capital risk management

The Company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company or the group, to the extent that these do not conflict with the directors' fiduciary duties towards the Company or the requirements of local regulation. The results of the directors' review of the Company's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared. The Company was not subject to externally imposed capital requirements in either the current or prior year.

Fair values

As of 1 July 2009, Madagascar Resources NL has adopted the amendments to AASB 7 *Financial Instruments: Disclosures* which require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) 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).

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

	Note	Carrying amount 2010 $	Fair value 2010 $	Carrying amount 2009 $	Fair value 2009 $
Consolidated					
Trade and other receivables	*10*	978,747	978,747	744,484	744,484
Cash and cash equivalents	*9*	353,938	353,938	1,294,755	1,294,755
Trade and other payables	*14*	(136,069)	(136,069)	(144,757)	(144,757)
Available for sale assets		440,000	440,000	360,000	360,000
		1,196,616	1,196,616	1,894,482	1,894,482
Parent					
Trade and other receivables	*10*	906,691	906,691	904,902	904,902
Cash and cash equivalents	*9*	254,874	254,874	1,232,555	1,232,555
Trade and other payables	*14*	(128,294)	(128,294)	(44,673)	(44,673)
Available for sale assets		440,000	440,000	360,000	360,000
		1,033,271	1,033,271	2,092,784	2,092,784

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Notes to the financial statements

19. Financial instruments (continued)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other receivables / payables

Receivables and payables which have a remaining life of less than one year are recorded at the nominal amount, which is deemed to reflect the fair value.

The amount receivable from Malagasy Minerals Limited in relation to unpaid consideration for its purchase of Mada-Aust SARL amounts to:

	Nominal Amount 2010 $	Fair Value 2010 $	Nominal Amount 2009 $	Fair Value 2009 $
Current	271,205	266,000	160,000	151,809
Non-Current	764,216	621,881	1,008,728	744,484
Total	1,035,421	887,881	1,168,728	896,293

The fair value has been calculated by discounting the amounts receivable by 7% pa (2009: 8% pa), based upon the estimated timing of receipts.

20. Capital and other commitments

(a) Lease commitments

	Consolidated		Parent	
	2010 $	2009 $	2010 $	2009 $
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	17,260	4,675	1,455	1,455
Representing:				
Non-cancellable operating leases	-	-	-	-
Cancellable operating leases	17,260	4,675	1,455	1,455
	17,260	4,675	1,455	1,455

The Group has a non-cancellable lease on the property which houses the resident manager in Madagascar. This lease is for the period 1 July 2010 – 30 June 2011 and can be renewed upon mutual agreement.

The cancellable leases relate to offices in Madagascar and Australia. The Group is required to give three months notice prior to the end of a one year term for its office in Madagascar and one office under a monthly rental agreement in Australia.

(b) Exploration expenditure commitments

The group has minimum annual expenditure commitments, as required by the Malagasy Mining Code, in order to maintain title to various mining permits which are held in Madagascar. Expected annual rental for calendar 2011 in relation to existing exploration tenements is approximately $AU 102,000.

21. Contingencies

There were no contingent amounts payable at year end.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

22. Consolidated entities

Name of entity	Country of incorporation	Class of shares	Equity holding 2010 %	Equity holding 2009 %	Cost of the Company's investment 2010 $	Cost of the Company's investment 2009 $
Madagascar Resources Ltd (i)	Mauritius	Ordinary	-	100	-	100,000
Malagsy Sands No 2	Mauritius	Ordinary	100	-	1,000	-
Madagascar Mineral Fields Ltd	Mauritius	Ordinary	100	100	1,660	1,660
Toliara Sands SARL (previously Exploitation Madagascar SARL)	Madagascar	Ordinary	100	100	1,552,671	1,543,081
Madagascar Resources SARL	Madagascar	Ordinary	100	100	450,176	395,857

The above Malagasy incorporated companies are owned by Madagascar Mineral Fields Ltd (100% of Toliara Sands SARL) and Malagasy Sands No.2 Ltd (100% of Madagascar Resources SARL) (2009: 100% owned by Madagascar Mineral Fields Ltd). The Malagasy companies are therefore indirectly 100% owned by Madagascar Resources NL. The Malagasy incorporated companies carry on business in Madagascar. Malagasy Sands No.2 and Madagascar Mineral Fields Ltd carry on business in Mauritius.

(i) This company was liquidated during the year.

23. Reconciliation of cash flows from operating activities

	Note	Consolidated 2010 $	Consolidated 2009 $	Parent 2010 $	Parent 2009 $
Profit/(loss) after income tax		(1,029,780)	(177,194)	(1,073,425)	(182,523)
Non-cash items					
Depreciation and amortisation	*13*	17,158	1,087	2,958	1,087
Expense recovery of non-cash items from third party			19,058	-	-
Impairment losses		-	-	448,966	53,096
Foreign exchange (gains)/losses		70,987	18,862	-	-
Equity-settled share-based payment expenses	*15*	15,900	72,050	15,900	72,050
Interest on consideration instalments receivable		(124,895)	(48,264)	(124,895)	(48,264)
Items classified as investing activities					
Interest received		(29,816)	(58,567)	(29,334)	(58,466)
Changes in operating assets and liabilities					
(Increase)/Decrease in trade and other receivables		(75,560)	40,964	(11,950)	5,398
Increase/(Decrease) in trade and other payables		77,474	(50,661)	83,621	(3,058)
Net cash used in operating activities		(1,078,532)	(187,665)	(688,159)	(160,680)

24. Key management personnel disclosures for non-disclosing entities

Transactions with key management personnel

The Group provides non-cash benefits to directors and key management personnel. The key management personnel compensation included in "personnel expenses" (see Note 6) is as follows:

	Consolidated 2010 $	Consolidated 2009 $	Parent 2010 $	Parent 2009 $
Share based payments	15,900	72,050	15,900	72,050

Other key management personnel transactions with the Company

A number of key management persons of the Company, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

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Notes to the financial statements

24. Key management personnel disclosures for non-disclosing entities (continued)

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

			Consolidated		Parent	
Director	**Transaction**	***Note***	**2010 $**	**2009 $**	**2010 $**	**2009 $**
Dr Peter Woods	Geological and Corporate Consultancy Services	(i)	120,750	50,803	120,750	50,803
Guy le Clezio	Strategic Consultancy Services	(ii)	35,000	-	35,000	-
Graeme Boden	Secretarial and Financial Consultancy Services	(iii)	117,959	54,083	117,959	54,083
Non-director						
Jules le Clezio	Logistical and Administrative Consultancy Services	(iv)	88,000	-	88,000	-

I. Dr Peter Woods is a director and shareholder of Quantum Holdings Pty Ltd ("Quantum"). During the year Quantum provided geological and administrative consultancy services to Madagascar Resources NL and certain of its controlled entities. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

II. Guy Le Clezio provided strategic consultancy services to Madagascar Resources NL during the year. Amounts were billed based upon normal market rates for such services and were due and payable under normal payment terms.
Guy Le Clezio is a director and shareholder of Canon Point Pty Ltd and Running Water Ltd.

III. Graeme Boden is a director and shareholder of Boden Corporate Services Pty Ltd ("Boden"). During the year Boden staff provided company secretarial, financial consultancy, accounting and administrative services to Madagascar Resources NL. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

IV. Jules Le Clezio, through his consultancy company, Midas Consultancy Pty Ltd, provided logistical consultancy services to MADA-AUST SARL as well as acting as the nominated manager for that company, Exploration Madagascar SARL and Madagascar Ressources SARL in Madagascar. He also provided administrative consultancy services to Madagascar Resources NL during the year.

Amounts payable to key management personnel and their related parties at reporting date arising from these transactions were as follows:

	Consolidated		Parent	
	2009 $	**2009 $**	**2009 $**	**2009 $**
Current payables				
Trade creditors	2,496	1,865	2,496	1,865
	2,496	1,865	2,496	1,865

Service Contracts and Company expenses

There were no formal service contracts in existence during or since the end of the financial period. Any payments made to key management personnel were on the basis of hourly rate approved in advance by directors.

During the year, certain Company expenses were incurred by the Directors of the Company and other key management personnel of the Group. These amounts were reimbursed to Directors by the Company on the production of the appropriate receipts.

Madagascar Resources NL and its Controlled Entities

Notes to the financial statements

24. Key management personnel disclosures for non-disclosing entities (continued)

At balance date, the interest of the Directors and/or related parties in shares and options were:

Shareholdings	**Balance**	**Transfers**	**Balance**
At 30 June 2010	**1/7/2009**		**30/6/2010**
P J Woods	1,760,001	-	1,760,001
G F M Le Clezio	4,770,002	625,000	5,395,002
N T B Davenport	-	-	-
E V Young	250,000	-	250,000
G R Boden	-	-	-
	6,780,003	625,000	7,405,003

Shareholdings	**Balance**	**Transfers**	**Balance**
At 30 June 2009	**1/7/2008**		**30/6/2009**
P J Woods	1,760,001	-	1,760,001
G F M Le Clezio	4,970,002	(200,000)	4,770,002
N T B Davenport	-	-	-
E V Young	250,000	-	250,000
G R Boden	-	-	-
	6,980,003	(200,000)	6,780,003

Option holdings	**Balance**	**Granted as**	**Options**	**Forfeited**	**Balance at**	**Exercisable**	**Non-**
30 June 2010	**1/7/09**	**remuneration**	**exercised**		**30/6/10**		**exercisable**
P J Woods	1,750,000	1,000,000	-	(750,000)	2,000,000	2,000,000	-
G F M Le Clezio	1,250,000	500,000	-	(250,000)	1,500,000	1,500,000	-
E V Young	750,000	250,000	-	(250,000)	750,000	750,000	-
G R Boden	1,100,000	750,000	-	(100,000)	1,750,000	1,750,000	-
T Davenport	500,000	250,000	-	-	750,000	750,000	-
	5,350,000	2,750,000	-	(1,350,000)	6,750,000	6,750,000	-

Option holdings	**Balance**	**Granted as**	**Options**	**Forfeited**	**Balance at**	**Exercisable**	**Non-**
30 June 2009	**1/7/08**	**remuneration**	**exercised**		**30/6/09**		**exercisable**
P J Woods	750,000	1,000,000	-	-	1,750,000	1,750,000	-
G F M Le Clezio	250,000	1,000,000	-	-	1,250,000	1,250,000	-
E V Young	250,000	500,000	-	-	750,000	750,000	-
G R Boden	100,000	1,000,000	-	-	1,100,000	1,100,000	-
T Davenport	-	500,000	-	-	500,000	500,000	-
	1,350,000	4,000,000	-	-	5,350,000	5,350,000	-

Share based compensation - options

During the 2009 financial year options were issued to key management personnel. Each option is convertible into one ordinary share. The term of the options was five years and the exercise price is 5 cents. In the event of an option holder leaving the Company the vested options remain issued. The terms and conditions of each grant of options affecting remuneration in this period is as follows:

30 June 2010	Vested At end of period	Granted	Grant date	Fair value per option at grant date (cents)	Exercise price per option (cents)	Expiry date
P Woods	1,000,000	1,000,000	25/11/09	0.44	10	30/11/13
G Le Clezio	500,000	500,000	25/11/09	0.44	10	30/11/13
G Boden	750,000	750,000	25/11/09	0.44	10	30/11/13
E Young	250,000	250,000	25/11/09	0.44	10	30/11/13
J Le Clezio	1,000,000	1,000,000	25/11/09	0.44	10	30/11/13
T Davenport	250,000	250,000	25/11/09	0.44	10	30/11/13

Madagascar Resources NL and its Controlled Entities

25. Related parties- non key management personnel disclosures

Identity of related parties

The Company has a related party relationship with its subsidiaries (see Note 23) and key management personnel (see Note 25).

Other related party transactions

Subsidiaries

Further loan funds of $447,967 (2009:$53,906) were advanced to the Malagasy and Mauritian subsidiaries during the year to cover operating costs. Loans to controlled entities are interest free and unsecured. It is the Company's intention not to seek payments of the above amounts for at least 12 months.

26. Subsequent events

During September and October, four directors exercised a total of 3,250,000 options at 5 cents per share, increasing issued capital by $162,500 and shares on issue to a total of 54,614,870.

On 1 October 2010, the Company and Malagasy Minerals signed a deed of termination and release to end the merger process.

Other than these matters, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

The Directors of the Madagascar Resources NL , the "Company" declare that:

1. The financial statements and notes as set out on pages 18 to 40 are in accordance with the Corporations Act 2001 and:

   comply with Australian accounting standards, the Corporations Regulations 2001; and

   give a true and fair view of the financial position as at 30 June 2010 and of their performance for the year ended on that date, of the company and the economic entity.

2. The Chief Executive Officer and the Chief Finance Officer 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 Accounting Standards; and

   c) The financial statements and notes for the financial year give a true and fair view

3. 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.

4. The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

Peter J Woods

Director
Perth 11th November 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
MADAGASCAR RESOURCES NL

We have audited the accompanying financial report of Madagascar Resources NL, ("the company"), which comprises the statement of financial position as at 30 June 2010, 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, other explanatory notes and the directors' declaration for both Madagascar Resources NL and the Madagascar Resources NL Group ("the consolidated entity") as set out on pages 18 to 40. The consolidated entity comprises 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 controls 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 Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements of the Madagascar Resources NL group and the separate financial statements of Madagascar Resources NL comply with International Financial Reporting Standards.

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 judgement, 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 company'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 company'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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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HLB Mann Judd

Accountants | Business and Financial Advisers

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion
In our opinion:

(a) the financial report of Madagascar Resources NL is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
11 November 2010

N G NEILL
Partner

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Madagascar Resources NL for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Madagascar Resources NL

Perth, Western Australia
11 November 2010

N G NEILL
Partner, HLB Mann Judd

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