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18 December 2012

MADAGASCAR OIL LIMITED
("Madagascar Oil" or the "Company")

Proposed Financing Transaction of between US\$45 million and US\$60 million (gross)

Operational Update

Board Changes

Madagascar Oil (AIM: MOIL) is pleased to announce the terms of a proposed financing package together with an operational update and details of certain board changes.

Summary:

Financing Transaction

- Short term financing for working capital purposes of US\$15 million (the "Bridge Loan") to be provided to the Company by BMK Resources Limited ("BMK"), a company connected with Benchmark Advantage Fund, Ltd. ("Benchmark", together with BMK, the "Benchmark Parties") and Persistency Private Equity Limited ("Persistency"), Benchmark and Persistency both being existing substantial shareholders of the Company, pursuant to the terms of an interest free bridge loan agreement (the "Bridge Loan Agreement") which is available for draw down with immediate effect and repayable by 31 January 2013. Benchmark has guaranteed the obligations of BMK under the Bridge Loan Agreement.
- Subscription agreement entered into with the Benchmark Parties and Persistency (the "Subscription Agreement") pursuant to which BMK and Persistency have agreed to subscribe for redeemable convertible preference shares of par value US\$0.32 each (the "Convertible Preference Shares") in Madagascar Oil for an aggregate subscription amount of US\$45 million (gross), subject to shareholder approval at a Special General Meeting. Benchmark has guaranteed the obligations of BMK under the Subscription Agreement.

- BMK to subscribe for 93,750,000 Convertible Preference Shares at a subscription price of US\$0.32 (£0.20) per Convertible Preference Share (the "Subscription Price") to raise US\$30 million (gross) and Persistency to subscribe for 46,875,000 Convertible Preference Shares at the Subscription Price to raise US\$15 million (gross).
 - The Convertible Preference Shares are entitled to receive a dividend of 11 per cent. per annum of the principal amount outstanding of the Convertible Preference Shares, payable semi-annually, and the Convertible Preference Shares are convertible into common shares of par value US\$0.001 each in the capital of the Company ("Common Shares") at the Subscription Price. The dividend may be paid (at the sole election of the Company) in cash or by the issue of new Common Shares at the Subscription Price for the first 36 months.
 - It is intended that the Bridge Loan will be repaid from the proceeds of the issue of the Convertible Preference Shares.
 - Mirabaud Securities LLP ("Mirabaud") to seek to place up to a further 46,875,000 Convertible Preference Shares at the Subscription Price to raise up to US\$15 million (gross) (the "Placing"), subject to shareholder approval at a Special General Meeting.
 - Benchmark and Persistency have provided the Company with an irrevocable commitment to vote in favour of the resolutions to be tabled at the Special General Meeting (the "Resolutions") in respect of, in aggregate, 93,521,388 Common Shares representing approximately 36.5 per cent. of the existing issued Common Shares.
 - Assuming the receipt of shareholder approval at a Special General Meeting, the gross proceeds of the issue of the Convertible Preference Shares, net of repayment of the Bridge Loan, will be between US\$45 million and US\$60 million, depending upon the take up of the Placing.
- The Benchmark Parties and Persistency have entered into a relationship agreement with the Company (the "Relationship Agreement") to ensure the continuing independence of Madagascar Oil.
 - The Company's Bye-Laws will be amended, *inter alia*, to allow Benchmark to acquire up to 45 per cent. of the Common Shares without triggering the requirement to make an offer for the Company.
 - It is intended that the majority of the net proceeds from the issue of the Convertible Preference Shares will be applied towards completing the construction phase of the group's steam flood pilot project at Tsimiroro (the "Tsimiroro Steam Flood Pilot") and to commence continuous steam flooding operations.
 - Special General Meeting to be held in January 2013 to approve, *inter alia*, the issue of the Convertible Preference Shares, the issue of new Common Shares in lieu of certain transaction fees and the amendment of the Company's Bye-Laws, formal notice of which will be sent to shareholders shortly, along with a detailed circular (the "Circular") and forms of proxy.

A summary of the principal terms of the Bridge Loan Agreement, the Subscription Agreement and the Relationship Agreement (together referred to as the “Financing Transaction”) is set out in the Appendix to this announcement.

Operations

- Upward revision of development costs for the Tsimiroro Steam Flood Pilot, which are now expected to total US\$65 million.
- Cyclic steam stimulation to commence shortly with continuous steam injection for the Tsimiroro Steam Flood Pilot targeted to commence in Q2 2013.
- Netherland, Sewell & Associates Inc. will be commissioned to produce an updated resource evaluation during 2013 based on a reinterpretation of the extensive data obtained from the 2011 Fugro AGG survey and incorporation of the data received from the 25 pilot wells and 30 non-pilot wells drilled in 2011 and 2012 at Tsimiroro.
- Interpretation of the 24,000 line km Fugro AGG survey and further evaluation of the five conventional exploration leads identified through seismic analysis over blocks 3105, 3106 and 3107 (the “Exploration Blocks”) will be completed in early 2013. The new Fugro AGG analysis is expected to add to the inventory of conventional exploration leads identified previously in the Block 3102 and 3104 surveys.

Changes to the board of directors of the Company (the “Board”)

- Mr. Andrew Morris and Mr. Paul Ellis, both existing Non-Executive Directors of the Company, have been appointed as Non Executive Chairman and Chief Executive Officer respectively, with immediate effect.
- Mr. Laurie Hunter and Mr. Mark Weller will step down immediately as Chairman and Chief Executive Officer and Chief Operating Officer respectively and will resign from the Board on 31 December 2012. They will be retained as consultants to the Company for up to six months.
- Further Board changes are expected to occur over the course of the implementation of the Financing Transaction, details of which are set out below.

Andrew Morris, Chairman of Madagascar Oil, commented:

“We have negotiated a near term funding solution which will enable us to commence operation of the Company's flagship Tsimiroro Steam Flood Pilot project.

Significant operational progress has already been made at Tsimiroro where the contingent oil in place has been independently assessed at 1.7 billion barrels. With all preparation work for the pilot now completed, we are working to demonstrate the commerciality of this project, which we believe has the potential to not only add significant value to our assets, but also to take Madagascar a step closer to energy independence. The costs of delivering this pioneering pilot

project have exceeded our initial estimates and the Board has implemented a number of initiatives to improve cost control going forward.

Paul Ellis is a highly respected industry figure with a proven track record and we are pleased that he has agreed to lead the Company at this important juncture in its development.

The Board, excluding myself as a representative of Persistency, strongly urges shareholders to vote in favour of the Financing Transaction and associated resolutions at the Special General Meeting to be convened for January 2013.”

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Bridge Loan and proposed issue of Convertible Preference Shares

The Company is pleased to announce that it has agreed a financing package to raise gross proceeds of up to US\$60 million (approximately £37.5 million) to fund the group's continuing operations including completion of the construction phase of the group's Tsimiroro Steam Flood Pilot, commencement of continuous steam flooding operations and further evaluation of the conventional oil and gas potential of the Company's three Exploration Blocks.

The financing package comprises the secured short term interest free Bridge Loan of US\$15 million and the proposed issue of Convertible Preference Shares to raise up to between US\$45 million and US\$60 million (gross).

The Bridge Loan has been made available for draw down by the Company with immediate effect, and will be used to fund the Company's immediate working capital requirements. US\$10 million of the Bridge Loan is to be provided by BMK and US\$5 million is to be provided by Persistency.

The Bridge Loan is to be repaid by the Company on or before 31 January 2013 from the net proceeds of the issue of the Convertible Preference Shares. If the Company raises alternative debt or equity funds, or is subject to a change of control, prior to repayment of the Bridge Loan then a payment of US\$3 million will be payable in Common Shares at the Subscription Price, pro rata, to BMK and Persistency.

The Company has granted BMK and Persistency a share pledge over its wholly-owned Mauritian subsidiary, Madagascar Oil Limited, which owns the Madagascar operating company that holds title to the group's production sharing contracts in Madagascar, as security in respect of repayment of the Bridge Loan.

The Company has contemporaneously entered into the Subscription Agreement pursuant to which BMK and Persistency have agreed to subscribe for Convertible Preference Shares for an aggregate subscription amount of US\$45 million (gross).

BMK has agreed to subscribe for 93,750,000 Convertible Preference Shares at the Subscription Price to raise US\$30 million (gross) and Persistency has agreed to subscribe for 46,875,000 Convertible Preference Shares at the Subscription Price to raise US\$15 million (gross), pursuant to the Subscription Agreement.

The subscription for the Convertible Preference Shares by BMK and Persistency will occur in two tranches, an initial Tranche 1 of US\$25 million (gross) and a subsequent Tranche 2 of US\$20 million (gross):

- The Tranche 1 subscription is to be completed by no later than 31 January 2013:
 - BMK to subscribe for US\$16.7 million of Convertible Preference Shares at the Subscription Price; and

- Persistency to subscribe for US\$8.3 million of Convertible Preference Shares at the Subscription Price,
together (the “Tranche 1 Convertible Preference Shares”).
- The Tranche 2 subscription is to be completed by no later than 31 March 2013:
 - BMK to subscribe for US\$13.3 million of Convertible Preference Shares at the Subscription Price; and
 - Persistency to subscribe for US\$6.7 million of Convertible Preference Shares at the Subscription Price,
together (the “Tranche 2 Convertible Preference Shares”).

The Convertible Preference Shares are redeemable after 10 years with an early redemption at the sole option of the Company after 3 years from the date that the Tranche 1 Convertible Preference Shares are issued. An annual dividend is payable semi-annually, at a rate of 11 per cent. per annum of the principal amount outstanding of the Convertible Preference Shares, which may be paid (at the sole election of the Company) in cash or by the issue of new Common Shares at the Subscription Price for the first 36 months. In addition, an arrangement fee of 4 per cent. (*pro rata* to BMK and Persistency) is payable, in Common Shares, on the issue to each of them of each tranche of the Convertible Preference Shares.

The proposed issue of the Tranche 1 Convertible Preference Shares and the Tranche 2 Convertible Preference Shares is subject to certain conditions precedent, details of which are set out in the Appendix to this announcement.

In addition, Mirabaud will be seeking to undertake a placing to raise up to a further US\$15 million (gross) through the issue of up to an additional 46,875,000 Convertible Preference Shares at the Subscription Price, which will be offered primarily to existing shareholders in the Company.

The Company anticipates that the Placing will be completed simultaneously with the subscription of the Tranche 1 Convertible Preference Shares by BMK and Persistency. It is intended that the Company will repay the Bridge Loan from the net proceeds from the issue of the Tranche 1 Convertible Preference Shares.

Assuming full conversion of the Convertible Preference Shares and following the issue of new Common Shares pursuant to the arrangement fee and potentially the dividends, the Benchmark Parties (as between them) and Persistency will each have a substantial shareholding in the Company and accordingly each of the Benchmark Parties and Persistency have agreed to enter into the Relationship Agreement to ensure, *inter alia*, the continuing independence of Madagascar Oil.

Details of the effect of conversion of the Convertible Preference Shares on existing holders of the Common Shares and the resultant holdings of Benchmark and Persistency are set out in the table below:

Maximum dilution basis** (Including US\$15m (gross) Mirabaud fundraise)	On issue, assuming immediate conversion*	3 years*	10 years*
New dilutive shares	194,062,500	255,937,500	400,312,500
Resultant total shares in issue	450,097,637	511,972,637	656,347,637
Dilution	43.12%	49.99%	60.99%
Resultant percentage shareholding:			
Benchmark	35.89%	37.59%	40.32%
Persistence	17.38%	18.30%	19.78%

Maximum dilution basis** (No Mirabaud fundraise)	On issue, assuming immediate conversion*	3 years*	10 years*
New dilutive shares	146,250,000	192,656,250	300,937,500
Resultant total shares in issue	402,285,137	448,691,387	556,972,637
Dilution	36.35%	42.94%	54.03%
Resultant percentage shareholding:			
Benchmark	40.15%	42.90%	47.52%
Persistence	19.45%	20.89%	23.31%

**This assumes that all interest is paid in Common Shares and includes an arrangement fee of 4 per cent. payable, pro rata, to the Benchmark Parties and Persistence being settled via an issue of Common Shares at the Subscription Price and a proportion of commission fees being paid to Mirabaud in Common Shares. For illustrative purposes only, it has been assumed that all Convertible Preference Shares accrue interest for the full term with no time apportionment to reflect fixed interest payment dates, being every 6 months from the issue of the Tranche 1 Convertible Preference Shares and the actual date of the issue of the Tranche 2 Convertible Preference Shares .*

*** This represents the potential dilution to all existing shareholders assuming no participation by them in the placing.*

A summary of the terms of the Bridge Loan Agreement, the Subscription Agreement and the Relationship Agreement is included in the Appendix to this announcement.

The Company currently does not have sufficient authorities to disapply pre-emption rights and allot the Convertible Preference Shares and the Common Shares pursuant to conversion of the Convertible Preference Shares or the further Common Shares to be issued in connection with the dividends and the arrangement fee payable pursuant to the Subscription Agreement, together with the Common Shares to be issued in settlement of fees to be paid in connection with the Placing.

Accordingly, a Special General Meeting is to be convened to approve the issue of such number of Convertible Preference Shares and Common Shares required to effect the Financing Transaction and to approve certain amendments to the Company's Bye-Laws. Further details of the proposed amendments to the Bye-Laws are set out in the Appendix to this announcement.

A Circular, containing a formal notice convening a Special General Meeting to be held in January 2013 to seek shareholder approval, *inter alia*, for the issue of the Convertible Preference Shares, the issue of the above mentioned Common Shares and the proposed amendments to the Bye-Laws, will be sent to shareholders shortly. The Circular and form of proxy will also be made available to download from the Company's website at www.madagascaroil.com once posted to shareholders.

Benchmark and Persistency have provided the Company with an irrevocable commitment to vote in favour of the Resolutions in respect of, in aggregate, 93,521,388 Common Shares representing approximately 36.5 per cent. of the existing issued Common Shares.

The Board (excluding Andrew Morris, who, as he represents Persistency, is not considered independent for the purposes of giving the recommendation) believes that the Financing Transaction is in the best interest of shareholders, and the Company, for the following reasons:

- (i) it secures the Company's planned financing requirements at a time of challenging global economic and market conditions and at a time of increased investor caution ahead of Madagascar's forthcoming elections; and**
- (ii) it enables the Company to complete the construction phase of its Tsimiroro Steam Flood Pilot project, which is already at an advanced stage, to commence continuous steam flood operations and continue evaluation of the conventional oil and gas potential of the Company's three Exploration Blocks.**

Related Party Transaction

Benchmark is currently interested in 64,029,238 Common Shares, representing approximately 25.0 per cent. of the issued Common Shares of the Company and Persistency is currently interested in 29,492,150 Common Shares, representing approximately 11.5 per cent. of the issued Common Shares of the Company. As a result, the Benchmark Parties and Persistency are deemed to be related parties of the Company and the Bridge Loan Agreement, the Subscription Agreement and the Relationship Agreement are considered to be related party transactions pursuant to AIM Rule 13.

For the purposes of considering the related party transactions, the independent directors of the Company (comprising, Mr. Laurie Hunter, Mr. Mark Weller, Mr. Paul Ellis, Mr. John van der Welle, Mr. Ian Barby and Mr. Colin Orr-Ewing), consider, having consulted with Strand Hanson Limited, the Company's Nominated Adviser, that the terms of each of the Bridge Loan Agreement, the Subscription Agreement and the Relationship Agreement are fair and reasonable insofar as the Company's shareholders are concerned.

Use of Proceeds

The Financing Transaction will allow the Company to strengthen its financial position and enable it to complete the Tsimiroro Steam Flood Pilot and commence evaluation of the commercial potential of the Tsimiroro heavy oil field using thermal recovery methods.

It is intended that should the minimum proceeds, being US\$45 million, be received from the Financing Transaction, these will be applied as follows:

	US\$ (millions)
Steam Flood Pilot CAPEX and OPEX	22.0
Geophysical & Geological	2.0
Working Capital	1.5
Corporate G&A (including financing costs)	13.4
Contingency	6.1
Total	45.0

In the event that the Company raises up to an additional US\$15 million (gross) from the proposed Placing by Mirabaud, such funds will be used to continue the Tsimiroro Steam Flood Pilot operations and to evaluate further the potential for full field development.

Operational Update

The capital cost for completion of the Tsimiroro Steam Flood Pilot was originally forecast to be US\$36 million. The Company announced on 10 September 2012 that the capital cost of the steam flood pilot had exceeded initial projections and in the Company's half yearly report released on 28 September 2012, it was announced that the capital cost forecast had increased by US\$17 million to US\$53 million, an increase of approximately 47 per cent.

However, a detailed review of project costs and work productivity on site has been ongoing and the Company now forecasts a further increase of US\$12 million, such that the final capital cost of the pilot is now forecast to be US\$65 million, approximately 80 per cent. higher than the original estimate.

In addition, as set out in the half yearly report, the operating cost of the Tsimiroro Steam Flood Pilot was also expected to exceed initial projections, reaching approximately US\$1.3 million per month. Further analysis of the budgeted figures and underlying assumptions has resulted in an increase in these projections. Operating costs are now expected to be approximately US\$1.5 million per month, with total operating costs for the Company, including G&A, totalling approximately US\$2.1 million per month.

The principal factors which have driven the total cost overruns include:

- insufficient contingency for the extended overheads in respect of by the 2011 delays in operations associated with the force majeure events;

- a prolonged rainy season in April and May 2012 which contributed to additional civil and mechanical costs together with more extensive road repair and bridge building activity than planned;
- lower than budgeted construction productivity which extended the time required for construction and which in turn increased the cost of camp operations and overhead;
- the additional cost of hiring the expatriate workforce for the Tsimiroro Steam Flood Pilot project earlier than originally planned in 2012; and
- the addition of a larger than budgeted maintenance building to the project site.

The principal cost overruns identified above have limited the Company's ability to continue its planned operations and consequently, the Tsimiroro Steam Flood Pilot is approximately two months behind the original pilot forecast start date. Cyclic steam stimulation is scheduled to begin shortly with commencement of the continuous steam injection in Q2 2013.

The Board has carefully considered the serious issues surrounding both the original cost overrun and the further cost over-run, and has undertaken a full in depth analysis of all remaining and ongoing costs. The Board believes that the implementation of additional controls, cost management and project oversight, and changes to the Board and management as further discussed below, will address these issues.

Netherland, Sewell & Associates Inc. will be commissioned to produce an updated resource evaluation during 2013 based on a reinterpretation of the extensive data obtained from the 2011 Fugro AGG survey and incorporation of the data received from the 25 pilot wells and 30 non-pilot wells drilled in 2011 and 2012 at Tsimiroro.

Interpretation of the 24,000 line km Fugro AGG survey and further evaluation of the five conventional exploration leads identified through seismic analysis over the Exploration Blocks will be completed in early 2013. The new Fugro AGG analysis is expected to add to the inventory of conventional exploration leads identified previously in the Block 3102 and 3104 surveys.

Madagascar Value Added Tax Dispute

As previously disclosed in 2010, additional taxes of approximately US\$9 million (at the current Ariary/US Dollar exchange rate) were assessed on the Company for the years 2007 and 2008.

Of this amount, approximately US\$3 million relates to a tax on "foreign transfers" from which the Board believes the Company is exempted in accordance with the terms of its production sharing contracts, the Petroleum Tax Code and the General Tax Code. Such exemption was accepted in a non-binding minute of the appeals advisory panel of the Finance Ministry in September 2011, but the assessments have not yet been amended.

The balance of approximately US\$6 million relates to notional value added tax (“VAT”) on services provided by foreign suppliers in the years 2007 and 2008 and includes an approximate 70 per cent. uplift in statutory penalties and interest. The Company continues to negotiate the assessment with the Government of Madagascar and also awaits a final hearing at the Conseil D’Etat, being the highest court in Madagascar that addresses tax matters.

There can be no assurance that the Company will not be subject to similar VAT assessments with respect to subsequent years. Under the Madagascar tax codes, the Company has the benefit of exemptions from VAT and customs duties on all tangible items imported into Madagascar for its exploration and production activities. However, a similar exemption does not currently exist in connection with VAT on services provided by foreign suppliers.

The Company has followed market practice in declaring the VAT due and the VAT paid on these services but the tax assessments were raised on a different basis. As the Company is now approaching conclusion of the construction phase of the Steam Flood Pilot Project, the use of foreign services in Madagascar following commissioning will be significantly lower and accordingly any continuing VAT liability going forward is expected to be greatly reduced.

In the circumstances described above, the Company now no longer believes that its previous provision of US\$1 million for the 2007/8 tax assessments is sufficient but, other than as indicated above, the Board cannot accurately forecast the level of tax assessments or tax liabilities that may result from government audits of the Company’s tax returns to date.

Board Changes and Corporate Governance

In connection with the Financing Transaction, the Company has agreed with the Benchmark Parties and Persistency to make the following significant changes to its Board, which will take effect over the course of the next few weeks.

Mr. Hunter has agreed to step down as Chairman and Chief Executive Officer and Mr. Weller has agreed to step down as Chief Operating Officer, both with immediate effect. Both will remain on the Board, as Non Executive Directors, until 31 December 2012, at which time they will resign as directors of the Company and will both become consultants to the Board in order to provide transition continuity for up to six months.

Mr. Andrew Morris has been appointed Non-Executive Chairman of the Company and Mr. Paul Ellis has been appointed Chief Executive Officer, both with immediate effect.

In addition, Mr. Colin Orr-Ewing has agreed to resign from the Board with effect from the business day following publication of the Circular and Mr. Peter Kingston will be appointed as a Non-Executive Director of the Company (acting as a designated representative of the Benchmark Parties), with effect from the same date (or such later date as may be agreed).

Mr. Kingston has over 45 years’ experience in the areas of exploration, production, development and management of international oil and gas ventures and most recently has been appointed to

the boards of Lochard Energy Group Plc (the AIM listed oil and gas company) and Vintage Resources Limited. Mr. Kingston began his career at Shell International Petroleum Mij, working throughout the Middle East, the North Sea, and Australia, and played a leading role in the development of some of Shell's earliest oilfield developments in the North Sea. Since then he has held positions in a number of oil and gas companies, the most significant of which include Enterprise Oil Plc as a founder director, SOCO International Plc as the Senior Independent Director and Tower Resources Plc as Executive Chairman, as well as acting as an independent technical consultant to a number of oil and gas companies, both national and international.

Mr. Kingston is also a member of the Society of Petroleum Engineers and the Institute of Directors. Mr. Kingston's background brings both corporate and technical expertise to the Board, and the Company looks forward to his formal appointment.

Peter Eric Kingston (aged 69)

Current Directorships

Past Directorships (last 5 years)

Plexus Energy Limited

Tower Resources Plc

Peter Kingston & Associates Ltd

Soco International Plc

Lochard Energy Group Plc

Tower Resources (Uganda) Limited

Zeus Petroleum Limited

Tower Resources (Namibia) Limited

Lochard Energy Limited

Comet Petroleum Limited

Vintage Resources Limited

Corporate Kudos Limited

Neptune Petroleum (Uganda) Limited

Neptune Petroleum (Namibia) Limited

Comet Petroleum (SADR) Limited

There is no further information to be disclosed pursuant to Schedule Two paragraph (g) of the AIM Rules for Companies.

Mr. John van der Welle has also agreed to stand down from the Board on 31 December 2012 (or such later date as may be agreed), and will be replaced by a new independent Non-Executive Director, details of whom will be announced in due course.

Accordingly, from that date, the Board is expected to consist of:

Mr. Andrew Morris (acting as a designated representative of Persistency and as Non-Executive Chairman)

Mr. Paul Ellis (acting as the Chief Executive Officer and independent director)
Mr. Ian Barby (acting as independent Non-Executive Director)
Mr. Peter Kingston (acting as a designated representative of the Benchmark Parties and Non-Executive Director)
An independent Non-Executive Director, to be notified

Immediately following the Special General Meeting, a further director will be appointed to act as the second designated representative of the Benchmark Parties. Mr. Ian Barby has agreed to resign as independent Non-Executive Director of the Company with effect from the date falling four weeks after the date of the Special General Meeting (or such later date as may be agreed), and will be replaced by a new independent Non-Executive Director.

Accordingly, from that date, the Board is expected to consist of:

Mr. Andrew Morris (acting as a designated representative of Persistency and as Non-Executive Chairman)
Mr. Paul Ellis (acting as the Chief Executive Officer and independent director)
Mr. Peter Kingston (acting as a designated representative of the Benchmark Parties)
A Non Executive Director, to be notified (acting as a designated representative of the Benchmark Parties)
Two independent Non-Executive Directors, to be notified

Announcements confirming each of these changes to the Board will be made at the appropriate times.

Relationship Agreement

The Company, the Benchmark Parties and Persistency have agreed, pursuant to the Relationship Agreement, that following implementation of the Board changes set out above, the Board will consist of six members, three of whom will be independent (including the Chief Executive Officer), and three of whom will be directors appointed by the Benchmark Parties and Persistency, one of whom will be designated by Persistency and two of whom will be designated by the Benchmark Parties. The Chairman, as appointed from time to time, will not have a casting vote. Persistency's rights of designation shall continue for so long as it holds at least 10 per cent. of the Common Shares (on a fully diluted basis) and the Benchmark Parties' rights of designations shall continue for as long as they hold (as between them) at least 10 per cent. of the Common Shares (on a fully diluted basis).

Under the terms of the Relationship Agreement, neither the Benchmark Parties nor Persistency can take, *inter alia*, any action to amend the Bye-Laws such that they are inconsistent with the terms of the Relationship Agreement. This includes the obligation to exercise their voting rights in order to maintain three directors independent of the Benchmark Parties and Persistency.

The Benchmark Parties and Persistency also undertake not to take certain actions including proposing a vote on any resolution to amend the Bye-Laws in order to remove the takeover protections reflecting Rule 9 (mandatory offers) and Rule 16 (special deals) of the City Code on Takeovers and Mergers without the consent of a majority of the directors independent of the Benchmark Parties and Persistency. However, the Board has approved that the Benchmark Parties may acquire up to 45 per cent. of the Common Shares (including any Common Shares to be issued pursuant to the Convertible Preference Shares, either as principal or interest) without triggering the requirement to make an offer for the Company.

In addition, the Benchmark Parties and Persistency have agreed not to propose or vote on a resolution to delist the Company for at least 12 months from the date of the Special General Meeting without the consent of a majority of the directors independent of the Benchmark Parties and Persistency, unless such proposal is, *inter alia*, part of an offer for the Company.

APPENDIX TERMS OF THE FINANCING TRANSACTIONS

The following summarises the key terms of the agreements and instruments comprising the Financing Transaction:

Bridge Loan Agreement

BMK and Persistency have agreed to provide the Company with loans of US\$15 million, in aggregate, under the Bridge Loan Agreement on terms which include the following:

Commitment:	BMK	US\$10 million
	Persistency	US\$5 million

Separate loans: The commitments made by each of Persistency and BMK (the “**Lenders**”) shall constitute separate loans (the “**Persistency Loan**” and the “**BMK Loan**”, together the “**Loans**”) and the obligations of each of the Lenders are several.

Security: A pledge (the “**Pledge**”) by the Company of 100 per cent. of its shares in Madagascar Oil Ltd. (Mauritius), the Company’s direct subsidiary that owns the Madagascan operating company that holds the production sharing contracts has been granted by the Company as security for the Loans. Failure by the Company to complete the issuance of Tranche 1 of the Convertible Preference Shares or the occurrence of an event of default under the Bridge Loan Agreement may result in an exercise by BMK and Persistency of the Pledge.

Purpose: The proceeds of the Loans must be applied by the Company in or towards general corporate and working capital purposes of the Company and its group.

Maturity date: 31 January 2013. The loan is anticipated to be repaid out of the proceeds of the issue of the Tranche 1 Convertible Preference Shares.

Conditions precedent: The obligation of the Lenders to make the Loans under the Bridge Loan Agreement is subject to various conditions including (but not limited to) there being no event of default or a potential event of default in accordance with the terms of the Bridge Loan Agreement.

Benchmark Guarantee: Benchmark has guaranteed all of the obligations of BMK under the Bridge Loan Agreement.

Interest: The Loans will not bear interest.

Break fee: If the Company sources third party finance to repay or prepay the Loans (in whole or in part) or if a sale or change of control occurs, the Company will be required to repay the Loans together with a break fee of US\$3,000,000, payable in Common Shares at an issue price of US\$0.32 to the Lenders (pro rata).

Default under the Subscription Agreement: Where a Lender defaults on its obligation to subscribe for Tranche 1 Convertible Preference Shares, there is a mechanism under the Bridge Loan Agreement to convert that Lender's Loan into Common Shares at an issue price of US\$0.32.

Costs and expenses: The Company has agreed to pay the Lenders' reasonable legal fees and expenses in relation to the Bridge Loan Agreement and the Pledge.

Representations, Warranties and Undertakings: The Bridge Loan Agreement contains usual representations and warranties which relate to the Company's business, financial position, solvency and other customary representations and warranties that are typical in a commercial loan agreement of this nature. The representations and warranties have been made as at the date of the Bridge Loan Agreement. The Company has also committed to certain undertakings typical of a borrower under a commercial loan agreement (to continue until all liabilities and obligations of the Company under each of the Bridge Loan Agreement and the Pledge has been discharged).

Events of Default: the Bridge Loan Agreement includes usual events of default. An event of default will occur upon prescribed events including, but not limited to, a payment default, breach of the Company's obligations under the finance documents, misrepresentation, cross default, insolvency and related proceedings, appointment of receivers and managers, creditors' process, litigation, expropriation, an occurrence of a material adverse change (subject to some limited carve outs, specific to certain agreed events) and failure to issue the Convertible Preference Shares by 31 January 2013. Some of these events of default are subject to a cure right.

Subscription Agreement

BMK and Persistency (for the purposes of this summary, the "**Preference Holders**") have agreed to subscribe for the Tranche 1 Convertible Preference Shares and the Tranche 2 Convertible Preference Shares on terms which include the following:

Conditions Precedent: The obligation on the Preference Holders to subscribe for Tranche 1 of the Convertible Preference Shares and Tranche 2 of the Convertible Preference Shares is subject to certain conditions precedent. The conditions include (amongst other things):

- (i) execution of the Relationship Agreement;
- (ii) in relation to Persistency's obligations only, the subscription by BMK of its allocation;
- (iii) repayment of the Loans (with respect to Tranche 1 only);
- (iv) shareholder approval of the resolutions connected with the Convertible Preference Shares (with respect to Tranche 1 only);
- (v) there being no occurrence of a material adverse effect;
- (vi) there being no event of force majeure;
- (vii) there being no breach of any of the warranties in any material respect; and
- (viii) other conditions typically found in subscription agreements of this nature.

The Preference Holders can elect to waive these conditions (other than shareholder approval).

Irrevocable commitment: Benchmark and Persistency have provided the Company with an irrevocable commitment to vote in favour of the resolutions to be tabled at the Special General Meeting (the "Resolutions") in respect of, in aggregate, 93,521,388 Common Shares representing approximately 36.5 per cent. of the existing issued Common Shares.

Several obligations: The obligations of the Preference Holders under the subscription agreement are several. However, if one Preference Holder fails to subscribe for some of its Tranche 1 or Tranche 2 Convertible Preference Shares the other Preference Holder shall have the right but not obligation to subscribe for all or some of the Convertible Preference Shares not subscribed for by the other Preference Holder.

Default: Default by a Preference Holder to subscribe for its Tranche 2 Convertible Preference Shares will result in that Preference Holder's Tranche 1 Convertible Preference Shares automatically converting into Common Shares (at an issue price of US\$0.32 each).

Commission: The Company has agreed to pay the Preference Holders (pro rata) a commission of four (4) per cent. on the aggregate value of each of the Tranche 1 Convertible Preference Shares and Tranche 2 Convertible Preference Shares. The commission shall be payable in Common Shares at an issue price of US\$0.32 each.

Costs and expenses: The Company has agreed to pay the Preference Holders' reasonable legal fees and expenses in relation to the Subscription Agreement and the issuance of the Convertible Preference Shares.

Warranties: The Company makes usual representations and warranties to BMK and Persistency regarding corporate authority, market disclosure, capitalisation, the information in the Circular for the Special General Meeting; the effectiveness of the production sharing contracts, working capital; compliance with laws; litigation, taxes and insolvency.

The warranties have been given on the date of the Subscription Agreement and will be repeated on the date of issue of the Tranche 1 Convertible Preference Shares and the date of issue of the Tranche 2 Convertible Preference Shares. The warranties are qualified by disclosures in a disclosure letter prepared by the Company, such disclosures may be updated by the Company but if they would cause a warranty to be breached in any material respect in the context of an aggregate subscription of US\$30 million of Convertible Preference Shares then each Preference Holder can elect to terminate their obligations under the Subscription Agreement or to continue with their subscription.

Limits on Liability: The Subscription Agreement includes limitations on the liabilities of the Company (based on the funds subscribed) and the Investors (based on aggregate subscription commitments).

Termination: Either Preference Holder may at any time before the issue of the Tranche 2 Convertible Preference Shares terminate the Subscription Agreement upon certain events, including: (i) if in the reasonable opinion of either Preference Holder (acting in good faith) there is any material breach of any of the Warranties which would be, or is reasonably likely to be, material in relation to an aggregate US\$30 million subscription for the Convertible Preference Shares under the Subscription Agreement); (ii) if the Company fails to comply with its obligations under the Subscription Agreement; (iii) there is a material adverse effect; or (iv) an event of force majeure. In each case, subject to some limited carve outs, specific to certain agreed events.

Guarantee: Benchmark has guaranteed the obligations of BMK under the Subscription Agreement.

The principal terms of the Convertible Preference Shares of up to US\$60 million, are as set out in the table below.

Convertible Preference Shares

Redemption Period	Redeemable in 10 years with an early redemption option (at the discretion of the Company) after 3 years from the date of issue of the Preference Shares or at any time thereafter as determined by a decision of the independent directors. Preference Holders to have the right to convert Preference Shares into Common Shares upon serving valid notice of conversion (and prior to) such early redemption.
Dividend	Payable semi-annually at a rate of 11 per cent. per annum of the principal amount outstanding on the Convertible Preference Shares. In the first thirty-six months following the issue of the Tranche 1 Convertible Preference Shares, the Issuer can elect (as determined by a decision of the independent directors) to pay any dividend which falls due and payable in cash or by the issue of Common Shares at a price of US\$0.32 per Common

	Share. Following 36 months, dividends are payable in cash every 6 months and thereafter until redemption. If a dividend which is payable is not paid, then the amount of the dividend shall accrue interest at 11 per cent. per annum (or, if the Company proposes and the majority of the Preference Holders agree, be paid in Common Shares at a price of US\$0.32 per share).
Ranking	Senior to Common Shares.
Conversion features	Convertible (in whole or in part) at any time at either Preference Holder's option into the Issuer's Common Shares at a price of US\$0.32 per Common Share. Convertible automatically if Benchmark or Persistency breach their obligation to fund their subscription for the Tranche 2 of the Convertible Preference Shares (see below).
Anti-Dilution	Customary anti-dilution provisions for distributions out of capital, stock splits, rights issues and consolidations.
Second tranche funding default	If Benchmark or Persistency breach their obligation to fund their subscription for the Tranche 2 of the Convertible Preference Shares, the Tranche 1 Convertible Preference Shares issued to such defaulting Preference Holder shall automatically convert into Common Shares at a price of US\$0.32 per Common Share (without prejudice to any rights of the Issuer as against such defaulting Preference Holder).
Change of Control/Takeover	Mandatory redemption on Change of Control of the Company (Preference Holders retain the right to convert and be treated on an as converted basis). Definition of change of control means a takeover, howsoever implemented, of all of the Common Shares.
Transfer	The Preference Holders shall not be entitled to make any transfers without the written consent of the Issuer (via the relevant independent directors), save for permitted transfers to affiliates.
Variation of Rights	The prior written consent of the holders of 75 per cent. in nominal value of the issued Preference Shares is required if the rights and privileges attaching to the Preference Shares are to be varied or abrogated in any way.
Voting	Preference Holders shall be entitled to receive notice of and to attend and/or speak but not vote at general meetings of the Issuer.

Relationship Agreement

The Benchmark Parties and Persistency (for the purposes of this summary, the “Investors” (the Benchmark Parties (as between them) being an “Investor” and Persistency being an “Investor”)) have entered into a relationship agreement with the Company to regulate certain aspects of their relationship, on terms which include the following:

Appointment of Directors: With effect from the date of the Relationship Agreement, the Benchmark Parties (between them) shall be entitled to appoint in total two Investor Directors for such time as the Benchmark Parties (between them) hold at least 10% of the Company's Common Shares on a consolidated basis. Persistency shall be entitled to appoint one Investor Director, being Andrew Morris as at the date of the Relationship Agreement, for such time as it holds at least 10% of the Company's Common Shares. Appointments will be subject to the due diligence of the Nominated Advisers, from time to time and the requirement that at least half the Board (at any time) be independent of the Investors (the "Independent Directors").

Board composition: See section "Board Changes and Corporate Governance" and "Relationship Agreement" in the main body of this announcement which sets out in detail the agreed board changes pursuant to the Relationship Agreement.

Investor Undertakings: Each of Benchmark, BMK and Persistency have given various undertakings in respect of themselves and their associates. The undertakings will be effective for such time as the Benchmark Parties (as between them) and Persistency hold at least 10% of the Company's Common Shares on a consolidated basis.

The undertakings can be grouped as follows:

General undertakings:

- (i) to keep confidential all unpublished price-sensitive information (as defined in the AIM Rules for Companies) relating to the Company;
- (ii) to acknowledge and agree that the Board (other than any relevant Investor Director) alone shall determine the appropriate action the Board should take in relation to a conflict between an Investor and the Company.

Related Party Transactions: Related party transactions will be at arm's length and in accordance with the AIM Rules for Companies.

Undertakings as regards Investor Directors: To procure that each Investor Director appointed by it will not vote in any meeting of the Board where conflicted and that he will act independently from the Investor and have due regard to his fiduciary duties.

Positive voting undertakings: To exercise its voting rights to ensure that:

- (i) the terms of the Relationship Agreement are implemented in full and the complied with;
- (ii) no variations are made to the Bye-Laws which would be contrary to the terms of the Relationship Agreement or in such manner which would restrict or adversely affect the Company's independence;
- (iii) for so long as the Company is not subject to the City Code on Takeovers and Mergers, the Bye-Laws of the Company import equivalent protections to Rule 9 (mandatory offers) Rule 16 (special deals) and Rule 21 (frustrating actions) for shareholders of the Company;
- (iv) save with the consent of the Independent Directors, at least half of the Directors shall be Independent Directors at all times;
- (v) the Chief Executive Officer of the Company is an Independent Director;
- (vi) the Chairman of the remuneration committee, the audit committee and, if established, any nomination or corporate governance committees, shall be an

- Independent Director at all times and one Investor Director appointed by the Benchmark Parties shall sit on each of these committees;
- (vii) the Company is capable at all times of carrying on its business, and making decisions, independently of each Investor and its related parties; and
 - (viii) the Company adheres to its policies of corporate governance,

unless the Independent Directors agree otherwise.

Negative Voting undertakings: Not to vote in favour of any resolution or resolutions which would approve (unless recommended by the Independent Directors):

- (i) until the first anniversary of the Special General Meeting, the cancellation of the admission of the Company's Common Shares to trading on AIM (save in connection with an offer) or any actions which would render the Company unsuitable for continued admission to trading on AIM (and each Investor procures that its Investors Directors do not take any action which would render the Company unsuitable for continued admission to trading on AIM); and
- (ii) the appointment of a majority of the Directors.

Permitted Acquisitions: The Company has agreed and confirmed that:

- (i) conversions of Convertible Preference Shares into Common Shares (in accordance with their terms) or the receipt of Common Shares pursuant to the Subscription Agreement; and
- (ii) (provided that in the case of the Benchmark Parties only) the Benchmark Parties acquiring shares between them (whether through the conversion of Convertible Preference Shares, the issue of shares pursuant to the Subscription Agreement or otherwise) which (taken together with shares in which persons Acting in Concert with the Benchmark Parties are interested) carry up to 45% of the voting rights of the Company at any time, it being acknowledged that for the purposes of Bye-Law 50.2, it shall be the exercise of any conversion rights under the Convertible Preference Shares and not the acquisition of the Convertible Preference Shares themselves that will be considered to be an acquisition of an interest in shares,

will each be a "Permitted Acquisition" as such term is defined in bye-law 50.1.6 of the Bye-Laws.

Acting in Concert: The Benchmark Parties and Persistency have confirmed that they do not believe, having taken appropriate legal advice and having reviewed all relevant documentation that they are Acting in Concert with one another simply as a consequence of entering into the Financing Transaction. The Company has provided a similar confirmation based on the Investors' confirmation.

Guarantee: Benchmark has guaranteed BMK's compliance with its obligations under the Relationship Agreement.

Notification of interest: Each of Benchmark, BMK and Persistency agree that it will notify the Company promptly when the percentage of its voting rights in the Company reaches, exceeds or

falls below 15% and each 5% threshold thereafter up to and including 30% and each 3% threshold thereafter in between 30% and 45% (inclusive).

Offer Event: The Company shall procure that the Board does not recommend any takeover offer or similar event without first providing each Investor with 5 Business Days' notice (setting out reasonable details of such offer) in which to confirm to the Company [whether](#) it wishes to match the terms of such offer.

Amended and Restated Bye-Laws of the Company

The full text of the proposed amendments to the Bye-Laws will be included in the Circular to be posted to shareholders shortly. A brief description of each of the proposed amendments is set out below:

- (i) insertion of the terms of the Convertible Preference Shares;
- (ii) to permit shareholders to requisition special general meetings to call for the appointment of directors and not just before an annual general meeting (appointment will be passed by a simple majority of those voting);
- (iii) to permit shareholders to remove directors by way of a shareholder resolution (again by approval of a simple majority of those voting);
- (iv) to amend the takeover provisions to make it clear that conversion of the Convertible Preference Shares is a “permitted acquisition” and so does not trigger any takeover obligation;
- (v) to amend the takeover provisions so that a director who is affiliated to an offeror cannot be forced off the board (but will not form part of the independent committee of the board which would approve a bid);
- (vi) to provide that amendments to the Bye-Laws do not require shareholder and board approval, just shareholder approval; and
- (vii) to require shareholders holding 30 per cent. or more of the Common Shares to notify the Company each time they pass a 3 per cent. threshold up to 45 per cent.

Notes to Editors:

Benchmark

The Benchmark Advantage Fund was established in 2008 by Mr. Al Njoo a highly experienced oil industry investor and operator. Benchmark currently has investments in a number of international oil and gas companies including Madagascar Oil. Mr. Njoo has a proven track record for successfully rehabilitating under-utilised onshore heavy oil fields in Kazakhstan, Azerbaijan and California. In Kazakhstan, Mr. Njoo was a co-founder of Nations Energy, a company that successfully rehabilitated the Karazanbas heavy oil field increasing production from approximately 6,000 barrels of oil per day to 50,000 barrels of oil per day and establishing reserves of 500 million barrels before selling the field to Citic group in 2007 for US\$1.9 billion. Benchmark has access to a team of heavy oil field project managers who will be available, if required, to assist Madagascar Oil in the continued development and management of the Tsimiroro Steam Flood Pilot project.

Persistency

Persistency Private Equity Limited is a privately owned, Gibraltar registered investment company, founded in 2004. Persistency invests across a broad range of sectors and geographies in both public and private markets, but with a focus on oil and gas. In addition to passive investments, Persistency is also the majority shareholder of its operating subsidiary Blake Oil and Gas Limited, which owns and operates production, appraisal and exploration assets in the Country of Georgia.