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28 September 2012

MADAGASCAR OIL LIMITED

("Madagascar Oil", "MOIL" or the "Company")

Half Year Results

Madagascar Oil today announces its half year results for the six month period ended 30 June 2012.

Highlights

Operational:

- Significant activity on all five Madagascar Oil blocks, including development of conventional oil and gas prospects as well the pilot production project in the multi-billion barrel Tsimiroro heavy oil field.
- All of the 25 planned injection and production wells on the Tsimiroro Steam Flood Pilot (SFP) have been drilled and completed. The net oil sand thickness averaged 70 meters across the pilot area, 40% greater than initially projected.
- As of 6 September 2012, the Company achieved first oil on 3 wells under "cold" production. This is a significant milestone ahead of the introduction of steam to the reservoir.
- The installation of the steam equipment is well underway and the initiation of Cyclic Steam (also referred to as "Huff and Puff") is on schedule. The first steam injection is expected in Q4 2012.
- Analysis of the 16,000 line km Block 3104 Airborne Gravity Gradiometry ("AGG") survey conducted on Block 3104 (Tsimiroro) in 2011 indicates the potential for conventional oil plays in 9 areas outside the heavy oil structure. A number of large "leads" have been identified by the Company, with Oil-In-Place potential in the billion barrel range. The final report by contractor Fugro is expected to be issued in Q4 2012, and work will continue towards developing conventional oil prospects on the Tsimiroro Block.
- The Company's partner, Total Exploration and Production, has negotiated an amendment to the Bemolanga production sharing contract that is currently in the government approval process. The next phase will include 400 km of seismic acquisition over two conventional prospect areas identified in the 2011 Block 3102 AGG analysis.
- The AGG survey programme over the Company's three exploration blocks (the "Exploration Blocks") was concluded in July 2012 with the completion of a 24,000 line km survey. Analysis of this data by Fugro is expected by early 2013.

- In April 2012, the Company restarted work on the Exploration Blocks, following Government approval of the 2011-2012 work programmes and budgets for these blocks.

Financial:

- Loss for the six month period was US$5.4 million, compared to US$5.7 million during the comparable period in 2011.
- Capital expenditures for the period were US$27.8 million.
- The development cost for the Tsimiroro Steam Flood Pilot is projected to be US$53 million, US$17 million higher than initial projections. The company's projected annual operating costs for the pilot have been revised upwards by US$7-10 million, depending on the duration of the pilot, to take into account an updated analysis of anticipated operational requirements.
- At 31 August 2012, the Company had cash of US$20 million and prepayments of US$5 million, which is now expected to fund the Company into 2013 rather than into 2014 as previously forecast.

Commenting on today's announcement, Laurie Hunter, Chief Executive Officer, said:
"The first half of 2012 has seen Madagascar Oil make material operational progress across all five of its blocks. In particular, installation of the pilot at Tsimiroro, which is our near term strategic priority, is approaching completion. Reaching this critical milestone, at a green field site, in a country lacking much relevant infrastructure is a great achievement, albeit at additional cost. The Company believes that first steam injection will occur before the end of the year as planned, and the full upside of the project will become clear in 2013.

The preliminary results of the recent AGG survey have greatly enhanced conventional oil prospectivity across all five of our blocks, including Bemolanga and Tsimiroro. With the resolution in April of our issues with the Government of Madagascar surrounding the validity of our Exploration Blocks, we are now in a position to move forward with unlocking the significant potential we have identified therein.

As we have indicated, we plan to raise additional funds later this year to address the increased costs to construct and operate the pilot project and additional conventional oil exploration opportunities that we have identified. We are prioritizing these investments in order to maximize the Company's return on investment."

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Chairman / CEO Statement

During the first half of the year we continued to make significant progress on our five blocks that represent the largest onshore position in the country. Even as we are about to commence steam injection in our Tsimiroro Block, we are developing multiple conventional leads on all our blocks including Tsimiroro. We believe that opportunities exist in Madagascar that will extend the trend of discoveries that has progressed along the east coast of Africa and the Mozambique Channel.

The first half of 2012 has seen Madagascar Oil continue to push forward with our active work programmes, in particular at Tsimiroro, which is our near term focus, but also at Bemolanga. The Tsimiroro Steam Flood Pilot has drilled and completed all of the planned 25 injection and production wells with net oil sand thickness averaging 70 meters across the pilot area; this is 40% greater than initially projected. We have achieved first oil on 3 wells under “cold” production that have a combined initial average production rate of 16 barrels of oil per day, which is consistently better than initial estimates. This is an important milestone and a significant data point prior to the introduction of steam to the reservoir. The installation of the steam equipment is well underway and the initiation of Cyclic Steam (also referred to as “Huff and Puff”) is proceeding on schedule, with the first steam injection expected in Q4 2012.

Analysis of the 16,000 line km Block 3104 AGG survey conducted on Block 3104 (Tsimiroro) in 2011 indicates prospectivity for conventional oil plays in 9 areas outside the heavy oil structure. The Company also recently initiated a 12-15 well heavy oil delineation drilling programme at Tsimiroro. The results from this programme, along with the results from our successful 2011 delineation drilling programme, will be incorporated into a new resource report anticipated to be completed in 2013.

The Bemolanga Production Sharing Contract has been amended to allow for an additional two year exploratory phase, and has the option to be further extended for one additional two-year term at the option of the operator and a further two years pursuant to agreement with the Government. Once the agreement is ratified by the necessary decrees, the Company and its partner, Total Exploration and Production, will conduct seismic acquisition on the block over the two conventional prospect areas identified in the AGG survey. As a result of the expected work programme of 400 km of seismic data in 2013, the Company anticipates that the remaining carry of US$6 million (gross) will not cover the entire obligations on its 40% share of the work and projects that it will be required to fund US$1.5 to US$2 million for the seismic programme before the end of 2013.

In April 2012 the Company reached agreement with OMNIS, the state regulator of energy activities, to return to work on the three Exploration Blocks, and received approval from OMNIS for its 2011-2012 work programmes and budgets for these blocks. OMNIS acknowledged the extension of the terms of these

contracts to December 2014, plus an additional 15 month time as needed to account for the force majeure delay, which effectively extends the exploration period to March 2016. We have also recently completed an approximate 24,000 line km AGG survey over the three Exploration Blocks in July 2012 which will be analysed in the second half of 2012, with the final report expected in early 2013. The Company plans to begin pursuing farm-out opportunities for the Exploration Blocks later this year or in early 2013.

Relationships with the Government of Madagascar continue to develop. We are now recognised as a key player in the region, which has been achieved in part through our operational track record but also through the pursuit of a dynamic corporate social responsibility programme and active communication at all levels of government as to the Company's mission and values. The Madagascar Government remains in a transitional state as it seeks to establish a date for elections that are currently expected to occur in May 2013. We are also continuing our appeal at the Conseil D'Etat for approximately US$4 million in VAT on foreign services plus US$2.8 million in interest and penalties.

The development cost to construct the Tsimiroro Steam Flood Pilot is projected to reach US$53 million, which is US$17 million higher than the initial budget. The higher capital costs were driven by weather-related construction delays, lower than estimated productivity from contractors, along with extra drilling costs incurred when initial water wells were over-saturated with oil. In addition, the Company's projected operating costs for the pilot have been revised upwards to US$1.3 million per month, which will require an additional US$7-10 million, depending on the duration of the pilot project. The higher projected operating expenses exclude any positive impact from potential domestic oil sales and result from higher than anticipated costs of operating in Madagascar, additional cost for the highly experienced expatriate operational team capable of carrying Tsimiroro forward into a full field development phase, and fuel requirements due to a need to burn diesel for power for a longer period than estimated. A review of project costs, including the identification of potential cost savings, is ongoing.

In February 2012 the Company completed a US$26.5 million placement of common stock, which brings the total gross funds raised since and including our IPO to US$106.5 million. At 31 August 2012, the Company had cash of US$20 million and prepayments of US$5 million which is now expected to fund the Company into 2013 rather than into 2014 as previously forecast. The Company therefore plans to seek additional financing to ensure that the pilot project proceeds as scheduled and the Company can move forward with its conventional exploration programmes. The Board has determined that the Company should seek sufficient funding to enable it to operate its investment programmes at least into the 3rd quarter of 2013, but may seek additional funding subject to market conditions. This will allow the Board to review and determine the success of initial results from the Steam Flood Pilot project, and assess

income-generating opportunities from planned farmout discussions on the Exploration Blocks and potential sales of pilot oil production in Madagascar.

In summary, we continue to make progress on every front, with a clear strategy for achieving pilot performance that we are confident will demonstrate the potential for developing sustainable oil production for fifty years to come. We have a proven team to deliver the project and the Company is optimistic about its future prospects. We look forward to providing further positive news flow in the months ahead.

J. Laurie Hunter
Chairman and Chief Executive Officer

INDEPENDENT REVIEW REPORT TO MADAGASCAR OIL LIMITED

Introduction

We have been engaged by Madagascar Oil Limited (the "Company") to review the financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flow, Consolidated Statement of Changes in Equity and the related explanatory notes 1 to 8.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with AU section 722:Interim Financial Information issued by the American Institute of Certified Public Accountants (AIPCA) and International Standard on Review Engagements 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements in the half-yearly financial report for the six months ended 30 June, 2012 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

Emphasis of matter - going concern

In forming our conclusion on the interim financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the interim financial statements concerning the Company's ability to continue as a going concern. Further funds will be required to finance the Company's working capital requirements and the planned work programme. Although the directors expect to be able to successfully raise the additional funds required, they have no binding agreements to date. These conditions indicate the existence of a material uncertainty which may cast

significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

BDO USA, LLP
Houston, Texas
27 *September, 2012*

MADAGASCAR OIL LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 30 JUNE 2012 AND 2011 AND AT 31 DECEMBER 2011

	Note	30 June 2012 US $(000) Unaudited	30 June 2011 US $(000) Unaudited	31 December 2011 US $(000) Audited
Assets				
Non-Current Assets				
Property, plant and equipment		14,521	14,049	14,610
Exploration and evaluation assets	3	133,025	90,536	103,971
Other intangible assets		159	79	175
Non-current tax assets		4,587	2,474	2,559
Financial assets		18	17	18
Restricted cash		2,985	1,765	2,560
Total non-current assets		155,295	108,920	123,893
Current Assets				
Other assets		6,092	951	2,851
Cash and cash equivalents		36,490	58,349	40,459
Total current assets		42,582	59,300	43,310
Total Assets		**197,877**	**168,220**	**167,203**
Equity and Liabilities				
Capital and reserves				
Issued capital		220,111	195,087	195,087
Equity-settled transactions reserve		2,533	3,789	4,470
Accumulated deficit		(41,701)	(32,806)	(39,139)
Total equity		180,943	166,070	160,418
Non-Current Liabilities				
Provisions		4,109	246	341
Total non-current liabilities		4,109	246	341
Current Liabilities				
Trade and other payables		11,721	1,854	5,366
Provisions		1,104	50	1,078
Total current liabilities		12,825	1,904	6,444
Total Equity and Liabilities		**197,877**	**168,220**	**167,203**

MADAGASCAR OIL LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2012 AND 2011 AND THE YEAR ENDED 31 DECEMBER 2011

	Note	30 June 2012 US $(000) Unaudited	30 June 2011 US $(000) Unaudited	31 December 2011 US $(000) Audited
Revenue		-	-	-
Operating Expenses				
Salaries and employee benefits		(2,840)	(2,949)	(7,227)
Depreciation and amortization		(49)	(156)	(199)
Consulting		(539)	(1,333)	(1,772)
Production sharing and contractual fees		(542)	(544)	(1,127)
Other expenses		(1,445)	(1,132)	(2,436)
Net foreign exchange gain (loss)		55	398	(194)
Loss on disposals		-	-	(57)
Oil activities income loss		-	-	(291)
Loss from Operations		**(5,360)**	**(5,716)**	**(13,303)**
Finance Income		33	17	97
Finance Expense		-	-	-
Loss before taxes		**(5,327)**	**(5,699)**	**(13,206)**
Income Tax Expense		(24)	(21)	(42)
Total comprehensive loss for the period/year		**(5,351)**	**(5,720)**	**(13,248)**
(Loss) per share attributable to the equity owners	4			
Basic and Diluted		$(0.02)	$(0.03)	$(0.07)

MADAGASCAR OIL LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2012 AND 2011 AND
THE YEAR ENDED 31 DECEMBER 2011

	30 June 2012 US $(000) Unaudited	30 June 2011 US $(000) Unaudited	31 December 2011 US $(000) Audited
Cash Flows From Operating Activities:			
Total comprehensive loss	(5,351)	(5,720)	(13,248)
Income tax expense recognized in net loss	24	21	42
Finance income	(33)	(17)	(97)
Loss on disposals	-	-	57
Depreciation and amortization of non-current assets	49	156	199
Oil activities loss	-	-	291
Net foreign exchange (gain) loss	(55)	(398)	194
Expense recognized in loss in respect of equity-settled share-based payments	852	1,221	3,097
	(4,514)	(4,737)	(9,465)
Movements in working capital			
Decrease in other assets	(2,752)	(238)	(2,055)
(Decrease) increase in trade and other payables	6,411	(548)	2,204
Increase in provisions	26	-	28
Income taxes paid	(24)	(21)	(42)
Net cash used in operating activities	**(853)**	**(5,544)**	**(9,330)**
Cash Flows From Investing Activities:			
Interest received	43	17	97
Payments for equipment and intangible assets	(1,530)	(441)	(1,870)
Exploration and evaluation costs paid	(26,228)	(3,206)	(15,166)
Net cash used in investing activities	**(27,715)**	**(3,630)**	**(16,939)**
Cash Flows From Financing Activities:			
Proceeds from issues of equity shares, net	25,024	-	-
Restricted cash	(425)	-	(795)
Net cash provided by financing activities	**24,599**	**-**	**(795)**
Net decrease in cash and cash equivalents	**(3,969)**	**(9,174)**	**(27,064)**
Cash and cash equivalents at beginning of period/year	40,459	67,523	67,523
Cash and cash equivalents at end of period/year	**36,490**	**58,349**	**40,459**
Non-cash Investing and Financing Activities:			
Depreciation capitalized in exploration and evaluation assets	1,586	1,500	2,880
Additions to decommissioning liability	3,758	-	-

MADAGASCAR OIL LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIODS ENDED 30
JUNE 2012 AND 2011 AND THE YEAR ENDED
31 DECEMBER 2011

	Share Capital US $(000)	Share Premium US $(000)	Equity Settled Transactions Reserves US $(000)	Retained Deficit US $(000)	Total US $(000)
Balance at 1 January 2011	**197**	**194,890**	**3,049**	**(27,567)**	**170,569**
Total comprehensive loss for the period	-	-	-	(5,720)	(5,720)
Transfer of equity-settled transaction reserve	-	-	(481)	481	-
Recognition of equity-settled transactions under employee share option plan	-	-	1,221	-	1,221
Balance at 30 June 2011 (Unaudited)	**197**	**194,890**	**3,789**	**(32,806)**	**166,070**
Total comprehensive loss for the period	-	-	-	(7,528)	(7,528)
Transfer of equity-settled transaction reserve	-	-	(1,195)	1,195	-
Recognition of equity-settled transactions under employee share option plan	-	-	1,876	-	1,876
Balance at 31 December 2011 (Audited)	**197**	**194,890**	**4,470**	**(39,139)**	**160,418**
Total comprehensive loss for the period	-	-	-	(5,351)	(5,351)
Transfer of equity-settled transaction reserve	-	-	(2,789)	2,789	-
Issue of ordinary shares to shareholders	59	24,965	-	-	25,024
Recognition of equity-settled transactions under employee share option plan	-	-	852	-	852
Balance at 30 June 2012 (Unaudited)	**256**	**219,855**	**2,533**	**(41,701)**	**180,943**

UNAUDITED NOTES FORMING PART OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2012

1. Accounting policies

Basis of Preparation

The interim financial statements have been prepared using policies consistent with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted for use in the European Union. The interim financial statements have been prepared using the accounting policies applied for the year ended 31 December 2011 and updated for those which are expected to be applied in the Group's statutory financial statements for the year ended 31 December 2012.

Future Operations

The interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

Higher capital and operating costs on the Company's Tsimiroro Steam Flood Pilot, along with increased expected costs of exploration on the Bemolanga block, mean that the Company's existing cash resources are now expected to fund expenditure into 2013, rather than into 2014 as previously forecast.

The ability of the Company to continue to operate as a going concern is dependent on the availability of additional financing, the timing and amount of expenditure necessary to achieve its work programmes, and the extent of potential revenues, if any, from future oil sales and farm-outs of some of its blocks. The Company plans to seek additional financing in 2012 and is assessing such fund raising opportunities. The Board of Directors has determined that the Company should seek sufficient funding to enable it to operate its work programmes at least to the end of the Q3 2013.

The Company believes that the aforementioned courses of action and opportunities provide a reasonable expectation of mitigating the adverse conditions and events which may raise doubt as to the validity of the going concern assumption used in preparing these interim financial statements. Therefore these interim financial statements do not reflect the adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these interim financial statements, adjustments might be necessary to the carrying value of assets and liabilities, and the statement of financial position classifications used.

2. Financial reporting period

The interim financial statements for the periods 1 January 2012 to 30 June 2012 and 1 January 2011 to 30 June 2011 are unaudited. In the opinion of the Directors the interim financial statements for the period present fairly the financial position, and results from operations and cash flows for the periods and are in conformity with International Financial Reporting Standards as adopted by the European Union incorporated within the Group's accounting policies consistently applied. The interim financial statements incorporate comparative unaudited figures for the interim period 1 January 2011 to 30 June 2011 and the audited financial year ended 31 December 2011.

3. Exploration and Evaluation Assets

As of 30 June 2012, US$121.6 million of the Group's exploration and evaluation assets relate to block 3104 Tsimiroro, US$3.4 million to Block 3105 Manambolo, US$4.1 million to Block 3106 Morondava and US$3.9 million to Block 3107 Manandaza.

In March 2012, the Group and OMNIS, the state regulator of energy activities, held the management committee meeting for the Group's three Exploration Blocks (Blocks 3105, 3106 and 3107). The Group and OMNIS resolved all outstanding issues by confirming the validity of the production sharing contracts for these blocks and approving the 2011-2012 work programmes and budgets for the blocks. The parties also approved and executed formal amendments to each of the Exploration Block production sharing contracts which set forth the minimum work requirements for the remainder of the exploration period and acknowledge that the Group will exercise its right to extend the exploration period for an additional

two years through December 2014. In addition, OMNIS acknowledged that the delay of 15 months due to the force majeure would be considered if necessary at the end of the exploration period. The Group has committed to performing an airborne gravity gravimetric survey of approximately 21,000 km at an estimated cost of US$3.3 million for all three Exploration Blocks.

4. Loss per share (LPS)

Basic loss per share amounts are calculated by dividing the loss for the periods attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share amounts are calculated by dividing the loss for the periods attributable to ordinary holders by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The effect of the warrants and options are anti-dilutive in 2012 and 2011.

	30 June 2012	30 June 2011	31 December 2011
	$(000)	*$(000)*	*$(000)*
Net loss attributable to equity holders used in basic calculation	(5,351)	(5,720)	(13,248)
Net loss attributable to equity holders used in dilutive calculation	(5,351)	(5,720)	(13,248)
Basic weighted average number of shares	237,177,258	196,365,157	196,490,910
Dilutive potential ordinary shares			
Shares related to warrants	1,438,519	2,138,430	1,801,879
Shares related to options	9,175,898	1,768,937	4,776,884
Diluted weighted average number of shares	247,791,675	200,272,524	203,069,673
Loss Per Share			
Basic	$(0.02)	$(0.03)	$(0.07)
Dilutive	$(0.02)	$(0.03)	$(0.07)

5. Share-Based Payments and Equity Sales

The Company issued 3,280,000 options in the first half of 2012 to certain directors and employees. Share-based expense related to outstanding stock option plans and restricted shares totaled US$486,601 and US$364,785, respectively for the interim period 1 January 2012 to 30 June 2012. Share-based expenses of US$1,220,639 were recognized for the period 1 January 2011 to 30 June 2011 and US$3.1 million for the year ending 31 December 2011.

In February 2012, the Company issued and sold 59,900,000 new common shares for gross proceeds of US$26.5 million. The transaction was completed in two tranches, with the second tranche of 2.2 million shares being completed subsequent to the first tranche because the Company was required to obtain additional share authorities through the holding of a special general meeting.

6. Functional currency

All amounts have been prepared in US dollars, this being the Group's functional currency and its presentational currency.

7. Contingent Liabilities and Contingent Assets

In July 2010, the Group received a notification from the Malagasy Tax Administration claiming the payment of VAT and income tax on services rendered by foreign suppliers, with interests on delayed payment and penalties. The adjustments relate to fiscal year 2007 and 2008. The tax administration dismissed the claims on income tax in 2010, but maintained its position on the VAT adjustment. The amount claimed relating to VAT for 2007 and 2008 is US$6.79 million (consisting of VAT of US$3.99 million, interest on delayed payment of US$0.98 million and penalty of US$1.82 million).

The Group believes it complied with the applicable regulations and the practice of all oil companies in Madagascar. The Group has challenged the proposed tax adjustment through the appeals process at the Malagasy tax administration without success. In order to proceed with the appeals process, the Group was obligated to reserve cash, in a segregated account, in the amount of US$795,000, reflecting the Group's estimate of 50% of the claimed tax. In January 2012, the Group filed an appeal with the Council of State of Madagascar, which is the judiciary body responsible for hearing final

appeals on tax matters. The parties are currently filing follow on briefs and responses to such briefs. The Group anticipates that once this process is complete, the Council of State will call for a hearing and decide the appeal. In 2011, the Group recorded a US$1 million provision (including the US$795,000 in cash referred to above) based on management's estimate of the potential exposure. Management also continues to discuss with the Tax Administration options for an administrative settlement.

Efforts have been underway to modify the Madagascar Petroleum Code to clarify the Malagasy law to specifically exempt oil and gas development projects from incurring the disputed taxes. This effort appears to be on hold pending Madagascar elections. Management believes that the tax authority's position would be highly punitive to potential future industrial development and that the future government may be amenable to effecting the necessary changes, as the Company's disputed handling has been followed by all petroleum companies since 2006 and has never been previously challenged by the tax authority.

There can be no assurance that a settlement will be reached or that the Group will ultimately prevail in its appeal at the Council of State.

8. Subsequent events

In August 2012, Total Exploration and Production, the Group's joint venture partner in the Bemolanga Block (3102) successfully negotiated an extension of the production sharing contract to continue pursuit of conventional prospects. The amendment provides for the operator of the block to elect for two 2-year extensions with another two year extension subject to agreement with the Government. The amendment is subject to ratification by the government for Madagascar. As a result of the conventional prospectivity findings in Bemolanga and the expected addition of seismic acquisition in 2013, the Company anticipates that the remaining carry of US$6 million (gross) will not satisfy the Company's entire obligations in respect of its 40% share of the work. The Company anticipates it will be required to fund US$1.5 to US$2 million for a seismic programme before the end of 2013.

Corporate Directory

Directors
J. Laurie Hunter (Chairman and Chief Executive Officer)
Mark Weller (Chief Operating Officer)
John van der Welle (Non-Executive Director)
Andrew Morris (Non-Executive Director)
Ian Barby (Non-Executive Director)
Colin Orr-Ewing (Non-Executive Director)

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